

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, 2014

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)
September 30, 2014

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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The Honorable Mayor and Members of the 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, 2014, and the related statements of revenues, expenses and changes in fund net position, and cash flow 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.

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, 2014, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2014, 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.

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 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.

Grant Thornton LLP

Dallas, Texas
May 28, 2015

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2014
(Amounts in thousands)

As management of the Airport Revenues Fund (the "Fund"), an enterprise fund of the City of Dallas (the "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 "the LFAMC") for the fiscal year ended September 30, 2014. 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 at September 30, 2014, by approximately \$552 million (net position). Of this amount, \$95 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 decrease in net position of \$832 thousand during fiscal year 2014 is primarily attributable to an increase of 18% in total revenues and 18% in total expenses, along with a decrease of 71% in capital contributions. Total revenues increased primarily due to an increase in landing fees, rental fees and concession fees. Total expenses increased primarily due to an increase in interest on bonds and notes expenses, as well as depreciation and amortization expenses. Capital contribution decreased due to lower amounts spent on construction by outside developers.

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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, 2014
(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 liabilities, with the difference between the two 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.

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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, 2014
(Amounts in thousands)

FINANCIAL ANALYSIS

The Fund's combined net position was \$552 million as of September 30, 2014. This analysis focuses on the assets and deferred outflows, liabilities and net position (Table 1) and changes in fund net position (Table 2) of the Fund's activities.

Table 1
Net Position

	2014	2013
Current and other non-current assets	\$ 137,898	\$ 180,883
Capital assets, net	906,876	868,468
Deferred outflows of resources	24	27
Total assets and deferred outflows of resources	1,044,798	1,049,378
Current liabilities	36,151	39,907
Long-term liabilities	456,827	456,819
Total liabilities	492,978	496,726
Net Position:		
Net investment in capital assets	453,660	457,963
Restricted	3,324	-
Unrestricted	94,836	94,689
Net position	\$ 551,820	\$ 552,652

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 themselves cannot be used to liquidate these liabilities. Unrestricted net position is approximately \$95 million as of September 30, 2014.

Current and other noncurrent assets decreased by \$43 million, primarily from an increased use in restricted cash due to payment for capital projects and interest on bonds and notes expenses during the fiscal year 2014. Current liabilities decreased by \$4 million from the previous fiscal year, primarily due to reductions to accounts payable related to payments of capital projects during the fiscal year 2014.

Capital assets, net of depreciation, increased by \$38 million, primarily due to increases in capital assets related to the LFAMC construction projects.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2014
(Amounts in thousands)

FINANCIAL ANALYSIS - Continued

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, 2014. Net position decreased by \$832 thousand. Key elements of these changes in fund net position follow:

**Table 2
Changes in Fund Net Position**

	2014	2013
Revenues:		
Operating revenues	\$ 68,426	\$ 55,951
Passenger Facility Charges (PFC)	16,543	15,785
Investment income	290	433
	85,259	72,169
Total revenues		
Expenses:		
Personnel services	12,265	12,405
Supplies and materials	5,911	5,650
Contractual and other services	28,738	26,436
Depreciation and amortization	24,176	19,803
Interest on bonds and notes	20,721	13,222
(Gain) Loss on property disposal	(5)	-
	91,806	77,516
Total expenses		
Increase (decrease) in net position before capital contributions, transfers and special item	(6,547)	(5,347)
Capital contributions	12,319	42,566
Transfers out to other city funds	(232)	(831)
Special item: Loss on impairment of airport property	(6,372)	(22,066)
	(832)	14,322
Change in net position		
Beginning of year net position	552,652	538,330
Ending net position	\$ 551,820	\$ 552,652

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2014
(Amounts in thousands)

FINANCIAL ANALYSIS - Continued

The change in net position decreased by \$15 million compared to fiscal year 2013 from \$14.3 million to (\$832) thousand, primarily from a decrease in capital contributions. Total revenue increased by 18%. Fiscal year 2014 was the first year the Fund implemented higher rates and charges. This resulted in an increase in landing fees, rental fees and concession fees. Additional revenue was also generated from an increase in parking garage revenue due to the implementation of a higher parking rate in August 2014.

The special item loss of \$6.4 million resulted from stopping construction on the Love Field people mover connector, Love Field taxiway "M" reconstruction & extension and Love Field perimeter road.

Total expenses increased by 18% primarily due to increase in interest on bonds and notes payable, and depreciation and amortization expense. The interest on bonds and notes payable increased due to less capitalized interest being applied to completed projects of the LFAMC in 2014. There was also more depreciation and amortization expense due to completed projects of the LFAMC.

Capital contribution decreased by 71% due to lower amounts spent on construction by outside developers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2014, the Fund had \$906.9 million invested in a broad range of capital assets, net of accumulated depreciation. (See Table 3)

Table 3
Capital Assets
(Net of Accumulated Depreciation)

	2014	2013
Land	\$ 53,089	\$ 53,089
Works of art	2,276	2,276
Construction in progress	62,483	58,209
Buildings	533,931	519,072
Improvements other than buildings	208,461	190,724
Infrastructure assets	2,009	2,104
Equipment	44,627	42,994
Totals	\$ 906,876	\$ 868,468

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, 2014
(Amounts in thousands)

CAPITAL ASSET AND DEBT ADMINISTRATION - Continued

Capital assets (net of accumulated depreciation) increased by 4.4% or \$38.4 million during fiscal year 2014 primarily from the following major additions: Love Field Modernization Program (LFMP) continuation of construction, improvements other than buildings, equipment, and contributed assets.

Buildings increased by 2.86% or \$14.9 million primarily from the following LFMP and Aviation completed projects: new baggage claim hall, terminal/concourse and consolidating the rental car facilities.

During fiscal year 2014, improvements other than buildings increased by 9.3% or \$17.7 million due to the following major additions: Love Field taxiway A, B & D improvements phase II Love Field runway safety enhancement, Love Field taxiway shoulder reconstruction, Love Field runway 13L/31R joint reseal, and Dallas Executive Airport pavement project. The additions included federal contributed improvements other than building by Texas Department of Transportation in the amount of \$1.8 million.

Equipment (net of accumulated depreciation) increased by 3.8% or \$1.6 million from \$43 million in 2013 to \$44.6 million in 2014. This increase resulted primarily due to the following additions: inbound baggage handling equipment, terminal information technology systems and additional operational airport equipment.

The net increase in construction in progress of \$4.3 million resulted primarily from the following major projects: airfield signage project, continued LFMP construction and Dallas Executive Airport taxiway/runway/pavement project.

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

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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, 2014
 (Amounts in thousands)

CAPITAL ASSET AND DEBT ADMINISTRATION - Continued

Debt

At fiscal year-end, the Fund had \$451.8 million in long-term debt and accretion outstanding, compared to \$452.2 million in the prior fiscal year, as shown in Table 4. The decrease in pension obligation bonds was due to current year principal payments and premium amortization. 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 revenue credit agreement plus unpaid accrued interest was \$442.6 million at September 30, 2013 and \$442.3 million at September 30, 2014.

**Table 4
 Outstanding Debt at Year End**

	2014	2013
Obligation for revenue credit agreement	\$ 442,309	\$ 442,576
Pension obligation bonds	7,121	7,399
Accreted interest on capital appreciation bonds	2,399	2,187
	\$ 451,829	\$ 452,162

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

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.

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

STATEMENT OF NET POSITION

September 30, 2014
(Amounts in thousands)

ASSETS

Current assets

Pooled cash and cash equivalents	\$	103,698
Receivables		
Accounts, net of allowance for doubtful accounts (\$1)		4,729
Accrued interest		82
Due from other governments		10,121
Inventories, at cost		927
Prepaid expenses		2,300
		121,857
Total current assets		121,857

Capital assets

Nondepreciable		117,848
Depreciable, net of accumulated depreciation		789,028
		906,876
Total capital assets, net		906,876

Other noncurrent assets

Restricted cash and cash equivalents held for construction purposes		5,541
Restricted cash and cash equivalents held for future debt service		3,324
Net pension asset		7,176
		16,041
Total other noncurrent assets		16,041

		1,044,774
Total assets		1,044,774

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding		24
		24
Total assets and deferred outflows of resources		\$ 1,044,798

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, 2014
(Amounts in thousands)

LIABILITIES

Current liabilities

Accounts payable	\$	8,881
Compensated absences		625
Unearned revenue		942
Accrued interest on bonds and notes		1
Pension obligation bonds		152
Notes payable		256
Pollution remediation		15
Construction accounts payable		15,665
Accrued interest payable		9,614

Total current liabilities		36,151
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Noncurrent liabilities

Pension obligation bonds		6,969
Notes payable		527
Accreted interest on capital appreciation bonds		2,399
Obligation for revenue credit agreement		442,309
Compensated absences		798
Pollution remediation		355
Other post employment benefits		3,470

Total noncurrent liabilities		456,827
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Total liabilities		492,978
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NET POSITION

Net investment in capital assets		453,660
Restricted: debt service		3,324
Unrestricted		94,836

Total net position	\$	551,820
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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

Year ended September 30, 2014
(Amounts in thousands)

Operating revenues:	
Intergovernmental	\$ 538
Concession fees	32,056
Rental fees	20,386
Landing fees	12,732
Fuel flow fees	1,215
Charges for services	1,493
Other	<u>6</u>
Total operating revenues	68,426
Operating expenses:	
Personnel services	12,265
Supplies and materials	5,911
Contractual and other services	28,738
Depreciation and amortization	<u>24,176</u>
Total operating expenses	<u>71,090</u>
Operating income (loss)	(2,664)
Non-operating income (expenses)	
Passenger Facility Charges (PFC)	16,543
Investment income	290
Interest on bonds and notes	(20,721)
Gain on property disposal	<u>5</u>
Total non-operating income (expenses)	<u>(3,883)</u>
Income (loss) before contributions, transfers and special item	(6,547)
Capital contributions	12,319
Transfers out to other city funds	(232)
Special item: Loss on impairment of airport property	<u>(6,372)</u>
Change in net position	(832)
Net position, beginning of year	<u>552,652</u>
Net position, end of year	<u><u>\$ 551,820</u></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, 2014
(Amounts in thousands)

Cash flows from operating activities:	
Cash received from customers	\$ 70,057
Cash payments to suppliers for goods and services	(5,946)
Cash payments to employees for services	(12,345)
Cash payments for contractual services	(31,927)
Other operating cash receipts (payments)	<u>(2,300)</u>
Net cash provided by (used in) operating activities	17,539
Cash flows from non capital financing activities:	
Principal paid on pension obligation bonds	(222)
Interest paid on pension obligation bonds	(335)
Transfers to other funds	<u>(232)</u>
Net cash provided by (used in) capital and related financing activities	(789)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(64,549)
Principal paid on bonds, notes and other obligations	(251)
Interest paid on bonds, notes and other obligations	(23,013)
Passenger facility charges	16,193
Capital contribution	<u>14,887</u>
Net cash provided by (used in) capital and related financing activities	(56,733)
Cash flows from investing activities:	
Investment income	<u>329</u>
Net cash provided by (used in) capital and related financing activities	<u>329</u>
Net increase (decrease) in cash and cash equivalents	(39,654)
Cash and cash equivalents, beginning of year	<u>152,217</u>
Cash and cash equivalents, end of year	<u><u>\$ 112,563</u></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, 2014
(Amounts in thousands)

Reconciliation of operating income (loss) to net cash provided by (used in)	
operating activities:	
Operating income (loss)	\$ (2,664)
Adjustments not affecting cash:	
Depreciation and amortization	24,176
Change in assets and liabilities	
(Increase) Decrease in accounts and other receivables	1,419
(Increase) Decrease in inventories	(35)
(Increase) Decrease in other asset	(2,109)
Increase (Decrease) in accounts and contract payable	(3,016)
Increase (Decrease) in accrued payroll	(366)
Increase (Decrease) in compensated absences	(69)
Increase (Decrease) in allowance for doubtful accounts	(5)
Increase (Decrease) in unearned revenue	216
Increase (Decrease) in other post employment benefits	164
Increase (Decrease) in pollution remediation	<u>(172)</u>
Total adjustments	20,203
Net cash provided by (used in) operating activities	<u>\$ 17,539</u>
Cash and cash equivalents:	
Pooled cash and cash equivalents	\$ 103,698
Restricted cash and cash equivalents held for construction purposes - LFAMC	5,541
Restricted cash and cash equivalents held for debt service - LFAMC	<u>3,324</u>
Total cash and cash equivalents end of year	<u>\$ 112,563</u>
Noncash investing, capital, and financing activities:	
Capital contributions	\$ 1,804
Special item: Loss on impairment of airport property	(6,372)
Change in fair value of pooled investments	(97)
Premium/discount amortization	57
Accretion on capital appreciation bonds	212
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, 2014
(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Dallas, Texas (the “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 a 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 (the “Fund”) including a blended component unit, the Love Field Airport Modernization Corporation “the 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, its cash flows 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 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, 2014.

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 entities are investment and benefit management activities.

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF 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 and amortization on capital assets.

The accounting policies of the Fund as reflected in the accompanying 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 more significant of these accounting policies are summarized below and on the following pages.

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 "Pooled 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The investment policy states that the City will not commit any funds invested in the pool to maturities longer than three years from the date of purchase, except investments held to meet legal reserve requirements on bonded indebtedness. The maturity date of these investments will not exceed the final maturity date of the bond issue to which they are pledged. Funds are invested on the basis of a minimum of three bids and/or offers. Certificates of deposit are based on competitive rates for specific maturities.

The following categories of investments are specifically authorized by the policy:

Repurchase Agreements – secured by collateral, which is delivered to a third-party safekeeping institution with a market value equal to or greater than the value of the agreement

U.S. Treasury Obligations – bills, notes, and bonds

Obligations of Federal Agencies or Instrumentalities – interest-bearing or discount form

Municipal Bonds – rated in any of the three highest major rating categories by one or more nationally recognized rating agencies

The following categories of deposits are specifically authorized by the policy:

Checking Accounts – at insured financial institutions

Certificates of Deposit – subject to restrictions set forth in the City’s Fiscal Agent Ordinance (City policy requires a minimum of 50% security consisting of insurance and/or collateral)

Inventory

Inventory is valued at average cost. Inventory consists of construction and operating materials.

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.

Capital Assets

Capital assets include property, plant, equipment and improvements/infrastructure assets. Generally, equipment with an individual cost of at least \$5, infrastructure with a cost of at least \$25 and buildings with a cost of at least \$50 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. Contributed assets are recorded at estimated fair 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. Interest cost during construction is capitalized. The accompanying financial statements reflect capitalization of interest costs of \$2.51 million.

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Depreciation on capital assets is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	10-50 years
Infrastructure	50-100 years
Improvements other than buildings and runways	10-100 years
Equipment	3-25 years

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, attendance incentive leave and sick 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.

At September 30, 2014, liabilities relating to vacation, attendance incentive leave and sick leave were \$1,423.

Interfund Transactions

Transactions that would be recorded as revenues or expenses if they involved organizations external to the City 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.

New Accounting Pronouncements

During fiscal year 2014, the Fund adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement Number 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25," improves financial reporting by state and local government pension plans. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement Number 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantee," improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The implementation of this statement did not result in any changes to the financial statements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

GASB Statement Number 68, “Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,” will be implemented as required by GASB during the fiscal year ending September 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local government pensions and improve the decision-usefulness of information in contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pension (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees’ past periods of service (total pension liability), less the amount of the pension plan’s fiduciary net position. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement. This statement changes the focus of pension accounting for employer's from whether they are responsibly funding their plan over time to a point in time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date.

Management has not yet determined the effect of the statement on the financial statements; however, the impact is expected to be significant as they will now reflect a previously unrecorded liability. The City also expects the largest deferred inflows and outflows to be pension related.

GASB Statement Number 69, “Government Combinations and Disposals of Government Operations,” will be implemented by the City as required by GASB during fiscal year ending September 30, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations, which includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The implementation of this statement is not expected to result in any changes to the financial statements.

GASB Statement Number 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68,” will be implemented by the City as required by GASB during fiscal year ending September 30, 2015. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

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NOTES TO BASIC FINANCIAL STATEMENTS
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(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB Statement Number 72, Fair Value Measurement and Application, will be implemented by the City as required by GASB during fiscal year ending September 30, 2016. The objective of this statement is to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS

Cash and Investments

As discussed in Note 1, the Fund participates in the City’s pooled cash and investment program. The pooled cash and investment program for the City totaled \$1,072,457 at September 30, 2014. The Fund’s balance in the program was \$103,698 at September 30, 2014.

Type of Authorized Investment	Fair Value
Cash in bank and on hand	\$ 13,841
Categorized investments	89,857
Investments not categorized	8,865
Total cash and cash equivalents	\$ 112,563

Investments of the City, other than for 2a7-like pools, are valued based upon quoted market values obtained by the City. Investments in 2a7-like pools are valued based upon the values of pool shares. No investments are reported at amortized cost. The City invests in one 2a7-like pool; the Texas Local Government Investment Pool (Texpool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. ch. 791, and the Texas Government Code Ann. ch. 2256. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of Texpool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director, and shareholder. The advisory board of Texpool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government Code Ann. ch. 2256.

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued

Deposits

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.

The City's deposits at year-end were covered by federal depository insurance or by collateral held by the City's third-party agents pledged in the City's name.

At September 30, 2014, the investments held for the Fund in the City's Investment Pool Programs are as follows:

	<u>Fair value</u>
Types of investments:	
Categorized investments	\$76,693
Investments not categorized	13,164

Deposit and Investment Risk Disclosures of Funds with the City Treasurer

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, (Including Repurchase Agreements), and Reverse Repurchase agreements*, requires disclosure information related to common risks, including custodial credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk.

Custodial Credit Risk

Custodial credit risk is the risk that, in event of the failure of the counterparty, the City 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, 2014, \$15,244 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 Federal Reserve Bank.

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, 2014, the City's investments held by the counterparty, and not insured, are as follows:

	<u>Fair value</u>
Security types:	
United States Agency securities	\$76,693
Total	<u>\$76,693</u>

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

NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued

Concentration of Credit Risk

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

	<u>Fair value</u>	<u>% of Total Portfolio</u>
Federal National Mortgage Assoc. (FNMA)	\$20,160	20.42%
Federal Agricultural Mortgage Corp. (FAMC)	5,624	5.70%
Federal Home Loan Mortgage Corp. (FHLMC)	16,101	16.31%
Federal Home Loan Bank (FHLB)	21,393	21.67%
Federal Farm Credit Bank (FFCB)	<u>13,415</u>	<u>13.59%</u>
Total agency securities	<u>\$76,693</u>	<u>77.69%</u>

Credit Risk

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. United States Treasury Notes and Bills are obligations of the United States Government and are not considered to have credit risk and thus are not rated (NR). Long-term bond ratings are used for the United States Agency Securities. Ratings for the City's portfolio are listed on the following table.

	<u>Fair value</u>	<u>% of Total portfolio</u>	<u>S&P/Moody's ratings</u>
Money market mutual fund and pools	\$22,029	22.31%	AAA/Aaa
United States Agency securities	<u>76,693</u>	<u>77.69%</u>	AAA/Aaa
Total portfolio	<u>\$98,722</u>	<u>100.00%</u>	

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
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NOTE 2 - CASH, DEPOSITS, AND INVESTMENTS - Continued

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 portfolio is as follows:

	<u>Fair value</u>	<u>Weighted average maturity (days)</u>
Security type:		
Money market mutual funds and pools	\$22,029	1
United States Agency securities	<u>76,693</u>	<u>617</u>
	<u>\$98,722</u>	<u>527</u>

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City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
(Amounts in thousands except where indicated)

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 is as follows:

	Balance, beginning of year	Additions	Transfers and Retirements	Balance, end of year
Capital assets, not being depreciated:				
Land	\$ 53,089	\$ -	\$ -	\$ 53,089
Works of art	2,276	-	-	2,276
Construction in progress	58,209	60,325	(56,051)	62,483
Total capital assets, not being depreciated	<u>113,574</u>	<u>60,325</u>	<u>(56,051)</u>	<u>117,848</u>
Capital assets, being depreciated:				
Buildings	625,095	27,349	(6,567)	645,877
Improvements other than buildings	244,228	25,776	(41)	269,963
Infrastructure	4,896	-	-	4,896
Equipment	58,760	5,312	-	64,072
Total capital assets, being depreciated	<u>932,979</u>	<u>58,437</u>	<u>(6,608)</u>	<u>984,808</u>
Less accumulated depreciation for:				
Buildings	(106,023)	(12,374)	6,451	(111,946)
Improvements other than buildings	(53,504)	(8,028)	30	(61,502)
Infrastructure	(2,792)	(95)	-	(2,887)
Equipment	(15,766)	(3,679)	-	(19,445)
Total accumulated depreciation and amortization	<u>(178,085)</u>	<u>(24,176)</u>	<u>6,481</u>	<u>(195,780)</u>
Total capital assets being depreciated, net	<u>754,894</u>	<u>34,261</u>	<u>(127)</u>	<u>789,028</u>
Total capital assets, net	<u>\$ 868,468</u>	<u>\$ 94,586</u>	<u>\$ (56,178)</u>	<u>\$ 906,876</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, 2014
(Amounts in thousands except where indicated)

NOTE 4 - LEASES

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, 2014 was \$35 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, 2014:

Year ending September 30:	<u>Rental Payments</u>
2015	\$ 35,787
2016	35,825
2017	35,120
2018	26,323
2019	26,153
2020-2024	102,013
2025-2029	64,410
Thereafter	<u>272,508</u>
Minimum future rentals	<u><u>\$ 598,139</u></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 \$829 thousand in fiscal year 2014.

The following schedule provides an analysis of the Airport's Revenues Fund investment in property under capital lease arrangements as of September 30, 2014:

Buildings	\$ 474,896
Land	<u>11,796</u>
Subtotal	486,692
Less accumulated depreciation	<u>(113,665)</u>
Total	<u><u>\$ 373,027</u></u>

City of Dallas, Texas
Airport Revenues Fund
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
(Amounts in thousands except where indicated)

NOTE 5 - LONG-TERM DEBT

The changes in the Fund's long-term liabilities for the year ended September 30, 2014 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Pension obligation bonds	\$ 5,194	\$ -	\$ 222	\$ 4,972	\$ 152
Add: Net premium/discount	2,205	-	56	2,149	-
Add: accreted interest on capital appreciation bonds	2,187	376	164	2,399	-
Obligation for revenue credit obligation	446,095	-	-	446,095	-
Net Premium/Discount	(3,519)	-	267	(3,786)	-
Total long-term debt	<u>452,162</u>	<u>376</u>	<u>709</u>	<u>451,829</u>	<u>152</u>
Other long-term liabilities					
Compensated absences	1,492	742	811	1,423	625
Notes payable	1,034	-	251	783	256
Pollution Remediation	542	-	172	370	15
Post employment benefits	3,306	397	233	3,470	-
Total other long-term liabilities	<u>6,374</u>	<u>1,139</u>	<u>1,467</u>	<u>6,046</u>	<u>896</u>
Total long-term liabilities	<u>\$ 458,536</u>	<u>\$ 1,515</u>	<u>\$ 2,176</u>	<u>\$ 457,875</u>	<u>\$ 1,048</u>

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% is allocated to the Airport Revenues Fund. The City-issued pension obligation bonds are to be paid through increased contributions to the pension debt service account.

The Fund's pension obligation bonds outstanding as of September 30, 2014 are as follows:

	Maturity	Rates	Amount
Series 600	2035	3.24% to 5.19%	\$ 2,091
Series 601	2035	4.10% to 5.48%	1,541
Series 632	2024	0.295% to 4.66%	1,340
Total outstanding			<u>\$ 4,972</u>

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
(Amounts in thousands except where indicated)

NOTE 5 - LONG-TERM DEBT - Continued

The following is a summary of the future principal and interest requirements for the fund's pension obligation bonds at September 30, 2014:

	Pension Obligation Bonds		
	Principal	Interest	Total
2015	\$ 152	\$ 313	\$ 465
2016	142	334	476
2017	145	450	595
2018	157	456	613
2019	152	479	631
2020-2024	2,547	919	3,466
2025-2029	707	3,488	4,195
2030-2034	707	4,171	4,878
2035	263	802	1,065
	<u>\$ 4,972</u>	<u>\$ 11,412</u>	<u>\$ 16,384</u>

Airport Revenues (Revenue Bonds, Pension Obligation Bonds, and Note Payable)

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.

Airport pension obligations bonds outstanding as of September 30, 2014 are as follows:

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Pension Obligation Bonds	2035	0.295% - 5.48%	\$4,972

In a previous fiscal year, the City issued notes with an interest rate of 1.89% for the purpose of making utility efficiency improvements to various buildings at Love Field. The notes are payable in quarterly installments and reach final maturity during fiscal year 2018. The total outstanding note payable as of September 30, 2014 is \$ 783 thousand.

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City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
(Amounts in thousands except where indicated)

NOTE 5 - LONG-TERM DEBT - Continued

Airport Revenues Conduit Debt and Revenue Credit Agreement

The Love Field Airport Modernization Corporation (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 \$146.3 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 2010, with completion of the project scheduled for the beginning of fiscal year 2015. It is currently expected that the total amount spent on the project will be approximately \$519 million. Although the City has received commitments from various sources (federal grants, PFC charges and other Airport Revenues fund revenues), the majority of the funds used are expected to be from the issuance of bonds.

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 will 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, 2014, the Special Facilities Revenue Bonds outstanding was \$442.3 million.

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City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
(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% to 5.48%, and the obligation will be amortized over a period of 30 years. The balance of the obligation for the Revenue Credit Agreement was \$446 million less the net premium/discount of \$4 million for a total balance of \$442 million, at September 30, 2014. The schedule of principal and interest payments required for the obligation is provided below (in thousands):

Fiscal Year	Airport Revenue-LFAMC		
	Obligation for Revenue Credit Agreement		
	Principal	Interest	Total
2015	\$ -	\$ 22,995	\$ 22,995
2016	6,990	22,820	29,810
2017	7,340	22,462	29,802
2018	7,710	22,086	29,796
2019	8,095	21,690	29,785
2020-2024	46,595	102,216	148,811
2025-2029	62,745	88,996	151,741
2030-2034	105,440	67,215	172,655
2035-2039	136,175	35,668	171,843
2040	65,005	3,456	68,461
	\$ 446,095	\$ 409,604	\$ 855,699

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City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2014
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NOTE 6 - LONG TERM DEBT- NOTES PAYABLE

In previous years, the City issued a note in the amount of \$5,244 for the purpose of making utility efficiency improvements to various buildings. In addition, \$26 thousand of accrued interest was added to the principal balance for total additions of \$5,270. The note is payable in quarterly installments with an interest rate of 4.05%. The note matures in September 2017. The outstanding note payable balance for the utility efficiency improvements at Dallas Love Field as of September 30, 2014 is \$783 thousand.

The following is a summary of the future principal and interest requirements for the fund's long-term note payable at September 30, 2014:

Fiscal Year	Principal	Interest	Total
2015	256	13	269
2016	261	8	269
2017	266	3	269
	<u>\$ 783</u>	<u>\$ 24</u>	<u>\$ 807</u>

NOTE 7 - PENSION PLAN

Employees' Retirement Fund: The legal authority for this plan is Chapter 40A of the Dallas City Code. This plan is for the benefit of all eligible employees of the City, excluding firefighters and police officers. Members have vested rights to retirement benefits after five years of service. Benefits are based on credited service and the average monthly earnings for the three highest paid calendar years. Members of the Fund 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 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. Contribution percentages of covered wages are 13.06% for employees and 22.23% for the City. The City's contribution of 22.23% is divided into 12.94% cash to the Plan and 9.29% for debt service payments on the pension obligation bonds. The maximum contribution percentage of covered wages is 36%, with 63% from the City and 37% from employees. The maximum increase or decrease from one year to the next is 10%.

At December 31, 2013, the Plan membership, including all participating City departments, was as follows:

	2013 Membership
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	7,499
Current members:	
Vested	4,939
Non vested	2,054
Subtotal	<u>6,993</u>
Total	<u>14,492</u>

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 7 - PENSION PLAN - Continued

City-Wide Schedule of Employer Contributions

	Annual Required <u>Contribution</u>	Percentage <u>Contribution</u>	Annual Pension <u>Cost</u>	Percentage <u>Contributed</u>
9/30/2014	\$ 62,756	71.41%	\$ 55,551	80.68%
9/30/2013	\$ 54,289	65.42%	\$ 46,886	75.75%
9/30/2012	\$ 37,822	76.46%	\$ 30,393	95.14%

Significant Actuarial Methods and Assumptions

<u>Assumptions</u>	<u>Employees'</u> <u>Retirement Fund</u>
Actuarial valuation date	12/31/2013
Actuarial cost method	Entry age
Amortization method	Level percentage
Asset valuation method	5-year smoothed market
Remaining amortization period	30 years - Open Period
Investment rate of return	8.25%
Inflation rate	3.00%
Projected salary increase	3.00%-7.00%
Projected post-retirement benefit increase	3.00%

City-Wide Net Pension Asset (NPA) for 2014, 2013, and 2012

	<u>9/30/2014</u>	<u>9/30/2013</u>	<u>9/30/2012</u>
Annual required contribution (ARC)	\$ 62,756	\$ 54,289	\$ 37,822
Interest on NPA	(34,171)	(35,109)	(35,231)
Adjustment to the ARC	26,966	27,706	27,802
Annual Pension Cost	55,551	46,886	30,393
Contribution Made	(44,816)	(35,515)	(28,917)
Change in NPA	10,735	11,371	1,476
NPA, beginning of year	(414,199)	(425,570)	(427,046)
NPA, end of year	<u>\$ (403,464)</u>	<u>\$ (414,199)</u>	<u>\$ (425,570)</u>

City of Dallas, Texas
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 7 - PENSION PLAN - Continued

The amounts above are calculated as of the Airport Revenue Fund's fiscal year-end, September 30, rather than the year-end of the Dallas Employees' Retirement Fund, December 31.

The net pension asset has been allocated between governmental activities and business type activities based on percentage contribution by each. The Airport Revenues Fund's share of the net pension asset is approximately 1.8% (\$7,176). The percent contributed may vary from the legally required rate as the annual required contributions are based upon covered payroll as of the actuarial valuation date, January 1, whereas contribution are calculated and paid based upon actual payrolls throughout the year.

Funding Policy and Annual Pension Cost

The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the City. The City's annual pension cost for the current year and related information for each plan is as follows:

		<u>Employees'</u> <u>Retirement Fund</u>
Contribution rates:		
City		22.23%
Plan members		13.06%
Plan members-Group A		N/A
Plan members-Group B		N/A
Annual pension cost (9/30/2014)	\$	55,551
Contribution made (9/30/2014)	\$	44,816

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2014, (the most recent valuation date) was as follows (in millions):

		<u>Employees'</u> <u>Retirement Fund</u>
Actuarial accrued liability (AAL)	\$	3,611
Actuarial value of plan assets	\$	3,074
Unfunded actuarial accrued liability (UAAL)	\$	537
Funded ratio (actuarial value of plan assets / AAL)		85.10%
Covered payroll	\$	352
UAAL as a percentage of covered payroll		152.56%

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NOTE 8 - OTHER POST EMPLOYMENT BENEFITS

In addition to pension benefits, various Council resolutions require the City to provide certain healthcare and life insurance benefits for retired employees. 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.

For retired employees over 65, the City pays on average \$426 (not in thousands) per month for Medicare "A" if the retirees are not eligible for Social Security coverage. The retirees are responsible for Medicare "B".

For retirees who qualify and choose the City health plan, the City pays approximately 50 percent of the retiree premium and the retiree pays the other 50 percent. Spouses of retirees, like active employees, pay 100% of premiums. There were 2,007 retired participants and surviving spouses in the health plan at September 31, 2014, the date used for the evaluation.

The City's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The actuarial cost method used in this valuation to determine the actuarial accrued liability and the annual required contribution (ARC) is the projected until credit method with service prorated. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City has elected to amortize the unfunded actuarial liability over 30 years as a level percentage of payroll on an open basis. The discount rate used for the determination of the expense for fiscal year 2014 is 4%. The annual healthcare trend rates range from 8% to 4.5% per year. Total claim payments for fiscal year 2014 were approximately \$14.3 million net of participants' contributions.

Actuarial Valuations

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

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

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NOTE 8 - OTHER POST EMPLOYMENT BENEFITS - Continued

The following table shows the components of the City's annual OPEB cost for fiscal year 2014, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

Actuarial required contribution	\$ 35,925
Interest on net OPEB obligation	8,298
Adjustment to annual required contribution	<u>(7,928)</u>
Annual OPEB	36,295
Contributions made	<u>(14,271)</u>
Increase in net OPEB	22,024
Net OPEB Obligation, beginning of year	<u>207,462</u>
Net OPEB Obligation, end of year	<u><u>\$ 229,486</u></u>
Net OPEB obligation reported by governmental funds	\$ 185,393
Net OPEB obligation reported by business type activities funds	35,659
Net OPEB obligation reported by internal service funds	<u>8,434</u>
Net OPEB obligation, end of year	<u><u>229,486</u></u>

The Fund's share of the OPEB Obligation is \$3,470.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014, 2013, and 2012 are as follows (in thousands):

Fiscal Year	Net OPEB Obligation	Net OPEB Obligation	Employer	Net OPEB Obligation	Percentage of
Ended	Beginning of Year	Annual OPEB Cost	Contributions	End of Year	Annual OPEB Cost Contributed
2014	\$ 207,462	\$ 36,295	\$ 14,271	\$ 229,486	39.32%
2013	\$ 170,086	\$ 49,853	\$ 12,477	\$ 207,462	25.03%
2012	\$ 126,232	\$ 50,094	\$ 6,240	\$ 170,086	12.46%

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NOTE 8 - OTHER POST EMPLOYMENT BENEFITS - Continued

The funded status of the plan for fiscal years 2014, 2013, and 2012 are as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2013	\$ -	\$ 611,397	\$ 611,397	0%	767,664	79.64%
10/1/2012	\$ -	\$ 635,815	\$ 635,815	0%	681,861	93.25%
10/1/2011	\$ -	\$ 627,980	\$ 627,980	0%	684,196	91.78%

The actuarial accrued liability of \$611,397 includes \$371,572 for active employees and 239,825 for retirees.

This table presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

At September 30, 2014, membership was as follows:	Uniformed	Non-Uniformed	Total
Active participants not eligible to retire	2,874	4,423	7,297
Active participants eligible to retire	1,730	1,157	2,887
Total active participants	4,604	5,580	10,184

NOTE 9 - 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.

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NOTE 10 - 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 \$1 million deductible per loss occurrence. The amount of settlements has not exceeded the deductible loss per occurrence for the past two fiscal years.

The City is self-insured for workers' compensation claims that occurred prior to October 1, 1999. Effective October 1, 1999, the City is insured for workers' compensation losses in excess of \$750 thousand 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.

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 \$40.2 million at September 30, 2014, is recorded in the risk funds. Of this amount, \$8.2 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 can be reasonably estimated are accrued in the accompanying basic financial statements at September 30, 2014, in the amount of \$5.7 million in the risk funds.

At September 30, 2014, the City estimates its general liability at \$16.4 million, which includes \$8.5 million for automobile and general liability and \$7.9 million for probable claims and lawsuits. Of this amount, \$4.6 million is estimated to be payable in the next fiscal year.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 10 - RISK MANAGEMENT - Continued

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

	Workers'		Health		General	
	Compensation				Liability	
	2014	2013	2014	2013	2014	2013
Unpaid claims, beginning of year	\$ 41,200	\$ 41,951	\$ 7,016	\$ 9,556	\$ 16,770	\$ 12,897
Incurred claims, including incurred but not reported claims (IBNRs) and changes in estimates	8,698	6,564	56,236	82,489	12,042	9,905
Claim payments	(7,968)	(7,579)	(62,292)	(84,682)	(9,444)	(5,410)
Changes to prior year estimates (IBNR)	(1,730)	264	4,773	(347)	(2,960)	(622)
Unpaid claims, end of year	<u>\$ 40,200</u>	<u>\$ 41,200</u>	<u>\$ 5,733</u>	<u>\$ 7,016</u>	<u>\$ 16,408</u>	<u>\$ 16,770</u>

NOTE 11 - 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. Those judgments which are considered “probable” and estimable are accrued, while those claims and judgments which are considered “reasonably possible” are disclosed but not accrued.

In the opinion of the City Attorney, the potential loss resulting from all significant claims related to the City which are considered reasonably possible, excluding condemnation proceedings, is approximately \$5 million as of September 30, 2014. At September 30, 2014, approximately \$7.9 million has been recorded in the risk funds for claims and lawsuits considered to be probable. None of these amounts is attributable to the Airport Revenues Fund. In the opinion of the City Attorney, this is the total of all such claims which represent probable loss to the City.

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NOTE 12 - 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, 2014, the total environmental remediation liability for the Fund \$370 thousand and \$15 thousand is estimated to be paid in fiscal year 2014. 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 a site that is regulated by the Texas Risk Reduction Program, TAC Ch. 350. On the Dalfort Land site, the fund conducted pre-demolition environmental investigation and additional subsurface investigation to investigate historical solvent usage at a former Aviation Tenant property with the expectation to lease in the future. Activities also include addressing impacted groundwater with a municipal setting designation (MSD). The estimated cost to remediate this site is \$370 thousand, \$15 thousand of which is expected to be paid in fiscal year 2015.

The Fund is also managing environmental corrective action at a removal of underground storage tanks at another site. Activities at these sites are conducted in compliance with the rule for Underground and Aboveground Storage Tanks, TAC Ch 334. At Shelter Park, the Fund managed plugging and abandonment of monitoring wells at an aviation tenant property that will be redeveloped as an Enterprise Car Rental facility. TCEQ approved case closure on September 24, 2013, and activities at this site were completed in fiscal year 2014.

The following is a summary of the Fund’s estimated liability at September 30, 2014:

	Balance, beginning of Year	Additions	Deletions	Balance, end of Year	Current
Dalfort Land	\$ 462	\$ -	\$ 92	\$ 370	\$ 15
Shelter Park	80	-	80	-	-
	<u>\$ 542</u>	<u>\$ -</u>	<u>\$ 172</u>	<u>\$ 370</u>	<u>\$ 15</u>