



LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
(An Enterprise Fund of the City of St. Louis, Missouri)

Basic Financial Statements and Supplementary Information

June 30, 2016

(With Independent Auditors' Report Thereon)

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
(An Enterprise Fund of the City of St. Louis, Missouri)

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KPMG LLP
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report

Honorable Mayor and Members of
the Board of Aldermen of the
City of St. Louis, Missouri:

Report on the Financial Statements

We have audited the accompanying financial statements of Lambert – St. Louis International Airport, an enterprise fund of the City of St. Louis, Missouri, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Lambert – St. Louis International Airport's basic financial statements for the year then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lambert – St. Louis International Airport, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1, the basic financial statements of Lambert – St. Louis International Airport present only the financial position and the changes in financial position and cash flows of Lambert – St. Louis International Airport, an enterprise fund of the City of St. Louis, Missouri, and do not purport to, and do not, present fairly the financial position of the City of St. Louis, Missouri as of June 30, 2016, the changes in its financial position or, where applicable, cash flows, for the year then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1(m), effective July 1, 2015, Lambert – St. Louis International Airport implemented Governmental Accounting Standards Board (GASB) No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management’s Discussion and Analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lambert – St. Louis International Airport’s basic financial statements. The supplementary information included in schedules I through IX is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information included in schedules I through IX is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in schedules I through IX is fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016 on our consideration of Lambert – St. Louis International Airport’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lambert – St. Louis International Airport’s internal control over financial reporting and compliance.

KPMG LLP

St. Louis, Missouri
December 15, 2016

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT

(An Enterprise Fund of the City of St. Louis, Missouri)

Management’s Discussion and Analysis – Unaudited

June 30, 2016

(Dollars in thousands, unless otherwise indicated)

The following discussion and analysis of the activity and financial performance of Lambert – St. Louis International Airport (the Airport) has been prepared by Airport management to provide the reader with an introduction and overview to the basic financial statements of the Airport for the fiscal year ended June 30, 2016. Following this discussion and analysis are the basic financial statements of the Airport including the notes which are essential to a full understanding of the data contained within the basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Statements

The Airport’s basic financial statements are prepared on an accrual basis in accordance with the U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Airport is structured as an enterprise fund owned and operated by the City of St. Louis, Missouri with revenues recognized when earned. Expenses are recognized when incurred. Capital assets are capitalized (other than land, construction in progress, and easements) and are depreciated over their useful lives. Amounts are restricted for debt service and, where applicable, for construction activities. Refer to Note 1 of the basic financial statements for a summary of the Airport’s significant accounting policies.

Summary of Airport Activity

Air travel increased significantly in 2016 when compared to 2015. Enplaned passengers increased by 6.5 percent and aircraft landings and takeoffs increased 1.6 percent from fiscal year 2015. Strong and steady travel trends are a result of Lambert airlines adding 12 new destinations since the summer of 2015. Airlines have also added additional flights to current markets or have switched to larger aircraft. Activity at the Airport during fiscal years 2016 and 2015, is as follows:

	2016	2015	Change
Enplaned passengers	6,672,558	6,267,734	6.5%
Aircraft landings and takeoffs	188,466	185,474	1.6%
Landed weight (in thousands of pounds)	7,972,338	7,789,039	2.4%
Mail and cargo (in tons)	65,560	62,851	4.3%

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(Dollars in thousands, unless otherwise indicated)

Financial Highlights

The following represents the significant financial activity at the Airport in fiscal years 2016 and 2015 and the reasons for any fluctuations between the years:

- Operating revenues decreased 2.5% from \$140,248 in fiscal year 2015 to \$136,694 in fiscal year 2016 as a result of efficient control of Airport operating expenses lowering the landing fee and terminal rental rates assessed to air carriers.
- Operating expenses increased 5.7% from \$124,207 in fiscal year 2015 to \$131,237 in fiscal year 2016 primarily due to the implementation of GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which enhances accounting and financial reporting by state and local governments for pension and improves information provided by state and local governmental employers about financial support for pensions. The Airport will now recognize a long-term liability for the net pension liability in the balance sheet and pension expense as a component of personnel services. The increase in expenses was offset by a decrease in supplies expense due to mild weather conditions in fiscal year 2016.
- The net result of the impact to operating revenues and expenses, as discussed above, is that operating income decreased 66% from \$16,041 in fiscal year 2015 to \$5,457 in fiscal year 2016. This is primarily due to the aforementioned GASB Statement No. 68 implementation.
- Nonoperating expenses, net, decreased 37.9% from \$7,711 in fiscal year 2015 to \$4,788 in fiscal year 2016 primarily due to a growth in enplaned passengers resulting in revenue growth from passenger facility fee collections. Also, the decrease is attributed to a decrease in interest expense and grants received for security costs.
- Capital contributions received in the form of grants from the federal government decreased 59.7% from \$23,284 in fiscal year 2015 to \$9,378 in fiscal year 2016. The grants received in fiscal year 2016 included various FAA Airport Improvement Program airfield projects totaling \$9,000 and \$378 of state grants to improve terminal roadway bridges. The prior year grants included \$13,455 from TSA grants for the Checked Baggage Inspection System. The final billings on this project were submitted in June 2015 and there is no project of similar size eligible for grant funding completed during fiscal year 2016.
- As a result of the preceding items, net position increased 0.4% from \$1,095,460 in fiscal year 2015 to \$1,099,770 in fiscal year 2016.

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(Dollars in thousands, unless otherwise indicated)

Financial Position Summary

Net position may serve over time as a useful indicator of the Airport’s financial position. The Airport’s assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$1,099,770 at June 30, 2016.

A condensed summary of the Airport’s net position at June 30, 2016 is shown below:

	2016	2015	\$ Change	% Change
Assets:				
Current and other assets	\$ 285,320	300,542	(15,222)	(5.1%)
Capital assets	1,585,754	1,617,035	(31,281)	(1.9%)
Deferred outflow of resources	30,663	18,241	12,422	68.1%
Total assets and deferred outflow of resources	1,901,737	1,935,818	(34,081)	(1.8%)
Liabilities:				
Long-term liabilities	718,317	747,768	(29,451)	(3.9%)
Other liabilities	82,304	89,771	(7,467)	(8.3%)
Deferred inflows of resources	1,346	2,819	(1,473)	(52.3%)
Total liabilities and deferred inflows of resources	801,967	840,358	(38,391)	(4.6%)
Net position:				
Invested in capital assets	912,411	907,291	5,120	0.6%
Restricted	116,219	119,296	(3,077)	(2.6%)
Unrestricted	71,140	68,873	2,267	3.3%
Total net position	\$ 1,099,770	1,095,460	4,310	0.4%

A portion of the Airport’s net position (82.9% at June 30, 2016) represents its investment in capital assets (e.g., land, easements, pavings, buildings and facilities, roads, runways, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending. Although the Airport’s investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

An additional portion of the Airport’s net position (10.6% at June 30, 2016) represents net position that are subject to external restrictions on how they can be used. These assets can be used for any lawful Airport use including debt service, capital restoration, or expenditure subject to the restrictions of the Passenger Facility Charge Program and the Airport Improvement Program.

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(Dollars in thousands, unless otherwise indicated)

The remaining portion of the Airport's net position (6.5% at June 30, 2016) represents its unrestricted investments, less any outstanding indebtedness, which may be used to meet any of the Airport's ongoing obligations.

In fiscal 2016, the decrease in capital assets is attributable to fewer projects capitalized during fiscal year 2016 compared to the prior fiscal year and current year depreciation expense. The decrease in long-term debt outstanding was attributable to payments made on outstanding debt and the Airport completed the advance refunding of 2005 Series Revenue Refunding Bonds during fiscal year 2015 to reduce its total debt service payments over the next eight years by \$3,064.

Summary of Revenues, Expenses, and Changes in Fund Net Position

The Airport's revenues, expenses, and changes in fund net position for the fiscal year ended June 30, 2016 are summarized as follows:

	2016	2015	\$ Change	% Change
Operating revenues	\$ 136,694	140,248	(3,554)	(2.5%)
Operating expenses	131,237	124,207	7,030	5.7%
Operating income	5,457	16,041	(10,584)	(66.0%)
Nonoperating expenses, net	(4,788)	(7,711)	2,923	(37.9%)
Income (loss) before capital contributions, transfers, and extraordinary items, net	669	8,330	(7,661)	(92.0%)
Capital contributions	9,378	23,284	(13,906)	(59.7%)
Transfers out	(6,415)	(6,407)	(8)	0.1%
Extraordinary item – Natural disaster	678	1,737	(1,059)	(61.0%)
Increase in net position	4,310	26,944	(22,634)	(84.0%)
Cumulative effect of change in accounting principle	-	(13,372)	13,372	(100.0%)
Net position, end of year	\$ 1,099,770	1,095,460	4,310	0.4%

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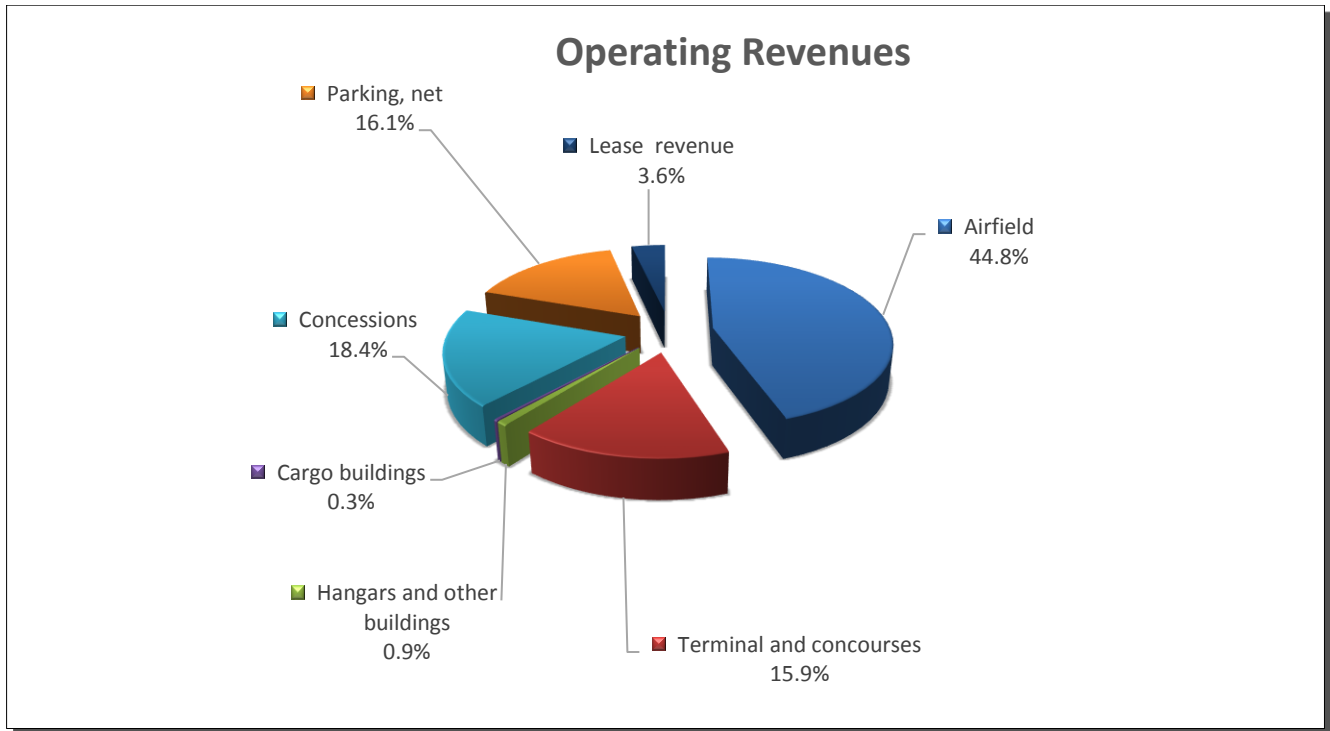
Management’s Discussion and Analysis – Unaudited

June 30, 2016

(Dollars in thousands, unless otherwise indicated)

Revenues

The following chart shows the major sources of operating revenues, and their percentage share of total operating revenues, for the year ended June 30, 2016:



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The following table summarizes Airport operating and nonoperating revenues, and their percentage share of total Airport operating and nonoperating revenue, for the year ended June 30, 2016:

	2016	% of total	\$ Change from 2015	% Change from 2015
Operating revenues:				
Aviation revenue:				
Airfield	\$ 61,290	36.8%	(3,205)	(5.0%)
Terminal and concourses	21,707	13.0%	(3,258)	(13.1%)
Hangars and other buildings	1,176	0.7%	65	5.9%
Cargo buildings	393	0.2%	36	10.1%
Concessions	25,195	15.1%	(467)	(1.8%)
Parking, net	22,043	13.3%	3,107	16.4%
Lease revenue	4,890	2.9%	168	3.6%
Total operating revenue	136,694	82.2%	(3,554)	(2.5%)
Nonoperating revenues:				
Intergovernmental revenue	692	0.4%	(585)	(45.8%)
Investment revenue	2,896	1.7%	355	14.0%
Passenger facility charges	25,785	15.5%	1,597	6.6%
Other nonoperating revenue, net	358	0.2%	213	146.9%
Gain/(Loss) on sale of capital asset	(71)	(0.0%)	(235)	(143.3%)
Total nonoperating revenue	29,660	17.8%	1,345	4.8%
Total revenues	\$ 166,354	100.0%	(2,209)	(1.3%)

Fiscal year 2016 operating revenues decreased 2.5%, or \$3,554. This results primarily from lower landing fee rates assessed to air carriers resulting in lower Airfield revenue of \$3,205, and lower Terminal and Concourse rental revenues of \$3,258, and an increase in Hangar building revenues of \$65. In addition, nonoperating revenues increased 4.8%, or \$1,345, due primarily to an increase in enplaned passengers during the fiscal year and passenger facility fee collections.

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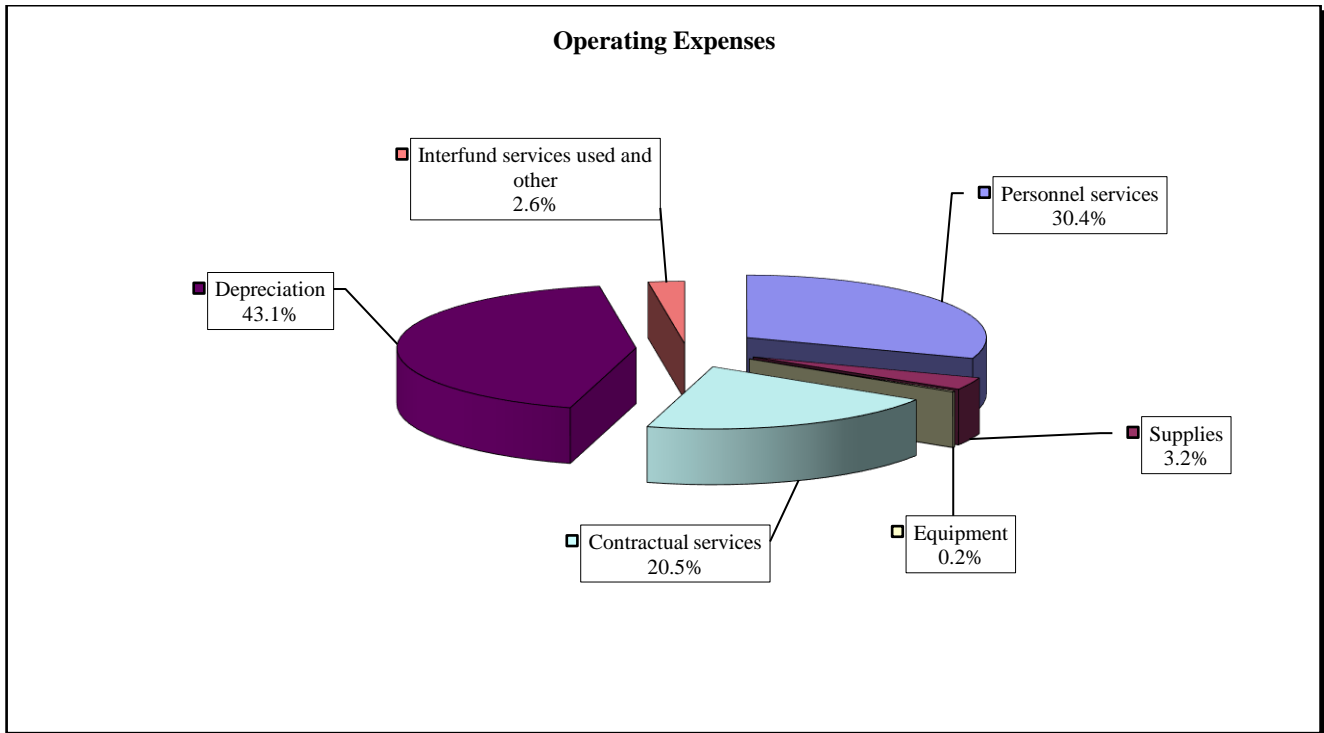
Management’s Discussion and Analysis – Unaudited

June 30, 2016

(Dollars in thousands, unless otherwise indicated)

Expenses

The following chart shows the major sources of operating expenses, and their percentage share of total operating expenses, for the year ended June 30, 2016:



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Management's Discussion and Analysis – Unaudited

June 30, 2016

(Dollars in thousands, unless otherwise indicated)

The following table summarizes Airport operating and nonoperating expenses, and their percentage share of total Airport operating and nonoperating expenses, for the year ended June 30, 2016:

	2016	% of total	\$ Change from 2015	% Change from 2015
Operating expenses:				
Personnel services	\$ 39,928	24.1%	2,436	6.5%
Supplies	4,231	2.6%	(1,387)	(24.7%)
Equipment	303	0.2%	79	35.3%
Contractual services	26,919	16.2%	(707)	(2.6%)
Depreciation	56,567	34.1%	6,401	12.8%
Interfund services used	3,214	1.9%	725	29.1%
Other operating expenses	75	0.0%	(517)	(87.3%)
Total operating expenses	131,237	79.2%	7,030	5.7%
Nonoperating expenses:				
Interest expense	34,448	20.8%	(1,578)	(4.4%)
Total nonoperating expenses	34,448	20.8%	(1,578)	(4.4%)
Total expenses	\$ 165,685	100.0%	5,452	3.4%

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Management’s Discussion and Analysis – Unaudited

June 30, 2016

(Dollars in thousands, unless otherwise indicated)

Airline Use Rates and Charges

As of June 30, 2016, the Airport was served by 12 signatory airlines*, which have use agreements, of which two are cargo carriers. Eighteen airlines have operating agreements, fourteen are designated as affiliates, and two of which are cargo carriers. An individual airline that signed a Use and Lease Agreement with the Airport has a contract that establishes how the airlines are assessed annual rates and charges for their use of the Airport. These agreements will expire on June 30, 2016.

Landing and rental fees are calculated on operating and maintenance expenses and are charged to the airlines based upon landing weights or square footage utilized. The amount charged is adjusted based upon actual expenses and actual landed weight. Nonaffiliated airlines with operating agreements and carriers landing without an Airport Agreement are assessed 125% of the landing fee rate assessed carriers with use agreements.

Capital Acquisitions and Construction Activities

During fiscal year 2016, the Airport expended \$21,398 on capital activities related to construction in progress. During 2016, completed projects totaling approximately \$17,206 were closed from construction in progress to their respective capital accounts. The major completed projects were as follows:

Terminal and concourse improvements	\$ 7,039
Runway improvements	8,734
Roadway improvements	404
Airport Office Building, Banshee Buildings and others	1,029
Total	<u>\$ 17,206</u>

Capital asset acquisitions and improvements exceeding \$10,000 (in dollars) are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including federal grants, State of Missouri grants, passenger facility charges, debt issuances, and Airport operating revenues. Additional information on the Airport’s capital assets and commitments can be found in the notes to the basic financial statements.

Passenger Facility Charges (PFC)

The Airport initially received approval from the FAA to impose a passenger facility charge of \$3.00 (in dollars) per enplaned passenger beginning December 1, 1992, not to exceed \$131,453, principally to finance the Airport Capital Improvement Program. On December 1, 2001, the Airport received approval to increase the PFC \$4.50 (in dollars) per enplaned passenger. The current limitation on passenger facility charges to be collected is \$1,075,575.

The PFC is withheld by the respective airline for each ticket or transfer in St. Louis and remitted to the Airport one month after collection, less a \$0.11 (in dollars) per ticket operating fee by the airline. PFC revenue is classified as nonoperating revenue.

*American Airlines and US Airways began operating under the same certificate on April 8, 2015, and the ‘US Airways’ name was discontinued on October 17, 2015. For purposes of this report, American Airlines and US Airways are treated as a single airline brand for the 12-month period ending June 30, 2016.

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Management’s Discussion and Analysis – Unaudited

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(Dollars in thousands, unless otherwise indicated)

Long-Term Debt Administration

At June 30, 2016, the Airport had the following bond series outstanding:

Revenue Refunding Bonds, Series 2005, dated July 7, 2005, maturing annually from fiscal year 2013 through 2032 with interest coupons of 5.50%

- Balance outstanding at June 30, 2016 - \$228,645

Revenue Refunding Bonds, Series 2007A, dated January 23, 2007, maturing annually from fiscal year 2013 through 2033 with interest coupons ranging from 4.25% to 5.25%

- Balance outstanding at June 30, 2016 - \$189,780

Revenue Refunding Bonds, Series 2007B, dated April 3, 2007, maturing annually from fiscal year 2015 through 2028 with interest coupon of 5.00%

- Balance outstanding at June 30, 2016 - \$98,475

Revenue Bonds, Series 2009A, dated July 14, 2009, maturing annually from fiscal year 2024 through 2035 with interest coupons ranging from 5.250% to 6.625%

- Balance outstanding at June 30, 2016 - \$107,240

Revenue Refunding Bonds, Series 2012, dated June 30, 2012, maturing annually from fiscal year 2013 through 2033 with interest coupons ranging from 3.00% to 5.00%

- Balance outstanding at June 30, 2016 - \$25,095

Revenue Refunding Bonds, Series 2013, dated June 30, 2013, maturing annually from fiscal year 2014 through 2019 with interest coupons of 5.00%

- Balance outstanding at June 30, 2016 - \$19,680

Revenue Refunding Bonds, Series 2015, dated June 25, 2015, maturing annually from fiscal year 2020 through 2024 with interest coupon of 5.00%

- Balance outstanding at June 30, 2016 - \$17,310

Credit Ratings

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services (“S&P”), a division of The McGraw-Hill Companies, Inc., have assigned ratings of “A3” and “A-” respectively, on the basis of the credit of the Airport.

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Management's Discussion and Analysis – Unaudited

June 30, 2016

(Dollars in thousands, unless otherwise indicated)

Requests for Information

These basic financial statements are designed to provide a general overview of the Airport's finances for all those with an interest. Questions concerning any information provided in this report should be addressed to the Office of the Airport Assistant Director for Finance and Accounting, Lambert – St. Louis International Airport, P.O. Box 10212, St. Louis, Missouri, 63145.

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
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Balance Sheet

June 30, 2016

(Dollars in thousands)

Assets

Current assets:

Unrestricted assets:

Cash and cash equivalents	\$	40,200
Investments		44,551
Accounts receivable, net		3,171
Supplies and materials		2,320
Other current assets		552
		90,794

Total unrestricted assets

Restricted assets:

Cash and cash equivalents		57,141
Accrued interest receivable		292
Passenger facility charges receivable		2,223
Government grants receivable		4,281
		63,937

Total restricted assets

Total current assets

154,731

Noncurrent assets:

Unrestricted:

Investments		27,083
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Restricted:

Cash and cash equivalents		21,018
Investments		80,799
Capital assets, net		1,585,754
Other assets		1,689

Total noncurrent assets

1,716,343

Deferred outflow of resources

30,663

Total assets and deferred outflow of resources

\$ 1,901,737

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(An Enterprise Fund of the City of St. Louis, Missouri)

Balance Sheet

June 30, 2016

(Dollars in thousands)

Liabilities and Net Position

Current liabilities:

Payable from unrestricted assets:

Accounts payable and accrued expenses	\$ 14,232
Unearned revenue and other current liabilities	1,745
Due to the City of St. Louis, Missouri	4,686
Total payable from unrestricted assets	20,663

Payable from restricted assets:

Current maturities of revenue bonds payable	38,400
Accrued interest payable	18,266
Contracts and retainage payable	4,975
Total payable from restricted assets	61,641

Total current liabilities	82,304
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Noncurrent liabilities:

Revenue bonds payable, net	675,272
Net pension liability	30,885
Other long-term liabilities	12,160
Total noncurrent liabilities	718,317

Deferred inflows of resources

1,346

Total liabilities and deferred inflows of resources	801,967
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Net position:

Invested in capital assets	912,411
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Restricted:

Bond reserve funds	93,258
Passenger facility charges	22,961

Unrestricted	71,140
Total net position	1,099,770

Total liabilities, deferred inflows of resources, and net position	\$ 1,901,737
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See accompanying notes to basic financial statements.

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
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Statement of Revenues, Expenses, and Changes in Fund Net Position

Year ended June 30, 2016

(Dollars in thousands)

Operating revenue:	
Aviation revenue:	
Airfield	\$ 61,290
Terminal and concourses	21,707
Hangars and other buildings	1,176
Cargo buildings	393
Concessions	25,195
Parking, net	22,043
Lease revenue	4,890
Total operating revenue	<u>136,694</u>
Operating expenses:	
Personnel services	39,928
Supplies	4,231
Equipment	303
Contractual services	26,919
Depreciation	56,567
Interfund services used	3,214
Other operating	75
Total operating expenses	<u>131,237</u>
Operating income	<u>5,457</u>
Nonoperating revenue (expenses):	
Intergovernmental revenue	692
Investment revenue	2,896
Interest expense	(34,448)
Passenger facility charges	25,785
Loss on sale of land	(71)
Other, net	358
Total nonoperating expenses, net	<u>(4,788)</u>
Income before capital contributions, transfers, and extraordinary item, net	<u>669</u>
Capital contributions	9,378
Transfers to the City of St. Louis, Missouri	(6,415)
Extraordinary item – Natural disaster	678
Total capital contributions, transfers, and extraordinary items, net	<u>3,641</u>
Increase in net position	<u>4,310</u>
Total net position, beginning of year	<u>1,095,460</u>
Total net position, end of year	<u>\$ 1,099,770</u>

See accompanying notes to basic financial statements.

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
(An Enterprise Fund of the City of St. Louis, Missouri)

Statement of Cash Flows

Year ended June 30, 2016

(Dollars in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 135,123
Payments to suppliers of goods and services	(34,595)
Payments to or on behalf of employees	(37,636)
Payments for interfund services used	(2,918)
Net cash provided by operating activities	<u>59,974</u>
Cash flows from noncapital financing activity:	
Transfers to other funds of the City of St. Louis, Missouri	(6,415)
Net cash used in noncapital financing activity	<u>(6,415)</u>
Cash flows from capital and related financing activities:	
Cash collections from passenger facility charges	27,033
Receipt of federal financial assistance	17,293
Acquisition and construction of capital assets	(28,017)
Insurance recoveries	800
Proceeds from the sale of surplus property	1,277
Principal paid on revenue bond maturities	(39,785)
Interest paid on revenue bonds	(37,399)
Net cash used in capital and related financing activities	<u>(58,798)</u>
Cash flows from investing activities:	
Purchases of investments	(250,517)
Proceeds from sales and maturities of investments	287,636
Investment income	3,206
Net cash provided by investing activities	<u>40,325</u>
Net increase in cash and cash equivalents	<u>35,086</u>
Cash and cash equivalents:	
Beginning of year:	
Unrestricted	36,989
Restricted	46,284
	<u>83,273</u>
End of year:	
Unrestricted	40,200
Restricted	78,159
	<u>\$ 118,359</u>
Reconciliation of operating gain to net cash provided by operating activities:	
Operating income	\$ 5,457
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	56,567
Changes in assets and liabilities:	
Accounts receivable, net	(850)
Supplies and materials	82
Other assets	73
Net pension liabilities	2,216
Accounts payable and accrued expenses	(3,143)
Unearned revenue	(365)
Due to/from the City of St. Louis, Missouri	413
Other long-term liabilities	(476)
Total adjustments	<u>54,517</u>
Net cash provided by operating activities	<u>\$ 59,974</u>
Supplemental disclosures for noncash financing activities:	
Unrealized gain on investments	\$ 704

See accompanying notes to basic financial statements.

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(1) Summary of Significant Accounting Policies

The Lambert – St. Louis International Airport (the Airport) is owned and operated by the City of St. Louis, Missouri (the City). The Airport is an enterprise fund of the City, and therefore, the basic financial statements of the Airport are not intended to present the financial position, changes in financial position, and cash flows of the City as a whole in conformity with U.S. generally accepted accounting principles.

(a) Basis of Accounting

Governmental enterprise funds are used to account for operations of governmental entities that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Airport prepares its financial statements in accordance with U.S. generally accepted accounting principles for governmental enterprise funds, which are similar to those for private business enterprises. Accordingly, the economic resource measurement focus and the accrual basis of accounting are used whereby revenues are recorded when earned and expenses are recorded when incurred.

In reporting its financial activity, the Airport applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's ongoing operations. Revenues from airlines, concessions, and parking are reported as operating revenues. Transactions that are capital, financing, or investing related are reported as nonoperating revenues. All expenses related to operating the Airport are reported as operating expenses. Interest expense, financing costs, and losses on the disposal of capital assets are reported as nonoperating expenses.

(b) Accounts Receivable

Accounts receivable at June 30, 2016 consist of \$3,171 due from air carriers and concessionaires with operations at the Airport. Such amounts are recorded net of allowances for uncollectible accounts of \$21.

(c) Supplies and Materials

Supplies and materials represent items used in support of operations and maintenance of the Airport. Supplies and materials amounts are recorded at cost using a method that approximates the first-in, first-out method.

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(d) Passenger Facility Charges (PFCs)

The Airport collects a \$4.50 (in dollars) facility charge per enplaned passenger to fund approved FAA projects. The PFCs are withheld by the respective airlines for each ticket purchased and passenger transfer made in St. Louis and remitted to the Airport one month after the month of receipt, less an \$0.11 (in dollars) per ticket operating fee retained by the airlines. PFCs represent an exchange-like transaction, and are recognized as nonoperating revenue based upon passenger enplanements. Passenger facility charges receivable as of June 30, 2016 were \$2,223. These amounts were collected during July and August of 2016.

(e) Capital Assets

Capital assets are recorded at cost. Depreciation, including depreciation recognized on assets acquired through government grants and other aid, is computed on the straight-line method over the estimated useful lives of the various classes of assets. Land is recorded at cost, which, in addition to the purchase price, includes appraisal and legal fees, demolition, and homeowner relocation costs. Net interest costs on funds borrowed to finance the construction of capital assets are capitalized and amortized over the life of the related asset.

Airport management has evaluated prominent events or changes in circumstances affecting capital assets to determine whether any impairments of capital assets have occurred (note 12). Such events or changes in circumstances that were considered by Airport management to be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage.

(f) Interest Expense

Bond discounts and bond premiums are recorded as reductions of or additions to the related debt obligation as appropriate. Such amounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bond issuance costs are recognized as an outflow of resources and are expensed as incurred.

(g) Other Assets

Other noncurrent assets, as of June 30, 2016, comprise an advance of \$1,689 provided to the Airport's parking contractor and will be repaid to the Airport at the conclusion of the parking contract.

(h) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2016 comprise \$5,252, of accrued salaries and benefits; \$7,621 due to vendors and contractors; and \$1,359 of other accrued expenses.

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(i) *Vacation and Sick Leave Benefits*

Under the terms of the City’s personnel policy, City employees are granted vacation and sick leave. Employees who have an unused sick leave balance may, at retirement, elect to receive payment for one-half of the sick leave balance. As an estimate of the portion of sick leave that will result in termination payments, a liability has been recorded on the accompanying financial statements within other long-term liabilities representing one-half of the accumulated sick leave balances for those employees who will be eligible to retire within five years. The liability totaled \$2,047 as of June 30, 2016, and is included in other long-term liabilities.

The vacation liability reflects amounts attributable to employee services already rendered and are cumulative. The liability totaled \$2,998 as of June 30, 2016, and is included in accounts payable and accrued expenses.

(j) *Capital Contributions and Intergovernmental Revenue*

Capital contributions represent government grants and other aid used to fund capital projects. Generally, capital contributions are recognized when the related expenditure is made and amounts become subject to claim for reimbursement. Certain Airport Improvement Program grants include look-back provisions, which allow the Airport to seek reimbursement for expenditures incurred prior to the respective Airport Improvement Program grant award date. In such circumstances, the Airport recognizes capital contributions for such grants upon meeting both the applicable eligibility requirements established by GASB Statement No. 33, *Accounting for Nonexchange Transactions*, and upon the designation of expenditures as eligible Airport Improvement Program expenditures as evaluated through the report date of the accompanying financial statements. Amounts received from other governments that are not restricted for capital purposes are reflected as nonoperating intergovernmental revenue.

(k) *Statements of Cash Flows*

For purposes of the statements of cash flows, “cash and cash equivalents” is defined as all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

(l) *Use of Estimates*

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

(m) *Accounting Pronouncements*

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. The statement requires disclosures to be made about fair value measurements, the level of fair value

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hierarchy, and valuation techniques. The requirements of this statement are effective for the Airport for the year ending June 30, 2016. In adopting this statement, the Airport has implemented the note disclosure to reflect the level of fair value hierarchy for investments, as well as indicated the fair value methodology. This information can be referenced in Note 2.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued June 2016. The objective of this statement is to identify the hierarchy of generally accepted accounting principles. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified with a source of authoritative GAAP. The requirements of this statement are effective for the Airport for the year ending June 30, 2016.

(n) Future Accounting Pronouncements

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for the Airport beginning with its year end June 30, 2017. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess the government's financial position and results of operations.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, will be effective for the Airport beginning with its year end June 30, 2017. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issues is associated with pensions provided through certain multiple-employer defined pension plans and to state or local government employers whose employees are provided with such pensions. The Airport has not evaluated the impact of this statement.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*, will be effective for the Airport beginning with its year end June 30, 2017. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units and amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Airport has not evaluated the impact of this statement.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No.73*, will be effective for the Airport beginning with its year end June 30, 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*,

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and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Airport has not evaluated the impact of this statement.

(2) Cash and Investments

The Airport applies the provisions of GASB Statement No. 72, which requires investments to be measured at fair value. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The statement established a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 inputs are inputs – other than quoted prices – included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage backed security.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2016:

	Total	Quoted Prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Federal Home Loan Bank	\$ 45,703	-	45,703	-
Federal National Mortgage Association	50,856	-	50,856	-
Federal Home Loan Mortgage Corporation	11,458	-	11,458	-
Commercial Paper	28,448	-	28,448	-
U.S. Treasury bills and notes	43,788	43,788	-	-
Tennessee Valley Authority	3,451	-	3,451	-
Supra National Note	2,857	-	2,857	-
Money market mutual funds	46,923	-	46,923	-
	\$ 233,484	43,788	189,696	-

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Investments are recorded at fair value. Fair value for investments is determined by closing market prices at year-end as reported by the respective investment custodian.

The Airport deposits all cash with the Office of the Treasurer of the City, which maintains all banking relationships for the Airport. Additionally, all investment decisions are made by the City Treasurer and the City's agents.

Certificates of deposit are defined as investments for balance sheet classification and cash flow purposes; for custodial risk disclosure, however, they are described below as cash deposits. In addition, money market mutual funds are classified as cash and cash equivalents on the balance sheet, but as investments for custodial risk disclosure.

The Airport's current assets contemplate the exclusion of resources that are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts (except for maturing debt that is recorded as a current liability).

As of June 30, 2016, the Airport had the following cash deposits and investments:

Federal Home Loan Bank	\$	45,703
Federal National Mortgage Association		50,856
Federal Home Loan Mortgage Corporation		11,458
U.S. Treasury bills and notes		43,788
Tennessee Valley Authority		3,451
Money market mutual funds		46,923
Other cash deposits		37,308
Commercial paper		28,448
Supra National Note		2,857
		270,792
	\$	270,792

State statutes and City investment policies authorize the deposit of funds in financial institutions and trust companies. Investments may be made in obligations of the United States Government or any agency or instrumentality thereof; bonds of the State of Missouri, the City of St. Louis, Missouri, or any city within the state with a population of 400,000 inhabitants or more; or time certificates of deposit. In addition, the City may enter into repurchase agreements maturing and becoming payable within 90 days secured by United States Treasury obligations or obligations of the United States Government agencies or instrumentalities of any maturity as provided by law. Funds in the form of cash deposits are required to be insured or collateralized by authorized investments held in the City's name.

(a) Interest Rate Risk

The Airport seeks to minimize its exposure to fair value losses arising from changes in interest rates by selecting investments in adherence to the Investment Policy for the City of St. Louis, Missouri

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(Investment Policy). The Investment Policy provides that, to the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities or make a time deposit with a stated maturity or more than five years from the date of purchase. The average maturity for collateral provided to the City for deposits in connection with a repurchase agreement shall not exceed five years without the written approval of the City Treasurer. In connection with any outstanding bond issue, debt service reserve funds may be invested to a maximum maturity of 15 years, and up to 30 years with the approval of the Treasurer.

The investments had the following maturities on June 30, 2016:

	Fair value	Investment maturities (in years)		
		Less than 1	1-5	6-10
Federal Home Loan Bank	\$ 45,703	21,847	23,856	—
Federal National Mortgage Association	50,856	35,190	15,666	—
Federal Home Loan Mortgage Corporation	11,458	2,410	9,048	—
Commercial Paper	28,448	28,448	—	—
U.S. Treasury bills and notes	43,788	20,771	23,017	—
Tennessee Valley Authority	3,451	—	3,451	—
Supra National Note	2,857	—	2,857	—
Money market mutual funds	46,923	46,923	—	—
	<u>\$ 233,484</u>	<u>155,589</u>	<u>77,895</u>	<u>—</u>

(b) Credit Risk

The Investment Policy provides that investments of the City be rated in one of the three highest ratings categories by Moody's Investors Service, Standard & Poor's Corporation, or Fitch's Ratings Service.

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The investments had the following ratings on June 30, 2016:

	Fair value	Investment Ratings (Standard and Poor's)				
		AAA	A-1+	A-1	AA+	Not Rated
Federal Home Loan Bank	\$ 45,703	—	163	—	45,540	—
Federal National Mortgage Association	50,856	—	—	—	33,461	17,395
Federal Home Loan Mortgage Corporation	11,458	—	—	—	11,458	—
Commercial Paper	28,448	—	3,598	24,850	—	—
U.S. Treasury Bills and Notes*	43,788	—	—	—	—	43,788
Tennessee Valley Authority	3,451	—	—	—	3,451	—
Supra National Note	2,857	2,857	—	—	—	—
Money Market Mutual Funds	46,923	46,923	—	—	—	—
	<u>\$ 233,484</u>	<u>49,780</u>	<u>3,761</u>	<u>24,850</u>	<u>93,910</u>	<u>61,183</u>

* The Airport's investments in U.S. Treasury Bills and Notes are explicitly guaranteed by the U.S. government and, therefore, do not require a rating.

(c) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the Airport will not be able to recover the value of the investments or collateral securities that are in the possession of the counterparty.

The Investment Policy requires that all cash deposits, time certificates of deposit, deposits with listed institutions, and repurchase agreements be covered by adequate pledged collateral. Acceptable collateral includes U.S. Treasury obligations, other interest-bearing securities guaranteed as to principal and interest by the U.S. or an agency or instrumentality of the U.S., bonds of the State of Missouri, or bonds of the City. The market value of the principal and accrued interest of the collateral must equal 103% of the deposits secured, less any amount subject to federal deposit insurance. All City securities and securities pledged as collateral must be held in a segregated account on behalf of the City by an independent third party with whom the City has a current custodial agreement and has been designated by the Treasurer and Funds Committee as eligible to serve in such a capacity.

At June 30, 2016, all Airport investments and all collateral securities pledged against Airport deposits are held by the counterparty's trust department or agent in the City's name.

(d) Concentration of Credit Risk

The Investment Policy of the City provides that, with the exception of U.S. Treasury Securities, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. The Airport has no separate policy related to the concentration of credit

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risk, and the Airport's concentration of credit risk is considered in conjunction with the review of the concentration of credit risk for the City's total investment portfolio.

At June 30, 2016, the concentration of the Airport's investments (excluding cash deposits) was as follows:

Federal National Mortgage Assoc.	21.78%
Federal Home Loan Mortgage Corp.	4.91
Commercial paper	12.18
U.S. Treasury bills and notes	18.76
Tennessee Valley Authority	1.48
Supra National Note	1.22
Federal Home Loan Bank	19.57
Money market mutual funds	20.10
	100.00%

(3) Restricted Assets

Cash and investments, restricted in accordance with bond provisions, are as follows at June 30, 2016:

	2016
Airport Bond Fund:	
Debt Service Account	\$ 57,141
Debt Service Reserve Account	35,825
Airport Renewal and Replacement Fund	3,500
Passenger Facility Charge Fund	20,739
Airport Debt Service Stabilization Fund	38,211
Airport Construction Fund	1,456
Drug Enforcement Agency funds	2,086
	\$ 158,958

Bond provisions require that revenues derived from the operation of the Airport be deposited into the unrestricted Airport Revenue Fund. From this fund, the following allocations are made (as soon as practicable in each month after the deposit of revenues, but no later than five business days before the end of each month) in the following order of priority, and as applicable:

- (a) Unrestricted Airport Operation and Maintenance Fund: an amount sufficient to pay the estimated operation and maintenance expenses during the next month.
- (b) Airport Bond Fund: for credit to the Debt Service Account if and to the extent required so that the balance in said account shall equal the accrued aggregate debt service on the bonds, to the last day of

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the then-current calendar month. This account shall be used only for payment of bond principal and interest as the same shall become due.

- (c) **Airport Bond Fund:** for credit to the Debt Service Reserve Account: an amount sufficient to maintain a balance in such account equal to the debt service reserve requirement (an amount equal to the greatest amount of principal and interest due in any future fiscal year). This account shall be available for deficiencies in the Debt Service Account on the last business day of any month, and the balance shall be transferred to the Debt Service Account whenever the balance in the Debt Service Account (before the transfer) is not sufficient to pay fully all outstanding bonds.
- (d) **Arbitrage Rebate Fund:** an amount necessary to fund the Arbitrage Rebate in order to pay the Rebate Amount when due and payable.
- (e) **Subordinated Indebtedness:** an amount sufficient to pay Subordinated Indebtedness in accordance with the authorizing and implementing documents for such Subordinated Indebtedness.
- (f) **Airport Renewal and Replacement Fund:** an amount equal to \$57, provided that no deposit shall be required to be made into said fund whenever and as long as uncommitted moneys in said fund are equal to or greater than \$3,500 or such larger amount as the City shall determine is necessary for purposes of said fund and provided further that, if any such monthly allocation to said fund shall be less than the required amounts, the amount of the next succeeding monthly payments shall be increased by the amount of such deficiency. This fund shall be used for paying costs of renewal or replacement of capital items used in connection with the operation of the Airport.
- (g) **A subaccount in the Airport Revenue Fund:** an amount determined from time to time by the City such that if deposits were made in amounts equal to such amount in each succeeding month during each Airport fiscal year, the balance in such subaccount shall equal the amounts payable to the City with respect to such Airport fiscal year for the payment of 5% of gross receipts from operations of the Airport. A maximum of 80% of the monthly transfer to this subaccount may be paid to the City during the Airport's fiscal year. The final installment may only be paid to the City upon delivery of the Airport's audited financial statements to the Airport Bond Fund Trustee.
- (h) **Airport Debt Service Stabilization Fund and the Airport Development Fund:** various amounts for fiscal years 2006 through 2011, achieved a balance of \$38,211 at the end of fiscal year 2011. Beginning in fiscal year 2012, the Airport will allocate an amount sufficient to bring the amount on deposit in the Debt Stabilization Fund equal to the Debt Stabilization Fund Requirement (or such lesser amount as is available in the Revenue Fund for such transfer).
- (i) **The remaining balance in the Revenue Fund shall be deposited into the Airport Development Fund.** This fund shall be used for extensions and improvements to the Airport, including equipment acquisition.

Bond provisions provide that, in the event the sums on deposit in the Airport Bond Fund – Debt Service and Debt Service Reserve Accounts are insufficient to pay accruing interest, maturing principal or both, Airport

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Development Fund, and Airport Renewal and Replacement Fund may be drawn upon, to the extent necessary, to provide for the payment of such interest, principal, or both. Any sums so withdrawn from these accounts for said purposes shall be restored thereto in the manner provided for in their original establishment. Bond provisions also provide that the principal proceeds from the sale of Airport revenue bonds shall be held in the Airport Construction Fund from which they shall be disbursed for the purposes contemplated in the related bond provisions and City ordinances.

Passenger Facility Charge Fund and Drug Enforcement Agency Funds are restricted in accordance with program agreements.

(4) Capital Assets

Following is a summary of the changes in capital assets for the year ended June 30, 2016:

	Balances, June 30, 2015	Additions	Retirements	Transfers	Balances, June 30, 2016
Capital assets being depreciated:					
Pavings	\$ 1,017,671	—	—	9,138	1,026,809
Buildings and facilities	644,255	—	—	7,926	652,181
Equipment	83,809	4,202	(1,218)	142	86,935
	<u>1,745,735</u>	<u>4,202</u>	<u>(1,218)</u>	<u>17,206</u>	<u>1,765,925</u>
Less accumulated depreciation:					
Pavings	(465,833)	(31,827)	—	—	(497,660)
Buildings and facilities	(370,051)	(20,929)	—	—	(390,980)
Equipment	(60,055)	(3,812)	1,218	—	(62,649)
Total accumulated depreciation	<u>(895,939)</u>	<u>(56,568)</u>	<u>1,218</u>	<u>—</u>	<u>(951,289)</u>
Total capital assets being depreciated	<u>849,796</u>	<u>(52,366)</u>	<u>—</u>	<u>17,206</u>	<u>814,636</u>
Capital assets not being depreciated:					
Land	751,546	—	(455)	—	751,091
Construction in progress	12,187	21,557	(17)	(17,206)	16,521
Easements	3,506	—	—	—	3,506
Total capital assets not being depreciated	<u>767,239</u>	<u>21,557</u>	<u>(472)</u>	<u>(17,206)</u>	<u>771,118</u>
	<u>\$ 1,617,035</u>	<u>(30,809)</u>	<u>(472)</u>	<u>—</u>	<u>1,585,754</u>

Construction in progress as of June 30, 2016 consists of various improvements to the airfield and terminal buildings, as well as property purchased on which the Airport's expansion facilities will be constructed.

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The estimated useful lives of capital assets are as follows:

	Years
Pavings	5–30
Buildings and facilities	5–30
Equipment	3–20

(5) Change in Long-Term Liabilities

Following is a summary of the changes in long-term liabilities for the year ended June 30, 2016:

	Balances, June 30, 2015	Additions	Reductions	Balances, June 30, 2016	Due within one year
Revenue bonds payable (note 6)	\$ 726,010	—	(39,785)	686,225	38,400
Unamortized discounts and premiums (note 6)	31,660	—	(4,213)	27,447	—
Net pension liability	17,247	13,638	—	30,885	—
Pension Funding Project (note 14)	5,054	—	(109)	4,945	117
Other long-term liabilities	396	—	(21)	375	—
Accrued vacation, compensatory, and sick time benefits	5,573	3,369	(3,526)	5,416	3,368
Unearned lease revenues	5,190	—	(281)	4,909	—
Total	\$ 791,130	17,007	(47,935)	760,202	41,885

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(6) Revenue Bonds Payable

Bonds outstanding at June 30, 2016 are summarized as follows:

Bond Series 2005, interest rate ranging from 5.00% to 5.50% , payable in varying amounts through 2032	\$ 228,645
Bond Series 2007A, interest rate ranging from 4.25% to 5.25%, payable in varying amounts through 2033	189,780
Bond Series 2007B, interest rate of 5.00%, payable in varying amounts through 2028	98,475
Bond Series 2009A, interest rate ranging from 5.125% to 6.625%, payable in varying amounts through 2035	107,240
Bond Series 2012, interest rate ranging from 3.00% to 5.00%, payable in varying amounts through 2033	25,095
Bond Series 2013, interest rate ranging from 2.00% to 5.00%, payable in varying amounts through 2019	19,680
Bond Series 2015, interest rate of 5.00%, payable in varying amounts through 2024	17,310
	686,225
Less:	
Current maturities	(38,400)
Unamortized discounts and premiums	27,447
	(10,953)
	\$ 675,272

Interest payments on the above issues are due semiannually on January 1 and July 1.

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Debt-Related Items Presented as Deferred Outflows of Resources

In accordance with GASB Statement No. 65, the loss on bond defeasance has been recorded as a deferred outflow of resources, net of the accumulated amortization and will be recognized as a component of interest expense using the bonds outstanding method over the life of the new bonds or of the old bonds, whichever is less. The detail of the debt-related items recognized as deferred outflows of resources is presented below:

Debt-Related Deferred Outflow of Resources

		<u>2016</u>
Loss on bond defeasance	\$	<u>14,031</u>
Deferred outflow of resources	\$	<u><u>14,031</u></u>

Management is not aware of any violations of significant bond covenants with respect to the above issues at June 30, 2016.

As of June 30, 2016, the Airport's aggregate debt service requirements for the next five years and in five-year increments thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2017	\$ 38,400	35,522	73,922
2018	40,475	33,446	73,921
2019	42,585	31,254	73,839
2020	36,150	29,175	65,325
2021	37,935	27,261	65,196
2022–2026	201,260	105,874	307,134
2027–2031	210,525	51,165	261,690
2032–2036	78,895	6,207	85,102
	<u>\$ 686,225</u>	<u>319,904</u>	<u>1,006,129</u>

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(7) Use Agreements and Leases with Signatory Air Carriers

Effective July 1, 2011, the Airport entered into long-term use and lease agreements with signatory air carriers that expired on June 30, 2016. Under the terms of the use and lease agreements, the air carriers have agreed to pay airfield landing fees; terminal and concourse rentals; hangar, cargo, and maintenance facility rentals; and certain miscellaneous charges in consideration for use of the Airport. The use and lease agreements also require the Airport to make certain capital improvements and to provide maintenance of certain Airport facilities. Payments by the air carriers are determined as follows:

- (a) Landing fees are calculated based on estimated operating and maintenance expenses of the airfield and allocated to the air carriers on the basis of landing weights. Landing fee revenues are adjusted each year by retroactive rate adjustment that is calculated as the difference between estimated and actual costs incurred and estimated and actual landing weights. These revenues are included in aviation revenue – airfield.
- (b) Rentals are calculated based on estimated operating and maintenance expenses of the terminal and concourse areas and hangars, cargo, and maintenance facilities, and allocated to the air carriers on the basis of square footage utilized. Rental revenue is adjusted each year by retroactive rate adjustment that is calculated as the difference between estimated and actual costs incurred. These revenues are included in aviation revenue – terminal and concourses, hangars and other buildings, or cargo buildings.
- (c) Miscellaneous income is derived from the air carriers for their use of sanitary disposal facilities and airline service buildings.

During fiscal year 2016, revenues from signatory air carriers accounted for 50.4% of total Airport operating revenues.

Minimum future rentals for each year in the next five years and in the aggregate are not determinable given the method of calculation.

The following is a summary of aviation revenue by category and source from signatory and nonsignatory air carriers for the year ended June 30, 2016:

	<u>Signatory</u>	<u>Nonsignatory</u>	<u>Total</u>
Airfield	\$ 47,317	13,973	61,290
Terminal and concourses	20,926	781	21,707
Hangars and other buildings	508	668	1,176
Cargo buildings	127	266	393
	<u>\$ 68,878</u>	<u>15,688</u>	<u>84,566</u>

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No assurance can be given as to the levels of aviation activity that will be achieved at the Airport in future fiscal years. Future traffic at the Airport is sensitive to a variety of factors including (1) the growth in the population and the economy of the area served by the Airport; (2) national and international political and economic conditions, including the effects of any past or future terrorist attacks; (3) air carrier economics and air fares; (4) the availability and price of aviation fuel; (5) air carrier service and route networks; (6) the capacity of the air traffic control system; and (7) the capacity of the Airport/airways system.

The level of aviation activity at the Airport can have a material impact on the amount of total revenues generated at the Airport. However, Airport management believes the risk of significant variance in Airport revenues is mitigated by the Airport Use Agreements, concession agreements, and other leases, which contain minimum annual revenue guarantees. See note (19) subsequent events disclosure.

(8) Use Agreement with Signatory Air Carriers – Southwest Airlines and American Airlines, Inc.

Southwest Airlines (Southwest) and American Airlines, Inc. (American)* represent the major air carriers providing air passenger service at the Airport.

Southwest provided 26% of the Airport's total operating revenues and 51% of total revenues from participating air carriers for the fiscal year ended June 30, 2016. Accounts receivable at June 30, 2016 contained \$516 relating to amounts owed to the Airport by Southwest. These amounts include \$1,158 of unbilled aviation revenue credits at June 30, 2016.

American provided 10% of the Airport's total operating revenues and 20% of total revenues from signatory air carriers for the fiscal year ended June 30, 2016. Accounts receivable at June 30, 2016 contained \$713 relating to unused credits issued by the Airport to American. These amounts include \$573 of unbilled aviation revenue credits at June 30, 2016.

*American Airlines and US Airways began operating under the same certificate on April 8, 2015, and the US Airways name was discontinued on October 17, 2015. For purposes of this report, American Airlines and US Airways are treated as a single airline brand for the 12-month period ending June 30, 2016.

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(9) Operating Leases

The Airport leases facilities and land with varying renewal privileges to various nonsignatory air carriers, concessionaires, and others. These leases, for periods ranging from 1 to 50 years, require the payment of minimum annual rentals. The following is a schedule by year of minimum future rentals on noncancelable operating leases, other than leases with signatory airlines, pursuant to long-term use agreements:

Year(s) ending June 30:		
2017	\$	24,323
2018		23,917
2019		22,816
2020		16,924
2021		9,815
2022–2026		20,338
2027–2031		11,391
2032–2036		5,080
2037–2040		28
Total minimum future rentals	\$	134,632

The above amounts do not include contingent rentals that may be received under certain leases. Such contingent rentals amounted to \$4,001 for the year ended June 30, 2016.

Unearned lease revenues included in other long-term liabilities in the amount of \$4,909 as of June 30, 2016 represent the upfront lease revenues received by the Airport for the lease of certain land.

The Airport leases computer and other equipment and has service agreements under noncancelable arrangements that expire at various dates through April 2020. Expenses for operating leases and service agreements were \$62 for the year ended June 30, 2016. Future minimum payments are as follows:

Year(s) ending June 30:		
2017	\$	34
2018		19
2019		13
2020		8
Total minimum future rentals	\$	74

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(10) Concessions Revenues

During fiscal year 2016, revenues from concessionaires accounted for 18% of total Airport operating revenues.

Following is a summary of rental revenues received by type of concessionaire for the years ended June 30, 2016:

Advertising	\$	671
Transportation services		1,312
Automobile rental		11,713
General merchandise sales		4,310
Food and catering services		5,409
Other		<u>1,780</u>
	\$	<u><u>25,195</u></u>

(11) Parking Revenue, net

Parking revenues, net represents revenues collected in conjunction with the operations of the Airport parking facilities, net of related expenses. Gross parking revenue and parking expenses for the year ended June 30, 2016 as follows:

Parking revenues	\$	32,683
Parking expenses		<u>(10,640)</u>
Parking revenues, net	\$	<u><u>22,043</u></u>

(12) Impairment of Capital Assets

Airport management performed an evaluation of capital assets, including whether prominent events or changes in circumstances affecting capital assets occurred, which may be indicative of impairment. As a result of evaluation of capital assets performed, and subsequent measurement of potential impairment losses, the Airport did not identify any impairments of capital assets during the years ended June 30, 2016.

(13) Related-Party Transactions

During the year ended June 30, 2016, the City charged the Airport \$1,478 for services rendered by various City departments, which are included in the Airport's operating expenses as interfund services used.

Each year, the Airport pays the City a gross receipts tax equal to 5% of the Airport's gross receipts. During the year ended June 30, 2016, gross receipts tax amounted to \$6,415 and is reflected as transfers-out in the accompanying basic financial statements. As of June 30, 2016, \$1,860 remains unpaid.

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(14) Retirement Plans

All employees of the Airport are covered by the following citywide employee retirement plans. Financial information has been taken directly from the financial statements that were audited by other auditors and whose reports have been furnished to us. The employees of the Airport Fire Department are covered by the Firemen’s Retirement System of St. Louis (FRS), a single-employer defined-benefit retirement plan. Effective February 1, 2013, the City passed Ordinances #69149 and #69245 (amended by #69353) and Judge Dierker’s ruling (Board Bill 109) replaced the FRS with a new retirement system, The Firefighters’ Retirement Plan (FRP). All other employees are covered by the Employees’ Retirement System of the City of St. Louis (Employees’ System), a cost-sharing, multiple-employer, public defined-benefit retirement plan. Each system is administered by a separate Board of Trustees, members of which are appointed by City officials and plan participants.

Firemen’s Retirement System of St. Louis (FRS)

(a) System Description (FRS)

The FRS issues a publicly available financial report that includes financial statements and supplementary information. That information may be obtained by writing to the Firemen’s Retirement System of St. Louis; 1601 S. Broadway; St. Louis, Missouri, 63104.

The following disclosures are based on the September 30, 2015 financial statements and the October 1, 2015 actuarial valuation. The valuation as of October 1, 2015, reflects the changes attributable to Ordinances #69245 and #69353, and Judge Dierker’s subsequent ruling (Board Bill 109). Key changes to the FRS are as follows:

- FRS is frozen as of February 1, 2013. That is, benefits paid from FRS will be based on the member’s service and salary earned as of February 1, 2013. Participants with benefit service in FRS are classified as “grandfathered” members.
- Firefighters hired after February 1, 2013 are not members of FRS.
- Vesting and eligibility service earned after February 1, 2013 in the newly established Firemen’s Retirement Plan of St. Louis (FRP) will count toward vesting and eligibility service in FRS.
- Ancillary benefits, for disability or death occurring after February 1, 2013, are assumed to be paid from the newly established FRP to the extent that benefits do not depend on service earned prior to February 1, 2013. FRS members who become disabled or die before retirement are eligible for a refund of contributions made to FRS.
- Employer contributions to the frozen FRS will continue to be calculated under the Frozen Initial Liability cost method.
- Member contributions after February 1, 2013 from “grandfathered” participants in FRS will be paid to the FRP.

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- Grandfathered members with 20 or more years of service as of February 1, 2013 are eligible to retire with unreduced FRP benefits if retirement commences before age 55.
- Grandfathered members with less than 20 years of service as of February 1, 2013 are eligible to retire with actuarially reduced FRP benefits if retirement commences before age 55.

As a result of Board Bill 109, the following assumptions were made:

- Since benefits paid under FRS will no longer depend on future salary increases, future salary increase assumptions have been eliminated in the projection of pay and valuation of benefits. Costs will continue to be spread over the present value of future salary, which includes future salary increases.
- It is assumed that grandfathered members with less than 20 years of service as of February 1, 2013 will not retire prior to age 55. The retirement rates were adjusted to reflect accelerated retirement when these members first become eligible at age 55.
- The overall rates of disability were not changed, but the proportion of ordinary accidental disabilities was changed from 20% ordinary and 80% accidental to 60% ordinary and 40% accidental.

Plan liabilities for FRS after Board Bill 109 are predominantly for retired members and their beneficiaries. That is, the proportion of retired liabilities to total plan liabilities is projected to be over 80% within 10 years.

An agreement between the City and FRS was reached regarding the recognition of City contributions under Board Bill 109. The City made contributions to FRS from February 1, 2013 to September 30, 2013. The contributions for this period recognize the impact of Board Bill 109, certain excess FRS City contributions were transferred from FRS to FRP.

The FRS, in accordance with Ordinance #62994 of the City, initiated during the Firemen's System's fiscal year ended August 31, 1994, the Deferred Retirement Option Plan (DROP). The DROP plan is available to members of the system who have achieved at least 20 years of creditable service and have eligibility for retirement. Those members who elect to participate will continue active employment, will have a service retirement allowance credited monthly into the DROP account of the member, and the member's contribution will be reduced to 1% from the normal 8%. During participation in the DROP plan, the member will not receive credit for employer contributions or credit for service. A member may participate in the DROP only once for any period up to five years. At retirement, the funds in the member's DROP account plus interest and accrued sick leave, if elected, are available to the member in a lump sum or in installments.

(b) Funding Policy (FRS)

Firefighters contributed 8% of their salary to the FRS, as mandated per State statute and adopted by City ordinance through February 1, 2013 (date frozen). The City is required to contribute the remaining

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amounts necessary to fund the FRS. The City's policy is that the Airport pays 10% of the contribution for FRS.

(c) Net Pension Liability (Asset) (FRS)

The Airport's pension liability for the FRS as of June 30, 2016 was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015.

	Total pension liability (TPL)	Fiduciary net position (FNP)	Net pension liability (asset) (NPL)
	(a)	(b)	(c)
Balances at July 1, 2015	\$ 45,154	49,444	(4,290)
Changes for the year:			
Interest	3,440	—	3,440
Difference between expected and actual experience	2	—	2
Assumption changes	4,392	—	4,392
Refunds	(129)	(129)	—
Benefit payments	(3,356)	(3,356)	—
Net investment income	—	(1,093)	1,093
Administrative expenses	—	(159)	159
Net changes	4,349	(4,737)	9,086
Balances at June 30, 2016	\$ 49,503	44,707	4,796

(d) Actuarial Methods and Assumptions (FRS)

No contributions were made to the FRS by the Airport during the fiscal year ended June 30, 2016. The contribution consisted of \$0 of normal cost, plus \$0 in unfunded actuarial accrued liability amortization payments in accordance with actuarially determined contribution requirements based on an actuarial valuation performed at October 1, 2015.

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Significant actuarial assumptions used in the valuation of the FRS are as follows:

Method:

Date of actuarial valuation	October 1, 2015
Actuarial cost method (GASB 67 Rptg)	Entry Age - Normal
Amortization Method/period	30-year closed from establishment
Remaining amortization period	None - No unfunded actuarial liability
Asset valuation method	3-year smoothed market value
Actuarial assumptions:	
Investment rate of return	7.3%, net of investment expenses of 50 basis points
Long-term municipal bond rate	3.71%
Rate of payroll growth	3% to 4% based on service. Benefits frozen as of February 1, 2013; therefore, no salary increases have been assumed
Consumer price inflation	2.75%
Mortality	Post-retirement ordinary - RP-2014 Healthy Annuitant Mortality Tables, sex distinct Pre-retirement - RP-2014 Employee Mortality Tables, sex distinct Post-disability - assumed to be 20% higher than post-retirement mortality rates

The long-term expected rate of return on the FRS investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of October 1, 2015, these best estimates are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Fixed income	25%	1.30%
Domestic equity	26	4.30
International equity	24	4.70
Private equity	—	5.00
Real estate	15	4.80
Nondirectional hedge fund of funds	10	2.20
Total	<u>100%</u>	

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The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that the Airport would make the required contributions as defined by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. For the October 1, 2015 actuarial valuation, a 7.30% discount rate was used. The sensitivity of the net pension liability to changes in the discount rate for the year ended June 30, 2016 for the Airport is as follows:

	Discount rate		Net pension liability
1% decrease	6.30%	\$	10,015
Current rate	7.30%		4,796
1% increase	8.30%		434

(e) ***Pension Expense (FRS)***

For the fiscal year ended June 30, 2016, the Airport recognized pension expense of \$1,707. Annual pension expense consists of service cost, interest and administrative expenses on the pension liability less employee contributions and projected earnings on pension plan investments. The difference between actual and expected earnings is recorded as a deferred outflow/inflow of resources recognized in pension expense over a five year period. The pension expense for the Airport's fiscal year ended June 30, 2016 is summarized as follows:

Service cost	\$	—
Interest		3,440
Administrative expenses		159
Projected earnings on pension plan investments		(3,774)
Recognized assumption changes		1,129
Recognized portion of current-period difference between projected and actual earnings on pension plan investments		753
Pension expense for year ended June 30, 2016	\$	1,707

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(f) Deferred Outflows/Inflows of Resources Related to Pension (FRS)

In accordance with GASB Statements No. 67 and 68, the Airport recognizes differences between actual and expected experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, the difference between actual and expected investment returns, changes in proportion, and contributions subsequent to the measurement date as deferred outflows/inflows of resources. At June 30, 2016, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as follows:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected & actual experience	\$ 1	—
Net difference between projected and actual earnings on pension plan investments	3,229	—
Changes in assumptions	3,262	—
Total	\$ 6,492	—

The Airport recognizes differences between actual and expected investment performance included in deferred outflows/inflows of resources on a straight-line basis over five years. Differences between expected and actual experience on actuarial assumptions are amortized over the average expected remaining service life of FRS employees. The following table summarizes the future recognition of these items:

Year ended June 30	Recognition
2017	\$ 1,881
2018	1,881
2019	1,756
2020	974
	\$ 6,492

Firefighter’s Retirement Plan (FRP)

(a) System Description (FRP)

The FRP administers a single-employer defined-benefit pension plan providing pension benefits to the City of St. Louis firemen.

The FRP issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Firefighters’ Retirement Plan of the City of St. Louis; 1114 Market Street, Suite 900; St. Louis, Missouri 63101.

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Effective February 1, 2013, benefit accruals under the Firemen's Retirement System of St. Louis (FRS) were frozen. The Firefighters' Retirement Plan of the City of St. Louis (FRP) was established as of that date to provide retirement, disability and death benefits for service rendered after the effective date. Credited service accrued under the FRS counts toward benefit accruals under the FRP, but benefits attributable to such services are offset by the benefits payable by the FRS. Under the FRP, the plan provisions for members who were active as of February 1, 2013 (Grandfathered Participants) are substantially the same as the plan provisions for the FRS.

The FRP provides retirement benefits as well as death and disability benefits. Grandfathered members are those who were employed prior to February 1, 2013. Members can voluntarily retire after a minimum of 20 years of service and upon reaching the normal retirement age of 55. A member who has 20 years of service but has not yet reached the age of 55 may elect an early retirement with the normal retirement benefit deferred until reaching the age of 55. In lieu of a deferred retirement benefit, the member may elect to receive his/her retirement benefit beginning on his/her early retirement date or on the first day of any month thereafter prior to reaching age 55 with such benefit actuarially reduced from age 55. A member hired on or after the effective date of February 1, 2013 who terminates employment after completing 10 years of service, but before completing 20 years of service, is eligible for a full unreduced pension beginning at age 62. Such a member may elect to receive a refund of his/her contributions, plus interest, in lieu of a pension benefit.

The monthly allowance is determined by the average final monthly compensation over the last 5 years of service. For grandfathered members, the average is over the last 2 years of service. The monthly allowance consists of 40% of the applicable final average monthly compensation at 20 years of service, plus 2% of such final average compensation for each of the next five years of service, plus 5% of final average compensation for each additional year of service after 25 years with a maximum pension of 75%. Unused accrued sick pay accumulated before September 20, 2010 may increase the maximum pension beyond this limitation.

A grandfathered member with 20 or more years of credited service may elect to enter the DROP program and defer retirement for up to five years while continuing active employment. The benefit payments the participant would have received during that period are deposited into the DROP account and earn interest at a rate equal to the percentage rate of return of the Trust Fund's investment portfolio for that year. After five years or termination from the DROP plan, the participant may retire or return to regular active service. Upon termination of employment, the participant can choose to receive the DROP account with interest earned. If the participant dies prior to termination of employment, the DROP account is paid as a lump sum to the participant's beneficiary or estate. Active service while in the DROP program is not included in the credited service used to calculate the participant's final benefit amount.

Those members who elect to participate will continue active employment, will have a service retirement allowance credited monthly in the DROP account of the member, and the member's contributions will be reduced to 1% from the normal contribution percentage. During participation in the DROP, the member will not receive credit for City contributions or credit for service. A member

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may participate in the DROP only once for any period up to five years. At retirement the funds in the member's DROP account plus: 1) interest and 2) accrued sick leave if elected are available to the member in a lump sum or in installments.

(b) Funding Policy (FRP)

A grandfathered member with at least 20 years of service as of February 1, 2013 contribute 8% of their salary, after tax. All other members contribute 9% of their salary, pretax. The City is required to contribute the remaining amounts necessary to fund FRP. All members who terminate employment before becoming eligible to receive a retirement benefit will receive a refund of all contributions plus interest. Members hired after February 1, 2013 who terminate employment before reaching age 55 and elect a refund of contributions in lieu of a pension benefit will also receive a refund of their contributions plus interest, as will grandfathered members who terminate employment before completing 20 years of service. Contributions to the FRP made on or after the inception of the FRP are not refundable to a member who receives a service retirement benefit, ordinary disability benefit, or a service connected disability benefit, except that contributions to the FRP by a grandfathered member with at least 20 years of service as of inception who receives a service retirement benefit are refundable without interest.

An agreement between the City and FRS was reached regarding the recognition of City contributions under Board Bill 109. The City made contributions to FRS from February 1, 2013 to September 30, 2013. The contributions for this period recognize the impact of Board Bill 109, certain excess Firemen's System City contributions were transferred from the FRS to the FRP.

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(c) **Net Pension Liability (FRP)**

The Airport's pension liability for FRP as of June 30, 2016 was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015.

	Total pension liability (TPL) (a)	Fiduciary net position (FNP) (b)	Net pension liability (asset) (NPL) (a)-(b)
Balances at July 1, 2015	\$ 5,227	1,986	3,241
Changes for the year:			
Service cost	623	—	623
Interest	615	—	615
Difference between expected and actual experience	118	—	118
Change in benefit	98	—	98
Change of assumptions	2,224	—	2,224
Benefit payments	(26)	(26)	—
Refunds of member contributions	—	—	—
Contributions – employer	—	851	(851)
Contributions – employee	—	283	(283)
Net investment income	—	(84)	84
Administrative expenses	—	(31)	31
Net changes	<u>3,652</u>	<u>993</u>	<u>2,659</u>
Balances at June 30, 2016	<u>\$ 8,879</u>	<u>2,979</u>	<u>5,900</u>

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The following were some of the significant actuarial assumptions used in the valuation of the Firefighter’s Plan:

Method:

Date of actuarial valuation	October 1, 2014
Actuarial cost method (GASB 67 Rptg)	Entry Age - Normal
Funding	Entry Age - Normal
Amortization Method/period	30-year closed from establishment
Remaining amortization period	Started February 1, 2013
Asset valuation method	5-year smoothed market

Actuarial assumptions:

Investment rate of return	7.625%, net of investment expenses of 50 basis points
Long-term municipal bond rate	3.71%
Rate of payroll growth	Varies based on Members' years of service
Consumer price inflation	3.00%
Mortality	RP-2000 mortality table, sex distinct, with rates projected to 2015

The long-term expected rate of return on the FRP investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan’s target asset allocation as of September 30, 2015, these best estimates are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Fixed income	20%	(1.30)%
Domestic equity	50	4.30
International equity	30	4.70
Total	<u>100%</u>	

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The discount rate used to measure the total pension liability was 7.63%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. For the October 1, 2015 actuarial valuation, a 7.63% discount rate was used. The sensitivity of the net pension liability to changes in the discount rate for the year ended June 30, 2016 for the Airport is as follows:

	<u>Discount rate</u>		<u>Net pension liability (asset)</u>
1% decrease	6.63%	\$	7,181
Current rate	7.63		5,900
1% increase	8.63		4,838

(d) Pension Expense (FRP)

For the fiscal year ended June 30, 2016, the Airport recognized pension expense of \$1,205. Annual pension expense consists of service cost, interest and administrative expenses on the pension liability less employee contributions and projected earnings on pension plan investments. The difference between actual and expected earnings is recorded as a deferred outflow/inflow of resources recognized in pension expense over a five year period. The pension expense for the Airport's fiscal year ended June 30, 2016 is summarized as follows:

Service cost	\$	623
Interest		615
Administrative expenses		31
Contributions – employee		(283)
Projected earnings on pension plan investments		(160)
Benefit changes		98
Recognized portion of change in assumptions		278
Recognized portion of current-period difference between expected and actual experience		(52)
Recognized portion of current-period difference between projected and actual earnings on pension plan investments		55
Pension expense for year ended June 30, 2016	\$	1,205

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(e) ***Deferred Outflows/Inflows of Resources Related to Pension (FRP)***

In accordance with GASB Statements No. 67 and 68, the Airport recognizes differences between actual and expected experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, the difference between actual and expected investment returns, changes in proportion, and contributions subsequent to the measurement date as deferred outflows/inflows of resources. At June 30, 2016, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as follows:

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	\$ 214	—
Change in assumptions	1,946	—
Differences between expected and actual experience	—	(299)
Total	\$ 2,160	(299)

The Airport recognizes differences between actual and expected investment performance included in deferred outflows/inflows of resources on a straight-line basis over five years. Differences between expected and actual experience on actuarial assumptions are amortized over the average expected remaining service life of the Firefighters' Plan employees. The following table summarizes the future recognition of these items:

Year(s) ended June 30	Recognition
2017	\$ 281
2018	281
2019	281
2020	274
2021	226
Thereafter	518
	\$ 1,861

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Employees' Retirement System of the City of St. Louis (ERS)

The Airport participates in the Employees' Retirement System of the City of St. Louis (Employees' System), a cost-sharing, multiple-employer, public defined-benefit retirement plan.

(a) System Description (ERS)

All non-uniformed employees of the Airport become members of the Employees' System upon employment, with the exception of employees hired after attaining age 60.

The Employees' System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Employees Retirement System of the City of St. Louis; 1114 Market Street, Suite 900; St. Louis, Missouri 63101.

The Employees' System provides for defined-benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the Employees' System after the employee has attained five years of creditable service. Employees retire with full retirement benefits after the age 65 or if the employee's age and creditable service combined equal or exceed 85. Employees may retire and receive a reduced benefit after age 60, with five years of creditable service; age 55, with 20 years of creditable service; or at any age after 30 years of creditable service. The monthly pension benefits of all retirees or their beneficiaries are adjusted according to the changes in the consumer price index of the U.S. Department of Labor. Increases are limited each year, with total increases to retirees or their beneficiaries limited to 25%.

On June 8, 2000, the Mayor of the City approved an ordinance passed by the Board of Aldermen, Authorizing a Deferred Retirement Option Plan (DROP), which became effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. The DROP account will not be adjusted for cost-of-living increases as the normal retirement benefits are. The DROP account earns interest at the actuarial valuation rate of return and at the 10-year U.S. Treasury Bond yield as of September 30 for DROP participants enrolling February 1, 2003 and thereafter. After the member completely terminates employment, the member can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan.

(b) Funding Policy (ERS)

The Employees System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. If contributions are necessary, level percentage of payroll employer contribution rates are determined using the projected unit credit actuarial cost method.

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Employer contribution rates are established annually by the Board of Trustees of the Employees' System based on an actuarial study. Deductions from plan net assets are financed from plan additions. The Board of Trustees established the required employer-contributions-rate-based active member payroll of 13.93% effective July 1, 2015.

Employees who became members of the Employees' System prior to October 14, 1977, and continue to make contributions, may make voluntary contributions to the Employees' System equal to 3% of their compensation until the employee's compensation equals the maximum annual taxable earnings under the Federal Social Security Act. Thereafter, employees may contribute 6% of their compensation for the remainder of the calendar year. The Airport's contributions to the Employee's system for the year ended June 30, 2016 were \$2,997.

(c) ***Net Pension Liability (ERS)***

The Airport reported a liability of \$20,189 for its proportionate share of the net pension liability as of June 30, 2016. The net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015. The Airport's proportion of the net pension liability was based on the Airport's share of contributions to the Employees System relative to the contributions of all Employees System participating employers. As of September 30, 2015, the Airport's collective proportion was 8.90%, which was a decrease of 0.16 from its proportion measured as of September 30, 2014.

(d) ***Actuarial Methods and Assumptions (ERS)***

The following were some of the significant actuarial assumptions used in the valuation of the Employee's System:

Date of actuarial valuation	October 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Rolling 20-year level dollar amortization of unfunded liability
Remaining amortization period	20 years as of October 1, 2014
Asset valuation method	5-year smoothed market
Inflation	3.125%
Discount rate	7.50%
Projected salary increases	3.5% plus merit component bases on employee's years of service
Mortality	1994 Group Annuity Mortality Table

The long-term expected rate of return on the Employees System investments was determined using a building-block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term

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expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

For each major asset class that is included in the pension plan target asset allocation as of September 30, 2015, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Private Equity	5.00%	8.25%
Real Estate	10.00%	5.00%
Hedge Funds	10.00%	4.50%
Master Limited Partnerships	7.50%	6.00%
International Equity	21.50%	6.84%
Domestic Equity	21.00%	5.05%
Fixed Income	25.00%	2.25%
	<u>100.00%</u>	

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. For the October 1, 2015 actuarial valuation, a 7.50% discount rate was used. The sensitivity of the net pension liability to changes in the discount rate for the year ended June 30, 2016 for the Airport is as follows:

	<u>Rate</u>	<u>Net pension liability (NPL)</u>
1% decrease	6.50%	\$ 28,805
Current rate	7.50%	20,189
1% increase	8.50%	12,823

Pension Plan Fiduciary Net Position – Detailed information about the pension plan fiduciary net position is available in the separately issued Employees System Financial Report.

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(e) ***Pension Expense (ERS)***

For the fiscal year ended June 30, 2016, the Airport recognized pension expense of \$3,115. Annual pension expense consists of service cost, interest, and administrative expenses on the pension liability less employee contributions and projected earnings on pension plan investments. The difference between actual and expected earnings is recorded as a deferred outflow/inflow of resources recognized in pension expense over a five-year period.

(f) ***Deferred Outflows/Inflows of Resources Related to Pension (ERS)***

In accordance with GASB Statement No. 68, the Airport recognizes differences between actual and expected experience with regard to economic or demographic factors, changes of assumptions about future economic or demographic factors, the difference between actual and expected investment returns, changes in proportion, and contributions subsequent to the measurement date as deferred outflows/inflows of resources. At June 30, 2016, the Airport reported deferred outflows of resources and inflows of resources related to pensions from the following sources as follows:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ —	(323)
Net difference between projected and actual earnings on pension plan investments	5,821	—
Changes in assumptions	—	(303)
Changes in proportion	—	(421)
Airport contributions subsequent to the measurement date	2,159	—
Total	\$ 7,980	(1,047)

The \$2,159 reported as deferred outflows of resources related to pensions resulting from the Airport's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

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(Dollars in thousands, unless otherwise indicated)

The Airport recognizes differences between actual and expected investment performance included in deferred outflows/inflows of resources on a straight-line basis over five years. Differences between expected and actual experience on actuarial assumptions are amortized over the average expected remaining service life of the Employee System’s employees. The following table summarizes the future recognition of these items:

Year(s) ended June 30	Recognition
2017	\$ 879
2018	879
2019	1,403
2020	1,613
2021	—
Thereafter	—
Total	\$ 4,774

During fiscal year 2008, the City of St. Louis Municipal Finance Corporation issued \$46,700 in Taxable Leasehold Revenue and Refunding Bonds Series 2007 (Pension Funding Project) to fund the Employees System. While the Airport is not legally responsible for these bonds, \$5,510 of the proceeds was allocated to the Airport. A \$4,828 liability is reflected as an “other noncurrent long-term liability” on the balance sheet and is payable to the City of St. Louis by June 30, 2037.

(15) Commitments and Contingencies

At June 30, 2016, the Airport had outstanding commitments amounting to approximately \$17,134 resulting primarily from contracts for construction projects. In addition, the Airport has \$36,648 in outstanding commitments resulting from service agreements.

In connection with federal grant programs, the Airport is obligated to administer the related programs, spend the grant moneys in accordance with regulatory restrictions, and is subject to audit by the grantor agencies. In cases of noncompliance, the agencies involved may require the Airport to refund program moneys.

Finally, certain lawsuits were pending against the City that involved the Airport. In the opinion of Airport officials and legal counsel, these actions are not expected to have a material effect, individually or in the aggregate, on the financial position or results of operations of the Airport.

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(16) Risk Management

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Airport participates in the Public Facilities Protection Corporation (PFPC), an internal service fund of the City of St. Louis, Missouri. The purpose of PFPC is to account for risks in which the City is self-insured, primarily workers' compensation, unemployment benefits, certain general liability, and various other claims and legal actions. All self-insured claims liabilities and payments are recorded in PFPC. The Airport reimburses PFPC for workers' compensation claims on a cost-reimbursement basis. During the year ended June 30, 2016, expenses related to the Airport's participation in PFPC amounted to \$1,736 and are reflected as interfund services used in the accompanying basic financial statements. At June 30, 2016 the Airport owed PFPC \$2,826 for unreimbursed workers' compensation claims.

The Airport purchases commercial insurance for other risks it considers significant, including general liability, public officials' liability, property damage, employee honesty bond, business auto, and insurance on its fine arts. Settled claims did not exceed commercial coverage in any of the last three years.

(17) Pledged Revenues

The Airport has pledged future specific revenue streams, net of specified operating expenses, to secure the repayment of \$686,225 in various long-term debt issuances, as outlined in note 6. The general purpose of the various long-term debt issuances is for land acquisition and construction of the capital assets at the Airport. The bonds are payable from Airport net revenues and are payable through July 2034. Annual principal and interest payments on the bonds are expected to require less than 80% of estimated Airport net revenues. As of June 30, 2016, the total principal and interest remaining to be paid on the bonds is \$1,006,129. Principal and interest paid was \$76,902 for the year ended June 30, 2016. The pledged net revenue recognized for the year ended June 30, 2016 was \$93,291.

(18) Extraordinary Item – Natural Disaster

On May 31, 2013, the Airport sustained damage from a tornado. As of June 30, 2016, most of the damages have been rebuilt or repaired and Lexington Insurance Company settled the final insurance claim during fiscal year 2016.

Also, the Airport office building at 11495 Navaid Road in St. Louis, Missouri suffered water damage on August 28, 2014 and the majority of all damaged areas were repaired and completed by June 30, 2016. Lexington Insurance Company settled the final insurance claim during fiscal year 2016.

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Notes to Basic Financial Statements

June 30, 2016

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(19) Subsequent Event

Effective July 1, 2016, the Airport entered into a new long-term Airport Use and Lease agreement (AUA) with signatory air carriers which will expire June 30, 2021. Contemporaneously, the Airport also adopted a new companion Airline Operating Agreement and Terminal Building Space Permit (“AOA”), which the Airport will make available to airlines that elect not to enter into an AUA. The new agreements retain most of the provisions of the prior master agreements which expired June 30, 2016.

Under the terms of the new use and lease agreements, the air carriers continue to pay airfield landing fees; terminal and concourse rentals; hangar, cargo, and maintenance facility rentals; and certain miscellaneous charges in consideration for use of the Airport. The use and lease agreements also include a pre-approved, 5-year capital improvement program which require the Airport to make certain capital improvements and to provide maintenance of certain Airport facilities. Payments by the air carriers will continue to be determined as follows:

- (a) Landing fees are calculated based on estimated operating and maintenance expenses of the airfield and allocated to the air carriers on the basis of landed weights. Landing fee revenues are adjusted each year by retroactive rate adjustment that is calculated as the difference between estimated and actual costs incurred and estimated and actual landed weights. These revenues are included in aviation revenue – airfield.
- (b) Rentals are calculated based on estimated operating and maintenance expenses of the terminal and concourse areas and hangars, cargo, and maintenance facilities, and allocated to the air carriers on the basis of square footage utilized. Rental revenue is adjusted each year by retroactive rate adjustment that is calculated as the difference between estimated and actual costs incurred. These revenues are included in aviation revenue – terminal and concourses, hangars and other buildings, or cargo buildings.
- (c) Miscellaneous income is derived from the air carriers for their use of sanitary disposal facilities and airline service buildings.

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Analysis of Cash and Investment Accounts

Year ended June 30, 2016

(Dollars in thousands)

	Unrestricted			Unrestricted Funds Designated		Restricted Held by trustee bond fund		Restricted Other restricted funds					Total
	Revenue fund	Revenue fund subaccount	Operation and maintenance fund	Development fund (ADF)/ Debt Service Stabilization fund (DSSF)	Construction fund	Debt service account	Debt service reserve account	Renewal and replacement fund	Passenger facility charge fund	Stabilization fund	Construction fund	DEA fund	
Balance at June 30, 2015	\$ 9,033	4,256	15,537	83,815	(1,025)	59,244	36,880	3,500	14,874	38,211	5,748	2,048	272,121
Cash deposited with City Treasurer	148,943				704				27,034				176,681
Cash receipts	33			951		1,063	268		216		475	67	3,073
Transfer in accordance with ordinance	(128,616)	6,404	67,500	8,030		73,760	(924)		(21,385)		(4,769)		—
Vouchers and requisitions paid	(9,501)		(82,666)									(27)	(92,194)
Bond Proceeds													—
Payments													—
Interest						(37,141)	(399)						(37,540)
Redemption of bonds						(39,785)							(39,785)
Refunding of bonds													—
Payments to the City of 5% of gross receipts		(3,272)											(3,272)
Receipts from FAA, TSA & MoDOT				16,601									16,601
Transfers from Development Fund to Ordinance Fund				(32,567)									(32,567)
Capital appropriation				32,559									32,559
Capital expenditures				(24,885)									(24,885)
Balance at June 30, 2016	\$ 19,892	7,388	371	84,504	(321)	57,141	35,825	3,500	20,739	38,211	1,454	2,088	270,792

See accompanying independent auditors' report.

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Schedule of 2005 Revenue Refunding Bonds Payable

June 30, 2016

(Dollars in thousands)

Maturity on July 1	Interest rate	Principal maturity
2016	5.50%	\$ 18,915
2017	5.50	20,075
2018	5.50	21,955
2019	5.50	21,705
2024	5.50	2,515
2025	5.50	2,655
2026	5.50	2,795
2027	5.50	24,545
2028	5.50	26,135
2029	5.50	27,570
2030	5.50	29,090
2031	5.50	30,690
		\$ 228,645

See accompanying independent auditors' report.

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
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Schedule of 2007A Revenue Refunding Bonds Payable

June 30, 2016

(Dollars in thousands)

Maturity on July 1	Interest rate	Principal maturity
2016	5.00%	\$ 2,585
2017	5.00	2,645
2018	5.00	2,410
2019	4.00	2,530
2020	5.00	18,625
2021	5.00	22,150
2022	5.00	24,335
2023	5.00	20,865
2024	4.25–5.00	21,915
2025	5.00–5.25	22,935
2026	5.25	24,105
2027	4.25	3,700
2028	4.25	3,855
2029	4.25	4,015
2030	4.25	4,190
2031	4.25	4,365
2032	4.25	4,555
		\$ 189,780

See accompanying independent auditors' report.

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Schedule of 2007B Revenue Refunding Bonds Payable

June 30, 2016

(Dollars in thousands)

Maturity on July 1	Interest rate	Principal maturity
2016	5.00%	\$ 6,545
2017	5.00	6,850
2018	5.00	6,760
2019	5.00	7,105
2020	5.00	7,460
2021	5.00	7,830
2022	5.00	8,220
2023	5.00	8,635
2024	5.00	9,065
2025	5.00	9,520
2026	5.00	9,995
2027	5.00	10,490
		\$ 98,475

See accompanying independent auditors' report.

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Schedule of 2009A Revenue Bonds Payable

June 30, 2016

(Dollars in thousands)

Maturity on July 1	Interest rate	Principal maturity
2016	5.125%	\$ 3,195
2017	5.250	3,355
2018	5.375	3,535
2019	6.000	3,720
2020	6.125	3,945
2021	6.125	4,185
2022	6.125	4,445
2023	6.125	4,715
2024	6.125	5,005
2025	6.250	5,310
2026	6.250	5,645
2027	6.250	5,995
2028	6.250	6,370
2029	6.250	6,770
2030	6.625	7,190
2031	6.625	7,670
2032	6.625	8,175
2033	6.625	8,720
2034	6.625	9,295
		\$ 107,240

See accompanying independent auditors' report.

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Schedule of 2012 Revenue Refunding Bonds Payable

June 30, 2016

(Dollars in thousands)

Maturity on July 1	Interest rate	Principal maturity
2016	5.00%	\$ 925
2017	5.00	990
2018	5.00	1,040
2019	3.00	1,090
2020	3.25	1,130
2021	5.00	1,165
2022	5.00	1,220
2023	5.00	1,280
2024	5.00	1,345
2025	4.00	1,415
2026	5.00	1,465
2027	4.25	1,545
2028	5.00	1,610
2029	4.25	1,690
2030	—	—
2031	—	—
2032	5.00	7,185
		<u>\$ 25,095</u>

See accompanying independent auditors' report.

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
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Schedule of 2013 Revenue Refunding Bonds Payable

June 30, 2016

(Dollars in thousands)

Maturity on July 1	Interest rate	Principal maturity
2016	5.00%	\$ 6,235
2017	5.00	6,560
2018	5.00	6,885
		\$ 19,680

See accompanying independent auditors' report.

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Schedule of 2015 Revenue Refunding Bonds Payable

June 30, 2016

(Dollars in thousands)

Maturity on July 1	Interest rate	Principal maturity
2020	5.00%	\$ 6,775
2021	5.00	4,625
2022	5.00	3,670
2023	5.00	2,240
		\$ 17,310

See accompanying independent auditors' report.

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
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Schedule of Insurance

June 30, 2016

(Dollars in thousands)

Insurer	Amount	Expiration date	Character of coverage
Starr Aviation	\$ 350,000	10/1/2016	Airport Owners & Operators Liability
Lexington	907,684	10/1/2016	Property damage and business interruption
Western World and Landmark	7,000	10/1/2016	Public official's and employee's liability
Granite States Insurance Company	1,000	10/1/2016	Business auto and excess
AIG	20,671	10/1/2016	Inland Marine/Property equipment
The Hartford Insurance Company	100	10/1/2016	Employee Honesty Bond
Nationwide Mutual	100	10/31/2016	Surety Bond US Customs
Lloyd's	5,410	10/31/2016	Property for Bridgeton Army Guard location

See accompanying independent auditors' report.