Los Angeles World Airports™

Comprehensive Annual Financial Report

Fiscal years ended
June 30, 2018 and 2017

Department of Airports
Los Angeles, California

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

Comprehensive Annual Financial Report

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Prepared by
Financial Reporting Division

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

Introductory Section

2018
Comprehensive Annual Financial Report
Los Angeles World Airports

Introductory Section

Los Angeles World Airports™

October 30, 2018

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) for the fiscal year ended June 30, 2018. The CAFR, which was prepared following the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA), contains financial statements and statistical data that fully disclose all material financial operations of LAWA. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with LAWA's management. We believe that the data presented is complete and reliable in all material respects. This transmittal letter presents a summary of LAWA's background, economic condition and outlook, and major initiatives and developments.

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

Profile of the Reporting Entity

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

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

LAWA operates and maintains two airports, Los Angeles International Airport (LAX) and Van Nuys Airport (VNY), within the five-county area of Los Angeles, Orange, Ventura, Riverside and San Bernardino counties (Air Trade Area). LAWA voluntarily returned the operating certificate relating to LA/Palmdale Regional Airport (PMD) to the Federal Aviation Administration (FAA), but may, upon compliance with certain requirements, request to have the PMD certificate reissued. LAWA no longer operates Ontario International Airport (ONT).

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Transmittal Letter
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Located approximately 15 miles from downtown Los Angeles on the western boundary of the City, LAX is the largest airport in the Air Trade Area. LAX occupies approximately 3,673 acres in an area generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the south by Imperial Highway, and on the west by the Pacific Ocean. Commercial airline service started in December 1946, and the present terminal complex in LAX was constructed in 1961. In the early 1980s, LAX added domestic and international terminals, parking structures and a second level roadway. LAX offers commercial air service to every major city in the United States and to virtually every major international destination, and is classified by the FAA as a large hub airport.

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.

VNY is a general aviation airport located 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is one of the busiest general aviation airports in the U.S. with over 246,240 operating movements in fiscal year 2018. More than 100 businesses are located at VNY, including four fixed-base operators and numerous other aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs.

PMD is located in Antelope Valley approximately 60 miles north of LAX. Currently, there is no scheduled service at PMD. LAWA owns approximately 17,500 acres of land at and around the site. LAWA has transferred operation, management, and control of the PMD terminal facility to the City of Palmdale, but has retained certain rights for future development of the adjoining 17,500 acres.

Pursuant to the ONT Settlement Agreement by and among the City, LAWA, the Board, the City of Ontario, and the Ontario International Airport Authority (OIAA) relating to litigation filed by the City of Ontario in June 2013 against the City, LAWA, and the Board, the City transferred, assigned and delivered to OIAA the City's right, title to and interest in certain assets, properties, rights and interests in connection with LAWA's operation of ONT on November 1, 2016. In connection therewith, LAWA has received approximately $120.0 million[1] from OIAA and is to receive $70.0 million[2] (before discount for early payment) from ONT, over a period of approximately 10 years. In connection with the ONT Settlement Agreement and a Staff Augmentation Agreement between LAWA and OIAA, LAWA provided OIAA with the services of a number of employees, subject to reimbursement therefor. Effective April 2018, LAWA no longer provides these services to OIAA.

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[1] *The amount included approximately $30.0 million from the City of Ontario, $40.0 million from the unrestricted cash ONT accounts, and $50.0 million from OIAA.*

[2] *The outstanding receivable balance from OIAA was approximately $45.6 million as of June 30, 2018.*

Economic Condition and Outlook

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

According to Los Angeles County Economic Development Corporation (LAEDC) 2018-2019 economic forecast, California continues to outpace the nation in economic growth and accounts for 14.1 percent of U.S. Gross Domestic Product (GDP). Currently at full employment, California's unemployment rate is expected to continue to decline with moderate wage growth. The leading job gains are expected to be in the industry of health care and social assistance, administrative and support services, construction, leisure and hospitality, professional, scientific and technical services, and the public sector. Transportation and infrastructure projects such as the on-going multi-billion dollar modernization program at LAX and the expansion of Los Angeles' rail system are making significant contributions to job growth and the economy in Southern California.

Los Angeles County's leading job gains are expected to be in the healthcare and social assistance, administrative and support services, construction, and leisure and hospitality. Orange County's economy has made significant headway in terms of economic growth and job creation with the largest job gains in construction, leisure and hospitality, and health care and social assistance. Employment growth is expected to continue in the coming year. To the east, Riverside and San Bernardino counties continued to experience job growth in broad-base industries including transportation, warehousing and utilities, health care and social assistance, construction and wholesale and retail trade. Employment growth is expected to continue in the coming year at a slower pace. To the north, Ventura County's unemployment rate decline is attributed mainly from job growth in leisure and hospitality as well as health care and assistance, and it is expected to flatten out over the next few years.

LAEDC forecasts that the U.S. economy will continue to grow steadily on a modest trajectory over the next few years. Consumer spending continues to increase due to growing consumer confidence, employment gains and wage growth. Government spending is projected to increase and contribute positively to GDP growth. Future of trade policy, projected budget deficit, instability of financial markets, concerns over political gridlock and policy uncertainty are key risks to the economic growth.

LAWA's airports are powerful economic engines for Southern California and vital to the economies of their surrounding communities. In April 2016, the economic impact analysis report issued by LAEDC reaffirmed LAX's role as a major economic generator in Southern California. Based on calendar year 2014 operations, LAX carried 70.7 million passengers[3] on over 578,000 domestic and international flights, and moved 2 million tons of mail and cargo[4]. These on-airport and off-airport services generated 620,610 jobs in Southern California with labor income of $37.3 billion, and economic output (business revenues) of more than $126.6 billion. This activity added $6.2 billion in local and state revenues and $8.7 billion in federal tax revenues. The study also reported that LAX's ongoing capital-improvement program created an additional 121,640 annual jobs with labor income of $7.6 billion and economic output of $20.3 billion, $966.0 million in state and local taxes, and $1.6 billion in federal tax revenues.

[3] *Passenger level reached 86.6 million and 82.9 million in fiscal year 2018 and 2017, respectively.*

[4] *Mail and cargo tonnage reached 2.4 million and 2.3 million in fiscal year 2018 and 2017, respectively.*

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The Airline Industry

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

The International Air Transport Associations (IATA) forecasted global airline industry to generate net profits of $33.8 billion in 2018. Stronger economic growth is pushing traffic ahead of capacity growth, but breakeven loads are rising as unit costs grow significantly. The outlook for the air passenger market remains strong and expectation for air cargo growth is positive, although it is threatened by the imposition of import tariffs and geopolitical risks in Middle East.

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

Initiatives and Developments

LAWA's overall mission is to serve the world - connecting people, places and cultures. In order to fulfill this mission, LAWA is committed to operate its airports safely and securely, enhance organizational capability, foster employee ownership, implement the capital improvements program, create premier passenger and customer service, implement best airport business practices to build revenue and control expenses, and secure and maintain stakeholder support.

LAWA is undertaking a multi-billion dollar capital development program at LAX. LAWA reviews and assesses capital needs biennially on a formal basis, and continuously on an informal basis, taking into account improved information regarding the condition and/or requirements of new and existing facilities, updated cost estimates for contemplated projects, new opportunities for investments or acquisitions that arise from time to time, current and forecast traffic levels, and changes within the industry that may influence the cost of LAWA's capital development projects.

LAWA's capital development projects include various terminal projects, airfield and apron projects, access projects and other projects to, among other things, modernize terminals, make long-term improvements to passenger access, and accommodate contemporary and future aircraft designs, all to address forecast passenger growth. LAWA is employing various strategies to design, build and finance multiple facilities concurrently while prudently managing risk.

Listed below are descriptions of LAWA's current projected major capital improvements projects. These projects are classified into Landside Access Modernization Program, Terminal Related Projects, Airfield and Apron Related Projects, and Other Projects.

Landside Access Modernization Program (LAMP)

To continue the extensive upgrading and modernization of LAX and to address increasing levels of traffic congestion at and around LAX, LAWA is working to redevelop the ground access system to LAX. As part of the overall modernization of LAX, LAWA is implementing components of the LAMP to, among other things, improve access options and the travel experience for passengers; shift the location where different modes of traffic operate within the Central Terminal Area (CTA) and on the surrounding street network; and provide direct connections to the rail and transit systems of the Los Angeles County Metropolitan Transportation Authority (Metro). By implementing the LAMP, LAWA seeks to provide more travel time certainty, reduce traffic congestion and improve air quality in and around LAX. The LAMP includes several individual components, including, among others, the Automated People Mover System (APM), Intermodal Transportation Facilities (ITF), the Consolidated Rental Car Facility (ConRAC), pedestrian walkway connections to the passenger terminals within the CTA, and roadway improvements. When operational, the APM System is designed to offer passengers an opportunity to bypass the existing roadway loop in the CTA and to provide access to the ITF, the ConRAC, and future Metro stations.

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The Automated People Mover System (APM)

In April 2018, LAWA and LAX Integrated Express Solutions, LLC (APM Developer) entered into a design-build-finance-operate-maintain agreement for the purposes of developing, financing, operating and maintaining an APM system at LAX. The APM System would provide fast, convenient, and reliable access to the CTA 24 hours a day for passengers, employees, rental car customers, and other users of LAX. The APM System is expected to be built above grade and would transport passengers between the CTA and other LAX facilities, including, a new ConRAC, a light rail station, new public parking facilities, and multiple locations for passenger pick-up and drop-off. The APM System project cost includes three APM stations within the CTA: (1) a West Station located between Terminals 3 and 4, east of Tom Bradley International Terminal (TBIT), (2) a North Center Station located between Terminals 2 and 6, north of the existing Airport Traffic Control Tower and Center Way, and (3) an East Station located between Terminals 1 and 7.

The APM System project also includes three proposed stations outside of the CTA: (1) at the multi-modal/transit facility (ITF-East) located at 96th Street/Aviation Boulevard planned by Metro, (2) the ITF-West, and (3) the new ConRAC. The Metro project at 96th Street/Aviation Boulevard is expected to be a separate and independent project (to be completed by Metro) to provide the opportunity for LAX passengers to access the Metro regional rail system. LAWA expects to pay approximately $1.1 billion in payments to the 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.

Consolidated Rental Car Facility (ConRAC)

Similar to the APM, LAWA expects to enter into a design-build-finance-operate-maintain agreement, for the purposes of developing, financing, operating and maintaining a ConRAC. The new ConRAC would be located east of the CTA and is expected to open at the end of fiscal year 2023. The new ConRAC will include, among other things, a customer service building, a ready/return area, a vehicle storage area, quick turnaround facilities, and an APM System station for rental car and other customers to use the APM System to travel between the ConRAC, the CTA and other LAX facilities. LAWA expects to pay approximately $692.0 million in payments to the ConRAC Developer during the design and construction period, in addition to future availability payments for capital, operating and maintenance costs over the life of the Facility.

In August 2018, LAWA executed a new concession and lease agreement with its rental car concessionaires that will provide for, among other things, the use and occupancy of the new ConRAC once complete as well as payments from the concessionaires supporting the cost of the facility. When both the ConRAC and APM are completed, rental car companies will no longer operate shuttle buses to and from the CTA, reducing their impact on the roadway system.

Intermodal Transportation Facility-West (ITF-West (Phase 1))

The ITF-West (Phase 1) is expected to be used by passengers currently accessing the CTA because it would provide a convenient location east of the CTA for passengers, well-wishers, and Airport employees to drop off or pick up passengers, or park and then ride the APM System into the CTA. The fully completed ITF-West (Phase 1 and Phase 2) is expected to include an above-grade, four to five level parking garage. Phase 1, which is included in the Capital Program, includes space for up to 4,700 vehicles and is anticipated to be completed by the end of calendar year 2020. Phase 2, which is expected to include space for up to 3,000 additional vehicles, may be constructed after 2025. Pedestrian walkways would connect the new ITF-West to the APM. The ITF-West (Phase 1) is estimated to cost approximately $290.0 million.

LAMP Enabling Project

This project includes a range of utility and infrastructure improvements to ensure that the APM System can be delivered on schedule. This project is estimated to cost $690.0 million and is expected to be completed by fiscal year 2024.

LAMP - Right of Way Acquisitions and Relocations

This project includes the acquisition and relocation of certain properties to allow for the construction of the APM System and Other Projects (discussed below). This project is estimated to cost $166.0 million and is expected to be completed by fiscal year 2020.

Terminals Related Projects

Midfield Satellite Concourse (MSC) and Apron - North Project

This project consists of the development of a new 12-gate, 800,000-square-foot concourse west of the TBIT/ Bradley West terminal complex that would serve domestic and international airline operations, and associated apron improvements. This project is estimated to cost $1.7 billion and is expected to be completed by fiscal year 2021.

North Terminal Improvement Program

This project includes the complete renovation of Terminal 3, renovations to Terminal 2, a secure connector to the north side of TBIT, infrastructure improvements supporting the planned APM System, and various enabling projects. This project is estimated to cost $1.8 billion and is expected to be completed by fiscal year 2022.

Terminals 6/7/8 Improvement Project

This project consists of the phased redevelopment of portions of these terminals, including a new checked baggage screening system, a new baggage sortation system, renovated baggage claim areas, renovated passenger security screening checkpoints, airline office areas, the replacement of passenger boarding bridges, and the construction of a new clubroom for use by United Airlines premium passengers. This project is estimated to cost $541.0 million and is expected to be completed by fiscal year 2019.

Terminal 1 Improvement Project

This project consists of the phased reconstruction of substantially all of Terminal 1, including the development of a new centralized 12-lane passenger security screening checkpoint, a new checked baggage inspection system, and redeveloped public areas, holdrooms and gate areas, airline operations space, and adjacent apron areas. This project is estimated to cost $529.0 million and is expected to be completed by fiscal year 2019.

Terminal 4 - American Airlines

This project includes the construction of a connector between Terminal 4 and Terminal 5 that would connect to the new APM System. This project is estimated to cost approximately $461.6 million and to be completed by fiscal year 2022.

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Terminal 6 Project - Alaska Airlines

This project includes the modernization of Terminal 6 by increasing the amount of holdroom space, enhancing the security screening checkpoint, installing new passenger loading bridges, and certain other operational improvements. This project is estimated to cost approximately $200.7 million and is expected to be completed by fiscal year 2023.

Terminal 1.5

This project consists of the development of a new terminal building between Terminal 1 and Terminal 2 that will link the two terminals directly and will result in a single unified facility. This project is estimated to cost $502.0 million and is expected to be completed by fiscal year 2021.

Baggage System Enhancements

This project includes construction of outbound baggage systems supporting the combined operations of both the TBIT and the MSC (Phase 1). The project includes construction of baggage conveyance systems, explosives trace detection workstations, an on-screen resolution control room, and installation/integration of TSA-provided explosive detection system machines. This project is estimated to cost $266.1 million and is expected to be completed by fiscal year 2021.

TBIT Core & APM Interface

This project will provide vertical circulation elements in TBIT to accommodate passenger circulation and connections to the APM System. This project is estimated to cost $238.1 million and is expected to be completed by fiscal year 2022.

Terminal 5 Core & APM Interface

This project will provide vertical circulation elements in Terminal 5 to accommodate passenger circulation and connections to the APM System. This project is estimated to cost $201.5 million and is expected to be completed by fiscal year 2023.

Acquisition of Terminal 4 Improvements

This project consists of the acquisition by LAWA of the Terminal 4 improvements undertaken by American Airlines. This project is estimated to cost $190.0 million and is expected to be acquired by December 2018.

Other Terminal Projects

These projects consist of CTA departure and arrival level security bollards, closed circuit television improvements, TBIT automated security lanes, and other miscellaneous terminal improvements. These projects are estimated to cost $110.0 million and are expected to be completed by fiscal year 2022.

Airfield and Apron Related Projects

Runway Safety Area (RSA) Improvements

This project consists of improvements to the west end of Runway 7L-25R to bring the RSA into compliance with FAA standards. This project is estimated to cost $163.2 million and is expected to be completed by fiscal year 2019.

Taxiway C14 Construction

This project includes the construction of a new 3,600-foot long by 82-foot wide north-south crossfield taxiway that will provide unimpeded access between the north and south airfields. This project is estimated to cost $95.6 million and is expected to be completed by fiscal year 2021.

Runway 7L-25R Reconstruction

This project includes the extension of Runway 7L-25R and Taxiway C. The project is estimated to cost $56.2 million and is expected to be completed by fiscal year 2019.

Other Airfield and Apron Projects

These projects consist of Taxilane T improvements, Runway 7R-25L reconstruction, storm water improvements, a new fire drill training facility, and other miscellaneous airfield improvements. These improvements are estimated to cost $138.8 million and are expected to be completed before fiscal year 2025.

Other Projects

Noise Mitigation and Soundproofing

This project consists of the soundproofing of residences located near LAX that are significantly affected by aircraft noise. Also, LAWA is currently implementing a voluntary program of acquisition of residences located in the Manchester Square and Belford areas that are affected by aircraft noise. This project is estimated to cost $278.7 million and is expected to be completed by fiscal year 2025.

Police Station and Facilities

This project includes the construction of a central Airport police facility just north of the airfield area, allowing the Airport police department to consolidate certain functions that are now distributed across multiple facilities. This project is estimated to cost approximately $221.2 million and to be completed by fiscal year 2021.

Power Distribution Facility

This project replaces existing facilities and provides more reliable power transmission and greater capacity to support planned Airport growth. This project is estimated to cost approximately $150.0 million and to be completed by fiscal year 2023.

Others

These projects include a range of infrastructure, utility, information technology, and other projects estimated to cost $288.3 million and are expected to be completed by fiscal year 2025.

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Outlook for the Future

LAWA's operations are supported solely by its own revenues. The department strives to balance revenues generated from cost recovery formulas applied to aeronautical users and those generated from fluctuating non-aeronautical revenues driven by passenger traffic and commercial opportunities. Management placed emphasis on the following goals and objectives as outlined in LAWA's Strategic Plan when developing the fiscal year 2019 budget: 1) expect and support organizational excellence; 2) innovate to enhance security, efficiency and effectiveness; 3) deliver facilities and guest experiences that are exceptional; and 4) sustain a strong business. Management continues to exercise fiscal prudence from within each LAWA division in administering the operating budget. The unrestricted net position, together with other fund sources such as operating revenue, debt proceeds, and grant receipts, will balance the subsequent fiscal year's budget as well as maintain projected reserves.

Operating revenues for fiscal year 2019 are projected to be approximately $1.5 billion. This projection represents a 6.3% increase over projected fiscal year 2018 revenues. Over half of LAWA's revenues are driven by cost recovery formulas used in calculation of airfield and terminal rates and charges. These aeronautical revenues are expected to be higher than those projected for fiscal year 2018 by $59.0 million (6.0%) due to increased operating expenses and debt service allocated to LAX airfield and terminal cost centers. Revenues from in-terminal concession agreements and parking/ground transportation operations, boosted by increased levels of LAX passenger traffic, are also expected to contribute to greater overall revenues by $32.0 million (7.0%).

LAWA's budgeted operating expenses support the ongoing operation and maintenance of LAWA's airports and real estate holdings. The largest portion of LAWA's operating expenses consists of payment of salaries, fringe benefits and other payroll expenses for LAWA employees. Including payments to the City of Los Angeles for fire service, supplemental police and other support services, personnel costs represent $575.0 million or 65.4% of LAWA's total operating budget. Payments for salaries and benefits for those employees directly employed by LAWA during fiscal year 2019 are budgeted at $489.5 million, an increase of 2.5% over the fiscal year 2018 budget.

While the fiscal year 2019 budget assumes an increase in LAWA's current headcount to approximately 3,668 active employees, budgeted personnel expenses associated with salaries/overtime, and pension contributions are projected to increase by 1.1% and 10.0%, respectively. Projected personnel increases are attributed to, among other things, additional security officers replacing previously contracted security functions at posts; operations staff in preparation for the commissioning of the Midfield Satellite Concourse; additional maintenance and operations staff to support increasing passenger volumes; and supplemental LAWA staffing necessary to provide operational support and engagement needed to effectively manage the delivery of multiple large capital projects impacting terminals and passenger access at LAX. Staff expects to undertake efforts during fiscal year 2019 to review existing staffing levels for opportunities to reallocate existing personnel to improve efficiency and control overall personnel costs.

Internal Control Framework

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

Budgetary Control

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

Independent Audit

Moss Adams LLP (Moss Adams), a firm of independent certified public accountants, audited LAWA's financial statements. Moss Adams concluded, based upon its audit, that there was a reasonable basis for rendering an unmodified opinion that LAWA's financial statements as of and for the fiscal year ended June 30, 2018, were fairly presented in conformity with GAAP. Moss Adams' report is on pages 1 and 2. The financial statements of LAWA, as of and for the fiscal year ended June 30, 2017, were audited by Macias Gini & O'Connell LLP (MGO) whose report dated October 23, 2017, expressed an unmodified opinion on those statements.

Moss Adams conducted an additional audit to determine LAWA's compliance with the requirements described in the Passenger Facility Charge Audit Guide for Public Agencies and concluded that LAWA complied in all material respects with the requirements applicable to and 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 159 and 160.

Moss Adams also conducted a third audit to determine LAWA's compliance with the requirements described in the California Civil Code Section 1939, as amended by Assembly Bill 2051, and concluded that LAWA complied in all material respects with the requirements applicable to and 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 167 and 168.

As a recipient of federal grants, LAWA is required to undergo an additional audit, known as the Single Audit, to meet the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The results of the Single Audit performed by Moss Adams are issued in a separate report.

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Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LAWA for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This was the seventh consecutive year that LAWA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

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

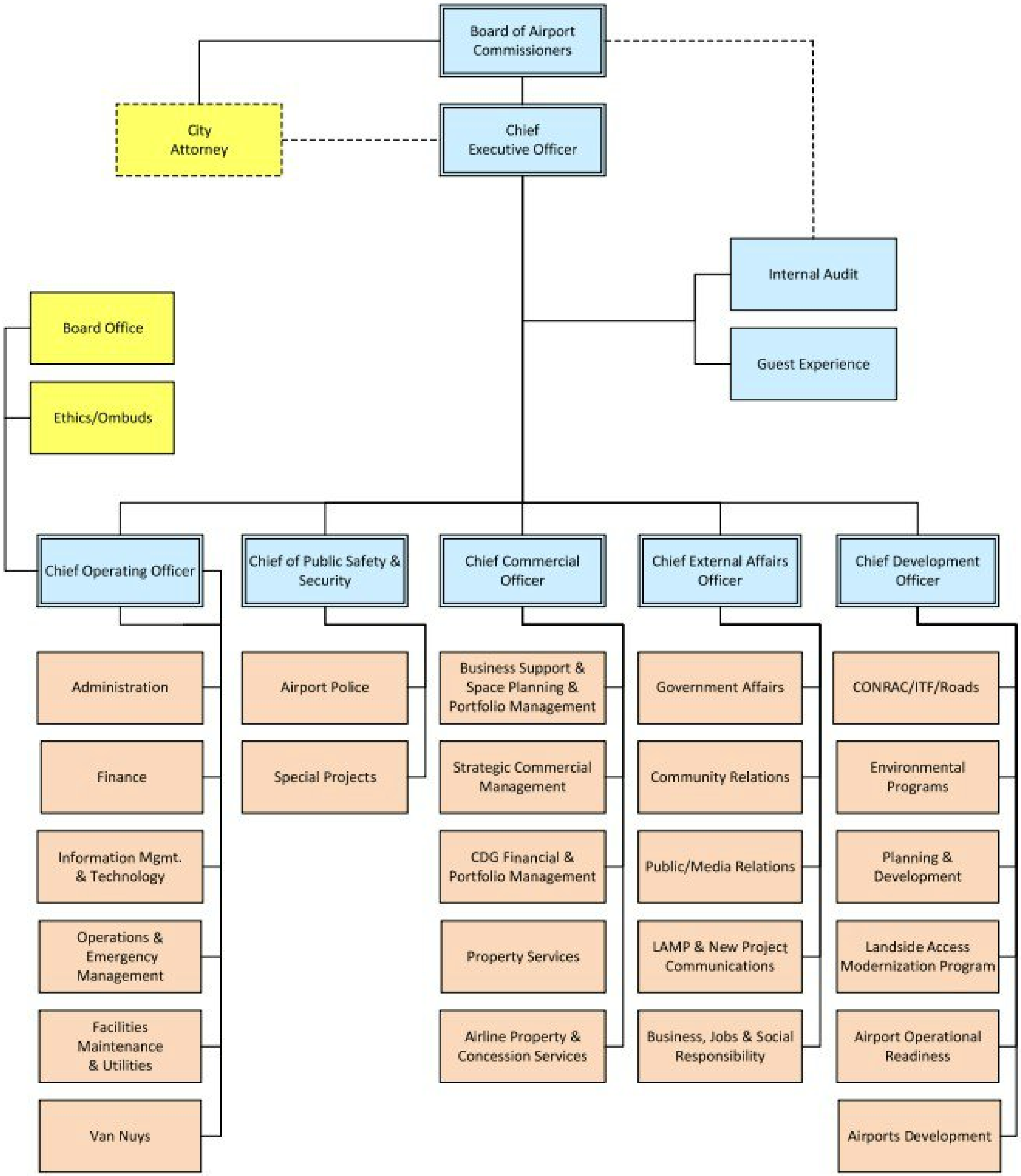
Acknowledgement

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

Respectfully submitted,

Deborah Flint Chief Executive Officer	Ryan P. Yakubik Chief Financial Officer

Organization Chart



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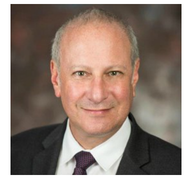

Jeffery J. Daar
Commissioner

Cynthia A. Telles
Commissioner

Deborah Flint
Chief Executive Officer

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Michael N. Feuer, City Attorney
Ron Galperin, City Controller

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Nury Martinez, Assistant President Pro Tempore, District 6

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LOS ANGELES WORLD AIRPORTS EXECUTIVE STAFF

Deborah Flint, Chief Executive Officer
Samson Mengitsu, Deputy Executive Director, Chief Operating Officer
Ryan Yakubik, Deputy Executive Director, Chief Financial Officer
Samantha Bricker, Deputy Executive Director, Environmental Programs Group
Michael Christensen, Deputy Executive Director, Facilities Maintenance and Utilities Group
Justin Erbacci, Deputy Executive Director, Chief Innovation and Technology Officer
Patrick Gannon, Deputy Executive Director, Chief of Public Safety and Security
Robert Gilbert, Deputy Executive Director, Chief Development Officer
Bernardo Gogna, Deputy Executive Director, LAMP Executive
Cynthia Guidry, Deputy Executive Director, Planning and Development Group
David Jones, Acting Lead Director, Commercial Development Group
Aura Moore, Deputy Executive Director, Chief Information Officer
Michelle Schwartz, Deputy Executive Director, Chief of External Affairs
Keith Wilschetz, Deputy Executive Director, Operations and Emergency Management
Raymond Ilgunas, General Counsel

Award

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Los Angeles World Airports
California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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Financial Section

2018
Comprehensive Annual Financial Report
Los Angeles World Airports

Financial Section

Report of Independent Auditors

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

2018 Comprehensive Annual Financial Report
Los Angeles World Airports

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 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 LAWA 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 LAWA 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 LAWA. They do not purport to, and do not, present fairly the net position of the City as of June 30, 2018, the changes in its net position, or, where applicable, its 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, LAWA 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 LAWA 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 36, the schedule of LAWA's proportionate share of the net pension liability on page 105, the schedule of contributions - pension on pages 106 to 107, the schedule of LAWA's proportionate share of the net other postemployment benefit (OPEB) liability on page 108, and the schedule of contributions - OPEB on pages 109 to 110 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of LAWA. The accompanying introductory section, supplemental information, statistical section, and compliance section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying introductory section on pages i to xv and statistical section on pages 123 to 156 have not been subjected to the auditing procedures applied in the audits of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of LAWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 LAWA'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 LAWA's internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California
October 30, 2018

Management's Discussion and Analysis (Unaudited)

2018
Comprehensive Annual Financial Report
Los Angeles World Airports

Management's Discussion and Analysis (Unaudited)

2018 Comprehensive Annual Financial Report
Los Angeles World Airports

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

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

Using This Financial Report

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

The *Statements of Net Position* present information on all of LAWA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 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 LAWA's financial condition is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present the results of LAWA's operations and information showing the changes in net position for the fiscal years ended June 30, 2018 and 2017. These statements can, among other things, be useful indicators of how LAWA recovered its costs through rates and charges. All changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

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

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

Passenger and Other Traffic Activity Highlights

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

Los Angeles International Airport

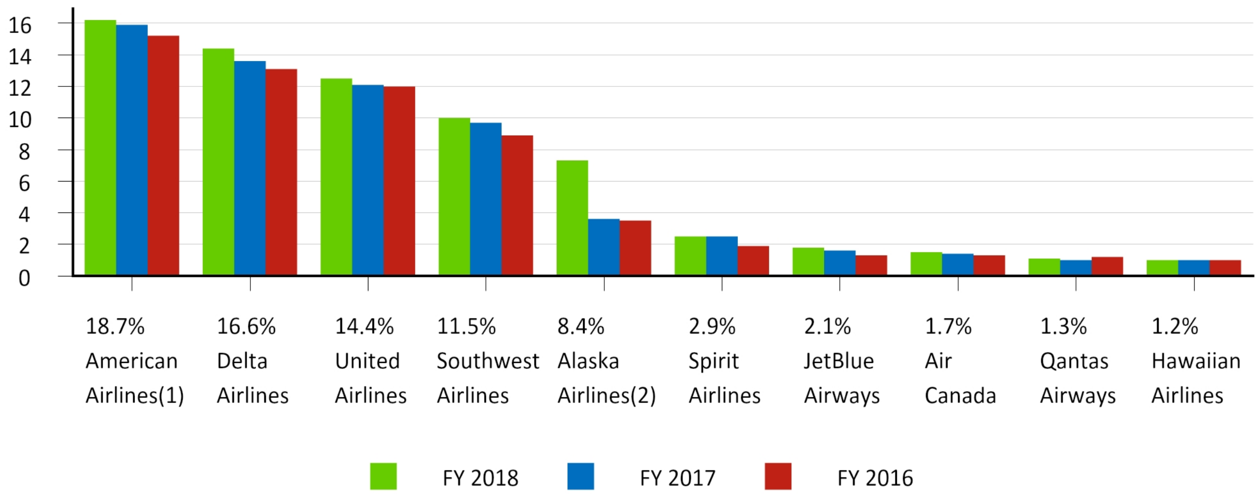
				% Change	
	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Total passengers	86,633,058	82,923,839	77,799,530	4.5%	6.6%
Domestic passengers	60,903,699	58,934,016	56,151,106	3.3%	5.0%
International passengers	25,729,359	23,989,823	21,648,424	7.3%	10.8%
Departing passengers	43,553,015	41,602,124	38,952,367	4.7%	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 charts present the top ten airlines at LAX, 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.

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

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.

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 Airlines was the top mail carrier accounting for 23.6% of total mail cargo.

Overview of LAWA's Financial Statements

Financial Highlights, Fiscal Year 2018

- LAWA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2018 by $5.4 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 $365.5 million) totaled $1.2 billion.
- Net nonoperating revenue was $73.3 million.
- Federal and other government capital grants totaled $55.9 million.
- LAWA's proportionate share of net pension liability (NPL) for the retirement benefits, based on the ratio of LAWA's contributions to the City's retirement plan's total contributions, was $723.1 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 fiduciary net position, is an important measure required by Governmental Accounting Standards Board (GASB) Statements No. 68[5], No. 71[6] and No. 82[7], to report in the financial statements (see Note 13 of the notes to the financial statements).
- LAWA's proportionate share of net OPEB liability (NOL) for the retirement benefits, based on the ratio of LAWA's contributions to the City's retirement plan's total contributions, was $77.6 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[8] and No. 85[9] , 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 $316.7 million (net of adjustment of net position of $(77.8) million as a result of the implementation of GASB Statements No. 75 and No. 85).

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[5] *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, issued in June 2012*
[6] *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*
[7] *GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, issued in March 2016*
[8] *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, issued in June 2015*
[9] *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

- LAWA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2017 by $5.1 billion.
- Bonded debt had a net increase of $347.4 million over fiscal year 2016.
- Operating revenue totaled $1.4 billion.
- Operating expenses (including depreciation and amortization of $309.1 million) totaled $1.1 billion.
- Net nonoperating revenue was $23.8 million.
- Federal and other government capital grants totaled $87.8 million.
- LAWA's proportionate share of NPL for the retirement benefits, based on the ratio of LAWA's contributions to the City's retirement plan's total contributions, was $774.4 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 OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement, the changes in net position reflected four months of business activities for ONT from July 1, 2016 to October 31, 2016 in fiscal year 2017 and a full year of business activities for ONT in fiscal years 2016 and 2015. LAWA recognized a loss of $225.3 million on the disposal of ONT as a special item (see Note 17 of the notes to the financial statements).
- Net position increased by $171.7 million.

Net Position Summary

A condensed summary of LAWA's net position 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	$ 968,009	$ 875,829	$ 953,498	$ 92,180	$ (77,669)
Restricted current assets	1,951,670	1,921,000	1,826,813	30,670	94,187
Capital assets, net	9,805,839	8,746,290	8,237,704	1,059,549	508,586
Other noncurrent assets	36,217	68,013	13,151	(31,796)	54,862
Total assets	12,761,735	11,611,132	11,031,166	1,150,603	579,966
Deferred outflows of resources					
Deferred charges on debt refunding	40,308	38,550	25,763	1,758	12,787
Deferred outflows of resources related to pension and OPEB	162,101	206,553	138,220	(44,452)	68,333
Total deferred outflows of resources	202,409	245,103	163,983	(42,694)	81,120
Liabilities					
Current liabilities payable from unrestricted assets	403,306	388,167	358,841	15,139	29,326
Current liabilities payable from restricted assets	188,816	212,756	174,686	(23,940)	38,070
Noncurrent liabilities	6,093,851	5,337,544	5,001,300	756,307	336,244
Net pension liability	723,062	774,356	697,482	(51,294)	76,874
Net OPEB liability	77,566	—	—	77,566	—
Total liabilities	7,486,601	6,712,823	6,232,309	773,778	480,514
Deferred inflows of resources					
Deferred inflows of resources related to pension and OPEB	91,616	74,147	65,236	17,469	8,911
Total deferred inflows of resources	91,616	74,147	65,236	17,469	8,911
Net Position					
Net investment in capital assets	4,706,733	4,322,932	4,049,740	383,801	273,192
Restricted for capital projects	672,951	782,153	750,234	(109,202)	31,919
Restricted for operation & maintenance reserve	210,207	185,897	194,818	24,310	(8,921)
Restricted for federal forfeited property & protested funds	1,336	1,463	1,368	(127)	95
Unrestricted	(205,300)	(223,180)	(98,556)	17,880	(124,624)
Total net position	$ 5,385,927	$ 5,069,265	$ 4,897,604	$ 316,662	$ 171,661

Net Position, Fiscal Year 2018

As noted earlier, net position may serve as a useful indicator of LAWA's financial condition. At the close of fiscal years 2018 and 2017, LAWA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5.4 billion and $5.1 billion, respectively, representing an increase of 6.2% or $316.7 million.

The largest portion of LAWA's net position ($4.7 billion or 87.4%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAWA's net position ($884.5 million or 16.4%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position increased by $17.9 million from $(223.2) million in fiscal year 2017 to $(205.3) million in fiscal year 2018. LAWA recognized $77.6 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 $51.3 million to $723.1 million in fiscal year 2018.

Unrestricted current assets increased by $92.2 million or 10.5%, from $875.8 million at June 30, 2017 to $968.0 million 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 at LAX and for bond principal and interest payments. Restricted current assets increased by $30.7 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.

LAWA'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 12.1%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

Other noncurrent assets decreased by $31.8 million or 46.7%. 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 $42.7 million or 17.4% due to the decrease of $44.5 million or 21.5% in deferred outflows of resources related to pension and OPEB, offset by the increase of $1.8 million or 4.6% in deferred charges on debt refunding.

Current liabilities payable from unrestricted assets increased by $15.1 million or 3.9%. This was mainly due to increase of $51.3 million, or 22.6% 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 $60.2 million or 80.5% in other current liabilities, and decrease of $1.3 million or 23.3% 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 $19.8 million, and a decrease in LAWA'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 $23.9 million or 11.3%. This was mainly due to decrease in LAWA'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 an increase of $8.2 million or 112.3% in obligations under securities lending transactions.

The net increase in noncurrent liabilities was $782.6 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 $77.6 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 $51.3 million in accordance with GASB Statements No. 68 and 71.

Total deferred inflows of resources related to pension and OPEB increased by $17.5 million or 23.6% to $91.6 million.

Net Position, Fiscal Year 2017

As noted earlier, net position may serve as a useful indicator of LAWA's financial condition. At the close of fiscal years 2017 and 2016, LAWA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5.1 billion and $4.9 billion, respectively, representing an increase of 3.5% or $171.7 million.

The largest portion of LAWA's net position ($4.3 billion or 85.3%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAWA's net position ($969.5 million or 19.1%) represents resources that are subject to various restrictions on how they may be used. The negative unrestricted net position (-$223.2 million or -4.4%) was primarily a result of the transfer of ONT, which carried a net position of $364.9 million as of October 31, 2016, to OIAA pursuant to the ONT Settlement Agreement as described in Note 17 of the notes to the financial statements. In connection with the ONT transfer, LAWA recognized a loss of $225.3 million as a special item. The negative unrestricted net position was also attributed to the recognition of $76.9 million additional NPL in accordance with GASB Statements No. 68 and 71.

Unrestricted current assets decreased by $77.7 million or 8.1%, from $953.5 million at June 30, 2016 to $875.8 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. Without the transfer of ONT which carried unrestricted current assets of $71.3 million at June 30, 2016, the actual decrease would be approximately $6.4 million.

Restricted current assets include cash and investments (including reinvested cash collateral in 2017) held in the City Treasury for future capital projects funded by PFCs and CFCs. Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for LAWA capital expenditures incurred at LAX and for bond principal and interest payments. Restricted current assets increased by $94.2 million or 5.2%, from $1.8 billion at June 30, 2016 to $1.9 billion at June 30, 2017. Without the transfer of ONT which carried restricted current assets of $84.8 million at June 30, 2016, the actual increase would be approximately $179.0 million or 9.8%. The increase in year-end investment portfolio held by fiscal agents of $90.2 million, or 10.8% from $834.3 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.

LAWA'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 $508.6 million, or 6.2%. Without the transfer of ONT which carried a net capital assets of $283.5 million at June 30, 2016, the actual increase would be approximately $792.1 million or 9.6%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

Other noncurrent assets increased by $54.9 million or 417.2%. 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 $81.1 million or 49.5%. The increase was mainly due to the increase of $12.8 million or 49.6% in deferred charges on debt refunding, and recognition of $88.6 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 $20.2 million or 28.6% in deferred outflows of resources for changes of assumptions related to pension.

Current liabilities payable from unrestricted assets increased by $29.3 million or 8.2%. This was mainly due to an increase of $48.2 million, or 181.7% in other current liabilities, offset by a decrease of $9.0 million, or 3.8% in contracts and accounts payable, and a decrease of $9.5 million, or 62.7% 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 $19.4 million, and an increase in LAWA's share of the City Treasury's year-end pending investment trade of $28.4 million in fiscal year 2017.

Current liabilities payable from restricted assets increased by $38.1 million or 21.8%. This was mainly due to an increase of $37.0 million or 177.9% in LAWA's share of the City Treasury's year-end pending investment trade in fiscal year 2017, an increase of $7.4 million in current maturities of bonded debt (after redemption[10] of $4.3 million current bonded debt), offset by a decrease of $11.8 million or 61.8% in obligations under securities lending transactions.

The net increase in noncurrent liabilities was $413.1 million or 7.2%. 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[8] of $214.1 million, bond redemption[10] of $51.2 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 for $76.9 million. According to the Governmental Accounting Standards 68 Actuarial Valuation Report based on a 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 $8.9 million or 13.7%. The increase was mainly due to an increase of $25.7 million, or 85.6% in deferred inflows of resources for differences between expected and actual experience related to pension, offset by a decrease of $20.1 million in deferred inflows of resources for differences between projected and actual investment earnings related to pension.

[10] *Redemption and advance refunding totaled $269.6 million in fiscal year 2017.*

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(continued)

Changes in Net Position Summary

A condensed summary of LAWA's changes in net position for fiscal years ended 2018, 2017, and 2016 is presented below. As a result of the transfer of ONT to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement described in Note 17 of the notes to the financial statements, the changes in net position reflected no ONT activities in fiscal year 2018, four months of ONT activities in fiscal year 2017, and a full year of ONT activities in fiscal year 2016.

Condensed Changes in Net Position
(amounts in thousands)

	FY 2018	FY 2017	FY 2016	FY 2018 increase (decrease)	FY 2017 increase (decrease)
Operating revenue	$ 1,446,226	$ 1,372,730	$ 1,285,816	$ 73,496	$ 86,914
Less- Operating expenses	815,511	778,198	734,419	37,313	43,779
Operating income before depreciation and amortization	630,715	594,532	551,397	36,183	43,135
Less- Depreciation and amortization	365,465	309,126	250,109	56,339	59,017
Operating income	265,250	285,406	301,288	(20,156)	(15,882)
Other nonoperating revenue, net	73,270	23,846	54,841	49,424	(30,995)
Federal and other government grants	55,897	87,756	49,271	(31,859)	38,485
Special item - loss on transfer of ONT	—	(225,347)	—	225,347	(225,347)
Changes in net position	394,417	171,661	405,400	222,756	(233,739)
Net position, beginning of year, as previously reported	5,069,265	4,897,604	4,492,204	171,661	405,400
Change in accounting principle	(77,755)	—	—	(77,755)	—
Net position, beginning of year, as adjusted	4,991,510	4,897,604	4,492,204	93,906	405,400
Net position, end of year	$ 5,385,927	$ 5,069,265	$ 4,897,604	$ 316,662	$ 171,661

Operating Revenue

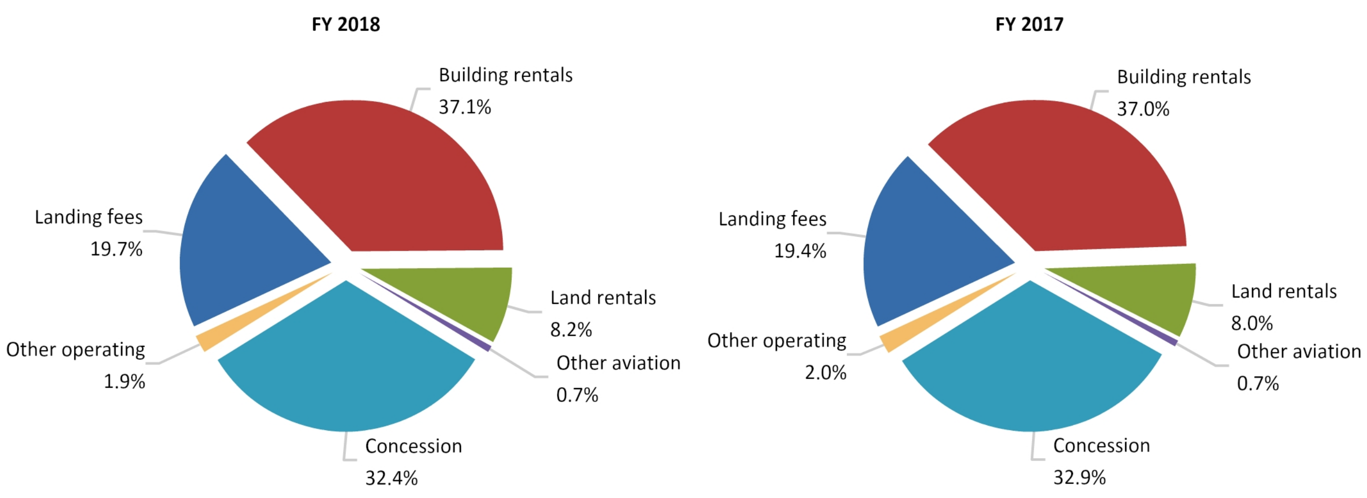
LAWA derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2018, 2017, and 2016:

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	$ 265,828	$ 252,589	$ 18,858	$ 13,239
Building rentals	536,367	507,981	487,349	28,386	20,632
Land rentals	118,937	110,314	109,422	8,623	892
Other aviation revenue	9,439	10,081	9,606	(642)	475
Total aviation revenue	949,429	894,204	858,966	55,225	35,238
Concession revenue	469,201	451,088	422,278	18,113	28,810
Other operating revenue	27,596	27,438	4,572	158	22,866
Total operating revenue	$ 1,446,226	$ 1,372,730	$ 1,285,816	$ 73,496	$ 86,914

Operating Revenue, Fiscal Year 2018

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2018 and 2017.



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(continued)

For the fiscal year ended June 30, 2018, total operating revenue was $1.4 billion, a $73.5 million or 5.4% increase from the prior fiscal year. The growth in aviation related revenue was $55.2 million. Non-aviation revenue had an increase of $18.3 million, with a $18.1 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 increased by $18.9 million or 7.1%, from $265.8 million in fiscal year 2017 to $284.7 million in fiscal year 2018. At LAX, landing fees 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.

Building rentals increased by $28.4 million or 5.6% from $508.0 million in fiscal year 2017 to $536.4 million in fiscal year 2018. At LAX, 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 was up by $8.6 million from $110.3 million in fiscal year 2017 to $118.9 million in fiscal year 2018. Land rental revenue increased by $9.4 million at LAX. The increase in land rental revenue at LAX was mainly due to an overall increase in leased areas.

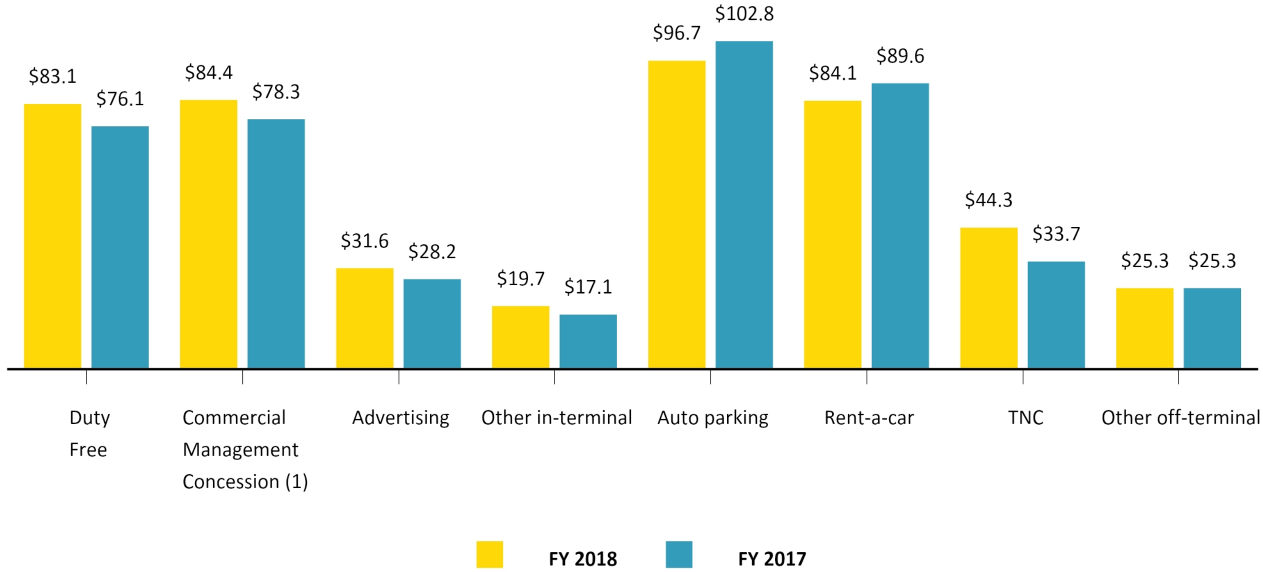
Total revenue from concessions was $469.2 million in fiscal year 2018, a 4.0% growth from $451.1 million in fiscal year 2017. In-terminal concession revenue includes rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, 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)[11] and other commercial ground transportation operations. The total revenue from concessions was $469.2 million and $441.6 million for LAX in fiscal year 2018 and 2017, respectively.

At LAX, 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[12] 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 .

[11] *Transportation network companies currently permitted to operate at LAX include Uber, Lyft and Opoli.*
[12] *Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.*

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.

Comparative LAWA 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.

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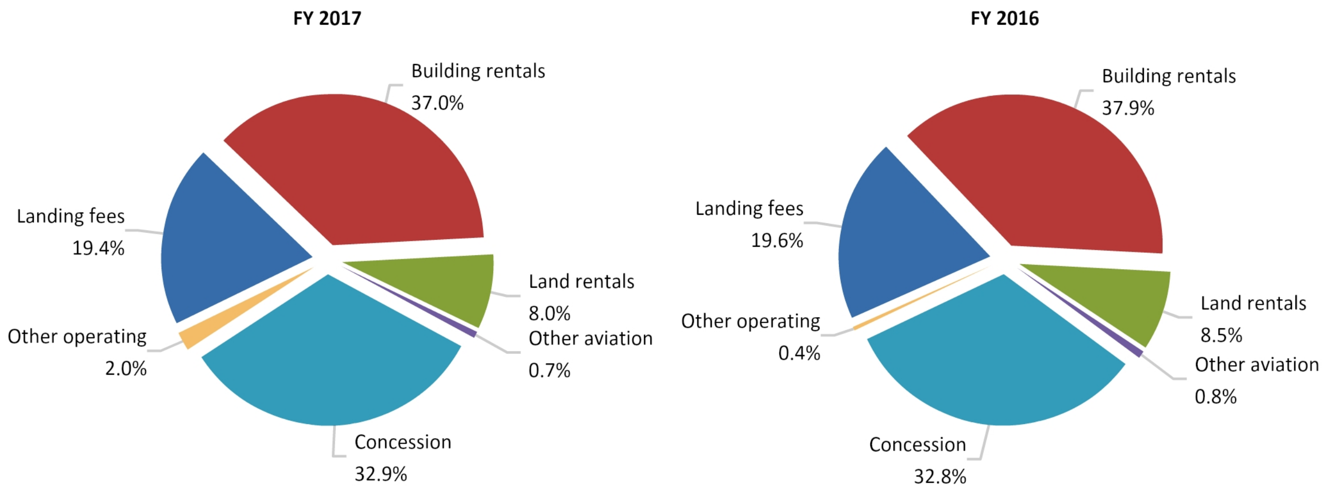
(continued)

Operating Revenue, Fiscal Year 2017

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2017 and 2016.



For the fiscal year ended June 30, 2017, total operating revenue was $1.4 billion, a $86.9 million or 6.8% increase from the prior fiscal year. The growth in aviation related revenue was $35.2 million. Non-aviation revenue had a net increase of $51.7 million , with $28.8 million increase in concessions and $22.9 million increase in other operating income.

As described in the notes to the financial statements, landing fees assessed to air carriers at LAX and ONT are based on cost recovery methodologies. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. 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 increased by $13.2 million or 5.2%, from $252.6 million in fiscal year 2016 to $265.8 million in fiscal year 2017. At LAX, landing fees were up by $20.8 million, or 8.6%. The increase in landing fees was due to the increase in actual capital and operating expenses allocable to the landing fee cost centers.

Building rentals increased by $20.6 million or 4.2% from $487.3 million in fiscal year 2016 to $508.0 million in fiscal year 2017. At LAX, total building rental revenue posted a growth of $30.7 million, or 6.6%. The increase was primarily attributable to the improvements and refurbishments in the terminals, scheduled rate increases associated with the Terminal Rate Agreement, as well as new and renegotiated leases signed with the airlines and other tenants.

Land rental revenue was up by $0.9 million from $109.4 million in fiscal year 2016 to $110.3 million in fiscal year 2017. Land rental revenue increased by $2.4 million at LAX and $0.6 million at VNY. The increase in land rental revenue at LAX was mainly due to an overall increase in leased areas. The increase was offset by the decrease of $2.1 million in ONT land rental revenue, reflective of only four months period of ONT operations in fiscal year 2017.

Total revenue from concessions was $451.1 million in fiscal year 2017, a 6.8% growth from $422.3 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. The total revenue from concessions was $441.6 million and $398.7 million for LAX in fiscal year 2017 and 2016, respectively. The increase was offset by the decrease of $14.1 million in ONT concession revenue, reflective of only four months period of ONT operations in fiscal year 2017.

At LAX, 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 at LAX 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 revenue, $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.

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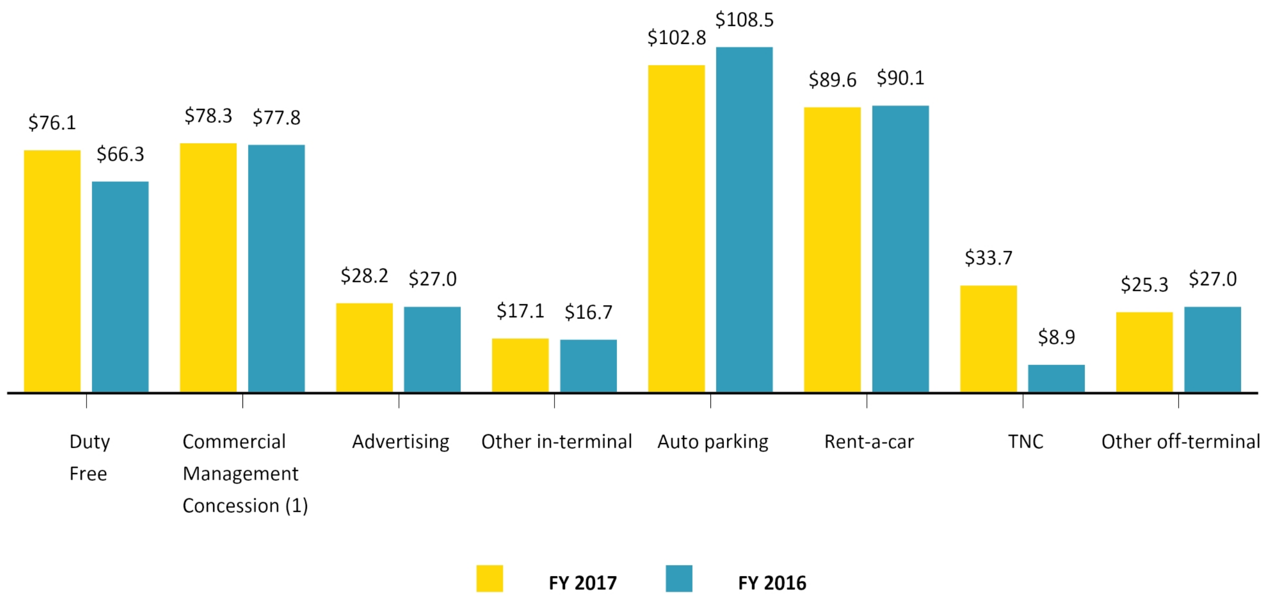
(continued)

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 $22.9 million or 500.1% 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.

Operating Expenses

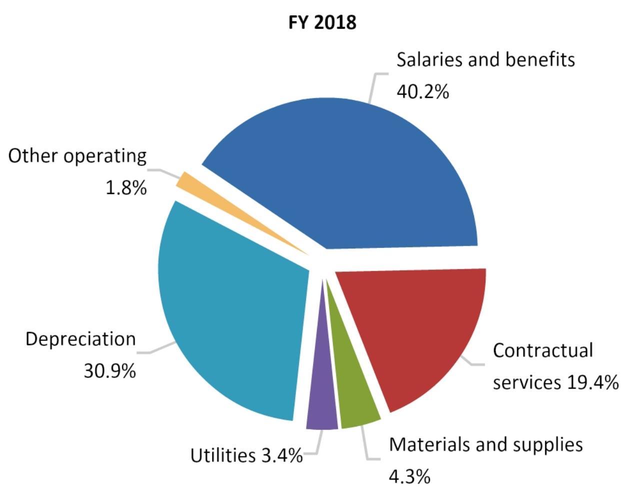
The following table presents a summary of LAWA's operating expenses for the fiscal years ended June 30, 2018, 2017, and 2016. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

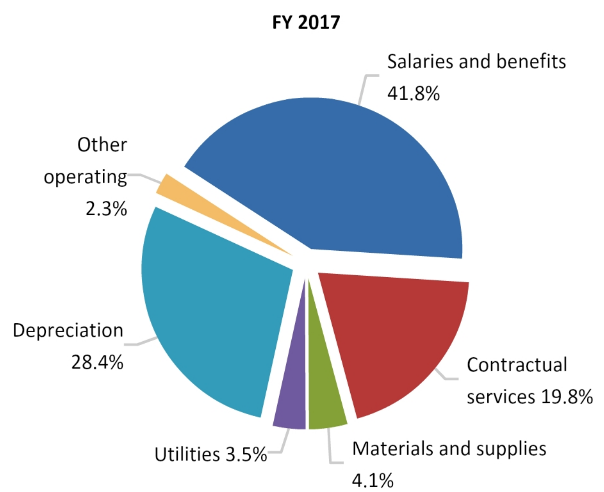
Summary of Operating Expenses
(amounts in thousands)

	FY 2018	FY 2017	FY 2016	FY 2018 increase (decrease)	FY 2017 increase (decrease)
Salaries and benefits	$ 474,431	$ 455,032	$ 421,028	$ 19,399	$ 34,004
Contractual services	229,292	215,386	199,919	13,906	15,467
Materials and supplies	50,383	44,634	50,325	5,749	(5,691)
Utilities	40,383	37,675	40,843	2,708	(3,168)
Other operating expenses	21,022	25,471	22,304	(4,449)	3,167
Operating expenses before depreciation	815,511	778,198	734,419	37,313	43,779
Depreciation	365,465	309,126	250,109	56,339	59,017
Total operating expenses	$ 1,180,976	$ 1,087,324	$ 984,528	$ 93,652	$ 102,796

Operating Expenses, Fiscal Year 2018

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





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

For the fiscal year ended June 30, 2018, LAWA operating expenses were $1.2 billion, a $93.7 million or 8.6% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $19.4 million, contractual services, up by $13.9 million, and depreciation, up by $56.3 million, offset by the decrease in other operating expenses of $4.4 million. Total operating expense was $1.2 billion and $1.0 billion for LAX in fiscal year 2018 and 2017, respectively.

LAWA's salaries and benefits expense increased by $19.4 million or 4.3% in fiscal year 2018. At LAX, salaries and benefits expense increased by $28.1 million or 6.4%. Within this category, salaries and overtime before capitalized charges at LAX 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.

LAWA's contractual services increased by $13.9 million from $215.4 million to $229.3 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 at LAX 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.

LAWA's materials and supplies increased by $5.7 million from $44.6 million to $50.4 million in fiscal year 2018. LAX expense was $49.7 million and $43.8 million in fiscal year 2018 and 2017, respectively. The increase in materials and supplies at LAX was mainly due to increased field paints and computer licenses and support fees.

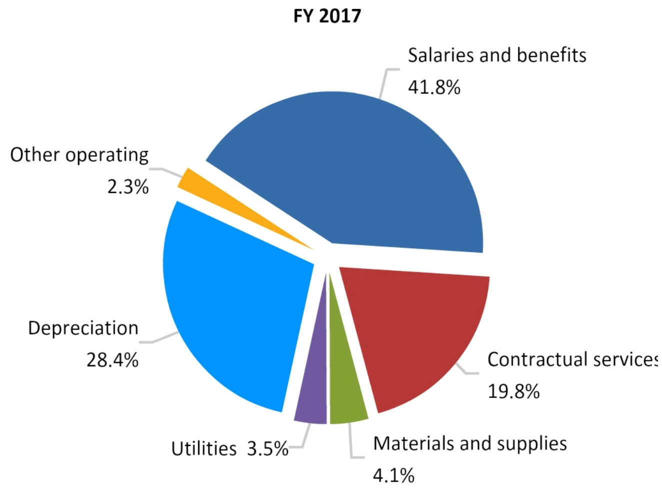
LAWA's utilities expense increased by $2.7 million from $37.7 million to $40.4 million in fiscal year 2018. Utilities expense was $39.4 million and $36.0 million for LAX in fiscal year 2018 and 2017, respectively.

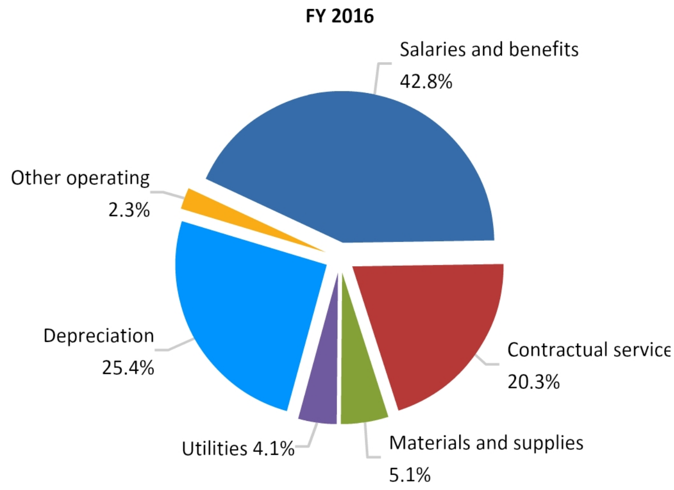
LAWA's other operating expenses decreased by $4.4 million from $25.5 million to $21.0 million in fiscal year 2018. Other operating expenses were $20.8 million and $25.8 million for LAX in fiscal year 2018 and 2017, respectively. The $5.0 million decrease was mainly caused by the recognition of $3.7 million 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.

The increase in depreciation charges from $309.1 million to $365.5 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.

Operating Expenses, Fiscal Year 2017

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





For the fiscal year ended June 30, 2017, LAWA operating expenses were $1.1 billion, a $102.8 million or 10.4% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $34.0 million, contractual services, up by $15.5 million, and depreciation, up by $59.0 million, offset by the decrease in materials and supplies of $5.7 million and decrease in utilities of $3.2 million. Total operating expense was $1,040.7 million and $890.3 million for LAX in fiscal year 2017 and 2016, respectively. Total operating expenses was $23.5 million and $71.5 million for ONT in fiscal year 2017 and 2016, respectively.

LAWA's salaries and benefits expense increased by $34.0 million or 8.1% in fiscal year 2017. At LAX, 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.

LAWA's contractual services increased by $15.5 million from $199.9 million to $215.4 million in fiscal year 2017. Contractual services expense was $203.3 million and $182.7 million for LAX in fiscal year 2017 and 2016, respectively. Contractual services expense was $4.4 million and $11.2 million for ONT in fiscal year 2017 and 2016, respectively, reflective of only four months period of ONT operations in fiscal year 2017.

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The increase in contractual service expense at LAX 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. At ONT, contractual service expense was $4.4 million, a decrease of $6.6 million in fiscal year 2017, reflective of only four months period of ONT operations in fiscal year 2017.

LAWA's materials and supplies decreased by $5.7 million from $50.3 million to $44.6 million in fiscal year 2017. LAX expense was $43.8 million and $46.1 million in fiscal year 2017 and 2016, respectively. The increase in materials and supplies at LAX was mainly due to higher maintenance costs. Materials and supplies expense was $0.4 million and $3.5 million for ONT in fiscal year 2017 and 2016, respectively, reflective of only four months period of ONT operations in fiscal year 2017.

LAWA's utilities expense decreased by $3.2 million from $40.8 million to $37.7 million in fiscal year 2017. Utilities expense was $36.0 million and $36.2 million for LAX in fiscal year 2017 and 2016, respectively. Utilities expense was $1.2 million and $4.1 million for ONT in fiscal year 2017 and 2016, respectively, reflective of only four months period of ONT operations in fiscal year 2017.

LAWA's other operating expenses increased by $3.2 million from $22.3 million to $25.5 million in fiscal year 2017. Other operating expenses was $25.8 million and $20.7 million for LAX in fiscal year 2017 and 2016, respectively. Other operating expenses was $0.1 million and $1.1 million for ONT in fiscal year 2017 and 2016, respectively. The increase at LAX was mainly due to the accrual and payment of $3.7 million property taxes for the Park One parking lot pursuant to the lease covering the fiscal years from 2014 to 2017.

The increase in depreciation charges from $250.1 million to $309.1 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.

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services or producing and delivering goods in connection with LAWA'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	$ 166,770	$ 153,964	$ 4,661	$ 12,806
Customer facility charges	55,759	33,890	36,082	21,869	(2,192)
Interest and investment income	9,945	4,275	37,030	5,670	(32,755)
Other nonoperating revenue	43,360	15,886	17,857	27,474	(1,971)
	$ 280,495	$ 220,821	$ 244,933	$ 59,674	$ (24,112)
Nonoperating expenses					
Interest expense	$ 205,308	$ 194,482	$ 185,275	$ 10,826	$ 9,207
Other nonoperating expenses	1,917	2,493	4,817	(576)	(2,324)
	$ 207,225	$ 196,975	$ 190,092	$ 10,250	$ 6,883
Federal and other government grants	$ 55,897	$ 87,756	$ 49,271	$ (31,859)	$ 38,485
Special item - loss on transfer of ONT	$ —	$ (225,347)	$ —	$ 225,347	$ (225,347)

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Nonoperating Transactions, Fiscal Year 2018

LAWA's PFCs increased by $4.7 million, or 2.8% in fiscal year 2018. At LAX, 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 LAWA, posted an increase of $21.9 million, or 64.5% in fiscal year 2018. At LAX, CFCs 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 $5.7 million, or 132.6% in fiscal year 2018. At LAX, 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 $10.8 million, or 5.6% in fiscal year 2018. At LAX, 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 $27.5 million, or 172.9% in fiscal year 2018. At LAX, 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 in LAWA and LAX 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.

LAWA's federal and other government grants decreased by $31.9 million, or 36.3% in fiscal year 2018. At LAX, 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 on November 1, 2016 pursuant to the ONT Settlement Agreement. As a result of the transfer, LAWA recognized a loss of $225.3 million on the disposal of the ONT as a special item in fiscal year 2017 and none in fiscal year 2018.

Nonoperating Transactions, Fiscal Year 2017

LAWA's PFCs increased by $12.8 million, or 8.3% in fiscal year 2017. At LAX, PFCs increased by $13.5 million or 8.9% from $150.4 million to $163.9 million as a result of the increase of 6.6% passenger traffic in fiscal year 2017. At ONT, PFCs decreased by $0.7 million or 18.4%, reflective of only four months period of ONT operations in fiscal year 2017.

CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAWA, posted a decrease of $2.2 million, or 6.1% in fiscal year 2017. At LAX, CFCs increased by $0.5 million, or 1.7% from $32.0 million to $32.5 million in fiscal year 2017. At ONT, CFCs decreased by $2.7 million, or 67.1% , reflective of only four months period of ONT operations in fiscal year 2017.

Interest and investment income decreased by $32.8 million, or 88.5% in fiscal year 2017. At LAX, interest 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. At ONT, interest income decreased by $0.6 million or 28.0%, reflective of only four months period of ONT operations in fiscal year 2017.

Interest expenses increased by $9.2 million, or 5.0% in fiscal year 2017. At LAX, 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 $463.5 million revenue bonds (after advance refunding) to finance capital improvement projects. At ONT, interest expenses decreased by $1.9 million or 64.9% in fiscal year 2017 as a result of the payoff of all ONT outstanding revenue bonds due to the ONT transfer on November 1, 2016.

Other nonoperating revenue decreased by $2.0 million, or 11.0% in fiscal year 2017. At LAX, 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. At ONT, the other nonoperating revenue increased by $0.3 million in fiscal year 2017 as a result of $0.6 million loss on disposal of properties in fiscal year 2016 offset by the decrease of $0.3 million Transportation Security Administration (TSA) revenue.

Other nonoperating expenses decreased by $2.3 million, or 48.2% in fiscal year 2017. At LAX, 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.

LAWA's federal and other government grants increased by $38.5 million, or 78.1% in fiscal year 2017. At LAX, 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 on November 1, 2016 pursuant to the ONT Settlement Agreement. As a result of the transfer, LAWA recognized a loss of $225.3 million on the disposal of the ONT as a special item in fiscal year 2017.

Long-Term Debt

As of June 30, 2018, LAWA'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 LAWA increased by $757.6 million to a total of $6.1 billion.

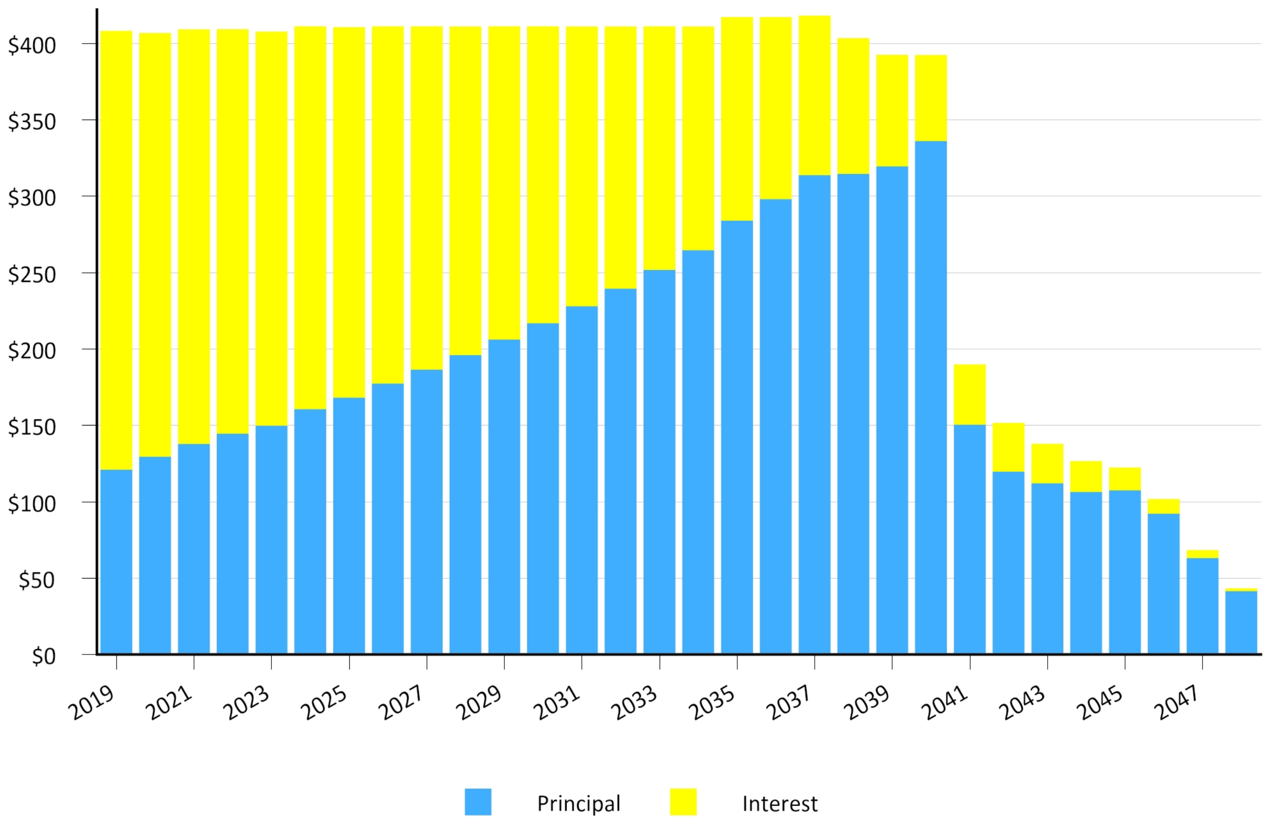
As of June 30, 2017, LAWA's outstanding long-term debt before unamortized premium and discount was $5.0 billion. Issuances during the year amounted to $677.6 million, redemption and advance refunding totaled $269.6 million, and payments for scheduled maturities were $96.2 million. Together with the unamortized premium and discount, bonded debt of LAWA increased by $347.4 million to a total of $5.3 billion.

As of June 30, 2018 and 2017, LAWA's outstanding long-term debt consisted of only LAX outstanding bonds. All ONT outstanding bonds were paid off in fiscal year 2017 as a result of the ONT transfer on November 1, 2016. LAWA 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 LAWA's bonded debt can be found in Note 6 of the notes to the financial statements .

Outstanding principal, plus scheduled interest as of June 30, 2018, is scheduled to mature as shown in the following chart (amounts in millions).



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

Capital Assets

LAWA's investment in capital assets, net of accumulated depreciation, as of June 30, 2018 and 2017 were $9.8 billion and $8.7 billion, respectively. This investment, which accounts for 76.8% and 75.3% of LAWA'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.

LAWA'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:

- LAX - $478.9 million renovations at Terminals 1 to 8
- LAX - $385.8 million construction of Midfield Satellite Concourse (MSC)
- LAX - $167.9 million project costs related to Landside Access Modernization Program (LAMP)
- LAX - $100.4 million residential acquisition, soundproofing and noise mitigation
- LAX - $79.8 million construction of runways and taxiways
- LAX - $31.4 million interior improvements and security upgrades at TBIT and Bradley West
- LAX - $15.0 million construction of TBIT baggage handling system
- LAX - $14.2 million Central Terminal Area (CTA) curbside development project and Second Level Roadway Joint and Deck replacement
- LAX - $11.4 million various IT network and system projects
- LAX - $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, $4.3 million for airfield and runways, and $30.3 million for various other projects. In addition, LAWA 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:

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

At June 30, 2017, the amounts committed for capital expenditures included $53.5 million for terminals and facilities, $6.6 million for noise mitigation program, $4.7 million for airfield and runways, and $17.6 million for various other projects.

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

Landing Fees, Fiscal Year 2019

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

Los Angeles International Airport

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 World Airports' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ryan P. Yakubik, Chief Financial Officer, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.

Financial Statements

2018

Comprehensive Annual Financial Report

Los Angeles World Airports

Financial Statements

2018 Comprehensive Annual Financial Report
Los Angeles World Airports

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

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	$ 912,337	$ 773,590
Investments with fiscal agents	2,167	22,282
Accounts receivable, net of allowance for uncollectible accounts: 2018 - $1; 2017 - $33	44	1,625
Unbilled receivables	21,879	44,501
Accrued interest receivable	6,129	3,435
Grants receivable	6,844	12,322
Loans receivable	150	136
Receivable from OIAA	9,569	9,674
Receivable from City General Fund	2,935	2,849
Prepaid expenses	4,550	4,129
Inventories	1,405	1,286
Total unrestricted current assets	968,009	875,829
Restricted current assets		
Cash and pooled investments held in City Treasury	874,413	968,021
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	1,951,670	1,921,000
Total current assets	2,919,679	2,796,829
Noncurrent Assets		
Capital assets		
Not depreciated	2,815,931	2,269,426
Depreciated, net	6,989,908	6,476,864
Total capital assets	9,805,839	8,746,290
Other noncurrent assets		
Investments with fiscal agents	—	17,585
Loans receivable, net of current portion	233	383
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	36,217	68,013
Total noncurrent assets	9,842,056	8,814,303
TOTAL ASSETS	12,761,735	11,611,132
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	40,308	38,550
Deferred outflows of resources related to pension and OPEB	162,101	206,553
TOTAL DEFERRED OUTFLOWS OF RESOURCES	202,409	245,103

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	$ 278,246	$ 226,928
Accrued salaries	18,870	18,137
Accrued employee benefits	4,365	5,694
Estimated claims payable	10,525	8,277
Commercial paper	60,832	48,736
Obligations under securities lending transactions	15,914	5,658
Other current liabilities	14,554	74,737
Total current liabilities payable from unrestricted assets	403,306	388,167
Current liabilities payable from restricted assets		
Contracts and accounts payable	7,715	7,959
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	188,816	212,756
Total current liabilities	592,122	600,923
Noncurrent Liabilities		
Bonded debt, net of current portion	5,960,266	5,215,626
Accrued employee benefits, net of current portion	44,673	42,150
Estimated claims payable, net of current portion	88,027	71,382
Liability for environmental/hazardous materials cleanup	—	7,500
Net pension liability	723,062	774,356
Net OPEB liability	77,566	—
Other long-term liabilities	885	886
Total noncurrent liabilities	6,894,479	6,111,900
TOTAL LIABILITIES	7,486,601	6,712,823
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension and OPEB	91,616	74,147
TOTAL DEFERRED INFLOWS OF RESOURCES	91,616	74,147
NET POSITION		
Net investment in capital assets	4,706,733	4,322,932
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	(205,300)	(223,180)
TOTAL NET POSITION	$ 5,385,927	$ 5,069,265

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 284,686	$ 265,828
Building rentals	536,367	507,981
Land rentals	118,937	110,314
Other aviation revenue	9,439	10,081
Total aviation revenue	949,429	894,204
Concession revenue	469,201	451,088
Other operating revenue	27,596	27,438
Total operating revenue	1,446,226	1,372,730
OPERATING EXPENSES		
Salaries and benefits	474,431	455,032
Contractual services	229,292	215,386
Materials and supplies	50,383	44,634
Utilities	40,383	37,675
Other operating expenses	21,022	25,471
Total operating expenses before depreciation and amortization	815,511	778,198
Operating income before depreciation and amortization	630,715	594,532
Depreciation and amortization	365,465	309,126
OPERATING INCOME	265,250	285,406
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	171,431	166,770
Customer facility charges	55,759	33,890
Interest and investment income	9,945	4,275
Interest expense	(205,308)	(194,482)
Other nonoperating revenue	43,360	15,886
Other nonoperating expenses	(1,917)	(2,493)
Total nonoperating revenue, net	73,270	23,846
INCOME BEFORE CAPITAL GRANTS AND SPECIAL ITEM	338,520	309,252
Federal and other government grants	55,897	87,756
Special item - loss on transfer of ONT	—	(225,347)
CHANGE IN NET POSITION	394,417	171,661
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	5,069,265	4,897,604
Change in accounting principle as a result of GASB 75 & 85	(77,755)	—
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	4,991,510	4,897,604
NET POSITION, END OF YEAR	$ 5,385,927	$ 5,069,265

See accompanying notes to the financial statements[13].

[13] *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, the changes in net position reflected four months of financial activities for ONT from July 1, 2016 to October 31, 2016 in fiscal year 2017 and no financial activities for ONT in fiscal year 2018.*

Los Angeles World Airports

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

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 1,490,373	$ 1,402,455
Payments to suppliers	(177,916)	(242,641)
Payments for employee salaries and benefits	(443,712)	(435,848)
Payments for City services	(108,374)	(106,949)
Net cash provided by operating activities	760,371	617,017
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	11,761	11,556
Noncapital cash used for ONT transfer	—	(28,573)
Net cash provided by (used for) noncapital financing activities	11,761	(17,017)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	896,748	495,515
Principal paid on revenue bonds and commercial paper notes	(112,745)	(101,196)
Interest paid on revenue bonds and commercial paper notes	(265,918)	(244,694)
Revenue bonds issuance costs	(1,679)	(1,156)
Acquisition and construction of capital assets	(1,381,674)	(1,067,365)
Proceeds from passenger facility charges	170,412	160,459
Proceeds from customer facility charges	50,522	33,933
Capital contributed by federal agencies	61,375	100,205
Net cash used for capital and related financing activities	(582,959)	(624,299)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	36,218	26,952
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)	65,429
(Purchases) of investments held by fiscal agents	(93,818)	(4,597)
Net cash (used in) provided by investing activities	(157,569)	48,753
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,604	24,454
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,688,387	2,663,933
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,719,991	$ 2,688,387
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 912,337	$ 773,590
Investments with fiscal agents- unrestricted	2,167	22,282
Cash and pooled investments held in City Treasury- restricted	874,413	968,021
Investments with fiscal agents- restricted	931,074	924,494
Total cash and cash equivalents	$ 2,719,991	$ 2,688,387

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 265,250	$ 285,406
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	365,465	309,126
Change in provision for uncollectible accounts	(32)	(1,033)
Other nonoperating revenues, net	39,292	3,898
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	1,613	12,128
Unbilled receivables	22,622	(1,811)
Prepaid expenses and inventories	(446)	386
Notes receivable	11,367	173
Contracts and accounts payable	51,661	(25,719)
Accrued salaries	733	1,708
Accrued employee benefits	1,194	798
Other liabilities	(8,786)	14,505
Net pension and OPEB liability and related changes in deferred outflows and inflows of resources	10,438	17,452
Total adjustments	495,121	331,611
Net cash provided by operating activities	$ 760,371	$ 617,017
SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 148,912	$ 146,095
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	5,478	12,449

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.

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

b. Basis of Accounting

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

c. Cash, Cash Equivalents, and Investments

LAWA's cash, cash equivalents, and investments and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. LAWA's portion of the pool is presented on the statements of net position as 'Cash and Pooled Investments Held in City Treasury'. 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. LAWA considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore these amounts are reported as cash equivalents. LAWA has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

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

d. Accounts Receivables and Unbilled Receivables

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

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

e. Inventories

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

f. Capital Assets

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

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

LAWA capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of tax-exempt bond proceeds). Net interest capitalized in fiscal years 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 LAWA from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAWA makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.

h. Operating and Nonoperating Revenues and Expenses

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

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

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

l. Unearned Revenue

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

m. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leave. LAWA 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	$ 25,374	$ 24,488
Accrued sick leave	23,664	23,356
Sub-total	49,038	47,844
Current portion	(4,365)	(5,694)
Noncurrent portion	$ 44,673	$ 42,150

n. Deferred Outflows and Inflows of Resources

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

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

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.

LAWA 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 LAWA that is not restricted for any project or other purpose.

r. Use of Restricted/Unrestricted Net Position

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

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 $77.8 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	$	5,069,265
Change in accounting principle as a result of implementation of GASB Statement No. 75 and No. 85		(77,755)
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	$	4,991,510

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.

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.

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

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, LAWA adopted the provisions of GASB Statements No. 75 and No. 85 and adjusted the beginning net position by $77.8 million to recognize LAWA'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 LAWA's financial statements.

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

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

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

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

Issued in 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.

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

3. Cash and Investments

a. Pooled Investments

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

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

LAWA maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAWA's share of $1.8 billion and $1.7 billion in the Pool as of June 30, 2018 and 2017 represented approximately 19.6% and 20.0%, respectively. There are no specific investments belonging to LAWA. Included in LAWA's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAWA's allocated shares for fiscal years 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.

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.

LAWA participates in the City's securities lending program through the pooled investment fund. LAWA recognizes its proportionate share of the cash collateral received for securities loaned and related obligation for the general investment pool. At June 30, 2018, LAWA's portion of the cash collateral and the related obligation in the City's program was $31.4 million. LAWA'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. LAWA's portion of the noncash collateral at June 30, 2018 was $54.2 million. At June 30, 2017, LAWA's portion of the cash collateral and the related obligation in the City's program was $13.0 million. LAWA'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. LAWA'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.

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

c. Investments with Fiscal Agents

The investment practices of the fiscal agents that relate to LAWA's portfolio are similar as those of the City Treasurer, and have similar objectives. LAWA's investments held by fiscal agents are for the following purposes as of June 30 (amounts in thousands):

	2018	2017
Unrestricted, current		
Commercial paper and cash at bank	$ 2,167	$ 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	$ 1,044,644	$ 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 LAWA for capital expenditures incurred or to be incurred at LAX.

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	2,167		
Total	$ 1,044,644		

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

	Amount	Investment maturities: 1 to 60 days	Investment maturities: 61 to 365 days	Investment maturities: 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	2,167	
Total	$ 1,044,644	

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

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

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

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

Credit Risk. The City's policy requires that a mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies. At June 30, 2018 and 2017, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's. The collateralized investment contract is not rated.

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, LAWA'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, LAWA'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. 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.

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

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

4. Capital Assets

LAWA 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	$ 1,014,058	$ —	$ —	$ 211,719	$ 1,225,777
Air easements	44,472	—	—	—	44,472
Emission reduction credits	3,070	—	—	(298)	2,772
Construction work in progress	1,207,826	1,417,127	(22)	(1,082,021)	1,542,910
Total capital assets not depreciated	2,269,426	1,417,127	(22)	(870,600)	2,815,931
Capital assets depreciated					
Buildings	3,605,063	618	—	4,822	3,610,503
Improvements	4,874,399	2,510	—	830,780	5,707,689
Equipment and vehicles	257,254	9,110	(58,272)	(3,089)	205,003
Others	—	—	—	38,087	38,087
Total capital assets depreciated	8,736,716	12,238	(58,272)	870,600	9,561,282
Accumulated depreciation					
Buildings	(627,413)	(114,253)	—	—	(741,666)
Improvements	(1,444,003)	(237,907)	—	33,040	(1,648,870)
Equipment and vehicles	(188,436)	(13,305)	53,943	(33,040)	(180,838)
Total accumulated depreciation	(2,259,852)	(365,465)	53,943	—	(2,571,374)
Capital assets depreciated, net	6,476,864	(353,227)	(4,329)	870,600	6,989,908
Total	$ 8,746,290	$ 1,063,900	$ (4,351)	$ —	$ 9,805,839

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

	Balance at June 30, 2016	Additions	Retirements & disposals[1]	Transfers	Balance at June 30, 2017
Capital assets not depreciated					
Land and land clearance	$ 1,060,503	$ —	$ (57,737)	$ 11,292	$ 1,014,058
Air easements	46,975	—	(2,503)	—	44,472
Emission reduction credits	2,853	—	—	217	3,070
Construction work in progress	1,647,583	1,112,534	(855)	(1,551,436)	1,207,826
Total capital assets not depreciated	2,757,914	1,112,534	(61,095)	(1,539,927)	2,269,426
Capital assets depreciated					
Buildings	3,258,154	—	(216,015)	562,924	3,605,063
Improvements	4,199,916	3,056	(304,573)	976,000	4,874,399
Equipment and vehicles	278,416	11,670	(33,835)	1,003	257,254
Total capital assets depreciated	7,736,486	14,726	(554,423)	1,539,927	8,736,716
Accumulated depreciation					
Buildings	(628,864)	(99,815)	101,266	—	(627,413)
Improvements	(1,424,099)	(195,125)	175,221	—	(1,444,003)
Equipment and vehicles	(203,733)	(14,186)	29,483	—	(188,436)
Total accumulated depreciation	(2,256,696)	(309,126)	305,970	—	(2,259,852)
Capital assets depreciated, net	5,479,790	(294,400)	(248,453)	1,539,927	6,476,864
Total	$ 8,237,704	$ 818,134	$ (309,548)	$ —	$ 8,746,290

(1) Retirements and disposals included the write-off of $309.6 million net book value of ONT capital assets as of October 31, 2016 as a result of the transfer of ONT pursuant to the ONT Settlement Agreement as described in Note 17 of the notes to the financial statements.

5. Commercial Paper

As of June 30, 2018 and 2017, LAWA 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.

LAWA entered into a letter of credit (LOC) and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: 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 . LAWA 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.

LAWA 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

LAWA 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

6. Bonded Debt

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

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 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. LAWA 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.

LAWA has received approval from the FAA to collect and use passenger facility charges (PFCs) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal (TBIT) Renovations, Bradley West projects and Terminal 6 improvements. Board of Airport Commissioners authorized amounts of $136.0 million and $118.0 million were used for debt service in fiscal years 2018 and 2017, respectively.

At LAX, 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, LAWA issued $260.6 million of LAX subordinate revenue bonds Series 2017A with a premium of $38.8 million, and $88.7 million LAX subordinate revenue bonds Series 2017B with a premium of $15.9 million. On March 15, 2018, LAWA issued $426.5 million LAX subordinate revenue bonds Series 2018A with a premium of $54.1 million. On April 12, 2018, LAWA issued $226.5 million LAX 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, LAWA issued $226.4 million of LAX senior refunding revenue bonds Series 2016C, and on January 19, 2017, $451.2 million of LAX subordinate revenue bonds Series 2016B. The Series 2016C bonds were issued at par, and the Series 2016B bonds were sold with premium of $51.1 million. The 2016C bonds were issued to advance refund and defease a portion of the Series 2008A senior revenue bonds in the amount of $214.1 million. These transactions resulted in a cash flow savings of $39.7 million and economic gain of $24.8 million. The 2016B bonds were issued to fund certain capital projects at LAX.

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.

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

7. Changes in Long-Term Liabilities

LAWA had the following long-term liabilities activities for fiscal year ended June 30, 2018 (amounts in thousands):

	Balance at June 30, 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	47,844	6,888	(5,694)	49,038	4,365
Estimated claims payable	79,659	27,170	(8,277)	98,552	10,525
Liability for environmental/ hazardous materials cleanup	7,500	—	(7,500)	—	—
Net pension liability	774,356	—	(51,294)	723,062	—
Net OPEB liability	—	91,089	(13,523)	77,566	—
Other long-term liabilities	886	—	(1)	885	—
Total	$ 6,233,721	$ 1,273,526	$ (477,048)	$ 7,030,199	$ 135,720

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

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017	Current Portion
Revenue bonds	$ 4,694,300	$ 677,580	$ (365,785)	$ 5,006,095	$ 107,850
Unamortized premium	287,483	51,142	(18,164)	320,461	—
Unamortized discount	(5,675)	—	2,595	(3,080)	—
Net revenue bonds	4,976,108	728,722	(381,354)	5,323,476	107,850
Accrued employee benefits	47,046	6,726	(5,928)	47,844	5,694
Estimated claims payable	79,437	8,759	(8,537)	79,659	8,277
Liability for environmental/ hazardous materials cleanup	12,783	1,580	(6,863)	7,500	—
Net pension liability	697,482	76,874	—	774,356	—
Other long-term liabilities	886	—	—	886	—
Total	$ 5,813,742	$ 822,661	$ (402,682)	$ 6,233,721	$ 121,821

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

8. Leases and Agreements

a. Operating Leases and Agreements As Lessor

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

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the fiscal years ended June 30, 2018 and 2017, revenues from such agreements were $356.9 million and $333.2 million, respectively. The respective amounts over MAG were $96.9 million and $111.0 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	$	185,949
2020		142,121
2021		125,882
2022		97,869
2023		91,824
Total	$	643,645

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

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

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

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

Notes to the Financial Statements
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(continued)

LAWA also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from less than 10 years to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines at LAX also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30. The land and terminal lease agreements are accounted for as operating leases. For the fiscal years ended June 30, 2018 and 2017, revenues from these leases were $655.3 million and $618.3 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	$ 645,461
2020	625,265
2021	610,021
2022	538,534
2023	488,296
Total	$ 2,907,577

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	$ 5,601,330	$ 4,958,174
Accumulated depreciation	(1,050,231)	(850,205)
Net	4,551,099	4,107,969
Land	626,715	630,002
Total	$ 5,177,814	$ 4,737,971

b. Lease Obligations

LAWA leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2018 and 2017 were $7.3 million and $7.2 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2019	$ 7,417
2020	5,739
2021	3,651
2022	3,642
2023	3,642
2024-2028	17,299
2029-2033	7,584
Total	$ 48,974

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

9. Passenger Facility Charges

Passenger Facility Charges (PFCs) are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAWA. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. The current PFCs at LAX is $4.50 per enplaned passenger. PFCs collection authorities approved by FAA are $4.2 billion and $4.1 billion at LAX as of June 30, 2018 and 2017, respectively. LAWA has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of $136.0 million and $118.0 million were used for debt service in fiscal years 2018 and 2017, respectively. Due to the transfer of ONT to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement described in Note 17 of the notes to the financial statements, all unexpended PFCs revenues and interest were transferred to OIAA in fiscal year 2017.

The following is a summary of LAX 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

LAX's 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

LAX's cumulative expenditures on approved PFCs projects totaled $2.3 billion and $2.0 billion for fiscal years 2018 and 2017, respectively.

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. Due to the transfer of ONT to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement described in Note 17 of the notes to the financial statements, all unexpended CFCs revenues and interest were transferred to OIAA in fiscal year 2017.

LAX's 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

LAX's cumulative expenditures on approved CFCs projects totaled $3.0 million for fiscal years 2018 and 2017.

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

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $55.9 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 LAWA such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for fiscal years ended June 30, 2018 and 2017 were $122.2 million and $111.9 million, respectively.

LAWA collects parking taxes at LAX on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2018 and 2017 were $10.8 million and $11.7 million, respectively.

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAWA to the City General Fund. The cases involved compliance review by FAA of the transfer of LAWA revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of $43.0 million out of approximately $58.0 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway. The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAWA totaling $17.7 million plus 3.0% interest for a total of $21.3 million. The installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAWA. 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 LAWA 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. LAWA presents the related defined benefit disclosures as a participant in a single employer plan of the City on a cost-sharing basis. As of the report date of LAWA'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.

Notes to the Financial Statements
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(continued)

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

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

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

Retirement allowances are indexed annually for inflation. The LACERS Board of Administration has authority to determine the average annual percentage change in the 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[14] 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).

[14] *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.*

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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.

LAWA's Contributions to the Pension Plan

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

	2018	2017
LAWA's required contributions to the Pension Plan	$ 61,920	$ 62,173

The LAWA contributions made to the Pension Plan under the required contribution category in the amounts of $61.9 million and $62.2 million for fiscal years 2018 and 2017, respectively, were equal to 100% of the actuarially determined contribution of the employer.

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

LACERS' Net Pension Liability (NPL) for fiscal year 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), LAWA reported its proportionate shares of TPL, FNP and NPL[15] as follows (amounts in thousands):

	Reporting date 6/30/18 Measurement date 6/30/17
LAWA's proportionate share:	
Total Pension Liability	$ 2,528,845
Plan Fiduciary Net Position	(1,805,783)
Net Pension Liability	$ 723,062
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	71.41%

LAWA's NPL was measured as the proportionate share of the NPL based on the employer contributions made by LAWA 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.

[15] *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.*

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

Change in LAWA'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)	$ 723,062	13.70%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	$ 774,356	13.79%
Change - (Decrease)	$ (51,294)	(0.09)%

For the year ended June 30, 2018, LAWA recognized pension expense of $73.2 million. At June 30, 2018, LAWA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	$ 61,920	$ —
Differences between expected and actual experience	—	56,370
Changes of assumptions	68,670	—
Net difference between projected and actual earnings on pension plan investments	7,841	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,724	16,028
Total	$ 142,155	$ 72,398

$61.9 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	$ (1,163)
2020	22,534
2021	797
2022	(15,059)
2023	728

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[16], 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

[16] *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.*

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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 Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 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%	

Sensitivity of LAWA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents LAWA's proportionate share of the NPL as of June 30, 2018, calculated using the discount rate of 7.25%, as well as what LAWA's proportionate share of NPL would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate (amounts in thousands):

	June 30, 2018
1% decrease	6.25%
Net Pension Liability	$1,057,995
Current discount rate	7.25%
Net Pension Liability	$723,062
1% increase	8.25%
Net Pension Liability	$444,343

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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.

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.

LAWA's Contributions to the LAFPP Plan

In fiscal year 2018, LAWA'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 LAWA's reported covered payroll of $1.9 million for Tier 6, LAWA'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. LAWA made no contributions to the LAFPP Plan for fiscal year 2017 since the LAFPP Plan was effective for LAWA's APO starting from fiscal year 2018.

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(continued)

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. LAWA 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 LAWA'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.

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[17]. (Note: information for fiscal year 2018 is not yet available as of this report issue date.)

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

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LAWA's Contributions to the Postemployment Health Care Plan

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

	2018	2017
LAWA's required contributions to the Postemployment Health Care Plan	$ 13,810	$ 13,436

LAWA's contributions made for the Postemployment Health Care Plan, in the amounts of $13.8 million and $13.4 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[18].

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), LAWA reported its proportionate shares of TOL, FNP and NOL[19] 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	$ 411,239
Plan Fiduciary Net Position	(333,673)
Plan's Net OPEB Liability	$ 77,566
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	81.14%

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

[19] 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.

LAWA'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 LAWA'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)	$	77,566	13.68%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	$	91,089	13.83%
Change - (Decrease)	$	(13,523)	(0.15)%

For the year ended June 30, 2018, LAWA recognized the Postemployment Health Care Plan's OPEB expense of $12.9 million. At June 30, 2018, LAWA 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	$	13,810	$	—
Differences between expected and actual experience		2,270		—
Changes of assumptions		3,866		—
Net difference between projected and actual earnings on OPEB plan investments		—		18,414
Changes in proportion and differences between employer contributions and proportionate share of contributions		—		804
Total	$	19,946	$	19,218

$13.8 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	$	(3,614)
2020		(3,614)
2021		(3,614)
2022		(3,614)
2023		989
2024		385

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

The following presents LAWA'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 LAWA'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 (amounts in thousands):

	June 30, 2018
1% decrease	6.25%
Net OPEB Liability	$133,182
Current discount rate	7.25%
Net OPEB Liability	$77,566
1% increase	8.25%
Net OPEB Liability	$31,388

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

The following presents LAWA's proportionate share of the net OPEB liability as of June 30, 2018, as well as what LAWA'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[20] (amounts in thousands):

	June 30, 2018
1% decrease	
Net OPEB Liability	$24,169
Current Healthcare Cost Trend Rates	
Net OPEB Liability	$77,566
1% increase	
Net OPEB Liability	$146,741

[20] *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 perils. 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 casualty. Historically, no liability or property claims have reached or exceeded the stated policy limits stated above.

Additionally, LAWA maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits or where insurance is not available or viable. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. 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 LAWA's insurance coverage or approached a substantial portion of the overall coverage capacities.

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

LAWA is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAWA. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAWA's accrued workers' compensation liabilities at June 30, 2018 and 2017 were $88.4 million and $69.6 million, respectively.

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

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

	June 30		
	2018	2017	2016
Balance at beginning of year	$ 79,659	$ 79,437	$ 80,978
Provision for current year's events and changes in provision for prior years' events	27,170	8,759	7,498
Claims payments	(8,277)	(8,537)	(9,039)
Balance at end of year	98,552	79,659	79,437
Current portion	(10,525)	(8,277)	(8,537)
Noncurrent portion	$ 88,027	$ 71,382	$ 70,900

16. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $115.0 million and $84.2 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, LAWA expects to pay approximately $1.1 billion in payments to the 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.

c. Environmental Issues

LAWA bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy. As property owner, LAWA assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAWA may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAWA accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays.

The 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.

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

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.

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

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.

Based on the ONT Settlement Agreement, LAWA has received approximately $120.0 million[21] from OIAA and is to receive $70.0 million (before discount for early payment) from ONT, over a period of approximately 10 years. The outstanding receivable balance from OIAA were approximately $45.6 million and $56.8 million as of June 30, 2018 and June 30, 2017, respectively.

[21] The amount included approximately $30.0 million from the City of Ontario, $40.0 million from the unrestricted cash ONT accounts, and $50.0 million from OIAA.

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 in fiscal year 2017.

There was no activity related to ONT in fiscal year 2018. For comparative purpose, a condensed summary of ONT's changes in net position for the year ended 2017 is presented below (amounts in thousands):

	2017
Operating revenue	$ 21,604
Less- Operating expenses	17,377
Operating income before depreciation and amortization	4,227
Less- Depreciation and amortization	6,131
Operating loss	(1,904)
Other nonoperating revenue, net	4,964
Federal grants	(6)
Inter-agency transfers	35,415
Changes in net position	38,469
Net position, beginning of year	326,418
Net position, October 31, 2016	364,887
Write-off of net position	(364,887)
Net position, end of year	$ —

For comparative purpose, a summary schedule of ONT's write-off of net position for fiscal year 2017 is presented below (amounts in thousands):

	2017
Special item - loss on transfer on ONT	$ 225,347
Inter-agency transfers	35,415
Transfer of residual operation from ONT	104,125
Total	$ 364,887

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

For comparative purpose, the transfer of residual operation from ONT to LAX is presented below (amounts in thousands). This activity represents inter-agency transfers, and is eliminated for presentation in the Statement of Revenues, Expenses, and Changes in Net Position.

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

18. 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.

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

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.

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, LAWA 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 LAWA'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	13.80%	$ 615,349	$ 249,228	246.90%	$ 1,627,643	$ 2,242,992	72.57%
2016	13.98%	$ 697,482	$ 255,014	273.51%	$ 1,666,366	$ 2,363,848	70.49%
2017	13.79%	$ 774,356	$ 260,929	296.77%	$ 1,628,551	$ 2,402,907	67.77%
2018	13.70%	$ 723,062	$ 271,035	266.78%	$ 1,805,783	$ 2,528,845	71.41%

Notes to schedule:

1. Changes of assumptions

   The June 30, 2014 measurement date 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)	$ 61,920	$ 62,173	$ 60,694	$ 53,261
Contributions in relation to the actuarially determined contributions	61,920	62,173	60,694	53,261
Contribution deficiency (excess)	$ —	$ —	$ —	$ —
LAWA's covered employee payroll	$ 278,682	$ 271,035	$ 260,929	$ 255,014
LAWA's contributions as a percentage of covered employee payroll	22.22%	22.94%	23.26%	20.89%

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, LAWA 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 LAWA'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	13.68%	$ 77,566	$ 271,035	28.62%	$ 333,673	$ 411,239	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)	$ 13,810
Contributions in relation to the actuarially determined contributions	13,810
Contribution deficiency (excess)	$ —
LAWA's covered employee payroll	$ 278,682
LAWA'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

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Los Angeles World Airports

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

Combining Schedule of Net Position June 30, 2018 (with June 30, 2017 comparative total)

(amounts in thousands)

	Los Angeles International Airport	Van Nuys Airport	Palmdale Property
ASSETS			
Current Assets			
Unrestricted current assets			
Cash and pooled investments held in City Treasury	$ 901,543	$ 10,792	$ 2
Investments with fiscal agents	1,933	234	—
Accounts receivable, net of allowance for uncollectible accounts: 2018 - $1; 2017 - $33	—	44	—
Unbilled receivables	21,831	48	—
Accrued interest receivable	6,129	—	—
Grants receivable	6,465	379	—
Loans receivable	—	150	—
Receivable from OIAA	9,569	—	—
Receivable from City General Fund	2,935	—	—
Due from (to) other agencies	47,256	—	(47,256)
Prepaid expenses	4,489	61	—
Inventories	1,367	38	—
Total unrestricted current assets	1,003,517	11,746	(47,254)
Restricted current assets			
Cash and pooled investments held in City Treasury	874,262	151	—
Investments with fiscal agents, includes cash and cash equivalents, related to bonded debt: 2018 - $931,074; 2017 - $924,494	1,042,477	—	—
Accrued interest receivable	1,363	—	—
Passenger facility charges receivable	24,900	—	—
Customer facility charges receivable	8,517	—	—
Total restricted current assets	1,951,519	151	—
Total current assets	2,955,036	11,897	(47,254)
Noncurrent Assets			
Capital assets			
Not depreciated	2,709,296	14,643	91,992
Depreciated, net	6,941,214	42,706	5,988
Total capital assets	9,650,510	57,349	97,980
Other noncurrent assets			
Investments with fiscal agents	—	—	—
Loans receivable, net of current portion	—	233	—
Receivable from OIAA, net of current portion	35,984	—	—
Receivable from City General Fund, net of current portion	—	—	—
Total other noncurrent assets	35,984	233	—
Total noncurrent assets	9,686,494	57,582	97,980
TOTAL ASSETS	12,641,530	69,479	50,726
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on debt refunding	40,308	—	—
Deferred outflows of resources related to pension and OPEB	159,620	2,481	—
TOTAL DEFERRED OUTFLOWS OF RESOURCES	199,928	2,481	—

	Total 2018	Total 2017
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 912,337	$ 773,590
Investments with fiscal agents	2,167	22,282
Accounts receivable, net of allowance for uncollectible accounts: 2018 - $1; 2017 - $33	44	1,625
Unbilled receivables	21,879	44,501
Accrued interest receivable	6,129	3,435
Grants receivable	6,844	12,322
Loans receivable	150	136
Receivable from OIAA	9,569	9,674
Receivable from City General Fund	2,935	2,849
Due from (to) other agencies	—	—
Prepaid expenses	4,550	4,129
Inventories	1,405	1,286
Total unrestricted current assets	968,009	875,829
Restricted current assets		
Cash and pooled investments held in City Treasury	874,413	968,021
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	1,951,670	1,921,000
Total current assets	2,919,679	2,796,829
Noncurrent Assets		
Capital assets		
Not depreciated	2,815,931	2,269,426
Depreciated, net	6,989,908	6,476,864
Total capital assets	9,805,839	8,746,290
Other noncurrent assets		
Investments with fiscal agents	—	17,585
Loans receivable, net of current portion	233	383
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	36,217	68,013
Total noncurrent assets	9,842,056	8,814,303
TOTAL ASSETS	12,761,735	11,611,132
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	40,308	38,550
Deferred outflows of resources related to pension and OPEB	162,101	206,553
TOTAL DEFERRED OUTFLOWS OF RESOURCES	202,409	245,103

Los Angeles World Airports

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

Combining Schedule of Net Position June 30, 2018 (continued)
(with June 30, 2017 comparative total)
(amounts in thousands)

	Los Angeles International Airport	Van Nuys Airport	Palmdale Property
LIABILITIES			
Current Liabilities			
Current liabilities payable from unrestricted assets			
Contracts and accounts payable	$ 272,632	$ 4,919	$ 695
Accrued salaries	18,505	365	—
Accrued employee benefits	4,258	107	—
Estimated claims payable	10,349	176	—
Commercial paper	60,832	—	—
Obligations under securities lending transactions	15,914	—	—
Other current liabilities	14,381	150	23
Total current liabilities payable from unrestricted assets	396,871	5,717	718
Current liabilities payable from restricted assets			
Contracts and accounts payable	7,564	151	—
Current maturities of bonded debt	120,830	—	—
Accrued interest payable	39,887	—	—
Obligations under securities lending transactions	15,487	—	—
Other current liabilities	4,897	—	—
Total current liabilities payable from restricted assets	188,665	151	—
Total current liabilities	585,536	5,868	718
Noncurrent Liabilities			
Bonded debt, net of current portion	5,960,266	—	—
Accrued employee benefits, net of current portion	43,580	1,093	—
Estimated claims payable, net of current portion	86,726	1,301	—
Liability for environmental/hazardous materials cleanup	—	—	—
Net pension liability	710,724	12,338	—
Net OPEB liability	76,310	1,256	—
Other long-term liabilities	885	—	—
Total noncurrent liabilities	6,878,491	15,988	—
TOTAL LIABILITIES	7,464,027	21,856	718
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension and OPEB	90,101	1,515	—
TOTAL DEFERRED INFLOWS OF RESOURCES	90,101	1,515	—
NET POSITION			
Net investment in capital assets	4,551,404	57,349	97,980
Restricted for:			
Passenger facility charges eligible projects	332,874	—	—
Customer facility charges eligible projects	340,077	—	—
Operations and maintenance reserve	210,207	—	—
Federally forfeited property and protested funds	1,336	—	—
Unrestricted	(148,568)	(8,760)	(47,972)
TOTAL NET POSITION	$ 5,287,330	$ 48,589	$ 50,008

	Total 2018	Total 2017
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 278,246	$ 226,928
Accrued salaries	18,870	18,137
Accrued employee benefits	4,365	5,694
Estimated claims payable	10,525	8,277
Commercial paper	60,832	48,736
Obligations under securities lending transactions	15,914	5,658
Other current liabilities	14,554	74,737
Total current liabilities payable from unrestricted assets	403,306	388,167
Current liabilities payable from restricted assets		
Contracts and accounts payable	7,715	7,959
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	188,816	212,756
Total current liabilities	592,122	600,923
Noncurrent Liabilities		
Bonded debt, net of current portion	5,960,266	5,215,626
Accrued employee benefits, net of current portion	44,673	42,150
Estimated claims payable, net of current portion	88,027	71,382
Liability for environmental/hazardous materials cleanup	—	7,500
Net pension liability	723,062	774,356
Net OPEB liability	77,566	—
Other long-term liabilities	885	886
Total noncurrent liabilities	6,894,479	6,111,900
TOTAL LIABILITIES	7,486,601	6,712,823
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension and OPEB	91,616	74,147
TOTAL DEFERRED INFLOWS OF RESOURCES	91,616	74,147
NET POSITION		
Net investment in capital assets	4,706,733	4,322,932
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	(205,300)	(223,180)
TOTAL NET POSITION	$ 5,385,927	$ 5,069,265

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

Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018
(with for the fiscal year ended June 30, 2017 comparative total)
(amounts in thousands)

	Los Angeles International Airport	Van Nuys Airport	Palmdale Property
OPERATING REVENUE			
Aviation revenue			
Landing fees	$ 284,686	$ —	$ —
Reliever airport fee	(672)	672	—
Building rentals	527,476	5,493	3,398
Land rentals	107,943	11,786	365
Other aviation revenue	6,431	3,008	—
Total aviation revenue	925,864	20,959	3,763
Concession revenue	469,187	14	—
Other operating revenue	27,353	243	—
Total operating revenue	1,422,404	21,216	3,763
OPERATING EXPENSES			
Salaries and benefits	466,263	8,168	—
Contractual services	221,421	6,284	1,587
Materials and supplies	49,703	680	—
Utilities	39,433	658	292
Other operating expenses	20,825	261	1,093
Allocated administrative charges	(2,924)	2,478	446
Total operating expenses before depreciation and amortization	794,721	18,529	3,418
Operating income before depreciation and amortization	627,683	2,687	345
Depreciation and amortization	360,638	3,977	850
OPERATING INCOME (LOSS)	267,045	(1,290)	(505)
NONOPERATING REVENUE (EXPENSES)			
Passenger facility charges	171,431	—	—
Customer facility charges	55,759	—	—
Interest and investment income	9,848	97	—
Interest expense	(205,308)	—	—
Other nonoperating revenue	43,421	(61)	—
Other nonoperating expenses	(1,917)	—	—
Total nonoperating revenue, net	73,234	36	—
INCOME (LOSS) BEFORE CAPITAL GRANTS, INTER-AGENCY TRANSFERS & SPECIAL ITEM	340,279	(1,254)	(505)
Federal and other government grants	54,297	1,600	—
Special item - loss on transfer of ONT	—	—	—
CHANGE IN NET POSITION	394,576	346	(505)
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	4,969,250	49,502	50,513
Change in accounting principle as a result of GASB 75 & 85	(76,496)	(1,259)	—
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	4,892,754	48,243	50,513
NET POSITION, END OF YEAR	$ 5,287,330	$ 48,589	$ 50,008

	Total before eliminations	Eliminations	Total 2018	Total 2017
OPERATING REVENUE				
Aviation revenue				
Landing fees	$ 284,686	$ —	$ 284,686	$ 265,828
Reliever airport fee	—	—	—	—
Building rentals	536,367	—	536,367	507,981
Land rentals	120,094	(1,157)	118,937	110,314
Other aviation revenue	9,439	—	9,439	10,081
Total aviation revenue	950,586	(1,157)	949,429	894,204
Concession revenue	469,201	—	469,201	451,088
Other operating revenue	27,596	—	27,596	27,438
Total operating revenue	1,447,383	(1,157)	1,446,226	1,372,730
OPERATING EXPENSES				
Salaries and benefits	474,431	—	474,431	455,032
Contractual services	229,292	—	229,292	215,386
Materials and supplies	50,383	—	50,383	44,634
Utilities	40,383	—	40,383	37,675
Other operating expenses	22,179	(1,157)	21,022	25,471
Allocated administrative charges	—	—	—	—
Total operating expenses before depreciation and	816,668	(1,157)	815,511	778,198
Operating income before depreciation and amortization	630,715	—	630,715	594,532
Depreciation and amortization	365,465	—	365,465	309,126
OPERATING INCOME (LOSS)	265,250	—	265,250	285,406
NONOPERATING REVENUE (EXPENSES)				
Passenger facility charges	171,431	—	171,431	166,770
Customer facility charges	55,759	—	55,759	33,890
Interest and investment income	9,945	—	9,945	4,275
Interest expense	(205,308)	—	(205,308)	(194,482)
Other nonoperating revenue	43,360	—	43,360	15,886
Other nonoperating expenses	(1,917)	—	(1,917)	(2,493)
Total nonoperating revenue, net	73,270	—	73,270	23,846
INCOME (LOSS) BEFORE CAPITAL GRANTS, INTER-AGENCY TRANSFERS & SPECIAL ITEM	338,520	—	338,520	309,252
Federal and other government grants	55,897	—	55,897	87,756
Special item - loss on transfer of ONT	—	—	—	(225,347)
CHANGE IN NET POSITION	394,417	—	394,417	171,661
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY	5,069,265	—	5,069,265	4,897,604
Change in accounting principle as a result of GASB 75 & 85	(77,755)	—	(77,755)	—
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	4,991,510	—	4,991,510	4,897,604
NET POSITION, END OF YEAR	$ 5,385,927	$ —	$ 5,385,927	$ 5,069,265

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Statistical Section (Unaudited)

2018
Comprehensive Annual Financial Report
Los Angeles World Airports

Statistical Section (Unaudited)

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

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

Statistical Section (Unaudited)
Fiscal Year Ended June 30, 2018

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

Financial Trend and Revenue Capacity

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

Debt Capacity

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

Operating Information

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

Demographic and Economic Data

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

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

Net Position Summary
Last Ten Fiscal Years June 30
(amounts in thousands)

	2018	2017	2016	2015	2014
Assets					
Unrestricted current assets	$ 968,009	$ 875,829	$ 953,498	$ 801,802	$ 773,686
Restricted current assets	1,951,670	1,921,000	1,826,813	1,666,940	1,741,540
Capital assets, net	9,805,839	8,746,290	8,237,704	7,457,471	6,938,565
Other noncurrent assets	36,217	68,013	13,151	16,070	18,932
Total assets	12,761,735	11,611,132	11,031,166	9,942,283	9,472,723
Deferred outflows of resources					
Deferred charges on debt refunding	40,308	38,550	25,763	27,051	2,581
Deferred outflows of resources related to pension and OPEB	162,101	206,553	138,220	142,391	—
Total deferred outflows of resources	202,409	245,103	163,983	169,442	2,581
Liabilities					
Current liabilities payable from unrestricted assets	403,306	388,167	358,841	319,941	414,285
Current liabilities payable from restricted assets	188,816	212,756	174,686	132,667	116,999
Noncurrent liabilities	6,093,851	5,337,544	5,001,300	4,401,545	4,102,171
Net pension liability	723,062	774,356	697,482	615,349	—
Net OPEB liability	77,566	—	—	—	—
Total liabilities	7,486,601	6,712,823	6,232,309	5,469,502	4,633,455
Deferred inflows of resources					
Deferred inflows of resources related to pension and OPEB	91,616	74,147	65,236	150,019	—
Total deferred inflows of resources	91,616	74,147	65,236	150,019	—
Net Position					
Net investment in capital assets	4,706,733	4,322,932	4,049,740	3,709,205	3,423,631
Restricted for capital projects	672,951	782,153	750,234	801,276	944,200
Restricted for operation & maintenance reserve	210,207	185,897	194,818	188,375	178,598
Restricted for federal forfeited property & protested funds	1,336	1,463	1,368	1,517	1,313
Unrestricted	(205,300)	(223,180)	(98,556)	(208,169)	294,107
Total net position	$ 5,385,927	$ 5,069,265	$ 4,897,604	$ 4,492,204	$ 4,841,849

	2013	2012	2011	2010	2009
Assets					
Unrestricted current assets	$ 751,416	$ 835,785	$ 973,345	$ 770,751	$ 676,544
Restricted current assets	1,698,879	2,352,742	2,807,009	1,715,836	1,064,230
Capital assets, net	6,385,858	5,331,736	4,459,842	3,966,292	3,261,207
Other noncurrent assets	21,702	45,437	102,166	489,445	8,098
Total assets	8,857,855	8,565,700	8,342,362	6,942,324	5,010,079
Deferred outflows of resources					
Deferred charges on debt refunding	2,795	—	—	—	—
Deferred outflows of resources related to pension and OPEB	—	—	—	—	—
Total deferred outflows of resources	2,795	—	—	—	—
Liabilities					
Current liabilities payable from unrestricted assets	274,859	382,293	338,685	359,225	220,164
Current liabilities payable from restricted assets	102,125	110,482	169,554	89,256	110,483
Noncurrent liabilities	3,933,194	3,717,043	3,757,733	2,711,343	1,180,396
Net pension liability	—	—	—	—	—
Net OPEB liability	—	—	—	—	—
Total liabilities	4,310,178	4,209,818	4,265,972	3,159,824	1,511,043
Deferred inflows of resources					
Deferred inflows of resources related to pension and OPEB	—	—	—	—	—
Total deferred inflows of resources	—	—	—	—	—
Net Position					
Net investment in capital assets	3,007,809	2,796,362	2,548,638	2,358,197	2,200,227
Restricted for capital projects	937,398	937,355	825,114	795,967	677,575
Restricted for operation & maintenance reserve	173,101	175,543	155,200	155,200	155,200
Restricted for federal forfeited property & protested funds	1,117	1,141	779	5,965	34,268
Unrestricted	431,047	445,481	546,659	467,171	431,766
Total net position	$ 4,550,472	$ 4,355,882	$ 4,076,390	$ 3,782,500	$ 3,499,036

Note:

1. *The net pension liability data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amount was not readily available.*
2. *Statistical information for the 2016 and all preceding years includes activities relating to ONT. As a result of the transfer of ONT operations during 2017, all information presented for years subsequent to 2016 include no ONT balances.*
3. *The net OPEB liability data for prior year, fiscal year 2017, was not restated because all of the information available to restate prior year amount was not readily available.*

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

Changes in Net Position
Last Ten Fiscal Years Ended June 30
(amounts in thousands)

	2018	2017	2016	2015	2014
Operating revenue					
Aviation revenue					
Landing fees	$ 284,686	$ 265,828	$ 252,589	$ 239,659	$ 234,394
Building rentals	536,367	507,981	487,349	389,796	339,420
Land rentals	118,937	110,314	109,422	102,746	101,369
Other aviation revenue	9,439	10,081	9,606	7,126	5,899
Concession revenue	469,201	451,088	422,278	377,617	354,847
Other operating revenue	27,596	27,438	4,572	4,640	2,577
Total operating revenue	1,446,226	1,372,730	1,285,816	1,121,584	1,038,506
Nonoperating revenue					
Passenger facility charges	171,431	166,770	153,964	141,466	136,280
Customer facility charges	55,759	33,890	36,082	33,185	32,345
Interest and investment income	9,945	4,275	37,030	20,166	24,422
Other nonoperating revenue	43,360	15,886	17,857	9,175	11,901
Total nonoperating revenue	280,495	220,821	244,933	203,992	204,948
Total revenue	1,726,721	1,593,551	1,530,749	1,325,576	1,243,454
Operating expenses					
Salaries and benefits	474,431	455,032	421,028	405,923	388,677
Contractual services	229,292	215,386	199,919	190,445	179,988
Materials and supplies	50,383	44,634	50,325	49,810	49,604
Utilities	40,383	37,675	40,843	43,247	44,037
Other operating expenses	21,022	25,471	22,304	22,635	17,555
Depreciation and amortization	365,465	309,126	250,109	201,214	165,960
Total operating expenses	1,180,976	1,087,324	984,528	913,274	845,821
Nonoperating expenses					
Interest expense	205,308	194,482	185,275	169,630	137,005
Other nonoperating expenses	1,917	2,493	4,817	9,559	1,928
Total nonoperating expenses	207,225	196,975	190,092	179,189	138,933
Total expenses	1,388,201	1,284,299	1,174,620	1,092,463	984,754
Income before capital grants and special item	338,520	309,252	356,129	233,113	258,700
Federal and other government grants	55,897	87,756	49,271	34,761	32,677
Special item - loss on transfer of ONT	—	(225,347)	—	—	—
Changes in net position	394,417	171,661	405,400	267,874	291,377
Net position, beginning of year, as previously reported	5,069,265	4,897,604	4,492,204	4,841,849	4,550,472
Change in accounting principle	(77,755)	—	—	(617,519)	—
Net position, beginning of year, as adjusted	4,991,510	4,897,604	4,492,204	4,224,330	4,550,472
Net position, end of year	$ 5,385,927	$5,069,265	$ 4,897,604	$ 4,492,204	$ 4,841,849

	2013	2012	2011	2010	2009
Operating revenue					
Aviation revenue					
Landing fees	$ 227,683	$ 218,224	$ 203,424	$ 185,911	$ 185,553
Building rentals	285,873	274,183	249,267	224,228	220,731
Land rentals	94,694	92,529	99,624	65,454	59,536
Other aviation revenue	6,336	8,456	4,033	4,078	4,648
Concession revenue	328,636	304,670	290,494	264,730	273,669
Other operating revenue	3,571	4,095	4,324	3,408	5,234
Total operating revenue	946,793	902,157	851,166	747,809	749,371
Nonoperating revenue					
Passenger facility charges	130,512	130,769	128,084	121,519	113,852
Customer facility charges	30,896	29,643	27,821	25,638	26,145
Interest and investment income	2,985	36,014	31,801	47,898	60,094
Other nonoperating revenue	12,098	15,848	13,918	25,158	10,999
Total nonoperating revenue	176,491	212,274	201,624	220,213	211,090
Total revenue	1,123,284	1,114,431	1,052,790	968,022	960,461
Operating expenses					
Salaries and benefits	371,708	376,042	359,700	360,033	348,504
Contractual services	184,139	182,487	161,784	161,751	169,474
Materials and supplies	52,158	39,881	37,343	37,283	45,173
Utilities	37,089	35,048	34,392	33,668	34,348
Other operating expenses	19,939	24,258	23,704	24,221	23,622
Depreciation and amortization	159,719	151,654	130,805	108,221	108,887
Total operating expenses	824,752	809,370	747,728	725,177	730,008
Nonoperating expenses					
Interest expense	97,089	86,700	82,501	39,349	24,541
Other nonoperating expenses	2,058	1,310	3,842	987	27,487
Total nonoperating expenses	99,147	88,010	86,343	40,336	52,028
Total expenses	923,899	897,380	834,071	765,513	782,036
Income before capital grants and special item	199,385	217,051	218,719	202,509	178,425
Federal and other government grants	17,972	62,441	75,171	80,955	90,069
Special item - loss on transfer of ONT	—	—	—	—	—
Changes in net position	217,357	279,492	293,890	283,464	268,494
Net position, beginning of year, as previously reported	4,355,882	4,076,390	3,782,500	3,499,036	3,230,542
Change in accounting principle	(22,767)	—	—	—	—
Net position, beginning of year, as adjusted	4,333,115	4,076,390	3,782,500	3,499,036	3,230,542
Net position, end of year	$ 4,550,472	$ 4,355,882	$ 4,076,390	$ 3,782,500	$ 3,499,036

Note:

1. *The net pension liability data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amount was not readily available.*
2. *Statistical information includes no ONT activities in fiscal year 2018, four months ONT activities in fiscal year 2017 and full year's ONT activities for fiscal year 2016 and all preceding years as a result of the transfer of ONT operations during fiscal year 2017.*
3. *The net OPEB liability data for prior year, fiscal year 2017, was not restated because all of the information available to restate prior year amount was not readily available.*

Los Angeles World Airports

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

Operating Revenue
Last Ten Fiscal Years Ended June 30

(amounts in thousands)

	2018	2017	2016	2015	2014
Landing fees					
Permitted/signatory	$ 283,791	$ 265,382	$ 251,898	$ 239,200	$ 233,947
Non-permitted/non-signatory	895	446	691	459	447
Total landing fees	284,686	265,828	252,589	239,659	234,394
Building rentals					
Terminals	472,517	445,848	422,713	329,688	274,836
Other buildings	63,850	62,133	64,636	60,108	64,584
Total building rentals	536,367	507,981	487,349	389,796	339,420
Land rentals	118,937	110,314	109,422	102,746	101,369
Other aviation revenue					
Plane parking	1,956	2,631	3,279	1,031	942
Fuel fee	3,384	3,279	2,784	2,729	2,175
Other	4,099	4,171	3,543	3,366	2,782
Total other aviation revenue	9,439	10,081	9,606	7,126	5,899
Concession revenue					
Duty free	83,091	76,066	66,287	63,983	55,756
Commercial management concession	50,527	43,252	43,343	28,674	9,078
Food and beverage	22,612	23,431	23,440	26,249	37,354
Gifts and news	11,261	11,556	11,035	12,076	22,227
Advertising	31,612	28,185	26,998	23,196	18,603
Foreign exchange	11,887	9,149	8,003	7,093	6,508
Telecommunications	1,201	1,986	2,082	1,379	879
Luggage carts	1,588	1,995	2,746	2,754	2,786
Automated teller machines	3,750	3,780	3,840	3,840	3,840
Security Screening Services	1,223	250	—	—	—
Subtotal- In-terminal	218,752	199,650	187,774	169,244	157,031
Auto parking	96,613	102,813	108,507	99,401	93,391
Rent-a-car	84,156	89,575	90,059	85,658	83,621
Bus, limousine, and taxi	9,624	10,290	13,731	12,238	10,889
Transportation network company	44,338	33,678	8,897	—	—
Flyaway bus service	15,718	15,082	13,310	11,076	9,915
Subtotal- Off-terminal	250,449	251,438	234,504	208,373	197,816
Total concession revenue	469,201	451,088	422,278	377,617	354,847
Other operating revenue					
Sales and service	3,753	3,406	3,103	2,476	1,201
Miscellaneous	23,843	24,032	1,469	2,164	1,376
Total other operating revenue	27,596	27,438	4,572	4,640	2,577
Total operating revenue	$ 1,446,226	$ 1,372,730	$ 1,285,816	$ 1,121,584	$ 1,038,506

	2013	2012	2011	2010	2009
Landing fees					
Permitted/signatory	$ 227,132	$ 217,403	$ 202,899	$ 184,703	$ 183,432
Non-permitted/non-signatory	551	821	525	1,208	2,121
Total landing fees	227,683	218,224	203,424	185,911	185,553
Building rentals					
Terminals	229,023	216,366	193,566	185,372	183,947
Other buildings	56,850	57,817	55,701	38,856	36,784
Total building rentals	285,873	274,183	249,267	224,228	220,731
Land rentals	94,694	92,529	99,624	65,454	59,536
Other aviation revenue					
Plane parking	875	967	724	821	871
Fuel fee	2,200	2,142	2,230	1,954	990
Other	3,261	5,347	1,079	1,303	2,787
Total other aviation revenue	6,336	8,456	4,033	4,078	4,648
Concession revenue					
Duty free	50,409	45,434	36,743	26,338	30,502
Commercial management concession	30	—	—	—	—
Food and beverage	37,747	34,217	37,784	32,288	33,102
Gifts and news	23,019	18,411	19,214	17,826	18,391
Advertising	20,936	18,763	18,938	15,083	14,764
Foreign exchange	6,356	6,572	6,533	6,381	6,613
Telecommunications	761	1,109	1,920	1,824	2,759
Luggage carts	2,690	2,792	2,780	2,748	2,703
Automated teller machines	3,620	3,400	3,400	3,400	3,400
Security Screening Services	—	—	—	—	—
Subtotal- In-terminal	145,568	130,698	127,312	105,888	112,234
Auto parking	87,398	84,270	81,822	80,567	84,180
Rent-a-car	77,303	70,982	65,500	63,823	64,929
Bus, limousine, and taxi	9,390	8,969	6,940	6,211	6,327
Transportation network company	—	—	—	—	—
Flyaway bus service	8,977	9,751	8,920	8,241	5,999
Subtotal- Off-terminal	183,068	173,972	163,182	158,842	161,435
Total concession revenue	328,636	304,670	290,494	264,730	273,669
Other operating revenue					
Sales and service	1,216	2,573	2,442	2,095	2,541
Miscellaneous	2,355	1,522	1,882	1,313	2,693
Total other operating revenue	3,571	4,095	4,324	3,408	5,234
Total operating revenue	$ 946,793	$ 902,157	$ 851,166	$ 747,809	$ 749,371

Note: Statistical information includes no ONT activities in fiscal year 2018, four months ONT activities in fiscal year 2017 and full year's ONT activities for fiscal year 2016 and all preceding years as a result of the transfer of ONT operations during fiscal year 2017.

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

Gross Concession Revenue Per Enplaned Passenger
Last Ten Fiscal Years Ended June 30
(amounts in thousands, except per enplaned)

	2018	2017	2016	2015	2014
Los Angeles International Airport					
In-terminal					
Duty free	$ 83,091	$ 76,066	$ 66,287	$ 63,983	$ 55,756
Commercial management concession	50,527	43,252	43,343	28,674	9,078
Food and beverage	22,598	23,172	22,746	25,598	36,619
Gifts and news	11,261	11,131	10,433	11,096	21,353
Advertising	31,612	27,977	26,437	22,553	17,784
Foreign exchange	11,887	9,149	8,003	7,093	6,508
Telecommunications	1,201	1,991	2,071	1,354	850
Luggage carts	1,588	1,959	2,636	2,644	2,676
Automated teller machines	3,750	3,750	3,750	3,750	3,750
Security Screening Services	1,223	250	—	—	—
Off-terminal					
Auto parking	96,613	96,697	94,086	85,803	79,914
Rent-a-car	84,156	87,433	83,299	78,556	76,558
Bus, limousine, and taxi	9,624	10,036	13,394	11,902	10,550
Transportation network company	44,338	33,678	8,897	—	—
Flyaway bus service	15,718	15,082	13,310	11,076	9,915
Total gross concession revenue	$ 469,187	$ 441,623	$ 398,692	$ 354,082	$ 331,311
Total enplaned passengers	43,553	41,602	38,952	36,114	34,334
Gross concession revenue per enplaned passenger	$ 10.77	$ 10.62	$ 10.24	$ 9.80	$ 9.65

	2013	2012	2011	2010	2009
Los Angeles International Airport					
In-terminal					
Duty free	$ 50,409	$ 45,434	$ 36,743	$ 26,338	$ 30,502
Commercial management concession	30	—	—	—	—
Food and beverage	36,475	32,956	36,579	31,109	31,804
Gifts and news	21,912	17,282	17,998	16,713	17,106
Advertising	19,875	17,433	17,419	13,676	13,086
Foreign exchange	6,356	6,572	6,533	6,381	6,613
Telecommunications	732	976	1,714	1,629	2,475
Luggage carts	2,580	2,682	2,680	2,638	2,593
Automated teller machines	3,303	2,856	2,856	2,856	2,856
Security Screening Services	—	—	—	—	—
Off-terminal					
Auto parking	73,932	69,945	66,575	64,661	67,289
Rent-a-car	70,517	64,361	58,647	56,752	56,891
Bus, limousine, and taxi	9,041	8,519	6,531	5,917	5,882
Transportation network company	—	—	—	—	—
Flyaway bus service	8,977	9,751	8,920	8,241	5,999
Total gross concession revenue	$ 304,139	$ 278,767	$ 263,195	$ 236,911	$ 243,096
Total enplaned passengers	32,524	31,519	30,281	29,003	28,329
Gross concession revenue per enplaned passenger	$ 9.35	$ 8.84	$ 8.69	$ 8.17	$ 8.58

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

Operating Expenses Per Enplaned Passenger
Last Ten Fiscal Years Ended June 30
(amounts in thousands, except per enplaned)

	2018	2017	2016	2015	2014
Los Angeles International Airport					
Salaries and benefits	$ 466,263	$ 438,153	$ 387,595	$ 374,018	$ 356,726
Contractual services	221,421	203,277	182,659	174,745	161,771
Materials and supplies	49,703	43,830	46,062	46,102	45,726
Utilities	39,433	36,043	36,181	38,355	39,089
Other operating expenses	20,825	25,782	20,738	21,205	16,093
Administrative charges allocated to ONT, VNY & PMD	(2,924)	(4,585)	(9,356)	(9,027)	(9,378)
Total operating expenses before depreciation	$ 794,721	$ 742,500	$ 663,879	$ 645,398	$ 610,027
Total enplaned passengers	43,553	41,602	38,952	36,114	34,334
Operating expenses per enplaned passenger	$ 18.25	$ 17.85	$ 17.04	$ 17.87	$ 17.77

	2013	2012	2011	2010	2009
Los Angeles International Airport					
Salaries and benefits	$ 338,004	$ 339,551	$ 323,522	$ 317,000	$ 298,612
Contractual services	162,661	162,071	143,684	141,253	148,627
Materials and supplies	47,908	35,986	32,699	32,661	38,738
Utilities	32,472	30,664	29,606	28,832	29,018
Other operating expenses	18,383	22,023	21,712	21,213	20,841
Administrative charges allocated to ONT, VNY & PMD	(9,998)	(10,135)	(9,995)	(11,407)	(12,925)
Total operating expenses before depreciation	$ 589,430	$ 580,160	$ 541,228	$ 529,552	$ 522,911
Total enplaned passengers	32,524	31,519	30,281	29,003	28,329
Operating expenses per enplaned passenger	$ 18.12	$ 18.41	$ 17.87	$ 18.26	$ 18.46

Los Angeles World Airports

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

Landing Fee Rates
Last Ten Fiscal Years Ended June 30

Los Angeles International Airport

	Permitted air carriers		Non-permitted air carriers	
Fiscal Year	Passenger	Cargo	Passenger	Cargo
2018	$4.60	$3.62	$5.75	$4.53
2017	4.34	3.45	5.63	4.43
2016	4.12	3.28	5.48	4.33
2015	4.27	3.51	5.59	4.56
2014	4.33	3.57	5.75	4.73
2013	4.37	3.60	5.58	4.71
2012	4.24	3.56	5.45	4.46
2011	4.06	3.31	5.08	4.18
2010	3.74	3.02	5.09	4.16
2009	3.88	3.21	4.81	4.05

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

Landing rates are adopted by the Board of Airport Commissioners and become effective beginning July 1 of each fiscal year. The adopted rates are based on budgeted operating revenue and expenses. A reconciliation between the actual amounts against the estimates used in initial calculation may result in a year-end adjustment to unbilled receivables. The landing rates for fiscal year 2018 represent the adopted rates which are subject to reconciliation by the end of calendar year 2018. The landing rates for fiscal years 2009 through 2017 represent the final reconciled rates.

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

Outstanding Debt by Type and Debt Ratio
Last Ten Fiscal Years Ended June 30
(amounts in thousands, except per enplaned)

	2018	2017	2016	2015	2014
Los Angeles International Airport					
Outstanding debt					
Revenue bonds after premium & discount	$ 6,081,096	$ 5,323,476	$ 4,919,100	$ 4,299,262	$ 3,982,811
Debt service-revenue bonds					
Principal	$ 107,850	$ 96,200	$ 81,700	$ 72,390	$ 53,220
Interest, net of capitalized amount	237,081	229,481	196,552	184,017	157,758
Total debt service	$ 344,931	$ 325,681	$ 278,252	$ 256,407	$ 210,978
Total enplaned passengers	43,553	41,602	38,952	36,114	34,334
Outstanding debt per enplaned passenger	$ 139.63	$ 127.96	$ 126.29	$ 119.05	$ 116.00
Debt service per enplaned passenger	$ 7.92	$ 7.83	$ 7.14	$ 7.10	$ 6.14

	2013		2012		2011		2010		2009	
Los Angeles International Airport										
Outstanding debt										
Revenue bonds after premium & discount	$	3,788,736	$	3,571,753	$	3,620,397	$	2,563,489	$	1,030,345
Debt service-revenue bonds										
Principal	$	38,250	$	44,985	$	38,670	$	21,205	$	15,575
Interest, net of capitalized amount		91,258		86,019		80,655		26,770		16,184
Total debt service	$	129,508	$	131,004	$	119,325	$	47,975	$	31,759
Total enplaned passengers		32,524		31,519		30,281		29,003		28,329
Outstanding debt per enplaned passenger	$	116.49	$	113.32	$	119.56	$	88.39	$	36.37
Debt service per enplaned passenger	$	3.98	$	4.16	$	3.94	$	1.65	$	1.12

Notes: As a result of the transfer of ONT operations during fiscal year 2017, the statistic information above presents only LAX.
The LAWA bond information for FY2016 is presented below:
LAX outstanding debt - revenue bonds after premium & discount $4,919,100
ONT outstanding debt - revenue bonds after premium & discount $57,008
LAWA outstanding debt - revenue bonds after premium & discount $4,976,108

Los Angeles World Airports

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

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

(amounts in thousands, except debt service coverage)

	2018	2017	2016	2015	2014
Los Angeles International Airport					
Operating revenue	$ 1,422,404	$ 1,328,689	$ 1,206,612	$ 1,045,800	$ 961,729
Adjustments to arrive at pledged revenue [1]	(628,551)	(593,166)	(508,489)	(533,821)	(489,291)
Net pledged revenue	$ 793,853	$ 735,523	$ 698,123	$ 511,979	$ 472,438
Debt service, principal and interest					
Senior lien bonds	$ 250,039	$ 249,044	$ 216,164	$ 201,193	$ 159,062
Subordinate lien bonds	94,892	76,637	62,088	55,214	51,916
Total debt service	$ 344,931	$ 325,681	$ 278,252	$ 256,407	$ 210,978
Debt service coverage (GAAP basis)					
Senior lien bonds	3.17	2.95	3.23	2.55	2.97
Subordinate lien bonds	5.73	6.35	7.76	5.63	6.04
Total bonds	2.30	2.26	2.51	2.00	2.24
Debt service coverage (Bond indenture basis) [2]					
Senior lien bonds	5.77	4.71	6.23	3.82	6.01
Subordinate lien bonds	5.40	5.93	7.74	5.61	6.02
Total bonds	3.06	2.90	3.72	2.54	3.28

	2013	2012	2011	2010	2009
Los Angeles International Airport					
Operating revenue	$ 865,473	$ 822,090	$ 767,844	$ 655,701	$ 651,271
Adjustments to arrive at					
pledged revenue (1)	(542,930)	(519,677)	(492,571)	(503,710)	(480,522)
Net pledged revenue	$ 322,543	$ 302,413	$ 275,273	$ 151,991	$ 170,749
Debt service, principal and interest					
Senior lien bonds	$ 79,886	$ 85,753	$ 79,095	$ 24,710	$ 18,433
Subordinate lien bonds	49,622	45,251	40,230	23,265	13,326
Total debt service	$ 129,508	$ 131,004	$ 119,325	$ 47,975	$ 31,759
Debt service coverage (GAAP basis)					
Senior lien bonds	4.04	3.53	3.48	6.15	9.26
Subordinate lien bonds	4.89	4.79	4.88	5.47	11.43
Total bonds	2.49	2.31	2.31	3.17	5.38
Debt service coverage (Bond indenture basis) (2)					
Senior lien bonds	6.33	4.58	4.26	6.15	9.26
Subordinate lien bonds	4.86	4.76	4.83	5.33	9.65
Total bonds	3.02	2.61	2.54	3.13	4.99

1. *Adjustments include BABs subsidy; nonoperating TSA revenue; interest income net of PFCs, CFCs and construction funds; and M&O expenses net of PFCs funded. LAX has received approval from FAA to collect and use PFCs to pay for debt service on certain bonds. The amounts used for this purpose were $136.0 million, $118.0 million, $124.0 million, $91.0 million, $96.5 million, $34.4 million; and $25.2 million in fiscal years 2018, 2017, 2016, 2015, 2014, 2013 and 2012, respectively. The net non-cash pension and OPEB expense of $10.3 million and $17.2 million were adjusted from the M&O expenses in fiscal year 2018 and 2017, respectively.*

2. *Based on the bond indenture provisions, calculation of the senior lien bonds debt service excludes PFCs reimbursements; and the subordinate lien bonds debt service includes commercial paper principal (effective fiscal year 2017) and interest expenses.*

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

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

	2018			2017			2016		
Carrier	Landing weight	% to total	Rank	Landing weight	% to total	Rank	Landing weight	% to total	Rank
Los Angeles International Airport									
American Airlines [4]	10,127,508	15.8 %	1	10,389,870	16.6 %	1	9,557,554	16.1 %	1
Delta Airlines [1]	8,256,339	12.9 %	2	8,046,001	12.8 %	2	8,171,783	13.8 %	2
United Airlines [3][5]	7,385,299	11.5 %	3	7,121,940	11.4 %	3	7,181,910	12.1 %	3
Southwest Airlines	5,640,799	8.8 %	4	5,491,352	8.8 %	4	5,203,678	8.8 %	4
Alaska Airlines [2]	4,076,436	6.3 %	5	1,897,388	3.0 %	7	1,955,974	3.3 %	5
Federal Express	2,045,342	3.2 %	6	2,068,855	3.3 %	5	1,898,211	3.2 %	7
Spirit Airlines	1,283,316	2.0 %	7	1,344,172	2.1 %	8	987,642	1.7 %	11
Qantas Airways	1,188,312	1.9 %	8	1,171,352	1.9 %	9	1,328,707	2.2 %	8
Korean Airlines	1,078,306	1.7 %	9	1,073,416	1.7 %	11	1,132,512	1.9 %	10
JetBlue Airways	1,039,622	1.6 %	10	916,512	1.5 %	12	766,158	1.3 %	13
Virgin America [2]	—	—%	—	2,048,950	3.3 %	6	1,943,146	3.3 %	6
Cathay Pacific	—	—%	—	1,135,572	1.8 %	10	1,142,039	1.9 %	9
US Airways [4]	—	— %	—	—	— %	—	—	—%	—
Skywest Airlines [5]	—	— %	—	—	— %	—	—	—%	—
Continental Airlines [3]	—	— %	—	—	— %	—	—	—%	—
Northwest Airlines [1]	—	— %	—	—	— %	—	—	—%	—
All Others	22,105,329	34.3 %	—	19,930,046	31.8 %	—	17,897,268	30.4 %	—
Total	64,226,608			62,635,426			59,166,582		
Change from prior year	2.5 %			5.9 %			7.6 %		

Carrier	2015 Landing weight	2015 % to total	2015 Rank	2014 Landing weight	2014 % to total	2014 Rank	2013 Landing weight	2013 % to total	2013 Rank
Los Angeles International Airport									
American Airlines [4]	7,184,885	13.1 %	3	7,042,141	13.4 %	2	6,529,038	13.0 %	2
Delta Airlines [1]	7,479,719	13.6 %	1	6,670,030	12.7 %	3	5,650,964	11.3 %	3
United Airlines [3][5]	7,447,741	13.5 %	2	7,947,887	15.1 %	1	6,771,183	13.5 %	1
Southwest Airlines	4,977,130	9.1 %	4	4,637,202	8.8 %	4	4,641,112	9.2 %	4
Alaska Airlines [2]	1,658,662	3.0 %	7	1,718,274	3.3 %	7	1,611,321	3.2 %	7
Federal Express	1,795,385	3.3 %	6	1,740,088	3.3 %	6	1,662,347	3.3 %	6
Spirit Airlines	508,438	0.9 %	24	385,800	0.7 %	27	237,903	0.5 %	40
Qantas Airways	1,373,361	2.5 %	8	1,304,899	2.5 %	8	1,275,920	2.5 %	8
Korean Airlines	1,252,622	2.3 %	9	1,179,599	2.2 %	9	1,189,653	2.4 %	9
JetBlue Airways	643,914	1.2 %	18	471,412	0.9 %	23	454,116	0.9 %	23
Virgin America [2]	1,860,734	3.4 %	5	2,070,384	3.9 %	5	1,905,138	3.8 %	5
Cathay Pacific	1,113,726	2.0 %	11	893,119	1.7 %	11	782,914	1.6 %	12
US Airways [4]	1,173,526	2.1 %	10	1,066,394	2.0 %	10	987,982	2.0 %	11
Skywest Airlines [5]	—	— %	—	—	— %	—	—	—%	—
Continental Airlines [3]	—	— %	—	—	— %	—	1,142,672	2.3 %	10
Northwest Airlines [1]	—	— %	—	—	—	—	—	—%	—
All Others	16,520,429	30.0 %	—	15,445,428	29.5 %	—	15,364,564	30.5 %	—
Total	54,990,272			52,572,657			50,206,827		
Change from prior year	4.6 %			4.7 %			0.4 %		

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

	2012			2011			2010		
Carrier	Landing weight	% to total	Rank	Landing weight	% to total	Rank	Landing weight	% to total	Rank
Los Angeles International Airport									
American Airlines (4)	5,886,364	11.8%	1	5,570,846	11.5%	2	5,616,948	11.9%	1
Delta Airlines (1)	4,641,153	9.3%	3	4,487,225	9.3%	4	3,504,530	7.4%	4
United Airlines (3)(5)	5,186,869	10.4%	2	5,584,145	11.5%	1	5,602,302	11.8%	2
Southwest Airlines	4,601,662	9.2%	4	4,737,254	9.8%	3	4,744,526	10.0%	3
Alaska Airlines (2)	1,518,762	3.0%	9	1,433,511	3.0%	7	1,365,625	2.9%	8
Federal Express	1,628,897	3.3%	8	1,605,640	3.3%	6	1,523,405	3.2%	6
Spirit Airlines	305,118	0.6%	34	152,076	0.3%	54	75,072	0.2%	68
Qantas Airways	1,331,893	2.7%	10	1,243,114	2.6%	10	1,426,256	3.0%	7
Korean Airlines	1,200,835	2.4%	11	1,219,303	2.5%	11	1,249,739	2.6%	10
JetBlue Airways	378,430	0.8%	28	280,734	0.6%	35	171,962	0.4%	47
Virgin America (2)	1,634,820	3.3%	7	1,331,658	2.8%	9	1,079,918	2.3%	11
Cathay Pacific	778,532	1.6%	13	764,462	1.6%	13	699,675	1.5%	17
US Airways (4)	1,003,778	2.0%	12	1,023,668	2.1%	12	987,948	2.1%	12
Skywest Airlines (5)	2,295,517	4.6%	5	2,187,953	4.5%	5	1,865,047	3.9%	5
Continental Airlines (3)	1,745,543	3.5%	6	1,402,854	2.9%	8	1,305,333	2.8%	9
Northwest Airlines (1)	—	—%	—	—	—%	—	826,879	1.7%	14
All Others	15,859,459	31.5%		15,397,909	31.7%	—	15,291,777	32.3%	—
Total	49,997,632			48,422,352			47,336,942		
Change from prior year	3.3%			2.3%			1.4%		

Carrier	2009 Landing weight	% to total	Rank
Los Angeles International Airport			
American Airlines [4]	5,765,733	12.3 %	1
Delta Airlines [1]	2,549,234	5.5 %	4
United Airlines [3][5]	5,667,801	12.1 %	2
Southwest Airlines	5,068,050	10.9 %	3
Alaska Airlines [2]	1,530,621	3.3 %	7
Federal Express	1,642,089	3.5 %	5
Spirit Airlines	82,248	0.2 %	60
Qantas Airways	1,434,230	3.1 %	9
Korean Airlines	1,138,866	2.4 %	12
JetBlue Airways	8,473	— %	83
Virgin America [2]	923,066	2.0 %	13
Cathay Pacific	747,759	1.6 %	15
US Airways [4]	1,231,410	2.6 %	11
Skywest Airlines [5]	1,634,395	3.5 %	6
Continental Airlines [3]	1,286,451	2.8 %	10
Northwest Airlines [1]	1,458,649	3.1 %	8
All Others	14,529,958	31.1 %	—
Total	46,699,033		
Change from prior year	-10.4 %		

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

(2) Alaska Airlines merged with VIrgin America and combined data was reported starting FY 2018.

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

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

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

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

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

Enplaned Passenger Data
Last Ten Fiscal Years Ended June 30

	2018			2017			2016		
Carrier	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank
Los Angeles International Airport									
American Airlines (7)	8,124,101	18.7%	1	8,002,129	19.2%	1	7,613,660	19.5%	1
Delta Airlines (1)	7,326,619	16.8%	2	6,838,256	16.4%	2	6,550,711	16.8%	2
United Airlines (5), (6)	6,254,908	14.4%	3	6,062,305	14.6%	3	6,020,563	15.5%	3
Southwest Airlines	4,969,888	11.4%	4	4,843,969	11.7%	4	4,446,133	11.4%	4
Alaska Airlines (2)	3,656,694	8.4%	5	1,799,163	4.3%	5	1,763,171	4.5%	5
Spirit Airlines	1,259,622	2.9%	6	1,237,471	3.0%	7	956,783	2.5%	7
JetBlue Airways	886,227	2.0%	7	784,922	1.9%	8	675,589	1.7%	8
Air Canada	756,337	1.7%	8	712,467	1.7%	9	660,642	1.7%	9
Qantas Airways	542,085	1.2%	9	519,450	1.2%	10	596,257	1.5%	10
Hawaiian Airlines	497,753	1.1%	10	440,721	1.0%	11	441,634	1.1%	11
Virgin America (2)	—	—%	—	1,725,332	4.1%	6	1,607,495	4.1%	6
US Airways (3), (7)	—	—%	—	—	—%	—	—	—%	—
Skywest Airlines (6)	—	—%	—	—	—%	—	—	—%	—
Continental Airlines (5)	—	—%	—	—	—%	—	—	—%	—
Northwest Airlines (1)	—	—%	—	—	—%	—	—	—%	—
Mexicana Airlines (4)	—	—%	—	—	—%	—	—	—%	—
All Others	9,278,781	21.4%	—	8,635,939	20.9%	—	7,619,729	19.7%	—
Total	43,553,015			41,602,124			38,952,367		
Change from prior year	4.7%			6.8%			7.9%		

Carrier	2015 Enplaned passengers	2015 % to total	2015 Rank	2014 Enplaned passengers	2014 % to total	2014 Rank	2013 Enplaned passengers	2013 % to total	2013 Rank
Los Angeles International Airport									
American Airlines [7]	5,556,523	15.4 %	3	5,329,141	15.5 %	2	5,058,105	15.6 %	2
Delta Airlines [1]	6,020,280	16.7 %	2	5,038,929	14.7 %	3	4,171,972	12.8 %	3
United Airlines [5], [6]	6,225,103	17.2 %	1	6,568,648	19.1 %	1	5,578,740	17.2 %	1
Southwest Airlines	4,212,706	11.7 %	4	3,796,292	11.1 %	4	3,703,743	11.4 %	4
Alaska Airlines [2]	1,652,816	4.6 %	5	1,741,179	5.1 %	5	1,623,552	5.0 %	5
Spirit Airlines	510,478	1.4 %	11	369,236	1.1 %	11	225,908	0.7 %	22
JetBlue Airways	570,938	1.6 %	10	446,183	1.3 %	10	424,534	1.3 %	12
Air Canada	597,050	1.7 %	9	495,695	1.4 %	9	459,937	1.4 %	11
Qantas Airways	614,333	1.7 %	8	602,278	1.8 %	8	575,310	1.8 %	9
Hawaiian Airlines	422,871	1.2 %	12	339,177	1.0 %	13	323,104	1.0 %	15
Virgin America [2]	1,534,368	4.2 %	6	1,658,310	4.8 %	6	1,569,289	4.8 %	6
US Airways [3], [7]	1,201,325	3.3 %	7	1,035,543	3.0 %	7	970,442	3.0 %	7
Skywest Airlines [6]	—	—%	—	—	—%	—	—	—%	—
Continental Airlines [5]	—	—%	—	—	—%	—	965,486	3.0 %	8
Northwest Airlines [1]	—	—%	—	—	—%	—	—	—%	—
Mexicana Airlines [4]	—	—%	—	—	—%	—	—	—%	—
All Others	6,995,534	19.3 %	—	6,912,927	20.1 %	—	6,874,056	21.1 %	—
Total	36,114,325			34,333,538			32,524,178		
Change from prior year	5.2 %			5.6 %			3.2 %		

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

	2012			2011			2010		
Carrier	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank
Los Angeles International Airport									
American Airlines (7)	4,598,923	14.6 %	1	4,304,325	14.2 %	1	4,257,396	14.7 %	1
Delta Airlines (1)	3,231,000	10.3 %	4	3,441,646	11.4 %	4	2,704,832	9.3 %	4
United Airlines (5), (6)	3,610,573	11.5 %	2	3,838,593	12.7 %	2	3,833,352	13.2 %	2
Southwest Airlines	3,516,770	11.2 %	3	3,512,432	11.6 %	3	3,389,180	11.7 %	3
Alaska Airlines (2)	1,522,926	4.8 %	6	1,384,992	4.6 %	6	1,300,025	4.5 %	6
Spirit Airlines	265,973	0.8 %	19	139,504	0.5 %	32	69,098	0.2 %	48
JetBlue Airways	358,326	1.1 %	13	264,531	0.9 %	20	151,538	0.5 %	33
Air Canada	468,793	1.5 %	12	438,868	1.4 %	12	416,345	1.4 %	14
Qantas Airways	603,170	1.9 %	11	571,004	1.9 %	10	606,970	2.1 %	11
Hawaiian Airlines	235,502	0.7 %	24	240,006	0.8 %	23	186,449	0.6 %	28
Virgin America (2)	1,387,310	4.4 %	8	1,085,506	3.6 %	8	893,567	3.1 %	9
US Airways (3), (7)	964,577	3.1 %	9	981,885	3.2 %	9	958,824	3.3 %	8
Skywest Airlines (6)	1,887,638	6.0 %	5	1,777,359	5.9 %	5	1,441,834	5.0 %	5
Continental Airlines (5)	1,515,549	4.8 %	7	1,238,177	4.1 %	7	1,214,520	4.2 %	7
Northwest Airlines (1)	—	—%	—	—	—%	—	620,804	2.1 %	10
Mexicana Airlines (4)	—	—%	—	80,708	0.3 %	44	529,007	1.8 %	12
All Others	7,352,094	23.4 %	—	6,981,003	22.9 %	—	6,429,401	22.3 %	—
Total	31,519,124			30,280,539			29,003,142		
Change from prior year	4.1 %			4.4 %			2.4 %		

Carrier	2009 Enplaned passengers	% to total	Rank
Los Angeles International Airport			
American Airlines (7)	4,277,478	15.1 %	1
Delta Airlines (1)	2,145,884	7.6 %	4
United Airlines (5), (6)	3,871,963	13.7 %	2
Southwest Airlines	3,556,203	12.6 %	3
Alaska Airlines (2)	1,360,046	4.8 %	5
Spirit Airlines	73,567	0.3 %	39
JetBlue Airways	7,746	— %	64
Air Canada	424,024	1.5 %	13
Qantas Airways	590,960	2.1 %	12
Hawaiian Airlines	195,558	0.7 %	27
Virgin America (2)	733,879	2.6 %	10
US Airways (3), (7)	1,060,803	3.7 %	9
Skywest Airlines (6)	1,289,602	4.6 %	6
Continental Airlines (5)	1,104,162	3.9 %	7
Northwest Airlines (1)	1,091,261	3.9 %	8
Mexicana Airlines (4)	596,599	2.1 %	11
All Others	5,949,243	20.8 %	—
Total	28,328,978		
Change from prior year	(9.0)%		

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

(2) Alaska Airlines merged with Virgin America and combined data was reported starting FY 2018.

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

(4) Following its filing for Chapter 15 bankruptcy, Mexicana Airlines suspended its operations at LAX in August 2010.

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

(6) Skywest data was reported under the carriers in operated for starting FY 2013.

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

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

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

Employee Trend
Last Ten Fiscal Years Ended June 30

Division/Group	2018	2017	2016	2015	2014
Chief Commercial Officer	56	56	50	55	62
Chief Development Officer	22	10	3	—	—
Chief External Affairs Officer	57	59	62	68	83
Chief Financial Officer	106	108	104	156	157
Chief of Security & Public Safety	1,086	1,094	1,080	935	912
Chief Operating Officer/Administration	61	57	57	25	26
Environmental Programs	54	58	58	44	—
Facilities Maintenance & Utilities	1,321	1,318	1,290	1,244	1,442
Human Resources Services	134	91	83	83	79
Information Management & Technology	166	163	168	175	162
Operations and Emergency Management	385	393	381	449	473
Planning & Development	155	134	147	166	56
Procurement Services	44	37	37	39	39
Total	3,647	3,578	3,520	3,439	3,491

Division/Group	2013	2012	2011	2010	2009
Chief Commercial Officer	66	58	61	55	53
Chief Development Officer	—	—	—	—	—
Chief External Affairs Officer	77	77	81	90	109
Chief Financial Officer	143	135	137	137	141
Chief of Security & Public Safety	903	906	908	905	937
Chief Operating Officer/Administration	25	53	46	50	56
Environmental Programs	—	—	—	—	—
Facilities Maintenance & Utilities	1,457	1,456	1,461	1,441	1,544
Human Resources Services	73	70	69	66	60
Information Management & Technology	163	162	161	160	154
Operations and Emergency Management	526	536	536	556	636
Planning & Development	64	60	36	36	27
Procurement Services	38	39	39	39	30
Total	3,535	3,552	3,535	3,535	3,747

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

Schedule of Capital Assets
Last Ten Fiscal Years Ended June 30
(amounts in thousands)

	2018	2017	2016	2015	2014
Total Capital Assets					
Land and land clearance	$ 1,225,777	$ 1,014,058	$ 1,060,503	$ 970,990	$ 970,990
Air easements	44,472	44,472	46,975	46,975	46,975
Emission reduction credits	2,772	3,070	2,853	5,918	5,918
Construction work in progress	1,542,910	1,207,826	1,647,583	2,473,804	1,932,822
Capital assets not depreciated	2,815,931	2,269,426	2,757,914	3,497,687	2,956,705
Buildings	3,610,503	3,605,063	3,258,154	2,510,102	2,365,058
Improvements	5,707,689	4,840,025	4,165,542	3,301,026	3,293,393
Capitalized leases	—	—	—	—	—
Equipment and vehicles	205,003	253,541	274,703	248,908	238,607
Others	38,087	38,087	38,087	138,395	134,266
Capital assets depreciated	9,561,282	8,736,716	7,736,486	6,198,431	6,031,324
Accumulated depreciation	(2,571,374)	(2,259,852)	(2,256,696)	(2,238,647)	(2,049,464)
Net capital assets	$ 9,805,839	$ 8,746,290	$ 8,237,704	$ 7,457,471	$ 6,938,565
Capital Assets Held for Leases					
Buildings and facilities	$ 5,601,330	$ 4,958,174	$ 4,238,368	$ 3,487,044	$ 3,350,207
Accumulated depreciation	(1,050,231)	(850,205)	(799,561)	(607,779)	(614,881)
Net	4,551,099	4,107,969	3,438,807	2,879,265	2,735,326
Land	626,715	630,002	687,317	686,363	686,363
Total capital assets held for leases	$ 5,177,814	$ 4,737,971	$ 4,126,124	$ 3,565,628	$ 3,421,689

	2013	2012	2011	2010	2009
Total Capital Assets					
Land and land clearance	$ 970,990	$ 872,057	$ 834,124	$ 829,956	$ 705,017
Air easements	46,975	46,975	46,975	46,975	46,975
Emission reduction credits	5,918	5,918	5,918	5,918	5,918
Construction work in progress	2,854,349	2,027,552	1,976,232	1,790,155	1,406,017
Capital assets not depreciated	3,878,232	2,952,502	2,863,249	2,673,004	2,163,927
Buildings	886,348	827,911	827,911	827,911	775,533
Improvements	3,163,180	2,965,697	2,051,934	1,633,522	1,210,643
Capitalized leases	—	—	—	—	184,423
Equipment and vehicles	237,088	217,623	213,124	206,235	205,856
Others	118,526	111,016	100,979	94,231	79,798
Capital assets depreciated	4,405,142	4,122,247	3,193,948	2,761,899	2,456,253
Accumulated depreciation	(1,897,516)	(1,743,013)	(1,597,355)	(1,468,611)	(1,358,973)
Net capital assets	$ 6,385,858	$ 5,331,736	$ 4,459,842	$ 3,966,292	$ 3,261,207
Capital Assets Held for Leases					
Buildings and facilities	$ 1,845,187	$ 1,748,987	$ 1,068,927	$ 841,811	$ 841,064
Accumulated depreciation	(562,696)	(505,895)	(463,618)	(431,793)	(410,386)
Net	1,282,491	1,243,092	605,309	410,018	430,678
Land	686,363	619,246	605,480	602,175	477,236
Total capital assets held for leases	$ 1,968,854	$ 1,862,338	$ 1,210,789	$ 1,012,193	$ 907,914

Note: Statistical information for fiscal year 2016 and all preceding years includes activities relating to ONT. As a result of the transfer of ONT operations in fiscal year 2017, all information presented for fiscal years subsequent to 2016 include no ONT balances.

Los Angeles World Airports

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

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

Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura	Total
2018	10,283,729	3,221,103	2,415,955	2,174,938	859,073	18,954,798
2017	10,231,271	3,198,968	2,382,640	2,155,590	855,910	18,824,379
2016	10,180,169	3,172,222	2,346,717	2,133,906	853,961	18,686,975
2015	10,149,661	3,152,314	2,317,895	2,120,672	851,426	18,591,968
2014	10,088,458	3,126,918	2,291,262	2,100,689	847,232	18,454,559
2013	10,020,599	3,102,152	2,265,789	2,085,944	841,047	18,315,531
2012	9,949,794	3,068,570	2,240,166	2,070,638	834,487	18,163,655
2011	9,871,802	3,034,764	2,212,675	2,054,451	829,563	18,003,255
2010	9,822,121	3,008,855	2,179,692	2,033,141	822,108	17,865,917
2009	9,801,096	2,990,805	2,140,626	2,019,432	815,284	17,767,243

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

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

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

Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura	Total
2016	$ 563,907,868	$ 196,920,661	$ 87,827,068	$ 78,830,801	$ 47,397,620	$ 974,884,018
2015	549,073,019	188,471,529	84,429,454	75,619,404	46,269,484	943,862,890
2014	514,516,564	174,586,467	79,066,137	70,869,501	43,878,654	882,917,323
2013	483,578,594	166,369,802	75,223,346	66,754,823	41,728,050	833,654,615
2012	486,733,508	169,583,534	73,158,724	65,153,561	41,294,216	835,923,543
2011	454,935,533	157,031,273	71,213,948	63,448,707	39,627,111	786,256,572
2010	424,813,015	149,486,476	66,904,690	59,751,636	37,605,326	738,561,143
2009	411,495,352	140,937,698	65,359,484	58,489,655	36,439,784	712,721,973
2008	425,573,170	148,492,015	67,367,683	60,289,621	37,551,356	739,273,845
2007	412,257,372	150,227,748	66,347,611	59,059,093	37,592,170	725,483,994

Source: US Department of Commerce, Bureau of Economic Analysis, Data subsequent to 2016 is not available.

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

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

Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura	Weighted Average
2016	$ 55,624	$ 62,071	$ 36,782	$ 36,835	$ 55,779	$ 50,167
2015	54,298	59,708	35,883	35,627	54,581	50,167
2014	51,111	55,699	34,044	33,652	51,984	47,710
2013	48,283	53,451	32,828	31,972	49,706	45,511
2012	48,900	54,972	32,301	31,365	49,483	46,004
2011	46,007	51,420	31,847	30,756	47,703	43,664
2010	43,236	49,537	30,380	29,268	45,565	41,313
2009	42,043	47,181	30,446	29,042	44,704	40,114
2008	43,715	50,207	31,932	30,089	46,569	41,812
2007	42,499	51,244	31,972	29,646	46,989	41,257

Source: US Department of Commerce, Bureau of Economic Analysis. Data subsequent to 2016 is not available.
Note: Weighted Average is computed by dividing total personal income by the total population of the trade area.

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

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

Last Ten Years
(amounts in percent)

Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura	California	U.S.
2018 (1)	4.8	3.3	4.8	4.6	4.0	4.5	4.2
2017	4.7	3.5	5.2	4.9	4.5	4.8	4.4
2016	5.3	4.0	6.1	5.8	5.2	5.5	4.9
2015	6.6	4.5	6.7	6.4	5.6	6.2	5.3
2014	8.3	5.5	8.2	8.0	6.6	7.5	6.2
2013	9.8	6.6	9.9	9.8	7.9	8.9	7.4
2012	10.9	7.9	11.6	11.4	9.1	10.4	8.1
2011	12.2	9.1	13.2	12.9	10.2	11.7	8.9
2010	12.5	9.7	13.8	13.5	10.8	12.2	9.6
2009	11.6	8.7	13.1	12.7	9.6	11.2	9.3

Sources: California Employment Development Department for county rates.
U.S. Department of Labor for nationwide and statewide rates.
(1) Rates published in August 2018

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

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

Employer	2018 Employees	2018 Rank	2018 Percentage	2009 Employees	2009 Rank	2009 Percentage
Kaiser Permanente	37,468	1	0.8%	34,179	1	0.8%
University of Southern California	21,055	2	0.4%	13,044	5	0.3%
Northrop Grumman Corp.	16,600	3	0.3%	19,137	2	0.5%
Providence Health & Services	15,952	4	0.3%	9,715	8	0.2%
Target Corporation	15,000	5	0.3%	13,000	6	0.3%
Ralphs/Food 4 Less/Kroger	14,970	6	0.3%	14,000	4	0.3%
Cedars-Sinai Medical Center	14,903	7	0.3%	9,300	10	0.2%
Walt Disney Co	13,000	8	0.3%	—	--	--
Allied Universal	12,879	9	0.3%	—	--	--
NBC Universal	12,000	10	0.3%	—	--	--
Boeing Co.	—	--	--	14,400	3	0.3%
Home Depot	—	--	--	10,000	7	0.2%
Albertsons/Vons/Pavilions	—	--	--	9,688	9	0.2%
All Others	4,709,773	--	96.4%	4,198,737	--	96.7%
	4,883,600 [1]		100.0%	4,345,200 [1]		100.0%

Sources: Los Angeles Business Journal (LABJ) dated August 2018
[1] http://www.labormarketinfo.edd.ca.gov

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

Compliance Section

2018

Comprehensive Annual Financial Report

Los Angeles World Airports

Compliance Section

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 World Airports' (Department of Airports of the City of Los Angeles, California) ("LAWA"), 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 LAWA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the PFC program. However, our audit does not provide a legal determination of LAWA's compliance.

Opinion on PFC Program

In our opinion, LAWA 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 LAWA'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 LAWA'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 Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) ("LAWA"), an Enterprise Fund of the City of Los Angeles, as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise LAWA'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)

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	Over (under) revenues collected on approved projects
Program to date as of June 30, 2016					
Los Angeles International Airport	$ 2,118,505	$ 203,570	$ 2,322,075	$ 1,892,387	$ 429,688
Ontario International Airport	177,904	45,513	223,417	174,274	49,143
Subtotal	2,296,409	249,083	2,545,492	2,066,661	478,831
Fiscal year 2016-17 transactions					
Los Angeles International Airport					
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)
Subtotal	163,869	5,480	169,349	145,745	23,604
Ontario International Airport					
Quarter ended September 30, 2016	1,966	135	2,101	10	2,091
Quarter ended December 31, 2016	247	(120)	127	51,361	(51,234)
Quarter ended March 31, 2017	—	—	—	—	—
Quarter ended June 30, 2017	—	—	—	—	—
Subtotal	2,213	15	2,228	51,371	(49,143)
Program to date as of June 30, 2017					
Los Angeles International Airport	2,282,374	209,050	2,491,424	2,038,132	453,292
Ontario International Airport	180,117	45,528	225,645	225,645	—
Subtotal	2,462,491	254,578	2,717,069	2,263,777	453,292
Fiscal year 2017-18 transactions					
Los Angeles International Airport					
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
Subtotal	171,431	5,379	176,810	293,694	(116,884)
Ontario International Airport					
Transferred to OIAA	(180,117)	(45,528)	(225,645)	(225,645)	—
Subtotal	(180,117)	(45,528)	(225,645)	(225,645)	—
Unexpended passenger facility charge revenues and interest earned June 30, 2018					
Los Angeles International Airport	$ 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[22].

[22] *Due to the transfer of ONT to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement described in Note 17 of the notes to the financial statements, all unexpended PFCs revenues and interest were transferred to OIAA.*

Los Angeles World Airports

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

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 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 at LAX is $4.50 per enplaned passenger. PFCs collection authorities approved by FAA are $4.2 billion and $4.1 billion at LAX 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 September 2016, FAA approved LAWA's amendment request that decreased application number 97-03-C-00-ONT to $75.3 million to reflect the final costs of the projects in the application. This application was transferred to OIAA as a result of the ONT Settlement Agreement described in Note 17 of the notes to the financial statements.

d. In September 2016, FAA approved LAWA's amendment request that decreased application number 07-04-C-00-ONT to $71.6 million to reflect the final costs of the projects in the application. This application was transferred to OIAA as a result of the ONT Settlement Agreement described in Note 17 of the notes to the financial statements.

e. 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.

f. As part of the ONT Settlement Agreement, FAA approved the closeout of the outstanding ONT PFC applications 97-03-C-04-ONT and 07-04-C-03-ONT with the following approved and expended amounts (amounts in thousands):

PFC Application	Number	Project	Approved Amount	Expended Amount
97-03-C-04-ONT	1	Land Acquisition	$ 34,376	$ 34,376
97-03-C-04-ONT	2	Noise Mitigation	40,972	40,972
		Total	$ 75,348	$ 75,348
07-04-C-03-ONT	1	In-line Baggage Screening	$ 47,032	$ 47,032
07-04-C-03-ONT	2	Airfield Perimeter Security Enhancement - Part 2	5,531	5,531
07-04-C-03-ONT	3	Runway 08L/26R Reconstruction	13,764	13,764
07-04-C-03-ONT	4	Implementation of Information Technology (IT) Security Master Plan	325	325
07-04-C-03-ONT	5	ONT Master Plan	4,027	4,027
07-04-C-03-ONT	6	Aircraft Rescue ad Firefighting (ARFF) Vehicles	924	924
		Total	$ 71,603	$ 71,603

g. 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.

h. As a result of the transfer of ONT to OIAA in fiscal year 2017, there were no ONT PFC activities in fiscal year 2018, and only four months ONT PFC activities in fiscal year 2017.

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

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

Approved projects	Amount approved for collection	Expenditures to date June 30 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

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.

4. Transfer of ONT

Due to the transfer of ONT to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement described in Note 17 of the notes to the financial statements, all unexpended PFCs revenues and interest were transferred to OIAA in fiscal year 2017.

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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 World Airports' (Department of Airports of the City of Los Angeles, California) ("LAWA"), 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 LAWA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the CFC program. However, our audit does not provide a legal determination of LAWA's compliance.

Opinion on CFC Program

In our opinion, LAWA 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 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 LAWA'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 LAWA'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 with a type of compliance requirement 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 Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise LAWA'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)

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					
Los Angeles International Airport	$ 234,124	$ 14,404	$ 248,528	$ 3,026	$ 245,502
Ontario International Airport	58,158	605	58,763	54,368	4,395
Subtotal	292,282	15,009	307,291	57,394	249,897
Fiscal year 2016-17 transactions					
Los Angeles International Airport					
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
Subtotal	32,545	2,973	35,518	—	35,518
Ontario International Airport					
Quarter ended September 30, 2016	1,002	16	1,018	887	131
Quarter ended December 31, 2016	343	6	349	295	54
Quarter ended March 31, 2017	—	—	—	—	—
Quarter ended June 30, 2017	—	—	—	—	—
Subtotal	1,345	22	1,367	1,182	185
Program to date as of June 30, 2017					
Los Angeles International Airport	266,669	17,377	284,046	3,026	281,020
Ontario International Airport	59,503	627	60,130	55,550	4,580
Subtotal	326,172	18,004	344,176	58,576	285,600
Fiscal year 2017-18 transactions					
Los Angeles International Airport					
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
Subtotal	55,759	3,971	59,730	—	59,730
Ontario International Airport					
Transferred to OIAA	(59,503)	(627)	(60,130)	(55,550)	(4,580)
Subtotal	(59,503)	(627)	(60,130)	(55,550)	(4,580)
Unexpended customer facility charge revenues and interest earned June 30, 2018					
Los Angeles International Airport	$ 322,428	$ 21,348	$ 343,776	$ 3,026	$ 340,750

See accompanying notes to the schedule of customer facility charge revenues and expenditures[23].

[23] *Due to the transfer of ONT to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement described in Note 17 of the notes to the financial statements, all unexpended CFCs revenues and interest were transferred to OIAA.*

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

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

At LAX, 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

As a result of the transfer of ONT to OIAA in fiscal year 2017, there were no ONT CFC activities in fiscal year 2018, and only four months ONT CFC activities in fiscal year 2017.

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.

3. Transfer of ONT

Due to the transfer of ONT to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement described in Note 17 of the notes to the financial statements, all unexpended CFCs revenues and interest were transferred to OIAA in fiscal year 2017.

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