

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, 2016

City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)
September 30, 2016

TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1
Management's Discussion and Analysis	3
Statement of Net Position	10-11
Statement of Revenues, Expenses, and Changes in Fund Net Position	12
Statement of Cash Flows	13-14
Notes to Basic Financial Statements	15
Required Supplementary Information (Unaudited)	51



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, 2016, 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, 2016, 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 respective financial position of the Airport Revenues Fund of the City of Dallas, Texas as of September 30, 2016, and the respective changes in its financial position and, where applicable, cash flows thereof 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, and the Schedule of Changes in the City's Net Pension Liability and Related Ratios, Schedule of City Contributions to the Pension Plan, Notes to the Schedule of City Contributions to the Pension Plan, and Schedule of Funding Progress-Other Postemployment Benefits on pages 51 through 55 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
June 23, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2016
(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, 2016. 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, 2016, by approximately \$568.1 million (net position). Of this amount, \$44.4 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 \$10.2 million in fiscal year 2016 and increased by \$19.2 million in fiscal year 2015. This represents a decrease of \$9 million in the change in net position from 2015 to 2016. This was primarily attributable to an increase of \$14.9 million in total revenues, \$33.2 million in total expenses and \$9.3 million in capital contributions. Total revenue increased primarily due to an increase in landing fees, rental fees, concession fees and passenger facility charges. Total expenses increased primarily due to an increase in personnel services, contractual services, and interest expense on bonds and notes, as well as depreciation and amortization expenses.
- During fiscal year 2016, the Fund entered into a capital lease agreement for land to be used as a parking lot. The Fund will retain title to the property after the end of the lease term. Total balance of the capital leases payable was \$73.9 million at September 30, 2016.

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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, 2016
(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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2016
(Amounts in thousands)

FINANCIAL ANALYSIS

The Fund's combined net position was \$568.1 million as of September 30, 2016. 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

	2016	2015
Current and other non-current assets	\$ 207,970	\$ 261,971
Capital assets, net	1,058,863	959,542
Deferred outflows of resources	34,930	7,485
Total assets and deferred outflows of resources	1,301,763	1,228,998
Current liabilities	43,961	54,217
Long-term liabilities	688,904	616,464
Deferred inflows of resources	775	404
Total liabilities and deferred inflows of resources	733,640	671,085
Net Position:		
Net investment in capital assets	466,597	452,652
Restricted	57,146	21,388
Unrestricted	44,380	83,873
Net position	\$ 568,123	\$ 557,913

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. Unrestricted net position is approximately \$44.4 million at September 30, 2016.

During fiscal year 2016, the Fund's current and other noncurrent assets decreased \$54 million, primarily as a result of an overall decrease in cash and cash equivalents for an increase in payments on outstanding debt, payments on construction projects and payments to employees and vendors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2016
(Amounts in thousands)

FINANCIAL ANALYSIS – Continued

As of the end of fiscal year 2016, the Fund's long-term liabilities increased \$72.4 million due to an increase in capital leases payable and an increase in net pension liability. During January 2016, the Fund entered into a capital lease agreement in the amount of \$44.8 million. The Fund's net pension liability increased by \$38.2 million due to the changes in assumptions, which included the decrease in the single discount rate from 8.00 percent in fiscal year 2015 to 5.76 percent in fiscal year 2016.

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, 2016. Net position increased by \$10.2 million. Key elements of these changes in fund net position follow:

Table 2
Changes in Fund Net Position

	2016	2015
Revenues:		
Operating revenues	\$ 96,130	\$ 83,906
Passenger Facility Charges (PFC)	28,729	26,471
Investment income	1,322	877
Total revenues	126,181	111,254
Expenses:		
Personnel services	25,608	14,778
Supplies and materials	7,003	6,721
Contractual and other services	45,572	31,429
Depreciation and amortization	29,569	26,954
Interest on bonds and notes	29,357	24,068
Loss on property disposal	34	-
Total expenses	137,143	103,950
Increase (decrease) in net position before capital contributions, and transfers	(10,962)	7,304
Capital contributions	21,408	12,130
Transfers out to other city funds	(236)	(229)
Change in net position	10,210	19,205
Beginning of year net position	557,913	538,708
Ending net position	\$568,123	\$557,913

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2016
(Amounts in thousands)

FINANCIAL ANALYSIS - Continued

During fiscal year 2016, the Fund's change in net position decreased \$9 million compared to fiscal year 2015 from \$19.2 million to \$10.2 million, primarily from an increase in total expenses. Total expenses increased \$33.2 million. The Fund's personnel services, supplies and materials and contractual services increased \$25.3 million, due to an increase in staff hired, and contractual services provided after the recent completion of the reconstructed terminal and new concession areas.

Total revenue increased \$14.9 million. The Fund's operating revenue and passenger facility charges increased \$14.5 million, primarily due to the continuation of an increase in passenger traffic and an increase in revenue generated from new concession areas in fiscal year 2016. Capital contributions increased \$9.3 million, primarily due to Texas Department of Transportation's share of project costs contributed for Dallas Executive Airport runway project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2016, the Fund had \$1.1 billion invested in a broad range of capital assets, net of accumulated depreciation. (See Table 3)

Table 3
Capital Assets
(Net of Accumulated Depreciation)

	2016	2015
Land	\$ 128,359	\$ 83,528
Works of art	3,396	3,344
Construction in progress	66,990	9,659
Buildings	559,214	568,394
Improvements other than buildings	251,673	242,429
Infrastructure assets	1,818	1,912
Equipment	47,413	50,276
Totals	\$1,058,863	\$959,542

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2016
(Amounts in thousands)

CAPITAL ASSET AND DEBT ADMINISTRATION - Continued

During fiscal year 2016, the Fund's capital assets (net of accumulated depreciation) increased \$99.3 million primarily from the following major additions: acquisition of land, improvements other than buildings, and construction in progress.

Land increased \$44.8 million due to capital lease acquisition of land for the purpose of airport remote parking.

During fiscal year 2016, improvements other than buildings (net of accumulated depreciation) increased \$9.24 million due to the following major additions: Texas Department of Transportation runway improvement phase 1 and 2, Dallas Executive Airport hold sign relocation, Love connection-remote lot improvement, Dallas Executive Airport challenger parking lot improvements, aircraft parking ramp development, taxiway D reconstruction, and performance stage for Love Field terminal.

The net increase in construction in progress of \$57.3 million resulted primarily from the following major construction projects: parking garage C, administration building, ticket hall phase 2, roadway improvement phase 2, intersection of 1/36 reconstruction, garage A and B revenue control system, Love Field fence improvement, conversion of runway 18/36, taxiway B reconstruction, security control enhancement, taxiway A 1/36 runway incursion, and Tom Braniff channel cover project.

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

Debt

During fiscal year 2016, the Fund had \$565.3 million in long-term debt and accretion outstanding, compared to \$574 million in the prior fiscal year, as shown in Table 4. During fiscal year 2015, the LFAMC issued General Airport Revenue Bonds, Series 2015. The outstanding balance of the revenue bonds was \$121.2 million including the premium of \$12 million at September 30, 2016. 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 \$435 million at September 30, 2016 and \$442 million at September 30, 2015.

**Table 4
Outstanding Debt at Year End**

	2016	2015
General Airport Revenue Bonds	\$121,228	\$122,553
Pension obligation bonds	6,702	6,907
Accreted interest on capital appreciation bonds	2,629	2,527
Obligation for revenue credit agreement	<u>434,777</u>	<u>442,032</u>
	<u>\$565,336</u>	<u>\$574,019</u>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

September 30, 2016
(Amounts in thousands)

FUTURE ECONOMIC FACTORS

On November 8, 2016, City of Dallas voters approved changes to the Employees' Retirement Fund (ERF) for employees hired on or after January 1, 2017. The changes included a reduction in the benefit multiplier from 2.75 percent to 2.5 percent; an increase in the normal retirement age from 60 to 65; an actuarially reduced benefit for retirees under age 65 whose age plus years of service equal 80; an increase in service retirement from 30 to 40 years; and elimination of the health benefit supplement. On May 9, 2017, the ERF board of trustees also voted to decrease the interest rate used for certain economic assumptions. The effect of these changes will be reflected in the Aviation Revenues Fund Basic Financial Statements for the fiscal year ending September 30, 2017.

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, 2016
(Amounts in thousands)

ASSETS

Current assets	
Pooled cash and cash equivalents	\$ 78,277
Receivables	
Accounts, net of allowance for doubtful accounts (\$7)	7,257
Accrued interest	169
Due from other governments	666
Inventories, at cost	1,641
Prepaid expenses	552
Customer assessments receivable	<u>27</u>
Total current assets	88,589
Capital assets	
Nondepreciable	198,745
Depreciable, net of accumulated depreciation	<u>860,118</u>
Total capital assets, net	1,058,863
Other noncurrent assets	
Restricted cash and cash equivalents held for construction purposes	609
Restricted cash and cash equivalents held for future debt service	6,326
Restricted cash and cash equivalents held for emergency repairs and replacements	5,000
Restricted cash and cash equivalents held for operation and maintenance expenses	11,046
Restricted cash and cash equivalents held for passenger facility charges	28,803
Other investments held for construction purpose	49,858
Other investments held for future debt service	<u>17,739</u>
Total other noncurrent assets	119,381
Total assets	<u>1,266,833</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	19
Deferred outflows of resource related to pensions	<u>34,911</u>
Total deferred outflows of resources	<u>34,930</u>
Total assets and deferred outflows of resources	<u>\$1,301,763</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, 2016
(Amounts in thousands)

LIABILITIES

Current liabilities

Accrued payroll	\$ 156
Accounts payable	8,873
Compensated absences	667
Unearned revenue	1,133
Accrued interest payable on notes	1
Pension obligation bonds	145
Notes payable	266
Capital leases payable	1,034
Obligation for revenue credit agreement	7,340
Pollution remediation	15
Construction accounts payable	12,563
Accrued interest payable on bonds	<u>11,768</u>
Total current liabilities	<u>43,961</u>

Noncurrent liabilities

Pension obligation bonds	6,557
Capital leases payable	72,865
General airport revenue bonds	121,228
Accreted interest on capital appreciation bonds	2,629
Obligation for revenue credit agreement	427,437
Pollution remediation	440
Compensated absences	803
Other post-employment benefits	4,073
Net pension liability	<u>52,872</u>
Total noncurrent liabilities	<u>688,904</u>

Total liabilities	<u>732,865</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	775
Total liabilities and deferred inflows of resources	<u>733,640</u>

NET POSITION

Net investment in capital assets	466,597
Restricted: debt service	12,297
Restricted: emergency repairs and maintenance	5,000
Restricted: operation and maintenance expenses	11,046
Restricted: passenger facility charges	28,803
Unrestricted	<u>44,380</u>
Total net position	<u>\$568,123</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, 2016
(Amounts in thousands)

Operating revenues:	
Intergovernmental	\$ 669
Concession fees	51,915
Rental fees	21,662
Landing fees	18,200
Fuel flow fees	1,274
Charges for services	1,977
Other	<u>433</u>
Total operating revenues	96,130
Operating expenses:	
Personnel services	25,608
Supplies and materials	7,003
Contractual and other services	45,572
Depreciation and amortization	<u>29,569</u>
Total operating expenses	107,752
Operating loss	(11,622)
Non-operating income (expenses)	
Passenger Facility Charges (PFC)	28,729
Investment income	1,322
Interest on bonds and notes	(29,357)
Loss on property disposal	<u>(34)</u>
Total non-operating income	<u>660</u>
Loss before capital contributions and transfers	(10,962)
Capital contributions	21,408
Transfers out to other city funds	<u>(236)</u>
Change in net position	10,210
Net position, beginning of year	<u>557,913</u>
Net position, end of year	<u>\$568,123</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, 2016
(Amounts in thousands)

Cash flows from operating activities:	
Cash received from customers	\$ 95,711
Cash payments to suppliers for goods and services	(15,034)
Cash payments to employees for service	(14,044)
Cash payments for contractual services	(45,535)
Other operating cash receipts	<u>433</u>
Net cash provided by operating activities	21,531
Cash flows from non-capital financing activities:	
Principal paid on pension obligation bonds	(142)
Interest paid on pension obligation bonds	(441)
Transfers to other funds	<u>(236)</u>
Net cash used in non-capital financing activities	(819)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(63,872)
Proceeds from sale of capital assets	14
Principal paid on bonds, notes and other obligations	(8,563)
Interest paid on bonds, notes and other obligations	(28,813)
Passenger facility charges	<u>37,148</u>
Net cash used in capital and related financing activities	(64,086)
Cash flows from investing activities:	
Purchase of investments	53,799
Investment income	<u>1,350</u>
Net cash provided by investing activities	<u>55,149</u>
Net increase in cash and cash equivalents	11,775
Cash and cash equivalents, beginning of year	<u>118,286</u>
Cash and cash equivalents, end of year	<u>\$130,061</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, 2016
(Amounts in thousands)

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ <u>(11,622)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	29,569
Change in assets and liabilities	
Decrease in accounts and other receivables	844
Increase in customer assessments receivable	(18)
Increase in inventories	(271)
Increase in deferred outflows of pension contributions	(27,077)
Decrease in accounts and contract payable	(7,760)
Increase in accrued payroll	111
Increase in compensated absences	68
Increase in allowance for doubtful accounts	5
Decrease in unearned revenue	(817)
Increase in other post-employment benefits	260
Increase in net pension liability	38,202
Increase in other liabilities	<u>37</u>
Total adjustments	<u>33,153</u>
Net cash provided by operating activities	\$ <u><u>21,531</u></u>
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Cash and cash equivalents:	
Pooled cash and cash equivalents	\$ 78,277
Restricted cash and cash equivalents held for construction purposes	609
Restricted cash and cash equivalents held for debt service	6,326
Restricted cash and cash equivalents for emergency repairs and replacements	5,000
Restricted cash and cash equivalents for operation and maintenance expenses	11,046
Restricted cash and cash equivalents for passenger facility charges	<u>28,803</u>
Total cash and cash equivalents end of year	<u>\$130,061</u>
Noncash investing, capital, and financing activities:	
Capital contributions	\$ 21,408
Inception of capital lease	44,831
Premium/discount amortization	1,388
Accretion on capital appreciation bonds	375

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, 2016

(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 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 (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. 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 7, 8, 9, 10, and 11).

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 LFAMC 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, 2016.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 and accrual basis of accounting. 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 deferred outflows of resources, and liabilities and deferred inflows of resources, 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.

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; and

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Checking Accounts – at insured financial institutions; and

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

Inventory

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

Prepaid Items

Prepaid items are payments made to vendors for services that will benefit periods beyond September 30, 2016. 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 statement of net position 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 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 \$952 thousand.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 up to maximum periods based on length of service. Employees may either take vacation leave or receive cash payment upon retirement or termination. Sick leave accrues to employees based on hours worked, up to an unused maximum accrual, but is subject to specified reduction if paid in cash upon retirement or termination. The City accrues vacation and sick leave attributable to employee services already rendered, in amounts of estimated payments. A liability is recorded for accumulated sick leave that is likely to vest, to the extent of probable payment upon termination for employees with 20 or more years of continuous service.

In the Fund's statement of net position, all compensated absence liabilities incurred are recorded as liabilities. At September 30, 2016, liabilities relating to vacation, attendance incentive leave and sick leave were \$1,470.

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, 2016

(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 applied 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.

- 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.
- Difference in projected and actual earnings on pension assets and changes in assumptions – These are deferred and amortized and recognized as pension expense over future periods.

In addition to liabilities, the 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 one item that qualifies as deferred inflows of resources related to Pensions. Deferred inflows of resources is recorded in the statement 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 plans and recorded as a component of pension expense beginning with the period in which they are incurred.

Long-term Obligations

In the Fund's financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

New Accounting Pronouncements

During fiscal year 2016, the Fund has adopted the following Governmental Accounting Standard Board (GASB) Statements:

GASB Statement No. 72, "Fair Value Measurement and Application," was 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 implementation of this statement did not result in any changes to the Fund's financial statements; however, changes were made to the note disclosures in Note 2, Cash, Deposits, and Investments.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” was implemented as required by GASB during the fiscal year ending September 30, 2016. The Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” was implemented by the City as required by GASB during fiscal year ending September 30, 2016. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investments pools and their participants include information about any limitations or restrictions on participant withdrawals. The implementation of this statement did not result in any changes to the Fund’s financial statements; however, changes were made to the note disclosures in Note 2, Cash, Deposits, and Investments.

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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, 2016

(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 No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68,” will be implemented as required by GASB during the fiscal year ending September 30, 2017. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, “Accounting and Financial Reporting for Pensions,” as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, “Financial Reporting for Pension Plans,” and Statement No. 68 for pension plans and pensions that are within their respective scopes. The Fund is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” will be implemented as required by GASB during the fiscal year ending September 30, 2017. The Statement replaces Statements No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended,” and No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.” It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, “Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended,” Statement 43, and Statement No. 50, Pension Disclosures. The Fund is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” will be implemented as required by GASB during the fiscal year ending 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 plans. The Fund is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 77, “Tax Abatement Disclosures,” will be implemented as required by GASB during the fiscal year ending September 30, 2017. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients,
- The gross dollar amount of taxes abated during the period; and
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 2- FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The implementation of this statement is not expected to result in any changes to the financial statements.

GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans," will be implemented as required by GASB during the fiscal year ending September 30, 2017. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, liabilities, note disclosures, and required supplementary information for pensions that have the characteristics described above. The implementation of this statement is not expected to result in any changes to the financial statements.

GASB Statement No. 80, "Blending Requirements for Certain Component Unit – An Amendment of GASB Statement No. 14," will be implemented by the City as required by GASB during fiscal year ending September 30, 2017. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No 39, "Determining Whether Certain Organization are Component Units." The Fund is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 81, "Irrevocable Split-Interest Agreements," will be implemented by the City as required by GASB during fiscal year ending 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 Fund is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 82, "Pension Issues," will be implemented as required by GASB during the fiscal year ending September 30, 2017. This Statement addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Fund is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 2- FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

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 outflows of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The Fund 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 implementation of this statement is not expected to result in any changes to the financial statement.

GASB Statement No. 85, “Omnibus 2017,” will be implemented as required by GASB during the fiscal year ending 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 Fund is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 86, “Certain Debt Extinguishment Issues,” will be 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 City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

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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, 2016

(Amounts in thousands except where indicated)

NOTE 3 - CASH, DEPOSITS, AND INVESTMENTS

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, and Level 3 inputs are significant unobservable inputs.

At September 30, 2016, the investments held for the Fund's General and Investment Pool Programs are as follows:

		<u>Fair Value Measurement Using</u>	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
<u>Investments by Fair Value Level</u>			
Federal Agricultural Mortgage Corp. Notes	\$16,862	\$ -	\$16,862
Federal Agricultural Mortgage Corp. Notes Callable	446	-	446
Federal Farm Credit Bank Notes	21,206	-	21,206
Federal Home Loan Bank Notes	9,307	-	9,307
Federal Home Loan Bank Notes Callable	6,321	-	6,321
Federal Home Loan Mortgage Corp. Notes	16,905	-	16,905
Federal Home Loan Mortgage Corp. Notes Callable	10,926	-	10,926
Federal National Mortgage Association Notes	6,322	-	6,322
Federal National Mortgage Association Notes Callable	<u>5,204</u>	<u>-</u>	<u>5,204</u>
Total Investments by Fair Value Level	93,499	-	93,499
<u>Investments Measured at the Net Asset Value (NAV)</u>			
<u>Money Market Funds</u>			
Blackrock Fed Fund Money Market Fund	3,937		
Wells Fargo – General Airport Revenue Bonds	<u>67,489</u>		
Total Money Market Funds	<u>71,426</u>		
<u>Local Government Investment Pools</u>			
LOGIC – Local Government Investment Pool	17,160		
TexPool – Local Government Investment Pool	1		
TexPool Prime – Local Government Investment Pool	1,560		
TexStar – Local Government Investment Pool	<u>297</u>		
Total Other Investments	<u>19,018</u>		
Total Investments Measured at Net Asset Value	<u>90,444</u>		
Total Investments	<u>\$183,943</u>		

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 3 - CASH, DEPOSITS, AND INVESTMENTS – Continued

The City invests in TexSTAR, TexPool, TexPool Prime, and LOGIC, which are Local Government Investment Pools (LGIP's) 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, and seek to maintain a net asset value of \$1.00 per unit.

J.P. Morgan Investment Management Inc. and First Southwest Company (a division of Hilltop Securities) serve as co-administrators for the TexSTAR and 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.

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.

At year end, the following deposits and bank balance were covered by federal depository insurance, a letter of credit issued to the City by Federal Home Loan Bank, or by collateral held by the City's third-party agents pledged to the City. The fair value of these deposits approximate their costs.

The collateral pledged to the City is held in the City's name at the Bank of New York Mellon.

<u>Primary Government</u>	<u>Carrying Value</u>	<u>Bank Balance</u>
Pooled demand deposits	\$153,311	\$164,168
Cash and cash equivalents – Pension Trust Funds	<u>163,009</u>	<u>163,009</u>
Total	<u>\$316,320</u>	<u>\$327,177</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 3 - 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, 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, 2016, \$13,715 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, 2016, all deposits were either insured or collateralized.

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.

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.

Agency and Securities by Issuer	<u>Fair value</u>	<u>Percent of Total Portfolio</u>
Federal National Mortgage Assoc. (FNMA)	\$11,526	6.27%
Federal Agricultural Mortgage Corp. (FAMC)	17,308	9.41%
Federal Home Loan Mortgage Corp. (FHLMC)	27,831	15.13%
Federal Home Loan Bank (FHLB)	15,628	8.49%
Federal Farm Credit Bank (FFCB)	<u>21,206</u>	<u>11.53%</u>
Total agency securities	<u>\$93,499</u>	<u>50.83%</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 3 - CASH, DEPOSITS, AND INVESTMENTS – Continued

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 3 - 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 AAAM 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 U.S. Government 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	\$ 90,444	49.18%	AAAM/Aaa
U.S. Agency securities	<u>93,499</u>	<u>50.82%</u>	AA+/Aaa
Total portfolio	<u>\$183,943</u>	<u>100.00%</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 portfolio is as follows:

<u>Security Type</u>	<u>Fair value</u>	<u>Weighted average maturity (days)</u>
Money market mutual funds and investment pools	\$ 90,444	1
U.S. Agency securities	<u>93,499</u>	<u>531</u>
	<u>\$183,943</u>	<u>432</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, 2016

(Amounts in thousands except where indicated)

NOTE 4 - CAPITAL ASSETS

The Fund's capital asset activity for the year ended September 30, 2016 is as follows:

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance, end of year</u>
Capital assets, not being depreciated:				
Land	\$ 83,528	\$ 44,831	\$ -	\$ 128,359
Works of art	3,344	52	-	3,396
Construction in progress	<u>9,659</u>	<u>65,370</u>	<u>(8,039)</u>	<u>66,990</u>
Total capital assets, not being depreciated	96,531	110,253	(8,039)	198,745
Capital assets, being depreciated:				
Buildings	693,691	4,879	-	698,570
Improvements other than buildings	313,032	19,810	-	332,842
Infrastructure	4,896	-	-	4,896
Equipment	<u>73,890</u>	<u>2,035</u>	<u>(231)</u>	<u>75,694</u>
Total capital assets, being depreciated	1,085,509	26,724	(231)	1,112,002
Less accumulated depreciation for:				
Buildings	(125,297)	(14,059)	-	(139,356)
Improvements other than buildings	(70,603)	(10,566)	-	(81,169)
Infrastructure	(2,984)	(94)	-	(3,078)
Equipment	<u>(23,614)</u>	<u>(4,850)</u>	<u>183</u>	<u>(28,281)</u>
Total accumulated depreciation and amortization	<u>(222,498)</u>	<u>(29,569)</u>	<u>183</u>	<u>(251,884)</u>
Total capital assets being depreciated, net	<u>863,011</u>	<u>(2,845)</u>	<u>(48)</u>	<u>860,118</u>
Total capital assets, net	<u>\$ 959,542</u>	<u>\$107,408</u>	<u>\$(8,087)</u>	<u>\$1,058,863</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, 2016

(Amounts in thousands except where indicated)

NOTE 5 - LEASES

A. As Lessee

During January 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 terms.

In 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 terms.

The outstanding leases balance for the Fund as of September 30, 2016 is \$73.9 million.

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

Fiscal Year	Total Rental Payments
2017	\$ 5,184
2018	5,184
2019	5,184
2020	5,184
2021	5,184
2022-2026	25,917
2027-2031	25,917
Thereafter	<u>72,818</u>
Total minimum future lease payments	150,572
Less: Amount representing interest	<u>(76,673)</u>
Present value of net minimum lease payments	\$ <u>73,899</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, 2016.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 5 - 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, 2016 was \$47.9 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, 2016:

<u>Year ending September 30,</u>	<u>Rental Payments</u>
2017	\$ 38,773
2018	30,353
2019	30,059
2020	29,347
2021	29,084
2022 – 2026	87,829
2027 – 2031	32,179
Thereafter	<u>5,329</u>
Minimum future rentals	<u>\$282,953</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 \$462 thousand in fiscal year 2016.

The following schedule provides an analysis of the Airport Revenues Fund investment in property under operating lease arrangements as of September 30, 2016:

Buildings	\$ 503,328
Land	11,796
Subtotal	515,124
Less: accumulated depreciation	<u>(132,801)</u>
Total	<u>\$ 382,323</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 6 - LONG-TERM DEBT

The changes in the Fund's long-term liabilities for the year ended September 30, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
General Airport Revenue Bonds	\$109,235	\$ -	\$ -	\$109,235	\$ -
Add: Net premium/discount	13,318	-	1,325	11,993	-
Pension obligation bonds	4,820	-	142	4,678	145
Add: Net premium/discount	2,087	-	63	2,024	-
Add: accreted interest on capital appreciation bonds	2,527	375	273	2,629	-
Obligation for revenue credit obligation	446,095	-	6,990	439,105	7,340
Add: net premium/discount	<u>(4,063)</u>	<u>-</u>	<u>265</u>	<u>(4,328)</u>	<u>-</u>
Total long-term debt	<u>574,019</u>	<u>375</u>	<u>9,058</u>	<u>565,336</u>	<u>7,485</u>
Other long-term liabilities					
Compensated absences	1,402	834	766	1,470	667
Notes payable	527	-	261	266	266
Capital leases payable	30,115	44,831	1,047	73,899	1,034
Pollution Remediation	418	137	100	455	15
Other post-employment benefits	3,813	485	225	4,073	-
Net pension liability	<u>14,670</u>	<u>46,564</u>	<u>8,362</u>	<u>52,872</u>	<u>-</u>
Total other long-term liabilities	<u>50,945</u>	<u>92,851</u>	<u>10,642</u>	<u>133,035</u>	<u>1,982</u>
Total long-term liabilities	<u>\$624,964</u>	<u>\$93,226</u>	<u>\$19,700</u>	<u>\$698,371</u>	<u>\$9,467</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 6 - LONG-TERM DEBT - Continued

General Airport Revenue Bonds

During July 2015, 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 will be 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 capitalized 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), and fund a bond debt service reserve fund, and pay cost of issuance for the bonds.

	General Airport Bonds		
	Principal	Interest	Total
2017	\$ -	\$ 5,462	\$ 5,462
2018	-	5,462	5,462
2019	3,885	5,365	9,250
2020	4,075	5,166	9,241
2021	4,280	4,957	9,237
2022-2026	24,840	21,265	46,105
2027-2031	31,700	14,231	45,931
2032-2036	40,455	5,253	45,709
	\$109,235	\$67,161	\$176,396

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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, 2016

(Amounts in thousands except where indicated)

NOTE 6 - LONG-TERM DEBT - Continued

Pension Obligation Bonds

The pension obligation bonds are allocated between the City's governmental and enterprise funds. The numbers presented below include the Fund's portion of the total issue. Of the total issue, 1.76 percent is allocated to the Airport Revenues Fund. The City-issued pension obligation bonds are to be paid through increased contributions to the City's Debt service fund.

The Fund's pension obligation bonds outstanding as of September 30, 2016 are as follows:

	<u>Maturity</u>	<u>Rates</u>	<u>Amount</u>
Series 600	2035	3.24% to 5.19%	\$2,092
Series 601	2035	4.10% to 5.48%	1,246
Series 632	2024	0.295% to 4.66%	<u>1,340</u>
Total outstanding			<u>\$4,678</u>

The following is a summary of the future principal and interest requirements for the Fund's pension obligation bonds at September 30, 2016:

	<u>Pension Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 145	\$ 450	\$ 595
2018	157	456	613
2019	152	479	631
2020	151	499	650
2021	521	148	669
2022-2026	2,158	1,592	3,750
2027-2031	707	3,751	4,458
2032-2035	<u>687</u>	<u>3,392</u>	<u>4,079</u>
	<u>\$4,678</u>	<u>\$10,767</u>	<u>\$15,445</u>

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 6 - 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 \$146.26 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: use and lease agreements with other airlines; various concession agreements; and 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, 2016, the Special Facilities Revenue Bonds outstanding was \$435 million.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 6 - 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 \$439 million less the net premium/discount of \$4 million for a total balance of \$435 million, at September 30, 2016. The schedule of principal and interest payments required for the obligation is provided below (in thousands):

<u>Fiscal</u> <u>Year</u>	<u>Airport Revenue LFAMC</u>		
	<u>Obligation for Revenue Credit Agreement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 7,340	\$ 22,462	\$ 29,802
2018	7,710	22,086	29,796
2019	8,095	21,690	29,785
2020	8,500	21,318	29,818
2021	8,840	20,927	29,767
2022-2026	51,280	97,370	148,650
2027-2031	79,690	81,773	161,463
2032-2036	116,800	55,555	172,355
2037-2041	<u>150,850</u>	<u>20,608</u>	<u>171,458</u>
	<u>\$439,105</u>	<u>\$363,78</u>	<u>\$802,894</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 7 - 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 percent. The note matures in September 2017. The outstanding note payable balance for the utility efficiency improvements at Dallas Love Field was \$266 thousand at September 30, 2016.

The following is a summary of the future principal and interest requirements for the fund’s long-term note payable at September 30, 2016:

Fiscal Year	Notes Payable		
	Principal	Interest	Total
2017	\$266	\$1	\$267

NOTE 8 - 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/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.

Members 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 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. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 8 - PENSION PLAN - Continued

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.

Employees covered by benefit terms

At December 31, 2015, the following numbers of employees were covered by the benefit terms:

Membership data at December 31, 2015

	<u>ERF</u>
Retirees and beneficiaries currently receiving benefits	\$ 6,756
Inactive members entitled to benefits but not yet receiving them	1,163
Current members	<u>7,477</u>
Total	<u>\$15,396</u>

Contributions

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, 2016. The City's contribution of 22.68 percent is divided into 13.83 percent cash to the Plan and 8.85 percent for debt service payments on the pension obligation bonds. For 2016, the City contribution was \$53.9 million.

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 8 - PENSION PLAN - Continued

Actuarial Assumptions

The total pension liabilities in the December 31, 2015 actuarial valuations were determined using the following actuarial assumptions for the plan, applied to all periods included in the measurement:

	ERF
Inflation	3%
Salary Increases	3.50% to 7.00%, including inflation
Investment Rate of Return	8.00%
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	3.00%
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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City of Dallas, Texas
Airport Revenues Fund
(An Enterprise Fund of the City of Dallas)

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 8 - 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 RROR</u>
Domestic Equity	15.0%	6.50%
International equity	15.0%	6.50%
Global equity	5.0%	6.70%
Low volatility global equity	10.0%	6.70%
Private equity	15.0%	9.50%
REITS	5.0%	5.00%
Real assets	5.0%	6.40%
Investment grade fixed	12.5%	3.50%
High yield fixed income	15.0%	6.35%
Credit opportunities	<u>2.5%</u>	6.35%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 5.76 percent. In order to develop the blended discount rate of 5.76 percent, the actuarial assumed rate of return of 8.00 percent was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.57 percent was used during the period that the plan was projected to have no fiduciary net position. The 3.57 percent is based on the Municipal Bond 20-year High Grade Rate Index as of December 31, 2015. 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 8.00 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 not projected to be available to make all projected future benefit payments of current active and inactive employees.

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

NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2016
(Amounts in thousands except where indicated)

NOTE 8 - PENSION PLAN - Continued

Changes in the Net Pension Liability

The following table shows the net pension liability as of December 31, 2015:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<u>Employees' Retirement Fund</u>			
Balances at December 31, 2014	\$4,004,055	\$3,398,485	\$ 605,570
Changes for the year:			
Service cost	78,020	-	78,020
Interest	313,850	-	313,850
Changes of assumptions	1,238,431	-	1,238,431
Differences between expected and actual experience	(26,829)	-	(26,829)
Contributions - City	-	50,721	(50,721)
Contributions - Employee	-	50,742	(50,742)
Net investment income	-	(53,344)	53,344
Benefit payments, including refunds of employee contributions	(239,960)	(239,960)	-
Administrative expense	-	(4,598)	4,598
Other changes	-	162	(162)
Net changes	<u>1,363,512</u>	<u>(196,277)</u>	<u>1,559,789</u>
Balances at December 31, 2015	<u>\$5,367,567</u>	<u>\$3,202,208</u>	<u>\$2,165,359</u>

At September 30, 2016, the amount of net pension liability allocated to Airport Revenues was \$52,872.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 8 - 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 5.76 percent for ERF, as well as what the City’s net pension liability would be if it were calculated using discount rates that are 1-percentage-point lower (4.76 percent) or 1-percentage-point higher (6.76 percent) than the current rates:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
ERF	\$2,915,146	\$2,165,359	\$1,547,749

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, 2016, 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	\$ -	\$31,804
Changes of assumptions	1,093,697	-
Net difference between project and actual earnings on pension plan investments	292,252	-
Contributions subsequent to the measurement date	41,613	-
	<u>\$1,427,562</u>	<u>\$31,804</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 8 - PENSION PLAN – Continued

Deferred outflows of resources in the amount of \$41,613 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, 2016. Deferred outflows and inflows of resources in the amount of \$1,354,145 related to the pension will be recognized in pension expense as follows:

Year Ending December 31:

2016	\$430,966
2017	430,966
2018	375,977
2019	116,216

At September 30, 2016, Airport Revenues recognized pension expense of \$12,500 deferred outflows of resource related to pensions of \$34,911 and deferred inflows of resource related to pensions of \$775.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

In addition to pension benefits, the City provides certain healthcare and life insurance benefits for retired employees through various Council resolutions. 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 hired before January 1, 2010, the City pays on average \$249 (not in thousands) per month. 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 5,163 retired participants and surviving spouses in the health plan at September 30, 2016, 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.

The City's annual other postemployment benefit (OPEB) cost 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 ARC is the projected unit 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 2016 is 4 percent. The annual healthcare trend rates range from 8 percent to 4.5 percent per year. Total claim payments for fiscal year 2016 were approximately \$15.5 million net of participants' contributions.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS - Continued

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, consistent with the long-term perspective of the calculations.

The following table shows the components of the City's annual OPEB cost for fiscal year 2016, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

Actuarial required contribution	\$ 25,687
Interest on net OPEB obligation	9,663
Adjustment to annual required contributions	<u>(9,230)</u>
Annual OPEB	26,120
Contributions made	<u>(15,453)</u>
Increase in net OPEB	10,667
Net OPEB Obligation, beginning of year	<u>241,533</u>
Net OPEB Obligation, end of year	<u>252,200</u>
Net OPEB obligation reported by governmental funds	194,008
Net OPEB obligation reported by business type activities funds	48,957
Net OPEB obligation reported by internal service funds	<u>9,235</u>
Net OPEB obligation, end of year	<u>\$252,200</u>

At September 30, 2016, the Airport Revenue's share of the OPEB Obligation is \$4,073.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS - Continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2016, 2015, and 2014 are as follows (in thousands):

<u>Fiscal Year Ended</u>	Net OPEB Obligation Beginning of Year	Annual OPEB Cost	Employer Contributions	Net OPEB Obligation End of Year	Percentage Of Annual OPEB Cost Contributed
2016	\$241,533	\$26,120	\$15,453	\$252,200	59.16%
2015	229,486	26,465	14,418	241,533	54.48%
2014	207,462	36,295	14,271	229,486	39.32%

As of September 30 2016, the funded status was as follows (in thousands):

<u>Actuarial Valuation Date</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2016	\$ -	\$492,867	\$492,867	0.00%	\$850,011	57.98%

The actuarial accrued liability of \$492,867 includes \$287,711 for active employees and \$ 205,156 for retirees.

	<u>Non- Uniformed</u>	<u>Uniformed</u>	<u>Total</u>
At September 30, 2016, membership was as follows:			
Active participants not eligible to retire	1,555	2,622	4,177
Active participants eligible to retire	<u>1,801</u>	<u>881</u>	<u>2,682</u>
Total active participants	<u>3,356</u>	<u>3,503</u>	<u>6,859</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 10 - 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(b) 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 11 - 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 exceeded the deductible loss per occurrence during fiscal year 2014.

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 \$1 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. The amount paid by the Aviation Fund was \$87 thousand for the year ended September 30, 2016.

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 \$35.4 million at September 30, 2016, is recorded in the risk funds. Of this amount, \$6.5 million is estimated to be payable in the next fiscal year.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 11 - RISK MANAGEMENT-ESTIMATED CLAIMS AND JUDGEMENT PAYABLE – Continued

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 amount paid by the Aviation Fund was \$1.4 million for the year ended September 30, 2016.

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, 2016, in the amount of \$7.2 million in the risk funds.

At September 30, 2016, the City estimates its general liability at \$20.4 million, which includes \$7.5 million is estimated to be payable in the next fiscal year. The general liability includes \$9.9 million for automobile and \$10.5 million for probable claims and lawsuits.

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

	Workers' Compensation		Health		General Liability	
	2016	2015	2016	2015	2016	2015
Unpaid claims, beginning of year	\$37,015	\$40,200	\$ 6,713	\$ 5,733	\$17,330	\$16,408
Incurred claims, including						
Incurred but not reported claims (IBNRs) and changes in estimates	8,950	4,937	70,021	71,048	7,923	6,360
Claim payments	(8,611)	(7,185)	(75,422)	(71,417)	(4,455)	(5,942)
Changes to prior year estimates (IBNR)	<u>(1,938)</u>	<u>(937)</u>	<u>5,871</u>	<u>1,349</u>	<u>(350)</u>	<u>504</u>
Unpaid claims, end of year	<u>\$35,416</u>	<u>\$37,015</u>	<u>\$ 7,183</u>	<u>\$ 6,713</u>	<u>\$20,448</u>	<u>\$17,330</u>

NOTE 12 - 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES - Continued

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 17A). 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 condemnation proceedings, which are considered reasonably possible and estimable, is approximately \$15.6 million as of September 30, 2016. Additionally, the City is a defendant in six lawsuits filed by past and current police and fire-rescue officers and on-behalf of future 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. One of these lawsuits is scheduled for trial in December 2017. The City is currently unable to predict the ultimate outcome of these lawsuits; however, if the City were to receive an unfavorable outcome, the City would likely look to other avenues of resolution, including appropriate appeals. As such, the City cannot reasonably estimate the amount of liability, if any, that might result from these lawsuits, as well as the timing of any liability, at this time.

At September 30, 2016, approximately \$10.5 million has been accrued as a liability in the risk funds 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.

NOTE 13 - 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, 2016, the total environmental remediation liability for the Fund \$455 thousand and \$15 thousand is estimated to be paid in fiscal year 2017. At this time, the Fund is unable to estimate any recoveries to reduce the liability. The specific issues related to the Fund’s remediation efforts include:

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

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

(Amounts in thousands except where indicated)

NOTE 13 - POLLUTION REMEDIATION - Continued

The Fund is managing two sites that are regulated by the Texas Risk Reduction Program, TAC Ch. 350. On the first site, the Fund conducted pre-demolition environmental investigation in the building including testing for metals dust, asbestos containing material, lead, and mold and in the subsurface at a former Aviation tenant property with the expectation to lease in the future. Additional activities include obtaining conditional closure from TCEQ and providing oversight of development activities by the tenant in the building and subsurface. The estimated cost for this project is \$429 thousand and \$15 thousand is expected to be paid in fiscal year 2017. On the second site, the Fund 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. The estimated cost for this project is \$26 thousand and no costs are expected in 2017 because the property will not be acquired until after 2017. At September 30, 2016, the Fund's estimated liability was as follows:

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of year</u>	<u>Due within one year</u>
Dalfort Land	\$418	\$ 82	\$ 71	\$429	\$15
Scarborough	-	<u>55</u>	<u>29</u>	<u>26</u>	-
	<u>\$418</u>	<u>\$137</u>	<u>\$100</u>	<u>\$455</u>	<u>\$15</u>

NOTE 14 - SUBSEQUENT EVENTS

A. Issuance of Debt

On December 8, 2016, the Fund issued \$ 116.85 million of General Airport Revenue Bonds, Series 2017 with an interest rate of 5.00 percent and yields of 1.88 percent to 3.87 percent. The bonds mature November 1, 2036.

B. Changes to retirement benefits and assumptions

On November 8, 2016, City of Dallas voters approved changes to the Employees' Retirement Fund for employees hired on or after January 1, 2017. The changes included a reduction in the benefit multiplier from 2.75 percent to 2.5 percent; an increase in the normal retirement age from 60 to 65; an actuarially reduced benefit for retirees under age 65 whose age plus years of service equal 80; an increase in service retirement from 30 to 40 years; and elimination of the health benefit supplement. On May 9, 2017, the ERF board of trustees also voted to decrease the interest rate used for certain economic assumptions.

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 Two Fiscal Years
(Dollar amounts in thousands)

	ERF	
	2016	2015
Total Pension Liability		
Service cost	\$ 78,020	\$ 62,065
Interest	313,850	290,948
Changes of assumptions	1,238,431	292,137
Differences between expected and actual experience	(26,829)	(21,967)
Plan changes	-	-
Benefit payments, including refunds	(239,960)	(230,243)
Net change	1,363,512	392,940
Total Pension Liability, Beginning	4,004,055	3,611,115
Total Pension Liability, Ending ^(a)	<u>\$ 5,367,567</u>	<u>\$ 4,004,055</u>
Plan Fiduciary Net Position		
Contributions - City	\$ 50,721	\$ 45,833
Contributions - Employee	50,742	46,536
Net investment income	(53,344)	207,992
Benefit payments, including refunds	(239,960)	(230,243)
Administrative expense	(4,598)	(4,150)
Other changes	162	157
Net change	(196,277)	66,125
Plan Fiduciary Net Position, Beginning	3,398,485	3,332,360
Plan Fiduciary Net Position, Ending ^(b)	<u>\$ 3,202,208</u>	<u>\$ 3,398,485</u>
City's Net Pension Liability ^{(a)-(b)}	<u>\$ 2,165,359</u>	<u>\$ 605,570</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	60%	85%
Covered-employee payroll	\$ 393,186	\$ 353,650
City's Net Pension Liability as a percentage of covered- employee payroll	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 the Pension Plan

Last Two Fiscal Years

(Dollar amounts in thousands)

	2016	2015	2014
Employees Retirement Fund			
Actuarially determined contribution	\$ 81,838	\$ 68,100	\$ 62,756
Contributions in relation to the actuarially determined contribution	\$ 53,896	\$ 49,135	\$ 44,816
Contribution deficiency (excess)	\$ 27,942	\$ 18,965	\$ 17,940
Covered-employee payroll	\$ 389,706	\$ 377,381	\$ 357,887
Contributions as a percentage of covered-employee payroll	14%	13%	13%

2013	2012	2011	2010	2009	2008	2007
\$ 54,289	\$ 37,822	\$ 32,865	\$ 34,793	\$ 18,995	\$ 15,904	\$ 18,121
\$ 35,515	\$ 28,917	\$ 27,303	\$ 27,668	\$ 24,604	\$ 22,893	\$ 23,310
\$ 18,774	\$ 8,905	\$ 5,562	\$ 7,125	\$ (5,609)	\$ (6,989)	\$ (5,189)
\$ 336,483	\$ 317,551	\$ 318,408	\$ 345,819	\$ 374,395	\$ 370,537	\$ 347,868
11%	9%	9%	8%	7%	6%	7%

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

REQUIRED SUPPLEMENTARY INFORMATION
Notes to the Schedule of City Contributions to the Pension Plan

Last 10 Fiscal Years

Employees Retirement Fund

Valuation date	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06	
Timing	The actuarially determined contribution rate is effective October 1 after the valuation date.										
Actuarial cost method	Entry age normal.										
Amortization 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 less than 300 basis points different from the current rate.										
Asset valuation method	5-year smoothed market value of assets.							3-year smoothed market value of assets.			
Inflation	3%										
Salary increases	3.5% to 7%, including inflation										
Discount rate	8.00%			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, up to 5%, 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, up to 5%.										
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 Healthy Mortality Table for male annuitants, projected to 2007 using mortality improvement scale AA, set forward two years. P2000 Healthy Mortality Table for female annuitants.</p> <p>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%.</p> <p>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.</p> <p>For all disabled lives:</p>					

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress (Unaudited)

Other Postemployment Benefits

Year Ended September 30, 2016

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2016	\$ -	\$ 492,867	\$ 492,867	- %	\$ 850,011	57.98%
9/30/2015	\$ -	\$ 459,643	\$ 459,643	- %	\$ 812,400	56.58%
9/30/2014	\$ -	\$ 611,397	\$ 611,397	- %	\$ 767,664	79.64%

The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to future employment, mortality, and the healthcare cost trend.

A re-evaluation of the Medicare Supplement plans in the 9/30/2015 actuarial valuation revealed that a significant decrease in the post-Medicare net claims cost assumption was warranted. This change of assumption caused a 28% reduction in the liability.