

**BURBANK-GLENDALE-PASADENA
AIRPORT AUTHORITY**

Basic Financial Statements

June 30, 2017 and 2016

(With Independent Auditor's
Report Thereon)



Certified
Public
Accountants

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BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Basic Financial Statements

June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Commissioners
Burbank-Glendale-Pasadena Airport Authority
Burbank, California

Report on the Basic Financial Statements

We have audited the accompanying financial statements of the Burbank-Glendale-Pasadena Airport Authority (the Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
December 12, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

The Burbank-Glendale-Pasadena Airport Authority (Authority) is a separate governmental entity created by a Joint Exercise of Power Agreement (Agreement) executed in June 1977 among the Cities of Burbank, Glendale, and Pasadena, California (Cities). The purpose of the Agreement was to enable the Cities to acquire, operate, repair, maintain, improve, and administer the Bob Hope Airport, commonly known as Hollywood Burbank Airport (Airport), as a public air terminal. The Authority is governed by a nine-member Board of Airport Commissioners, three of which are appointed by the City Council of each of the Cities. The members of the Airport Commission annually elect a President, Vice-President, and Secretary of the Commission. The Authority has contracted with TBI Airport Management, Inc. (TBI) to perform certain airport administrative, maintenance, operational services, and aircraft rescue and firefighting (ARFF) services.

The management of the Authority presents the following narrative overview of the Authority's financial activities for the fiscal years ended June 30, 2017 and 2016. The following discussion and analysis should be read in conjunction with the accompanying basic financial statements.

The Authority's report consists of this management's discussion and analysis (MD&A), and the financial statements follow after the MD&A. The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements include the *Statements of Net Position*, the *Statements of Revenues, Expenses and Changes in Net Position*, the *Statements of Cash Flows*, and the *Notes to the Basic Financial Statements*.

The *Statements of Net Position* present information on all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Authority currently has no deferred outflows of resources to report.

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how the Authority's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The *Statements of Cash Flows* present information on the Authority's inflows and outflows of cash and cash equivalents during the fiscal year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

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

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Overview of the Authority's Operations

Highlights of Airport Activities

The Airport was served during fiscal year (FY) 2017 by six signatory carriers, compared to seven signatory carriers in FY 2016. Alaska Airlines, Delta Air Lines, JetBlue Airways, Southwest Airlines, United Airlines, and American Airlines/U.S. Airways (merger in FY 2016) continued operations at the Airport during FY 2017, with the exclusion of Seaport Airlines, which discontinued service in January 2016 and declared bankruptcy in February 5, 2016.

During FY 2017, the national economy continued to show signs of a steady recovery with a continued increase in passenger demand for air travel. The Airport's total passenger traffic concluded FY 2017 and 2016 with 4,396,230 and 3,976,735 passengers, respectively, at an increase of 10.5% and 1.9%, respectively, compared to the prior fiscal year. This represents a recovery trend from the previous years' decline in passenger levels experienced caused by the lingering effect of the national economic recession. Passenger levels at the Airport have steadily improved since FY 2014. Since then, the airlines serving the airport have increased flight frequencies, added new destinations, upgauged aircraft capacity, and revised airfares.

The following table presents a comparative summary of passenger and other traffic in FY 2017, FY 2016 and FY 2015:

Description	FY 2017	FY 2016	FY 2015	% increase (decrease)	
				FY 2016/17	FY 2015/16
Commercial carrier flight operations (takeoffs and landings)	50,895	49,011	45,667	3.8%	7.3%
Landing weight (in pounds)	3,206,360,194	2,897,937,594	2,750,671,432	10.6	5.4
Total passengers	4,396,230	3,976,735	3,902,455	10.5	1.9
Departing passengers (enplaned)	2,195,194	1,987,867	1,953,553	10.4	1.8
Arriving passengers (deplaned)	2,201,036	1,988,868	1,948,902	10.7	2.1
Cargo tonnage (in tons)	54,445	54,060	56,104	0.7	(3.6)

Passenger Traffic Activity

Passenger traffic at the Airport increased by 10.5% and 1.9% compared to the prior year in FY 2017 and 2016, respectively. Of the 4,396,230 and 3,976,735 passengers that moved in and out of the Airport during FY 2017 and 2016, respectively, Southwest Airlines serviced the largest number of passengers at 3,305,573 (75.2% of total passengers) and 2,937,621 (73.9% of total passengers), in FY 2017 and 2016, respectively. Overall, there is a positive recovery of passenger traffic toward pre-recession levels over the last three fiscal years.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

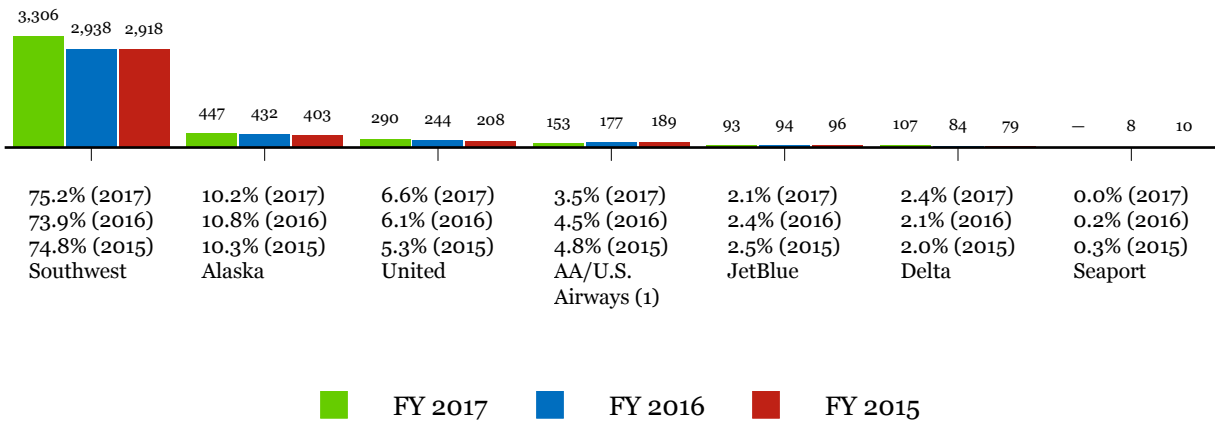
Management’s Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

The chart below presents the passenger traffic share by airline for FY 2017, FY 2016 and FY 2015:

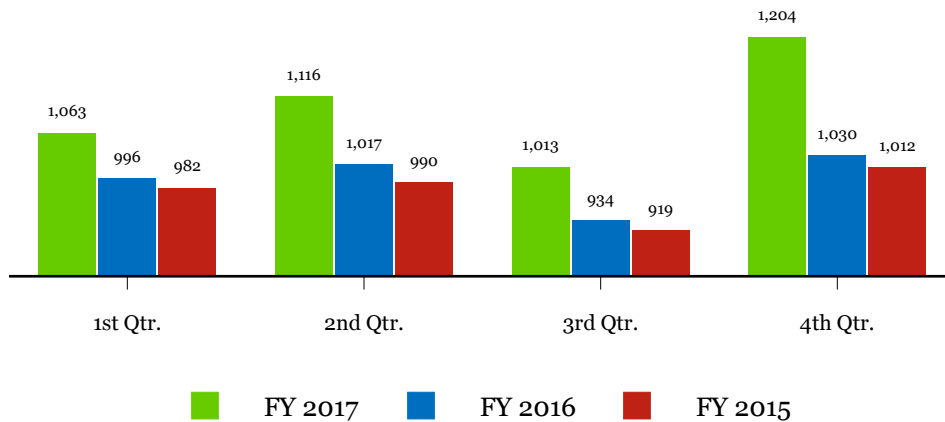
**Signatory Airlines and Percentage of Market Share
(passengers in thousands)**



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

The following chart presents the passenger traffic by quarter for FY 2017, FY 2016 and FY 2015:

**Total Passengers By Quarter
(in thousands)**



BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Flight Operations Activities

The total number of commercial carrier flights was 50,895 and 49,011, resulting in an increase of 3.8% and 7.3% from the prior fiscal year for FY 2017 and 2016, respectively. Revenue landing weight increased 10.6% and 5.4% from the prior fiscal year for FY 2017 and 2016, respectively. The top three carriers in terms of landing weight were Southwest Airlines, Alaska Airlines, and United Airlines. In total these three airlines contributed 92.3% and 91.3% of the total revenue landing weight at the Airport for FY 2017 and 2016, respectively.

Air Cargo Activities

Freight and mail cargo at the Airport for FY 2017 and 2016 was 54,445 and 54,060 tons, respectively. FY 2017 saw a slight increase in air cargo tonnage of 0.7% from the prior fiscal year - FY 2016 saw a decrease in air cargo tonnage of 3.6% from the prior fiscal year. Federal Express and United Parcel Service are the top air freight carriers accounting for 95.9% and 95.7% of the total freight cargo for FY 2017 and 2016, respectively.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Overview of the Authority's Financial Activities

Financial Highlights, Fiscal Year 2017

- Assets exceeded liabilities and deferred inflows of resources (net position) at the close of the fiscal year by \$479,873,356.
- Operating revenues were \$50,443,155.
- Operating expenses before depreciation were \$41,226,440.
- Nonoperating revenues, net of nonoperating expenses (including revenues of \$8,942,706 from Passenger Facility Charges and \$5,641,652 from Customer Facility Charges) were \$7,625,208.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement (AIP) grants were \$10,261,859.
- Net position increased by \$9,499,366 primarily due to an increase in operating income resulting from growth in passenger traffic and an increase in capital contributions from the FAA AIP grant program.

Financial Highlights, Fiscal Year 2016

- Assets exceeded liabilities and deferred inflows of resources (net position) at the close of the fiscal year by \$470,373,990.
- Operating revenues were \$48,893,333.
- Operating expenses before depreciation were \$39,018,761.
- Nonoperating revenues, net of nonoperating expenses (including revenues of \$8,327,080 from Passenger Facility Charges and \$5,742,998 from Customer Facility Charges) were \$13,099,068.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement grants were \$4,230,291.
- In April 2016, under the terms of the Amended, Restated, Superseding and Combined Trust and Escrow Agreement, approximately 59 acres of undeveloped land (Trust Assets) was sold to Overton Moore Properties for \$65,900,000 at a net gain on sale of \$4,103,268. Additionally, approximately 66,000 square feet of undeveloped land, separate from the Trust Assets, known as the Kenwood Property was also sold to Overton Moore Properties for \$2,200,000 at a net gain on sale of \$1,095,526.
- Net position increased by \$8,331,621 primarily due to an increase in investment income, decrease in interest expense, gain on sale of the Trust Assets, and gain on sale of the Kenwood Property.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Net Position Summary

A summary of the Airport's net position as of June 30, 2017, 2016, and 2015 is presented below:

	Schedule of Net Position							
	2017	2016	2015	FY 2016/17		FY 2015/16		
				increase (decrease) Amount	%	increase (decrease) Amount	%	
Assets:								
Current Unrestricted assets	\$ 28,038,471	\$ 30,397,449	\$ 29,958,934	\$ (2,358,978)	(7.8)%	\$ 438,515	1.5%	
Restricted assets	66,532,659	56,908,877	109,049,614	9,623,782	16.9	(52,140,737)	(47.8)	
Debt service reserve surety	33,094	38,615	44,137	(5,521)	(14.3)	(5,522)	(12.5)	
Facility Development Reserve	167,632,453	167,334,136	101,395,103	298,317	0.2	65,939,033	65.0	
Capital assets, net	<u>343,910,005</u>	<u>346,025,062</u>	<u>355,714,312</u>	<u>(2,115,057)</u>	(0.6)	<u>(9,689,250)</u>	(2.7)	
Total assets	<u>606,146,682</u>	<u>600,704,139</u>	<u>596,162,100</u>	<u>5,442,543</u>		<u>4,542,039</u>	0.8	
Liabilities:								
Current liabilities	10,600,147	9,702,456	11,419,338	897,691	9.3	(1,716,882)	(15.0)	
Liabilities payable								
from restricted assets	7,531,257	7,211,502	4,389,934	319,755	4.4	2,821,568	64.3	
Noncurrent liabilities	<u>107,427,859</u>	<u>112,600,118</u>	<u>117,392,377</u>	<u>(5,172,259)</u>	(4.6)	<u>(4,792,259)</u>	(4.1)	
Total liabilities	<u>125,559,263</u>	<u>129,514,076</u>	<u>133,201,649</u>	<u>(3,954,813)</u>		<u>(3,687,573)</u>	(2.8)	
Deferred inflows of resources-								
Deferred amount on refunding	<u>714,063</u>	<u>816,073</u>	<u>918,082</u>	<u>(102,010)</u>	(12.5)	<u>(102,009)</u>	(11.1)	
Net position:								
Net investment in capital								
assets	236,974,240	234,200,550	241,786,162	2,773,690	1.2	(7,585,612)	(3.1)	
Restricted, debt service	18,731,009	17,904,119	14,412,399	826,890	4.6	3,491,720	24.2	
Restricted, capital projects	36,116,644	27,343,265	83,096,111	8,773,379	32.1	(55,752,846)	(67.1)	
Unrestricted	<u>188,051,463</u>	<u>190,926,056</u>	<u>122,747,697</u>	<u>(2,874,593)</u>	(1.5)	<u>68,178,359</u>	55.5	
Total net position	<u>\$479,873,356</u>	<u>\$470,373,990</u>	<u>\$462,042,369</u>	<u>\$ 9,499,366</u>	2.0%	<u>\$ 8,331,621</u>	1.8%	

Net Position

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. The Authority's assets exceeded its liabilities and deferred inflows of resources (net position) by \$479,873,356, \$470,373,990, and \$462,042,369 at the close of FY 2017, FY 2016 and FY 2015, respectively.

The largest portion of the Authority's net position reflects its investment in capital assets (e.g., land, buildings, runways, etc.), net of accumulated depreciation, less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to Airport users. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

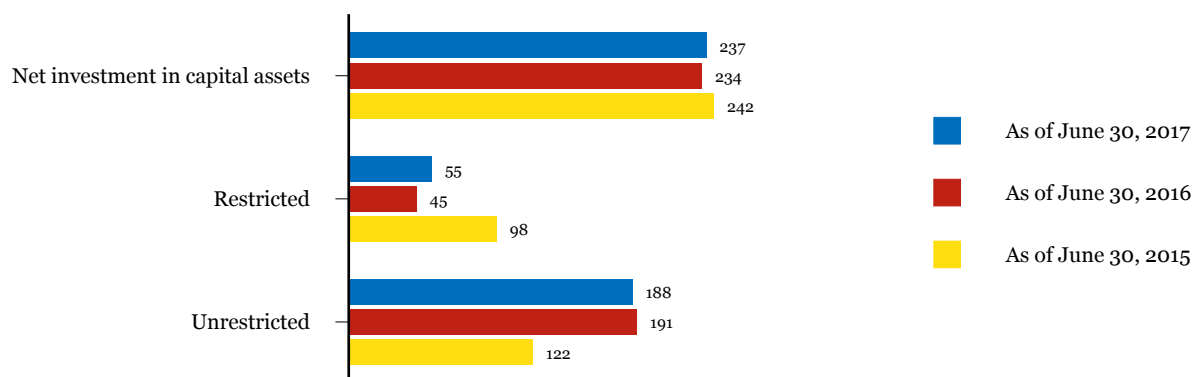
June 30, 2017 and 2016

(Unaudited)

The second portion of the Authority's net position represents resources that are subject to external restrictions on how they may be used. Of this restricted net position, 34.2%, 39.6%, and 14.8% are for repayment of long-term debt and 65.8%, 60.4%, and 85.2% are for construction of capital assets at June 30, 2017, 2016 and 2015, respectively.

The final portion of net position is unrestricted net position and may be used to meet the Authority's ongoing obligations to Airport users and creditors.

Net Position as of June 30, 2017, 2016, and 2015 (in millions)



As of June 30, 2017, 2016 and 2015, the Authority reported positive balances in all three categories of net position.

Current Unrestricted Assets

The Authority's current unrestricted assets decreased by \$2,358,978, or 7.8%, in FY 2017, primarily resulting from the unrealized loss in the operating investment portfolio. Current unrestricted assets consist primarily of cash and investments in the operating portfolio. Cash inflows were greater than outflows during the fiscal year. Current unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for operating activities, capital acquisitions, and transfers to fiscal agents for debt service.

The Authority's current unrestricted assets increased by \$438,515, or 1.5%, in FY 2016, primarily resulting from increased cash and investment requirements for the near-term FY 2017 capital program, increased accrued interest receivable due to the deposit to the operating cash and investments portfolio of the proceeds from the sale of the Trust Assets, and increased yield in the operating portfolio. Current unrestricted assets consist primarily of cash and investments in the operating portfolio. Cash inflows were greater than outflows during the fiscal year. Current unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for operating activities, capital acquisitions, and transfers to fiscal agents for debt service.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Restricted Assets

The Authority's restricted assets increased by \$9,623,782, or 16.9%, in FY 2017, resulting primarily from an increase in passenger facility charges (PFC) for eligible capital expenditures. The Authority's restricted assets decreased by \$52,140,737, or 47.8%, in FY 2016, resulting primarily from the sale of Trust Assets offset by the net gain on sale. Restricted assets consist primarily of cash and investments in the operating portfolio that are restricted based on constraints placed on assets through external parties such as creditors, grantors, leases, trust agreements contributors, laws or regulations of other governments, or enabling legislation. Restricted funds are nondiscretionary in terms of use and provide for payment of debt service on Authority bonds, reserves for outstanding bonds, construction of long-term assets and operations, and maintenance.

Facility Development Reserve

Cash and investments – Facility Development Reserve was established by the Authority during FY 2000 to provide for the development of the terminal and other Airport facilities. The actual appropriation of these funds to selected facility development projects is determined based on the approval of the Authority. In FY 2017 and FY 2016, the fund increased by \$298,317 and \$65,939,033, respectively. In FY 2017, the Authority transferred \$298,317 in excess revenues from the current operating fund. The significant increase in FY 2016 consists of \$63,152,393 of net proceeds from the sale of the Trust Assets and \$2,786,640 transferred from the current operating fund.

Capital Assets

Below is a summary of the Authority's capital assets for FY 2017, 2016 and 2015:

				FY 2016/17		FY 2015/16	
				increase (decrease)		increase (decrease)	
	2017	2016	2015	Amount	%	Amount	%
Capital assets:							
Land	\$ 157,794,496	\$ 157,794,496	\$ 158,758,472	\$ —	—%	\$ (963,976)	(0.6)%
Other non-depreciable capital assets	1,128,515	1,128,515	1,128,515	—	—	—	—
Construction in progress	4,651,743	11,232,442	9,655,529	(6,580,699)	(58.6)	1,576,913	16.3
Buildings and improvements	249,492,392	249,295,529	248,962,701	196,863	0.1	332,828	0.1
Runways and improvements	120,968,479	99,895,509	93,536,670	21,072,970	21.1	6,358,839	6.8
Machinery and equipment	35,123,182	35,095,833	38,570,698	27,349	0.1	(3,474,865)	(9.0)
Less accumulated depreciation	(225,248,802)	(208,417,262)	(194,898,273)	(16,831,540)	8.1	(13,518,989)	6.9
Total capital assets, net	<u>\$ 343,910,005</u>	<u>\$ 346,025,062</u>	<u>\$ 355,714,312</u>	<u>\$ (2,115,057)</u>	(0.6)%	<u>\$ (9,689,250)</u>	(2.7)%

The Authority's net capital assets decreased by \$2,115,057, or 0.6%, in FY 2017 and \$9,689,250, or 2.7%, in FY 2016. The decreases in FY 2017 and FY 2016 were primarily due to depreciation expense for the Authority's depreciable capital assets, which include buildings and improvements, runways and improvements, and machinery and equipment, and disposals of depreciable capital assets exceeding acquisitions, respectively. Total net capital asset additions in FY 2017 and 2016 were \$20,191,507 and \$1,105,012, respectively, and total deletions were \$22,306,564 and \$10,794,262, respectively.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Significant capital asset additions in FY 2017 include:

- Runway 8/26 rehabilitation
- Runway 8/26 engineering materials arresting system (EMAS)
- Airfield lighting improvements
- Additions to construction in progress for the emergency backup generator, digital video security system storage, and runway rehabilitation

Significant capital asset additions in FY 2016 include:

- Runway shoulder phase 2
- Taxiway B phase 2
- Terminal high voltage switchgear
- Additions to construction in progress for the airfield lighting system phase 2, emergency backup generator and runway rehabilitation

The Authority has contract commitments outstanding at June 30, 2017 for various construction contracts totaling \$10,615,598, with the most significant portion of \$10,159,918 related to the Runway 15/33 rehabilitation project. Subsequent to June 30, 2017, the Authority entered into an additional construction contract totaling \$329,500 related to the Hangar 34 roof project.

Additional information regarding the Authority's capital assets can be found in note 4 in the accompanying notes to the basic financial statements.

Current Liabilities

Current liabilities increased by \$897,691, or 9.3%, in FY 2017, primarily due to an increase in vendor accruals for capital projects completed at the end of the fiscal year and operating accounts offset by a decrease in vendor accruals for the Authority's outreach program for the replacement terminal development that was completed in early FY 2017. Current liabilities decreased by \$1,716,882, or 15.0%, in FY 2016, primarily due to a decrease in vendor accruals for capital projects, operating accounts, and the sound insulation program offset by an increase in vendor accruals for the Authority's outreach program for the replacement terminal development.

Liabilities Payable from Restricted Assets

Liabilities payable from restricted assets increased by \$319,755, or 4.4%, in FY 2017 and \$2,821,568, or 64.3%, in FY 2016. The increase in FY 2017 reflects an increase of \$380,000 in the current portion of principal payable for the 2012 and 2015 Bonds offset by a decrease of \$60,245 interest payable for both bonds. The FY 2016 reflects an increase in the current portion of principal payable for the 2012 and 2015 Bonds of \$2,785,000 and increase in interest payable for both bonds of \$497,570 offset by a decrease in the arbitrage rebate payable to IRS related to the 2005 Bonds of \$461,002 that was paid in FY 2016.

Additional information regarding the Authority's liabilities payable from restricted assets can be found in note 5 in the accompanying notes to the basic financial statements.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Noncurrent Liabilities

Below is a summary of the Authority's noncurrent liabilities for FY 2017, 2016 and 2015:

	2017	2016	2015	FY 2016/17		FY 2015/16	
				increase (decrease)		increase (decrease)	
				Amount	%	Amount	%
Long-term debt, net of current portion:							
Revenue bonds payable, less current portion	103,975,000	108,640,000	112,925,000	(4,665,000)	(4.3)	(4,285,000)	(3.8)
Original issue premium, net	3,452,859	3,960,118	4,467,377	(507,259)	(12.8)	(507,259)	(11.4)
Total long-term liabilities	<u>\$ 107,427,859</u>	<u>\$ 112,600,118</u>	<u>\$ 117,392,377</u>	<u>\$ (5,172,259)</u>	(4.6)%	<u>\$ (4,792,259)</u>	(4.1)%

As of June 30, 2017 and 2016, the Authority's outstanding long-term debt consisted of its outstanding 2012 (Series A and B) and 2015 (Series A and B) bonds of \$103,975,000 and \$108,640,000, respectively, and unamortized premium of \$3,452,859 and \$3,960,118, respectively.

The Authority's long-term liabilities decreased by \$5,172,259, or 4.6%, in FY 2017 and decreased by \$4,792,259, or 4.1%, in FY 2016. The decrease in FY 2017 includes reclassification of the current portions of the 2012 Bonds of \$1,570,000 and 2015 Bonds of \$3,095,000, and amortization of the original issue premium on both bonds of \$507,259. The decrease in FY 2016 includes reclassification of the current portion of 2012 Bonds of \$1,535,000 and current portion of the 2015 Bonds of \$2,750,000, and amortization of the original issue premium on both bonds of \$507,259.

Additional information regarding the Authority's long-term debt can be found in note 5 in the accompanying notes to the basic financial statements.

Deferred Inflows of Resources

Deferred inflows of resources consists of the net deferred amount on refunding of the 2005 Bonds of \$714,063 and \$816,073 at June 30, 2017 and 2016, respectively. The refunding and defeasance of the 2005 Bonds resulted in a difference between the reacquisition price of the 2015 Bonds and the net carrying amount of the 2005 Bonds of \$935,367. This difference, reported in the accompanying basic financial statements as a deferred inflow of resources, is being credited to interest expense through July 1, 2024, the final maturity of the 2015 Bonds, using the straight-line method. Amortization in FY 2017 and FY 2016 totaled \$102,010 and \$102,009, respectively.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Changes in Net Position Summary

A condensed summary of the Authority's changes in net position for fiscal years ended June 30, 2017, 2016 and 2015 is presented below:

Schedule of Revenues, Expenses, and Changes in Net Position

	FY 2017	FY 2016	FY 2015	FY 2016/17		FY 2015/16	
				increase (decrease)		increase (decrease)	
				Amount	%	Amount	%
Operating revenues	\$ 50,443,155	\$ 48,893,333	\$ 49,114,702	\$ 1,549,822	3.2%	\$ (221,369)	(0.5)%
Operating expenses	58,830,856	57,891,071	57,581,856	939,785	1.6%	309,215	0.5
Operating loss	(8,387,701)	(8,997,738)	(8,467,154)	610,037	(6.8)%	(530,584)	6.3
Nonoperating revenues, net	7,625,208	13,099,068	6,756,139	(5,473,860)	(41.8)%	6,342,929	93.9
Income before capital contributions	(762,493)	4,101,330	(1,711,015)	(4,863,823)	(118.6)%	5,812,345	(339.7)
Capital contributions	10,261,859	4,230,291	2,142,587	6,031,568	142.6%	2,087,704	97.4
Changes in net position	9,499,366	8,331,621	431,572	1,167,745	14.0%	7,900,049	1,830.5
Total net position - beginning	470,373,990	462,042,369	461,610,797	8,331,621	1.8%	431,572	0.1
Total net position - ending	<u>\$ 479,873,356</u>	<u>\$ 470,373,990</u>	<u>\$ 462,042,369</u>	<u>\$ 9,499,366</u>	2.0%	<u>\$ 8,331,621</u>	1.8%

Operating Revenues

The Airport derives its operating revenues from the operation of parking facilities, tenant rent, concessionaire-assessed rents and fees, aircraft landing fees, and other assessments including ground transportation access fees and fuel flowage fees.

The following table presents a comparative summary of operating revenues in FY 2017, FY 2016 and FY 2015:

Comparative Summary of Operating Revenues

	FY 2017	FY 2016	FY 2015	FY 2016/17		FY 2015/16	
				increase (decrease)		increase (decrease)	
				Amount	%	Amount	%
Parking	\$ 20,425,013	\$ 19,700,020	\$ 19,427,097	\$ 724,993	3.7%	\$ 272,923	1.4%
Landing fees	3,338,301	3,006,791	2,884,238	331,510	11.0	122,553	4.2
Concessions	9,327,875	8,900,221	8,361,519	427,654	4.8	538,702	6.4
Tenant rent	14,766,090	15,285,266	16,684,706	(519,176)	(3.4)	(1,399,440)	(8.4)
Fuel flowage fees	647,441	562,342	527,239	85,099	15.1	35,103	6.7
Other operating revenues	1,938,435	1,438,693	1,229,903	499,742	34.7	208,790	17.0
Total operating revenues	<u>\$ 50,443,155</u>	<u>\$ 48,893,333</u>	<u>\$ 49,114,702</u>	<u>\$ 1,549,822</u>	3.2%	<u>\$ (221,369)</u>	(0.5)%

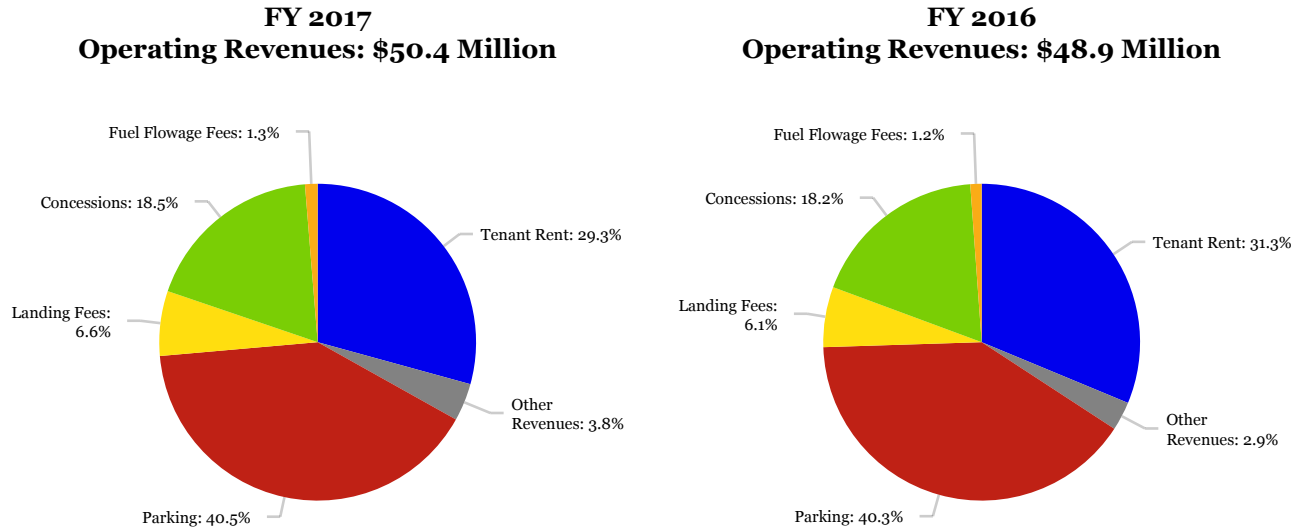
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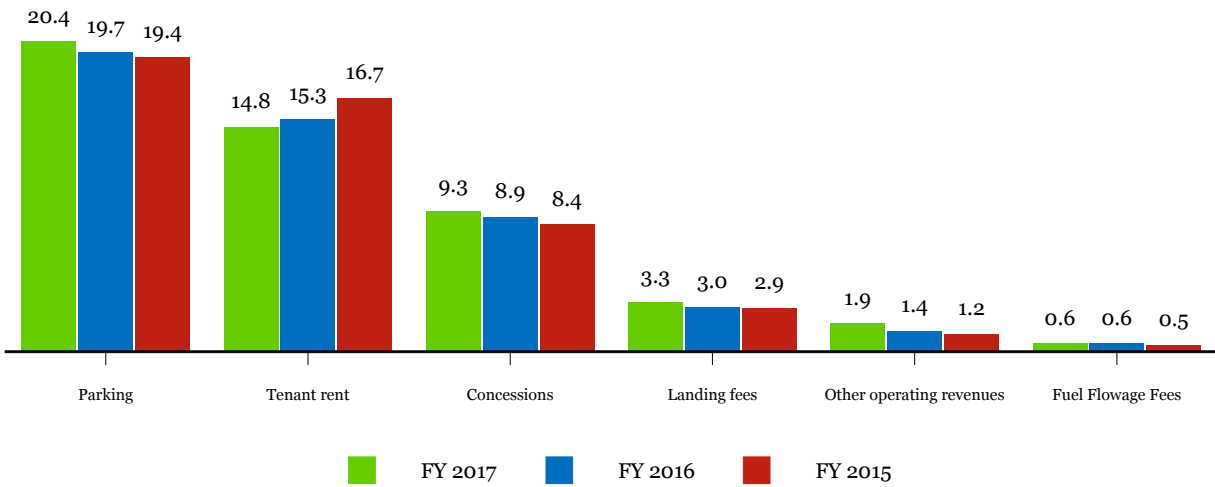
(Unaudited)

The charts below present the distribution of major sources of operating revenues in FY 2017 and FY 2016:



The chart below presents the comparative summary of operating revenues for FY 2017, FY 2016, and FY 2015:

Operating Revenues
Years ended June 30, 2017, 2016 and 2015
(in millions)



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In FY 2017, total operating revenues increased by \$1,549,822, or 3.2% due to a combination of factors, as follows:

(1) increased landing fees of \$331,510, or 11.0%, primarily due to the upgauging of aircraft and change in flight frequencies on various routes;

(2) increased parking revenues of \$724,993, or 3.7%;

(i) the modest increase in parking revenues did not keep pace with the increase in passenger activity in FY 2017. This was primarily due to a change in the ground transportation mode split to/from what the Airport experienced between private cars using on-airport parking, opening of access to transportation network companies' (TNC) services, and declines in door-to-door shuttle van service and taxis;

(3) increased concession fees of \$427,654, or 4.8%, primarily due to an increase in revenues generated by various passenger activity related concessions, but primarily from food and beverage and on-airport advertising;

(i) concession fees are highly dependent on passenger behavior and not necessarily tied to passenger traffic levels. Changes in food and beverage products line-up and a change to a new news and gifts concessionaire in May 2015 had a positive effect on concession revenues generated. An increase in demand for advertising opportunities at the Airport continues from previous fiscal years;

(4) decreased tenant rent of \$519,176, or 3.4%, primarily due to the termination of ground leases located on the B-6 Trust Property in conjunction with the sale of the Trust Property;

(5) increased fuel flowages fees of \$85,099, or 15.1%, primarily due to increased general aviation activity; and

(6) increased other operating revenues of \$499,742, or 34.7%, primarily due to the implementation of a \$3 fee for each TNC drop-off and pick-up in FY 2017. Increases experienced in the fiscal year were offset by a decrease in movie location revenues.

In FY 2016, total operating revenue decreased by \$221,369, or 0.5% due to a combination of factors, as follows:

(1) increased parking revenues increased of \$272,923, or 1.4%, primarily due to an increase of \$256,803 for certain parking areas leased to local car dealers;

(2) increased landing fees of \$122,553, or 4.2%, primarily due to increased commercial carrier operations and charter activity;

(3) increased concession revenues of \$538,702, or 6.4%, primarily due to increased rent-a-car demand and improved gift/news performance due to a new concessionaire, which commenced operations in May 2015.

(4) decreased tenant rent of \$1,399,440, or 8.4%, primarily due to the termination of ground leases on the Trust Property, a decrease in RITC facility rent required from the rental car companies offset by an increase in CFC revenues received; and

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(5) increased fuel flowage fees of \$35,103, or 6.7%, primarily due to increased general aviation activity; and

(6) increased other operating revenues of \$208,790, or 17.0%, primarily due to a \$125,000 settlement with a former Trust Property tenant.

Operating Expenses

The following table presents a comparative summary of operating expenses in FY 2017, FY 2016 and FY 2015:

	Operating Expenses Summary							
	FY 2017	FY 2016	FY 2015	FY 2016/17		FY 2015/16		
				increase (decrease)		increase (decrease)		
	Amount	Amount	Amount	Amount	%	Amount	%	
Contracted airport services	\$ 18,264,010	\$ 17,693,627	\$ 16,589,795	\$ 570,383	3.2%	\$ 1,103,832	6.7%	
Salaries and benefits	4,882,831	4,689,853	4,580,083	192,978	4.1	109,770	2.4	
Financial services	967,080	829,140	783,560	137,940	16.6	45,580	5.8	
Rescue services	2,715,010	2,519,902	2,260,915	195,108	7.7	258,987	11.5	
Repairs and maintenance, materials and supplies	5,110,868	4,878,577	5,498,912	232,291	4.8	(620,335)	(11.3)	
Utilities	1,834,890	1,810,775	1,881,327	24,115	1.3	(70,552)	(3.8)	
Professional services	2,250,548	2,169,426	2,257,763	81,122	3.7	(88,337)	(3.9)	
Insurance	1,361,694	1,350,639	1,360,485	11,055	0.8	(9,846)	(0.7)	
Other operating expenses	3,839,509	3,076,822	3,036,462	762,687	24.8	40,360	1.3	
Operating expenses before depreciation	41,226,440	39,018,761	38,249,302	2,207,679	5.7	769,459	2.0	
Depreciation	17,604,416	18,872,310	19,332,554	(1,267,894)	(6.7)	(460,244)	(2.4)	
Total operating expenses	<u>\$ 58,830,856</u>	<u>\$ 57,891,071</u>	<u>\$ 57,581,856</u>	<u>\$ 939,785</u>	1.6%	<u>\$ 309,215</u>	0.5%	

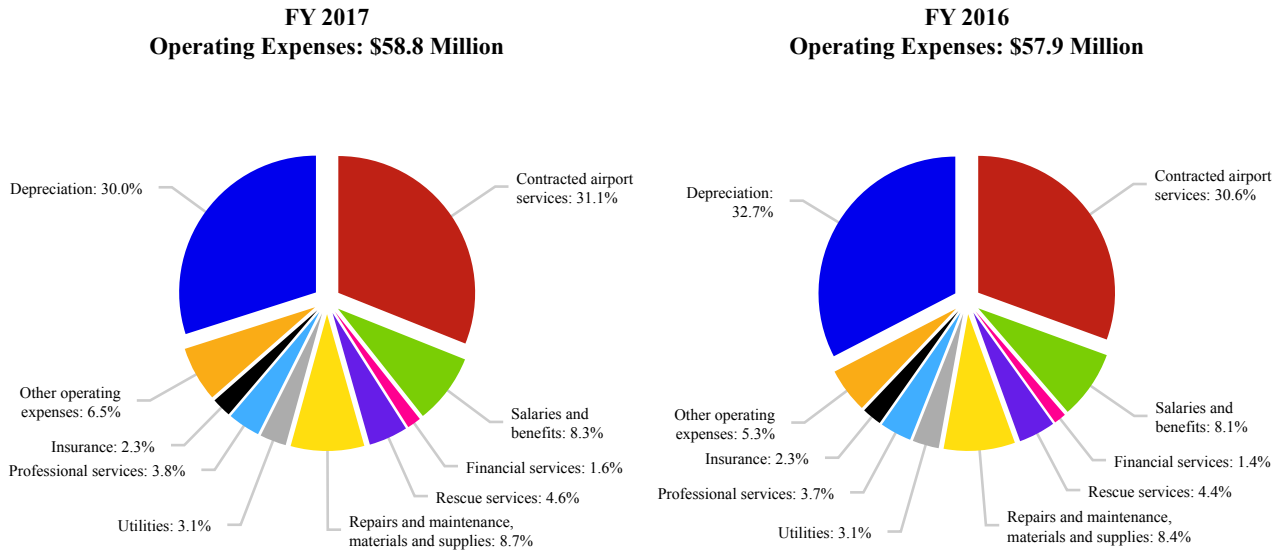
BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

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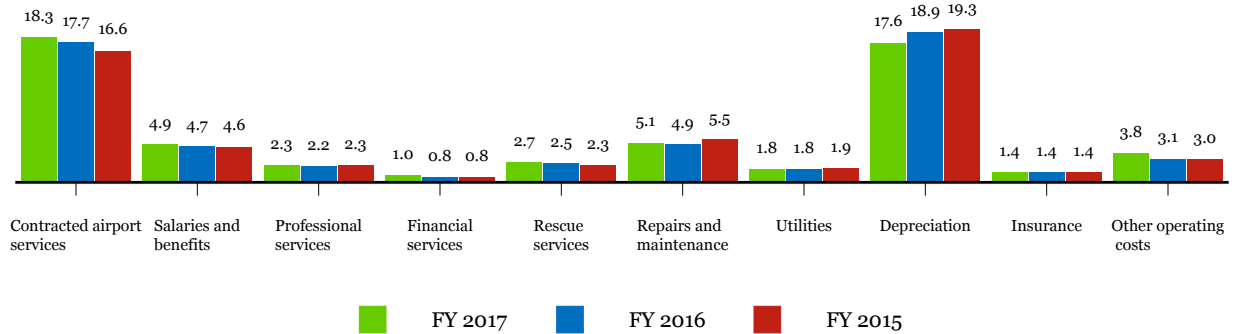
(Unaudited)

The charts below present the distribution of operating expenses in FY 2017 and FY 2016:



The chart below presents the comparative summary of operating expenses for FY 2017, FY 2016 and FY 2015:

**Operating Expenses
Years ended June 30, 2017, 2016 and 2015
(in millions)**



Total operating expenses increased by \$939,785, or 1.6%, in FY 2017 due to a combination of factors, as follows:

- (1) increased contracted airport services of \$570,383, primarily due to increased contracted shuttle operations costs of \$769,028 and increased Airport Manager costs of \$524,043 offset by decreased parking operator costs of \$722,688;
 - (i) the Authority’s shuttle fleet had reached the end of its useful life and, effective November 1, 2015, the Authority contracted with MV Transportation for a turn-key passenger and employee parking

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(Unaudited)

lot shuttle operation. MV Transportation owns, operates, and maintains the alternative fuel shuttle fleet used at the Airport. The increased cost of the shuttle operation of \$769,028 was offset by a reduction in shuttle repair and maintenance costs of \$125,955, fuel savings of \$59,218, and decreased self-park and valet operation costs of \$722,688;

(ii) the increased Airport Manager costs of \$524,043 is primarily due to the authorization of new positions and the filling of new and other existing open positions;

(2) increased salaries and benefits for airport police officers of \$192,978 in accordance with the revised agreement with the Burbank-Glendale-Pasadena Airport Police Officers Union;

(3) increased cost for aircraft rescue firefighting services of \$195,108 in accordance with an agreement in place with the Burbank Airport Professional Firefighters IAFF Local I-61 Union;

(4) increased repairs and maintenance costs, not including materials and supplies, of \$210,608, primarily due to contractual services for repair and maintenance of the automated walkways, elevators, and escalators located in the RITC and updating of the security and monitoring technology offset by savings in vehicle repair and maintenance and fuel costs mentioned previously, and reduced costs for information technology warranty and maintenance agreements;

(5) increased utilities costs of \$24,115 primarily due to increased use related to passenger activity levels through the Airport and increased utility rates;

(6) increased professional service costs of \$81,122 primarily due to real estate brokerage fees for tenant leases offset by decreased legal expenses; and

(7) decreased depreciation expense of \$1,267,894, primarily due to the impact of assets fully depreciated in FY 2017 exceeded the impact of capital asset additions in FY 2017.

Total operating expenses increased by \$309,215, or 0.5%, in FY 2016 due to a combination of factors, as follows:

(1) increased contracted airport services of \$1,103,832, primarily due to increased contracted shuttle operations costs of \$517,275 and increased Airport Manager costs of \$603,990;

(i) the increased cost of the shuttle operation of \$517,275 was significantly offset by a reduction in fuel expense of \$254,669, shuttle repair and maintenance expense of \$161,129, and reduced insurance of \$29,880;

(ii) the increased Airport Manager costs of \$603,990 was primarily due to authorized new positions and filling of open positions, increased benefits cost offset by a reduction in expenses related to the sound insulation and capital programs, and overtime expenses;

(2) increased salaries and benefits for airport police officers of \$109,770 in accordance with the agreement with the Burbank-Glendale-Pasadena Airport Police Officers Union;

(3) increased cost for aircraft rescue firefighting services of \$258,987 in accordance with the agreement with the Burbank Airport Professional Firefighters IAFF Local I-61 Union;

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(Unaudited)

(4) decrease in repairs and maintenance costs of \$620,335, primarily due to the fuel and shuttle bus repair and maintenance expense reduction described above and information and technology expenses for certain network and security system repairs which occurred in FY 2015;

(5) decreased utilities costs of \$70,552 as the Authority continues to implement water conservation measures and efficiency programs;

(6) decreased costs for professional service of \$88,337 primarily due to a decrease in legal expense; and

(7) decreased depreciation expense of \$460,244, primarily due to the impact of assets fully depreciated in FY 2016 exceeded the impact of capital asset additions in FY 2016.

Nonoperating Revenues and Expenses

The following summary presents a comparison of nonoperating revenues and expenses in FY 2017, FY 2016 and FY 2015:

Comparative Summary of Nonoperating Revenues and Expenses

	FY 2017	FY 2016	FY 2015	FY 2016/17		FY 2015/16	
				Amount	%	Amount	%
Nonoperating revenues:							
PFC revenues	\$ 8,942,706	\$ 8,327,080	\$ 8,103,510	\$ 615,626	7.6%	\$ 223,570	2.8%
CFC revenues	5,641,652	5,742,998	5,575,979	(101,346)	(1.8)	167,019	3.0
Investment income	1,130,960	2,529,456	1,984,415	(1,398,496)	(70.5)	545,041	27.5
Gain on sale of Trust Assets	—	4,103,268	—	(4,103,268)	n/a	4,103,268	n/a
Gain (loss) on disposal of capital assets	(193,350)	1,081,445	(317,557)	(1,274,795)	401.4	1,399,002	(440.6)
Other noncapital grants	46,057	85,255	2,316,221	(39,198)	(1.7)	(2,230,966)	(96.3)
	<u>15,568,025</u>	<u>21,869,502</u>	<u>17,662,568</u>	<u>(6,301,477)</u>	<u>(35.7)</u>	<u>4,206,934</u>	<u>23.8</u>
Nonoperating expenses:							
Interest expense	5,128,767	5,213,240	6,068,552	(84,473)	(1.4)	(855,312)	(14.1)
Bond issuance costs	—	—	441,981	—	—	(441,981)	(100)
Sound insulation program	4,470	12,759	2,527,131	(8,289)	(0.3)	(2,514,372)	(99.5)
Replacement terminal development	2,764,011	3,457,449	1,544,312	(693,438)	(44.9)	1,913,137	123.9
Other	45,569	86,986	324,453	(41,417)	(12.8)	(237,467)	(73.2)
	<u>7,942,817</u>	<u>8,770,434</u>	<u>10,906,429</u>	<u>(827,617)</u>	<u>(7.6)</u>	<u>(2,135,995)</u>	<u>(19.6)</u>
Total nonoperating revenues (expenses), net	<u>\$ 7,625,208</u>	<u>\$ 13,099,068</u>	<u>\$ 6,756,139</u>	<u>\$(5,473,860)</u>	<u>(81.0)%</u>	<u>\$ 6,342,929</u>	<u>93.9%</u>

Nonoperating revenues of \$15,568,025 and \$21,869,502 in FY 2017 and FY 2016, respectively, consist of PFC revenues; CFC revenues; net investment income; FAA sound insulation, and other non-capital

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(Unaudited)

grants (capital grant revenues are included in capital contributions); gain on sale of Trust Assets and gain (loss) on disposal of capital assets.

In FY 2017, nonoperating revenues net of nonoperating expenses decreased by \$5,473,860, or 81.0%, primarily due to a combination of the following:

- (1) increased PFC revenues of \$615,626 primarily due to an increase in passenger levels and an increase in investment income on the PFC Fund resulting from increases in interest rates offset by a decrease in fair value of PFC investments at year-end;
- (2) decreased CFC revenues of \$101,346 due to a decrease in number of rental car transactions;
- (3) decreased investment income of \$1,398,496 due to an increase in unrealized fair value loss offset by an increase in investment interest revenue;
- (4) prior year gain on sale of trust assets of \$4,103,268 due to the sale of the B-6 Trust Property in FY 2016;
- (5) decreased gain on disposal of capital asset of \$1,274,795, primarily due to a gain on sale of the Kenwood Property that was recognized in FY 2016; and
- (6) decreased replacement terminal development expenses of \$693,438 due to the completion of the Authority's outreach and education initiative for the future development of the replacement terminal.

In FY 2016, nonoperating revenues net of nonoperating expenses increased by \$6,342,929, or 93.9%, due to a combination of the following:

- (1) increased PFC revenues of \$223,570, primarily due to the increase in passenger levels and increase in investment income on the PFC Fund resulting from increases in interest rates;
- (2) increased CFC revenue of \$167,019 due to an increase in number of rental car customer transaction/days;
- (3) increased investment income of \$545,041, primarily due to an increase in available cash for investments from net proceeds of the sale of the Trust Assets and Kenwood Property in April 2016 (\$65.25 million) and \$4.1 million of other cash activities, increase in average yield, and increase in fair value of investments offset by decrease in interest income on Trustee-held investments primarily due to the termination of the forward delivery investment contract for the 2005 Bonds in FY 2015.
- (4) decreased FAA and other noncapital revenues of \$2,230,966 due to related changes in sound insulation program, ground access study-related program, and Part 150 noise compatibility program costs as the programs are reaching maturity;
- (5) gain on sale of Trust Assets of \$4,103,268 to Overton Moore Properties in April 2016;
- (6) gain on retirement of capital assets of \$1,399,002, primarily due to a gain on sale of the Kenwood Property to Overton Moore Properties; and

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(Unaudited)

(7) decreased total nonoperating expenses of \$2,135,995, primarily due to decreased interest expense as a result of the refunding of the 2005 Bonds with the 2015 Bonds and decreased sound insulation program expenses as the program reaches maturity offset by increased replacement terminal development expenses previously mentioned.

Capital Contributions

Capital contributions amounting to \$10,261,859 and \$4,230,291 were recorded during FY 2017 and FY 2016, respectively. In FY 2017, these amounts represent FAA Airport Improvement (AIP) grants for runway rehabilitation design, Runway 8/26 rehabilitation, Runway 8/26 EMAS replacement, and Runway 15/33 phase II construction. In FY 2016, these amounts represent FAA Airport Improvement grants for runway shoulder rehabilitation, Taxiway B rehabilitation, and runway rehabilitation design.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Burbank-Glendale-Pasadena Airport Authority, 2627 N. Hollywood Way, Burbank, California, 91505.

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BASIC FINANCIAL STATEMENTS

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Net Position

June 30, 2017 and 2016

Assets	2017	2016
Current unrestricted assets:		
Cash and investments – current operating fund (note 3)	\$ 23,101,834	\$ 27,820,808
Grants receivable	2,261,771	437,709
Accounts receivable, net of allowance	1,532,713	1,104,317
Accrued interest receivable	836,624	805,068
Other receivables	43,055	10,109
Prepaid expenses	262,474	219,438
Total current unrestricted assets	<u>28,038,471</u>	<u>30,397,449</u>
Current restricted assets:		
Cash and investments (note 3):		
Cash and investments with trustee	14,487,966	14,091,847
Other restricted cash and investments:		
Operating Reserve Fund	10,338,260	9,971,860
Bond Surplus Fund	2,601,563	2,601,563
Authority Areas Reserve	2,980,856	2,896,927
Asset Forfeiture Fund	16,729	16,069
Proceeds from sale of Airport property	2,104,502	2,104,502
Passenger Facility Charge Fund	30,372,322	21,905,765
Customer Facility Charge Fund	1,934,215	1,934,215
Total other restricted cash and investments	<u>50,348,447</u>	<u>41,430,901</u>
Total restricted cash and investments	<u>64,836,413</u>	<u>55,522,748</u>
Passenger Facility Charge receivables	1,011,107	830,080
Customer Facility Charge receivables	557,764	466,172
Accrued interest receivable	127,375	89,877
Total current restricted assets	<u>66,532,659</u>	<u>56,908,877</u>
Total restricted assets	<u>66,532,659</u>	<u>56,908,877</u>
2015 Bonds debt service reserve surety, net (note 5)	33,094	38,615
Cash and investments – Facility Development Reserve (note 3)	167,632,453	167,334,136
Capital assets (note 4):		
Land	157,794,496	157,794,496
Other nondepreciable capital assets	1,128,515	1,128,515
Construction in progress	4,651,743	11,232,442
Buildings and improvements	249,492,392	249,295,529
Runways and improvements	120,968,479	99,895,509
Machinery and equipment	35,123,182	35,095,833
Less accumulated depreciation	<u>(225,248,802)</u>	<u>(208,417,262)</u>
Total capital assets, net	<u>343,910,005</u>	<u>346,025,062</u>
Total assets	<u>\$ 606,146,682</u>	<u>\$ 600,704,139</u>

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Statements of Net Position

June 30, 2017 and 2016

(Continued)

Liabilities	2017	2016
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,275,511	\$ 7,433,893
Salaries and benefits payable	832,176	773,818
Unearned revenue	948,487	1,080,121
Customer deposits	543,973	414,624
Total current liabilities	<u>10,600,147</u>	<u>9,702,456</u>
Liabilities payable from restricted assets (note 5):		
Current portion of long-term debt	4,665,000	4,285,000
Accrued interest payable	2,866,257	2,926,502
Total liabilities payable from restricted assets	<u>7,531,257</u>	<u>7,211,502</u>
Long-term debt, net of current portion (note 5):		
Revenue bonds payable, less current portion	103,975,000	108,640,000
Original issue premium, net	3,452,859	3,960,118
Total long-term liabilities	<u>107,427,859</u>	<u>112,600,118</u>
Total liabilities	<u>125,559,263</u>	<u>129,514,076</u>
Deferred Inflows of Resources		
Deferred amount on refunding of 2005 Bonds, net (note 5)	<u>714,063</u>	<u>816,073</u>
Net Position		
Net investment in capital assets	236,974,240	234,200,550
Restricted:		
Debt service	18,731,009	17,904,119
Capital projects	36,116,644	27,343,265
Unrestricted	188,051,463	190,926,056
Total net position	<u>\$ 479,873,356</u>	<u>\$ 470,373,990</u>

See accompanying notes to basic financial statements.

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BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Charges for services:		
Parking	\$ 20,425,013	\$ 19,700,020
Landing fees	3,338,301	3,006,791
Concessions	9,327,875	8,900,221
Tenant rent	14,766,090	15,285,266
Fuel flowage fees	647,441	562,342
Other operating revenues	<u>1,938,435</u>	<u>1,438,693</u>
Total operating revenues	<u>50,443,155</u>	<u>48,893,333</u>
Operating expenses:		
Contracted airport services	18,264,010	17,693,627
Salaries and benefits	4,882,831	4,689,853
Financial services	967,080	829,140
Rescue services	2,715,010	2,519,902
Materials and supplies	325,892	304,209
Repairs and maintenance	4,784,976	4,574,368
Utilities	1,834,890	1,810,775
Professional services	2,250,548	2,169,426
Insurance	1,361,694	1,350,639
Other operating expenses	<u>3,839,509</u>	<u>3,076,822</u>
Total operating expenses before depreciation	<u>41,226,440</u>	<u>39,018,761</u>
Operating income before depreciation	9,216,715	9,874,572
Depreciation (note 4)	<u>17,604,416</u>	<u>18,872,310</u>
Operating loss	<u>(8,387,701)</u>	<u>(8,997,738)</u>
Nonoperating revenues (expenses):		
Passenger Facility Charge revenue, including interest (note 8)	8,942,706	8,327,080
Customer Facility Charge revenue (note 9)	5,641,652	5,742,998
Investment income, net	1,130,960	2,529,456
Interest expense	(5,128,767)	(5,213,240)
Gain on sale of Trust Assets	—	4,103,268
Gain (loss) on retirement of capital assets (note 4)	(193,350)	1,081,445
Sound insulation program	(4,470)	(12,759)
Other noncapital grants	46,057	85,255
Replacement terminal development	(2,764,011)	(3,457,449)
Other expenses, net	<u>(45,569)</u>	<u>(86,986)</u>
Total nonoperating revenues, net	<u>7,625,208</u>	<u>13,099,068</u>
Income (loss) before capital contributions	(762,493)	4,101,330
Capital contributions	<u>10,261,859</u>	<u>4,230,291</u>
Changes in net position	9,499,366	8,331,621
Total net position – beginning of year	<u>470,373,990</u>	<u>462,042,369</u>
Total net position – end of year	<u>\$ 479,873,356</u>	<u>\$ 470,373,990</u>

See accompanying notes to basic financial statements.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from airline carriers, tenants, and others	\$ 50,012,362	\$ 49,416,042
Cash paid to suppliers of goods and services	(33,442,514)	(33,656,357)
Cash paid for employees' services	(4,828,483)	(4,682,652)
Cash paid for parking taxes to the City of Burbank	(2,147,209)	(2,089,669)
Cash paid for replacement terminal development	(3,581,943)	(2,733,464)
Cash received for tenant leasehold improvements	232,937	—
Cash paid from settlement – hangar floors and apron	(680)	(192,766)
Net cash provided by operating activities	6,244,470	6,061,134
Cash flows from noncapital financing activities:		
Sound insulation program	(5,070)	(380,795)
FAA grants, sound insulation program	—	303,958
Ground access study	—	(61,990)
Part 150 noise compatibility study	—	(31,959)
I-5 construction mitigation program	(36,574)	(10,405)
Cash received for HARP program fundraising	—	6,000
Cash paid for HARP program fundraising	(62)	(1,954)
Payments for TSA Other Transaction Agreement	—	(63,759)
Reimbursements for TSA Other Transaction Agreement	(32,946)	110,994
Other noncapital grants received	30,447	208,374
Net cash provided by (used in) noncapital financing activities	(44,205)	78,464
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(15,099,705)	(11,431,176)
Reimbursement of OCIP reserves for RITC project	—	500,000
Proceeds from sale of Trust Assets	—	63,152,393
Proceeds from sale of capital assets	43,156	2,121,058
Principal paid on revenue bonds	(4,285,000)	(1,500,000)
Interest paid on revenue bonds	(5,792,760)	(5,355,434)
Passenger Facility Charge program receipts	8,654,113	7,903,007
Customer Facility Charge program receipts	5,550,060	5,761,140
Capital contributions received	8,453,407	4,068,362
Net cash provided by (used in) capital and related financing activities	(2,476,729)	65,219,350
Cash flows from investing activities:		
Interest received on investments	3,048,868	1,818,369
Rebatable interest paid to IRS	—	(461,002)
Purchases of investments not considered cash equivalents	(74,948,823)	(161,476,136)
Proceeds from the sale or maturity of investments not considered cash equivalents	65,899,068	85,118,310
Net cash used in investing activities	(6,000,887)	(75,000,459)
Net decrease in cash and cash equivalents	(2,277,351)	(3,641,511)
Cash and cash equivalents, beginning of year	19,420,165	23,061,676
Cash and cash equivalents, end of year	\$ 17,142,814	\$ 19,420,165

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Continued)

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (8,387,701)	\$ (8,997,738)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	17,604,416	18,872,310
Other noncash operating expenses, net	—	43,325
Other nonoperating expenses	(2,764,011)	(3,457,449)
Changes in assets and liabilities:		
Accounts receivable	(428,396)	326,360
Other receivables	—	—
Prepaid expenses	(43,036)	44,818
Accounts payable and accrued expenses	207,125	(970,312)
Salaries and benefits payable	58,358	3,192
Unearned revenue	(131,634)	108,537
Customer deposits	129,349	88,091
Net cash provided by operating activities	<u>\$ 6,244,470</u>	<u>\$ 6,061,134</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Operating fund	\$ 23,101,834	\$ 27,820,808
Restricted cash and investments	64,836,413	55,522,748
Facility Development Reserve	167,632,453	167,334,136
Cash, cash equivalents, and investments	<u>255,570,700</u>	<u>250,677,692</u>
Investments not considered cash equivalents	<u>(238,427,886)</u>	<u>(231,257,527)</u>
Cash and cash equivalents, end of year (note 3)	<u>\$ 17,142,814</u>	<u>\$ 19,420,165</u>
Summary of significant noncash investing and financing activities:		
Amortization of 2015 Bonds debt service reserve surety	\$ 5,521	\$ 5,521
Amortization of original issue premiums	(507,259)	(507,259)
Amortization of 2005 Bonds deferred amount on refunding	(102,010)	(102,009)
Proceeds from sale of Trust Assets used for costs of sale	—	2,747,607
Carrying value of the disposed Kenwood Property	—	(1,008,976)
Change in fair value of investments	(1,879,396)	647,916
Change in capital assets acquired by accounts payable	626,160	(529,602)
Change in sound insulation program from accounts payable	(600)	(368,036)
Capitalized interest expense, net	—	35,845
Contributions used in relation to capital assets	(1,808,452)	(169,929)

See accompanying notes to basic financial statements.

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BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2017 and 2016

(1) Nature of Authority

The Burbank-Glendale-Pasadena Airport Authority (Authority) is a separate governmental entity created by a Joint Exercise of Power Agreement (Agreement) executed in June 1977 among the Cities of Burbank, Glendale, and Pasadena, California (Cities). The purpose of the Agreement was to enable the Cities to acquire, operate, repair, maintain, improve, and administer the Bob Hope Airport, commonly known as the "Hollywood Burbank Airport" (Airport), as a public air terminal. The Authority is governed by a nine-member Board of Airport Commissioners, three of which are appointed by the City Council of each of the Cities. The members of the Airport Commission annually elect a President, Vice-President, and Secretary of the Commission. The Authority has contracted with TBI Airport Management, Inc. (TBI) to perform certain airport administrative, maintenance, operational services and aircraft rescue and firefighting (ARFF) services. These contracted services are included in the Authority's statements of revenues, expenses, and changes in net position as "contracted airport services" except for ARFF services which is included as "rescue services." As required under the State of California Constitution, the Authority directly employs its law enforcement officers.

The debts, liabilities, and obligations of the Authority do not constitute debts, liabilities, or obligations of the Cities. The accompanying basic financial statements are not included in the reporting entity of any of the Cities.

(2) Summary of Significant Accounting Policies

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below:

(a) Basis of Accounting

The Authority reports its financial operations as an enterprise activity, and as such, its financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. The measurement focus is on determination of changes in net position, financial position, and cash flows. Operating revenues include charges for services and tenant rent. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

(b) Description of Basic Financial Statements

Statements of Net Position – The statements of net position are designed to display the financial position of the Authority including its assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2017 and 2016

The Authority's equity is reported as net position, which is classified into three categories defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments through constitutional provisions or enabling legislation. At June 30, 2017 and 2016, net positions of \$36,492,694 and \$27,636,398, respectively, are restricted by enabling legislation.
- *Unrestricted* – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Statements of Revenues, Expenses and Changes in Net Position – The statements of revenues, expenses and changes in net position are the operating statements for the Authority. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses before depreciation, and operating income.

Statements of Cash Flows – The statements of cash flows present information on the Authority's cash receipts and payments during the fiscal year. These cash flows are grouped into five categories: operating activities, noncapital financing activities, capital and related financing activities, investing activities and noncash investing and financing activities.

Notes to Basic Financial Statements – The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

(c) Operating and Nonoperating Revenues and Expenses

The Authority distinguishes between operating revenues and expenses and nonoperating items. Operating revenues and expenses generally result from providing goods and services to Airport users. The principal operating revenues of the Airport are parking fees, landing fees, concession charges, tenant rent, and fuel flowage fees. Operating expenses include contracted airport services, salaries and employee benefits, maintenance and operation of systems and facilities, administrative expenses including compliance with federal, state and local regulatory requirements, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(d) Restricted Assets

Certain assets are restricted based on constraints placed on the assets use through external constraints imposed by creditors (such as through debt covenants), grantors, leases, trust agreements, contributors, laws or regulations of other governments or enabling legislation. Restricted funds are nondiscretionary in terms of use and provide for payment of debt service

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Notes to Basic Financial Statements

June 30, 2017 and 2016

on Authority bonds, reserves for outstanding bonds, construction of long-term assets and operations, and maintenance. The Authority, after necessary fund transfers have been made to comply with bond covenants, has discretion as to the magnitude and use of the remaining unrestricted funds.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources, as they are needed.

(e) Grants and Capital Contributions

The Authority receives grants under the Airport Improvement Program (AIP) from the U.S. Department of Transportation – Federal Aviation Administration (FAA) to finance certain capital improvements. The Authority receives a Measure R grant for I-5 construction mitigation from the Los Angeles County Metropolitan Transportation Authority. Such grants related to capital acquisitions are recorded on the statements of revenues, expenses, and changes in net position as capital contributions, and for non-capital purposes as nonoperating revenue other noncapital grants. Grant revenues are recognized when qualifying expenses under the grant are incurred.

(f) Passenger Facility Charge Revenues

The Authority imposes a Passenger Facility Charge (PFC) of \$4.50 per enplaned passenger, as approved by the FAA, to finance certain capital improvements. Cash and receivables from such revenues are maintained in separate accounts and are restricted for approved airport improvement projects. Revenues are recognized during the period earned.

(g) Customer Facility Charge Revenues

The Authority imposes a Customer Facility Charge (CFC) on all rental car contracts transacted at the Airport in accordance with *California Civil Code 1936 et. seq.*, as amended. The current applicable charge is \$6.00 per day up to a maximum of five days per transaction. Under the Master Indenture of Trust as supplemented, revenues generated on/after July 1, 2014 are used solely for the purposes of repayment of the debt obligations incurred to develop the Consolidated Rental Car Facility (CRCF) located in the Regional Intermodal Transportation Center (RITC) of the Airport. Cash and receivables from such revenues are maintained in separate accounts and are recognized during the period in which they are earned.

(h) Revenues and Cash Accounts

All revenues, except PFCs and CFCs (CFCs collected are transferred to the 2012 Bonds Debt Service Fund), are deposited in the Revenue Fund and are transferred to the following cash accounts in priority order as mandated by resolution of the Authority and its bond indenture:

- **Operating Fund** – The balance in this fund is to be used for payment of operations and maintenance costs as they become due and payable.
- **Rebate Fund** – Amounts on deposit in the Rebate Fund shall be applied to satisfy federal tax law requirements. As of June 30, 2017 and 2016, there was no balance in the Rebate Fund.
- **Debt Service Funds** – Bond interest currently payable on the 2012 and 2015 Bonds is deposited to each bond issue's debt service fund monthly prior to each semiannual

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Notes to Basic Financial Statements

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payment. Currently payable bond principal on the 2012 and 2015 Bonds is transferred to each bond issue's debt service fund monthly prior to each annual payment. These cash funds are held by a trustee who pays the bond interest and principal when due. The balance in the Debt Service Funds at June 30, 2017 and 2016 is \$4,629,063 and \$4,564,481, respectively, for the 2012 Bonds and \$3,831,098 and \$3,526,042, respectively, for the 2015 Bonds.

CFCs, as received, and RITC Facility Rents, as needed, are deposited to the 2012 Bonds Debt Service Fund each month prior to each semiannual interest and each annual bond principal payment currently payable.

- **Debt Service Reserve Funds** – An amount equal to the lesser of (i) ten percent of the initial offering price of the Revenue Bonds, (ii) greatest annual debt service from the current period to the maturity of the Revenue Bonds, or (iii) 125% of average annual debt service from the current period to the maturity of the Revenue Bonds (a separate account each for the 2005 Bonds and the 2012 Bonds), is to be held by the trustee in these funds to be used in the event that monies in the respective Debt Service Funds are insufficient to meet payments when due. A debt service reserve surety in an amount of \$3,664,397 equal to 10% of the original offering price was obtained for the 2015 Bonds in lieu of a debt service reserve fund. During the years ended June 30, 2017 and 2016, the required balance in the Debt Service Reserve Fund, calculated using the greatest annual debt service from the current period to the maturity of the Revenue Bonds, is \$5,838,000 and \$5,838,000 for the 2012 Bonds. The balance in the Debt Service Reserve Fund for the 2005 Bonds at June 30, 2017 and 2016 is \$148,801 and \$148,731, respectively. The balance in the Debt Service Reserve Fund for the 2012 Bonds at June 30, 2017 and 2016 is \$5,878,941 and \$5,852,530, respectively.
- **Operating Reserve Fund** – The balance in this fund is to be used to pay operation and maintenance costs in the event that monies in the Operating Fund are insufficient. The Authority maintains a reserve equivalent to one-fourth of the annual operations and maintenance budget. The balance in the Operating Reserve Fund at June 30, 2017 and 2016 is \$10,338,260 and \$9,971,860, respectively.
- **Subordinated Indebtedness Fund** – In the event that additional debt is incurred, which is expressly made subordinate or junior in right of payment to the 2015 Bonds or 2012 Bonds, this fund will be established and used to pay principal, interest, and other allowable costs associated with the subordinated indebtedness. As of June 30, 2017 and 2016, there was no balance in the Subordinated Indebtedness Fund.
- **Reserve and Contingency Fund** – The balance in this fund is to be used to pay the costs of extraordinary repairs and replacements of Airport facilities to the extent that such costs are not provided from the proceeds of insurance or from other funds. Any remaining balances in the Reserve and Contingency Fund, not required to meet any deficiencies in the Debt Service Fund or Debt Service Reserve Funds or not needed for any of the purposes for which such Fund was established, shall be transferred to the Operating Fund, and any remaining excess may be deposited in the Surplus Fund. As of June 30, 2017 and 2016, there was no balance in the Reserve and Contingency Fund.
- **Surplus Fund** – All monies remaining in the Revenue Fund at year-end are to be deposited in this fund and may be transferred to offset other fund deficiencies in the

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Notes to Basic Financial Statements

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following priority order: first in the Debt Service Fund, second in the applicable Debt Service Reserve Fund, third to the Subordinated Indebtedness Fund, and fourth to the Reserve and Contingency Fund. Amounts in the Surplus Fund not required to meet a deficiency as set forth above shall be applied or set aside as allowed for in the bond indenture. As of June 30, 2017 and 2016, there was \$2,601,563 and \$2,601,563, respectively, in the Surplus Fund to be transferred to any of the funds mentioned above. Amounts transferred to the Surplus Fund may be used for purposes of computation of the debt service coverage ratio.

- **Cost of Issuance Funds** – The balance in this fund provides for the payment of costs to issue the 2005 Bonds, 2012 Bonds or 2015 Bonds not paid directly from escrow at the closing of the sale of the respective bonds. This fund is held by a trustee and is subject to the terms and conditions as set forth in the bond indenture. There was no balance for the cost of issuance fund for any bond issued at June 30, 2017 and 2016.
- **Construction Funds** – The balance in this fund provides for the payment of applicable Capital Improvements identified to be financed from the 2015 Series A Bonds and the 2015 Series B Bonds, and the 2012 Series A Bonds and 2012 Taxable Series B Bonds. These funds are held by a trustee and are subject to the terms and conditions as set forth in the bond indenture. As of June 30, 2017 and 2016, there is \$60 and \$60 for the 2012 Series A Bonds and \$3 and \$3 for the 2012 Taxable Series B Bonds, respectively.

(i) **Other Cash Accounts**

The Authority maintains the following additional restricted cash:

- **Authority Areas Reserve** – Operating revenues received from certain areas specified in the airline signatory leases are set aside to be utilized at the discretion of the Authority for any lawful purpose.
- **Asset Forfeiture Fund** – The Authority receives funds from the U.S. Department of Justice, U.S. Department of Treasury and the State of California Department of Justice under the equitable sharing programs of each agency related to certain law enforcement activities. These assets are used to purchase certain equipment to supplement law enforcement activities at the Airport.
- **Proceeds from Sale of Airport Property Fund** – proceeds from the sale of Airport property is set aside to be used for similar income producing means in accordance with the Master Indenture of Trust, as supplemented.
- **Passenger Facility Charge Fund** – Cash from the PFC program are maintained in a separate account and are restricted for approved airport improvement projects.
- **Customer Facility Charge Fund** – Cash from CFC collections received prior to July 1, 2014 are maintained in a separate account with the use of such funds limited to eligible capital projects associated with additional development and/or replacement of major components of the Consolidated Rental Car Facility.

The Authority maintains the following board-designated cash:

- **Facility Development Reserve** – Reserve established during fiscal year (FY) 2000 to provide for the future development of terminal and other Airport facilities. The actual appropriation of these funds to selected facility development projects will be determined

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Notes to Basic Financial Statements

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based on the approval of the Authority. In FY 2017 and FY 2016, no transfers were made to the Current Operating Fund. In FY 2017, \$298,317 of excess revenues was transferred to the Facility Development Reserve.

(j) Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2017. During the year ended June 30, 2016, interest cost of \$36,018, less interest income of \$173, was capitalized. Depreciation is recognized in amounts calculated to amortize the cost of the depreciable assets over their estimated useful lives.

Depreciation is computed on a straight-line basis over the following periods:

Buildings and improvements	3 to 40 years
Runways and improvements	3 to 25 years
Machinery and equipment	3 to 20 years

(k) Vacation and Sick Leave

Employees may receive 80 to 160 hours of vacation each year (40 to 80 hours for job share employees), depending on length of service with the Authority. Vacation is not earned until the year is completed. An employee may accrue up to 250 hours of vacation; any hours earned in excess of 250 hours are forfeited, unless approved by management.

Employees are entitled to 100 hours of personal leave during each year (50 hours for job share employees). Employees may accrue personal leave or may receive payment for any unused portion of personal leave days at the end of each year.

Employees are also entitled to bank up to 120 hours of overtime for personal leave.

Vacation and personal leave are accrued as earned by employees. Accrued vacation and personal leave is reported in the accompanying statements of net position and is included in salaries and benefits payable. Accrued vacation and sick leave for the years ended June 30, 2017 and 2016, was \$517,107 and \$523,475, respectively.

(l) Fair Value Measurements

For assets or liabilities that are required to be reported at fair value, the Authority uses valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Authority categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy of inputs used to measure fair value consists of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted

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Notes to Basic Financial Statements

June 30, 2017 and 2016

prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

(m) Investments and Invested Cash

In accordance with California Government Code (Code) Section 53600 et seq., the Authority adopts an investment policy annually for the Operating, PFC and CFC portfolios that, among other things, authorizes types of allowable investments, maximum maturities, maximum concentration of investments by type of investment and issuer, minimum ratings for certain types of investments, and how the investments may be held. These criteria on investments and invested cash related to the Authority's bonded debt are governed by the related Master Indenture of Trust. The Authority further limits all investments to be more restrictive than the Code. Authorized investments and invested cash include U.S. Treasury securities, corporate notes, federal agency securities, money market mutual funds, bankers' acceptances, commercial paper, negotiable and non-negotiable certificates of deposit, repurchase agreements, guaranteed investment contracts and funds deposited in the State Treasurer's Local Agency Investment Fund (LAIF). Additional restrictions in the Authority's investment policy over the requirements of the Code include: (1) smaller maximum portions of the portfolios for certain investment types (e.g., U.S. Agency securities, negotiable and time certificates of deposit, bankers' acceptances, commercial paper, money market mutual funds, LAIF), (2) smaller maximum portions of the portfolios invested in a single institution/issuer (e.g., negotiable and time certificates of deposit, corporate notes, bankers' acceptances, commercial paper) (3) limiting the underlying investments of money market mutual funds to U.S. Treasury securities, and (4) excluding investments in reverse repurchase agreements and securities lending agreements, collateralized mortgage obligations and similar investments, debt securities issued by other local agencies and shares of beneficial interest issued by joint powers authorities formed in accordance with Section 6509.7 of the Code. The restrictions in the Code and the additional limitations in the Authority's investment policy mitigate the Authority's interest rate risk, credit risk, concentration of credit risk, and custodial credit risk related to its various investments.

The Authority's investments are carried at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities, where that information is available, or other observable inputs, where price is not available. The fair value of money market mutual funds and other similar investments is stated at its share value. The fair value of the Authority's investment in the LAIF is based on the Authority's pro rata share provided by LAIF of the fair value of the entire LAIF portfolio. Certain money market mutual fund investments with initial maturities at the time of the purchase of less than one year are recorded at cost. The calculation of realized gains and losses on investments that had been held more than one fiscal year and sold during the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year.

(n) Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers its investment in money market mutual funds in the Operating and Passenger Facility Charge cash and investment portfolios, and in the LAIF, to be cash equivalents that function as a demand deposit account, whereby funds may be withdrawn or deposited at any time without prior notice or penalty. Unrestricted investments in other securities with remaining maturities of 90 days or less at

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Notes to Basic Financial Statements

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the time of purchase are also considered cash equivalents. Investments in money market mutual funds held by the bond trustee are not considered cash equivalents for purposes of the statement of cash flows.

(o) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. The cost of prepaid expenses is recognized as an expense when consumed, rather than when purchased.

(p) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Income Taxes

The Authority is a political subdivision of the State of California. Accordingly, the Authority is not subject to federal or state income taxes.

(r) Recent Accounting Pronouncements

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

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

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

Issued in August 2015, GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about a reporting government's own tax abatement

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agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. This statement has no impact on the Authority's financial statements.

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

Issued in January 2016, GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement has no impact on the Authority's financial statements.

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

(s) Future Accounting Pronouncements

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

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

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

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

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

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

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

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

(t) *Reclassification of Prior Year Presentation*

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

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Notes to Basic Financial Statements

June 30, 2017 and 2016

(3) Cash and Investments

(a) Cash and Investments

(i) Cash and investments at June 30, 2017 and 2016 are classified in the accompanying statements of net position as follows:

	<u>2017</u>	<u>2016</u>
Cash and investments – current assets:		
Operating fund	\$ 23,101,834	\$ 27,820,808
Cash and investments – restricted assets:		
Cash and investments held by bond trustee:		
Debt service reserve fund – 2005 Bonds	148,801	148,731
Debt service fund – 2012 Bonds	4,629,063	4,564,481
Debt service reserve fund – 2012 Bonds	5,878,941	5,852,530
Construction funds – 2012 Bonds	63	63
Debt service fund – 2015 Bonds	<u>3,831,098</u>	<u>3,526,042</u>
Total cash and investments held by bond trustee	<u>14,487,966</u>	<u>14,091,847</u>
Other restricted cash and investments:		
Operating Reserve fund	10,338,260	9,971,860
Bond Surplus fund	2,601,563	2,601,563
Authority Areas Reserve fund	2,980,856	2,896,927
Asset Forfeiture fund	16,729	16,069
Proceeds from sale of Airport property	2,104,502	2,104,502
Passenger Facility Charge fund	30,372,322	21,905,765
Customer Facility Charge fund	<u>1,934,215</u>	<u>1,934,215</u>
Total other restricted cash and investments	<u>50,348,447</u>	<u>41,430,901</u>
Total cash and investments – restricted assets	<u>64,836,413</u>	<u>55,522,748</u>
Cash and investments – Facility Development Reserve	<u>167,632,453</u>	<u>167,334,136</u>
Total cash and investments	<u><u>\$ 255,570,700</u></u>	<u><u>\$ 250,677,692</u></u>

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Notes to Basic Financial Statements

June 30, 2017 and 2016

(ii) Cash and investments as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Operating portfolio cash and investments:		
Cash and cash equivalents:		
Cash on hand	\$ 800	\$ 800
Deposits with financial institutions	993,466	571,538
Money market mutual funds	86,274	141,911
LAIF	<u>13,444,114</u>	<u>16,372,769</u>
Total cash and cash equivalents	<u>14,524,654</u>	<u>17,087,018</u>
Investments:		
U.S. Treasury securities	68,972,600	69,868,112
U.S. Agency securities	68,709,453	68,555,722
Medium-term corporate notes	<u>56,569,490</u>	<u>57,235,013</u>
Total investments	<u>194,251,543</u>	<u>195,658,847</u>
Total cash and cash equivalents and investments	208,776,197	212,745,865
Less restricted portion	(18,041,910)	(17,590,921)
Less Facility Development Reserve	<u>(167,632,453)</u>	<u>(167,334,136)</u>
Current and unrestricted cash and investments	<u>\$ 23,101,834</u>	<u>\$ 27,820,808</u>
Passenger Facility Charge Fund:		
Cash and cash equivalents:		
Deposits with financial institutions	\$ 470	\$ 357
Money market mutual funds	<u>683,475</u>	<u>398,575</u>
Total cash and cash equivalents	<u>683,945</u>	<u>398,932</u>
Investments:		
U.S. Treasury securities	10,769,841	7,511,004
U.S. Agency securities	10,771,989	7,834,881
Medium-term corporate notes	<u>8,146,547</u>	<u>6,160,948</u>
Total investments	<u>29,688,377</u>	<u>21,506,833</u>
Total cash and cash equivalents and investments	<u>\$ 30,372,322</u>	<u>\$ 21,905,765</u>
Customer Facility Charge Fund:		
Deposits with financial institutions	<u>\$ 1,934,215</u>	<u>\$ 1,934,215</u>
Investments held by bond trustee:		
Money market mutual funds	<u>\$ 14,487,966</u>	<u>\$ 14,091,847</u>
Total investments held by bond trustee	<u>\$ 14,487,966</u>	<u>\$ 14,091,847</u>

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Notes to Basic Financial Statements

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Summary of cash and investments:		
Cash and cash equivalents:		
Cash on hand	\$ 800	\$ 800
Deposits with financial institutions	2,928,151	2,506,110
Money market mutual funds	769,749	540,486
LAIF	<u>13,444,114</u>	<u>16,372,769</u>
Total cash and cash equivalents	<u>17,142,814</u>	<u>19,420,165</u>
Investments:		
U.S. Treasury securities	79,742,441	77,379,116
U.S. Agency securities	79,481,442	76,390,603
Medium-term corporate notes	64,716,037	63,395,961
Money market mutual funds held by bond trustee	<u>14,487,966</u>	<u>14,091,847</u>
Total investments	<u>238,427,886</u>	<u>231,257,527</u>
Total cash and cash equivalents and investments	<u>\$ 255,570,700</u>	<u>\$ 250,677,692</u>

Cash balances, except for those held by the Trustee, held in the Authority’s payroll account or held as petty cash are pooled for deposit and investment purposes. Cash and investments funds are classified under the general headings of “restricted” or “unrestricted.” The Authority has designated separate restricted funds to carry on specific activities in accordance with special regulations, bond covenants, or enabling legislation. Restricted funds are nondiscretionary in terms of use and provide for payment of debt service on Authority bonds, reserves for outstanding bonds, construction of long-term assets, and operations and maintenance. The Authority, after necessary fund transfers have been made to comply with bond covenants, has discretion as to the magnitude and use of the remaining unrestricted funds.

(b) Investments Authorized by the Code and the Authority’s Investment Policy

The table on the following page identifies the investment types that are authorized for the Authority by the Code (or the Authority’s investment policy, where more restrictive). The table also identifies certain provisions of the Code (or the Authority’s investment policy, where more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of the Master Indenture of Trust, as amended, rather than the Code or the Authority’s investment policy.

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Authorized investment type	Maximum maturity	Maximum percentage of portfolio^a	Maximum investment in one issuer
U.S. Treasury securities	5 years	None	None
U.S. Agency securities	5 years	70%	None
Time deposits	5 years	15%	5%
LAIF	N/A	\$20 million	None
Bankers' acceptances	180 days	15%	5%
Commercial paper	270 days	15%	5%
Repurchase agreements	1 year	10%	None
Money market mutual funds, invested in			
U.S. Treasury securities	N/A	15%	None
Medium-term corporate notes	5 years	30%	5%
Negotiable certificates of deposit	5 years	15%	5%

a. Percentages apply separately to the Operating portfolio, the Passenger Facility Charge Fund portfolio and the Customer Facility Charge Fund portfolio. Excludes amounts held by bond trustee.

(c) *Investments Authorized Under the Master Indenture of Trust*

Investment of debt proceeds held by the bond trustee are governed by provisions of the Master Indenture of Trust, rather than the general provisions of the Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of the Master Indenture of Trust that address interest rate risk, and concentration of credit risk.

Authorized investment type	Maximum maturity	Maximum percentage allowed	Maximum investment one issuer
U.S. Treasury securities	5 years	None	None
U.S. Agency securities	5 years	None	None
Money market mutual funds	N/A	None	None
Negotiable certificates of deposit	5 years	None	None
Time and savings deposits	5 years	None	None
Guaranteed investment contracts	30 years	None	None
Commercial paper	270 days	None	None
State or local government securities	5 years	None	None
Bankers' acceptances	360 days	None	None
Repurchase agreements	30 days	None	None
Any State of California-administered investment pool	N/A	None	None
Advance refunded municipal securities	5 years	None	None
Investments approved in writing by the bond insurer	30 years	None	None

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Notes to Basic Financial Statements

June 30, 2017 and 2016

(d) *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needed for operations. The Authority monitors the interest rate risk in its portfolios by measuring the weighted average maturity of the portfolios and limiting them to an average level recommended by its professional investment manager, currently approximately 1.7 years. The Authority also employs a “buy and hold” investment strategy whereby investments are held to maturity and redeemed at par. This strategy limits the Authority’s exposure to declines in fair value to unforeseen emergencies when the need for cash beyond that which is planned and anticipated may arise.

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June 30, 2017 and 2016

The weighted average maturity of each authorized investment type by pool at June 30, 2017 and 2016 are as follows:

Authorized investment type	June 30, 2017		June 30, 2016	
	Amount	Weighted average maturity (in years)	Amount	Weighted average maturity (in years)
Operating portfolio cash equivalents and investments:				
Operating portfolio investments:				
U.S. Treasury securities	\$ 68,972,600	1.20	\$ 69,868,112	1.91
U.S. Agency securities	68,709,453	1.89	68,555,722	1.64
Medium-term corporate notes	<u>56,569,490</u>	2.01	<u>57,235,013</u>	1.95
Total operating portfolio investments	<u>194,251,543</u>	1.68	<u>195,658,847</u>	1.83
Operating portfolio cash equivalents:				
Money market mutual funds	86,274	0.24	141,911	0.12
LAIF	<u>13,444,114</u>	0.54	<u>16,372,769</u>	0.46
Total operating portfolio cash equivalents	<u>13,530,388</u>	0.54	<u>16,514,680</u>	0.46
Total operating portfolio cash equivalents and investments	<u>207,781,931</u>	1.60	<u>212,173,527</u>	1.72
Passenger Facility Charge (PFC) Fund cash equivalents and investments:				
PFC Fund investments:				
U.S. Treasury securities	10,769,841	1.71	7,511,004	2.03
U.S. Agency securities	10,771,989	1.88	7,834,881	1.50
Medium-term corporate notes	<u>8,146,547</u>	1.95	<u>6,160,948</u>	1.95
Total PFC Fund investments	<u>29,688,377</u>	1.84	<u>21,506,833</u>	1.81
PFC Fund cash equivalents – money market mutual funds	<u>683,475</u>	0.24	<u>398,575</u>	0.12
Total PFC Fund cash equivalents and investments	<u>30,371,852</u>	1.80	<u>21,905,408</u>	1.78
Investments held by bond trustee:				
Money market mutual funds	<u>14,487,966</u>	0.10	<u>14,091,847</u>	0.07
Total investments held by bond trustee	<u>14,487,966</u>	0.10	<u>14,091,847</u>	0.07
Total cash equivalents and investments	<u>\$ 252,641,749</u>	1.54	<u>\$ 248,170,782</u>	1.63

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Notes to Basic Financial Statements

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(e) *Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations*

None of the Authority's investments (including investments held by the bond trustee) are highly sensitive to interest rate fluctuations.

(f) *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented on the next page is the minimum rating required by (where applicable) the Code, the Authority's investment policy or the Master Indenture of Trust, as amended, and the actual rating as of June 30, 2017 and 2016 for each investment type.

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Authorized investment type	Amount	Minimum legal rating	Not required to be rated or not rated	Rating as of year-end		
				AAA	AA	A
As of June 30, 2017:						
Operating portfolio cash equivalents and investments:						
Operating portfolio investments:						
U.S. Treasury securities	\$ 68,972,600	N/A	\$ 68,972,600	\$ —	\$ —	\$ —
U.S. Agency securities:						
Fed. Farm Credit Bank	5,005,685	N/A	—	5,005,685	—	—
Fed. Home Loan Bank	11,064,974	N/A	—	11,064,974	—	—
Fed. Home Loan Mort. Corp.	22,420,522	N/A	—	22,420,522	—	—
Fed. National Mort. Assn.	30,218,272	N/A	—	30,218,272	—	—
Total U.S. Agency securities	68,709,453		—	68,709,453	—	—
Medium-term corporate notes	56,569,490	A	—	2,153,455	14,875,534	39,540,501
Total Operating portfolio investments	194,251,543		68,972,600	70,862,908	14,875,534	39,540,501
Operating portfolio cash equivalents:						
Money market mutual funds	86,274	AAA	—	86,274	—	—
LAIF	13,444,114	N/A	13,444,114	—	—	—
Total Operating portfolio cash equivalents	13,530,388		13,444,114	86,274	—	—
Total Operating portfolio cash equivalents and investments	207,781,931		82,416,714	70,949,182	14,875,534	39,540,501
Passenger Facility Charge (PFC) Fund cash equivalents and investments:						
PFC Fund investments:						
U.S. Treasury securities	10,769,841	N/A	10,769,841	—	—	—
U.S. Agency securities:						
Fed. Home Loan Bank	3,632,102	N/A	—	3,632,102	—	—
Fed. Home Loan Mort. Corp.	3,343,651	N/A	—	3,343,651	—	—
Fed. National Mort. Assn.	3,796,236	N/A	—	3,796,236	—	—
Total U.S. Agency securities	10,771,989		—	10,771,989	—	—
Medium-term corporate notes	8,146,547	A	—	260,307	2,180,486	5,705,754
Total PFC Fund investments	29,688,377		10,769,841	11,032,296	2,180,486	5,705,754
PFC Fund cash equivalents – money market mutual funds	683,475	AAA	—	683,475	—	—
Total PFC Fund cash equivalents and investments	30,371,852		10,769,841	11,715,771	2,180,486	5,705,754
Investments held by bond trustee:						
Money market mutual funds	14,487,966	AAA	—	14,487,966	—	—
Total investments bond trustee	14,487,966		—	14,487,966	—	—
Total cash equivalents and investments	\$ 252,641,749		\$ 93,186,555	\$ 97,152,919	\$ 17,056,020	\$ 45,246,255

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Authorized investment type	Amount	Minimum legal rating	Not required to be rated or not rated	Rating as of year-end		
				AAA	AA	A
As of June 30, 2016:						
Operating portfolio cash equivalents and investments:						
Operating portfolio investments:						
U.S. Treasury securities	\$ 69,868,112	N/A	\$ 69,868,112	\$ —	\$ —	\$ —
U.S. Agency securities:						
Fed. Farm Credit Bank	4,990,610	N/A	—	4,990,610	—	—
Fed. Home Loan Bank	12,736,217	N/A	—	12,736,217	—	—
Fed. Home Loan Mort. Corp.	25,023,196	N/A	—	25,023,196	—	—
Fed. National Mort. Assn.	25,805,699	N/A	—	25,805,699	—	—
Total U.S. Agency securities	68,555,722		—	68,555,722	—	—
Medium-term corporate notes	57,235,013	A	—	2,865,896	18,126,903	36,242,214
Total Operating portfolio investments	195,658,847		69,868,112	71,421,618	18,126,903	36,242,214
Operating portfolio cash equivalents:						
Money market mutual funds	141,911	AAA	—	141,911	—	—
LAIF	16,372,769	N/A	16,372,769	—	—	—
Total Operating portfolio cash equivalents	16,514,680		16,372,769	141,911	—	—
Total Operating portfolio cash equivalents and investments	212,173,527		86,240,881	71,563,529	18,126,903	36,242,214
Passenger Facility Charge (PFC) Fund cash equivalents and investments:						
PFC Fund investments:						
U.S. Treasury securities	7,511,004	N/A	7,511,004	—	—	—
U.S. Agency securities:						
Fed. Home Loan Bank	2,646,922	N/A	—	2,646,922	—	—
Fed. Home Loan Mort. Corp.	2,417,891	N/A	—	2,417,891	—	—
Fed. National Mort. Assn.	2,770,068	N/A	—	2,770,068	—	—
Total U.S. Agency securities	7,834,881		—	7,834,881	—	—
Medium-term corporate notes	6,160,948	A	—	261,391	2,157,504	3,742,053
Total PFC Fund investments	21,506,833		7,511,004	8,096,272	2,157,504	3,742,053
PFC Fund cash equivalents – money market mutual funds	398,575	AAA	—	398,575	—	—
Total PFC Fund cash equivalents and investments	21,905,408		7,511,004	8,494,847	2,157,504	3,742,053
Investments held by bond trustee:						
Money market mutual funds	14,091,847	AAA	—	14,091,847	—	—
Total investments bond trustee	14,091,847		—	14,091,847	—	—
Total cash equivalents and investments	\$ 248,170,782		\$ 93,751,885	\$ 94,150,223	\$ 20,284,407	\$ 39,984,267

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(g) Fair Value Measurements

The Authority categorizes its fair value measurements of its investments within the fair value hierarchy established by U.S. GAAP. The hierarchy of inputs used to measure fair value consists of three levels: Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs (the Authority has no investments measured using Level 3 inputs). Investments in an external government investment pool, such as LAIF, are not subject to reporting within the level hierarchy.

The Authority has the following recurring fair value measurements as of June 30, 2017 and 2016:

Authorized investment type	June 30, 2017				June 30, 2016			
	Total	Level 1	Level 2	Pooled Government Investments	Total	Level 1	Level 2	Pooled Government Investments
Operating portfolio cash equivalents and investments:								
Operating portfolio investments:								
U.S. Treasury securities	\$ 68,972,600	\$ 68,972,600	\$ —	\$ —	\$ 69,868,112	\$ 69,868,112	\$ —	\$ —
U.S. Agency securities:								
Fed. Farm Credit Bank	5,005,685	—	5,005,685	—	4,990,610	—	4,990,610	—
Fed. Home Loan Bank	11,064,974	—	11,064,974	—	12,736,217	—	12,736,217	—
Fed. Home Loan Mort. Corp.	22,420,522	—	22,420,522	—	25,023,196	—	25,023,196	—
Fed. National Mort. Assn.	30,218,272	—	30,218,272	—	25,805,699	—	25,805,699	—
Total U.S. Agency securities	68,709,453	—	68,709,453	—	68,555,722	—	68,555,722	—
Medium-term corporate notes	56,569,490	—	56,569,490	—	57,235,013	—	57,235,013	—
Total Operating portfolio investments	194,251,543	68,972,600	125,278,943	—	195,658,847	69,868,112	125,790,735	—
Operating portfolio cash equivalents:								
Money market mutual funds	86,274	—	86,274	—	141,911	—	141,911	—
LAIF	13,444,114	—	—	13,444,114	16,372,769	—	—	16,372,769
Total Operating portfolio cash equivalents	13,530,388	—	86,274	13,444,114	16,514,680	—	141,911	16,372,769
Total Operating portfolio cash equivalents and investments	207,781,931	68,972,600	125,365,217	13,444,114	212,173,527	69,868,112	125,932,646	16,372,769

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Authorized investment type	June 30, 2017				June 30, 2016			
	Total	Level 1	Level 2	Pooled Government Investments	Total	Level 1	Level 2	Pooled Government Investments
Passenger Facility Charge (PFC) Fund cash equivalents and investments:								
PFC Fund investments:								
U.S. Treasury securities	10,769,841	10,769,841	—	—	7,511,004	7,511,004	—	—
U.S. Agency securities:								
Fed. Home Loan Bank	3,632,102	—	3,632,102	—	2,646,922	—	2,646,922	—
Fed. Home Loan Mort. Corp.	3,343,651	—	3,343,651	—	2,417,891	—	2,417,891	—
Fed. National Mort. Assn.	3,796,236	—	3,796,236	—	2,770,068	—	2,770,068	—
Total U.S. Agency securities	10,771,989	—	10,771,989	—	7,834,881	—	7,834,881	—
Medium-term corporate notes	8,146,547	—	8,146,547	—	6,160,948	—	6,160,948	—
Total PFC Fund investments	29,688,377	10,769,841	18,918,536	—	21,506,833	7,511,004	13,995,829	—
PFC Fund cash equivalents – money market mutual funds	683,475	—	683,475	—	398,575	—	398,575	—
Total PFC Fund cash equivalents and investments	30,371,852	10,769,841	19,602,011	—	21,905,408	7,511,004	14,394,404	—
Investments held by bond trustee:								
Money market mutual funds	14,487,966	—	14,487,966	—	14,091,847	—	14,091,847	—
Total investments bond trustee	14,487,966	—	14,487,966	—	14,091,847	—	14,091,847	—
Total cash equivalents and investments	<u>\$ 252,641,749</u>	<u>\$ 79,742,441</u>	<u>\$ 159,455,194</u>	<u>\$ 13,444,114</u>	<u>\$ 248,170,782</u>	<u>\$ 77,379,116</u>	<u>\$ 154,418,897</u>	<u>\$ 16,372,769</u>

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(h) Concentration of Credit Risk

The Authority's investment policy limits the amount that can be invested in any one issuer in corporate notes, bankers' acceptances, commercial paper, negotiable certificates of deposit and time certificates of deposit to 5% of the applicable portfolio. The investment policy contains no other limitations on the amount that can be invested in any one issuer beyond that stipulated by the Code. Investments in any one issuer (other than U.S. Treasury securities, money market mutual funds, and external investment pools) that represent 5% or more of total Authority investments, by pool, are as follows:

Issuer	Authorized investment type	Reported amount at June 30,			
		2017		2016	
		Amount	Fund%	Amount	Fund%
Operating portfolio investments:					
Federal National Mortgage Association	U.S. Agency securities	\$30,218,272	15.55%	\$25,805,699	12.16%
Federal Home Loan Mortgage Corp.	U.S. Agency securities	22,420,522	11.54	25,023,196	11.79
Federal Home Loan Bank	U.S. Agency securities	11,064,974	5.69	12,736,217	0.60
Passenger Facility Charge Fund investments:					
Federal National Mortgage Association	U.S. Agency securities	3,796,236	12.50	2,770,068	12.65
Federal Home Loan Bank	U.S. Agency securities	3,632,102	11.96	2,646,922	12.08
Federal Home Loan Mortgage Corp.	U.S. Agency securities	3,343,651	11.01	2,417,891	11.04

(i) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: the Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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Notes to Basic Financial Statements

June 30, 2017 and 2016

At June 30, 2017 and 2016, a portion of the Authority's deposits with financial institutions were uninsured and the collateral was held in accordance with the Code by the pledging financial institution in the Authority's name, as follows:

	<u>2017</u>	<u>2016</u>
Cash deposits:		
Insured	\$ 250,000	\$ 250,000
Uninsured, collateral held in the Authority's name	<u>2,424,027</u>	<u>5,256,112</u>
Total cash deposits	2,674,027	5,506,112
Plus deposits in transit	119,464	128,184
Less outstanding checks	<u>(1,780,382)</u>	<u>(3,128,186)</u>
Carrying amount of cash deposits	<u>\$ 1,013,109</u>	<u>\$ 2,506,110</u>

Investments and money market mutual funds in the Operating portfolio and Passenger Facility Charge Fund portfolio were held in the Authority's name by the trust department of the bank broker-dealer (counter-party) that was used by the Authority to buy the securities and mutual funds.

(j) *Investment in the State Treasurer's Local Agency Investment Fund*

The Authority is a voluntary participant in the LAIF that is regulated by the Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying basic financial statements at amounts based upon the Authority's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. As of June 30, 2017 and 2016, the total amount invested by all California local governments and special districts in LAIF was \$22.8 billion and \$22.7 billion, respectively. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2017 and 2016 had a balance of \$77.6 billion and \$75.4 billion, respectively. The PMIA is not SEC-registered, but is required to invest according to the Code. Included in PMIA's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling \$825 million and \$400, respectively, and asset-backed securities totaling \$1.4 billion and \$1.7 billion, respectively.

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Notes to Basic Financial Statements

June 30, 2017 and 2016

(4) Capital Assets

Changes in capital assets for the year ended June 30, 2017 were as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Other deletions</u>	<u>June 30, 2017</u>
Capital assets not being depreciated:					
Land	\$ 157,794,496	\$ —	\$ —	\$ —	\$ 157,794,496
Other non-depreciable assets	1,128,515	—	—	—	1,128,515
Construction in progress	11,232,442	15,725,865	(22,070,058)	(236,506)	4,651,743
Total capital assets not being depreciated	<u>170,155,453</u>	<u>15,725,865</u>	<u>(22,070,058)</u>	<u>(236,506)</u>	<u>163,574,754</u>
Capital assets being depreciated/ amortized:					
Building and improvements	249,295,529	196,863	—	—	249,492,392
Runways and improvements	99,895,509	21,072,970	—	—	120,968,479
Machinery and equipment	35,095,833	800,225	(772,876)	—	35,123,182
Total capital assets being depreciated/ amortized	<u>384,286,871</u>	<u>22,070,058</u>	<u>(772,876)</u>	<u>—</u>	<u>405,584,053</u>
Less accumulated depreciation/ amortization for:					
Building and improvements	(105,282,938)	(10,965,511)	—	—	(116,248,449)
Runways and improvements	(71,950,323)	(4,983,276)	—	—	(76,933,599)
Machinery and equipment	(31,184,001)	(1,655,629)	772,876	—	(32,066,754)
Total accumulated depreciation/ amortization	<u>(208,417,262)</u>	<u>(17,604,416)</u>	<u>772,876</u>	<u>—</u>	<u>(225,248,802)</u>
Total capital assets being depreciated/ amortized, net	<u>175,869,609</u>	<u>4,465,642</u>	<u>—</u>	<u>—</u>	<u>180,335,251</u>
Total capital assets, net	<u>\$346,025,062</u>	<u>\$ 20,191,507</u>	<u>\$(22,070,058)</u>	<u>\$ (236,506)</u>	<u>\$ 343,910,005</u>

Other deletions of construction in progress in FY 2017 of \$236,506 consist mainly of construction in progress projects that the Authority determined would not move forward.

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Notes to Basic Financial Statements

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Changes in capital assets for the year ended June 30, 2016 were as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Other deletions</u>	<u>June 30, 2016</u>
Capital assets not being depreciated:					
Land	\$ 158,758,472	\$ —	\$ (963,976)	\$ —	\$ 157,794,496
Other non-depreciable assets	1,128,515	—	—	—	1,128,515
Construction in progress	9,655,529	10,898,288	(9,079,034)	(242,341)	11,232,442
Total capital assets not being depreciated	<u>169,542,516</u>	<u>10,898,288</u>	<u>(10,043,010)</u>	<u>(242,341)</u>	<u>170,155,453</u>
Capital assets being depreciated/ amortized:					
Building and improvements	248,962,701	2,242,564	(1,409,736)	(500,000)	249,295,529
Runways and improvements	93,536,670	6,358,839	—	—	99,895,509
Machinery and equipment	38,570,698	477,631	(3,952,496)	—	35,095,833
Total capital assets being depreciated/ amortized	<u>381,070,069</u>	<u>9,079,034</u>	<u>(5,362,232)</u>	<u>(500,000)</u>	<u>384,286,871</u>
Less accumulated depreciation/ amortization for:					
Building and improvements	(95,699,190)	(10,993,484)	1,409,736	—	(105,282,938)
Runways and improvements	(66,789,316)	(5,161,007)	—	—	(71,950,323)
Machinery and equipment	(32,409,767)	(2,717,819)	3,943,585	—	(31,184,001)
Total accumulated depreciation/ amortization	<u>(194,898,273)</u>	<u>(18,872,310)</u>	<u>5,353,321</u>	<u>—</u>	<u>(208,417,262)</u>
Total capital assets being depreciated/ amortized, net	<u>186,171,796</u>	<u>(9,793,276)</u>	<u>(8,911)</u>	<u>(500,000)</u>	<u>175,869,609</u>
Total capital assets, net	<u>\$ 355,714,312</u>	<u>\$ 1,105,012</u>	<u>\$ (10,051,921)</u>	<u>\$ (742,341)</u>	<u>\$ 346,025,062</u>

Other deletions of construction in progress in FY 2016 of \$242,341 consists mainly of costs associated with the sale of the Trust Assets and the Kenwood Property. These amounts are included in gain on sale of Trust Assets and gain on retirement of capital assets on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Due to strong safety measures taken during the construction of the RITC, the Insurance Underwriter returned \$500,000 of excess OCIP reserves to the Authority, which is included in other deletions of buildings and improvements in FY 2016.

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Notes to Basic Financial Statements

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(5) Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2017 and 2016:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Year ended June 30, 2017:					
Revenue bonds payable:					
2012 Revenue Bonds:					
2012 Series A	\$ 6,715,000	\$ —	\$ —	\$ 6,715,000	\$ —
2012 Taxable Series B	73,950,000	—	(1,535,000)	72,415,000	1,570,000
Plus deferred amounts for original issue premium	162,069	—	(6,233)	155,836	—
2015 Revenue Bonds:					
2015 Series A	1,335,000	—	(680,000)	655,000	655,000
2015 Series B	30,925,000	—	(2,070,000)	28,855,000	2,440,000
Plus deferred amounts for original issue premium	<u>3,798,049</u>	<u>—</u>	<u>(501,026)</u>	<u>3,297,023</u>	<u>—</u>
Total long-term debt payable	<u>\$ 116,885,118</u>	<u>\$ —</u>	<u>\$ (4,792,259)</u>	<u>\$ 112,092,859</u>	<u>\$ 4,665,000</u>
Year ended June 30, 2016:					
Revenue bonds payable:					
2012 Revenue Bonds:					
2012 Series A	\$ 6,715,000	\$ —	\$ —	\$ 6,715,000	\$ —
2012 Taxable Series B	75,450,000	—	(1,500,000)	73,950,000	1,535,000
Plus deferred amounts for original issue premium	168,302	—	(6,233)	162,069	—
2015 Revenue Bonds:					
2015 Series A	1,335,000	—	—	1,335,000	680,000
2015 Series B	30,925,000	—	—	30,925,000	2,070,000
Plus deferred amounts for original issue premium	<u>4,299,075</u>	<u>—</u>	<u>(501,026)</u>	<u>3,798,049</u>	<u>—</u>
Total long-term debt payable	<u>\$ 118,892,377</u>	<u>\$ —</u>	<u>\$ (2,007,259)</u>	<u>\$ 116,885,118</u>	<u>\$ 4,285,000</u>

(a) 2012 Revenue Bonds

On May 10, 2012, the Authority issued \$82,165,000 of 2012 Airport Revenue Bonds (2012 Bonds) with an effective interest rate of 5.624% and at an original issue premium totaling \$187,886. The 2012 Bonds were issued in two series. The 2012 Bonds are special obligations of the Authority payable solely from, and secured solely by a pledge of, the net revenues and amounts in certain funds established under the Master Indenture of Trust, as amended, and the Debt Service Reserve Fund.

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The \$6,715,000 Airport Revenue Bonds 2012 Series A (AMT) (2012 Series A Bonds), at an effective interest rate of 4.949%, and the \$75,450,000 Airport Revenue Bonds 2012 Taxable Series B (2012 Taxable Series B Bonds), at an effective interest rate of 5.722%, were issued (i) to finance those costs of the RITC project consisting of the CRCF and the portion of the costs of the Replacement Parking Structure attributable to the parking spaces displaced by the CRCF (2012 Bond Project); (ii) to fund the 2012 Debt Service Reserve Fund; (iii) to provide capitalized interest with respect to the 2012 Bonds through July 1, 2014; and to pay the costs of issuance of the 2012 Bonds.

The 2012 Series A Bonds are due in annual installments ranging from \$1,155,000 to \$5,560,000 from July 1, 2041 to July 1, 2042 at an interest rate of 5.000% payable semiannually on July 1 and January 1 - beginning July 1, 2012, the 2012 Series A Bonds are subject to optional redemption by the Authority, without premium, in whole or in part on any date on and after July 1, 2022 at a redemption price equal to the principal and accrued interest to the redemption date on the portion to be redeemed.

The 2012 Taxable Series B Bonds are due in annual installments ranging from \$1,500,000 to \$4,970,000 from July 1, 2015 to July 1, 2041 with interest rates ranging from 2.036% to 5.812% payable semiannually on July 1 and January 1 - beginning July 1, 2012, the 2012 Taxable Series B Bonds are subject to optional redemption by the Authority, in whole or in part, on any date, at a Redemption Price equal to the Make-Whole Redemption Price, as defined in the bond official statement, plus unpaid accrued interest.

In accordance with the bond resolution, certain cash accounts (funds) are required to be segregated and minimum balances maintained as summarized in Note 2. There are also a number of other limitations and restrictions contained in the Master Indenture of Trust, as amended. Authority management believes that the Authority has complied with such requirements.

(b) 2015 Revenue Bonds

On April 30, 2015, the Authority issued \$32,260,000 of 2015 Airport Revenue Bonds (2015 Bonds) with an effective interest rate of 2.553% and at an original issue premium of \$4,383,971. The 2015 Bonds, issued as parity bonds with the 2012 Bonds, were issued in two series to defease the 2005 Airport Revenue Bonds (2005 Bonds). The 2015 Bonds are special obligations of the Authority payable solely from, and secured solely by a pledge of, the net revenues and amounts in certain funds established under the Master Indenture of Trust, as amended, and the Debt Service Reserve Fund (provided through a surety). The 2015 Bonds are not subject to redemption prior to maturity.

The \$1,335,000 Airport Revenue Bonds 2015 Series A (non-AMT) (2015 Series A Bonds) are due in annual installments of \$680,000 due on July 1, 2016 at an interest rate of 3.000% and \$655,000 due on July 1, 2017 at an interest rate of 4.000%. The interest is payable semiannually on July 1 and January 1 beginning January 1, 2016. The \$30,925,000 Airport Revenue Bonds 2015 (AMT) Series B (2015 Taxable Series B Bonds) are due in annual installments ranging from \$2,070,000 to \$4,350,000 from July 1, 2016 to July 1, 2024 with interest rates ranging from 3.000% to 5.000% payable semiannually on July 1 and January 1 beginning January 1, 2016.

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The net proceeds of the 2015 Bonds of \$36,156,809 plus \$3,912,125 of 2005 Bonds Debt Service Funds, \$5,942,618 of 2005 Bonds Debt Service Reserve Funds and an Authority contribution of \$16,636, totaling \$46,028,188, was deposited in an irrevocable trust with an escrow agent to provide for the interest and all outstanding principal of the 2005 Bonds due at July 1, 2015. The 2005 Bonds were called, without premium, on July 1, 2015 and paid in full.

The refunding and defeasance resulted in a difference between the reacquisition price of the 2015 Bonds and the net carrying amount of the 2005 Bonds of \$935,367. This difference, reported in the accompanying basic financial statements as a deferred inflow of resources, is being credited to interest expense through July 1, 2024, the final maturity of the 2015 Bonds, using the straight-line method. The Authority completed the refunding and defeasance to reduce its total debt service payments over the next nine years by \$5,215,007 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,799,078. The unamortized deferred amount on refunding at June 30, 2017 and 2016 is \$714,063 and \$816,073, respectively.

A debt service reserve surety was obtained for the \$3,664,397 debt service reserve requirement on the 2015 Bonds. The premium on the debt service reserve surety has been capitalized and is being amortized over the life of the 2015 Bonds. The unamortized surety premium at June 30, 2017 and 2016 is \$33,094 and \$38,615, respectively.

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Notes to Basic Financial Statements

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(c) Annual Debt Service Requirements to Maturity

Revenue bond debt service requirements to maturity are as follows:

	<u>2012 Bonds</u>		<u>2015 Bonds</u>		<u>Total</u>		<u>Total debt service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Payable in year ending							
June 30:							
2018	\$ 1,570,000	\$ 4,241,780	\$ 3,095,000	\$ 1,394,850	\$ 4,665,000	\$ 5,636,630	\$ 10,301,630
2019	1,615,000	4,193,453	3,245,000	1,239,625	4,860,000	5,433,078	10,293,078
2020	1,670,000	4,136,959	3,405,000	1,073,375	5,075,000	5,210,334	10,285,334
2021	1,730,000	4,073,031	3,580,000	898,750	5,310,000	4,971,781	10,281,781
2022	1,795,000	4,002,005	3,755,000	715,375	5,550,000	4,717,380	10,267,380
2023 – 2027	10,335,000	18,558,911	12,430,000	952,750	22,765,000	19,511,661	42,276,661
2028 – 2032	13,520,000	15,276,594	—	—	13,520,000	15,276,594	28,796,594
2033 – 2037	17,770,000	10,885,064	—	—	17,770,000	10,885,064	28,655,064
2038 – 2042	23,565,000	4,926,390	—	—	23,565,000	4,926,390	28,491,390
2043	5,560,000	139,000	—	—	5,560,000	139,000	5,699,000
Total principal and interest to maturity	79,130,000	<u>\$ 70,433,187</u>	29,510,000	<u>\$ 6,274,725</u>	108,640,000	<u>\$ 76,707,912</u>	185,347,912
Unamortized portion of:							
Original issue premium	155,836		3,297,023		3,452,859		3,452,859
Less current portion of principal	<u>(1,570,000)</u>		<u>(3,095,000)</u>		<u>(4,665,000)</u>		<u>(4,665,000)</u>
Total long-term portion of revenue bonds payable	<u>\$ 77,715,836</u>		<u>\$ 29,712,023</u>		<u>\$107,427,859</u>		<u>\$ 184,135,771</u>

(d) Pledged Revenues

The 2012 Bonds and 2015 Bonds are special obligations of the Authority payable solely from, and secured solely by a pledge of, the Net Revenues (operating revenue plus investment income on operating funds less operating expenses before depreciation) and amounts in certain funds established under the Master Indenture of Trust and the Debt Service Reserve Fund. The Authority covenants that the ratio of Net Pledged Revenues plus transfers to the Surplus Fund to net accrued debt service on parity obligations will be 1.25 or greater (coverage rate covenant) and that Net Revenues plus transfers to the Surplus Fund will equal or exceed the sum of net accrued debt service on parity obligations and required deposit to Debt Service Reserve, Operating Reserve and other accounts (general rate covenant).

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The computation of the coverage rate covenant and general rate covenant as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Net Revenues	\$ 10,347,675	\$ 12,404,028
Transfers to Surplus Fund	2,599,378	2,534,501
Net Pledged Revenues	<u>\$ 12,947,053</u>	<u>\$ 14,938,529</u>
Accrued debt service on 2012 Bonds	\$ 5,833,563	\$ 5,836,555
Less: Customer Facility Charges collected and deposited to the debt service fund	(5,550,060)	(5,761,140)
Accrued debt service on 2015 Bonds	4,563,950	4,301,450
Net accrued debt service on parity obligations	<u>\$ 4,847,453</u>	<u>\$ 4,376,865</u>
Ratio of Net Pledged Revenues to net accrued debt service on parity obligations	<u>2.67</u>	<u>3.41</u>
Net Revenues plus transfers to Surplus Fund	\$ 12,947,053	\$ 14,938,529
Less: transfers to Operating Reserve	(366,400)	(373,859)
Less: net accrued debt service on parity obligations	<u>(4,847,453)</u>	<u>(4,376,865)</u>
Excess of net revenues over net accrued debt service on parity obligations and transfers to Operating Reserve	<u>\$ 7,733,200</u>	<u>\$ 10,187,805</u>

The estimated aggregate total amount of pledged net revenues and amounts in the funds established under the Master Indenture of Trust related to the 2012 Bonds and 2015 Bonds is equal to the remaining debt service on the 2012 Bonds and 2015 Bonds at June 30, 2017 of \$185,347,912. The pledged revenues are in force during the term of the 2012 Bonds and 2015 Bonds with final maturity on July 1, 2042.

(6) Retirement Plan

Effective February 1, 2017, the Authority entered into an employment contract with the Burbank Airport Police Officers Association (BAPOA) which, among other things, called for the continued implementation of a 401(a) profit sharing plan (401(a) Plan) and a 457(b) government deferred compensation plan (457(b) Plan) sponsored by the BAPOA. The Authority contributes 6.5% of eligible base salaries and overtime as a retirement contribution to the 401(a) Plan, payable as part of bi-weekly payroll. Officers may make voluntary contributions to the 457(b) Plan, but there is no additional Authority match. Officers may take loans against contributions. All employees are eligible to participate upon hire and contributions and earnings vest immediately. The 401(a) Plan and the 457(b) Plan are administered by Transamerica Retirement Solutions.

Total salaries and benefits for the Airport Police Officers were \$4,882,831 and \$4,689,853 for the years ended June 30, 2017 and 2016, respectively. The Authority's contributions have been calculated using the base salary plus overtime amount of \$3,663,826 and \$3,668,822 for the years

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ended June 30, 2017 and 2016, respectively. The Authority made the required accruals and contributions, amounting to \$239,354 and \$239,638 in the years ended June 30, 2017 and 2016, respectively.

(7) Leases

The Authority leases land, terminal, hangar, and administrative facilities to various entities under operating leases. The cost of the Authority's leased property and the related accumulated depreciation by asset type is presented as of June 30, 2017 and 2016 as follows:

	2017		2016	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 34,042,063	\$ —	\$ 34,042,063	\$ —
Buildings and improvements	141,049,282	38,562,310	141,856,122	34,172,537
Runways and improvements	539,918	463,707	740,320	654,777
	<u>\$ 175,631,263</u>	<u>\$ 39,026,017</u>	<u>\$ 176,638,505</u>	<u>\$ 34,827,314</u>

The leases on such properties expire at various times, and generally terms are provided whereby lease terms may be extended.

Concession lease revenues are based on a percentage of gross receipts subject to minimum annual guarantees (MAG). Such concession rentals totaled \$9,327,875 and \$8,900,221 for the years ended June 30, 2017 and 2016, respectively, consisting of MAG revenues of \$7,773,926 and \$7,265,479, respectively, and over-MAG revenues of \$1,553,949 and \$1,634,742, respectively.

Minimum future rental revenue on noncancelable leases in effect at June 30, 2017 is as follows:

Fiscal year ending June 30:	Lease revenue
2018	\$ 28,192,449
2019	17,977,388
2020	15,549,226
2021	14,451,585
2022	14,165,600
2023 – 2027	29,876,364
2028 – 2032	1,688,294
	<u>\$ 121,900,906</u>

(8) Passenger Facility Charges

In June 1994, the FAA approved the Authority's application to collect a \$3.00 PFC per enplaned passenger to provide funds for specifically approved airport improvement projects to begin September 1, 1994. Effective April 1, 2003, the FAA approved an increase of the charge from \$3.00

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to \$4.50. PFC funds collected are restricted and may only be used on specifically approved facility improvement projects. All PFC funds collected are maintained in a separate interest-bearing account administered by the Authority prior to disbursement.

Total PFC revenue for the years ended June 30, 2017 and 2016 totaled \$8,942,706 and \$8,327,080, respectively, including investment income on the PFC investment portfolio of \$107,566 and \$289,864, respectively.

During the year ended June 30, 2017, funds totaling \$261,749 for eligible costs expended on PFC projects during FY 2017 and FY 2016 were reimbursed to the Current Operating Fund from the PFC Fund. During the year ended June 30, 2016, funds totaling \$7,295,429 for eligible costs expended on PFC projects during FY 2016 and FY 2015 were reimbursed to the Current Operating Fund from the PFC Fund.

(9) Customer Facility Charges

Effective December 1, 2009, the Authority adopted a \$10 CFC per rental car transaction to provide for the planning, design, construction and financing of a CRCF in accordance with *California Civil Code Section 1936 et. seq.*, as amended. Effective July 1, 2011, the Authority increased the CFC to \$6 per rental car transaction day up to a maximum of five days. All CFC funds collected are maintained in a separate account administered by the Authority prior to disbursement. CFC revenue for the years ended June 30, 2017 and 2016 totaled \$5,641,652 and \$5,742,998, respectively. In accordance with the Bond Indenture, all CFC revenues collected subsequent to July 1, 2014 are transferred to the 2012 Bonds Debt Service Fund, which amounted to \$5,550,060 and \$5,761,140 for the years ended June 30, 2017 and 2016, respectively. CFC revenues plus residual Facility Rents, as necessary, are used to pay debt service on the 2012 Bonds and the rent-a-car company (RAC) loans for certain contingent costs associated with the RITC project. The balance in the CFC Fund of \$1,934,215 is available for uses in accordance with the agreements between the Authority and the RACs for operation in the CRCF.

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(10) Related-Party Transactions

The Authority is charged for services and items from City of Burbank departments that are categorized in the various expense line items in the statements of revenues, expenses, and changes in net position and are included in various capital assets for permits and related fees. The most significant related-party transactions with the City are payments for utilities and City parking tax. Amounts due to related parties at June 30, 2017 and 2016 are included in accounts payable and accrued expenses on the accompanying basic financial statements.

The Airport is subject to a 12% tax on parking revenue payable to the City of Burbank on a quarterly basis. The Authority incurred parking tax expense totaling \$2,172,801 and \$2,095,775 during the years ended June 30, 2017 and 2016, respectively. Amounts due to the City of Burbank for parking taxes were \$570,140 and \$544,548 at June 30, 2017 and 2016, respectively. The Authority incurred electricity, water, and wastewater utilities expenses related to various operating activities, non-operating activities, and capital projects from Burbank Water and Power during the years ended June 30, 2017 and 2016 totaling \$2,467,902 and \$2,497,911 (including amounts charged back to tenants of \$550,490 and \$537,125), respectively. Amounts due to Burbank Water and Power were \$225,018 and \$227,573 at June 30, 2017 and 2016, respectively.

(11) Commitments and Contingencies

(a) *Litigation and Claims*

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; war risk and natural disasters for which the Authority carries commercial insurance, subject to deductibles ranging from \$1,000 to \$100,000. No settlements exceeded insurance coverage in the past three fiscal years. There were no significant lawsuits or claims pending against the Authority at June 30, 2017.

(b) *Contracted Services*

The Authority has contracted with TBI to perform certain airport administrative, maintenance, ARFF services, and operational services. The agreement expires June 30, 2018 with one ten-year extension option. Compensation under the agreement is based on a base management fee and reimbursement of operating costs, primarily salaries and benefits. A budget for TBI costs is prepared each year and is subject to review and approval as part of the Authority's annual budget process. The management fee is adjusted annually based on increases or decreases to certain operating costs. Costs incurred under the contract for the years ended June 30, 2017 and 2016 total \$15,555,500 and \$14,113,579, as follows:

	<u>2017</u>	<u>2016</u>
Contracted airport services	\$ 11,381,116	\$ 10,852,751
Aircraft rescue and firefighting services	2,715,010	2,519,902
Capitalized to constructed capital assets	1,298,413	658,770
Sound insulation program	—	3,131
Other expenses	160,961	79,025
Total airport management contract costs	<u>\$ 15,555,500</u>	<u>\$ 14,113,579</u>

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Notes to Basic Financial Statements

June 30, 2017 and 2016

Effective February 10, 2012, The Authority contracted with Standard Parking for self-park management services, valet parking services and employee and customer busing service, with a base term through June 30, 2014 and two one-year option periods. The Authority exercised the first of these two option years on April 21, 2014 and the second option year on May 18, 2015. The Authority extended the contract on a month-to-month basis during the year ended June 30, 2017. Compensation under the contract is based on a fixed management fee and reimbursement of operating costs. These costs are subject to review and approval as part of the Authority's annual budget process. Costs under the contract for the years ended June 30, 2017 and 2016 are \$4,540,947 and \$5,263,634, respectively.

Effective November 1, 2015, the Authority contracted with MV Transportation for a five-year period to provide turn-key employee and customer busing services, which replaced the service provided by Standard Parking as well as the costs for repair and other services related to the Authority shuttle bus fleet, which was subsequently retired. The costs of the shuttle services for the years ended June 30, 2017 and 2016 are \$2,346,269 and \$1,577,242, respectively.

(c) Construction Contracts

The Authority has contract commitments outstanding at June 30, 2017 for various construction contracts totaling \$10,615,598, with the most significant portion of \$10,159,918 related to the Runway 15/33 rehabilitation project. Subsequent to June 30, 2017, the Authority entered into an additional construction contract totaling \$329,500 related to the Hangar 34 roof project.

(d) Federal and Other Grants

As of June 30, 2017, the Authority had nonexpended, noncancelable grant commitments of \$14,662,257 of which \$9,612,602 related to the Runway 15/33 rehabilitation project; \$1,907,345 related to the Runway 8/26 rehabilitation and engineered material arresting system (EMAS) projects; \$725,310 related to Taxiway C and D rehabilitation projects; and \$2,417,000 related to the Phase 1 environmental study for the Replacement Terminal site. The Authority also had nonexpended, noncancelable grant commitments of \$214,753 in County of Los Angeles Measure R grant funds for I-5 construction mitigation project costs.

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Notes to Basic Financial Statements

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The Authority has been awarded various federal and other grants for noise mitigation, facility improvement and security equipment. Grants awarded, which are included in grant commitments above, and expenditures against those grants for the years ended June 30, 2017 and 2016, respectively, are as follows:

Award Date	Award Amount	Project description	Expenditures charged to	
			2017	2016
July 2010	1,778,142	Ground access study	\$ —	\$ 32,419
Sept. 2011	805,900	Part 150 noise compatibility study	—	22,532
Sept. 2014	1,329,735	Runway shoulder rehabilitation	—	645,378
Sept. 2014	3,390,837	Taxiway B rehabilitation	—	2,696,555
Aug. 2015	915,317	Runway repavement design	22,506	888,359
Aug. 2016	12,088,500	Rehab. Rwy 8/26 & EMAS	10,181,155	—
Sept. 2016	9,670,800	Rehab. Rwy 15/33 Phase II	58,198	—
Total expenditures charged to federal grants			<u>10,261,859</u>	<u>4,285,243</u>
May 2014	294,536	CoLA – Measure R, ground access study local match	—	8,105
June 2015	180,000	CoLA – Measure R, I-5 Support services	35,593	8,204
June 2015	100,000	CoLA – Measure R, I-5 shuttle services	9,976	14,956
Total expenditures charged to local grants			<u>45,569</u>	<u>31,265</u>
Total expenditures charged to grants			<u>\$ 10,307,428</u>	<u>\$ 4,316,508</u>

On August 23, 2016, the FAA awarded the Authority a grant in the total amount of \$12,088,500 for rehabilitation of Runway 8/26 and the Runway 8/26 EMAS. On September 21, 2016, the FAA awarded the Authority a grant in the total amount of \$9,670,800 for rehabilitation of Runway 15/33. Eligible expenses incurred prior to the issuance of this grant are considered allowable expense.

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of noncompliance were disclosed by the audit of the financial statements or single audit of the federal grant programs which resulted in disallowed costs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, the Authority has complied with provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

(12) Airport Development Agreement/Replacement Passenger Terminal Project

The Authority and the City of Burbank had previously entered into a Development Agreement clarifying permitted development and uses at the airport during the term of the agreement. That Development Agreement, as amended, expired on March 15, 2015.

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On August 1, 2016, the City of Burbank approved a new Development Agreement associated with entitlement of the Replacement Passenger Terminal (RPT) project and on November 8, 2016, voters in the City of Burbank passed Measure B (70% approval) allowing for the development of a RPT at the Airport.

Since the passage of Measure B, the Authority has started to address multiple tasks for the RPT process including the completion of Phase 1 revisions of the Airport Layout Plan (ALP), obtaining grant funding to begin an Environmental Impact Study under the National Environmental Policy Act (NEPA), initiating a concept validation and cost estimating exercise, as well as continued financial analysis of various potential financing options for the RPT. The Authority will continue its efforts with community outreach through multiple public charrettes, as well as, working together with the airlines that serve the Airport.