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CITY OF PHOENIX AVIATION DEPARTMENT

An Enterprise Fund of the City of Phoenix, Arizona

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED
JUNE 30, 2016



PHX DVT BYR

 CITY OF PHOENIX AVIATION DEPARTMENT

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

An Enterprise Fund of the City of Phoenix, Arizona



Prepared by:
Aviation Department
and
Finance Department

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December 19, 2016

Honorable Mayor, City Council and City Manager:

We are pleased to submit the Comprehensive Annual Financial Report of the Aviation Department (an enterprise fund of the City of Phoenix, Arizona) for the fiscal year ended June 30, 2016. These financial statements are prepared and presented in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

To the best of our knowledge and belief, this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City of Phoenix, Aviation Department. Management assumes full responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

PROFILE OF THE REPORTING ENTITY

The City of Phoenix, Arizona (the City) owns and operates the following three airports (collectively, the Airport System) through the Aviation Department (the Department):

- Phoenix Sky Harbor International Airport (PHX)
- Phoenix Deer Valley Airport (DVT)
- Phoenix Goodyear Airport (GYR)

Phoenix Sky Harbor International Airport (the Airport) has been owned and operated by the City since 1935. The Airport occupies approximately 3,000 acres of land located about four miles east of the downtown Phoenix area. It is the only Arizona airport designated as a large hub by the Federal Aviation Administration (FAA) and is the principal commercial service airport serving metropolitan Phoenix and most of the State's population. There are no other U.S. large-hub commercial service airports within a 5-hour drive of Phoenix, with the closest being Las Vegas' McCarran International Airport (approximately 290 miles to the northwest). The Airport served over 22 million enplaned passengers and 22 million deplaned passengers in fiscal year 2016.

The City serves the area's general aviation traffic activity through two reliever airports. Phoenix Deer Valley Airport is located in the northern part of the City and Phoenix Goodyear Airport is located to the west. Together these two facilities handled 482,994 general aviation operations in fiscal year 2016.

The City was incorporated in 1881 and operates under a City Council-Manager form of government as provided by its Charter. The Mayor and City Council set policy direction and the City Manager implements those policies. The Mayor is elected at-large, while city council members are elected by voters in each of eight separate districts they represent. The Mayor and city council members each have equal voting power.

The Airport System financial operations are accounted for as a separate Aviation Enterprise Fund according to GAAP for governmental entities. The City has operated the Airport System through the Department as a self-supporting enterprise since 1967.

The City Council establishes the major policies relating to the development and operation of the Airport. The City Council appoints the City Manager to act as the chief operating officer. The City Manager appoints the Director of Aviation Services (the Director), who reports to the Deputy City Manager. The City Council

adopts ordinances establishing fee structures for use of the Airport facilities, including airline rates and charges.

The Phoenix Aviation Advisory Board (PAAB) provides non-binding advisory recommendations regarding the Airport System, including concession agreements, leases, master plans, studies and development plans.

The Director of Aviation Services is responsible for executing the City Council’s aviation policies and administering the operations of the Airport System. Reporting to the Director are two Assistant Directors. The Director and Assistant Directors lead the Department staff.

Certain accounting, bond financing, treasury, and related financial functions are performed by the City’s Finance Department.

The City is also a member government in the Phoenix-Mesa Gateway Airport Authority, which owns and operates Phoenix-Mesa Gateway Airport, located approximately 30 miles east of the Airport. Phoenix-Mesa Gateway Airport serves as a commercial reliever to the Airport.

AIRPORT PASSENGERS

The ten largest U.S. passenger airlines provide regular service at the Airport, providing nonstop passenger service to over 100 airports. The table below lists the passenger and cargo airlines with service at the Airport:

AIRLINES REPORTING ENPLANED PASSENGERS AND AIR CARGO Phoenix Sky Harbor International Airport			
MAJOR/NATIONAL	REGIONAL/COMMUTER	FOREIGN-FLAG	ALL-CARGO AIRLINES
Alaska	Boutique Air	Air Canada	AirNet Systems
American	Compass Airlines	British Airways	Ameriflight
Delta	(Delta Connection)	Volaris	Atlas Air (DHL)
Frontier	Envoy Air	WestJet	Empire
Hawaiian	(American Eagle)		Federal Express
JetBlue	ExpressJet		Gulf & Caribbean Cargo
Southwest	(United Express)		UPS
Spirit	Great Lakes Airlines		
Sun Country	Mesa Airlines		
United	(American Eagle, United Express)		
	Skywest		
	(American Eagle, Delta Connection, United Express)		

The composition of enplaned passengers by segment has not materially changed over the past several years, as the Airport remained primarily a domestic origin and destination (O&D) market. For more detailed information on enplaned passengers, please refer to Schedules 22, 23, and 24 in the Airport Statistics schedules of the Supplementary Information.

In fiscal year 2016, 95.1% of passengers were enplaned on domestic flights, while the remaining 4.9% boarded international flights. Domestic passengers grew by 3.1%, while international passengers declined by 6.0% from fiscal year 2015. Overall, enplaned passengers increased by 2.6% in fiscal year 2016.

In fiscal year 2016, 61.4% of enplaned passengers traveled directly from or to the Airport as O&D passengers. Of the total O&D passengers, 45.4% were residents initiating their trips at the Airport and 54.6% were visitors who initiated their trips at other airports and were making their return journey from the Airport. The remaining 38.6% of enplaned passengers connected through the Airport.

INITIATIVES AND DEVELOPMENTS

Terminal 3 Modernization

The Airport is preparing for the future through an incremental development plan for its second busiest terminal. Terminal 3 opened in 1979 when seven million passengers per year traveled through the Airport. Now, with over 40 million passengers every year, the Airport has launched a Terminal 3 modernization project, designed to provide consistent and enhanced customer service and more efficient operations for airlines and concessionaires. Upon completion of the Terminal 3 modernization project, the Airport's oldest terminal, Terminal 2, will be closed.

International Arrival Facilities

The Airport is improving its international arrival facilities in Terminal 4. This effort began with the installation of passport kiosks in the Customs and Border Protection processing area that resulted in significant decreases in passenger wait times. The project will further allow the Airport to accommodate additional visitors much more efficiently by enhancing elevators and escalators, in addition to expanding waiting areas and baggage carousels.

Terminal 4 North Apron Reconstruction

The Airport is making necessary modification and updates to its runway and apron areas to ensure the safety and security of all passengers. One of these projects is the reconstruction of the Terminal 4 north apron and ramps. The project includes reconstruction of 1.7 million square feet of paving on the north side of Terminal 4. This will be accomplished in phases to minimize disruption to airline operations.

PHX Sky Train®

The PHX Sky Train® provides a quick, convenient connection among all three terminals, East Economy Parking and Valley Metro Light Rail. The Department recently received approval from the City Council to begin design and construction of the next phase of the PHX Sky Train® which will connect travelers from the terminals to the Rental Car Center.

Terminal 4 New Concourse

The Airport received approval from the City Council to commence design and construction of the Terminal 4 Concourse South 1, the eighth and final concourse at Terminal 4. The new concourse would add up to eight new gates and allow for additional and newer facilities to enhance customer service, more easily serve passengers, and support long-term airline activity.

ECONOMIC CONDITION AND OUTLOOK

The City of Phoenix has grown steadily in the past six decades. In 1950, Phoenix occupied 17 square miles with a population of almost 107,000, ranking 99th among American cities. The 1990 census recorded Phoenix's population at 983,403 and the 2010 census recorded population at 1,447,128. As of July 1, 2016, Phoenix encompassed 519.4 square miles, with the City of Phoenix Planning and Development Department estimating population at 1,565,896 making Phoenix the sixth most populous city in the United States.

The Airport serves the entire Phoenix metropolitan area including the major cities of Glendale, Mesa, Scottsdale, and Tempe, plus all of Maricopa and Pinal counties. The area is widely known for its mild winters, warm summers, and low annual rainfall averaging 8.3 inches per year.

Phoenix is a popular tourist destination with attractions including resorts, spas, professional sports, shopping, golf, restaurants, and nightlife, all set amidst the Sonoran Desert. The area also offers museums and galleries, a variety of sporting events, Old West and Native American history, and outdoor recreation facilitated by more than 300 days of sunshine each year. In addition to the attractions within the Phoenix area, northern Arizona is home to the Grand Canyon National Park, the Red Rock Country of Sedona, the Painted Desert, the Petrified Forest, the Meteor Crater, ancient Native American ruins, and the Navajo and Hopi reservations.

Major sporting events also draw tourists. The Phoenix area is the location of the annual Fiesta Bowl and Cactus Bowl college football games and the annual Phoenix Open PGA golf tournament. The favorable Arizona climate brings 15 Major League Baseball teams, known as the Cactus League, to the Phoenix area each February and March for spring training and preseason play.

FINANCIAL POLICIES

Management is focused on maintaining sound financial performance which is evident in the strong financial metrics and high bond ratings achieved. In fiscal year 2016, the Airport’s bond ratings remain among the highest airport ratings in the United States. Standard and Poor’s Ratings Services (S&P) and Moody’s Investors Service (Moody’s) affirmed the Airport’s double-A category ratings (AA- and Aa3 respectively) on the outstanding senior-lien revenue bonds. S&P and Moody’s also affirmed the Airport’s single-A category ratings (A+ and A1 respectively) on the Airport’s outstanding junior-lien revenue bonds. In affirming their ratings, these organizations noted the Airport’s strong financial performance, maintenance of a low-cost, low-debt facility, vibrant O&D market, experienced and effective administrative team, and excellent integration of Airport and City decision-making.

The Department has adopted specific financial targets and debt management policies to ensure the Airport’s continued solid financial performance. These financial policies include:

Debt Service Coverage: Management seeks to maintain Senior Lien Revenue Bond debt service coverage of at least 1.75x-2.00x. Management also seeks to maintain aggregate debt service coverage (coverage of Senior Lien Revenue Bond debt service and Junior Lien Revenue Bond debt service) of at least 1.50x.

Passenger Facility Charge (PFC) Leveraging: Management has established a PFC leverage target of no greater than 75% of annual collections to preserve adequate PFC pay-as-you-go capacity and provide bondholder protection should unexpected volatility occur in operations and revenue.

Cash and Liquidity: Management has established a target of at least 475 Days Cash on Hand. Days cash on hand is defined as unrestricted cash and investments available for operations, divided by the annual operating expenses, times 365 days. Furthermore, management has an active Commercial Paper program supported by two Letters of Credit to provide additional liquidity and support short-term capital needs.

Cost per Enplanement (CPE): The Airport maintains one of the industry’s lowest CPE figures for similarly sized U.S. airports. Management has the flexibility to increase rates and charges by ordinance to maintain financial metrics and develop facilities.

FINANCIAL TARGETS AND MANAGEMENT POLICIES			
Three Year Results			
	2016	2015	2014
Debt Service Coverage			
Senior Lien Bond Debt Service Coverage	2.66x	2.63x	2.38x
Aggregate Debt Service Coverage	2.46x	2.54x	2.30x
PFC Leveraging	52%	52%	55%
Cash and Liquidity – Days Cash on Hand	595	528	508
Cost Per Enplanement	\$5.79	\$5.98	\$5.79

ACCOUNTING AND BUDGETING CONTROLS

Internal Controls

Management assumes full responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To provide a reasonable basis for making these

representations, the City has established a comprehensive framework of internal controls that is designed to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the basic financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefit, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Budgetary Controls

The City maintains budgetary controls, which are designed to ensure compliance with legal provisions of the annual budget adopted by the City Council. An operating budget is legally adopted by ordinance each fiscal year for the Aviation Enterprise Fund on a modified accrual basis plus encumbrances. Legal budget control is maintained at the fund level.

After tentative adoption of the budget, the City Council may make changes, but may not increase the budget totals except in those areas exempted by State budget law. The exemptions apply to Federal funds, debt service, and bond funds. After final adoption, transfers between budget appropriations for non-exempt areas may be made by the City Council. Throughout the budget year, the City Council may also appropriate additional general purpose funds by use of a contingency appropriation reserved to cover emergencies or other necessary expenditures as determined by the City Council. Supplemental appropriations may be adopted for expenditures exempt from the State expenditure limitation, such as federally funded programs, provided funds are available. State law requires the City to re-budget (re-appropriate) funds for the completion of contracts which were originally budgeted for and encumbered in a previous fiscal year. This law necessitates an additional appropriation ordinance to re-budget funds for contracts not completed by June 30.

Cash Management

As noted, the Department operates as a separate enterprise fund of the City; however cash resources are pooled with other City departments and invested by the City Treasurer. Interest earned by the pool is distributed monthly to individual funds based on daily equity in the pool.

Cash and cash equivalents are considered to be cash in bank, cash on hand, and short term investments with original maturities of 90 days or less from the date of acquisition. The City's investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

Airline Rates and Charges

In 1981, the Mayor and City Council formally adopted a compensatory (cost of services) rate-setting policy which provides (1) that charges to aviation users be established on the basis of the costs to provide, maintain and operate the Airport facilities and services, and (2) that these costs be recovered from aviation users on a basis not to exceed their proportional use thereof. Under this compensatory rate-setting methodology, the City bears the risk of any revenue shortfall and retains any surplus revenue for its own discretionary expenditures. Rates and charges are typically set at the beginning of each fiscal year after the City has reviewed proposed rate changes and capital expenditures with airline representatives. However, the City retains its proprietary right to adjust fees and to determine its capital expenditures without airline approval. The City also has the ability to adjust terminal rates and landing fees at any time to reflect changes in cost. Any such adjustment is subject to federal law and regulations.

The City uses short-term (month-to-month) Letters of Authorization (each, a LOA) for airline space within its terminal facilities. These LOA can be terminated by either party upon 30-days' notice, providing the City with the flexibility to maximize the use of its terminal facilities.

INDEPENDENT AUDITS

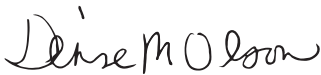
The City Charter requires an annual audit by independent certified public accountants. The independent audit firm of Grant Thornton LLP was selected to perform the audit of the City's Comprehensive Annual Financial Report (City CAFR) as well as this separately issued Comprehensive Annual Financial Report for the Aviation Enterprise Fund, for fiscal year 2016. Included in the financial section of this report is the Independent Auditor's Report on the financial statements of the Aviation Enterprise Fund.

The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and U.S. Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost of Principals, and Audit Requirements for Federal Awards, which superseded OMB Circular A-133 and other related documents. Grant Thornton LLP was also contracted to perform the single audit of the City's major grant programs. This audit was designed to meet the requirements of the Single Audit Act of 1996 and related OMB Uniform Administrative Requirements, Cost of Principals, and Audit Requirements for Federal Awards. Due to the size and complexity of the City's financial systems, the single audit report is issued separately from the City's CAFR and other financial reports.

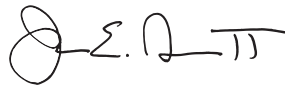
ACKNOWLEDGMENTS

The preparation of the Comprehensive Annual Financial Report was made possible by the combined efforts of the Aviation and Finance departments.

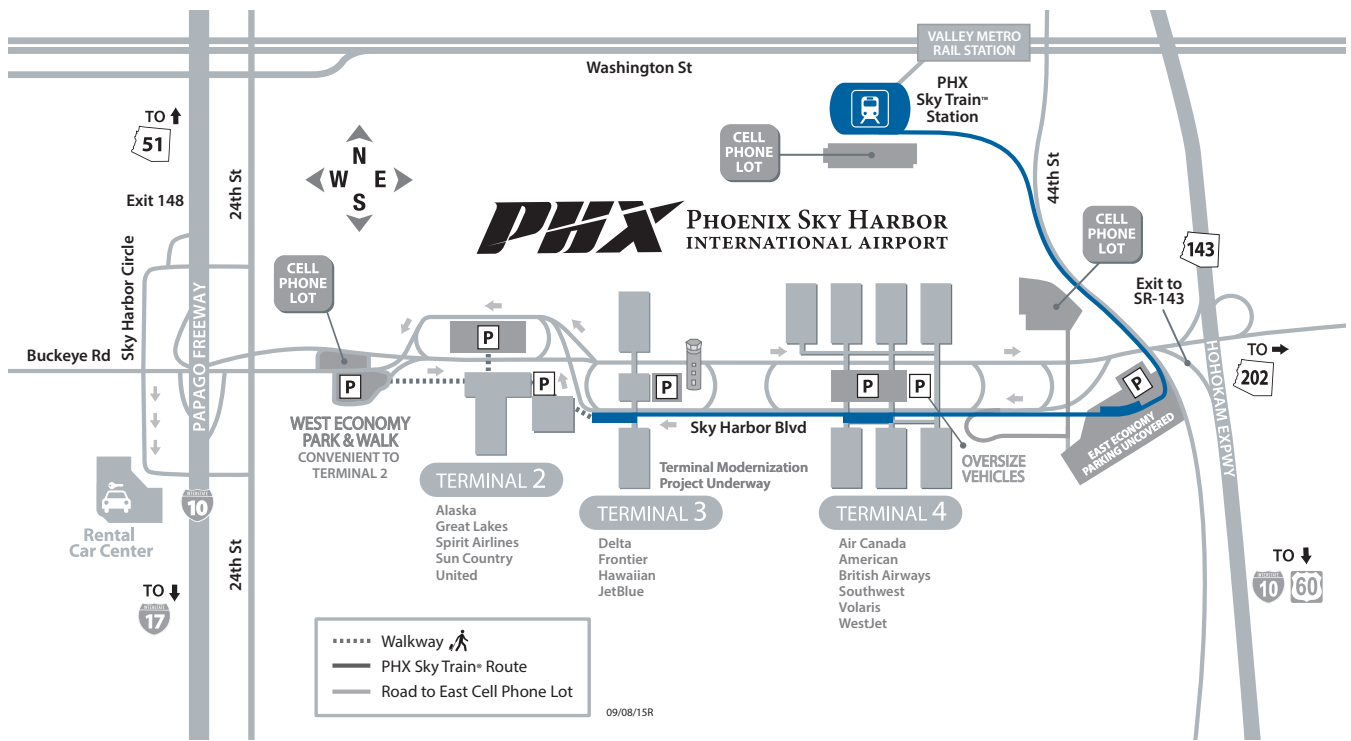
Respectfully submitted,

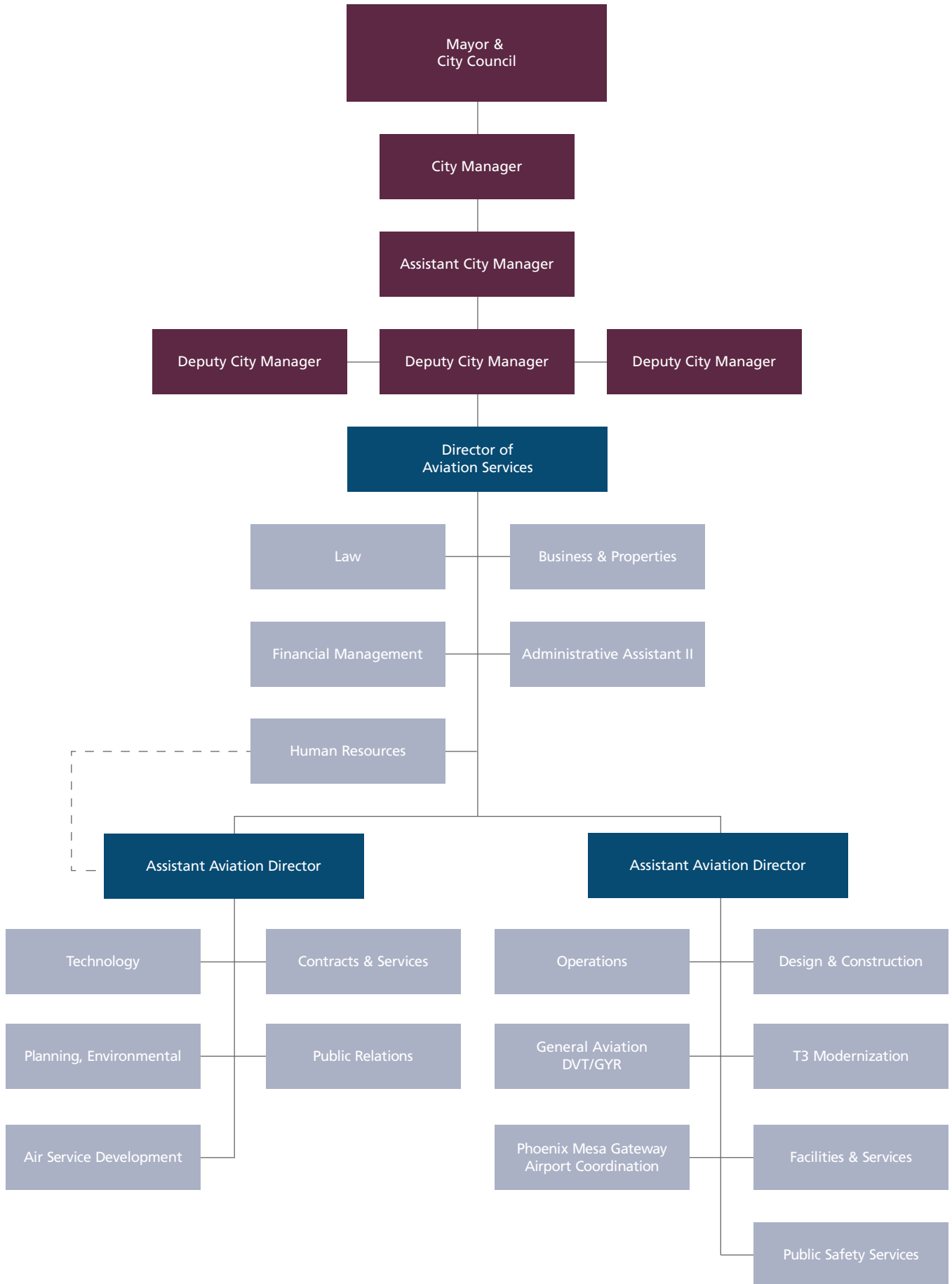


Denise M. Olson
Chief Financial Officer
Finance Department



James E. Bennett, A.A.E.
Director of Aviation Services
Aviation Department





PHX DVT GYR

 **CITY OF PHOENIX AVIATION DEPARTMENT**

MAYOR AND CITY COUNCIL

Greg Stanton, Mayor
Thelda Williams, District 1
Jim Waring, District 2
Debra Stark, District 3
Laura Pastor, District 4
Daniel Valenzuela, District 5
Sal DiCiccio, District 6
Michael Nowakowski, District 7
Kate Gallego, Vice-Mayor, District 8

CITY MANAGER'S OFFICE

Ed Zuercher, City Manager

AVIATION DEPARTMENT

James E. Bennett, Director of Aviation Services

FINANCE DEPARTMENT

Denise M. Olson, Chief Financial Officer





THE FINANCIAL SECTION INCLUDES AN INDEPENDENT AUDITOR'S REPORT BY GRANT THORNTON LLP, THE MANAGEMENT'S DISCUSSION AND ANALYSIS, THE AUDITED FINANCIAL STATEMENTS, AND THE NOTES TO THE FINANCIAL STATEMENTS.



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Honorable Mayor and Members of the City Council
City of Phoenix, Arizona

Report on the financial statements

We have audited the accompanying statements of net position of the Aviation Enterprise Fund (a major fund of the City of Phoenix, Arizona) (the "Entity") as of and for the years ended June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and notes to the financial statements, which collectively comprise the Entity's basic financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Aviation Enterprise Fund of the City of Phoenix, Arizona as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

As discussed in Note 1, the financial statements present only the Entity, a major fund of the City of Phoenix, and do not purport to, and do not, present fairly the financial position of the City of Phoenix as of June 30, 2016 and 2015, the changes in its financial position, or where applicable its cash flows, for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in net pension liability and related ratios, the schedules of contributions, and schedules of funding progress on pages 15 through 23 and 62 through 64 be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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 information

The introductory section and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

GRANT THORNTON LLP

Phoenix, Arizona
December 19, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

(unaudited)

The following Management's Discussion and Analysis (MD&A) is a narrative overview and analysis of the financial activities of the City of Phoenix (the City) Aviation Enterprise Fund. It provides an introduction and discussion of the financial statements of Phoenix Sky Harbor International Airport (the Airport) and two general aviation airports, Phoenix Goodyear Airport and Phoenix Deer Valley Airport (collectively, the Airport System) as of and for the fiscal years ended June 30, 2016 and 2015, with selected comparable data for the fiscal year ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Aviation Enterprise Fund is an enterprise fund of the City. This fund is used to account for the Airport System's ongoing operations and activities, which are similar to those often found in the private sector where cost recovery and the determination of net income is useful or necessary for sound fiscal management. It uses the accrual basis of accounting, where revenues are recognized when earned and expenses are recognized as incurred. Following the MD&A are the financial statements, notes to the financial statements, required supplementary information, and required supplemental schedules of the Aviation Enterprise Fund. These statements, notes, and required schedules, together with the MD&A, are designed to provide an understanding of the Aviation Enterprise Fund's financial position, results of operations, and cash flows.

The Comparative Statements of Net Position present information on all of the Aviation Enterprise Fund's assets, liabilities, deferred inflows and outflows of resources, and net position as of June 30, 2016 and 2015. The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is reported as net position. Over time, increases and decreases in net position may serve as a useful indicator about whether the Aviation Enterprise Fund's financial condition is improving or deteriorating.

The Comparative Statements of Revenues, Expenses, and Changes in Net Position present financial information showing how the Aviation Enterprise Fund's net position changed during the two fiscal years. All changes in net position are reported as soon as the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future fiscal years.

The Comparative Statements of Cash Flows present information showing how the Aviation Enterprise Fund's cash and cash equivalents changed during the fiscal years. Consequently, only transactions that affect the cash and cash equivalent balances of the Aviation Enterprise Fund are recorded in these statements. A reconciliation follows these statements to assist in understanding the difference between operating income and cash flows from operating activities.

FINANCIAL HIGHLIGHTS

Fiscal Year 2016

- Total net position for the Aviation Enterprise Fund at June 30, 2016 was \$1.6 billion. This is a decrease of \$6.3 million from total net position at June 30, 2015, due primarily to an \$8.2 million increase in the net pension liability.
- Total operating revenues decreased by \$7.6 million to \$333.4 million in fiscal year 2016. The decrease is due in part to lower terminal fees resulting from lower costs used to compute the airline rates and charges. The lower revenues are also attributable to decreased rental car daily rates and lower concessions due to construction related closures.

- Total operating expenses increased \$18.6 million to \$436.4 million in fiscal year 2016. The increase is due to higher contractual costs and minor equipment purchases.
- Total non-operating revenue increased \$4.6 million in fiscal year 2016 to \$137.2 million, primarily due to increases in interest income.
- Total non-operating expense increased \$2.8 million in fiscal year 2016 to \$67.9 million. The increase is from additional interest on capital debt.

Fiscal Year 2015

- Total net position for the Aviation Enterprise Fund at June 30, 2015 was \$1.7 billion. This is an increase of \$11.3 million from total net position at June 30, 2014.
- Total operating revenues increased by \$14.9 million to \$341.0 million in fiscal year 2015. This increase is primarily due to increased non-aeronautical revenue as a result of visitors during the NFL Super Bowl and Pro Bowl.
- Total operating expenses increased by \$19.9 million to \$417.8 million in fiscal year 2015, an increase of \$20.3 million from fiscal year 2014. This increase is primarily due to increases in the Department's pension costs.
- Total non-operating revenue increased \$6.0 million to \$132.6 million in fiscal year 2015. This increase is due to increases in PFC and CFC revenue relatively consistent with the increase in enplaned passengers.
- Total non-operating expenses increased \$0.2 million to \$65.1 million in fiscal year 2015. This increase is due to slightly higher interest cost.

NET POSITION

The following is a summary of assets, liabilities, deferred inflows and outflows of resources, and net position as of June 30 (in thousands):

	2016	2015	2014
Assets			
Unrestricted Current Assets	\$ 388,532	\$ 341,251	\$ 321,390
Restricted Current Assets	459,745	407,330	361,170
Capital Assets, net	2,728,933	2,745,938	2,801,798
OPEB Asset	69	59	58
Total Assets	3,577,279	3,494,578	3,484,416
Deferred Outflows of Resources	35,288	30,419	1,641
Liabilities			
Current Liabilities Payable from Current Assets	52,082	38,677	26,954
Current Liabilities Payable from Restricted Assets	296,887	286,896	256,076
Noncurrent Liabilities	1,604,051	1,545,211	1,562,369
Total Liabilities	1,953,020	1,870,784	1,845,399
Deferred Inflows of Resources	14,142	2,552	256
Net Position			
Net Investment in Capital Assets	1,104,662	1,170,752	1,241,513
Restricted	350,755	343,472	272,624
Unrestricted	189,988	137,437	126,265
Total Net Position	\$ 1,645,405	\$ 1,651,661	\$ 1,640,402

Fiscal Year 2016 Compared to Fiscal Year 2015

Total assets have remained relatively steady, with a change to \$3.6 billion in fiscal year 2016 from \$3.5 billion in fiscal year 2015. Capital assets decreased \$17.0 million due to a decrease in the net book value of assets because depreciation expense was higher than capital additions. Cash and investments increased by

\$82.7 million in fiscal year 2016. The increased balance will be used to fund current and future construction projects, including the Terminal 3 Modernization and the PHX Sky Train® extension.

Total liabilities have increased slightly to \$2.0 billion in fiscal year 2016 from \$1.9 billion in fiscal year 2015. The noncurrent liabilities, which make up over 80% of the total liabilities are comprised of long-term bonds payable and net pension liability. During fiscal year 2016, the City issued new revenue bonds of \$95.8 million and refunding revenue bonds of \$18.7 million. The net pension liability increased \$8.2 million in fiscal year 2016. This increase is due to changes in actuarial assumptions combined with lower returns on plan assets. For more detail on these liabilities, see notes 5 and 13 in the Notes to the Financial Statements.

Total net position decreased by \$6.3 million, or 0.4%, in fiscal year 2016. As of June 30, 2016, \$1.1 billion was an investment in capital assets and \$190.0 million was unrestricted and available for short term operations and ongoing obligations. The amount restricted for debt service increased by \$7.1 million in fiscal year 2016, due to a new bond issue. The amounts restricted for Passenger Facility Charges and Rental Car Customer Facility Charges totaled \$218.7 million for fiscal year 2016, an increase of \$0.2 million.

Fiscal Year 2015 Compared to Fiscal Year 2014

Total assets increased by \$10.2 million, or 0.3%, in fiscal year 2015, compared to fiscal year 2014. The total assets have remained relatively steady at \$3.5 billion.

Total liabilities increased by \$25.4 million, or 1.4% in fiscal year 2015, compared to fiscal year 2014. Bond principal payments of \$44.3 million, combined with the issuance of an additional \$20 million in commercial paper to fund the Terminal 3 modernization project, accounted for the change in debt liability. The net pension liability increased \$39.4 million due to changes in actuarial assumptions.

Total net position increased by \$11.3 million, or 0.7%, in fiscal year 2015. As of June 30, 2015, \$1.2 billion was an investment in capital assets and \$137.4 million was unrestricted and available for short term operations and ongoing obligations. The amount restricted for debt service remained the same at \$125.0 million for fiscal year 2015. The amounts restricted for Passenger Facility Charges and Rental Car Customer Facility Charges totaled \$218.5 million for fiscal year 2015.

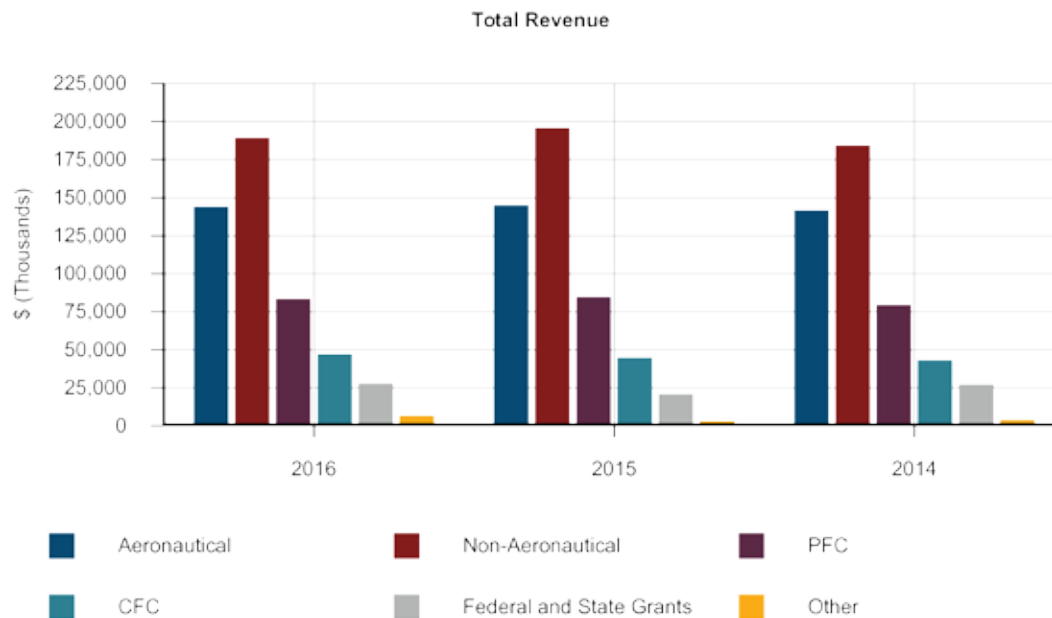
The following is a summary of changes in net position as of June 30 (in thousands):

	2016	2015	2014
Operating Revenues	\$ 333,415	\$ 340,967	\$ 326,044
Operating Expenses	(436,404)	(417,817)	(397,879)
Operating Loss	(102,989)	(76,850)	(71,835)
Non-Operating Revenues	137,158	132,601	126,616
Non-Operating Expenses	(67,900)	(65,098)	(64,892)
Capital Contributions	27,803	20,970	27,184
Transfers	(328)	(364)	(166)
Change in Net Position	(6,256)	11,259	16,907
Net Position, July 1	1,651,661	1,640,402	1,765,618
Restatement of Beginning Net Position	—	—	(142,123)
Net Position, July 1, as restated	1,651,661	1,640,402	1,623,495
Net Position, June 30	<u>\$ 1,645,405</u>	<u>\$ 1,651,661</u>	<u>\$ 1,640,402</u>

REVENUE

The following is a schedule of total revenue for the fiscal years ending June 30 (in thousands):

	2016	2015	2014
Operating Revenue			
Aeronautical Revenue	\$ 144,093	\$ 145,046	\$ 141,633
Non-Aeronautical Revenue	189,322	195,921	184,411
Passenger Facility Charges	83,449	84,774	79,672
Customer Facility Charges	47,118	44,839	43,113
Capital Contributions	27,803	20,970	27,184
Other	6,593	2,989	3,831
Total Revenue	\$ 498,378	\$ 494,539	\$ 479,844



Phoenix Sky Harbor Airport is the largest of the three airports in the Airport System and thus comprises a majority of all Aviation Enterprise Fund revenue. In fiscal year 2016, Sky Harbor accounted for 97% of total revenue, while Phoenix Deer Valley Airport and Phoenix Goodyear Airport together accounted for the remaining 3%.

Fiscal Year 2016 Compared to Fiscal Year 2015

Total revenue increased to \$498.4 million in 2016 from \$494.5 million in fiscal year 2015, an increase of \$3.8 million, or 0.8%.

Aeronautical revenue had a slight decrease in fiscal year 2016, with a total change of \$0.9 million, or 0.7%. The majority of the aeronautical revenue is comprised of terminal and landing fees paid by the commercial airlines at Phoenix Sky Harbor Airport. These fees are established each year to recover the cost of operations, maintenance and debt service related to the airfield and terminal space. The terminal fee decreased to \$106.68 per square foot in fiscal year 2016 from \$118.26 per square foot in fiscal year 2015. The decrease was due to lower maintenance and construction costs as a large restroom renovation project was winding down. The increase in landing fees is due to slightly higher operation and maintenance costs.

Non-aeronautical revenue decreased \$6.6 million, or 3.37%. These revenues are the combination of several lines of business, with the largest being parking, rental cars, and terminal concessions. The parking revenue

increase is relatively consistent with the increase in enplaned passengers. The rental car revenue decrease relates to the lower gross sales for the rental car companies in fiscal year 2016 compared to the inflated sales in fiscal year 2015 when the Super Bowl and Pro Bowl were played in Arizona. Terminal concessions, which consists of the food, beverage, and retail locations, decrease in total due to portions of Terminal 3 being closed for the modernization project.

Passenger facility charges decreased \$1.3 million, or 1.6% in fiscal year 2016, due to an increase in non-revenue passengers reported by the airlines. PFC are collected by the airlines at the time the customer books the flight, then remitted to the Airport. Most enplaned passengers are assessed this fee. However, based on the enabling federal legislation, PFC are not paid by non-revenue passengers.

Customer facility charges increased \$2.3 million, or 5.1% in fiscal year 2016, consistent with the increase in passengers. CFC are assessed to rental car customers at the rate of \$6 per transaction day. These fees are collected by the rental car companies and then remitted to the Airport. The increase is relatively consistent with the increase in enplaned passengers.

Federal and state grant revenue, reported as capital contributions, increased \$6.8 million, or 32.6% in fiscal year 2016. The amount of the grant receipts varies from year to year based on the amount of funds allocated to our airports, along with the amount of construction that is completed during the year.

Fiscal Year 2015 Compared to Fiscal Year 2014

Total operating revenues had an overall increase of \$14.9 million, or 4.6%, to \$341.0 million in fiscal year 2015. This overall increase is consistent with the 4.7% increase in enplaned passengers for FY 2015.

Aeronautical operating revenue increased by \$3.4 million, or 2.4% to \$145.0 million, resulting from an increase in airline terminal fees offset by a slight decrease in landing fee revenue. The airline terminal and landing fees are charged on a cost recovery basis, where revenues are based on operation and maintenance expenses for the terminal and airfield.

Non-Aeronautical operating revenue increased by \$11.5 million or 6.2%, to \$195.9 million. Parking, Rental Cars, Food and Beverage, and Retail revenues accounted for \$8.0 million of this increase. Each of these revenues increased at rates similar to the 4.7% increase in enplaned passengers.

Passenger facility charges increased \$5.1 million, or 6.4% in fiscal year 2015. PFC are collected by the airlines at the time the customer books the flight, then remitted to the Airport in the following month. The increase is due to higher enplaned passengers along with the timing of collection by the airlines compared to flight dates.

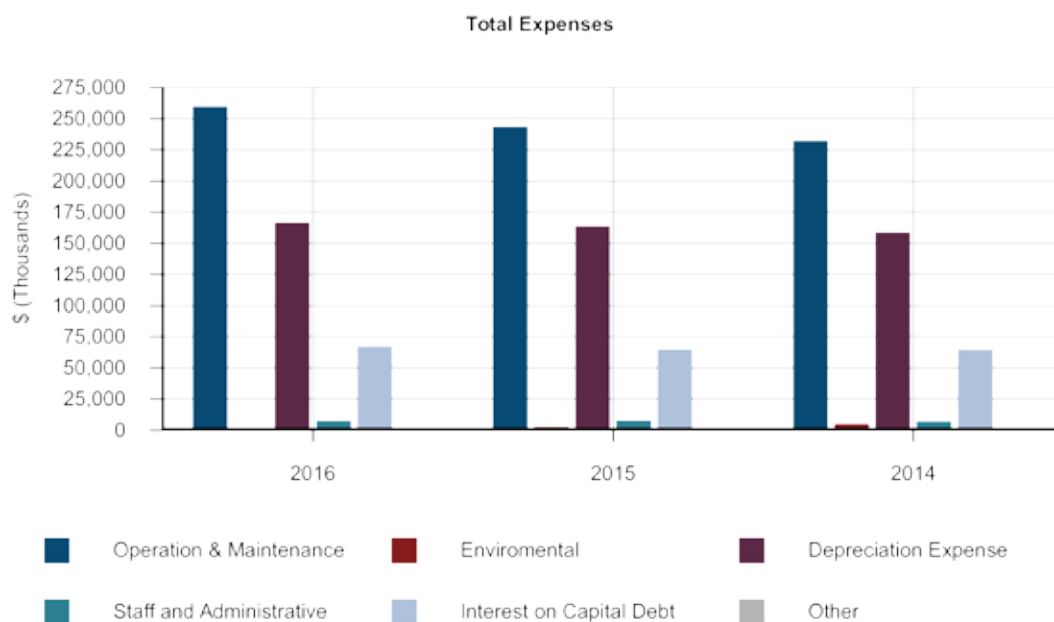
Customer facility charges increased \$1.7 million, or 4.0% in fiscal year 2015, consistent with the increase in passengers. CFC are assessed to rental car customers at the rate of \$6 per transaction day. These fees are collected by the rental car companies and then remitted to the Airport. The increase is relatively consistent with the increase in enplaned passengers.

Federal and state grant revenue, reported as capital contributions, decreased \$6.2 million, or 22.9% in fiscal year 2015. The amount of the grant receipts varies from year to year based on the amount of funds allocated to our airports, along with the amount of construction that is completed during the year.

EXPENSES

The following is a summary of expenses for the fiscal years ending June 30 (in thousands):

	2016	2015	2014
Operating Expenses			
Operation and Maintenance	\$ 259,903	\$ 243,557	\$ 226,758
Environmental, Studies and Noise Program	1,956	2,600	5,099
Depreciation Expense	166,829	163,691	158,760
City Staff and Administrative	7,716	7,969	7,262
Interest on Capital Debt	67,141	65,051	64,863
Other	1,089	412	195
Total Expenses	\$ 504,634	\$ 483,280	\$ 462,937



Fiscal Year 2016 Compared to Fiscal Year 2015

Total expenses increased \$21.4 million, or 4.4%, in fiscal year 2016. Operation and maintenance, depreciation, and interest on capital debt make up approximately 98% of total expenses.

Operation and maintenance expenses increased \$16.3 million, or 6.7% in fiscal year 2016. The contractual services increase is due to additional consulting costs associated with the most recent bond issue, increased costs of the vertical circulation and custodial contracts. The equipment and minor improvements increase is the result of additional minor equipment that does not meet the capitalization threshold. The operation and maintenance expenses in fiscal year 2015 includes a \$5.6 million decrease relating to an adjustment to the Airport's pollution remediation liability.

Depreciation expense increased 3.1% in fiscal year 2015 and 1.9% in fiscal year 2016, as new construction projects were completed. The most recent extension of the PHX Sky Train was the largest of the projects and was completed in January of 2015. The related assets had one half year depreciation in fiscal year 2015 and a full year depreciation in fiscal year 2016.

Interest on Capital Debt increased by 0.3% in fiscal year 2015 and by 3.2% in fiscal year 2016. The interest due each year is based on payment schedules set by the related bond documents. The Aviation Enterprise

Fund issued new debt in January of 2016, which added \$2.6 million of interest for fiscal year 2016.

Fiscal Year 2015 Compared to Fiscal Year 2014

Total expenses increased by \$20.3 million or 4.4%, to \$483.3 million in fiscal year 2015 from \$462.9 million in fiscal year 2014.

Operation and maintenance expenses showed an overall increase of \$16.8 million, or 7.4% in fiscal year 2015. Expenses relating to the net pension liability increased personal services by \$21.7 million. Contractual services decreased by approximately \$8.9 million while equipment and minor improvement expenses increased by \$5.1 million. The increase in equipment and minor improvements is the result of additional repair and maintenance projects being expensed in fiscal year 2015.

Environmental, studies and noise program expenses decreased \$2.5 million, or 49.0% in fiscal year 2015. This is primarily the result of the decrease in costs for the Community Noise Reduction Program as the Airport is nearing the end of this program.

Depreciation expense increased 3.1% in fiscal year 2015 as new construction projects have been completed.

City staff and administrative expenses increased by \$0.7 million, or 9.7%, in fiscal year 2015. This is due to an overall increase in the Aviation Enterprise Fund's share of the City-wide overhead.

LONG-TERM DEBT

City of Phoenix Civic Improvement Corporation Airport Revenue Bonds

The Aviation Enterprise Fund, through the City, has entered into certain agreements with the City of Phoenix Civic Improvement Corporation (the CIC) for the purchase of certain improvements and expansion projects at the City's airports. The CIC issued bonds for the improvements and expansion projects, and the Aviation Enterprise Fund made a pledge of revenues to make payments sufficient to pay principal and interest on the bonds.

The debt service requirements on senior lien airport revenue bonds are secured by a first lien pledge of Net Airport Revenues. The term Net Airport Revenues is defined in the Airport Revenue Bond Ordinance to mean Airport Revenues, after provisions for payment of the Cost of Maintenance and Operation.

The debt service requirements on junior lien airport revenue bonds are junior to the senior lien airport revenue bonds and are secured by a pledge of the Designated Revenues. The term Designated Revenues is defined in the Airport Revenue Bond Ordinance to mean Net Airport Revenues, after payments required on any senior lien airport revenue bonds.

The Rental Car Facility Charge Revenue Bonds are special revenue obligations of the CIC, payable solely from certain payments required to be made by the Aviation Enterprise Fund, through the City, to the CIC pursuant to the City Purchase Agreement dated June 1, 2004. Pledged revenues consist primarily of Customer Facility Charge (CFC) revenues and amounts on deposit in various reserve funds. Pledged revenues do not include amounts required to be paid by the rental car companies as ground rents or concession fees, amounts on deposit or required to be deposited to the Administrative Costs Fund, amounts on deposit in the Transportation Operations and Maintenance (O&M) fund or the Transportation reserve fund, the Aviation Enterprise Fund transportation O&M fund, or CFC's that exceed the pledged rate.

The total bond principal outstanding for the Civic Improvement Corporation Airport Revenue Bonds as of June 30 are as follows (in thousands):

	2016	2015	2014
Senior Lien Bonds	\$ 472,895	\$ 496,905	\$ 519,775
Junior Lien Bonds	739,900	659,585	672,290
Rental Car Facility Charge Bonds	186,050	195,305	204,055
Total Revenue Bond Principal Outstanding	<u>\$ 1,398,845</u>	<u>\$ 1,351,795</u>	<u>\$ 1,396,120</u>

The CIC issued \$114,440,000 in Junior Lien Airport Revenue Bonds during fiscal year 2016. The 2015A (Non-AMT) bonds, in the amount of \$95,785,000, refunded \$100,000,000 aggregate outstanding principal of Airport Commercial Paper Program Notes, Series 2014A-1 and 2014A-2. The commercial paper financed a portion of the construction for the PHX Sky Train. The 2015B (Non-AMT) bonds, in the amount of \$18,655,000, refunded a portion of the Junior Lien Airport Revenue Bonds, Series 2010A (Non-AMT).

The debt service reserve requirements for the Airport Revenue Bonds for the fiscal years ending June 30 (in thousands):

	2016	2015	2014
Senior Lien Bonds	\$ 47,038	\$ 47,038	\$ 47,038
Junior Lien Bonds	63,698	56,645	56,645
Rental Car Facility Charge Bonds	21,278	21,278	21,278
Total Debt Service Reserve Requirements	<u>\$ 132,014</u>	<u>\$ 124,961</u>	<u>\$ 124,961</u>

Airport General Obligation Bonds

As of June 30, 2016 and 2015, the Aviation Enterprise Fund had \$7.9 million principal of general obligation bonds payable in both years. The debt service requirements of Airport General Obligation Bonds have been paid from Net Airport Revenues remaining after payment of senior lien and junior lien airport revenue bonded debt service requirements. In the event such Net Airport Revenues should prove insufficient to pay airport general obligation debt service requirements or should the Aviation Enterprise Fund, through the City, decide not to pay the debt service from Net Airport Revenues, this indebtedness would then be paid from ad valorem taxes (secondary property taxes) or other available sources.

For more information regarding long-term debt, please refer to Note 5 in the Notes to the Financial Statements and Schedules 7 through 17 in the Debt Section of the Statistical Section.

SHORT-TERM DEBT

The Aviation Enterprise Fund, through the City, maintains an active commercial paper program for ongoing capital needs and additional liquidity to fund projects such as the PHX Sky Train® and Terminal 3 modernization. The total outstanding was \$130.0 million as of June 30, 2016 and \$140.0 million as of June 30, 2015. During fiscal year 2016, the Aviation Enterprise Fund issued Junior Lien Bonds to refund \$100 million of commercial paper used for the PHX Sky Train® and issued \$90 million of commercial paper for the Terminal 3 modernization.

CAPITAL ASSETS

The Aviation Enterprise Fund's capital assets, net of accumulated depreciation, was \$2.7 billion in fiscal years 2016 and 2015, and \$2.8 billion in fiscal year 2014.

Additions to capital assets included the following (in thousands):

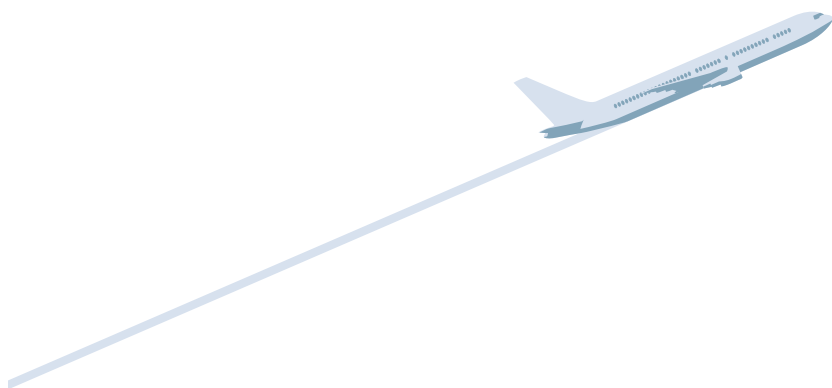
	2016	2015	2014
Major construction projects:			
Terminal 3 Modernization	\$ 87,533	\$ 42,900	\$ —
PHX Sky Train	4,699	9,980	65,129
Other construction projects:			
Airfield and runway projects	24,298	16,712	25,731
Terminal projects	16,488	11,281	10,797
Land acquisition	707	4,261	9,428
Other	2,970	7,940	2,758

Additional information on the Aviation Enterprise Fund’s capital assets can be found in Note 4 in the Notes to the Financial Statements.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the Aviation Enterprise Fund’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Phoenix Finance Department, 251 West Washington Street, 9th Floor, Phoenix, Arizona 85003.

For prior annual reports, airport statistics, and other City financial information please visit our investor website at: <http://phoenix.gov/finance/investor>.



City of Phoenix, Arizona
Aviation Enterprise Fund
COMPARATIVE STATEMENTS OF NET POSITION
June 30, 2016 and 2015
(in thousands)

	2016	2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 76,667	\$ 56,355
Investments	298,945	270,506
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts (2016, \$1,320 and 2015, \$98)	10,703	12,122
Intergovernmental	180	173
Deposits in Escrow	326	346
Inventories	1,711	1,749
Total Unrestricted Current Assets	<u>388,532</u>	<u>341,251</u>
Restricted Assets		
Debt Service		
Cash and Securities with Fiscal Agents/Trustees	217,215	205,492
Accrued Interest Receivable	4	7
Customer Facility Charge		
Cash and Securities with Fiscal Agents/Trustees	65,615	55,573
Investments	21,865	21,742
Accounts Receivable	3,144	3,060
Capital Projects		
Cash and Cash Equivalents	47,371	31,978
Investments	90,456	72,009
Receivables		
Intergovernmental	6,426	9,714
Passenger Facility Charge	7,649	7,755
Total Restricted Current Assets	<u>459,745</u>	<u>407,330</u>
Total Current Assets	<u>848,277</u>	<u>748,581</u>
Noncurrent Assets		
Capital Assets		
Land	574,195	573,007
Buildings	1,623,818	1,619,698
Improvements Other Than Buildings	1,636,664	1,626,816
Equipment and Artwork	631,930	614,154
Intangibles	23,705	23,521
Construction in Progress	186,299	90,984
Less: Accumulated Depreciation	<u>(1,947,678)</u>	<u>(1,802,242)</u>
Total Capital Assets, Net of Accumulated Depreciation	2,728,933	2,745,938
OPEB Asset	69	59
Total Noncurrent Assets	<u>2,729,002</u>	<u>2,745,997</u>
Total Assets	<u>3,577,279</u>	<u>3,494,578</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding Bonds	1,101	1,329
Pension Related	<u>34,187</u>	<u>29,090</u>
Total Deferred Outflows of Resources	<u>35,288</u>	<u>30,419</u>

The accompanying notes are an integral part of these financial statements

City of Phoenix, Arizona
Aviation Enterprise Fund
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
 June 30, 2016 and 2015
 (in thousands)



	2016	2015
LIABILITIES		
Current Liabilities Payable from Current Assets		
Accounts Payable	\$ 28,878	\$ 18,922
Trust Liabilities and Deposits	3,259	1,817
Advance Payments	19,045	16,294
Current Portion of Pollution Remediation	75	850
Current Portion of Accrued Compensated Absences	825	794
Total Current Liabilities Payable from Current Assets	52,082	38,677
Current Liabilities Payable from Restricted Assets		
Debt Service		
Commercial Paper Notes Payable	130,000	140,000
Matured Bonds Payable	47,390	44,330
Interest Payable	37,679	36,187
Current Portion of Municipal Corporation Obligations:		
Current Portion of Rental Car Facility Revenue Bonds	9,795	9,255
Current Portion of Aviation Revenue Bonds	40,730	37,320
Capital Projects		
Accounts Payable	31,293	19,804
Total Current Liabilities Payable from Restricted Assets	296,887	286,896
Total Current Liabilities	348,969	325,573
Noncurrent Liabilities		
General Obligation Bonds	7,865	7,865
Municipal Corporation Obligations:		
Rental Car Facility Revenue Bonds	176,255	186,050
Aviation Revenue Bonds	1,172,065	1,119,170
Unamortized Premium (Discount), Net	59,184	51,069
Pollution Remediation	2,300	3,050
Accrued Compensated Absences	5,595	5,430
Net Pension Liability	180,787	172,577
Total Noncurrent Liabilities	1,604,051	1,545,211
Total Liabilities	1,953,020	1,870,784
DEFERRED INFLOWS OF RESOURCES		
Deferred Gain on Refunding Bonds	760	128
Pension Related	13,382	2,424
Total Deferred Inflows of Resources	14,142	2,552
NET POSITION		
Net Investment in Capital Assets	1,104,662	1,170,752
Restricted for:		
Debt Service	132,014	124,961
Passenger Facility Charges	128,117	138,136
Rental Car Customer Facility Charges	90,624	80,375
Unrestricted	189,988	137,437
Total Net Position	\$ 1,645,405	\$ 1,651,661

The accompanying notes are an integral part of these financial statements

Terminal 2

- Alaska Airlines*
- BOUTIQUE AIR
- Great Lakes Airlines*
- UNITED
- spirit**
- suncountry airlines



City of Phoenix, Arizona
Aviation Enterprise Fund
COMPARATIVE STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Years Ended June 30, 2016 and 2015
(in thousands)



	2016	2015
Operating Revenues		
Aeronautical Revenue		
Terminal Fees	\$ 75,115	\$ 78,422
Landing Fees	49,869	48,497
Air Cargo and Hangar Rental	6,751	7,083
Other	12,358	11,044
Non-Aeronautical Revenue		
Parking	84,586	81,094
Rental Cars	46,669	52,103
Terminal – Food and Beverage	20,499	22,015
Terminal – Retail	10,879	11,087
Rental Revenue	17,186	17,605
Ground Transportation	4,957	6,318
Other	4,546	5,699
Total Operating Revenues	333,415	340,967
Operating Expenses		
Operation and Maintenance		
Personal Services	86,250	86,172
Contractual Services	124,420	115,486
Supplies	11,925	10,771
Equipment/Minor Improvements	37,308	31,128
Environmental, Studies and Noise Program	1,956	2,600
Depreciation	166,829	163,691
City Staff and Administrative	7,716	7,969
Total Operating Expenses	436,404	417,817
Operating Loss	(102,989)	(76,850)
Non-Operating Revenues (Expenses)		
Passenger Facility Charges	83,449	84,774
Rental Car Customer Facility Charges	47,118	44,839
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	471	(2,715)
Interest	6,120	5,703
Interest on Capital Debt	(67,141)	(65,051)
Loss on Disposal of Capital Assets	(759)	(47)
Total Non-Operating Revenues (Expenses)	69,258	67,503
Net Loss Before Contributions and Transfers	(33,731)	(9,347)
Capital Contributions	27,803	20,970
Transfer from General Fund – Change for Phoenix	2	1
Transfer to Capital Projects Fund	(330)	(365)
Change in Net Position (Deficit)	(6,256)	11,259
Net Position, July 1	1,651,661	1,640,402
Net Position, June 30	\$ 1,645,405	\$ 1,651,661

The accompanying notes are an integral part of these financial statements

City of Phoenix, Arizona
Aviation Enterprise Fund
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2016 and 2015
(in thousands)

	2016	2015
Cash Flows from Operating Activities		
Receipts from Customers	\$ 339,026	\$ 343,481
Payments to Suppliers	(167,338)	(161,771)
Payments to Employees	(71,794)	(73,254)
Payment of Staff and Administrative Expenses	(7,716)	(7,969)
Net Cash Provided by Operating Activities	<u>92,178</u>	<u>100,487</u>
Cash Flows from Noncapital Financing Activities		
Transfers from Other Funds	2	1
Transfers to Other Funds	(330)	(365)
Net Cash Used by Noncapital Financing Activities	<u>(328)</u>	<u>(364)</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	98,489	20,000
Principal Paid on Capital Debt	(44,330)	(44,035)
Interest Paid on Capital Debt	(71,294)	(73,401)
Acquisition and Construction of Capital Assets	(138,667)	(96,054)
Proceeds from Sales of Capital Assets	144	64
Passenger Facility Charges	83,555	85,434
Rental Car Customer Facility Charges	47,035	44,693
Capital Contributions	31,084	18,400
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>6,016</u>	<u>(44,899)</u>
Cash Flows from Investing Activities		
Purchases of Investment Securities	(527,842)	(549,617)
Proceeds from Sale and Maturities of Investment Securities	527,719	552,183
Net Activity for Short-Term Investments	(46,886)	(11,099)
Interest on Investments	6,593	2,981
Net Cash Used by Investing Activities	<u>(40,416)</u>	<u>(5,552)</u>
Net Increase in Cash and Cash Equivalents	57,450	49,672
Cash and Cash Equivalents, July 1	<u>349,744</u>	<u>300,072</u>
Cash and Cash Equivalents, June 30	<u>\$ 407,194</u>	<u>\$ 349,744</u>

The accompanying notes are an integral part of these financial statements

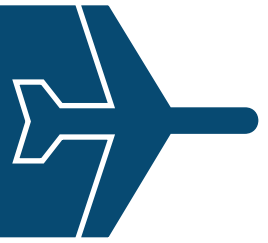
City of Phoenix, Arizona
Aviation Enterprise Fund
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)
For the Fiscal Years Ended June 30, 2016 and 2015
(in thousands)



	2016	2015
Reconciliation of Operating Loss to		
Net Cash Provided by Operating Activities		
Operating Loss	\$ (102,989)	\$ (76,850)
Adjustments		
Depreciation	166,829	163,691
Net Pension Expense	8,210	39,427
Deferred Outflows – Pension	(5,097)	(29,090)
Deferred Inflows – Pension	10,958	2,424
(Increase) Decrease in Assets		
Receivables	197	(5,766)
Allowance for Doubtful Accounts	1,222	54
Inventories	38	(42)
OPEB Asset	(10)	(1)
Increase (Decrease) in Liabilities		
Accounts Payable	9,956	4,181
Trust Liabilities and Deposits	1,442	228
Advance Payments	2,751	7,996
Pollution Remediation	(1,525)	(5,600)
Accrued Compensated Absences	196	(165)
Net Cash Provided by Operating Activities	\$ 92,178	\$ 100,487
Noncash Transactions Affecting Financial Position		
Refunding Issuance in Excess of Bond Retirement	\$ 58	\$ 184
Increase in Fair Value of Investments	(17)	25
Total Noncash Transactions Affecting Financial Position	\$ 41	\$ 209
Cash and Cash Equivalents		
Unrestricted		
Cash and Cash Equivalents	\$ 76,667	\$ 56,355
Cash Deposits	326	346
Total Unrestricted	76,993	56,701
Restricted		
Cash and Cash Equivalents	47,371	31,978
Cash and Securities with Fiscal Agents/Trustees		
Debt Service	217,215	205,492
Customer Facility Charge	65,615	55,573
Total Restricted	330,201	293,043
Total Cash and Cash Equivalents	\$ 407,194	\$ 349,744

The accompanying notes are an integral part of these financial statements

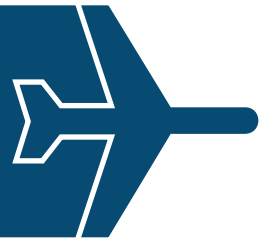




NOTES TO THE FINANCIAL STATEMENTS

Note	Description
1	Organization and Summary of Significant Accounting Policies
2	Cash and Investments
3	Receivables
4	Capital Assets
5	Long-Term Obligations
6	Refunded, Refinanced and Defeased Obligations
7	Commercial Paper Notes Payable
8	Risk Management
9	Operating Leases
10	Contractual and Other Commitments
11	Contingent Liabilities
12	Deferred Compensation Plan (DCP)
13	Pension Plan
14	Other Post-Employment Benefits (OPEB)
15	Capital Contributions
16	Passenger Facility Charges
17	Customer Facility Charges





The City of Phoenix (the City) owns and operates Phoenix Sky Harbor International Airport (the Airport) and two general aviation airports, Phoenix Goodyear Airport and Phoenix Deer Valley Airport (collectively, the Aviation Enterprise Fund). The City has operated the Aviation Enterprise Fund as a self-supporting enterprise since 1967, according to Part II, Chapter 4 of the City of Phoenix Code of Ordinances.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

a) Reporting Entity

The accompanying financial statements include only the Aviation Enterprise Fund and are not intended to present fairly the financial position of the City, and the changes in its financial position and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

b) Jointly Governed Organizations-Phoenix-Mesa Gateway Airport Authority

The Phoenix-Mesa Gateway Airport Authority is a nonprofit corporation established and funded by the City of Phoenix, City of Mesa, Towns of Gilbert and Queen Creek, and the Gila River Indian Community. The purpose of the entity is the redevelopment of Williams Air Force Base that was closed in September 1993 to become the Phoenix-Mesa Gateway Airport. The Board of Directors consists of the mayors for the respective municipalities and the governor of the tribal community. The Aviation Enterprise Fund contributed \$1.3 million per year in both fiscal years 2016 and 2015 (life to date \$18.2 million) to the Phoenix-Mesa Gateway Airport Authority operating and capital budget.

c) Basis of Accounting

The Aviation Enterprise Fund is an enterprise fund of the City and the cost of providing services is recovered primarily through their fees and charges. The Aviation Enterprise Fund, through the City, has established activity rates and fees to recover the cost of providing services, including capital costs, and has issued debt backed by these revenues.

Since the Aviation Enterprise Fund is an enterprise fund of the City, the accrual basis of accounting is followed, whereby revenues are recognized in the accounting period in which they are earned and expenses are recognized when incurred. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses include the cost of sales and services, environmental expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

d) Pooled Cash and Investments

The Aviation Enterprise Fund's cash resources are combined through the City to form a cash and investment pool managed by the City Treasurer. Excluded from this pool are the investments of the City of Phoenix Employee Retirement System and certain other legally restricted funds. Interest earned by the pool is distributed monthly to individual funds based on daily equity in the pool.

The Aviation Enterprise Fund's cash and cash equivalents are considered to be cash in bank, cash on hand, and short-term investments with original maturities of 90 days or less from the date of acquisition.

The Aviation Enterprise Fund's investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

e) **Accounts Receivable**

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the potential for losses, taking into account historical experience and currently available information.

f) **Deposits in Escrow**

Deposits in Escrow are performance bonds and security deposits made by airport tenants.

g) **Inventories**

Inventories consist of materials and supplies which have been valued at the lower of cost (weighted average cost method) or market and are primarily accounted for on the consumption method.

h) **Capital Assets**

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than two years. All artwork and land is capitalized. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	10 to 40 years
Improvements other than Buildings	
Runways and Taxiways	18 to 25 years
Other Improvements	10 to 50 years
Equipment	5 to 30 years
Intangible Assets	5 to 40 years

A gain or loss on disposal of capital assets is recognized when assets are retired from service or are sold or otherwise disposed of.

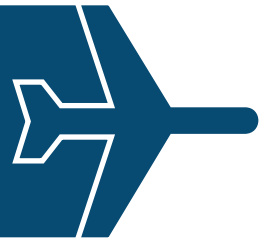
i) **Compensated Absences**

Vacation and compensatory time benefits are accrued as liabilities as employees earn the benefits to the extent that they meet both of the following criteria: 1) the Aviation Enterprise Fund's obligation through the City is attributable to employees' services already rendered; and 2) it is probable that the Aviation Enterprise Fund, through the City, will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Sick leave benefits are accrued as a liability as the benefits are earned by employees, but only to the extent that it is probable that the Aviation Enterprise Fund, through the City, will compensate the employees through cash payments conditioned on the employees' termination or retirement. All of the outstanding compensated absences are recorded as a liability.

j) **Long-Term Obligations**

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the Comparative Statements of Net Position. Bond premiums and discounts are amortized over the life of the bonds using the interest method.



k) Net Position

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

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, or laws or regulations of other governments and restrictions imposed by law through constitutional provision or enabling legislation.

Unrestricted Net Position – This category represents the net position that is not restricted for any project or other purpose.

l) Statements of Cash Flows

For purposes of the Comparative Statements of Cash Flows, all highly liquid investments (including restricted assets) with original maturities of 90 days or less when purchased are considered to be cash equivalents.

m) Rates and Charges

The Aviation Enterprise Fund annually establishes airline facility rental fees, landing fees and other charges sufficient to recover the costs of operations, maintenance and debt service related to the airfield and space rented by the airlines. Any differences between amounts collected and the actual costs allocated to the airlines' leased space are credited or billed to the airlines.

n) 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 a number of estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows, and net position, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/ expenditures during the reporting period. Actual results could differ from those estimates.

o) New Accounting Pronouncements

GASB Statement No. 72, Fair Value Measurement and Application, will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. The Aviation Enterprise Fund implemented this Statement in fiscal year 2016.

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. There was no material impact to the Aviation Enterprise Fund for fiscal year 2016 as a result of the implementation of Statement No. 73.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a

more comprehensive measure of OPEB expense. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2017. The Aviation Enterprise Fund will implement this Statement in fiscal year 2018.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, will improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. The provisions in this Statement are effective for reporting periods beginning after June 15, 2015. The Aviation Enterprise Fund has implemented this Statement in fiscal year 2016.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants, establishes specific criteria used to determine whether a qualifying external investment pool may elect to use and amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The Statement also establishes additional note disclosures for qualifying external investment pools. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The Aviation Enterprise Fund has determined there is no impact to the financial statements as a result of this Statement.

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. The Statement also provides expanded guidance for circumstances in which the government holds the assets. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The Aviation Enterprise Fund will implement this Statement in fiscal year 2018.

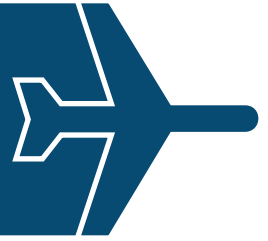
GASB Statement No. 82, Pension Issues-and amendment of GASB Statements No. 67, No. 68, and No. 73, will enhance consistency in the application of financial reporting requirements to certain pension issues. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Aviation Enterprise Fund will implement this Statement in fiscal year 2017.

The Aviation Enterprise Fund has not fully determined the effect that implementation of Statements No. 75, 81 and 82 will have on the financial statements.

2. CASH AND INVESTMENTS

Cash and cash equivalents at June 30, 2016 and June 30, 2015, was composed of the following (in thousands):

	2016	2015
Cash in Bank	\$ 2,868	\$ 4,479
Cash on Hand	3	3
Short-Term Pooled Investments	98,576	65,180
Short-Term Non-Pooled Investments	22,591	18,671
Total Cash and Cash Equivalents	<u>\$ 124,038</u>	<u>\$ 88,333</u>



A summary of Aviation Enterprise Fund cash and cash equivalents at June 30, 2016, and June 30, 2015 (in thousands):

	2016	2015
Unrestricted	\$ 76,667	\$ 56,355
Restricted	47,371	31,978
Total Cash and Cash Equivalents	<u>\$ 124,038</u>	<u>\$ 88,333</u>

Deposits

Cash deposits are subject to custodial risk. Custodial risk is the risk that in the event of a bank failure, the Aviation Enterprise Fund’s deposits through the City may not be returned. The Aviation Enterprise Fund’s deposits through the City during the year and at fiscal year-end were entirely covered by federal depository insurance or by collateral held by the City’s agent in the City’s name. The carrying amount of the Aviation Enterprise Fund’s deposits at June 30, 2016 and June 30, 2015 was \$325,618 and \$346,478, respectively and the bank ledger balance was \$321,075 and \$321,038, respectively.

Cash with fiscal agents and trustees are subject to custodial risk. The Aviation Enterprise Fund’s contracts through the City with the fiscal agents and trustees call for these deposits to be fully covered by collateral held in the fiscal agents’ and trustees’ trust departments but not in the City’s name. Each trust department pledges a pool of collateral against all trust deposits it holds. The carrying amount of the Aviation Enterprise Fund’s cash with fiscal agents and trustees and the bank ledger balance at June 30, 2016 and June 30, 2015 were \$261,401,604 and \$239,786,473, respectively. Securities with fiscal agents and trustees are not subject to custodial risk. The carrying amount and the bank ledger balance of the Aviation Enterprise Fund’s securities with fiscal agents and trustees at June 30, 2016 and June 30, 2015 was \$21,428,788 and \$21,278,402, respectively.

Investments

Aviation Enterprise Fund investments are included in the City’s pooled investments. The City Charter and ordinances authorize the City to invest in U.S. Treasury securities, securities guaranteed, insured or backed by the full faith and credit of the U.S. Government, U.S. Government agency securities, repurchase agreements, commercial paper, money market accounts, certificates of deposit, the State Treasurer’s Local Government Investment Pool “LGIP”, highly rated securities issued or guaranteed by any state or political subdivision thereof rated in the highest short-term or second highest long-term category, and investment grade corporate bonds, debentures, notes and other evidence of indebtedness issued or guaranteed by a solvent U.S. corporation which are not in default as to principal or interest. Investments are carried at fair value. It is the City’s policy generally to hold investments until maturity. A detailed listing of City investments can be found in the City CAFR in Note 5 in the Notes to the Financial Statements.

City of Phoenix, Arizona
Aviation Enterprise Fund
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Fiscal Years ended June 30, 2016 and 2015

The Aviation Enterprise Fund maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool. Total investments for the Aviation Enterprise Fund at June 30, 2016 and June 30, 2015 stated at fair value, were \$411,266,803 and \$364,256,599, respectively. The following summarizes the City's amounts reported as "Investments" in its financial statements (in thousands):

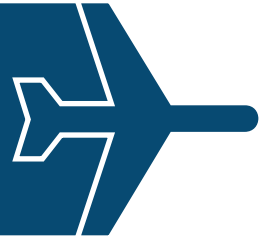
City Investments	Credit Quality Rating	June 30, 2016		June 30, 2015	
		Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
Pooled Investments					
Repurchase Agreements collateralized by U.S. Treasury Securities	Not Rated	\$ 134,148	0.011	\$ 34,505	0.003
U.S. Treasury Securities	N/A (1)	757,272	1.863	948,268	1.822
U.S. Government Agency Securities					
FFCB Notes	AA+	126,920	3.524	40,797	4.380
FNMA Notes	AA+	159,672	2.242	57,956	3.069
FHLMC Notes	AA+	199,310	2.686	143,981	3.317
FHLB Notes	AA+	322,986	1.306	185,304	3.372
HUD		—		1,004	0.086
Total U.S. Government Agency Securities		808,888	2.179	429,042	3.401
Pre-Refunded Municipal Securities	N/A (2)	9,727	0.241	38,242	0.581
Certificates of Deposit	N/A (3)	126,514	0.143	59,483	0.392
Mortgage Backed Securities					
GNMA	N/A (1)	19,854	2.301	28,174	2.601
FHLMC Notes	AA+	535	2.917	703	2.700
Total Mortgage Backed Securities		20,389	2.317	28,877	2.603
Total Pooled Investments		1,856,938	1.746	1,538,417	2.150
Less: Joint Venture Pooled Investments		(49,415)		(52,064)	
Less: Short-Term Pooled Investments		(266,634)		(32,912)	
Net Pooled Investments		1,540,889		1,453,441	
Non-Pooled Investments					
U.S. Treasury Securities	N/A (1)	347,810	1.156	515,429	1.156
U.S. Treasury Securities Money Market Mutual Funds	AAAm	6,992	92.503	—	
U.S. Government Agency Securities					
FFCB Notes	AA+	5,497	3.589	2,985	3.589
FNMA Notes	AA+	4,562	1.337	4,972	1.337
FHLMC Notes	AA+	7,556	2.259	14,976	2.259
FHLB Notes	AA+	99,373	0.380	12,992	0.380
Total U.S. Government Agency Securities		116,988	0.689	35,925	0.689
Pre-Refunded Municipal Securities	N/A (2)	70	1.946	5,296	1.946
Investment in Land	N/A	872	1.190	—	
Total Non-Pooled Investments		472,732		556,650	
Less: Short-Term Non-Pooled Investments		(154,578)		(75,129)	
Net Non-Pooled Investments		318,154		481,521	
Total City Investments		\$ 1,859,043		\$ 1,934,962	

Notes:

(1) U.S. Government Guaranteed

(2) Pre-Refunded Municipal Securities for which the payment of interest, and ultimately the repayment of principal, is backed by the U.S. Government Securities.

(3) All Certificates of Deposit are insured by the FDIC.



Fair Value Hierarchy

Aviation Enterprise Fund investments are included in the City's pooled investments, therefore the fair value hierarchy mirrors that of the City. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30:

Investments by Fair Value Level	Fair Value Measurement Using:				Fair Value Measurement Using:			
	06/30/16	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	06/30/15	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government securities	\$ 1,244,592	\$ 1,244,592	\$ —	\$ —	\$ 1,502,370	\$ 1,502,370	\$ —	\$ —
U.S. Government agency obligations	925,197	—	925,197	—	463,419	—	463,419	—
U.S. Government agency MBS/CMO	20,330	—	20,330	—	28,788	—	28,788	—
Money market funds	6,992	6,992	—	—	—	—	—	—
Municipal bonds	9,564	—	9,564	—	40,274	—	40,274	—
Certificates of Deposit & CDARS	126,461	126,461	—	—	62,008	62,008	—	—
Investment in Land	872	—	—	872	—	—	—	—
Total investments and cash equivalents by fair value level	\$ 2,334,008	\$ 1,378,045	\$ 955,091	\$ 872	\$ 2,096,859	\$ 1,564,378	\$ 532,481	\$ —

U.S. Government securities totaling \$1,244,592,000 and \$1,378,941,000, Certificates of Deposit & CDARS totaling \$126,461,000 and \$62,008,000, in fiscal years 2016 and 2015, respectively, and Money Market Funds totaling \$6,992,000 in fiscal year 2016 are classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets.

U.S. Government agency obligations totaling \$925,197,000 and \$463,419,000, U.S. Government agency MBS/CMO totaling \$20,330,000 and \$28,788,000, and Municipal bonds totaling \$9,564,000 and \$40,274,000, in fiscal years 2016 and 2015, respectively, classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from a pricing source.

Investment in Land totaling \$872,000 in fiscal year 2016, classified in Level 3 of the fair value hierarchy is valued by appraisal using valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow model and similar techniques not on market, exchange, dealer or broker-traded transactions.

Interest Rate Risk

The Aviation Enterprise Fund follows the City's policies for interest rate risk. In order to limit interest rate risk, the City's investment policy limits maturities as follows:

U.S. Treasury Securities	5 year final maturity
Securities guaranteed, insured, or backed by the full faith and credit of the U.S. Government	5 year final maturity
U.S. Government Agency Securities	5 year final maturity
Repurchase Agreements	60 days
Municipal Obligations	5 years for long-term issuances
Money Market Mutual Funds	90 days
Commercial Paper	270 days

For Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO), the maximum weighted average life using current Public Securities Association (PSA) prepayment assumptions shall be 12 years at the time of purchase for MBS and 5 years at the time of purchase for CMO.

Credit Risk

The Aviation Enterprise Fund follows the City’s policies regarding credit risk. The City’s investment policy limits its purchase of investments to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor’s (S&P) and Moody’s Investors Service (Moody’s). The portfolio is primarily invested in securities issued by the U.S. Treasury or by U.S. Government Agency Securities which are rated Aaa by Moody’s and AA+ by S&P. Repurchase agreements are generally collateralized by U.S. Treasuries and U.S. Government Agency Securities at 102%. Municipal securities must have a short-term minimum rating of A1 by S&P and P1 by Moody’s and a long-term uninsured rating of A+ by S&P and A1 by Moody’s. The rating requirements do not apply to obligations issued by the City of Phoenix. Money market mutual funds must have a current minimum money market rating of AAAM by S&P and Aaa-mf by Moody’s. For commercial paper, an Issuer’s program must have a minimum rating of A1 by S&P and P1 by Moody’s. The issuing corporation must be organized and operating in the United States and have a minimum long-term debt rating of A+ by S&P and A1 by Moody’s. Programs rated by only one of the agencies are ineligible.

Concentration of Credit Risk

Aviation Enterprise Fund investments are included in the City’s pooled investments. Investments in any one issuer that represent 5% or more of total City investments are as follows (in thousands):

Issuer	2016	2015
Federal National Mortgage Association	7.03%	*
Federal Home Loan Mortgage Corporation	8.86%	7.57%
Federal Home Loan Bank	18.09%	9.45%
Federal Farm Credit Bank	5.67%	*

* Investment is less than 5% in 2015



3. RECEIVABLES

Receivables at June 30, 2016 and June 30, 2015 are stated net of the allowance for doubtful accounts, and are summarized as follows (in thousands):

	June 30, 2016				
	Accounts	Interest	Intergovern- mental (1)	Passenger Facility Charge	Total
Unrestricted	\$ 10,703	\$ —	\$ 180	\$ —	\$ 10,883
Restricted	3,144	4	6,426	7,649	17,223
Total Receivables	\$ 13,847	\$ 4	\$ 6,606	\$ 7,649	\$ 28,106

	June 30, 2015				
	Accounts	Interest	Intergovern- mental (1)	Passenger Facility Charge	Total
Unrestricted	\$ 12,122	\$ —	\$ 173	\$ —	\$ 12,295
Restricted	3,060	7	9,714	7,755	20,536
Total Receivables	\$ 15,182	\$ 7	\$ 9,887	\$ 7,755	\$ 32,831

(1) Intergovernmental Receivables include monies due from other governmental entities for grants.

An allowance for doubtful accounts of \$1,320,082 as of June 30, 2016 and \$97,528 as of June 30, 2015 has been established for the Aviation Enterprise Fund. Accounts Receivable includes unbilled charges of \$7,250,802 at June 30, 2016 and \$8,546,719 at June 30, 2015.

4. CAPITAL ASSETS

Capital asset activity for the Aviation Enterprise Fund at June 30, 2016 and June 30, 2015 was as follows (in thousands):

	Balances July 1, 2015	Additions	Deletions	Balances June 30, 2016
Non-depreciable assets:				
Land	\$ 573,007	\$ 1,188	\$ —	\$ 574,195
Artwork	7,533	6	(278)	7,261
Construction-in-Progress	90,984	114,283	(18,968)	186,299
Total non-depreciable assets	671,524	115,477	(19,246)	767,755
Depreciable assets:				
Buildings	1,619,698	7,318	(3,198)	1,623,818
Improvements	1,626,816	23,427	(13,579)	1,636,664
Equipment	606,621	21,464	(3,416)	624,669
Intangible Assets	23,521	2,009	(1,825)	23,705
Total depreciable assets	3,876,656	54,218	(22,018)	3,908,856
Less accumulated depreciation for:				
Buildings	(708,534)	(58,045)	3,198	(763,381)
Improvements	(844,307)	(65,702)	13,509	(896,500)
Equipment	(239,152)	(40,443)	2,861	(276,734)
Intangible Assets	(10,249)	(2,639)	1,825	(11,063)
Total accumulated depreciation	(1,802,242)	(166,829)	21,393	(1,947,678)
Total depreciable assets, net	2,074,414	(112,611)	(625)	1,961,178
Total capital assets, net	\$ 2,745,938	\$ 2,866	\$ (19,871)	\$ 2,728,933
	Balances July 1, 2014	Additions	Deletions	Balances June 30, 2015
Non-depreciable assets:				
Land	\$ 566,437	\$ 6,570	\$ —	\$ 573,007
Artwork	7,533	—	—	7,533
Construction-in-Progress	290,848	57,154	(257,018)	90,984
Total non-depreciable assets	864,818	63,724	(257,018)	671,524
Depreciable assets:				
Buildings	1,531,014	88,833	(149)	1,619,698
Improvements	1,505,025	122,854	(1,063)	1,626,816
Equipment	522,488	85,915	(1,782)	606,621
Intangible Assets	23,068	4,746	(4,293)	23,521
Total depreciable assets	3,581,595	302,348	(7,287)	3,876,656
Less accumulated depreciation for:				
Buildings	(652,312)	(56,371)	149	(708,534)
Improvements	(791,557)	(52,954)	204	(844,307)
Equipment	(188,741)	(51,857)	1,446	(239,152)
Intangible Assets	(12,005)	(2,509)	4,265	(10,249)
Total accumulated depreciation	(1,644,615)	(163,691)	6,064	(1,802,242)
Total depreciable assets, net	1,936,980	138,657	(1,223)	2,074,414
Total capital assets, net	\$ 2,801,798	\$ 202,381	\$ (258,241)	\$ 2,745,938

The amount of interest cost capitalized for the Aviation Enterprise Fund at June 30, 2016 and June 30, 2015 was \$571,606 and \$2,660,911, respectively.



5. LONG-TERM OBLIGATIONS

Changes in long-term obligations at June 30, 2016 and June 30, 2015 are summarized as follows (in thousands):

	Balances July 1, 2015	Additions	Reductions	Balances June 30, 2016	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$ 7,865	\$ —	\$ —	\$ 7,865	\$ —
Municipal Corporation Obligations					
Rental Car Facility Revenue Bonds	195,305	—	(9,255)	186,050	9,795
Aviation Revenue Bonds	1,156,490	114,440	(58,135)	1,212,795	40,730
Subtotal	1,359,660	114,440	(67,390)	1,406,710	50,525
Discounts/Premiums	51,069	14,051	(5,936)	59,184	—
Total Bonds and Notes Payable	1,410,729	128,491	(73,326)	1,465,894	50,525
Other Liabilities:					
Accrued Compensated Absences	6,224	6,420	(6,224)	6,420	825
Pollution Remediation	3,900	—	(1,525)	2,375	75
Net Pension Liability	172,577	8,210	—	180,787	—
Total Other Liabilities	182,701	14,630	(7,749)	189,582	900
Total Long-Term Obligations	\$ 1,593,430	\$ 143,121	\$ (81,075)	\$ 1,655,476	\$ 51,425
	Balances July 1, 2014	Additions	Reductions	Balances June 30, 2015	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$ 7,870	\$ —	\$ (5)	\$ 7,865	\$ —
Municipal Corporation Obligations					
Rental Car Facility Revenue Bonds	204,055	—	(8,750)	195,305	9,255
Aviation Revenue Bonds	1,192,065	—	(35,575)	1,156,490	37,320
Subtotal	1,403,990	—	(44,330)	1,359,660	46,575
Discounts/Premiums	55,996	—	(4,927)	51,069	—
Total Bonds and Notes Payable	1,459,986	—	(49,257)	1,410,729	46,575
Other Liabilities:					
Accrued Compensated Absences	6,389	6,224	(6,389)	6,224	794
Pollution Remediation	9,500	—	(5,600)	3,900	850
Net Pension Liability	133,150	—	39,427	172,577	—
Total Other Liabilities	149,039	6,224	27,438	182,701	1,644
Total Long-Term Obligations	\$ 1,609,025	\$ 6,224	\$ (21,819)	\$ 1,593,430	\$ 48,219

City of Phoenix, Arizona
Aviation Enterprise Fund
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Fiscal Years ended June 30, 2016 and 2015

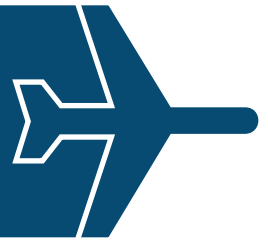
Issues of long-term debt were as follows at June 30, 2016 and June 30, 2015 (dollars in thousands):

June 30, 2016								
Issue Date	Purpose	Maturity Dates	Effective Interest Rate	Average Life (Years)	Original Amount	Principal Outstanding	Interest Outstanding	Unamortized Discount (Premium)
Municipal Corporation Obligations (1)								
06/18/08	Airport Revenue (Non-AMT) (2a)	7/1/20-38	5.02	22.5	\$ 206,840	\$ 206,840	\$ 149,336	\$ (430)
06/18/08	Airport Revenue (AMT) (2a)	7/1/12-19	4.68	7.8	43,160	18,255	1,950	(183)
06/18/08	Airport Revenue Refunding (Non-AMT) (2a)	7/1/09-22	4.26	8.0	109,850	53,730	9,257	(796)
06/18/08	Airport Revenue Refunding (AMT) (2a)	7/1/09-20	4.58	5.6	68,520	17,990	2,395	(287)
03/05/13	Airport Revenue Refunding (AMT) (2a)	7/1/14-32	3.28	11.8	196,600	176,080	83,872	(24,157)
Total Sr. Lien Obligations					624,970	472,895	246,810	(25,853)
09/01/10	Airport Revenue (Non-AMT) (2b) (3)	7/1/13-40	4.69	19.0	642,680	572,850	410,816	(18,024)
09/01/10	Airport Revenue (Taxable) (2b) (3) (4)	7/1/2040	3.67	29.8	21,345	21,345	33,810	—
09/01/10	Airport Revenue Refunding (Non-AMT) (2b)	7/1/23-25	4.33	13.9	32,080	32,080	12,884	(1,414)
12/15/15	Airport Revenue (Non-AMT) (2b) (3)	7/1/16-45	3.99	18.6	95,785	94,970	84,403	(11,263)
12/15/15	Airport Revenue Refunding (Non-AMT) (2b) (3)	7/1/34	4.08	18.5	18,655	18,655	16,790	(2,376)
Total Jr. Lien Obligations					810,545	739,900	558,703	(33,077)
06/02/04	Rental Car Facility (Taxable) (5)	7/1/07-29	6.20	16.5	260,000	186,050	90,528	—
Total Municipal Corporation Obligations					1,695,515	1,398,845	896,041	(58,930)
General Obligation Bonds								
06/24/14	Refunding	7/1/19-20	2.71	5.4	7,865	7,865	674	(254)
Total General Obligation Bonds					7,865	7,865	674	(254)
Total Aviation Enterprise Fund Bonds					\$ 1,703,380	\$ 1,406,710	\$ 896,715	\$ (59,184)

June 30, 2015								
Issue Date	Purpose	Maturity Dates	Effective Interest Rate	Average Life (Years)	Original Amount	Principal Outstanding	Interest Outstanding	Unamortized Discount (Premium)
Municipal Corporation Obligations (1)								
06/18/08	Airport Revenue (Non-AMT) (2a)	7/1/20-38	5.02	22.5	\$ 206,840	\$ 206,840	\$ 159,676	\$ (460)
06/18/08	Airport Revenue (AMT) (2a)	7/1/12-19	4.68	7.8	43,160	23,745	3,196	(299)
06/18/08	Airport Revenue Refunding (Non-AMT) (2a)	7/1/09-22	4.26	8.0	109,850	61,345	12,145	(1,045)
06/18/08	Airport Revenue Refunding (AMT) (2a)	7/1/09-20	4.58	5.6	68,520	21,805	3,528	(423)
03/05/13	Airport Revenue Refunding (AMT) (2a)	7/1/14-32	3.28	11.8	196,600	183,170	93,030	(26,795)
Total Sr. Lien Obligations					624,970	496,905	271,575	(29,022)
09/01/10	Airport Revenue (Non-AMT) (2b) (3)	7/1/13-40	4.69	19.0	642,680	606,160	458,963	(20,128)
09/01/10	Airport Revenue (Taxable) (2b) (3) (4)	7/1/2040	3.67	29.8	21,345	21,345	35,219	—
09/01/10	Airport Revenue Refunding (Non-AMT) (2b)	7/1/23-25	4.33	13.9	32,080	32,080	14,488	(1,590)
Total Jr. Lien Obligations					696,105	659,585	508,670	(21,718)
06/02/04	Rental Car Facility (Taxable) (5)	7/1/07-29	6.20	16.5	260,000	195,305	102,550	—
Total Municipal Corporation Obligations					1,581,075	1,351,795	882,795	(50,740)
General Obligation Bonds								
06/24/14	Refunding	7/1/19-20	2.71	5.4	7,865	7,865	871	(329)
Total General Obligation Bonds					7,865	7,865	871	(329)
Total Aviation Enterprise Fund Bonds					\$ 1,588,940	\$ 1,359,660	\$ 883,666	\$ (51,069)

Notes:

- (1) Enhanced by a municipal bond insurance policy, a reserve account surety bond, or a debt service reserve fund.
- (2) The City has pledged net airport revenues as security for these bonds. The net revenues pledged are as follows:
 - (a) Senior lien pledge on all outstanding airport obligations.
 - (b) Junior lien pledge on all outstanding airport obligations.
- (3) The City has further pledged an irrevocable commitment of 100% of net proceeds of a passenger facility charge for these bonds, with the exception of the Series 2015A bonds. The Series 2015A bonds have a pledge equivalent to 30% of the principal and interest requirement. The Passenger Facility Charge (PFC) is currently imposed at the rate of \$4.50 per qualifying enplaned passenger.
- (4) The City has irrevocably elected to treat these bonds as RZEDB for purposes of the American Recovery and Reinvestment Act of 2009 and the Internal Revenue Code of 1986. The RZEDB subsidy payments rebate 45% of the interest requirement for these bonds. On March 1, 2013, the federal government announced the implementation of certain automatic budget cuts known as the sequester, which has resulted in a reduction of the federal subsidy payments by 6.8% and 7.3% (the Sequester Reductions) for the fiscal years 2016 and 2015, respectively. However, the City does not expect the Sequester Reductions to have a material adverse effect on its ability to make payments of interest on this issue.
- (5) The City has made a first priority pledge of a \$4.50 per day car rental usage fee to be paid by rental car customers arriving at Phoenix Sky Harbor International Airport as security for the bonds.



The Aviation Enterprise Fund, through the City, has complied with all significant financial covenants of its bonded indebtedness. A brief description of the Aviation Enterprise Fund's long-term obligations follows.

Municipal Corporation Obligations

The Aviation Enterprise Fund, through the City, has entered into certain agreements with the City of Phoenix Civic Improvement Corporation (the "CIC") an affiliated nonprofit corporation, for the construction and acquisition of certain facilities and equipment. Under the terms of these agreements, the CIC issued bonds or certificates of participation to finance the facilities and equipment, and the Aviation Enterprise Fund, through the City, agreed to make lease and purchase payments sufficient to pay principal and interest on the outstanding obligations. The Aviation Enterprise Fund, through the City, also pays all expenses of operating and maintaining the facilities and equipment.

In December 2015, the CIC issued \$95,785,000 of Junior Lien Airport Revenue Bonds, Series 2015A (Non-AMT). Proceeds of the bonds refunded \$100,000,000 aggregate outstanding principal of Airport Commercial Paper Program Notes, Series 2014A-1 and 2014A-2. The bonds have an average life of 18.6 years and were sold at an all-in true interest cost of 3.99%.

In December 2015, the CIC issued \$18,655,000 of Junior Lien Airport Revenue Refunding Bonds, Series 2015B (Non-AMT). Proceeds of the bonds refunded \$20,000,000 of Junior Lien Airport Revenue Bonds, Series 2010A (Non-AMT). The bonds have an average life of 18.5 years, were sold at a true interest cost of 4.08% and produced present value debt service savings, net of transaction costs, of \$2,515,668.

General Obligation Bonds

The Aviation Enterprise Fund, through the City, has issued General Obligation Bonds for capital programs. The debt service requirements have been paid from Net Airport Revenues remaining after payment of senior lien and junior lien airport revenue bonded debt service requirements. In the event such Net Airport Revenues should prove insufficient to pay airport general obligation debt service requirements or should the Aviation Enterprise Fund, through the City, decide not to pay the debt service from Net Airport Revenues, this indebtedness would then be paid from ad valorem taxes (secondary property taxes) or other available sources.

Debt Service Requirements

Debt service requirements, including principal and interest are as follows (in thousands):

Fiscal Years	Municipal Corporation Obligations					
	Senior Lien		Junior Lien		Rental Car Facility	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 25,235	\$ 23,562	\$ 15,495	\$ 37,092	\$ 9,795	\$ 11,478
2018	26,575	22,275	16,270	36,321	10,370	10,903
2019	27,935	20,984	16,980	35,611	10,990	10,284
2020	29,505	19,625	17,805	34,783	11,645	9,628
2021	25,710	18,151	18,655	33,934	12,365	8,910
2022 – 26	103,785	73,519	140,220	151,638	74,275	32,106
2027 – 31	119,650	47,150	137,715	117,200	56,610	7,219
2032 – 36	82,680	19,138	174,710	79,025	—	—
2037 – 41	31,820	2,406	180,115	30,291	—	—
2042 – 46	—	—	21,935	2,808	—	—
Total	\$ 472,895	\$ 246,810	\$ 739,900	\$ 558,703	\$ 186,050	\$ 90,528

Fiscal Years	General Obligation Bonds	
	Principal	Interest
2017	\$ —	\$ 197
2018	—	197
2019	4,520	197
2020	3,345	83
Total	\$ 7,865	\$ 674

Pollution Remediation

This liability is primarily a result of leaking underground storage tanks at the Airport and Phoenix Goodyear Airport. The tanks at the Airport were discovered to be leaking in 1988 and the Aviation Enterprise Fund is implementing a corrective action plan which was approved by the Arizona Department of Environmental Quality (ADEQ) to ensure the contamination does not spread. The remediation of a fuel release at Phoenix Goodyear Airport discovered in the 1980's is being implemented as approved by the United States Environmental Protection Agency (US EPA). The total remaining liability for all remediation activities for the Aviation Enterprise Fund as of June 30, 2016 and June 30, 2015 is \$2,375,000 and \$3,900,000, respectively. This liability is based on estimates by engineers of the efforts needed to complete the remediation. These costs are expected to increase over time due to inflation, which will affect the liability amounts in future years.

6. REFUNDED, REFINANCED AND DEFEASED OBLIGATIONS

Future debt service on refunded bonds has been provided through advanced refunding bond issues whereby refunding bonds are issued and the net proceeds, plus any additional resources that may be required, are used to purchase securities issued and guaranteed by the United States government. These securities are then deposited in an irrevocable trust under an escrow agreement which states that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flows generated by the securities, will be sufficient to service the previously issued bonds.



During fiscal year 2016, the City issued Junior Lien Airport Revenue Refunding Bonds, Series 2015B (Non-AMT). These bonds reduced the present value of future debt service payments. These savings were available due to improved municipal bond market conditions (i.e., lower interest rates) during the year. The effect of the refunding is summarized as follows (in thousands):

	Junior Lien Airport Revenue
Series	2015B
Closing Date	12/15/15
Net Interest Rate	4.32%
Refunding Bonds Issued	\$ 18,655
Premium	2,447
Underwriter's Discount	(85)
Issuance Costs and Insurance	(149)
Net Proceeds	<u>\$ 20,868</u>
Refunded Amount	\$ 20,000
Decrease in Debt Service	2,592
Economic Gain	2,516
Number of Years Affected	19

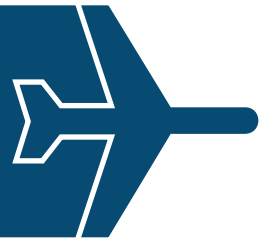
The deferred and amortized amounts of accounting gains and losses on bond refundings (which are reported as deferred inflows or deferred outflows) at June 30, 2016 and June 30, 2015, are summarized as follows (in thousands):

	June 30, 2016			
	Deferred		Amortization	Deferred
	Amount	Additions	Gains/(Losses)	Amount
	July 1	(Gains)/Losses	Gains/(Losses)	June 30
Deferred Outflows of Resources				
Municipal Corporation Obligations	\$ 1,329	\$ —	\$ (228)	\$ 1,101
Deferred Inflows of Resources				
Municipal Corporation Obligations	—	(802)	42	(760)
General Obligation Bonds	(128)	—	128	—
Total	\$ 1,201	\$ (802)	\$ (58)	\$ 341
	June 30, 2015			
	Deferred		Amortization	Deferred
	Amount	Additions	Gains/(Losses)	Amount
	July 1	(Gains)/Losses	Gains/(Losses)	June 30
Deferred Outflows of Resources				
Municipal Corporation Obligations	\$ 1,641	\$ —	\$ (312)	\$ 1,329
Deferred Inflows of Resources				
General Obligation Bonds	(256)	—	128	(128)
Total	\$ 1,385	\$ —	\$ (184)	\$ 1,201

7. COMMERCIAL PAPER NOTES PAYABLE

In December 2015, the CIC issued Junior Lien Airport Revenue Refunding Bonds, Series 2015A (Non-AMT) to refund \$100,000,000 aggregate principal of Airport Commercial Paper (CP) Program Notes, Series 2014A-1 and 2014A-2. On June 1, 2016, the City issued \$60,000,000 of Airport CP, Series 2014B-1 and \$30,000,000 of Airport CP, Series 2014B-2 for the Terminal 3 Modernization project. The remaining outstanding balances at June 30, 2016 are \$100,000,000 of Airport CP, Series 2014B-1 and \$30,000,000 of Airport CP, Series 2014B-2. The CP is issued in varying maturities up to 270 days. Interest rates paid on the CP range from 0.02% through 0.53%. The CP is secured by letters of credit issued by Bank of America, N.A. and Barclays Bank PLC for Airport CP Series 2014ABC-1 and Airport CP, Series 2014ABC-2, respectively.

	2016	2015
Balance, July 1	\$ 140,000	\$ 120,000
Additions	90,000	160,000
Reductions	(100,000)	(140,000)
Balance, June 30	\$ 130,000	\$ 140,000



8. RISK MANAGEMENT

The Aviation Enterprise Fund maintained a combination of commercial insurance and self-insurance during the fiscal years ended June 30, 2016 and June 30, 2015, as described below.

Liability – The Aviation Enterprise Fund purchased commercial airport liability insurance specifically covering Airport premises and operations for the Airport System. The stand-alone insurance program provides first dollar coverage through a combination of both primary and excess liability policies. Additionally, general Aviation Enterprise Fund liabilities other than airport operations are covered under the City’s self-insurance program, which has a \$7,500,000 retention. Excess liability coverage was purchased for losses that exceed the self-insured retention.

Property – Aviation Enterprise Fund property is insured under the City’s blanket commercial property and boiler/machinery insurance purchased for City owned buildings and structures.

Workers’ Compensation – As City employees, Aviation Enterprise Fund employees have the same benefits package as their City co-workers, whether purchased commercially or self-insured. The City maintained a self-insured retention of \$15,000,000 for its workers’ compensation exposure. Excess workers’ compensation insurance was purchased for losses exceeding the self-insured retention.

Fidelity and Surety – Aviation Enterprise Fund officials and employees are covered by public official bonds and surety bonds as required by state statute or City Charter. Further, the City’s blanket “Crime” policy extends to Aviation Enterprise Fund employees.

Health and Dental – Health insurance plans for Aviation Enterprise Fund employees were self-insured through the City of Phoenix Health Care Benefits Trust fiduciary fund. Dental coverage was provided through two different plans. A dental PPO was self-insured through the City of Phoenix Health Care Benefits Trust and a dental HMO was provided through commercial insurance accounted for in the City of Phoenix General Fund.

The Aviation Enterprise Fund is included in the City’s self-insurance reserve. Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on an actuarial analysis of reported claims and estimates of claims incurred but not reported.

With the exception of health, dental and long-term disability, the City reports its self-insurance activities in the City General Fund, the Transit Special Revenue Fund and the Government-Wide Statement of Net Position, with the other funds reimbursing the General Fund for their share of the cost of the City’s self-insurance program. Settlements have not exceeded coverages for each of the last three fiscal years.

Long-term disability benefits for Aviation Enterprise Fund employees were self-insured through the City of Phoenix Long-Term Disability Trust fiduciary fund. As a partially funded other post-employment benefit, no liability is reflected. Claims that are expected to be paid with expendable available financial resources are accounted for in the City of Phoenix General Fund. All other claims are accounted for in the City’s government-wide statement of net position. For additional information regarding the City’s Risk Management policies, including information on fiduciary funds, please refer to Note 13 in the Notes to the Financial Statements in the City CAFR.

9. OPERATING LEASES

The Aviation Enterprise Fund leases certain airport facilities to third parties. Minimum future rentals on non-cancelable operating leases at June 30, 2016 were as follows (in thousands):

Years Ending June 30		
2017	\$	73,728
2018		50,611
2019		31,732
2020		29,729
2021		28,219
2022-2069		<u>212,647</u>
Total	\$	<u>426,666</u>

The above amounts do not include contingent rentals, which also may be received under the Aviation Enterprise Fund facilities leases, primarily as a percentage of sales in excess of stipulated minimums. Contingent rentals amounted to \$10,483,293 for the fiscal year ended June 30, 2016, and \$10,874,731 for the fiscal year ended June 30, 2015. A summary of the assets leased to third parties under the Aviation Enterprise Fund operating lease agreements at June 30, 2016 and June 30, 2015, is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Buildings	\$ 1,029,896	\$ 1,024,871
Less: Accumulated Depreciation	<u>(603,862)</u>	<u>(566,646)</u>
Net Book Value	<u>\$ 426,034</u>	<u>\$ 458,225</u>

10. CONTRACTUAL AND OTHER COMMITMENTS

The Aviation Enterprise Fund has entered into various construction contracts and these commitments have not been recorded in the accompanying financial statements. Only the currently payable portions of these contracts have been included in accounts payable in the accompanying financial statements. Commitments of \$411.8 million and \$115.4 million are remaining at June 30, 2016 and June 30, 2015, respectively.

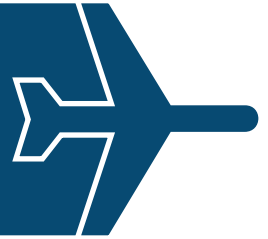
11. CONTINGENT LIABILITIES

Pending Litigation

The Aviation Enterprise Fund, through the City, is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. As discussed in Note 7 (and in more detail in Note 13 in the Notes to the Financial Statements of the City CAFR), the Aviation Enterprise Fund, through the City, is primarily self-insured, and has accrued a liability for estimated claims outstanding. As with any risk retention program, however, the Aviation Enterprise Fund, through the City, is contingently liable in respect to claims beyond those currently accrued. In the opinion of City management, based on the advice of the City Attorney, the outcome of such claims will not have a material adverse effect on the Aviation Enterprise Fund's financial position, results of operations or liquidity at June 30, 2016.

Sick Leave

Aviation Enterprise Fund employees are covered under the same sick leave benefits as City employees. Sick leave is continuously accumulated at the rate of 15 days per year but can only be taken in the event



of illness. Upon retirement, for every 173 hours of unused sick leave, one month of creditable service is allowed in determining a General Employee Retirement Plan pension. A balance of over 80 hours after making the above calculation will allow an extra month of creditable service. The dollar amount of any cash payment as described below is included in the final average compensation, but the hours used are excluded from credited service.

Supervisory and Professional, Confidential Office and Clerical, Field Unit 1, Field Unit 2, and Office and Clerical employees who have accumulated 750 qualifying hours or more of unused sick leave at the time of normal service retirement are eligible to receive a payment equal to their base hourly rate for 25% of the hours in excess of 250 hours.

Middle management and Executive General City employees who have accumulated 750 qualifying hours or more of accrued or unused sick leave at the time of normal service retirement are eligible to receive a payment up to 20% of their base hourly rate. Payment percentage is increased by 1% for each full year of service in excess of 20 years to a maximum of 50%.

Sick leave is accrued as a liability as it is earned by the employees only if the leave is attributable to past service and it is probable that the employees will be compensated through cash payments conditioned on the employees' termination or retirement. In accordance with these criteria, a portion of the sick leave accumulated by general employees as described above has been accrued as a liability in the accompanying financial statements. The June 30, 2016 actuarial valuation of the sick leave liability was based on the termination method, with the liability pro-rated based on the current service of a participant. The projected sick leave benefit payment under the termination method is calculated as the maximum sick leave hours eligible for payment multiplied by the probability of an individual employee reaching retirement multiplied by the employee's projected salary at first eligibility for retirement pro-rated based on the employee's current service to date over the projected service to retirement increased by the cost of salary-related fringe benefits.

The Aviation Enterprise Fund employees' sick leave benefit balances (both accrued and unaccrued) at June 30, 2016 and June 30, 2015, were as follows (in thousands):

	2016	2015
Sick Leave Benefit	\$ 14,862	\$ 14,650
Less: Amount Accrued as a Liability	(1,858)	(1,761)
Total Sick Leave Benefit Balance	<u>\$ 13,004</u>	<u>\$ 12,889</u>

Liabilities Under Grants

The Aviation Enterprise Fund participates in a number of federal and state assisted grant programs. The audits of these programs for earlier years and the year ended June 30, 2016 have not been completed in all cases; accordingly, final determination of the Aviation Enterprise Fund's compliance with applicable grant requirements will be determined at a future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although City management believes any such claims would be immaterial to the Aviation Enterprise Fund's financial position at June 30, 2016.

12. DEFERRED COMPENSATION PLAN (DCP)

Aviation Enterprise Fund employees are covered under the same Deferred Compensation Plan and Defined Contribution Plan as City Employees. The City established the Deferred Compensation Plan and the Defined Contribution Plan to provide eligible employees with a means to supplement retirement income.

The Deferred Compensation Plan was created in accordance with Internal Revenue Code Section 457. It allowed eligible employees to defer up to \$18,000 of their salaries during calendar years 2016 and 2015. The plan has numerous investment options and allows enrollment or changes on an ongoing basis. A 1996 federal law requires all assets and income of Internal Revenue Code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of participants and their beneficiaries. On September 23, 1998, the City Council approved Ordinance No.S-25613 that amended the Plan to comply with the 1996 federal law. The Ordinance established a trust into which all assets of the Plan were transferred December 4, 1998.

The Defined Contribution Plan was created in accordance with Internal Revenue Code Section 415(c) (1)(A) and provides employees with an additional option for tax-deferred retirement savings. Eligible employees may make personal contributions to the Plan by electing to defer a designated percentage of their salary to the Plan. Employee contribution elections are irrevocable. The 2016 and 2015 annual contribution limit was \$53,000 each year. The City also contributes to the Plan on behalf of eligible employees in an amount equal to a percentage of employee's base annual salary. The Aviation Enterprise Fund, through the City, contributed \$772,193 for the year ended June 30, 2016, and \$1,019,235 for the year ended June 30, 2015.

A governing board makes decisions about fund options available under both plans. Due to the tax-deferred nature of the Plans, generally speaking, the funds cannot be withdrawn while still employed by the City, unless a severe financial hardship exists. IRS regulations provide guidance regarding hardship withdrawals. Nationwide Investment Services Corporation is currently the administrator for both Plans.

13. PENSION PLAN

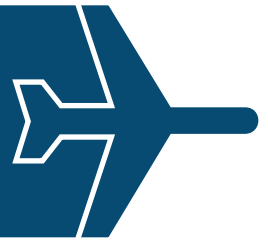
Plan Description

Aviation Enterprise Fund full-time employees are covered by the City of Phoenix Employees' Retirement Plan (COPERS), a single-employer defined benefit pension plan (the Plan), established by the Phoenix City Charter. The purpose of COPERS is to provide retirement, disability retirement, and survivor benefits to its members. The Plan can be amended or repealed by a vote of the residents of the City.

The general administration, management and operation of COPERS is vested in a nine-member Retirement Board consisting of three elected employee members, four statutory members, a citizen member and a retiree member. The Retirement Board appoints the Retirement Program Administrator and contracts investment counsel and other services necessary to properly administer the Plan.

Employees participate in the plan upon beginning employment with the City. COPERS' membership data is as follows:

	June 30	
	2016	2015
Active Members		
Tier 1	6,416	6,741
Tier 2	953	722
Tier 3	414	—
Subtotal	<u>7,783</u>	<u>7,463</u>
Terminated Vested	<u>885</u>	<u>901</u>
In-Pay Members		
Service Retirees	5,576	5,419
Disabled Retirees	249	251
Beneficiaries	<u>1,060</u>	<u>1,018</u>
Subtotal	<u>6,885</u>	<u>6,688</u>
Total Members	<u><u>15,553</u></u>	<u><u>15,052</u></u>



Plan Benefits

Benefits are calculated on the basis of a given rate, final average compensation and service credit.

Tier 1 Pension Benefits: Employees hired prior to July 1, 2013 are eligible for retirement benefits upon meeting one of the following age and service requirements:

1. Age 60 years, with ten or more years of credited service.
2. Age 62 years, with five or more years of credited service.
3. Any age, which added to years of credited service equals 80.

The pension benefit for Tier 1 employees is based on 2% of final average compensation multiplied by the first 32.5 years of service credit, 1% in excess of 32.5 years to 35.5 years, and 0.5% thereafter.

Tier 2 and 3 Pension Benefits: Employees hired on or after July 1, 2013 for Tier 2 and January 1, 2016 for Tier 3 are eligible for retirement benefits upon meeting one of the following age and service requirements:

1. Age 60 years, with ten or more years of credited service.
2. Age 62 years, with five or more years of credited service.
3. Any age, which added to years of credited service, equals 87.

The pension benefit for Tier 2 employees is based on 2.1% of final average compensation multiplied by years of service credit for those with less than 20 years, 2.15% for 20-24.9 years, 2.2% for 25-29.9 years and 2.3% thereafter.

A deferred pension is available at age 62 for terminated members with five or more years of service credit who leave their accumulated contributions in the Plan.

A member who becomes permanently disabled for the performance of duty is eligible for a disability benefit if the disability is 1) due to personal injury or disease and the member has ten or more years of service credit or 2) due to injuries sustained on the job, regardless of service credit.

Dependents of deceased members may qualify for survivor benefits if the deceased member had ten or more years of service credit or if the member's death was in the line of duty with the City and compensable under the Workman's Compensation Act of the State of Arizona. Chapter XXIV, Section 25 of the City Charter, specifies the conditions for eligibility of survivor benefits.

A supplemental post-retirement payment and permanent benefit increase (under the Pension Equalization Program) may be provided to Tier 1 and Tier 2 retirees if sufficient reserves are available at the end of the fiscal year. The reserve is funded if the five-year average investment return exceeds 8%.

Contributions and Funding Policy

The City contributes an actuarially determined percentage of payroll to COPERS, as required by City Charter, to fully fund benefits for active members and to amortize any unfunded actuarial liability as a level percent of projected member payroll over a closed 22 year period. For the fiscal year ended June 30, 2016, the total contribution rate was 25.29% of compensation. Tier 1 employees contributed 5% of compensation, Tier 2 employees contributed 15.51% of compensation through December 31, 2015 and beginning January 1, 2016, Tier 2 and Tier 3 employees contributed 11.0% and the City contributed the remainder, \$119,844,000.

Net Pension Liability

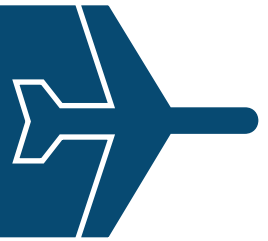
The City's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the same date. The Airport's net pension liability is the department's proportionate share of the City's total liability.

City of Phoenix, Arizona
Aviation Enterprise Fund
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Fiscal Years ended June 30, 2016 and 2015

	Total Pension Liability (TPL) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (NPL) (a)-(b)
Balance at June 30, 2015	\$ 3,975,907	\$ 2,209,526	\$ 1,766,381
Changes for the Year:			
Service Cost	80,757	—	80,757
Interest	293,206	—	293,206
Changes in Benefits	(3,229)	—	(3,229)
Differences between Expected and Actual Experience	(76,891)	—	(76,891)
Changes in Assumptions	(69,420)	—	(69,420)
Contributions - Employer	—	119,844	(119,844)
Contributions - Member	—	29,306	(29,306)
Net Investment Income	—	9,171	(9,171)
Benefit Payments	(216,193)	(216,193)	—
Administrative Expense	—	(233)	233
Net Changes	8,230	(58,105)	66,335
Balance at June 30, 2016	\$ 3,984,137	\$ 2,151,421	\$ 1,832,716
Balance at June 30, 2014	\$ 3,614,784	\$ 2,222,242	\$ 1,392,542
Changes for the Year:			
Service Cost	75,310	—	75,310
Interest	266,355	—	266,355
Changes in Benefits	—	—	—
Differences between Expected and Actual Experience	(31,009)	—	(31,009)
Changes in Assumptions	254,870	—	254,870
Contributions - Employer	—	117,092	(117,092)
Contributions - Member	—	27,861	(27,861)
Net Investment Income	—	47,148	(47,148)
Benefit Payments	(204,403)	(204,403)	—
Administrative Expense	—	(414)	414
Net Changes	361,123	(12,716)	373,839
Balance at June 30, 2015	\$ 3,975,907	\$ 2,209,526	\$ 1,766,381

COPERS is reflected as a pension trust fund of the City. Detailed information about the plan's fiduciary net position is available in the separately issued COPERS Comprehensive Annual Financial Report available online at www.phoenix.gov/copers.

The Aviation Enterprise Fund's proportionate share of the net pension liability (in thousands) was \$180,787 at June 30, 2016 and \$172,577 at June 30, 2015.



Actuarial Assumptions

Actuarial assumptions used to determine the total pension liability in the June 30, 2016 valuation were based on the results of the actuarial experience study covering the period from July 1, 2009 through June 30, 2014. Those assumption, applied to all periods included in the measurement, are as follows:

Investment Rate of Return	7.50%
Inflation	3.50%
Salary Increases	Inflation plus merit component based on age ranging from 6.60% at age 20 to 0.00% for members age 65 and older
COLA	1.50%

Mortality rates were based on CalPERS Employee Mortality and CalPERS Healthy Annuitant tables both without Scale BB Projection, and also the RP2014 Disabled Retiree Mortality table without MP-2014 Protection. The member contribution crediting rate was updated for the June 30, 2016 actuarial valuation to reflect the provision of the ballot measure that passed in August, 2015.

Based on the assumption that employee and City contributions to COPERS will continue to follow the established contribution policy and the sufficiency of the Fiduciary Net Position, the long-term expected rate of return on System investments, 7.5%, was applied as the single rate to all periods of projected benefit payments to determine the total pension liability.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return (Arithmetic)
Broad US Equity	22%	6.4
Broad International Equity	19	7.7
Intermediate Duration Fixed Income	20	2.6
Emerging Markets Debt Hard	5	5.1
Real Estate	15	6.3
Diversified Hedge Funds	10	4.3
Private Equity	1	7.3
Diversified Inflation Strategies	8	4.6

Sensitivity of the Net Position Liability to Changes in the Discount Rate

The table below presents the net pension liability of the System calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using the discount rate that is 1.0% lower (6.5%) or 1.0% higher (8.5%) than the current rate at June 30, 2016:

Sensitivity of Net Pension Liability to Changes in Discount Rate
 (in thousands)

	1% Decrease (6.5 %)	Discount Rate (7.5 %)	1% Increase (8.5 %)
Total Pension Liability	\$ 4,475,602	\$ 3,984,137	\$ 3,574,561
Plan Fiduciary Net Position	2,151,421	2,151,421	2,151,421
Net Pension Liability	<u>\$ 2,324,181</u>	<u>\$ 1,832,716</u>	<u>\$ 1,423,140</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.1%	54.0%	60.2%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension
 For the years ended June 30, 2016 and 2015, the City recognized pension expense of \$248,211,000 and \$217,991,000, respectively. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Schedule of Deferred Inflow and Outflows of Resources		
(in thousands)		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ —	\$ 80,119
Changes in Assumptions	152,922	55,536
Net Difference Between Projected and Actual on Pension Plan Investments	193,642	—
Total	\$ 346,564	\$ 135,655
Aviation Proportionate Share of Deferred Inflows and Outflows of Resources	\$ 34,187	\$ 13,382

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Measurement Year Ended June 30	
2017	\$ 69,786
2018	69,786
2019	69,786
2020	1,551
2021	—
Thereafter	—

14. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Post-Employment Healthcare and Long-Term Disability Program

The Aviation Enterprise Fund, through the City, provides certain post-employment health care benefits for its retirees. Retirees meeting certain qualifications are eligible to participate in the City's health insurance program along with the City's active employees. As of August 1, 2007, separate rates have been established for active and retiree health insurance.

Medical Expense Reimbursement Plan

Employees eligible to retire in 15 years or less from August 1, 2007, will receive a monthly subsidy from the City's Medical Expense Reimbursement Plan (MERP) when they retire. The MERP is a single-employer, defined benefit plan. Contributions by the City (plus earnings thereon) are the sole source of funding for the MERP.

The purpose of the monthly subsidy is to reimburse retirees for qualified medical expenses. The subsidy varies with length of service or bargaining unit, from \$117 to \$202 per month. Retirees may be eligible for additional subsidies depending on their bargaining unit, retirement date, or enrollment in the City's medical insurance program. Current and future eligible retirees who purchase health insurance through the City's plan during retirement will receive an additional subsidy to minimize the impact of unblending health insurance rates for active and retired employees.



The City established the City of Phoenix MERP Trust to fund all or a portion of the City's share of liabilities incurred in providing the benefits as reflected in Administrative Regulation 2.42 – Medical Expense Reimbursement Plan for Retirees and Eligible Surviving Spouses or Qualified Domestic Partners. A five-member Board of Trustees has been delegated responsibility for fiduciary oversight of the MERP Trust, subject to oversight of the City Council.

The City's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual MERP related OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

Annual required contribution	\$ 27,897
Interest on OPEB obligation	—
Contributions from the City	<u>27,898</u>
Increase in net OPEB obligation	(1)
Net OPEB obligation, beginning of year	<u>1</u>
Net OPEB obligation, end of year	<u><u>\$ —</u></u>

The City's annual MERP related OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/(asset) since implementation were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
06/30/16	\$ 27,897	\$ 27,897	100.0%	\$ —
06/30/15	27,937	27,936	100.0	1
06/30/14	29,508	29,508	100.0	—
06/30/13	34,021	34,021	100.0	—
06/30/12	33,456	33,456	100.0	—
06/30/11	38,007	38,007	100.0	—
06/30/10	37,574	17,204	45.8	—
06/30/09	37,967	43,579	114.8	(20,370)
06/30/08	39,000	53,758	137.8	(14,758)

As of July 1, 2015, the most recent actuarial valuation date, MERP benefits were funded by the City to a dedicated MERP Trust. The actuarial accrued liability for benefits was \$433,805,000 and the actuarial value of assets was \$138,466,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$295,339,000. The covered payroll (annual payroll of active employees covered by the plan) was \$379,302,000 and the ratio of the UAAL to the covered payroll was 77.9 percent.

The following table summarizes the more significant actuarial methods and assumptions used to calculate the ARC.

Valuation date	07/01/15
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	27 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increase	N/A
Inflation rate	3%
Pre-medicare healthcare cost trend	5% – 9%
Post-medicare healthcare cost trend	5% – 6%

The number of participants as of July 1, 2015, the effective date of the biennial OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

	General City	Public Safety	Total
Active employees	2,936	2,385	5,321
Retirees and Beneficiaries	5,672	2,528	8,200
Total	8,608	4,913	13,521

Post-Employment Health Plan

Employees eligible to retire in more than 15 years from August 1, 2007 who have payroll deductions for City medical insurance coverage are entitled to a \$150 monthly contribution to a Post-Employment Health Plan (PEHP) account in lieu of MERP subsidies. PEHP is a 100% employer-paid defined contribution. Funds accumulated in the account can be used upon termination of employment for qualified medical expenses. The current administrator of the plan is Nationwide Retirement Solutions.

Long-Term Disability Program

Long-term disability (LTD) benefits are available to regular, full-time, benefit-eligible employees who have been employed by the City for at least 12 consecutive months. The program provides income protection of 2/3 of an employee's monthly base salary following a continuous three-month waiting period from the last day worked and the use of all leave accruals. The benefit continues to age 80 for those disabled prior to July 1, 2013 and age 75 for those disabled on or after July 1, 2013. Contributions to the LTD Trust by the City, plus earnings thereon, are the sole source of funding for the LTD program. The City pays 100 percent of the cost of this benefit.

The City established the City of Phoenix Long-Term Disability Trust to fund all or a portion of the City's liabilities incurred in providing the benefits as reflected in Administrative Regulation 2.323 City of Phoenix Long-Term Disability Program. A five-member Board of Trustees has been delegated fiduciary responsibility for the LTD Trust, subject to oversight by the City Council. The LTD Trust issues a separate report that can be obtained through the City of Phoenix, Finance Department, Financial Accounting and Reporting Division, 251 W. Washington Street, 9th Floor, Phoenix, Arizona, 85003.

The City's annual LTD related OPEB expense is calculated based on the ARC, an amount determined actuarially in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual LTD related OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB asset (in thousands):



Annual required contribution*	\$ 1,152
Interest on Net OPEB Asset	78
Contributions made	<u>1,335</u>
Increase in OPEB Asset	261
Net OPEB asset, beginning of year	<u>1,121</u>
Net OPEB asset, end of year	<u><u>\$ 1,382</u></u>

* The City does not calculate an adjustment to the ARC based on the value of the OPEB Asset.

The City's annual LTD related OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset since implementation were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
06/30/16	\$ 1,074	\$ 1,335	124.3%	\$ 1,382
06/30/15	2,578	2,581	100.1	1,121
06/30/14	2,719	2,751	101.2	1,118
06/30/13	2,872	2,971	103.4	1,086
06/30/12	2,391	2,018	84.4	987
06/30/11	2,965	997	33.6	1,360
06/30/10	2,456	848	34.5	3,328
06/30/09	(323)	—	N/A	4,936
06/30/08	—	—	N/A	4,613

As of July 1, 2015, the most recent actuarial valuation date, the LTD was 132.1 percent funded. The actuarial accrued liability for benefits was \$57,943,000, and the actuarial value of assets was \$76,522,000, resulting in an unfunded actuarial accrued liability (UAAL) of (\$18,579,000). The covered payroll (annual payroll of active employees covered by the plan) was \$775,313,000, and the ratio of the UAAL to the covered payroll was (2.40) percent.

The following table summarizes the more significant actuarial methods and assumptions used to calculate the ARC.

Valuation date	7/1/2015
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increase	3.5%
Inflation rate	3%
Healthcare cost trend	N/A

The number of participants as of July 1, 2015, the effective date of the biennial OPEB valuation, follows. There have been no significant changes in the number or category of employees covered since that date.

	Fire	Police	General City	Total
Current Active Employees	1,592	2,731	7,736	12,059
Currently Disabled Employees	4	10	306	320
Total Covered Participants	<u>1,596</u>	<u>2,741</u>	<u>8,042</u>	<u>12,379</u>

Actuarial Valuations

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new assumptions are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

15. CAPITAL CONTRIBUTIONS

The Aviation Enterprise Fund periodically receives grant revenues from federal and state agencies which are either for capital projects or operating purposes. Revenue is considered earned as the related approved capital outlays or expenses are incurred. Revenues from capital grants are reported as capital contributions on the Statements of Revenue, Expenses, and Changes in Net Position and revenues from operating grants are reported as non-aeronautical operating revenue. In fiscal years 2016 and 2015, the Department received \$27.8 million and \$21.0 million, respectively, in federal and state grants combined.

16. PASSENGER FACILITY CHARGES

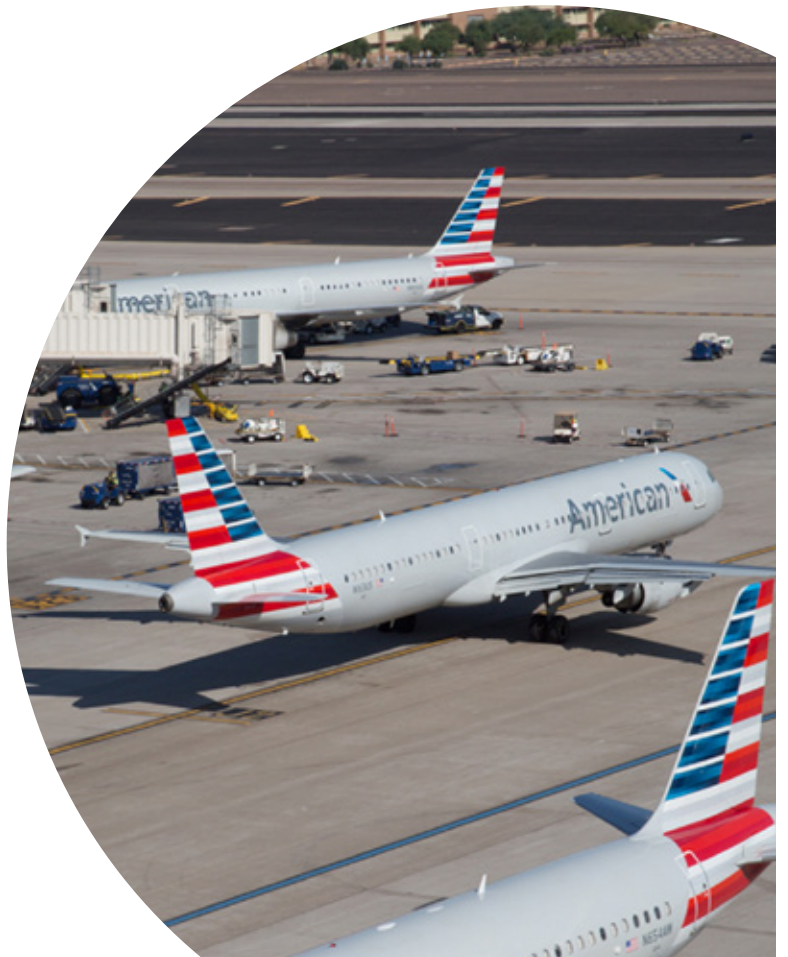
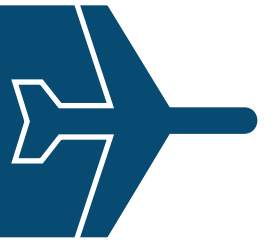
The Passenger Facility Charge Program allows the collection of PFC fees up to \$4.50 for boarded passenger at commercial airports controlled by public agencies. PFC fees are not levied on "non-revenue" passengers and are applied only on the first two legs of a connecting flight. The Airport uses these fees to fund FAA-approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition. The fees are currently set at \$4.50.

The Airport recorded \$83.4 million and \$84.8 million in passenger facility charges for the years ended June 30, 2016 and 2015, respectively.

17. CUSTOMER FACILITY CHARGES

All on-airport rental car companies who lease space at the Airport and all off-airport rental car companies who obtain customers through the Sky Harbor Rental Car Center collect a daily customer facility charge of \$6.00 per transaction day per vehicle from Sky Harbor Airport customers. Vehicle rental companies remit customer facility charges that were collected or should have been collected from its airport customers on a monthly basis to the City, together with the monthly statement of transactions and transaction days.

The Airport recorded \$47.1 million and \$44.8 million in customer facility charges for the years ended June 30, 2016 and 2015, respectively.



City of Phoenix, Arizona
Aviation Enterprise Fund
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Years ended June 30, 2016 and 2015

City of Phoenix Employees' Retirement System (COPERS)

Schedule of Changes in Net Pension Liability and Related Ratios
(in thousands)

	2016	2015	2014
Total Pension Liability			
Service cost	\$ 80,757	\$ 75,310	\$ 78,331
Interest (includes interest on service cost)	293,206	266,355	257,219
Changes of benefit terms	(3,229)	—	—
Differences between expected and actual experience	(76,891)	(31,009)	(20,336)
Changes of assumption	(69,420)	254,870	—
Benefit payments, including refunds of member contributions	(216,193)	(204,403)	(179,877)
Net change in total pension liability	8,230	361,123	135,337
Total Pension Liability - beginning	3,975,907	3,614,784	3,479,447
Total Pension Liability - ending	\$ 3,984,137	\$ 3,975,907	\$ 3,614,784
Plan Fiduciary Net Position			
Contributions - Employer	\$ 119,844	\$ 117,092	\$ 110,629
Contributions - Members	29,253	27,861	27,760
Net investment income	9,171	47,148	298,736
Benefit payments, including refunds of member contributions	(216,409)	(204,403)	(179,877)
Administrative expense	(234)	(414)	(628)
Net change in plan fiduciary net position	(58,375)	(12,716)	256,620
Plan fiduciary net position - beginning	2,209,526	2,222,242	1,965,622
Plan fiduciary net position - ending	\$ 2,151,151	\$ 2,209,526	\$ 2,222,242
Net Pension Liability - ending	\$ 1,832,716	\$ 1,766,381	\$ 1,392,542
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.00%	55.57%	61.48%
Covered Employee Payroll (in thousands)	\$ 473,974	\$ 460,441	\$ 485,227
Net Pension Liability as a Percentage of Covered Employee Payroll	386.67%	383.63%	286.99%
Aviation Enterprise Fund proportionate share of the net pension liability:			
Amount	\$ 180,787	\$ 172,577	\$ 133,150
Percentage	9.86%	9.77%	9.56%



City of Phoenix Employees' Retirement System (COPERS)

Schedule of Employer Contributions

Year Ended June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (excess)	Covered Employee Payroll	Actual Contribution as a percentage of Covered Employee Payroll
2016	\$ 119,844	\$ 119,844	\$ —	\$ 473,974	25.28%
2015	117,092	117,092	—	484,309	24.18%
2014	110,629	110,629	—	518,746	21.33%
2013	115,244	115,244	—	524,648	21.97%
2012	114,709	114,709	—	540,792	21.21%
2011	105,682	105,682	—	541,388	19.52%
2010	90,965	90,965	—	578,327	15.73%
2009	86,241	86,241	—	587,171	14.69%
2008	66,383	66,383	—	580,207	11.44%
2007	64,198	64,198	—	538,211	11.93%

Notes to the Schedule

Valuation date	June 30, 2014
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year
Actuarial cost method	Entry Age
Asset valuation method	4-year smoothed market
Amortization method	The UAL as of June 30, 2013 is amortized as a level percentage of payroll over a closed 25-year period. The impact of the September 2013 assumption change is amortized over a closed 25-year period with a four-year phase-in. Future gains and losses are amortized over closed 20-year periods. However, future gains will not be amortized over a shorter period than the remaining period on the amortization of the 2013 UAL.
Discount rate	7.50%
Salary increases	3.50% plus merit component based on age ranging from 3.80% at age 20 to 0.00% for members age 65 and older
Amortization payment growth rate	3.50%
COLA	1.50%
Mortality	Male and female RP-2000 combined employee and annuitant tables

A complete description of the methods and assumptions used to determine contribution rates for the fiscal year ending June 30, 2016 can be found in the June 30, 2014 actuarial valuation report.

City of Phoenix
Aviation Enterprise Fund
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Years Ended June 30, 2016 and 2015

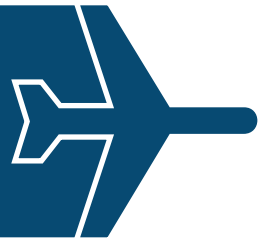
(Unaudited) Schedule of Funding Progress (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Liability-UAL (Funding Excess) (b-a)	Percent Percent Funded (a/b)	Annual Covered Payroll (c)	UAL (Funding Excess) as a Percentage of Covered Payroll (b-a)/(c)
MERP (1)						
7/1/2015	\$ 138,466	\$ 433,805	\$ 295,339	31.9%	\$ 379,302	77.9%
7/1/2013	113,666	419,610	305,944	27.1%	461,156	66.3%
8/1/2011	86,964	423,058	336,094	20.6%	510,561	65.8%
8/1/2009	60,459	424,989	364,530	14.2%	593,932	61.4%
8/1/2006	—	345,579	345,579	—%	563,570	61.3%
LTD (2)						
7/1/2015	\$ 76,522	\$ 57,943	\$ (18,579)	132.1%	\$ 775,313	(2.40)%
7/1/2013	69,463	69,504	41	99.9%	816,086	0.01%
7/1/2011	68,087	68,413	326	99.5%	816,962	0.04%
7/1/2009	60,992	66,523	5,531	91.7%	876,001	0.63%
7/1/2007	64,956	60,344	(4,612)	107.6%	856,510	(0.54)%

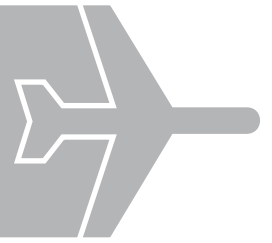
Notes:

(1) The initial valuation for MERP was dated August 1, 2006. Valuations are performed biennially beginning with the valuation dated August 1, 2009.

(2) Valuations are performed biennially beginning with the valuation dated July 1, 2007. The funding value for the August 1, 2007 valuation has been adjusted to reflect a \$9,100,000 reduction during fiscal year 2007-08.







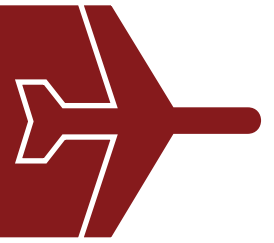
STATISTICAL INFORMATION

THE STATISTICAL SECTION CONTAINS UNAUDITED INFORMATION ABOUT THE AVIATION ENTERPRISE FUND OR THE AIRPORT.

SUBSECTIONS INCLUDE:

Subsection	Description
1	Financial Schedules
2	Debt Schedules
3	Economic and Demographic Schedules





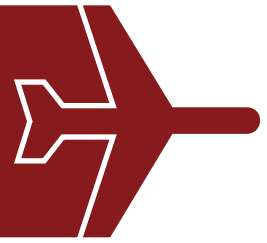
FINANCIAL SCHEDULES

THE FINANCIAL SCHEDULES INCLUDE:

Schedule	Description
1	Comparative Schedules of Revenues, Expenditures and Changes in Fund Balances (non-GAAP)
2	Reconciliation of Airport Cash on Hand to Available Fund Balance per Budgetary Presentation
3	Reconciliation of GAAP Operating Revenues and Expenses to Revenues and Expenditures per Budgetary Presentation
4	Changes in Net Position
5	Principal Revenue Sources
6	Rates and Charges

SCHEDULE 1**City of Phoenix, Aviation Enterprise Fund
COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (NON-GAAP)**(In Expense Priority Established by the Airport Bond Ordinance)
(For the fiscal years ended June 30; in thousands)

	2016	2015
REVENUES		
Landing Area	\$ 54,954	\$ 52,082
Terminal Area	129,242	127,641
Ground Transportation	130,764	127,039
Interest	3,092	1,842
Other	27,275	31,129
Total Revenues before Reimbursement	345,327	339,733
Transportation O&M Expense Reimbursement (1)	14,837	14,488
Total Revenues	360,164	354,221
EXPENDITURES AND ENCUMBRANCES		
Cost of Operation and Maintenance		
Personal Services	105,591	105,760
Contractual Services	108,376	105,198
Supplies	11,686	11,092
Equipment/Minor Improvements	4,583	4,115
Total Cost of Operation and Maintenance (1)	230,236	226,165
Net Airport Revenue Available for Debt Service (Net Airport Revenues)	129,928	128,056
Total Senior Lien Airport Revenue Bond Debt Service	48,775	48,732
Net Airport Revenue Available After Senior Lien Revenue Bond Debt Service (Designated Revenues)	81,153	79,324
Total Junior Lien Airport Revenue Bond Debt Service (2)	3,962	1,604
Net Airport Revenue Available After Senior and Junior Lien Revenue Bond Debt Service	77,191	77,720
Other Expenditures		
Capital Improvements	54,493	17,719
General Obligation Bond Debt Service	197	206
Total Other Expenditures	54,690	17,925
Total Expenditures and Encumbrances	337,663	294,426
Excess of Revenues Over Expenditures and Encumbrances	22,501	59,795

SCHEDULE 1**City of Phoenix, Aviation Enterprise Fund
COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (NON-GAAP) (CONTINUED)**(In Expense Priority Established by the Airport Bond Ordinance)
(For the fiscal years ended June 30; in thousands)

	2016	2015
OTHER FINANCING SOURCES (USES)		
Recovery of Prior Years Expenditures	\$ 1,192	\$ 2,368
Transfer to General Fund:		
Staff and Administrative – Central Service	(7,716)	(7,969)
Transfers (to) from Other Funds		
Transfers to Other Funds	(17,233)	(46,599)
Transfers from Other Funds	3	533
Total Other Financing Sources (Uses)	(23,754)	(51,667)
Net Increase in Fund Balance	(1,253)	8,128
FUND BALANCE, JULY 1	327,287	319,159
FUND BALANCE, JUNE 30	326,034	327,287
Non-Cash Budgetary Transactions (3)	49,578	(426)
Total Airport Cash on Hand, June 30	\$ 375,612	\$ 326,861
Days Cash Calculation (4)		
Total Airport Cash on Hand, June 30	\$ 375,612	\$ 326,861
Total Cost of Maintenance and Operation	230,236	226,165
Days Cash on Hand	595	528

(1) Rental Car Center Transportation O&M Expenses as defined in the CFC Bond Documents are included as a Cost of Operation and Maintenance. Amounts reimbursed to the City by the CFC trustee to pay the rental car busing service expenses (included as a Cost of Operation and Maintenance) are included as Revenues.

(2) Debt service is net of the Junior Lien Passenger Facility Charge Credits and the Recovery Zone Economic Development Bonds subsidy from the United States Treasury.

(3) Consists of budgetary encumbrances, revenue recoveries and other timing differences.

(4) Days cash on hand is calculated as follows: Total airport cash on hand divided by total cost of maintenance and operation multiplied by 365.

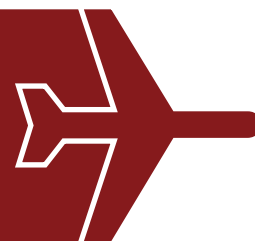
SCHEDULE 2
City of Phoenix, Aviation Enterprise Fund
RECONCILIATION OF AIRPORT CASH ON HAND TO AVAILABLE FUND
BALANCE PER BUDGETARY PRESENTATION
(For the fiscal years ended June 30; in thousands)

	2016	2015
Comparative Statements of Net Position		
Cash and Cash Equivalents (Unrestricted)	\$ 76,667	\$ 56,355
Investments (Unrestricted)	298,945	270,506
Total Airport Cash on Hand, June 30	375,612	326,861
Adjusted For:		
Non-Cash Budgetary Transactions (1)	(49,578)	426
Available Fund Balance per Budgetary Presentation (2)	\$ 326,034	\$ 327,287

Notes:

- (1) Consists of budgetary encumbrances, revenue recoveries and other timing differences.
- (2) Budgetary Presentation is shown on Schedule 1 - City of Phoenix Aviation Enterprise Fund Comparative Schedule of Revenues, Expenditures, and Changes in Fund Balances

SCHEDULE 3
City of Phoenix, Aviation Enterprise Fund
RECONCILIATION OF GAAP OPERATING REVENUES AND EXPENSES TO REVENUES
AND EXPENDITURES PER BUDGETARY PRESENTATION
(For the fiscal years ended June 30; in thousands)



	2016	2015
Revenues		
Total GAAP Operating Revenues	\$ 333,415	\$ 340,967
Adjusted for :		
Interest	3,092	1,842
Transportation O&M Expense Reimbursement	14,837	14,488
All Other (1)	8,820	(3,076)
Revenues per Budgetary Presentation (2)	<u>\$ 360,164</u>	<u>\$ 354,221</u>
Operating Expenses/Expenditures		
Total GAAP Operating Expenses	\$ 436,404	\$ 417,817
Adjusted for :		
Environmental, Studies & Noise Program	(1,956)	(2,600)
Depreciation	(166,829)	(163,691)
Staff and Administrative	(7,716)	(7,969)
Expensed Capital (3)	(2,733)	(5,031)
Other (1)	(26,934)	(12,361)
Maintenance and Operation Expenditures per Budgetary Presentation (2)	<u>\$ 230,236</u>	<u>\$ 226,165</u>
Senior Lien Coverage Calculation		
Revenue	\$ 360,164	\$ 354,221
Operating Expenditures	230,236	226,165
Designated Revenue for Senior Lien Debt Service	<u>\$ 129,928</u>	<u>\$ 128,056</u>
Senior Lien Debt Service	<u>\$ 48,775</u>	<u>\$ 48,732</u>
Senior Lien Debt Service Coverage (4)	2.66	2.63
Junior Lien Coverage Calculation		
Designated Revenue for Senior Lien Debt Service	\$ 129,928	\$ 128,056
Senior Lien Debt Service	48,775	48,732
Designated Revenue for Junior Lien Debt Service	<u>\$ 81,153</u>	<u>\$ 79,324</u>
Junior Lien Debt Service	\$ 49,802	\$ 46,470
Adjusted for :		
Junior Lien PFC Credit	(45,249)	(44,278)
2010 RZEDB Subsidy Payments	(591)	(588)
Net Junior Lien Debt Service	<u>\$ 3,962</u>	<u>\$ 1,604</u>
Junior Lien Debt Service Coverage (4)	20.48	49.45
Aggregate Senior & Junior Liens Coverage Calculation		
Designated Revenue for Debt Service	\$ 129,928	\$ 128,056
Aggregate Senior & Junior Liens Debt Service	52,737	50,336
Aggregate Senior & Junior Liens Debt Service Coverage	2.46	2.54

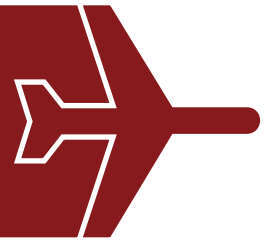
Notes:

- (1) Includes various GAAP accounting entries. Also includes budgetary encumbrances and revenue recoveries.
- (2) Budgetary Presentation is shown on the City of Phoenix Aviation Enterprise Fund Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances on page 62.
- (3) Includes repairs and studies that do not result in a major improvement to the Aviation Enterprise Fund.
- (4) As defined in the City Purchase Agreement.

SCHEDULE 4
City of Phoenix, Aviation Enterprise Fund
CHANGES IN NET POSITION
Last Ten Fiscal Years
(in thousands)

	2016	2015	2014	2013
Operating Revenues				
Aeronautical Revenue	\$ 144,093	\$ 145,046	\$ 141,633	\$ 129,026
Non-Aeronautical Revenue	189,322	195,921	184,411	176,660
Total Operating Revenue	<u>333,415</u>	<u>340,967</u>	<u>326,044</u>	<u>305,686</u>
Operating Expenses				
Operation and Maintenance				
Personal Services	86,250	86,172	65,339	72,791
Contractual Services	124,420	115,486	124,360	114,748
Supplies	11,925	10,771	11,014	11,797
Equipment/Minor Improvements	37,308	31,128	26,045	32,850
Environmental, Studies and Noise	1,956	2,600	5,099	8,361
City Staff and Administrative	7,716	7,969	7,262	6,869
Depreciation	166,829	163,691	158,760	146,034
Total Operating Expenses	<u>436,404</u>	<u>417,817</u>	<u>397,879</u>	<u>393,450</u>
Net Operating Loss	<u>(102,989)</u>	<u>(76,850)</u>	<u>(71,835)</u>	<u>(87,764)</u>
Non-Operating Revenues (Expenses)				
Passenger Facility Charges	83,449	84,774	79,672	78,184
Rental Car Customer Facility Charges	47,118	44,839	43,113	41,457
Investment Income	6,591	2,988	3,831	519
Interest on Capital Debt	(67,141)	(65,051)	(64,863)	(70,785)
Loss on Disposal of Capital Assets	(759)	(47)	(29)	(153)
Total Non-Operating Revenues (Expenses)	<u>69,258</u>	<u>67,503</u>	<u>61,724</u>	<u>49,222</u>
Capital Contributions	27,803	20,970	27,184	14,516
Transfer from Other Funds	2	1	—	31
Transfer to Other Funds	(330)	(365)	(166)	—
Change in Net Position	<u>(6,256)</u>	<u>11,259</u>	<u>16,907</u>	<u>(23,995)</u>
Net Position - July 1	1,651,661	1,640,402	1,765,618	1,789,613
Restatement of Beginning Net Position	—	—	(142,123)	—
Net Position - July 1, as restated	<u>1,651,661</u>	<u>1,640,402</u>	<u>1,623,495</u>	<u>1,789,613</u>
Net Position - June 30	<u>\$ 1,645,405</u>	<u>\$ 1,651,661</u>	<u>\$ 1,640,402</u>	<u>\$ 1,765,618</u>
Net Position - June 30				
Net Investment in Capital Assets	\$ 1,104,662	\$ 1,170,752	\$ 1,241,513	\$ 1,255,699
Restricted	350,755	343,472	272,624	266,673
Unrestricted	189,988	137,437	126,265	243,246
Total Net Position	<u>\$ 1,645,405</u>	<u>\$ 1,651,661</u>	<u>\$ 1,640,402</u>	<u>\$ 1,765,618</u>

SCHEDULE 4
City of Phoenix, Aviation Enterprise Fund
CHANGES IN NET POSITION (CONTINUED)
 Last Ten Fiscal Years
 (in thousands)



	2012	2011	2010	2009	2008	2007
\$	124,112	\$ 118,580	\$ 110,979	\$ 111,451	\$ 104,146	\$ 99,829
	175,655	170,080	155,799	161,628	180,148	177,399
	299,767	288,660	266,778	273,079	284,294	277,228
	71,987	69,189	71,253	62,639	62,576	57,440
	103,669	104,365	97,580	109,108	118,537	94,601
	11,061	11,294	9,333	11,071	13,474	13,744
	31,225	36,026	19,249	44,504	16,388	10,021
	8,218	15,364	13,811	3,028	—	—
	5,889	4,364	5,037	5,943	6,388	6,188
	127,699	128,697	129,034	110,067	86,364	86,269
	359,748	369,299	345,297	346,360	303,727	268,263
	(59,981)	(80,639)	(78,519)	(73,281)	(19,433)	8,965
	78,807	79,870	77,165	74,134	82,248	86,052
	41,253	39,274	36,050	33,573	35,016	34,428
	2,750	2,609	3,518	8,958	14,142	18,505
	(75,927)	(70,612)	(46,768)	(43,076)	(32,845)	(43,711)
	16	7,803	(1,420)	(24)	2,692	(197)
	46,899	58,944	68,545	73,565	101,253	95,077
	32,694	33,832	40,000	25,005	44,668	37,553
	—	—	—	—	—	—
	—	—	—	—	(1,267)	(134)
	19,612	12,137	30,026	25,289	125,221	141,461
	1,770,001	1,757,864	1,727,838	1,896,919	1,771,698	1,630,237
	—	—	—	(194,370)	—	—
	1,770,001	1,757,864	1,727,838	1,702,549	1,771,698	1,630,237
\$	1,789,613	\$ 1,770,001	\$ 1,757,864	\$ 1,727,838	\$ 1,896,919	\$ 1,771,698
\$	1,325,444	\$ 1,312,605	\$ 1,465,741	\$ 1,493,939	\$ 1,531,043	\$ 1,533,973
	106,337	106,350	51,730	52,019	37,822	49,671
	357,832	351,046	240,393	181,880	328,054	188,054
\$	1,789,613	\$ 1,770,001	\$ 1,757,864	\$ 1,727,838	\$ 1,896,919	\$ 1,771,698

SCHEDULE 5

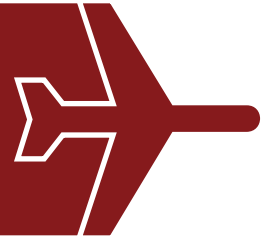
City of Phoenix, Aviation Enterprise Fund

PRINCIPAL REVENUE SOURCES

for Operating Revenues over Ten Percent of Total Operating Revenues
Last Ten Fiscal Years

	Fiscal Year				
	2016	2015	2014	2013	2012
Terminal Fees					
Amount	\$ 75,114,921	\$ 78,422,082	\$ 73,089,595	\$ 64,904,028	\$ 56,745,994
Percent of Operating Revenue	22.53%	23.00%	22.42%	21.23%	18.93%
Landing Fees					
Amount	\$ 49,869,087	\$ 48,497,053	\$ 49,860,459	\$ 46,892,628	\$ 42,970,142
Percent of Operating Revenue	14.96%	14.22%	15.29%	15.34%	14.33%
Parking					
Amount	\$ 84,585,621	\$ 81,094,038	\$ 76,964,416	\$ 74,913,811	\$ 72,753,006
Percent of Operating Revenue	25.37%	23.78%	23.61%	24.51%	24.27%
Rental Cars					
Amount	\$ 46,668,644	\$ 52,103,343	\$ 49,627,460	\$ 47,793,301	\$ 47,094,786
Percent of Operating Revenue	14.00%	15.28%	15.22%	15.63%	15.71%
	Fiscal Year				
	2011	2010	2009	2008	2007
Terminal Fees					
Amount	\$ 45,524,353	\$ 40,505,843	\$ 45,397,236	\$ 41,533,432	\$ 39,602,808
Percent of Operating Revenue	15.77%	15.18%	16.62%	14.61%	14.29%
Landing Fees					
Amount	\$ 41,504,514	\$ 38,489,900	\$ 37,567,983	\$ 34,688,371	\$ 34,463,778
Percent of Operating Revenue	12.45%	14.43%	13.76%	12.20%	12.43%
Parking					
Amount	\$ 69,837,852	\$ 66,087,317	\$ 70,231,461	\$ 81,543,211	\$ 80,052,918
Percent of Operating Revenue	24.19%	24.77%	25.72%	28.68%	28.88%
Rental Cars					
Amount	\$ 45,684,285	\$ 43,999,292	\$ 41,665,110	\$ 45,801,605	\$ 42,899,798
Percent of Operating Revenue	15.83%	16.49%	15.26%	16.11%	15.47%

SCHEDULE 6
City of Phoenix, Aviation Enterprise Fund
RATES AND CHARGES
for Principal Revenue Sources
Last Ten Fiscal Years



	Fiscal Year				
	2016	2015	2014	2013	2012
Airline Terminal Fees (1)					
Fee per square foot					
Terminal 2	\$ 106.68	\$ 118.26	\$ 112.80	\$ 110.65	\$ 79.99
Terminal 3	106.68	118.26	112.80	110.65	83.73
Terminal 4	106.68	118.26	112.80	110.65	104.56
Landing Fees					
Fee per 1,000 pounds	1.98	1.87	1.99	1.93	1.67
Parking Rates					
Terminal Garages (per hour)	4.00	4.00	4.00	4.00	4.00
Terminal Garages (daily max)	25.00	25.00	25.00	25.00	25.00
Economy Covered	11.00	11.00	11.00	11.00	11.00
Economy Uncovered	9.00	9.00	9.00	9.00	9.00
Rental Car Center Rates					
Percent of Gross Rent	10%	10%	10%	10%	10%

	Fiscal Year				
	2011	2010	2009	2008	2007
Airline Terminal Fees					
Fee per square foot					
Terminal 2	\$ 75.80	\$ 66.83	\$ 59.49	\$ 52.09	\$ 49.78
Terminal 3	81.92	79.76	59.84	58.15	53.19
Terminal 4	90.90	85.60	69.65	66.79	63.31
Landing Fees					
Fee per 1,000 pounds	1.59	1.53	1.39	1.25	1.18
Parking Rates					
Terminal Garages (per hour)	4.00	4.00	4.00	4.00	3.00
Terminal Garages (daily max)	25.00	25.00	25.00	20.00	20.00
Economy Covered	11.00	10.00	10.00	10.00	10.00
Economy Uncovered	9.00	8.00	8.00	8.00	8.00
Rental Car Center Rates					
Percent of Gross Rent	10%	10%	10%	10%	10%

Note:

- (1) In January 2012, the Aviation Department implemented a single terminal rental rate to be effective at all of its passenger terminals. The mid-year change to the terminal rent methodology did not change the overall budgeted costs associated with the three terminals at the Airport. It was a technical change that allowed for the equalization of rental rates across all terminals.





DEBT SCHEDULES

THE DEBT SCHEDULES INCLUDE:

Schedule	Description
7	Outstanding Debt Payable from General Airport Revenue, per Enplaned Passenger
8	Debt Service Paid from General Airport Revenue, per Enplaned Passenger
9	Bond Ratings

City of Phoenix Civic Improvement Corporation Bonds

10	Senior Lien Airport Revenue Bonds – Schedule of Outstanding Debt
11	Senior Lien Airport Revenue Bonds – Schedule of Debt Service Requirements
12	Junior Lien Airport Revenue Bonds – Schedule of Outstanding Debt
13	Junior Lien Airport Revenue Bonds – Schedule of Debt Service Requirements
14	Rental Car Facility Charge Revenue Bonds – Schedule of Outstanding Debt
15	Rental Car Facility Charge Revenue Bonds – Schedule of Debt Service Requirements

City of Phoenix Airport General Obligation Bonds

16	Schedule of Outstanding Debt
17	Schedule of Debt Service Requirements

SCHEDULE 7
City of Phoenix, Aviation Enterprise Fund
OUTSTANDING DEBT PAYABLE FROM GENERAL AIRPORT REVENUE,
PER ENPLANED PASSENGER
Last Ten Fiscal Years

	Fiscal Year				
	2016	2015	2014	2013	2012
Outstanding Debt (in thousands)					
Revenue Bonds					
Senior Lien Bonds	\$ 472,895	\$ 496,905	\$ 519,775	\$ 542,920	\$ 599,615
Junior Lien Bonds	739,900	659,585	672,290	684,395	696,105
Commercial Paper Notes	130,000	140,000	120,000	100,000	—
General Obligation Bonds	7,865	7,865	7,870	8,905	9,615
Total Outstanding Debt	<u>\$ 1,350,660</u>	<u>\$ 1,304,355</u>	<u>\$ 1,319,935</u>	<u>\$ 1,336,220</u>	<u>\$ 1,305,335</u>
Enplaned Passengers	22,055,907	21,488,569	20,518,748	20,235,788	20,278,458
Outstanding Debt per Enplaned Passenger	\$ 61.24	\$ 60.70	\$ 64.33	\$ 66.03	\$ 64.37
	Fiscal Year				
	2011	2010	2009	2008	2007
Outstanding Debt (in thousands)					
Revenue Bonds					
Senior Lien Bonds (a)	\$ 625,270	\$ 680,165	\$ 699,320	\$ 718,310	\$ 457,430
Junior Lien Bonds	696,105	—	—	—	—
Voter-Approved Bonds	—	—	—	—	28,745
Commercial Paper Notes	—	200,000	80,000	—	4,000
General Obligation Bonds	10,500	11,350	12,195	13,580	17,360
Total Outstanding Debt	<u>\$ 1,331,875</u>	<u>\$ 891,515</u>	<u>\$ 791,515</u>	<u>\$ 731,890</u>	<u>\$ 507,535</u>
Enplaned Passengers	19,681,233	19,096,529	18,912,120	20,667,530	20,762,870
Outstanding Debt per Enplaned Passenger	\$ 67.67	\$ 46.68	\$ 41.85	\$ 35.41	\$ 24.44

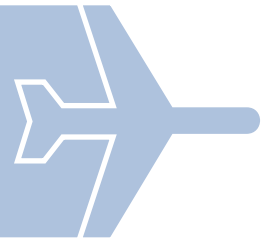
Note:

(a) Includes Subordinated Excise Tax Variable Rate Demand Revenue Bonds (Airport Improvements), Series 1995, which were refunded by the Senior Lien Airport Revenue Refunding Bonds, Series 2008D (AMT) in June 2008.

Includes a portion of the Senior Lien Excise Tax Revenue Refunding Bonds, Series 2007, which were issued for Airport, in fiscal years 2007 through 2011. The Airport portion on the bonds were paid in full in fiscal year 2011.

Rental Car Facility Charge Bonds have been omitted from this schedule because payments do not come from general airport revenue.

SCHEDULE 8
City of Phoenix, Aviation Enterprise Fund
DEBT SERVICE PAID FROM GENERAL AIRPORT REVENUE,
PER ENPLANED PASSENGER
 Last Ten Fiscal Years

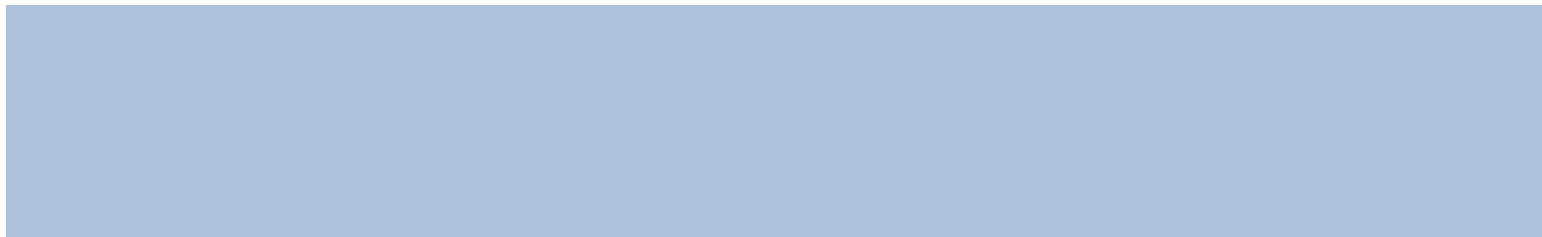


	Fiscal Year				
	2016	2015	2014	2013	2012
Debt Service (in thousands)					
Revenue Bonds					
Principal	\$ 38,135	\$ 35,575	\$ 35,250	\$ 33,615	\$ 25,655
Interest	60,567	59,626	61,248	64,495	66,925
General Obligation Bonds					
Principal	—	5	500	710	885
Interest	197	201	360	395	430
Total Debt Service	\$ 98,899	\$ 95,407	\$ 97,358	\$ 99,215	\$ 93,895
Enplaned Passengers	22,055,907	21,488,569	20,518,748	20,235,788	20,278,458
Debt Service per Enplaned Passenger	\$ 4.48	\$ 4.44	\$ 4.74	\$ 4.90	\$ 4.63

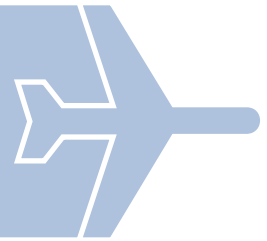
	Fiscal Year				
	2011	2010	2009	2008	2007
Debt Service (in thousands)					
Revenue Bonds					
Principal	\$ 20,610	\$ 19,155	\$ 18,990	\$ 14,595	\$ 18,350
Interest	62,453	35,744	37,286	25,195	34,672
General Obligation Bonds					
Principal	850	845	1,385	3,780	3,590
Interest	464	498	563	770	1,104
Total Debt Service	\$ 84,377	\$ 56,242	\$ 58,224	\$ 44,340	\$ 57,716
Enplaned Passengers	19,681,233	19,096,529	18,912,120	20,667,530	20,762,870
Debt Service per Enplaned Passenger	\$ 4.29	\$ 2.95	\$ 3.08	\$ 2.15	\$ 2.78

Source:
 City of Phoenix, Aviation Department

Note:
 Rental Car Facility Charge Bonds have been omitted from this schedule because payments do not come from general airport revenue.



SCHEDULE 9
City of Phoenix, Aviation Enterprise Fund
BOND RATINGS



Series		Rating	
		Moody's	S & P
City of Phoenix Civic Improvement Corporation			
Senior Lien Revenue Bonds		Aa3	AA-
2008A	Airport Revenue Bonds (Non-AMT)		
2008B	Airport Revenue Bonds (AMT)		
2008C	Airport Revenue Refunding Bonds (Non-AMT)		
2008D	Airport Revenue Refunding Bonds (AMT)		
2013	Airport Revenue Refunding Bonds (AMT)		
Junior Lien Revenue Bonds		A1	A+
2010A	Airport Revenue Bonds (Non-AMT)		
2010B	Airport Revenue Bonds (Taxable)		
2010C	Airport Revenue Refunding Bonds (Non-AMT)		
2015A	Airport Revenue Bonds (Non-AMT)		
2015B	Airport Revenue Refunding Bonds (Non-AMT)		
Rental Car Facility Charge Revenue Bonds		A3	A
2004	Rental Car Facility Bonds (Taxable)		
City of Phoenix General Obligation Bonds		Aa1	AA+
2014	General Obligation Refunding Bonds		

Source:
City of Phoenix, Finance Department

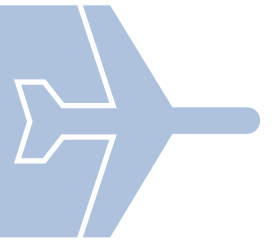
SCHEDULE 10
City of Phoenix, Aviation Enterprise Fund
SENIOR LIEN AIRPORT REVENUE BONDS
SCHEDULE OF OUTSTANDING DEBT
(as of June 30, 2016)

<u>Delivery Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Maturity Dates</u>	<u>Coupons</u>	<u>Bonds Outstanding (a)</u>
06-18-08	2008A	\$ 206,840,000	7/1/20-38	4.80% – 5.00%	\$ 206,840,000
06-18-08	2008B	43,160,000	7/1/12-19	5.00% – 5.25%	18,255,000
06-18-08	2008C (b)	109,850,000	7/1/09-22	3.00% – 5.00%	53,730,000
06-18-08	2008D (b)	68,520,000	7/1/09-20	4.00% – 5.50%	17,990,000
03-05-13	2013 (b)	196,600,000	7/1/14-32	3.00% – 5.00%	176,080,000
Total					<u>\$ 472,895,000</u>

Notes:

- (a) Does not include bonds maturing on July 1, 2016.
- (b) Series 2008C, 2008D and 2013 were used for refunding purposes.

SCHEDULE 11
City of Phoenix, Aviation Enterprise Fund
SENIOR LIEN AIRPORT REVENUE BONDS
SCHEDULE OF DEBT SERVICE REQUIREMENTS



Fiscal Year	Principal	Interest	Total
2017	\$ 25,235,000	\$ 23,561,763	\$ 48,796,763
2018	26,575,000	22,275,450	48,850,450
2019	27,935,000	20,983,500	48,918,500
2020	29,505,000	19,624,625	49,129,625
2021	25,710,000	18,151,250	43,861,250
2022	26,995,000	16,865,750	43,860,750
2023	17,810,000	15,544,550	33,354,550
2024	18,710,000	14,654,050	33,364,050
2025	19,640,000	13,718,550	33,358,550
2026	20,630,000	12,736,550	33,366,550
2027	21,655,000	11,705,050	33,360,050
2028	22,740,000	10,622,300	33,362,300
2029	23,870,000	9,487,750	33,357,750
2030	25,065,000	8,294,250	33,359,250
2031	26,320,000	7,041,000	33,361,000
2032	27,635,000	5,725,000	33,360,000
2033	12,770,000	4,343,250	17,113,250
2034	13,410,000	3,704,750	17,114,750
2035	14,080,000	3,034,250	17,114,250
2036	14,785,000	2,330,250	17,115,250
2037	15,520,000	1,591,000	17,111,000
2038	16,300,000	815,000	17,115,000
Total	\$ 472,895,000	\$ 246,809,888	\$ 719,704,888

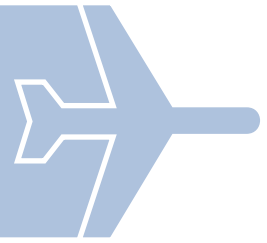
SCHEDULE 12
City of Phoenix, Aviation Enterprise Fund
JUNIOR LIEN AIRPORT REVENUE BONDS
SCHEDULE OF OUTSTANDING DEBT
(as of June 30, 2016)

Delivery Date	Series	Original Issuance	Maturity Dates	Coupons	Bonds Outstanding (a)
09-01-10	2010A (c)	\$ 642,680,000	7/1/13-40	2.00% – 5.25%	\$ 572,850,000
09-01-10	2010B(c),(d)	21,345,000	7/1/2040	6.6%	21,345,000
09-01-10	2010C (b)	32,080,000	7/1/23-25	5%	32,080,000
12-15-15	2015A (e)	95,785,000	7/1/16-45	4% - 5%	94,970,000
12-15-15	2015B (c)	18,655,000	7/1/34	5%	18,655,000
Total					\$ 739,900,000

Notes:

- (a) Does not include bonds maturing on July 1, 2016.
- (b) Series 2010C was used for refunding purposes.
- (c) 100% of debt service due on or before July 1, 2021 on these bonds is also secured by an irrevocable commitment of net proceeds of a passenger facility charge (the PFC) imposed by the City and collected on behalf of the City by non-exempt passenger air carriers at Phoenix Sky Harbor International Airport. The PFC is currently imposed at the rate of \$4.50 per qualifying enplaned passenger and is required to be remitted to the City less any accrued interest and an \$0.11 per PFC airline collection fee.
- (d) Represents bonds issued as RZEDB Bonds for purposes of the American Recovery and Reinvestment Act of 2009, and the Internal Revenue Code of 1986. Subject to the City's compliance with certain requirements of the Code, the City expects to receive semiannual cash subsidy payments rebating a portion of the interest on these bonds from the United States Treasury in an amount equal to 45% of the interest payable each respective interest payment date. The debt service shown above has not been reduced by the expected subsidy payments. On March 1, 2013, the federal government announced the implementation of certain automatic budget cuts known as the sequester, which has resulted in a reduction of the federal subsidy by 6.8% and 7.3% (the Sequester Reductions), in fiscal years 2016 and 2015, respectively. However, the City does not expect the Sequester Reductions to have a material adverse effect on its ability to make payments of interest on the RZEDB Bonds.
- (e) 30% of debt service due on or before July 1, 2021 on these bonds is also secured by an irrevocable commitment of net proceeds of a passenger facility charge imposed by the City and collected on behalf of the City by non-exempt passenger air carriers at Phoenix Sky Harbor International Airport.

SCHEDULE 13
City of Phoenix, Aviation Enterprise Fund
JUNIOR LIEN AIRPORT REVENUE BONDS
SCHEDULE OF DEBT SERVICE REQUIREMENTS



Fiscal Year	Principal	Interest	Total
2017	\$ 15,495,000	\$ 37,091,851	\$ 52,586,851
2018	16,270,000	36,321,351	52,591,351
2019	16,980,000	35,610,551	52,590,551
2020	17,805,000	34,782,752	52,587,752
2021	18,655,000	33,934,276	52,589,276
2022	19,580,000	33,006,526	52,586,526
2023	30,735,000	32,027,526	62,762,526
2024	32,270,000	30,490,777	62,760,777
2025	33,885,000	28,877,276	62,762,276
2026	23,750,000	27,236,182	50,986,182
2027	24,935,000	26,048,683	50,983,683
2028	26,185,000	24,801,932	50,986,932
2029	27,490,000	23,492,683	50,982,683
2030	28,865,000	22,118,182	50,983,182
2031	30,240,000	20,738,108	50,978,108
2032	31,765,000	19,226,107	50,991,107
2033	33,420,000	17,566,433	50,986,433
2034	33,820,000	15,820,270	49,640,270
2035	36,930,000	14,129,270	51,059,270
2036	38,775,000	12,282,770	51,057,770
2037	40,695,000	10,362,470	51,057,470
2038	42,705,000	8,346,920	51,051,920
2039	44,825,000	6,231,670	51,056,670
2040	47,045,000	4,011,170	51,056,170
2041	4,845,000	1,339,000	6,184,000
2042	5,090,000	1,096,750	6,186,750
2043	5,345,000	842,250	6,187,250
2044	5,610,000	575,000	6,185,000
2045	5,890,000	294,500	6,184,500
Total	\$ 739,900,000	\$ 558,703,236	\$ 1,298,603,236

(a) Includes debt service on \$21,345,000 par amount of RZEDB. Debt service has not been reduced by the expected RZEDB subsidy payments.

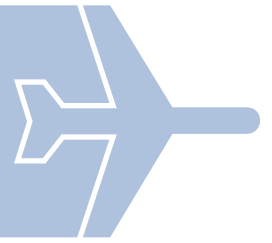
SCHEDULE 14
City of Phoenix, Aviation Enterprise Fund
RENTAL CAR FACILITY CHARGE REVENUE BONDS
SCHEDULE OF OUTSTANDING DEBT
(as of June 30, 2016)

<u>Delivery Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Maturity Dates</u>	<u>Coupons</u>	<u>Bonds Outstanding (a)</u>
06-02-04	2004	\$ 260,000,000	7/1/07-29	3.69% - 6.25%	\$ 186,050,000
					<u>\$ 186,050,000</u>

Note:

(a) Does not include bonds maturing on July 1, 2016.

SCHEDULE 15
City of Phoenix, Aviation Enterprise Fund
RENTAL CAR FACILITY CHARGE REVENUE BONDS
SCHEDULE OF DEBT SERVICE REQUIREMENTS



Fiscal Year	Principal	Interest	Total
2017	\$ 9,795,000	\$ 11,478,392	\$ 21,273,392
2018	10,370,000	10,903,426	21,273,426
2019	10,990,000	10,284,336	21,274,336
2020	11,645,000	9,628,234	21,273,234
2021	12,365,000	8,909,737	21,274,737
2022	13,130,000	8,146,816	21,276,816
2023	13,940,000	7,336,696	21,276,696
2024	14,800,000	6,476,597	21,276,597
2025	15,710,000	5,563,438	21,273,438
2026	16,695,000	4,581,562	21,276,562
2027	17,740,000	3,538,125	21,278,125
2028	18,845,000	2,429,375	21,274,375
2029	20,025,000	1,251,563	21,276,563
Total	\$ 186,050,000	\$ 90,528,297	\$ 276,578,297

SCHEDULE 16
City of Phoenix, Aviation Enterprise Fund
AIRPORT GENERAL OBLIGATION BONDS
SCHEDULE OF OUTSTANDING DEBT
(as of June 30, 2016)

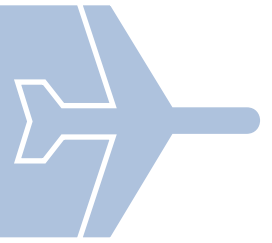
<u>Delivery Date</u>	<u>Series</u>	<u>Original Issuance</u>	<u>Maturity Dates</u>	<u>Coupons</u>	<u>Bonds Outstanding (a)</u>
06-24-14	2014 (b)	\$7,865,000	7/1/19-20	2.00% – 4.00%	\$ 7,865,000
Total					<u>\$ 7,865,000</u>

Notes:

(a) Does not include bonds maturing on July 1, 2016.

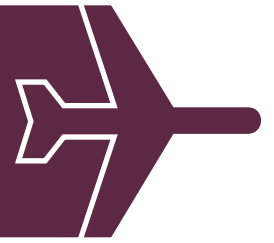
(b) Series 2014 refunded the 2003 GO Bonds

SCHEDULE 17
City of Phoenix, Aviation Enterprise Fund
AIRPORT GENERAL OBLIGATION BONDS
SCHEDULE OF DEBT SERVIC REQUIREMENTS



Fiscal Year	Principal	Interest	Total
2017	\$ —	\$ 197,050	\$ 197,050
2018	—	197,050	197,050
2019	4,520,000	197,050	4,717,050
2020	3,345,000	82,700	3,427,700
Total	\$ 7,865,000	\$ 673,850	\$ 8,538,850





ECONOMIC AND DEMOGRAPHIC SCHEDULES

THE ECONOMIC AND DEMOGRAPHIC SCHEDULES INCLUDE:

Schedule	Description
18	Demographic Statistics for the Airport Service Area
19	Principal Employers
20	Airport Employee Trends
21	Capital Assets and Other Airport Information
22	Schedule of Annual Passenger Enplanements by Type of Passenger
23	Schedule of Annual Passenger Enplanements by Flight Destination
24	Schedule of Enplaned Passengers by Airline
25	Schedule of Annual Average Cost Per Enplanement
26	Schedule of PFC Approvals and Revenues
27	Schedule of Annual PFC Collections
28	Rental Car Facility Charge Revenue Bonds - Schedule of Annual Receipts, Net Annual CFC Revenues, and Debt Service Coverage
29	Schedule of Rental Car Gross Sales by Company

SCHEDULE 18
City of Phoenix, Aviation Enterprise Fund
DEMOGRAPHIC STATISTICS FOR THE AIRPORT SERVICE AREA

Fiscal Year	Population (July 1)	Personal Income (in thousands)	Per Capita Income	Unemployment Rate
2016 (a)	—	\$ —	\$ —	5.3%
2015	4,574,531	186,693,084	40,811	5.3%
2014	4,489,109	178,871,199	39,846	6.0%
2013	4,404,129	170,637,978	38,745	6.8%
2012	4,330,974	166,686,196	38,487	7.4%
2011	4,254,149	158,211,801	37,190	8.7%
2010	4,209,347	148,838,301	35,359	9.6%
2009	4,153,609	147,153,657	35,428	9.3%
2008	4,106,372	154,461,916	37,615	5.5%
2007	4,018,128	153,858,420	38,291	3.3%

Sources

U.S. Department of Commerce, Bureau of the Census website, www.census.gov

U.S. Department of Commerce, Bureau of Economic Analysis website, www.bea.gov

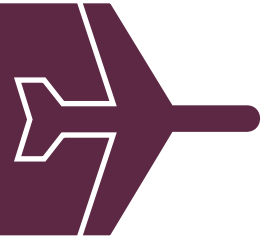
U.S. Department of Labor, Bureau of Labor Statistics website, www.bls.gov

Notes

The data in this table is for the Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area

(a) Population, Personal Income, and Per Capita Income are not available for June 30, 2016 as of the date of publication.

**SCHEDULE 19
CITY OF PHOENIX, AVIATION ENTERPRISE FUND
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**



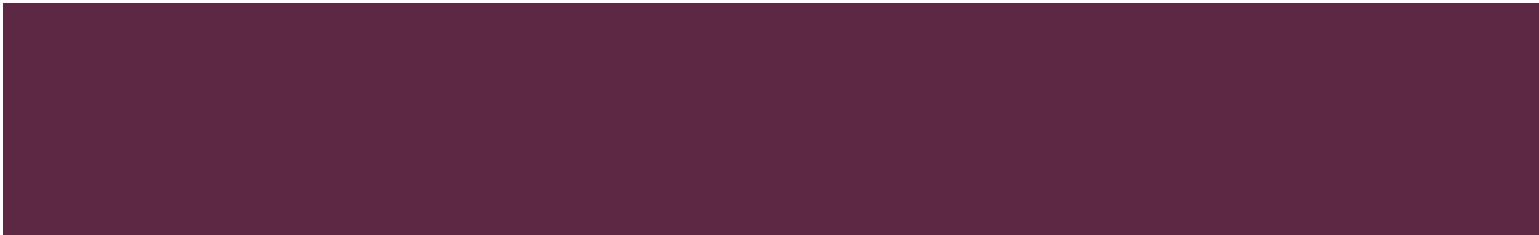
Employer	2016			2007		
	Employees	Rank	Percentage	Employees	Rank	Percentage
State of Arizona	42,687	1	2.23%	49,305	1	2.57%
Banner Health	40,226	2	2.10%	16,400	3	0.86%
Wal-Mart Stores Inc.	34,350	3	1.79%	28,800	2	1.50%
Fry's Food Stores	18,870	4	0.99%	11,780	8	0.61%
Wells Fargo	14,860	5	0.78%	11,800	7	0.62%
City of Phoenix	14,421	6	0.75%	14,166	4	0.74%
US Postal Service	13,509	7	0.71%	11,000	9	0.57%
Arizona State University	12,488	8	0.65%	12,083	6	0.63%
Intel Corporation	11,000	9	0.57%			
Bank of America	9,809	10	0.51%			
Maricopa County				13,274	5	0.69%
Honeywell Aerospace				10,700	10	0.56%

Sources:

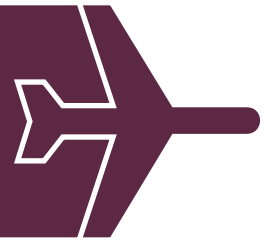
Phoenix Business Journal Book of Lists
Arizona Department of Commerce, Workforce Development

Note:

Top employers in Maricopa County.



SCHEDULE 20
City of Phoenix, Aviation Enterprise Fund
EMPLOYEE TREND
 Last Ten Fiscal Years Ended June 30



	2016	2015	2014	2013	2012
Division/Group					
Administration	8	12	9	10	15
Business and Properties	19	18	20	20	18
Design and Construction Services	29	30	36	37	28
Facilities and Services	381	374	384	374	367
Financial Management	27	30	32	31	30
Human Resources	15	12	12	13	13
Technology	39	37	41	39	41
Operations	186	181	188	185	187
Planning, Environmental and Capital Management	19	19	21	21	29
Public Relations	13	14	13	12	13
Other	12	5	18	27	30
Total	748	732	774	769	771

	2011	2010	2009	2008	2007
Division/Group					
Administration	12	12	14	18	14
Business and Properties	20	22	22	22	24
Design and Construction Services	30	35	35	28	23
Facilities and Services	380	382	396	403	407
Financial Management	35	34	36	34	27
Human Resources	14	14	16	13	14
Technology	45	39	39	38	37
Operations	183	179	173	172	176
Planning, Environmental and Capital Management	27	26	23	20	16
Public Relations	14	13	12	10	12
Other	29	19	9	4	1
Total	789	775	775	762	751

Source:
 City of Phoenix, Aviation Department

PHOENIX SKY HARBOR INTERNATIONAL AIRPORT (PHX)

About the Airport

Phoenix Sky Harbor International Airport (the Airport) has been owned and operated by the City of Phoenix (the City) since 1935. It is the largest of the three airports that comprise the City's Aviation Enterprise Fund. The Airport is located approximately four miles east of the downtown Phoenix area. It is the only Arizona airport designated as a large hub by the Federal Aviation Administration (FAA) and is the principal commercial service airport serving metropolitan Phoenix and most of the State's population.

Terminal, Parking and Rental Car Facilities

The Airport currently has three active passenger terminal buildings, Terminals 2, 3, and 4. Terminal 1 was constructed in 1952 at a cost of \$835 thousand and was among the most modern and efficient passenger terminals of its time. Terminals were added over the years to accommodate increasing traffic, and in 1991 Terminal 1 was demolished, but the other terminals were never renumbered.

Terminal 2 opened in 1962, the year Sky Harbor surpassed the one million passenger mark. Constructed for \$2.7 million, Terminal 2 contains approximately 330,000 square feet and 13 gates. Alaska, Boutique Great Lakes, Spirit, Sun Country, and United airlines serve passengers through Terminal 2.

Terminal 3 opened in 1979 with construction costs at \$35 million. Terminal 3 contains approximately 880,000 square feet and 15 gates. The Airport has launched a Terminal 3 modernization project, designed to provide consistent and enhanced customer service and more efficient operations for airlines and concessionaires. Delta, Frontier, Hawaiian, and JetBlue airlines serve passengers through Terminal 3.

Terminal 4 opened in 1990, at an initial cost of \$248 million. The Terminal opened with five concourses, later adding two additional concourses for a total of seven. Terminal 4 contains approximately 2.3 million square feet and 84 gates. Air Canada, American, British, Southwest, Volaris and WestJet airlines serve passengers through Terminal 4.

The Airport has approximately 31,400 public and employee parking spaces in five parking garages and five surface lots.

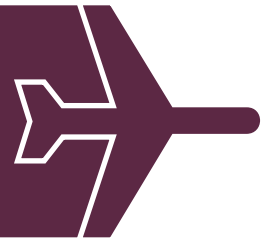
A consolidated rental car facility is located west of the terminals on a 141-acre site that includes approximately 5,600 ready/return garage spaces in a 2.2 million square foot garage and a 113,000 square foot customer service building.

PHX Sky Train®

The PHX Sky Train® is an electrically-powered, automated people mover that operates 24-hours a day, 365 days a year. It provides a seamless connection among the three terminal buildings, East Economy parking and the Valley Metro Light Rail.

Runways

The Airport has three parallel runways (8/26 is 11,490 feet in length, 7L/25R is 10,300 feet in length, and 7R/25L is 7,800 feet in length) and a network of supporting taxiways, aprons and hold areas. Together with the terminals, the Airport facilities are capable of accommodating the operations of all commercial jet aircraft currently in use.



PHOENIX DEER VALLEY AIRPORT (DVT)

About the Airport

Phoenix Deer Valley Airport serves to relieve air traffic from Sky Harbor Airport. As such, the Airport is capable of accommodating all segments of civil aviation, except commercial passenger service. Deer Valley Airport encompasses approximately 914 acres of property. This airport is located fifteen miles north of downtown Phoenix near the intersection of Interstate 17 and Loop 101.

Terminal and Hangar Facilities

The Terminal was originally constructed in 1975 and then renovated in 2002 with a total cost of \$6.2 million. It is roughly 28,000 square feet. Deer Valley Airport has 779 Hangars and 380 Covered and Uncovered Tie-Down spaces, constructed for a total cost of \$17 million.

Runways

Deer Valley Airport has two runways, 07L/25R is 4,500 feet long and 75 feet wide and 07R/25L is 8,200 feet long and 100 feet wide.

PHOENIX GOODYEAR AIRPORT (GYR)

About the Airport

Phoenix Goodyear Airport is classified as a general aviation reliever airport for Phoenix Sky Harbor International Airport. It is located on 789 acres of property approximately two miles south of Interstate 10 on Litchfield Road. This airport was previously known as the Naval Air Facility Litchfield Park until it was purchased by the City of Phoenix in 1968.

Terminal and Hangar Facilities

The Terminal is approximately 5,200 square feet and was completed in 2000, for a cost of \$2.9 million. Goodyear Airport has 147 Hangars and 22 Tie-Downs, constructed for a cost of \$18 million.

Runway

Goodyear Airport has a single runway, 03/21 is 8,500 feet long and 150 feet wide and can accommodate aircraft up to the size of a Boeing 747.

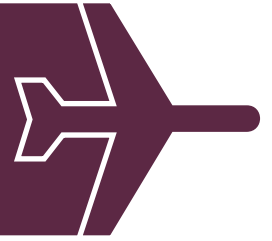
SCHEDULE 22
City of Phoenix, Aviation Enterprise Fund
Phoenix Sky Harbor International Airport
SCHEDULE OF ANNUAL PASSENGER ENPLANEMENTS
BY TYPE OF PASSENGER
 Last Ten Fiscal Years

Fiscal Year	By Type of Passenger				Percent of Total		
	Origin-Destination (O&D)			Connecting	Total	O&D	Connecting
Resident	Visitor	Total O&D	O&D			Connecting	
2016	6,147,109	7,391,369	13,538,478	8,517,429	22,055,907	61.4%	38.6%
2015	5,750,807	6,987,079	12,737,886	8,750,683	21,488,569	59.3%	40.7%
2014	5,518,158	6,637,193	12,155,351	8,363,397	20,518,748	59.2%	40.8%
2013	5,512,623	6,462,505	11,975,128	8,260,660	20,235,788	59.2%	40.8%
2012	5,441,823	6,501,508	11,943,331	8,335,127	20,278,458	58.9%	41.1%
2011	5,155,409	6,205,267	11,360,676	8,320,557	19,681,233	57.7%	42.3%
2010	5,112,219	6,281,679	11,393,898	7,702,631	19,096,529	59.7%	40.3%
2009	5,229,892	6,092,828	11,322,720	7,589,400	18,912,120	59.9%	40.1%
2008	6,015,226	6,792,654	12,807,880	7,859,650	20,667,530	62.0%	38.0%
2007	6,007,470	6,807,235	12,814,705	7,948,165	20,762,870	61.7%	38.3%

Source:

U.S. DOT, Air Passenger Origin-Destination Survey, reconciled to Schedules T100.

SCHEDULE 23
City of Phoenix, Aviation Enterprise Fund
Phoenix Sky Harbor International Airport
SCHEDULE OF ANNUAL PASSENGER ENPLANEMENTS
BY FLIGHT DESTINATION
 Last Ten Fiscal Years



Fiscal Year	By flight destination			Percent of Total	
	Domestic	International	Total	Domestic	International
2016	20,984,439	1,071,468	22,055,907	95.1%	4.9%
2015	20,348,751	1,139,818	21,488,569	94.7%	5.3%
2014	19,403,918	1,114,830	20,518,748	94.6%	5.4%
2013	19,094,138	1,141,650	20,235,788	94.4%	5.6%
2012	19,134,426	1,144,032	20,278,458	94.4%	5.6%
2011	18,592,674	1,088,559	19,681,233	94.5%	5.5%
2010	18,095,390	1,001,139	19,096,529	94.8%	5.2%
2009	17,980,137	931,983	18,912,120	95.1%	4.9%
2008	19,751,515	916,015	20,667,530	95.6%	4.4%
2007	19,891,566	871,304	20,762,870	95.8%	4.2%

Source:
 City of Phoenix, Aviation Department

SCHEDULE 24
City of Phoenix, Aviation Enterprise Fund
Phoenix Sky Harbor International Airport
SCHEDULE OF ENPLANED PASSENGERS BY AIRLINE
Last Ten Fiscal Years

	Fiscal Year				
	2016	2015	2014	2013	2012
Enplaned Passengers					
American Airlines Group (a)	10,962,440	10,978,341	10,734,648	10,620,512	10,443,129
Southwest (b)	7,149,550	6,750,373	6,305,923	6,294,553	6,353,423
Delta (c)	1,401,639	1,325,051	1,262,548	1,240,735	1,296,941
United (d)	1,080,742	981,702	960,710	984,130	1,058,382
Alaska	376,264	370,801	339,086	324,218	343,867
Frontier (e)	235,602	279,517	207,590	218,072	217,964
WestJet	219,614	214,812	179,257	163,247	150,795
Spirit	165,376	148,673	106,036	—	—
British Airways	105,173	103,408	99,380	91,609	92,099
Air Canada	104,995	101,417	81,683	78,611	79,454
JetBlue	91,947	90,195	87,332	90,743	109,521
Hawaiian	87,094	85,368	83,715	85,553	86,867
All Other	75,471	58,911	70,840	43,805	46,016
Total	22,055,907	21,488,569	20,518,748	20,235,788	20,278,458
Share of Total					
American Airlines Group (a)	49.7%	51.0%	52.2%	52.5%	51.5%
Southwest (b)	32.4	31.4	30.7	31.0	31.3
Delta (c)	6.4	6.2	6.2	6.1	6.4
United (d)	4.9	4.6	4.7	4.9	5.2
Alaska	1.7	1.7	1.7	1.6	1.7
Frontier (e)	1.1	1.3	1.0	1.1	1.1
WestJet	1.0	1.0	0.9	0.8	0.7
Spirit	0.7	0.7	0.6	—	—
British Airways	0.5	0.5	0.5	0.5	0.5
Air Canada	0.5	0.5	0.4	0.4	0.4
JetBlue	0.4	0.4	0.4	0.6	0.6
Hawaiian	0.4	0.4	0.4	0.4	0.4
All Other	0.3	0.3	0.3	0.1	0.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source:

City of Phoenix, Aviation Department Monthly Statistics Reports

Notes:

Passengers reported by regional affiliates have been grouped with their respective code-sharing partners.

(a) US Airways merged with American Airlines in December 2013. The two airlines were granted a combined operating certificate on April 8, 2015.

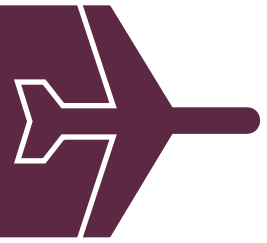
(b) Includes AirTran, which was acquired by Southwest in September 2010, for all years shown.

(c) Includes Northwest Airlines, which merged with Delta in October 2008, for all years shown.

(d) Includes Continental Airlines, which merged with United in May 2010, for all years shown.

(e) Includes Midwest Airlines, which merged with Frontier in April 2010, for all years shown.

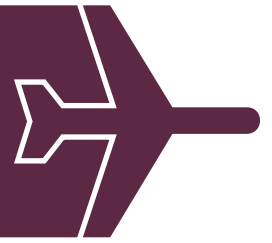
SCHEDULE 24
City of Phoenix, Aviation Enterprise Fund
Phoenix Sky Harbor International Airport
SCHEDULE OF ENPLANED PASSENGERS BY AIRLINE
Last Ten Fiscal Years



	Fiscal Year				
	2011	2010	2009	2008	2007
Enplaned Passengers					
American Airlines Group (a)	10,168,306	9,886,705	9,859,978	10,485,695	10,412,365
Southwest (b)	6,036,115	5,665,452	5,546,157	6,200,672	6,285,404
Delta (c)	1,256,788	1,250,333	1,180,336	1,340,302	1,180,998
United (d)	1,121,492	1,236,187	1,253,507	1,386,791	1,533,290
Alaska	328,390	326,624	332,754	382,930	376,946
Frontier (e)	253,391	276,521	289,627	309,091	322,157
WestJet	116,551	89,400	64,363	50,748	37,985
Spirit	—	—	—	—	—
British Airways	85,600	75,619	79,479	87,041	87,104
Air Canada	78,022	57,468	54,915	51,082	55,432
JetBlue	99,601	80,861	76,917	85,395	120,435
Hawaiian	85,197	84,912	87,649	86,755	84,820
All Other	51,780	66,447	86,438	201,028	265,934
Total	19,681,233	19,096,529	18,912,120	20,667,530	20,762,870
Share of Total					
American Airlines Group (a)	51.6%	51.9%	52.2%	50.8%	50.0%
Southwest (b)	30.7	29.7	29.3	30.0	30.3
Delta (c)	6.4	6.5	6.2	6.5	5.7
United (d)	5.7	6.5	6.6	6.7	7.4
Alaska	1.7	1.7	1.8	1.9	1.8
Frontier (e)	1.3	1.4	1.5	1.5	1.6
WestJet	0.6	0.5	0.3	0.2	0.2
Spirit	—	—	—	—	—
British Airways	0.4	0.4	0.4	0.4	0.4
Air Canada	0.4	0.3	0.3	0.2	0.3
JetBlue	0.5	0.4	0.4	0.4	0.6
Hawaiian	0.4	0.4	0.5	0.4	0.4
All Other	0.3	0.3	0.5	1.0	1.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%



SCHEDULE 25
City of Phoenix, Aviation Enterprise Fund
Phoenix Sky Harbor International Airport
SCHEDULE OF ANNUAL AVERAGE COST PER ENPLANEMENT
 Last Ten Fiscal Years



Fiscal Year	Total Airline Revenues (in thousands)	Enplaned Passengers	Cost Per Enplanement
2016	\$ 127,708	22,056	\$ 5.79
2015	128,596	21,489	5.98
2014	118,747	20,519	5.79
2013	111,911	20,236	5.53
2012	106,121	20,278	5.23
2011	101,338	19,681	5.15
2010	93,161	19,097	4.88
2009	95,143	18,912	5.03
2008	88,874	20,668	4.30
2007	86,436	20,763	4.16

Source:
 City of Phoenix, Aviation Department

SCHEDULE 26
City of Phoenix, Aviation Enterprise Fund
Phoenix Sky Harbor International Airport
SCHEDULE OF PFC APPROVALS AND REVENUES
(as of June 30, 2016)

	Approval Amount	Revenues (a)	Remaining Authority
PFC Approvals			
Closed PFC Approvals			
PFC 1	\$ 93,230,839	\$ 93,230,839	\$ —
PFC 2	147,875,677	147,875,677	—
PFC 3	208,085,801	208,085,801	—
PFC 4	246,977,086	246,977,086	—
PFC 5	179,036,442	179,036,442	—
Subtotal	875,205,845	875,205,845	—
Active PFC Approvals			
PFC 6	1,972,404,781	525,280,823	1,447,123,958
PFC 7	82,163,209	44,001,928	38,161,281
Subtotal	2,054,567,990	569,282,751	1,485,285,239
Total PFC Approvals	<u>\$ 2,929,773,835</u>	<u>\$ 1,444,488,596</u>	<u>\$ 1,485,285,239</u>

Sources:

City of Phoenix Aviation Department

Notes:

(a) Revenues includes PFC collections plus related interest income.

SCHEDULE 27
City of Phoenix, Aviation Enterprise Fund
Phoenix Sky Harbor International Airport
SCHEDULE OF ANNUAL PFC COLLECTIONS
 Last Ten Fiscal Years



Fiscal Year	PFC Rate	Airline Admin Fee	Net PFC Rate	Enplaned Passengers		Total PFC Collections (b) (in thousands)
				Total (in thousands)	PFC Eligible (a)	
2016	\$ 4.50	\$ 0.11	\$ 4.39	22,056	86.3%	\$ 83,595
2015	4.50	0.11	4.39	21,489	90.1%	84,976
2014	4.50	0.11	4.39	20,519	88.2%	79,406
2013	4.50	0.11	4.39	20,236	88.1%	78,273
2012	4.50	0.11	4.39	20,278	88.8%	79,092
2011	4.50	0.11	4.39	19,681	93.4%	80,682
2010	4.50	0.11	4.39	19,097	91.3%	76,530
2009	4.50	0.11	4.39	18,912	87.8%	72,924
2008	4.50	0.11	4.39	20,668	94.7%	85,964
2007	4.50	0.11	4.39	20,763	92.4%	84,212

Notes:

- (a) Imputed from enplaned passengers, net PFC rate, and total PFC collections. Timing variances exist between when PFCs are collected by airlines and when they are remitted to the airport, which can result in annual fluctuations of PFC collections and percent eligible passengers.
- (b) Total PFC Collections represent amounts that were received from the airlines during the fiscal year. Adjustments have not been made for receivables at fiscal year-end. These amounts are calculated on a different basis than the revenues reported in the Basic Financial Statements.

SCHEDULE 28
City of Phoenix, Aviation Enterprise Fund
Rental Car Facility Charge Revenue Bonds
SCHEDULE OF ANNUAL RECEIPTS, NET ANNUAL CFC REVENUES,
AND DEBT SERVICE COVERAGE
Last Ten Fiscal Years

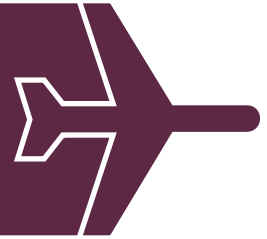
Fiscal Year	Transaction Days (a) (in thousands)	Pledged CFC Rate (b)	Annual Receipts (c)			Administrative Costs
			Pledged CFCs	Additional Deposits	Annual Receipts (d)	
(in thousands)						
2016	7,828	\$ 4.50	\$ 35,226	\$ 11,743	\$ 46,969	\$ 24
2015	7,650	4.50	34,425	11,474	45,899	25
2014	6,976	4.50	31,394	10,464	41,858	28
2013	6,763	4.50	30,434	10,145	40,579	19
2012	6,923	4.50	31,154	10,385	41,539	22
2011	6,565	4.50	29,541	9,847	39,388	146
2010	5,854	4.50	26,341	8,780	35,121	3
2009	6,361	4.50	28,626	8,534	37,160	50
2008	8,348	4.50	37,565	—	37,565	3
2007	7,651	4.50	34,428	—	34,428	31

Source:
City of Phoenix, Aviation Department

Notes:

- (a) Imputed from Trustee records using Annual Receipts, reflects Transaction Days on deposits for July 1 through June 30.
- (b) Effective January 1, 2009, the Customer Facility Charge (CFC) collection rate increased to \$6.00 per transaction day from \$4.50 per transaction day. \$4.50 of the \$6.00 collection rate is considered Pledged Revenues and is required to be deposited into the Trustee-held Revenue Fund. The Pledged Revenues must be used to fund various accounts established under the Bond Indenture. The City may, but is not required to, deposit the CFC receipts generated by the additional \$1.50 into the Trustee-held Revenue Fund. If the additional \$1.50 is deposited into the Trustee-held Revenue Fund, the monies become Pledged Revenues.
- (c) Includes CFC receipts generated by the \$4.50 Pledged collection rate and \$1.50 additional non-pledged collection rate.
- (d) Annual CFC Receipts represent amounts that were received from the Rental Car Companies during the fiscal year. Adjustments have not been made for receivables at fiscal year-end. These amounts are calculated on a different basis than the revenues reported in the Basic Financial Statements.

SCHEDULE 28
City of Phoenix, Aviation Enterprise Fund
Rental Car Facility Charge Revenue Bonds
SCHEDULE OF ANNUAL RECEIPTS, NET ANNUAL CFC REVENUES,
AND DEBT SERVICE COVERAGE
 Last Ten Fiscal Years



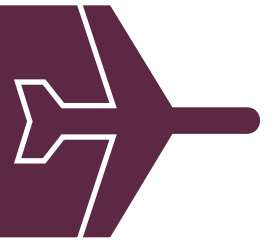
Fiscal Year	Net Annual CFC Receipts	Amount Available in Debt Service Coverage Fund	Net Annual CFC Receipts Available for Debt Service	2004 Bonds Debt Service	Debt Service Coverage	
					By Net Annual CFC Receipts	By Net Annual CFC Receipts and Debt Service Coverage Fund
(in thousands)						
2016	\$ 46,945	\$ 5,337	\$ 52,282	\$ 21,277	\$ 2.21	\$ 2.46
2015	45,874	5,332	51,206	21,277	2.16	2.41
2014	41,830	5,327	47,157	21,277	1.97	2.22
2013	40,560	5,320	45,880	21,276	1.91	2.16
2012	41,517	5,320	46,837	21,273	1.95	2.20
2011	39,242	5,320	44,562	21,274	1.84	2.09
2010	35,118	5,320	40,438	21,277	1.65	1.90
2009	37,110	5,320	42,430	21,278	1.74	1.99
2008	37,562	5,320	42,882	21,278	1.77	2.02
2007	34,397	5,320	39,717	21,278	1.62	1.87

SCHEDULE 29
City of Phoenix, Aviation Enterprise Fund
Phoenix Sky Harbor International Airport
SCHEDULE OF RENTAL CAR GROSS SALES BY COMPANY
Last Three Fiscal Years

	Fiscal Year		
	2016	2015	2014
Gross Receipts			
National Car Rental	\$ 86,464,376	\$ 85,686,661	\$ 75,652,653
Hertz Car Rental (a)	76,070,691	80,874,148	79,554,220
Avis Rent-A-Car	47,875,285	51,395,858	50,501,871
Budget Rent-A-Car	46,421,353	41,477,241	40,319,865
Enterprise Leasing	38,959,521	44,566,663	38,528,880
Dollar Rent A Car	18,511,518	23,359,134	25,073,941
Thrifty Car Rental	15,388,611	15,869,267	15,368,625
Payless Car Rental	14,813,795	14,928,495	13,181,905
Simply Wheelz	13,910,041	14,382,508	11,478,015
Fox Rent A Car	11,978,642	12,681,093	11,175,717
SIXT Rent a Car	10,760,452	9,231,403	4,557,559
Total	\$ 381,154,285	\$ 394,452,471	\$ 365,393,251
Share of Total			
National Car Rental	22.7%	21.9%	20.8%
Hertz Car Rental	20.0	20.5	21.8
Avis Rent-A-Car	12.6	13.0	13.8
Budget Rent-A-Car	12.2	10.5	11.0
Enterprise Leasing	10.2	11.3	10.5
Dollar Rent A Car	4.9	5.9	6.9
Thrifty Car Rental	4.0	4.0	4.2
Payless Car Rental	3.9	3.8	3.6
Simply Wheelz	3.6	3.6	3.1
Fox Rent A Car	3.1	3.2	3.1
SIXT Rent a Car	2.8	2.3	1.2
Total	100.0%	100.0%	100.0%

Source:
City of Phoenix, Aviation Department

Note:
(a) The fiscal year 2014 Gross Receipts and share of total for Hertz has been corrected.





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☉ CITY OF PHOENIX AVIATION DEPARTMENT