

Basic Financial Statements and Report of Independent Certified Public Accountants

City of Dallas, Texas

Airport Revenues Fund

(An Enterprise Fund of the City of Dallas)

September 30, 2018

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)
September 30, 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Mayor and Members of City Council
City of Dallas, Texas

Report on the financial statements

We have audited the accompanying statement of net position of the Airport Revenues Fund (the "Fund"), an Enterprise Fund of the City of Dallas, Texas (the "City") as of September 30, 2018, and the related statements of revenues, expenses and changes in fund net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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 the Airport Revenues Fund of the City of Dallas, Texas as of September 30, 2018, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Airport Revenues Fund and do not purport to, and do not, present fairly the financial position of the City of Dallas, Texas, as of September 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also as discussed in Note 1 to the financial statements, the City adopted new accounting and reporting guidance in 2018 for other post-employment benefits. Our opinion is not modified with respect to this matter.

Other matters*Required supplementary information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, the Schedule of Changes in the City's Net Pension Liability and Related Ratios, the Schedule of City Contributions to the Pension Plans, Notes to the Schedule of City Contributions to the Pension Plans, and the Schedule of Changes in the City's Total Liability and Related Ratios - Other Postemployment Benefits on pages 56 through 61 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Dallas, Texas
April 16, 2019

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018
(Amounts in thousands)

As management of the Airport Revenues Fund (the "Fund"), an enterprise fund of the City of Dallas ("City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Fund (including the activities of a blended component unit, the Love Field Airport Modernization Corporation "LFAMC") for the fiscal year ended September 30, 2018. The Fund's management's discussion and analysis is designed to: (1) assist the reader in focusing on significant issues; (2) provide an overview of the fund's financial activity; (3) identify changes in the fund's financial position (its ability to address the next and subsequent year challenges); and (4) identify fund issues or concerns. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Fund exceeded its liabilities and deferred inflows of resources at September 30, 2018, by \$581.3 million (net position). Of this amount, \$14.1 million may be used to meet the Fund's on-going obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The Fund's total net position increased by \$16.9 million in fiscal year 2018 and increased by \$1.2 million in fiscal year 2017. This represents an increase of \$15.7 million in the change in net position from 2017 to 2018. This was primarily attributable to an increase of \$21.6 million in total operating revenues, a decrease of \$5.3 million in total operating expenses and a decrease of \$9 million in capital contributions. Total revenue increased primarily due to an increase in rental fees for the terminal buildings, an increase in concession fees, and an increase in passenger facility charges revenue. Total expenses decreased primarily due to a decrease in pension expense, and a decrease in airfield equipment repair expenses.
- The total balance of the revenue obligation bonds outstanding was \$246.9 million, including the premium of \$20.8 million, at September 30, 2018.

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City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2018
(Amounts in thousands)

OVERVIEW OF THE FINANCIAL STATEMENTS

The Fund's basic financial statements are comprised of three components: 1) management's discussion and analysis, 2) financial statements, and 3) notes to the basic financial statements.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the Fund's finances, in a manner similar to a private-sector business, and are made up of the statement of net position, statement of revenues, expenses, and changes in fund net position, and statement of cash flows. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The statement of net position presents information on all of the Fund's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net position presents information showing how the Fund's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. revenues earned but unbilled and earned but unused compensated absences).

The statement of cash flows reflects changes to the beginning cash and cash equivalents balance. Cash flows are categorized into operating, non-capital financing, capital and related financing, and investing activities.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following the financial statements.

City of Dallas, Texas
Airport Revenues Fund
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2018
(Amounts in thousands)

FINANCIAL ANALYSIS

The Fund's combined net position was \$581.3 million as of September 30, 2018. This analysis focuses on the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position (Table 1) and changes in fund net position (Table 2) of the Fund's activities.

Table 1
Net Position

	2018	2017 *
Current and other non-current assets	\$ 212,871	\$ 263,578
Capital assets, net	1,186,859	1,135,682
Deferred outflows of resources	7,810	22,961
Total assets and deferred outflows of resources	1,407,540	1,422,221
Current liabilities	46,109	50,095
Long-term liabilities	760,962	777,637
Deferred inflows of resources	19,184	25,206
Total liabilities and deferred inflows of resources	826,255	852,938
Net Position:		
Net investment in capital assets	460,391	461,032
Restricted	106,809	87,590
Unrestricted	14,085	20,661
Net position	\$ 581,285	\$ 569,283

* The information for fiscal year 2017 was not restated as a result of implementing Governmental Accounting Standards Board Statement No.75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" because the information was not available. See Note 1, New Accounting Pronouncements.

The largest portion of the Fund's net position reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The Fund uses these capital assets to provide services to citizens, and consequently they are not available for future spending. Although the Fund's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities. Net position increased by \$ 16.9 million. Unrestricted net position is approximately \$14.1 million at September 30, 2018.

During fiscal year 2018, the Fund's current and other noncurrent assets decreased \$50.7 million, primarily as a result of an overall decrease in cash and cash equivalents for an increase in payments on outstanding debt, and payments on construction projects.

City of Dallas, Texas
Airport Revenues Fund
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2018
(Amounts in thousands)

FINANCIAL ANALYSIS - Continued

As of the end of fiscal year 2018, the Fund's long-term liabilities decreased \$16.7 million primarily due to a decrease in net pension liability, and combined with principal payments of obligation for revenue credit agreement.

Analysis of the Operations of the Airport Revenues Fund

The following table provides a summary of the Fund's operations for the year ended September 30, 2018.

Table 2
Changes in Fund Net Position

	2018	2017 *
Revenues:		
Operating revenues	\$128,251	\$106,689
Passenger Facility Charges (PFC)	29,150	28,104
Investment income	2,714	1,979
Total revenues	160,115	136,772
Expenses:		
Personnel services	21,147	22,477
Supplies and materials	7,736	8,859
Contractual and other services	46,066	49,689
Depreciation and amortization	32,521	31,788
Interest on bonds and notes	36,227	32,090
Total expenses	143,697	144,903
Income before capital contributions and transfers	16,418	(8,131)
Capital contributions	777	9,735
Transfers in from other city funds	7	-
Transfers out to other city funds	(327)	(444)
Change in net position	16,875	1,160
Net position, beginning of year (restated)	564,410	568,123
Net position, end of year	\$581,285	\$569,283

* The information for fiscal year 2017 was not restated as a result of implementing Governmental Accounting Standards Board Statement No.75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" because the information was not available. See Note 1, New Accounting Pronouncements.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2018
(Amounts in thousands)

FINANCIAL ANALYSIS - Continued

Net position increased \$16.9 million in 2018, which represents an increase of \$15.7 million from the increase in net position for 2017. This was primarily attributable to an increase in operating revenues, a decrease in capital contributions, and a decrease in total expenses. The Fund's operating revenues increased \$21.6 million, primarily due to an increase in terminal rental fee and an increase in concession revenues. Capital contributions decreased \$9 million, primarily due to lower amounts spent on construction by outside developers.

Total operating expenses decreased \$5.3 million. The Fund's personnel services decreased by \$1.3 million due to a decrease in pension expenses. Contractual services decrease \$3.6 million, mainly due to a decrease in airfield equipment repair expense and a decrease in airfield fence paint expense. Additionally, the Fund's depreciation expense and interest expense increased \$733 thousand and \$4.1 million respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2018, the Fund had \$1.2 billion invested in a broad range of capital assets, net of accumulated depreciation. (See Table 3)

Table 3
Capital Assets
(Net of Accumulated Depreciation)

	2018	2017
Land	\$ 131,184	\$ 128,359
Works of art	3,396	3,396
Construction in progress	43,229	152,930
Buildings	712,542	558,376
Improvements other than buildings	248,774	240,486
Infrastructure assets	1,631	1,725
Equipment	46,103	50,410
Totals	\$1,186,859	\$1,135,682

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2018
(Amounts in thousands)

CAPITAL ASSET AND DEBT ADMINISTRATION - Continued

During fiscal year 2018, the Fund's capital assets (net of accumulated depreciation) increased \$51.2 million primarily from a net increase of \$154.2 million in buildings, and a net increase of \$8.3 million in improvements other than buildings, offset mainly by a decrease of \$109.7 million in construction in progress.

During fiscal year 2018, the Fund's completed construction in progress of \$190 million primarily related to the following projects: parking garage C, law enforcement building, ticket hall phase 2, rehabilitation of taxiway B from B1, and runway 31R glidescope relocation.

More detailed information about the Fund's capital assets is presented in Note 3 to the financial statements.

Debt

During fiscal year 2018, the Fund had \$675.3 million in long-term debt and accretion outstanding, compared to \$685.8 million in the prior fiscal year, as shown in Table 4. The outstanding balance of the General Airport Revenue Bonds was \$246.9 million including the premium of \$20.8 million at September 30, 2018. During fiscal year 2011, the LFAMC entered into a revenue credit agreement with an airline carrier, resulting in an obligation, which is reported in the financial statements as a liability. The balance of the obligation for the revenue credit agreement including the premium/discount was \$419.3 million at September 30, 2018 and \$427.2 million at September 30, 2017.

Table 4
Outstanding Debt at Year End

	2018	2017
General Airport Revenue Bonds	\$246,931	\$249,402
Pension obligation bonds including premium, discount, and accretion	9,072	9,213
Obligation for revenue credit agreement	<u>419,305</u>	<u>427,207</u>
Totals	<u>\$675,308</u>	<u>\$685,822</u>

More detailed information about the Fund's long-term liabilities is presented in Note 5 to the financial statements.

City of Dallas, Texas
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(An Enterprise Fund of the City of Dallas)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2018
(Amounts in thousands)

FUTURE ECONOMIC FACTORS

The FY 2018-19 budget and FY 2019-20 planned budget for the Fund will support continued service to Dallas residents, visitors, and airport partners by providing safe, clean, and aesthetically appealing facilities for air travel. The FY 2018-19 budget includes 13 additional positions to enhance customer service through the Airport Communications Center, improve recycling efforts through Environmental Services, and meet increased needs for the Dallas Airport System. Staffing will be used to maintain and expand our current camera system, implement a Radio Frequency Identification (RFID) baggage system, and increase hours to maintain the airport technology system.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the City Controller's Office at City of Dallas, 1500 Marilla, Room 2BS, and Dallas, Texas 75201.

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City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

STATEMENT OF NET POSITION

September 30, 2018
(Amounts in thousands)

ASSETS

Current assets:

Pooled cash and cash equivalents	\$ 55,050
Receivables	
Accounts, net of allowance for doubtful accounts (\$30)	13,212
Accrued interest	350
Due from other governments	316
Inventories, at cost	1,236
Prepaid expenses	435
Customer assessments receivable	<u>44</u>
Total current assets	<u>70,643</u>

Capital assets:

Nondepreciable	177,809
Depreciable, net of accumulated depreciation	<u>1,009,050</u>
Total capital assets, net	<u>1,186,859</u>

Other noncurrent assets

Restricted assets:

Cash and cash equivalents held for construction purposes	2,749
Cash and cash equivalents held for future debt service	12,522
Cash and cash equivalents held for emergency repairs and replacements	5,000
Cash and cash equivalents held for operation and maintenance expenses	13,301
Cash and cash equivalents held for passenger facility charges	67,121
Other investments held for construction purposes	18,821
Other investments held for future debt service	<u>22,714</u>
Total other noncurrent assets	<u>142,228</u>

Total assets	<u>1,399,730</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding	13
Deferred outflows of resources related to other postemployment benefits	111
Deferred outflows of resource related to pensions	<u>7,686</u>
Total deferred outflows of resources	<u>7,810</u>
Total assets and deferred outflows of resources	<u>\$1,407,540</u>

See accompanying notes to basic financial statements.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

STATEMENT OF NET POSITION - Continued

September 30, 2018
(Amounts in thousands)

LIABILITIES

Current liabilities:

Accrued payroll	\$ 207
Accounts payable	4,004
Compensated absences	869
Unearned revenue	3,049
Pension obligation bonds	152
Capital leases payable	1,158
General airport revenue bonds	3,885
Obligation for revenue credit agreement	8,095
Pollution remediation	788
Construction accounts payable	10,032
Accrued interest payable on bonds	<u>13,870</u>
Total current liabilities	<u>46,109</u>

Noncurrent liabilities:

Pension obligation bonds	6,122
Capital leases payable	70,612
General airport revenue bonds	243,046
Accreted interest on capital appreciation bonds	2,798
Obligation for revenue credit agreement	411,210
Pollution remediation	340
Compensated absences	873
Other postemployment benefits	9,771
Net pension liability	<u>16,190</u>
Total noncurrent liabilities	<u>760,962</u>
Total liabilities	<u>807,071</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to other postemployment benefits	438
Deferred inflows of resources related to pensions	<u>18,746</u>
Total deferred inflows of resources	<u>19,184</u>
Total liabilities and deferred inflows of resources	<u>826,255</u>

NET POSITION

Net investment in capital assets	460,391
Restricted:	
Debt service	21,387
Emergency repairs and replacement	5,000
Operation and maintenance expenses	13,301
Passenger facility charges	67,121
Unrestricted	<u>14,085</u>
Total net position	<u>\$581,285</u>

See accompanying notes to basic financial statements.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

September 30, 2018
(Amounts in thousands)

Operating revenues:	
Concession fees	\$ 53,589
Rental fees	46,689
Landing fees	21,595
Fuel flow fees	1,362
Charges for services	3,324
Licenses and permits	458
Intergovernmental	667
Other	<u>567</u>
Total operating revenues	128,251
Operating expenses:	
Personnel services	21,147
Supplies and materials	7,736
Contractual and other services	46,066
Depreciation and amortization	<u>32,521</u>
Total operating expenses	<u>107,470</u>
Operating income	20,781
Non-operating income (expenses):	
Passenger Facility Charges (PFC)	29,150
Investment income	2,714
Interest on bonds and notes	<u>(36,227)</u>
Total non-operating expenses	<u>(4,363)</u>
Income before capital contributions and transfers	16,418
Capital contributions	777
Transfers in from other city funds	7
Transfers out to other city funds	<u>(327)</u>
Change in net position	16,875
Net position, beginning of year (restated – see Note 1)	<u>564,410</u>
Net position, end of year	<u>\$581,285</u>

See accompanying notes to basic financial statements.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

STATEMENT OF CASH FLOWS

Year ended September 30, 2018
(Amounts in thousands)

Cash flows from operating activities:	
Cash received from customers	\$ 129,210
Cash payments to suppliers for goods and services	(13,022)
Cash payments to employees for service	(17,496)
Cash payments for contractual services	(45,583)
Other operating cash receipts	<u>567</u>
Net cash provided by operating activities	<u>53,676</u>
Cash flows from non-capital financing activities:	
Principal paid on pension obligation bonds	(157)
Interest paid on pension obligation bonds	(453)
Transfers from other funds	7
Transfers to other funds	<u>(327)</u>
Net cash used in non-capital financing activities	<u>(930)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(87,597)
Principal paid on notes payable and other obligations	(8,767)
Interest paid on bonds, notes and other obligations	(38,615)
Passenger facility charges	<u>37,027</u>
Net cash used in capital and related financing activities	<u>(97,952)</u>
Cash flows from investing activities:	
Purchase of investments	(12,994)
Maturity of investment	84,237
Investment income	<u>2,646</u>
Net cash provided by investing activities	<u>73,889</u>
Net increase in cash and cash equivalents	28,683
Cash and cash equivalents, beginning of year	<u>127,060</u>
Cash and cash equivalents, end of year	<u>\$ 155,743</u>

See accompanying notes to basic financial statements.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

STATEMENT OF CASH FLOWS - CONTINUED

Year ended September 30, 2018
(Amounts in thousands)

Reconciliation of operating income to net cash provided by operating activities:	
Operating Income	\$ <u>20,781</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	32,521
Change in assets and liabilities:	
Decrease in accounts and other receivables	253
Decrease in inventories	64
Increase in deferred outflows related to other post-employment benefits	(111)
Decrease in deferred outflows related to pensions	15,259
Decrease in accounts payable	(5,350)
Increase in accrued payroll	18
Decrease in compensated absences	(54)
Increase in allowance for doubtful accounts	24
Increase in unearned revenue	1,249
Decrease in other post-employment benefits	(160)
Decrease in net pension liability	(5,279)
Increase in other liabilities	483
Increase in deferred inflows related to other post-employment benefits	438
Decrease in deferred inflows related to pensions	<u>(6,460)</u>
Total adjustments	<u>32,895</u>
Net cash provided by operating activities	<u>\$ 53,676</u>
Cash and cash equivalents:	
Pooled cash and cash equivalents	\$ 55,050
Restricted cash and cash equivalents held for construction purposes	2,749
Restricted cash and cash equivalents held for debt service	12,522
Restricted cash and cash equivalents for emergency repairs and replacements	5,000
Restricted cash and cash equivalents for operation and maintenance expenses	13,301
Restricted cash and cash equivalents for passenger facility charges	<u>67,121</u>
Total cash and cash equivalents end of year	<u>\$155,743</u>
Noncash investing, capital, and financing activities:	
Capital contributions	\$ 777
Premium/discount amortization	2,726
Accretion on capital appreciation bonds	79
Amortization of deferred gain/loss on refunding	3

See accompanying notes to basic financial statements.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Dallas, Texas (“City”) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under the Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The accompanying financial statements present only the financial position, changes in financial position, and cash flows of the Airport Revenues Fund (“Fund”) including a blended component unit, the Love Field Airport Modernization Corporation (“LFAMC”), which is an enterprise fund of the City, and are not intended to and do not present the financial position and changes in financial position, or where applicable, the cash flows of the City. The City also administers other departments, whose operations are reflected in the Comprehensive Annual Financial Report of the City. However, certain disclosures are for the City as a whole, since such information is not available for the Fund on a separate fund basis (see notes 6, 7, 8, 9, and 10).

Blended Component Units

The criteria considered in determining component unit activities to be reported within the Fund’s basic financial statements include whether: the organization is legally separate (can sue and be sued in their own name), the City appoints a voting majority of the organization’s board, the City is able to impose its will on the organization, the organization has the potential to impose a financial benefit/burden on the City, or there is fiscal dependency by the organization on the City.

Blended component units, although legally separate entities, are included as part of the primary government because they meet the above criteria as well as serve or benefit the City exclusively. The City created the LFAMC, a Texas nonprofit local government corporation organized under Subchapter D of Chapter 431 of the Texas Transportation Code. The Corporation was formed to serve as a conduit financing entity for the purpose of issuing bonds to promote the development of the geographic area of the City included at or in the vicinity of Love Field Airport to promote, develop, and maintain the employment, commerce, aviation activity, tourism, and economic development in the city. The LFAMC was created to serve the City exclusively and its activity is included in the Fund’s financial statements and information reported for the LFAMC is as of September 30, 2018.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation

The Fund accounts for all activities in connection with the operations of the Dallas Love Field Airport, Dallas Executive Airport, and Heliport. These activities include, but are not limited to, administration, operation, maintenance, financing, and the related debt service, billing, and collection. This proprietary fund provides services that are intended to be financed primarily through user charges, or activities where periodic determination of net income is appropriate. The Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Fund's principal ongoing operations. The principal operating revenues of the Fund are charges to customers for utilization of airport facilities while operating expenses include personnel services, contractual and other services, supplies and materials, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting

The accounting policies of the Fund, as reflected in the accompanying accrual-basis financial statements, conform to accounting principles generally accepted in the United States of America ("GAAP") for local government enterprises as prescribed by the Governmental Accounting Standards Board ("GASB"). The Fund is accounted for using the economic resources measurement focus. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flow.

The preparation of financial statements in conformity with GAAP 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 year. Actual results could differ from those estimates.

Cash, Deposits and Investments

In accordance with City policies, the Fund participates in the City's pooled cash and investment program which is administered by the City Controller's Office. A significant portion of cash and investments held by the City is pooled. The pooled cash and investment program of the City is operated under the provisions of City ordinance and a specific City investment policy. The policy states that the City shall invest cash balances over the anticipated amount needed to meet operating requirements. Investments are stated at fair value. The balance reported as "Cash and Cash Equivalents" represents the equity of the Fund in the pooled cash and investments of the City. The Fund's share of the interest earnings of the pooled investments is determined by allocating interest to each of the participating funds based on average daily balances.

Long-term non-pooled investments are reported as investments on the statement of net position. Investments in U.S. government obligations and other investments are recorded at fair value based on quoted market prices (Note 2).

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory

Inventory consists of construction and operating materials, which are valued at average cost and is recorded as an expense when consumed.

Prepaid Items

Prepaid items are payments made to vendors for services that will benefit periods beyond September 30, 2018. Prepaid items are recorded using the consumption method.

Restricted Assets

Proceeds of revenue bonds and other financing arrangements, as well as resources set aside for revenue bond repayment, are classified as restricted assets on the balance sheet when their use is limited by applicable covenants.

The assets restricted for revenue bond future debt service are used to report resources set aside to fulfill revenue bond debt reserve requirements. Other restricted assets include funds restricted for construction from revenue bond proceeds, contractual obligation debt service funds, and unspent grant proceeds. Assets restricted for a specific purpose are utilized before the use of unrestricted assets to pay related obligations when authorized to do so.

Capital Assets

Capital assets include property, plant, equipment and improvements/infrastructure assets. Generally, equipment with an individual cost of at least \$5 thousand, infrastructure with a cost of at least \$25 thousand and buildings with a cost of at least \$50 thousand and an estimated useful life of more than one year, are capitalized. Purchased or constructed capital assets are stated at cost or at estimated historical cost if original cost is not available. Assets acquired by donation are recorded at acquisition value on the date received. To the extent the construction is performed by the City, the capitalized cost includes direct payroll, payroll related costs, and certain general and administrative overhead expenses. Maintenance and repairs are charged to operations as incurred, whereas improvements and betterments that extend the useful lives of capital assets are capitalized.

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NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Depreciation, which includes amortization of assets under capital leases, is computed using the straight-line method over the estimated useful or service lives of the related assets beginning on the date of acquisition or the date placed in service.

The estimated useful lives of the Fund's assets are as follows:

	<u>Useful Life</u>
Buildings	10-50 years
Infrastructure	50-100 years
Improvements other than buildings and runways	10-100 years
Equipment	3-25 years

Artwork is capitalized but not depreciated. These assets are maintained for public exhibition, education, or research and are being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other items for the collection.

Contributions of funds from federal, state, or local grants for the purpose of purchasing or constructing capital assets are recorded as capital contributions revenue as soon as all applicable eligibility requirements have been met.

Compensated Absences

The City's employees earn vacation, sick, and attendance incentive leave which may be used or accumulated up to certain amounts. Unused vacation and attendance incentive leave is paid upon death, retirement, or termination. Unused sick leave is reduced to a specified limit when paid upon retirement, certain terminations, or death.

In accordance with the criteria established in the Codification of Governmental Accounting Standards, Section C60, "Compensated Absences," a liability is recorded for vacation leave earned by employees attributable to past service and sick leave earned by employees attributable to past service only to the extent it is probable that such leave will result in termination pay. In addition, a liability has been recorded for certain salary related payments associated with the payment of accrued vacation and sick leave.

In the Fund's statement of net position, all compensated absence liabilities incurred are recorded as liabilities. At September 30, 2018, liabilities relating to vacation, attendance incentive leave, and sick leave were \$1,742.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Defined Benefit Pension Plan

The City contributes, on behalf of its Aviation employees, to a defined benefit pension plan administered by a legally separate entity, the Employees' Retirement Fund. The primary functions of the pension entity are investment and benefit management activities.

Risk Management

The City is self-funded for workers' compensation, employee health insurance, most property damage and the majority of tort liability exposures. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. Indemnity and insurance protection are also required for all City contractors, vendors, lessees, and permit holders. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The recorded estimated liability for claims and judgments includes a provision for Incurred but Not Reported (IBNR) liabilities for workers' compensation, tort cases, and employee health insurance.

Deferred Outflows/Inflows of Resources

In addition to assets, the balance sheet and statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund has the following items that qualify for reporting in this category:

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(Amounts in thousands except where indicated)

NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – The pension contributions made from the measurement date of the pension plan to the current fiscal year end are deferred and will be recognized in the subsequent fiscal year.
- Net difference in projected and actual earnings on pension assets and difference between estimated and actual experience related to pensions – These are amortized as a component of pension expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period.
- Difference between estimated and actual experience related to other postemployment benefits (OPEB) - These are amortized as a component of OPEB expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.
- Changes in assumptions related to pensions and OPEB – These are amortized as a component of pension and OPEB expense over a closed period of five years.

In addition to liabilities, the balance sheet and statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has two items that qualify in this category. These items qualify as deferred inflows of resources related to pensions and OPEB. A deferred inflow is recorded in the Fund's statements of net position for the difference in projected and actual experience in the actuarial measurement of the total pension liability not recognized in the current year. The differences are amortized over the average remaining service life of all participants in the respective pension and OPEB plans and recorded as a component of pension expense beginning with the period in which they are incurred.

Also, changes in assumptions are amortized as a component of pension and OPEB expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and benefits through the pension and OPEB plans (active employees and inactive employees) determined as of the beginning of the measurement period.

Bond Premiums, Discounts, and Issuance Costs

In the Fund's financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs, except any portion related to prepaid insurance costs (if applicable), are recognized as an expense in the period incurred.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Transactions between Funds

Transactions that would be recorded as revenues or expenses if they involved organizations external to the Fund are similarly treated when involving other funds of the City. These transactions include charges for administrative services, building rental, risk management services, vehicle maintenance and motor pool services, inventory, and office services and retirees' healthcare.

Net Position

In the Fund's financial statements, the net position is reported in three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. Net investment in capital assets represents the Fund's total investment in capital assets, net of depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Fund considers pooled cash and cash equivalents and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncements

During fiscal year 2018, the City adopted the following Governmental Accounting Standard Board (“GASB”) Statements:

GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” was implemented as required by GASB during the fiscal year ended September 30, 2018. This Statement replaces the requirements of Statements No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended,” and No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.” Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” establishes new accounting and financial reporting requirements for OPEB plans. The implementation of GASB Statement No.75 resulted in a restatement of the Fund’s net position at September 30, 2017 for the recording of the beginning total OPEB liability. The following tables reflect the net effect of the restatement on the prior year statement of net position.

	<u>Airport Revenues</u>
Net Position at 9/30/17, as previously reported	\$ 569,283
Prior Other Postemployment Benefit Liability Under GASB 45	5,058
Prior Other Postemployment Benefit Liability Under GASB 75	<u>(9,931)</u>
Net Position at 9/30/17, restated	<u>\$564,410</u>

GASB Statement No. 81, “Irrevocable Split-Interest Agreements,” was implemented by the City as required by GASB during fiscal year ended September 30, 2018. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The City did not have any irrevocable split-interest agreements for the year ended September 30, 2018, so the implementation of GASB Statement No. 81 did not result in any changes to the financial statements.

GASB Statement No. 85, “Omnibus 2017,” was implemented as required by GASB during the fiscal year ended September 30, 2018. This Statement addresses several different accounting and financial reporting issues identified by GASB during the implementation and application of certain GASB pronouncements. The implementation of this statement did not result in any changes to the financial statements.

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NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

GASB Statement No. 86, “Certain Debt Extinguishment Issues,” was implemented as required by GASB during the fiscal year ending September 30, 2018. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished, and notes to the financial statements for debt that is defeased in-substance. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period,” was implemented early for the fiscal year ended September 30, 2018. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will be expensed and will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The GASB has issued the following statements which will be effective in future years as described below:

GASB Statement No. 83, “Certain Asset Retirement Obligations,” will be implemented as required by GASB during the fiscal year ending September 30, 2019. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 84, “Fiduciary Activities,” will be implemented as required by GASB during the fiscal year ending September 30, 2020. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 87, “Leases,” will be implemented as required by GASB during the fiscal year ending September 30, 2021. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. The City is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

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NOTE 1 - FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

GASB Statement No. 88, “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,” will be implemented as required by GASB during the fiscal year ending September 30, 2019. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The City is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

GASB Statement No. 90, “Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61,” will be implemented as required by GASB during the fiscal year ending September 30, 2020. The objective of this statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments: or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The City is currently evaluating potential changes to the financial statements as a result of implementation of this Statement.

NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS

A summary of the carrying amount of cash on hand, deposits, and investments at September 30, 2018 is as follows:

	Cash and Pooled Investments with <u>City Treasury</u>
Deposits	\$ 18,916
Investments – cash and cash equivalents	36,134
Investments – restricted cash and cash equivalents	<u>142,228</u>
Total	<u>\$197,278</u>

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued

At September 30, 2018, the investments held for the Fund's General and Investment Pool Programs are as follows:

	<u>Fair Value Measurement Using</u>		
	<u>Quoted Prices</u>	<u>In Active</u>	<u>Significant</u>
	<u>Markets for</u>	<u>Identical Assets</u>	<u>Other</u>
	<u>Total</u>	<u>(Level 1)</u>	<u>Inputs (Level2)</u>
<u>Investments by Fair Value Level</u>			
Federal Agricultural Mortgage Corporation Notes	\$ 30,670	\$ -	\$ 30,670
Federal Farm Credit Bank Notes	16,570	-	16,570
Federal Home Loan Bank Notes	35,307	-	35,307
Federal Home Loan Mortgage Corporation Notes	17,739	-	17,739
Federal National Mortgage Association Notes	<u>2,590</u>	<u>-</u>	<u>2,590</u>
Total Investments by Fair Value Level	<u>\$ 102,876</u>	<u>\$ -</u>	<u>\$ 102,876</u>
<u>Investments Measured at Fair Value</u>			
Texas CLASS – Local Government Investment Pool	<u>24,225</u>		
<u>Investments Measured at the Net Asset Value (NAV)</u>			
Blackrock Fed Fund Money Market Fund	3,415		
Goldman Satche Financial Square Government Institutional Fund	230		
Invesco Money Market Fund	<u>2,375</u>		
Total Investments Measured at the Net Asset Value (NAV)	<u>6,020</u>		
<u>Investments Measured at Amortized Cost</u>			
LOGIC – Local Government Investment Pool	3,712		
TexasTERM - Local Government Investment Pool	75		
TexPool – Local Government Investment Pool	1		
TexPool Prime – Local Government Investment Pool	74		
TexSTAR – Local Government Investment Pool	<u>74</u>		
Total Investments Measured at Amortized Cost	<u>3,936</u>		
<u>Other Investments Measured at Purchase Cost</u>			
Repurchase Agreements	<u>41,305</u>		
Total Investments	<u>\$ 178,362</u>		

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued

The City invests in LOGIC, TexSTAR, Texas CLASS, TexPool, and Texas TERM, which are Local Government Investment Pools (LGIP) created under the Interlocal Cooperation Act, Texas Government Code Chapter 791, and the Public Funds Investment Act, Texas Government Code Chapter 2256. These two acts provide for the creation of LGIP's and authorize eligible governmental entities to invest their public funds and funds under their control through the investment pools. The LGIP's follow all requirements of the Public Funds Investment Act, including being rated by a nationally recognized rating agency, using amortized cost valuation, and, to the extent reasonably possible, stabilize at a \$1 net asset value.

J.P. Morgan Investment Management Inc. and First Southwest Company (a division of Hilltop Securities) serve as co-administrators for the TexSTAR & LOGIC programs under agreements with each pool's respective board of directors. The TexSTAR governing board is a five-member Board consisting of three representatives of employees, officers or elected officials of participating government entities, and one member designated by each of the co-administrators. In addition, TexSTAR has an Advisory Board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool. The governing body of LOGIC is a five-member board of directors comprised of employees, officers or elected officials of participating government entities, or individuals who do not have a business relationship with LOGIC and are qualified to advise the pool. A maximum of two Advisory Board members represent the co-administrators of LOGIC.

Public Trust Advisors, LLC provides investment advisory services and administration and marketing services to Texas CLASS. Texas CLASS Board of Trustees oversees Texas CLASS. The Board is comprised of active members of the pool and elected by the Participants, guided by the Advisory Board. The Board is responsible for selecting the Administrator and Investment Advisors.

The Comptroller of Public Accounts for the State of Texas is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool and TexPool Prime. Pursuant to the TexPool Participation Agreement, administrative and investment services to the TexPool Portfolios are provided by Federated Investors, Inc., under an agreement with the State Comptroller, acting on behalf of the Trust Company. In addition, TexPool has an Advisory Board composed equally of participants in the TexPool Portfolios and other persons who do not have a business relationship with the TexPool Portfolios who are qualified to advise the TexPool Portfolios.

PFM Asset Management LLC serves as Investment Advisor and Administrator of TexasTERM. An Advisory Board is responsible for the overall management of the pool, including formation and implementation of its investment and operating policies. The members of the Advisory Board are local government officials elected by Texas TERM's investors.

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(Amounts in thousands except where indicated)

NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS – Continued

Deposit and Investment Risk Disclosures of Funds with the City Treasurer

GASB Statement No. 40, “Deposit and Investment Risk Disclosures”, requires disclosure information related to common risks inherent in deposit and investment transactions. Investments are subject to certain types of risks, including custodial credit risk, concentration of credit risk, credit risk and interest rate risk and foreign currency risk. Exposure of deposited funds and investment risk are disclosed in the following sections of this note.

Custodial Credit Risk

Custodial credit risk is the risk that, in event of the failure of the counterparty, the Fund will not be able to recover the value of its deposit or collateral securities that are in the possession of an outside party. As of September 30, 2018, \$18,916 was fully collateralized and insured by United States Federal Agency securities and the Federal Deposit Insurance Corporation. The collateral pledged to the City is held in the City’s name at the Bank of New York Mellon. The FDIC insures demand accounts up to \$250 thousand in the aggregate. At September 30, 2018, all deposits were either insured or collateralized.

Safekeeping of investment securities is provided by the City’s depository and trust institutions. Securities are held in street name with the bank as nominee. As of September 30, 2018, the City’s investments held by the counterparty, and not insured, are as follows:

<u>Security type</u>	<u>Fair value</u>
U.S. Agency Securities	\$ 102,876

Texas statutes and City policy authorize operating, capital projects, bond reserve, and trust monies to be deposited in demand deposits, time deposits, or certificates of deposit. Texas statutes and City policy require all uninsured collected deposits to be fully collateralized.

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September 30, 2018
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NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued

Concentration of Credit Risk

Investments that individually represent 5 percent or more of net portfolio assets are stated below. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded.

<u>Agency and Securities by Issuer</u>	<u>Fair value</u>	<u>Percent of total Portfolio</u>
Federal Agricultural Mortgage Corporation Notes	\$ 30,670	22.38%
Federal Farm Credit Bank Notes	16,570	12.09%
Federal Home Loan Bank Notes	35,307	25.76%
Federal Home Loan Mortgage Corporate Notes	17,739	12.94%

Credit Risk

The Public Funds Investment Act requires that investments shall be made in accordance with written policies approved at least annually by the governing body. Investment policies must address safety of principal, liquidity and yield, with primary emphasis on safety of principal. In accordance with this Policy, the City may invest in direct or guaranteed obligations of the U.S. Treasury, certain U.S. agencies and instrumentalities, and direct obligations of states and local governments with a credit rating no less than Aa3 or its equivalent; fully collateralized certificates of deposit and repurchase agreements; no-load money market mutual funds and local government investment pools with credit ratings no less than Aaa or its equivalent.

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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
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NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Money market mutual funds and local government investment pools in the City’s portfolio are rated AAA by Standard & Poor’s and/or Aaa by Moody’s. U.S. Treasury Notes and Bills are obligations of the U.S. government and are not considered to have credit risk and thus are not rated (“NR”). Long-term bond ratings are used for the U.S. Government Agencies except for Federal Agricultural Mortgage Corporation (“FAMC”) Notes. U.S. Government Agencies are direct obligations of the United States agencies, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States agencies. Ratings for the City’s portfolio are listed on the following table.

<u>Security Type</u>	<u>Fair value</u>	<u>Percent of total portfolio</u>	<u>S&P/Moody’s ratings</u>
Money market mutual funds and investment pools	\$ 34,181	24.94%	AAAm/Aaa
Federal Agricultural Mortgage Corporation Notes	30,670	22.38%	Not Rated
U.S. Agency securities	<u>72,206</u>	<u>52.68%</u>	AA+/Aaa
 Total Portfolio	 \$137,057	 <u>100.00%</u>	
 Repurchase Agreements	 <u>41,305</u>		
Total Investments	<u>\$178,362</u>		

Interest Rate Risk

In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years. The weighted average maturity of the securities held in the City’s portfolio at September 30, 2018 is as follows:

<u>Security Type</u>	<u>Fair value</u>	<u>Weighted average maturity (days)</u>
Money market mutual funds	\$ 6,020	31
Local Government Investment Pools	28,161	49
U.S. Agency securities	<u>102,876</u>	<u>250</u>
 Total Portfolio	 137,057	 <u>196</u>
 Repurchase Agreements	 <u>41,305</u>	
Total Investments	<u>\$178,362</u>	

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NOTE 3 - CAPITAL ASSETS

The Fund's capital asset activity for the year ended September 30, 2018 is as follows:

	Balance, <u>9/30/17</u>	<u>Additions</u>	Transfers and <u>Retirements</u>	Balance, <u>9/30/18</u>
Capital assets, not being depreciated:				
Land	\$ 128,359	\$ 2,825	\$ -	\$ 131,184
Works of art	3,396	-	-	3,396
Construction in progress	<u>152,930</u>	<u>80,389</u>	<u>(190,090)</u>	<u>43,229</u>
Total capital assets, not being depreciated	284,685	83,214	(190,090)	177,809
Capital assets, being depreciated:				
Buildings	711,982	168,773	-	880,755
Improvements other than buildings	333,059	20,428	-	353,487
Infrastructure	4,896	-	-	4,896
Equipment	<u>84,732</u>	<u>1,373</u>	<u>(628)</u>	<u>85,477</u>
Total capital assets, being depreciated	1,134,669	190,574	(628)	1,324,615
Less accumulated depreciation for:				
Buildings	(153,606)	(14,607)	-	(168,213)
Improvements other than buildings	(92,573)	(12,140)	-	(104,713)
Infrastructure	(3,171)	(94)	-	(3,265)
Equipment	<u>(34,322)</u>	<u>(5,680)</u>	<u>628</u>	<u>(39,374)</u>
Total accumulated depreciation and amortization	<u>(283,672)</u>	<u>(32,521)</u>	<u>628</u>	<u>(315,565)</u>
Total capital assets being depreciated, net	<u>850,997</u>	<u>158,053</u>	<u>0</u>	<u>1,009,050</u>
Total capital assets, net	<u>\$1,135,682</u>	<u>\$ 241,267</u>	<u>\$(190,090)</u>	<u>\$1,186,859</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

NOTE 4 - LEASES

A. As Lessee

In fiscal year 2016, the Fund entered into a capital lease agreement for land to be used as a parking lot. The monthly lease payments are \$258 thousand per month with an interest rate of 5.65 percent for a period of 360 months. The Fund will retain title to the property after the end of the lease term.

In fiscal year 2015, the Fund entered into a capital lease agreement for land to be used as a parking lot. The monthly lease payments are \$174 thousand per month with an interest rate of 5.65 percent for a period of 360 months. The Fund will retain title to the property after the end of the lease term.

The outstanding lease balance for Dallas Love Field as of September 30, 2018 is \$71.8 million.

Future minimum lease payments for capital leases including interest and principal are as follows:

Fiscal Year	Total Rental Payments
2019	\$ 5,184
2020	5,184
2021	5,184
2022	5,184
2023	5,184
2024-2028	25,917
2029-2033	25,917
Thereafter	<u>62,452</u>
Total minimum future lease payments	140,206
Less: Amount representing interest	<u>(68,436)</u>
Present value of net minimum lease payments	<u>\$ 71,770</u>

The following schedule provides an analysis of the Airport's Revenues Fund investment in capital assets under capital lease arrangements as of September 30, 2018.

Land	<u>\$75,270</u>
Total	<u>\$75,270</u>

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 4 - LEASES - Continued

B. As Lessor

The Fund is under numerous lease agreements as lessor whereby it receives revenues from leasing airport terminal space, hangars, parking spaces, ramps, land, and office space to air carriers and other tenants. These revenue leases are considered for accounting purposes to be operating leases. Lease revenue for fiscal year ended September 30, 2018 was \$76.3 million, which is reflected in concessions and rental fees. The following is a schedule of minimum future rentals on noncancelable operating leases as of September 30, 2018:

<u>Year ending September 30,</u>	<u>Rental Payments</u>
2019	\$ 55,621
2020	55,083
2021	54,793
2022	48,234
2023	46,448
2024 – 2028	203,329
2029 – 2033	4,652
Thereafter	<u>4,397</u>
Minimum future rentals	<u>\$472,557</u>

The above amounts do not include contingent rentals of the Airport Revenues fund, which may be received under certain leases; such contingent rentals received totaled \$445 thousand in fiscal year 2018.

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City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
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NOTE 5 - LONG-TERM DEBT

The changes in the Fund's long-term liabilities for the year ended September 30, 2018 are as follows:

	Balance, 9/30/17 (Restated)*	Additions	Deletions	Balance, 9/30/18	Due within one year
General Airport Revenue Bonds 2015	\$109,235	\$ -	\$ -	\$109,235	\$ 3,885
General Airport Revenue Bonds 2017	116,850	-	-	116,850	-
Add: Net premium/discount	23,317	-	2,471	20,846	-
Pension obligation bonds	4,533	-	157	4,376	152
Add: Net premium/discount	1,961	-	63	1,898	-
Add: accreted interest on capital appreciation bonds	2,719	368	289	2,798	-
Obligation for revenue credit obligation	431,765	-	7,710	424,055	8,095
Add: net premium/discount	<u>(4,558)</u>	<u>278</u>	<u>470</u>	<u>(4,750)</u>	<u>-</u>
Total long-term debt	<u>685,822</u>	<u>646</u>	<u>11,160</u>	<u>675,308</u>	<u>12,132</u>
Other long-term liabilities					
Compensated absences	1,796	1,006	1,060	1,742	869
Capital leases payable	72,865	-	1,095	71,770	1,158
Pollution Remediation	645	813	330	1,128	788
Other post-employment benefits	9,931	832	992	9,771	-
Net pension liability	<u>21,469</u>	<u>20,441</u>	<u>25,720</u>	<u>16,190</u>	<u>-</u>
Total other long-term liabilities	<u>106,706</u>	<u>23,092</u>	<u>29,197</u>	<u>100,601</u>	<u>2,815</u>
Total long-term liabilities	<u>\$792,528</u>	<u>\$23,738</u>	<u>\$40,357</u>	<u>\$775,909</u>	<u>\$14,947</u>

* Other postemployment benefits were restated due to the implementation of GASB Statement No. 75 (See note 1)

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
(Amounts in thousands except where indicated)

NOTE 5 - LONG-TERM DEBT - Continued

General Airport Revenue Bonds

During December 2016, the LFAMC issued \$116.85 million in General Airport Revenue Bonds, Series 2017 with a premium of \$13.6 million. The stated rate on the bonds is 5 percent with a final maturity on November 1, 2036. Proceeds from the sale of the Bonds were used to complete the design and construction costs of an approximately 5,000 space parking garage and related improvements to increase public parking capacity at Love Field Airport, fund approximately 22 months of interest (which is intended to cover the period commencing with the date of issuance of the Bonds through 12 months following substantial completion of construction of the project), fund a bond debt service reserve fund; and pay cost of issuance.

In a previous year, the LFAMC issued \$109.2 million in General Airport Revenue Bonds, Series 2015, with a premium of \$13.6 million. The stated interest rate on the bonds is 5 percent with a final maturity on November 1, 2035. Proceeds from the sale of the Bonds were used to fund design and construction costs of an approximately 5,000 space parking garage and related improvements to increase public parking capacity at Love Field Airport, fund approximately 27 months of interest (which is intended to cover the period commencing with the date of issuance of the Bonds through 12 months following substantial completion of construction of the parking garage), fund a bond debt service reserve fund, and pay cost of issuance for the bonds.

	General Airport Revenue Bonds		
	Principal	Interest	Total
2019	\$ 3,885	\$ 11,207	\$ 15,092
2020	8,230	10,904	19,134
2021	8,640	10,483	19,123
2022	9,075	10,040	19,115
2023	9,530	9,575	19,105
2024-2028	55,280	40,041	95,321
2029-2033	70,555	24,386	94,941
2034-2036	60,890	5,602	66,492
Total principal and interest	\$226,085	\$122,238	\$348,323

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 5 - LONG-TERM DEBT - Continued

Pension Obligation Bonds

The pension obligation bonds are allocated between the City's governmental and enterprise funds. The numbers presented above include the Fund's portion of the total issue. Of the total issue, 1.76 percent is allocated to the Fund.

The Fund's pension obligation bonds outstanding as of September 30, 2018 are as follows:

	<u>Maturity</u>	<u>Rates</u>	<u>Amount</u>
Series 600	2035	3.24% to 5.19%	\$2,029
Series 601	2035	4.10% to 5.48%	1,007
Series 632	2024	0.295% to 4.66%	<u>1,340</u>
Total outstanding			<u>\$4,376</u>

The following is a summary of the future principal and interest requirements for the Fund's pension obligation bonds at September 30, 2018:

	<u>Pension Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 152	\$ 479	\$ 631
2020	151	499	650
2021	521	148	669
2022	570	120	690
2023	627	91	718
2024-2028	1,244	2,800	4,044
2029-2033	707	4,028	4,735
2034-2036	<u>404</u>	<u>1,695</u>	<u>2,099</u>
Total principal and interest	<u>\$4,376</u>	<u>\$9,860</u>	<u>\$14,236</u>

Pension Obligation Bonds are paid through increased contributions to the City's Debt service fund. Operating revenues from Airport operations and interest earned on the cash balance in the City's debt service fund are pledged for repayment of the debt. Revenues are transferred from the Airport Revenues fund to the City's debt service fund to meet annual principal and interest obligations.

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(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
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NOTE 5 - LONG-TERM DEBT - Continued

Airport Revenues Conduit Debt and Revenue Credit Agreement

The LFAMC, a Texas non-profit “local government corporation” and blended component unit of the City, issued \$310 million in Special Facilities Revenue Bonds during November 2010, and an additional \$146.26 million in May 2012. The bonds were issued to finance the acquisition, construction, expansion, installation, and equipping of certain capital improvements at Dallas Love Field Airport. Major construction commenced during fiscal year 2010, and the project was substantially completed during fiscal year 2015.

Prior to the issuance of the bonds, the City entered into two separate funding agreements with an airline carrier: (1) a “Facilities Agreement” pursuant to which the airline carrier is obligated to make debt service payments on the principal and interest amounts associated with the bonds (Facilities Payments), less other sources of funds the City may apply to the repayment of the bonds (including, but not limited to, passenger facility charges collected from passengers originating from Love Field Airport); and (2) a “Revenue Credit Agreement” pursuant to which the City will reimburse the airline carrier for the Facilities Payments made by the carrier.

A majority of the monies transferred from the City to the airline carrier under the Revenue Credit Agreement are expected to originate from a reimbursement account created in a “Use and Lease Agreement” between the City and the airline carrier. The Use and Lease Agreement is a 20-year agreement providing for, among other things, the lease of space at the Airport from the City. The remainder of such monies transferred from the City to the airline carrier under the Revenue Credit Agreement is expected to originate from: (1) use and lease agreements with other airlines; (2) various concession agreements; and (3) other miscellaneous revenues generated at Love Field Airport.

All of the assets ultimately acquired by the bonds belong to the City at the time of acquisition pursuant to an Agreement for Donation and Assignment entered into between the City and the airline carrier. The bonds are a special obligation for which the airline carrier has guaranteed the principal and interest payments on the bonds, payable solely from the facilities payments to be made pursuant to the terms of the Special Facilities Agreement and other funds constituting the trust estate under the indenture, including any amounts received under the guaranty. The bonds do not constitute a debt or pledge of the faith and credit of the LFAMC, the City, the County, or the State of Texas, and accordingly have not been reported in the accompanying financial statements. At September 30, 2018, the Special Facilities Revenue Bonds outstanding was \$419 million.

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
(Amounts in thousands except where indicated)

NOTE 5 - LONG-TERM DEBT - Continued

Airport Revenues Obligation for Revenue Credit Agreement

The Revenue Credit Agreement entered into between the City and the airline carrier was made possible as a result of the rate making provisions of the Airport Use and Lease Agreement which provide for the annual calculation of airline rates and charges sufficient to recover among other things, debt service on the bonds. While the crediting back of money to the airline carrier under the Revenue Credit Agreement will be done pursuant to a contractual agreement between the City and the airline carrier, such revenue credits are not pledged to the payment of debt service on the Bonds. The City has determined the obligation under the Revenue Credit Agreement to be a liability, and accordingly has recorded the obligation in the accompanying financial statements. The interest rates for the obligation range between 4.39 percent to 5.48 percent, and the obligation will be amortized over a period of 30 years. The balance of the obligation for the Revenue Credit Agreement was \$424 million less the net discount of \$5 million for a total balance of \$419 million, at September 30, 2018. The schedule of principal and interest payments required for the obligation is provided below (in thousands):

<u>Fiscal Year</u>	<u>Airport Revenue LFAMC</u>		
	<u>Obligation for Revenue Credit Agreement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 8,095	\$ 21,690	\$ 29,785
2020	8,500	21,318	29,818
2021	8,840	20,927	29,767
2022	9,280	20,474	29,754
2023	9,745	19,998	29,743
2024-2028	56,535	91,982	148,517
2029-2033	98,580	72,554	171,134
2034-2038	129,385	42,639	172,024
2039-2041	<u>95,095</u>	<u>7,659</u>	<u>102,754</u>
Total principal and interest	<u>\$424,055</u>	<u>\$319,241</u>	<u>\$743,296</u>

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City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
(Amounts in thousands except where indicated)

NOTE 6 - PENSION PLAN

Plan Description

Employees' Retirement Fund (ERF): All full-time Airport Revenues Fund's employees participate in the contributory City Employees' Retirement Fund, a defined benefit, single employer pension plan ("the Plan"). The legal authority for this plan is Chapter 40A of the Dallas City Code. The fund is for the benefit of all eligible employees of the City, excluding firefighters and police officers. The fund is administered by a seven member board of trustees consisting of three persons appointed by the City Council who may be council members, three employees from different departments of the City who are elected by members of the retirement fund and who are members of the retirement fund, and the City Auditor. The ERF issues a stand-alone financial report which is available at: www.dallaserf.org/recent-publications.html.

Benefits Provided

ERF provides retirement, disability, and death benefits to its members in accordance with Chapter 40A of the Dallas City Code. All employees of the City are members except police officers, firefighters, elected officers, non-salaried appointee members of boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. The plan consists of Tier A and Tier B members.

Members hired prior to January 1, 2017 (Tier A) have vested rights to retirement benefits after five years of service or to survivor benefits after two years of service. Benefits are based on credited service and the average monthly earnings for the three highest paid calendar years. Members of the Tier A are entitled to normal retirement pension at age 60; early retirement pension at age 55 if employed prior to May 9, 1972 or age 50 and age plus years of service total 78; service retirement pension at any age after 30 years of credited service and disability retirement pension as determined by the board of trustees. Cost of living adjustments for retirees are made each year on January 1 by adjusting the pension base by the percentage change of the consumer price index, not to exceed 5 percent.

Members hired after December 31, 2016 (Tier B) have vested rights to retirement benefits after five years of service or to survivor benefits after two years of service. Benefits are based on credited service and the average monthly earnings for the five highest paid calendar years. Members of Tier B are entitled to normal retirement pension at age 65; early retirement pension with a reduced benefit prior to age 65 and age plus years of service total 80 and; service retirement pension at any age after 40 years of credited service and disability retirement pension as determined by the board of trustees. Cost of living adjustments for retirees are made each year on January 1 by adjusting the pension base by the percentage change of the consumer price index, not to exceed 3 percent.

Amendments to Chapter 40A of the Dallas City Code, other than provisions required to comply with federal law, may only be made by a proposal initiated by either the board of trustees of the ERF or the City Council which results in an ordinance approved by the board, adopted by the City Council, and approved by a majority of the voters voting at a general or special election.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - PENSION PLAN - Continued

Employees covered by benefit terms

At December 31, 2017, the following numbers of employees were covered by the benefit terms:

	<u>ERF</u>
Retirees and beneficiaries currently receiving benefits	7,042
Inactive members entitled to benefits but not yet receiving them	1,248
Current members	<u>7,838</u>
Total	<u>16,128</u>

Contributions

ERF: Chapter 40A of the Dallas City Code establishes contribution requirements. Changes to the contribution formula may only be made by a proposal initiated by either the board of trustees of the ERF or the City Council which results in an ordinance approved by the board, adopted by the City Council, and approved by a majority of the voters voting at a general or special election.

The City contributes 63 percent of the required contribution and the membership contributes 37 percent. The City's contribution rate covers both the debt service tied to the pension obligation bonds and the contributions to the Employees' Retirement Fund. Although the total contribution is actuarially determined each year, it is adjusted based on the following requirements of Chapter 40A: (1) the maximum contribution percentage of covered wages is 36 percent; (2) the maximum increase or decrease from one year to the next is 10 percent; and (3) the contribution rate changes only if the actuarial valuation develops a rate which differs from the prior rate by more than 300 basis points. The adjusted contribution as a result of Chapter 40A is the Current Adjusted Total Obligation Rate (CATOR). Contribution rates are 13.32 percent of covered wages for employees and 22.68 percent for the City for the City's fiscal year ended September 30, 2018. The City's contribution of 22.68 percent is divided into 14.40 percent cash to the Plan and 8.28 percent for debt service payments on the pension obligation bonds. For 2018, the City contribution was \$61 million.

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City of Dallas, Texas
Airport Revenues Fund
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NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

NOTE 6 - PENSION PLAN - Continued

Actuarial Assumptions

The total pension liabilities in the December 31, 2017 actuarial valuations were determined using the following actuarial assumptions for the plan, applied to all periods included in the measurement:

	<u>Description</u>
Inflation	2.75%
Salary Increases	3.25% to 6.25%, including inflation
Investment Rate of Return	7.75%
Mortality	<p>For actives: Males - RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP2000 Healthy Mortality Table for female employees, set back 5 years.</p> <p>For healthy retirees: Males - RP2000 Blue Collar Mortality Table for male annuitants, with a 109% multiplier and fully generational mortality using improvement Scale BB. Females - RP2000 Blue Collar Mortality Table for female annuitants, with a 103% multiplier and fully generational mortality using improvement Scale BB.</p> <p>For all disabled lives: RP2000 Disabled Mortality Table for male annuitants, set forward one year.</p>
Cost of Living Adjustments	The percentage of change in the price index for October of the current year over October of the previous year, or the percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment. The maximum COLA for Tier A retirees is 5%, and the maximum for Tier B retirees is 3%.
Long-term expected rate of return	Estimated using a building block methodology in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real return rates by the target asset allocation percentage and by adding expected inflation.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 6 - PENSION PLAN - Continued

The target allocation and best estimates of arithmetic real rates of return (RROR) for the plan, by major asset class, are summarized in the following table:

<u>Asset Class</u>	<u>ERF</u>	
	<u>Target Allocations</u>	<u>Long-term BROR</u>
Domestic equity	15.0%	6.50%
International equity	15.0%	6.70%
Global equity	5.0%	6.70%
Low volatility global equity	10.0%	6.70%
Private equity	5.0%	9.40%
REITS	5.0%	5.40%
Private real assets	5.0%	4.80%
Investment grade fixed income	15.0%	3.65%
High yield fixed income	12.5%	5.35%
Credit opportunities	2.5%	9.00%
MLP's	<u>10.0%</u>	6.10%
Total	<u>100.0%</u>	

Discount Rate

ERF: The discount rate used to measure the total pension liability was 7.75 percent. This single discount rate was based on the expected rate of return on pension plan investments of 7.75 percent. The projection of cash flows used to determine the discount rate assumed that that: (1) plan member contributions and City contributions will be made at the projected future contribution rates outlined in Chapter 40A of the Dallas City Code, under which employees contribute 37 percent of the CATOR; the City contributes 63 percent of the CATOR, reduced by the amount required to pay current debt service on the 2005 pension obligation bonds; (2) the ERF annually earns 7.75 percent on its market value of assets; and (3) the number of active members remains constant in the future. Based on those assumptions, the ERF 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 and the resulting single discount rate is 7.75 percent.

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NOTE 6 - PENSION PLAN - Continued

Changes in the Net Pension Liability

The following table shows the net pension liability as of December 31, 2017:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<u>Employees' Retirement Fund</u>			
Balances at December 31, 2016	\$ <u>4,291,805</u>	\$ <u>3,352,043</u>	\$ <u>939,762</u>
Changes for the year:			
Service cost	81,178	-	81,178
Interest	325,620	-	325,620
Changes of assumptions	-	-	-
Differences between expected and actual experience	(59,066)	-	(59,066)
Contributions - City	-	58,966	(58,966)
Contributions - Employee	-	55,175	(55,175)
Net investment income	-	413,511	(413,511)
Benefit payments, including refunds of employee contributions	(261,690)	(261,690)	-
Administrative expense	-	(5,951)	5,951
Other changes	-	207	(207)
Net changes	<u>86,042</u>	<u>260,218</u>	<u>(174,176)</u>
Balances at December 31, 2017	\$ <u>4,377,847</u>	\$ <u>3,612,261</u>	\$ <u>765,586</u>

The amount of net pension liability allocated to Airport Revenues was \$16,190.

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City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

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NOTE 6 - PENSION PLAN - Continued

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

The following table presents the net pension liability of the City, calculated using the discount rates of 7.75 percent for ERF, as well as what the City's net pension liability would be if were calculated using discount rates that are 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rates:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
ERF	\$ 1,281,029	\$ 765,586	\$ 334,560

Pension Plan Fiduciary Net Position

Detailed information about the fiduciary net position of the pension plan is available in the separately issued financial reports.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2018, the City also reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>ERF</u>	
	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experience	\$ -	\$ 73,597
Changes of assumptions	360,589	644,888
Net difference between projected and actual earnings on pension plan investments	-	14,442
Contributions subsequent to the measurement date	<u>46,192</u>	<u>-</u>
Total	<u>\$406,781</u>	<u>\$732,927</u>

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

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NOTE 6 - PENSION PLAN - Continued

Deferred outflows of resources in the amount of \$46,192 related to pension contributions in the ERF made subsequent to the measurement date will be recognized as a reduction of the net pension liability during the fiscal year ended September 30, 2018. Net deferred outflows and inflows of resources in the amount of \$372,338 related to the pension will be recognized in pension expense as follows:

Year Ending December 31:

2019	\$ 20,961
2020	(238,822)
2021	(119,500)
2022	<u>(34,977)</u>
Total	<u><u>\$(372,338)</u></u>

At September 30, 2018, Airport Revenues recognized pension expense of \$5,439, deferred outflows of resources related to pensions of \$7,686, and deferred inflows of resources related to pensions of \$18,746.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

In addition to pension benefits, the City provides certain healthcare and life insurance benefits for retired employees through various Council resolutions. The postemployment benefit plan is a single-employer plan administered by Cigna (pre-65 retirees) and UHC (post-65 retirees utilizing Medicare). Employees who are permanent, full-time employees are eligible to participate in the benefits at retirement. The City is self-insured for these programs. The City eliminated subsidization of the plan for individuals hired on or after January 1, 2010. No assets are accumulated in a trust that meets the criteria in GASB Statement 75.

Benefits Provided

For retired employees hired before January 1, 2010, the City pays on average \$508 (not in thousands) per month. The plan is closed to employees hired January 1, 2010 and thereafter. For pre-Medicare retirees who qualify and choose the City health plan, the City pays approximately 50 percent of the actuarial cost and the retiree pays the other 50 percent. Spouses of retirees, like active employees, pay 100 percent of premiums. There were 4,662 retired participants and surviving spouses in the health plan at September 30, 2018, the latest data used for this evaluation. Post-Medicare retirees are offered the active plans but must pay the full cost of coverage; alternatively, they are also offered several Medicare supplement plans along with a Medicare Part D prescription drug plan. The City subsidizes the Medicare supplement plans for the retirees but does not subsidize the dependent cost.

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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
(Amounts in thousands except where indicated)

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - Continued

Employees Covered by Benefit Terms

At September 30, 2018, membership was as follows:

Inactive employees or beneficiaries currently receiving benefit payments	4,662
Active employees	<u>5,786</u>
Total participants	<u>10,448</u>

Total Other Post Employment Benefit Liability

The City's total OPEB liability of \$511,120 was measured as of September 30, 2018, and was determined by an actuarial valuation as of that date.

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City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - Continued

Actuarial Assumptions

The total OPEB liabilities in the September 30, 2018 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>Description</u>
Inflation	2.75%
Salary Increases	Police: 5.20% in service year 1 decreasing to 3.0% in service years 12 and beyond Fire: 5.20% in service year 1 decreasing to 3.0% in service years 16 and beyond Non-Uniformed: 6.25% in service year 1 decreasing to 3.25% in service years 19 and beyond
Discount Rate	3.83%, based on the 20-year yield for tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher
Mortality	Uniform (pre-retirement): RP-2014 Employee Mortality Table for male employees, set back 2 years, and projected using Scale MP-2015 Uniform (health annuitants): RP-2017 Blue Collar Healthy Annuitant Mortality Table, set back 2 years for females, and projected using Scale MP-2015 Non-Uniform (pre-retirement): RP-2000 Healthy Mortality Table, males set forward 4 years, females back 5 years; no improvement projection. Non-Uniform (post-retirement): RP-2000 Blue Collar Healthy Mortality Table with 109% multiplier for males and 103% multiplier for females; projected improvement using Scale BB.
Healthcare Cost Trend Rates	Pre-65 Trend: 7.20% for fiscal year 2019 (from SegalSurvey) and trending down to an ultimate 4.29% using the Getzen model. Pre-65 Trend: 5.40% for fiscal year 2019 (from SegalSurvey) and trending down to an ultimate 4.29% using the Getzen model.

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 to December 31, 2014, plus assumption changes included in the September 30, 2018 valuation.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
(Amounts in thousands except where indicated)

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - Continued

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 9/30/17	\$ 518,801
Changes for the year:	
Service cost	14,817
Interest	18,420
Difference between expected and actual experience	6,669
Change of assumptions	(26,244)
Benefit payments	<u>(21,343)</u>
Net Changes	<u>(7,681)</u>
Balance at 9/30/18	<u>\$ 511,120</u>

Changes of assumptions reflect an increase in the discount rate from 3.50 percent to 3.83 percent.

The amount of Total OPEB liability allocated to Airport Revenues was \$9,771.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the City, calculated using the discount rate of 3.83 percent, as well as what the City's total OPEB liability would be if it were calculated using discount rates that are 1-percentage-point lower (2.83 percent) or 1-percentage-point higher (4.83 percent) than the current rates:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 597,268	\$ 511,120	\$ 442,464

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City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the City, calculated using the healthcare cost trend rate of 8.2 percent decreasing to 4.3 percent, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost rates that are 1-percentage-point lower (7.2 percent decreasing to 3.3 percent) or 1-percentage-point higher (9.2 percent decreasing to 5.3 percent) than the current rates:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 439,256	\$ 511,120	\$ 603,273

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended September 30, 2018, the City recognized total OPEB expense of \$29,321. At September 30, 2018, the City also reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experience	\$ 5,334	\$ -
Changes of assumptions	<u>-</u>	<u>20,995</u>
Total deferred outflows/inflows	<u>\$ 5,334</u>	<u>\$ 20,995</u>

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

Year Ending December 31:

2019	\$ 3,915
2020	3,915
2021	3,915
2022	<u>3,916</u>
Total	<u>\$ 15,661</u>

The amount of deferred outflows of resources related to OPEB allocated to Airport Revenues was \$111, and the amount of deferred inflows of resources related to OPEB allocated to Airport Revenues was \$438.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

NOTE 8 - DEFERRED COMPENSATION

There are three deferred compensation plans. Two of these plans are voluntary for City employees who participate in the City's pension plans. The third plan is mandatory for all employees and council members who are not covered by the City's pension plans. These plans comply with sections 401(k) and 457(b) of the Internal Revenue Code.

Participants in the City's voluntary 457(b) and 401(k) plans have full discretion to choose investments from a list of standard plan options, a linked brokerage account, and a commingled pool managed by Fidelity Management Trust Company. The list of standard plan options includes mutual funds with varying styles and levels of investment risk. All the account balances in the mandatory 457 plan are invested in the same commingled pool. All contributions to these plans are deferred by plan participants from their compensation and all the earnings are allocated to each participant's account. Distributions from all the deferred compensation plans are available after termination of employment. Additionally, participants in the City's voluntary plans may also take out loans and may receive hardship withdrawals in accordance with federal regulations. The assets held in these plans are not included in the Fund's or City's financial statements and cannot be used for purposes other than the exclusive benefit of the participants or their beneficiaries or to pay the reasonable expenses of plan administration.

NOTE 9 - RISK MANAGEMENT-ESTIMATED CLAIMS AND JUDGEMENT PAYABLE

The City is self-insured for all third-party general liability claims. Claims adjusting services are provided by the City's internal staff. Interfund premiums are based primarily upon the insured funds' claims experience and exposure and are reported as cost reimbursement interfund transactions. The liability for unpaid claims includes the effects of specific incremental claims, adjustment expenses and if probable and material, salvage and subrogation.

All known City property, primarily buildings and contents, is insured through commercial insurance policies, subject to a \$750 thousand deductible per loss occurrence. The amount of settlements have not exceeded the deductible loss per occurrence during the past three years.

The City is self-insured for workers' compensation claims that occurred prior to October 1, 1999. Effective October 1, 1999 through January 31, 2013, the City was insured for workers' compensation losses in excess of \$750 per occurrence. Effective February 1, 2013, the City was insured for workers' compensation losses in excess of \$1 million per occurrence. Effective February 1, 2016, the City is insured for workers' compensation losses in excess of \$1.5 million per occurrence. Claims adjusting services are provided by an independent "administrative services" contractor. Workers' compensation premiums are based primarily upon the insured funds' claims experience and exposure and are reported as cost reimbursement interfund transactions.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(Amounts in thousands except where indicated)

**NOTE 9 - RISK MANAGEMENT-ESTIMATED CLAIMS AND JUDGEMENT PAYABLE –
Continued**

All workers' compensation losses are accumulated in a clearing fund which is being reimbursed by the premiums collected. When losses exceed premiums, the deficiencies are prorated and supplemented by the various applicable funds. Accrued workers' compensation liability consists of incurred but not reported as well as unpaid reported claims of which \$37.4 million at September 30, 2018, is recorded in the risk funds. Of this amount, \$7.2 million is estimated to be payable in the next fiscal year.

The City maintains a group health insurance plan for employees and dependents which is self-insured by the City. The City also offers enrollment in one health maintenance organization as an alternative. Premiums are determined based on the annual budget. The City also maintains a group life insurance plan which offers term-life and accidental death and dismemberment for employees and dependents. The City is fully insured for employee term-life. Health claims and claims incurred but not reported that are probable and reasonably estimated are accrued at September 30, 2018, in the amount of \$8.3 million in the risk funds.

At September 30, 2018, the City estimates its general liability at \$190.0 million, of which \$181.2 million is estimated to be payable in the next fiscal year. The general liability includes \$7.6 million for automobile and \$182.4 million for probable claims and lawsuits.

Changes in the balances of claims liabilities during the past fiscal year are as follows:

	<u>Workers' Compensation</u>		<u>Health</u>		<u>General Liability</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Unpaid claims, beginning of year	\$ 36,486	\$35,416	\$ 7,817	\$ 7,183	\$79,754	\$20,448
Incurred claims, including Incurred but not reported claims (IBNRs) and changes in estimates	11,222	18,718	84,941	74,090	176,516	68,773
Claim payments	(10,373)	(15,882)	(83,010)	(80,369)	(66,944)	(6,471)
Changes to prior year estimates (IBNR)	<u>39</u>	<u>(1,766)</u>	<u>(1,436)</u>	<u>6,913</u>	<u>677</u>	<u>(2,996)</u>
Unpaid claims, end of year	<u>\$ 37,374</u>	<u>\$36,486</u>	<u>\$ 8,312</u>	<u>\$ 7,817</u>	<u>\$190,003</u>	<u>\$79,754</u>

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
(Amounts in thousands except where indicated)

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

Federal and State Grant Commitments

The Department of Aviation has received Airport Improvement Program (AIP) Grant Funds and a number of other federal and state grants for specific purposes. These AIP and other grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Based on prior experience and current knowledge, City management believes that such disallowances, if any, will not be material.

Pending Lawsuits and Claims

Various claims and lawsuits are pending against the City and its officers and employees acting in their official capacities (hereafter collectively “City” for purposes of Note 18 A). Those lawsuits and claims, excluding condemnation proceedings, which are considered “probable” and estimable are accrued as a liability, while those claims and judgments, excluding condemnation proceedings, which are considered “reasonably possible” are disclosed but not accrued.

In the opinion of the City Attorney, the potential loss resulting from all material pending lawsuits and claims, excluding condemnations proceedings, which are considered reasonably possible and estimable, is approximately \$1.16 billion as of September 30, 2018. Additionally, the City is a defendant in two lawsuits filed by police and fire-rescue officers alleging that current and past police and fire pay schedules were adopted in violation of a referendum approved by the voters in 1979. The two lawsuits, which are class actions are pending in Rockwall County. In August 2018, the City Council approved a settlement of the two Rockwall County lawsuits in the amount of \$173.3 million provided that the parties can mutually agree to the terms of the written settlement agreement.

At September 30, 2018, approximately \$182.4 million, including the \$173.3 million discussed in the previous paragraph, has been accrued in the Risk Fund as a liability for pending material claims and lawsuits, excluding condemnation proceedings, considered to be probable. In the opinion of the City Attorney, this is the total amount of all such pending claims and lawsuits which represent probable loss to the City.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
(Amounts in thousands except where indicated)

NOTE 11 - POLLUTION REMEDIATION

The Fund is responsible for following all applicable environmental rules when managing sites with environmental clean-up or management requirements. The Texas Commission on Environmental Quality (TCEQ) is the State regulatory agency that regulates all projects being reported. The method used to calculate the liability is the current value of outlays to remediate the properties – the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. The liability is an estimate and is subject to revision because of price increases or reductions, changes in technology, or changes in applicable laws or regulations. As of September 30, 2018, the total environmental remediation liability for the Fund \$1.1 million and \$ 788 thousand is estimated to be paid in fiscal year 2018. At this time, the Fund is unable to estimate any recoveries to reduce the liability. The specific issues related to the City’s remediation efforts include.

The Fund is managing 4 sites that are regulated by the Texas Risk Reduction Program, Texas Administrative Code (TAC) Ch. 350:

- For the Dalfort Land site, the City conducted pre-demolition environmental investigation in the building including testing for metals dust, asbestos containing material, lead, and mold and investigation of the subsurface at an Aviation property with a new tenant; obtained conditional closure from TCEQ and performed oversight of development activities by the tenant in the building and subsurface. During the reporting period, ongoing oversight of development activities by the tenant in the building and subsurface and obtaining TCEQ approval of activities. Activities in the current period include environmental monitoring, soil management, disposal of waste soil and regulatory reporting, review of abatement auditing completed for the building and reporting. After an increase in the scope of work, the estimated cost for this project is \$1.1 million and \$757 thousand is expected to be paid in fiscal year 2019.
- For the Scarborough site, the City has completed a Phase I and II ESA as part of due diligence prior to executing a lease to own agreement. Additional activities are expected to include additional investigation and reporting to TCEQ. No activities were completed in the reporting period and no activities are expected until after the property is occupied, which is still pending. The estimated cost for this project is \$26 thousand and no costs are estimated for fiscal year 2019.
- For the 8020 Denton Drive site, the City has completed a Phase I and II ESA as part of due diligence for this property within Love Field Airport, entered the property into VCP, and prepared an Affected Property Assessment Report (APAR). During the reporting period, the APAR was submitted to TCEQ and responses to TCEQ completed. TCEQ provided a certificate of completion. Additional activities expected to be completed in the current period include plugging existing monitor wells. The estimated cost for this project is \$5 thousand and all is expected to be paid in fiscal year 2019.

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018
(Amounts in thousands except where indicated)

NOTE 11 - POLLUTION REMEDIATION – Continued

- For the Love field E Concourse - GUB Area, the City has completed and submitted an Affected Property Assessment Report (APAR) to TCEQ for property within Love Field that is managed in the TCEQ Corrective Action Program. During the reporting period, additional investigation was completed, an amended APAR submitted, and correspondence with TCEQ. Activities expected to be completed during the current period are additional TCEQ responses and reporting. The estimated cost for this project is \$26 thousand and all is expected to be paid in fiscal year 2019.

	<u>Balance,</u> <u>9/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance,</u> <u>9/30/18</u>	<u>Due</u> <u>within</u> <u>one year</u>
Dalfort Land	\$ 592	\$ 738	\$ 259	\$ 1,071	\$ 757
Scarborough	26	-	-	26	-
8020 Denton Drive	27	-	22	5	5
Love field E Concourse – GUB Area	<u>-</u>	<u>75</u>	<u>49</u>	<u>26</u>	<u>26</u>
Total	<u>\$ 645</u>	<u>\$ 813</u>	<u>\$ 330</u>	<u>\$ 1,128</u>	<u>\$ 788</u>

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**City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
Last Three Fiscal Years
(Dollar amounts in thousands)**

	ERF	
	2018	2017
Total Pension Liability		
Service cost	\$ 81,178	\$ 133,457
Interest	325,620	305,826
Changes of assumptions	-	(1,227,079)
Differences between expected and actual experience	(59,066)	(38,327)
Plan changes	-	-
Benefit payments, including refunds	<u>(261,690)</u>	<u>(249,639)</u>
Net change	86,042	(1,075,762)
Total Pension Liability, Beginning	<u>4,291,805</u>	<u>5,367,567</u>
Total Pension Liability, Ending ^(a)	<u>4,377,847</u>	<u>4,291,805</u>
 Plan Fiduciary Net Position		
Contributions - City	58,966	56,130
Contributions - Employee	55,175	53,436
Net investment income	413,510	294,918
Benefit payments, including refunds	(261,690)	(249,639)
Administrative expense	(5,951)	(5,343)
Other changes	<u>207</u>	<u>333</u>
Net change	260,217	149,835
Plan Fiduciary Net Position, Beginning	<u>3,352,043</u>	<u>3,202,208</u>
Plan Fiduciary Net Position, Ending ^(b)	<u>3,612,260</u>	<u>3,352,043</u>
 City's Net Pension Liability ^{(a)-(b)}	 <u>\$ 765,587</u>	 <u>\$ 939,762</u>
 Plan Fiduciary Net Position as a percentage of Total Pension Liability	 83%	 78%
 Covered-employee payroll	 \$ 421,269	 \$ 409,433
 City's Net Pension Liability as a percentage of covered- employee payroll	 182%	 230%

	2016	2015
\$	78,020	\$ 62,065
	313,850	290,948
	1,238,431	292,137
	(26,829)	(21,967)
	-	-
	<u>(239,960)</u>	<u>(230,243)</u>
	1,363,512	392,940
	<u>4,004,055</u>	<u>3,611,115</u>
	<u>5,367,567</u>	<u>4,004,055</u>
	50,721	45,833
	50,742	46,536
	(53,344)	207,992
	(239,960)	(230,243)
	(4,598)	(4,150)
	<u>162</u>	<u>157</u>
	(196,277)	66,125
	<u>3,398,485</u>	<u>3,332,360</u>
	<u>3,202,208</u>	<u>3,398,485</u>
	<u>\$ 2,165,359</u>	<u>\$ 605,570</u>
	60%	85%
\$	393,186	\$ 353,650
	551%	171%

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY CONTRIBUTIONS TO PENSION PLAN

Last Ten Fiscal Years
(Dollar amounts in thousands)

	2018	2017	2016	2015
<hr/>				
Employees Retirement Fund				
Actuarially determined contribution	\$ 91,977	\$ 88,547	\$ 81,838	\$ 68,100
Contributions in relation to the actuarially				
Determined contribution	\$ 60,589	\$ 58,045	\$ 56,987	\$ 49,135
Contribution deficiency (excess)	\$ 31,388	\$ 30,502	\$ 24,851	\$ 18,965
Covered payroll	\$ 420,754	\$ 405,062	\$ 389,706	\$ 376,421
Contributions as a percentage of covered payroll	14%	14%	15%	13%

2014	2013	2012	2011	2010	2009
\$ 62,756	\$ 54,289	\$ 37,822	\$ 32,865	\$ 34,793	\$ 18,995
\$ 44,816	\$ 35,515	\$ 28,917	\$ 27,303	\$ 27,668	\$ 24,604
\$ 17,940	\$ 18,774	\$ 8,905	\$ 5,562	\$ 7,125	\$ (5,609)
\$ 357,887	\$ 336,483	\$ 317,551	\$ 318,408	\$ 345,819	\$ 374,395
13%	11%	9%	9%	8%	7%

City of Dallas, Texas
 Airport Revenues Fund
 (An Enterprise Fund of the City of Dallas)

**REQUIRED SUPPLEMENTARY INFORMATION
 NOTES TO SCHEDULE OF CITY CONTRIBUTIONS TO PENSION PLAN**

Last 10 Fiscal Years

Employees Retirement Fund

	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08
Valuation date	The actuarially determined contribution rate is effective October 1 after the valuation date.									
Timing	Entry age normal.									
Actuarial cost method	30-year open amortization period level percentage of payroll. The City ordinance authorizing the plan specifies that the rate may not change from year-to-year if the calculated rate is									
Asset valuation method	5-year smoothed market value of assets.									3-year smoothed market value of assets.
Inflation	2.75%									
Salary increases	3.25% to 6.25%, including inflation									
Discount rate	7.75%									8.25%
Cost of Living Adjustment	The greater of (a) the percentage of change in the price index for October of the current year over October of the previous year, or (b) the percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment. The maximum change per year is 5% for Tier A and 3% for Tier B members.									

Mortality	<p>For actives: Males - RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP2000 Healthy Mortality Table for female employees, set back 5 years. For healthy retirees: Males - RP2000 Blue Collar Healthy Mortality Table for male annuitants, with a 109% multiplier and fully generational mortality using improvement scale BB Females - RP2000 Blue Collar Healthy Mortality Table for female annuitants, with a 109% multiplier and fully generational mortality using improvement scale BB For all disabled lives: RP2000 Disabled Mortality Table for male annuitants, set forward one year.</p>	<p>For actives: Males - RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP2000 Healthy Mortality Table for female employees, set back 5 years. For healthy retirees: Males - RP2000 Healthy Mortality Table for male annuitants, projected to 2007 using mortality improvement scale BB, set forward two years. Females - RP2000 Healthy Mortality Table for female annuitants, projected to 2007 using mortality improvement scale AA, set forward two years. For all disabled lives: RP2000 Disabled Mortality Table for male annuitants, set forward one year.</p>	<p>For actives: Males - RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females - RP2000 Healthy Mortality Table for female employees, set back 5 years. For healthy retirees: Males - RP2000 Healthy Mortality Table for male annuitants, projected to 2007 using mortality improvement scale AA, set forward two years. Females - RP2000 Healthy Mortality Table for female annuitants, projected to 2007 using mortality improvement scale AA, set forward two years. For all disabled lives: RP2000 Disabled Mortality Table for male annuitants, set forward one year.</p>	<p>For actives: Males - 1994 Uninsured Pension Mortality Table for males, base table rates multiplied by 87%. Females - 1994 Uninsured Pension Mortality Table for females, base table rates multiplied by 125%. For healthy retirees: Males - 1994 Uninsured Pension Mortality Table for males, set forward two years. Females - 1994 Uninsured Pension Mortality Table for females, base table rates multiplied by 125% for ages less than 85 and multiplied by 135% for ages 85 and up. For all disabled lives: 1965 Railroad Retirement Board Disabled Annuitants Mortality Table (without select rates). For females, the rates are multiplied by 60%.</p>
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City of Dallas, Texas
Airport Revenues Fund
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S TOTAL
LIABILITY AND RELATED RATIOS

Other Postemployment Benefits
Year Ended September 30, 2018
(in thousands)

	2018*
Total OPEB Liability	
Service cost	\$ 14,817
Interest	18,420
Changes of assumptions	(26,244)
Differences between expected and actual experience	6,669
Benefit payments, including refunds	<u>(21,343)</u>
Net change	(7,681)
Total OPEB Liability, Beginning	<u>518,801</u>
Total OPEB Liability, Ending	<u><u>\$ 511,120</u></u>
Covered payroll	\$ 877,768
Total OPEB Liability as a Percentage of Covered Employee Payroll	58%

* Prior year information was not available.

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