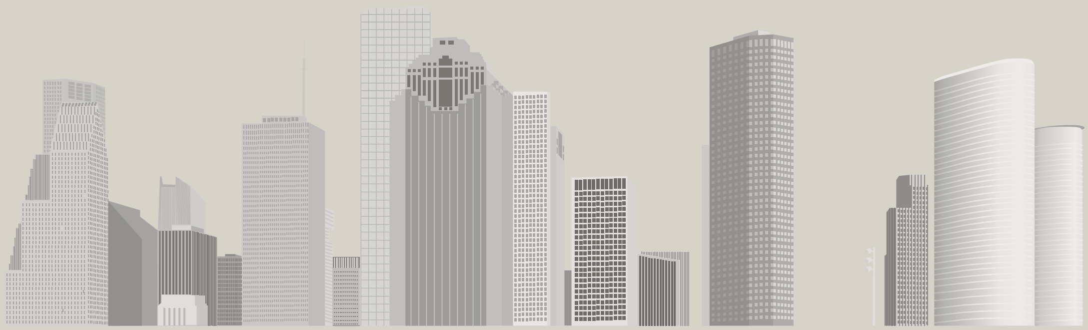
CAFR

Comprehensive Annual Financial Report

Fiscal years ended June 30, 2018 and June 30, 2017

Prepared by Office of the City Controller, Chris Brown



THE AIRPORT SYSTEM FUND

An enterprise fund of the City of Houston, Texas

Airport System Fund

An Enterprise Fund of the

City of Houston, Texas

Comprehensive Annual
Financial Report

Fiscal Years Ended June 30, 2018 and June 30, 2017

Prepared by:
Office of City Controller

Chris Brown
City Controller

Beverly Riggans
Interim Deputy Director Controller

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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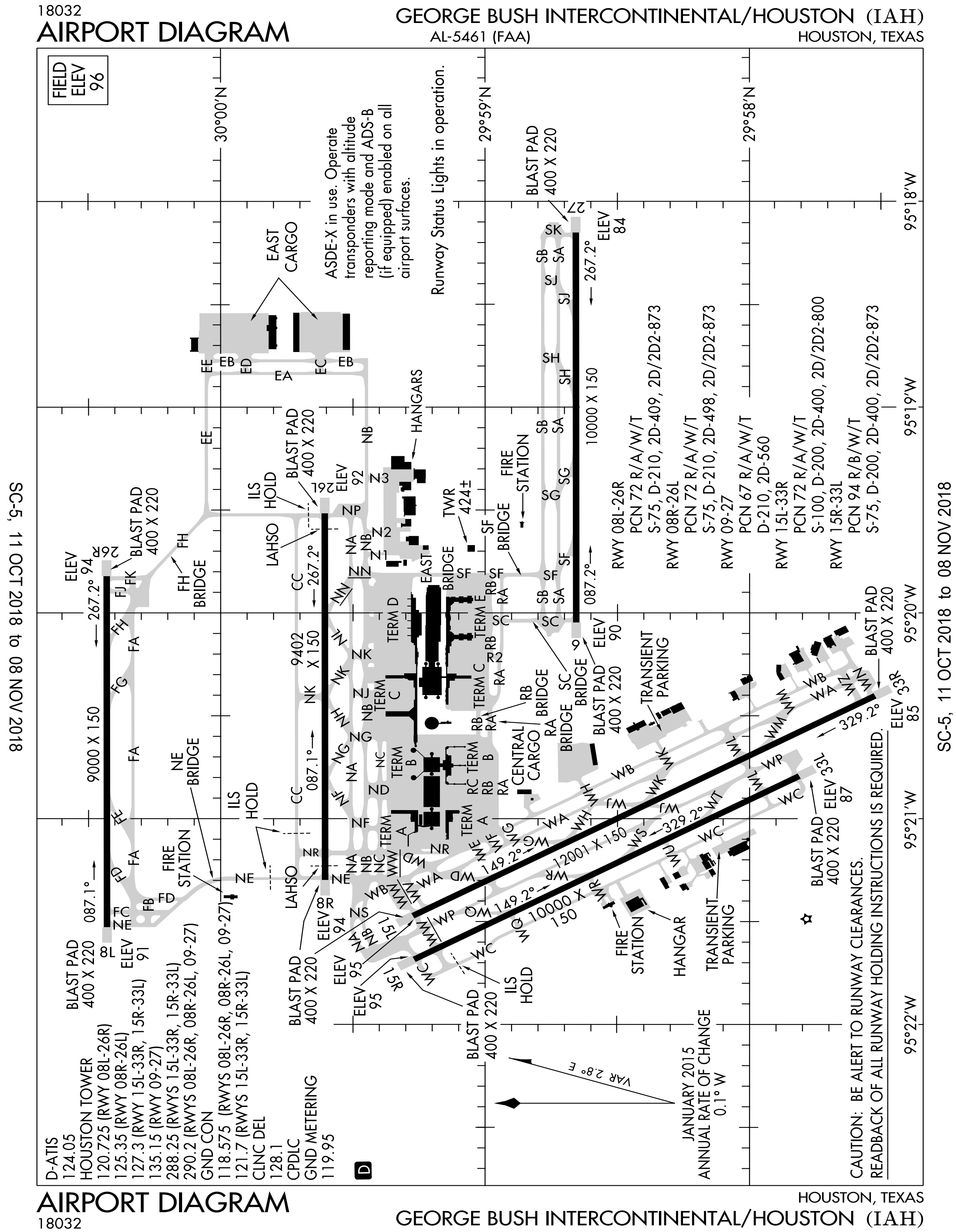

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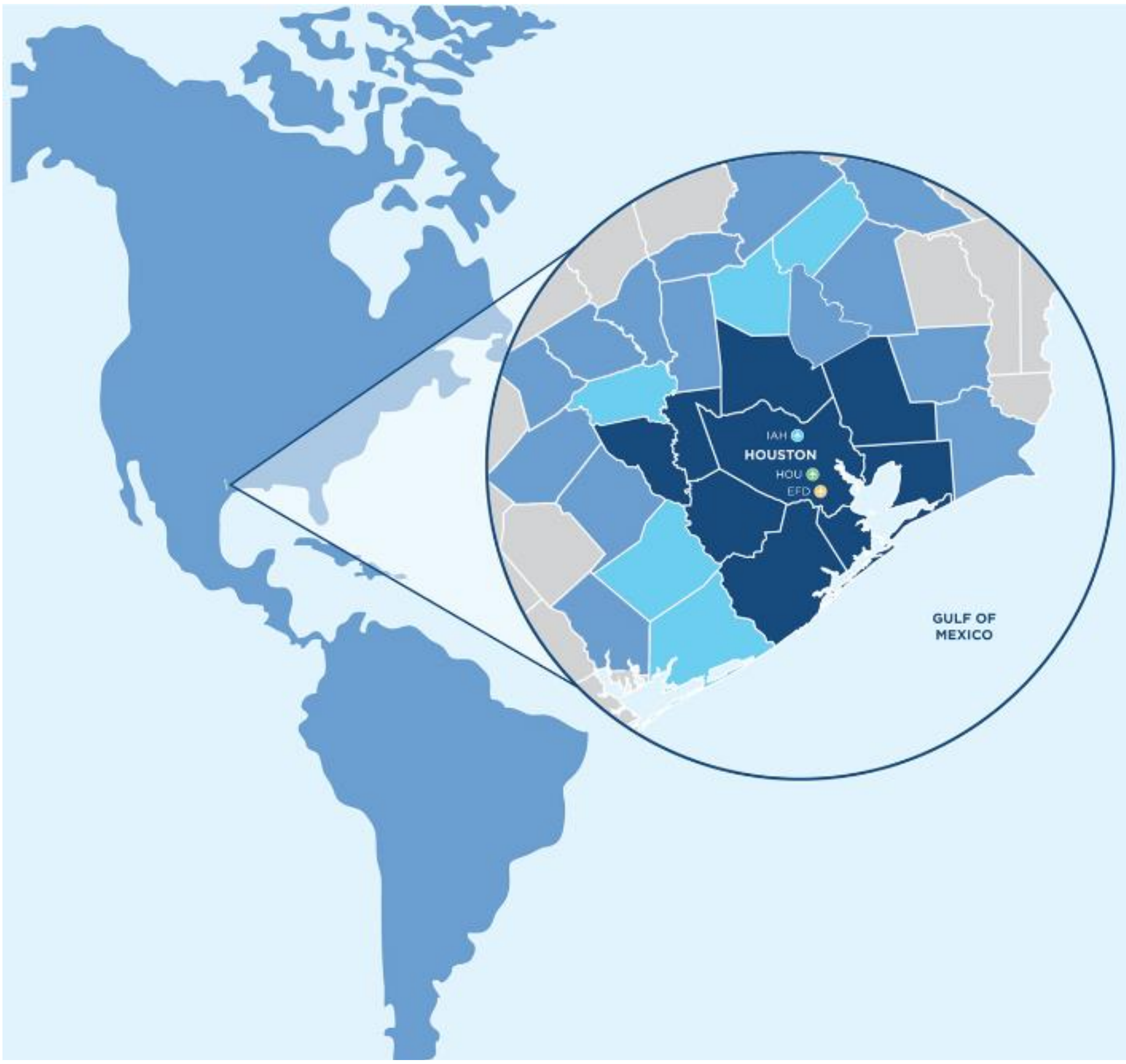
(Unaudited) INTRODUCTORY SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON
TEXAS

HOUSTON AIRPORT SYSTEM



	Metropolitan Statistical Area (MSA) of Houston-The Woodlands-Sugar Land, TX includes 9 counties.
	Consolidated Statistical Area (CSA) of Houston-Woodlands, TX adds Matagorda, Trinity, Walker, Washington, and Wharton counties.

HOUSTON AIRPORTS

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston, Texas

Airport System Fund

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

Office of the City Controller
City of Houston, Texas

Chris B. Brown

November 29, 2018

To the Citizens, Mayor and Members of the City Council of the City of Houston, Texas:

I am pleased to present you with the Comprehensive Annual Financial Report (CAFR) for the City of Houston, Texas, Airport System Fund (the Fund) for the fiscal years ended June 30, 2018 and June 30, 2017, including the independent auditors' report. The Controller's Office and the Houston Airport System share responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Fund.

The CAFR includes four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section includes this transmittal letter, a list of principal officials, and the Fund's organizational chart. The Financial Section includes Management's Discussion and Analysis and financial statements with accompanying notes, as well as the independent auditors' report on the financial statements. The Statistical Section includes selected financial trends, revenue capacity, debt capacity, demographic, economic, and operating information, generally presented on a ten-year basis. The Compliance Section includes the independent auditors' report on the Passenger Facility Charge Program.

The Financial Section described above is prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The Management's Discussion and Analysis offers readers an overview and analysis of the financial activities of the Fund and should be read as an introduction to the financial statements. In addition, the notes to the financial statements offer additional important information and are essential to a full understanding of this report.

The Reporting Entity and Its Services

The Houston Airport System (HAS), under the administrative control of the Mayor, manages and operates the Fund. The City Controller, as the chief financial officer of the City of Houston (the City), maintains the books of account, prepares financial statements, and, with the Mayor, co-signs all warrants, contracts, and orders for payment of any public funds or money relating to the Fund.

The Fund is an enterprise fund of the City and is included in the City's Comprehensive Annual Financial Report, which is a matter of public record. An enterprise fund is used to account for services provided to the general public on a continuing basis with costs recovered primarily through user charges. The City's Airport System includes the following: George Bush Intercontinental Airport (Intercontinental); William P. Hobby Airport (Hobby); and Ellington Airport. United Airlines is the dominant air carrier operating at Intercontinental and Southwest Airlines is the dominant air carrier operating at Hobby.

Economic Conditions and Major Initiatives

Economic Conditions

Houston is the nation's fourth most populous city and lies within the fifth largest metropolitan statistical area in the United States. The service region for the Houston Airport System, the nine county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area, has a diverse economic base. Leading industries include energy, petrochemical, engineering and construction, real estate, aerospace, commerce, medicine and health care, transportation, biotechnology, and computer technology. Widely recognized as the "Energy Capital of the World," Houston is a global center for virtually every segment of the oil-and-gas industry. Houston is also home to the Texas Medical Center, the world's largest concentration of biomedical research and healthcare institutions, and the Lyndon B. Johnson Space Center, NASA's center for human spaceflight training, research, and flight control, and related support firms specializing in aircraft and space vehicle manufacturing, research, and technology. The deepwater Port of Houston is the nation's busiest port as ranked by foreign tonnage and second-busiest port as ranked by total tonnage.

The Houston Airport System is comprised of three airports – George Bush Intercontinental (IAH), William P. Hobby (HOU) and Ellington (EFD). IAH is the nation's 15th busiest airport (as measured by enplaned passengers in calendar year 2017) and is classified as a "large hub airport" by the Federal Aviation Administration (FAA). It serves as an international gateway airport and a primary connecting point in the national air transportation system and was the second busiest hub for United Airlines in calendar year 2017. Additionally, IAH is the primary air cargo airport for the region. HOU is the nation's 35th busiest airport (as measured by enplaned passengers in calendar year 2017) and is classified as a "medium hub airport" by the FAA. HOU is a primary station for Southwest, which offers domestic service and international service to destinations in Mexico, Central America, and the Caribbean. EFD is currently used for general aviation, military, Coast Guard, and NASA operations, but has no commercial passenger service. HAS obtained a spaceport license for EFD in June 2015 from the FAA, allowing EFD to accommodate horizontal-launch commercial spaceflight operations.

Key factors that will affect future airline traffic at the Houston Airport System include (1) the growth in the population and economy of the service region; (2) national and international economic and political conditions; (3) airline economics and air fares; (4) the price of aviation fuel; (5) airline service decisions; (6) the capacity of the air traffic control system; and (7) the capacity of the airports themselves. During fiscal year 2018, HAS systemwide passenger growth increased 1.0% from fiscal year 2017, driven largely by a 4.0% increase at HOU. International passenger traffic for fiscal year 2018 was down by 1.4% from fiscal year 2017, attributed to a decrease in international service at IAH which was exacerbated by a two-day stop in operations because of Hurricane Harvey in August 2017. International passenger traffic at HOU continues to grow, up 11.3% from fiscal year 2017, which could have been higher if not for a three-day stop in operations due to Hurricane Harvey. For the Houston Airport System as a whole, enplanements were estimated to be lower by approximately 616,000 or 3.1% because of the stoppages and decrease in operations resulting from Hurricane Harvey. Fiscal year 2018 represented the fourth consecutive year in which the airport served more than 10 million international passengers (enplaned plus deplaned).

Capital Improvement Program

The Houston Airport System's (HAS) five-year Capital Improvement Plan (CIP) for fiscal years 2019-2023 has appropriation requirements of approximately $1.4 billion, with 39% of the appropriations planned for fiscal year 2019 as of June 30, 2018. This CIP was developed in connection with master planning studies for all three system airports. Future improvements will be funded with airport funds, the remaining proceeds from bond issues, proceeds from new bond issues, FAA and other grants, and passenger facility charges. The CIP excludes amounts funded on a permanent basis by airline tenants under the terms of special facilities leases. HAS continually reviews its CIP to address changing economic and air traffic demand levels, operating conditions, and assessments of facility condition.

At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP) that includes the newly constructed 11-gate concourse just west of the existing Terminal C North (becoming the "New Terminal C North") and reconstructing and integrating the existing Terminal C North and Terminal D into a new single common-use international facility (the Mickey Leland International Terminal (MLIT)) and a new centralized ticketing hall. The expansion of the terminal facilities will also necessitate an enlargement of certain components of the existing Federal Inspection Services (FIS) facility as well as related improvements to aircraft parking aprons and roadways. The terminal and ticketing hall will be used by United Airlines and all foreign-flag airlines serving IAH and share the existing FIS facility. The City awarded contracts for executive program manager and program management support services in fiscal year 2015 and architectural/engineering and construction management contracts for MLIT in fiscal year 2017. In fiscal year 2018 the City began the selection process for architectural/engineering and construction management firms for the FIS.

At HOU, capital improvements are planned for the airfield as required by the FAA, as well as normal pavement management, and customer service enhancements for the HOU Central Concourse. Additionally, certain drainage and roadway improvement projects are scheduled to take place in fiscal year 2019.

At EFD, a new air traffic control tower is nearing completion and procurement is underway for a design/build contract for Spaceport infrastructure to provide roadways and utilities for future tenants.

Financial Information

Accounting Systems and Budgetary Controls

The Fund's financial accounting system utilizes an accrual basis of accounting. Internal accounting controls are an integral part of the Fund's accounting system and are designed to provide reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The Fund controls current expenses at all division levels. The Houston Airport System's Deputy Directors are responsible for the expenses approved by the Division Managers reporting to them; in turn, Division Managers are responsible for budgetary items that are controllable at their organizational level. Budgetary control is maintained at the expenditure category (i.e., Personnel Services, Supplies, Other Services and Capital Outlay) through the encumbrance of estimated purchase amounts prior to the release of purchase orders or contracts to vendors. This is accomplished primarily through an automated encumbrance and accounts payable system.

The City Council approves the Fund's annual operations budget for current expenses. The Fund as a whole is not budgeted. City Council authorizes capital project expenditures through individual appropriation ordinances based on a five-year CIP that is proposed by the Mayor and the Houston Airport System Director and approved by City Council. City Council can legally appropriate only those amounts of money that the City Controller has certified.

Other Information

Independent Audit

An independent certified public accounting firm audits the financial statements of the Fund each year. McConnell & Jones/Banks, Finley, White & Co. performed the fiscal year 2018 and 2017 audits. The financial section of this report includes the independent auditors' report on the basic financial statements.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, Title 2 of the US *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Texas Single Audit Circular. These audits are conducted simultaneously with the Fund's annual financial statement audit. Information related to these Single Audits, including the schedules of financial assistance, findings and recommendations, is included in separate Single Audit Reports.

Awards/Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Houston, Texas, Airport System Fund for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the 24th consecutive year that the Airport System Fund has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report was made possible by the dedicated service of the Finance Division of the Houston Airport System and the City Controller's Office.

Respectfully submitted,

Chris B. Brown
City Controller

INTRODUCTORY SECTION

LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS AS OF JUNE 30, 2018:

Left to Right: Mike Knox, Karla Cisneros, Jack Christie, Mike Laster, Jerry Davis, Dave Martin, Ellen Cohen, Martha Castex-Tatum, Sylvester Turner, Dwight Boykins, Chris Brown, Robert Gallegos, Brenda Stardig, Steve Le, David Robinson, Amanda Edwards, Michael Kubosh, Greg Travis *Photo credit: Daniel Schein*

Mayor	Sylvester Turner
Controller	Chris Brown
Councilmember, At-Large, Position 1	Mike Knox
Councilmember, At-Large, Position 2	David Robinson
Councilmember, At-Large, Position 3	Michael Kubosh
Councilmember, At-Large, Position 4	Amanda Edwards
Councilmember, At-Large, Position 5	Jack Christie
Councilmember, District A	Brenda Stardig
Councilmember, District B	Jerry Davis
Councilmember, District C	Ellen Cohen
Councilmember, District D	Dwight Boykins
Councilmember, District E	Dave Martin
Councilmember, District F	Steve Le
Councilmember, District G	Greg Travis
Councilmember, District H	Karla Cisneros
Councilmember, District I	Robert Gallegos
Councilmember, District J	Mike Laster
Councilmember, District K	Martha Castex-Tatum

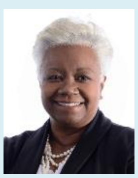
LIST OF PRINCIPAL OFFICIALS

HOUSTON AIRPORT SYSTEM (a department of the City of Houston)
AS OF JUNE 30, 2018:

Mario C. Diaz
Director of Aviation

Arturo Machuca
General Manager
Ellington Airport

Liliana Rambo
General Manager
William P. Hobby Airport



Harleen Hines Smith
Chief Human Resources Officer

Robert "Bob" Barker
Chief Development Officer

Ian Wadsworth
Chief Commercial Officer

Saba Abashawl
Chief External Affairs Officer

Jesus H. Saenz Jr.
Chief Operating Officer

Tanya Acevedo
Chief Technology Officer

Kenneth Gregg
Interim Chief Financial Officer

Ted Kitchens
General Manager
George Bush Intercontinental Airport

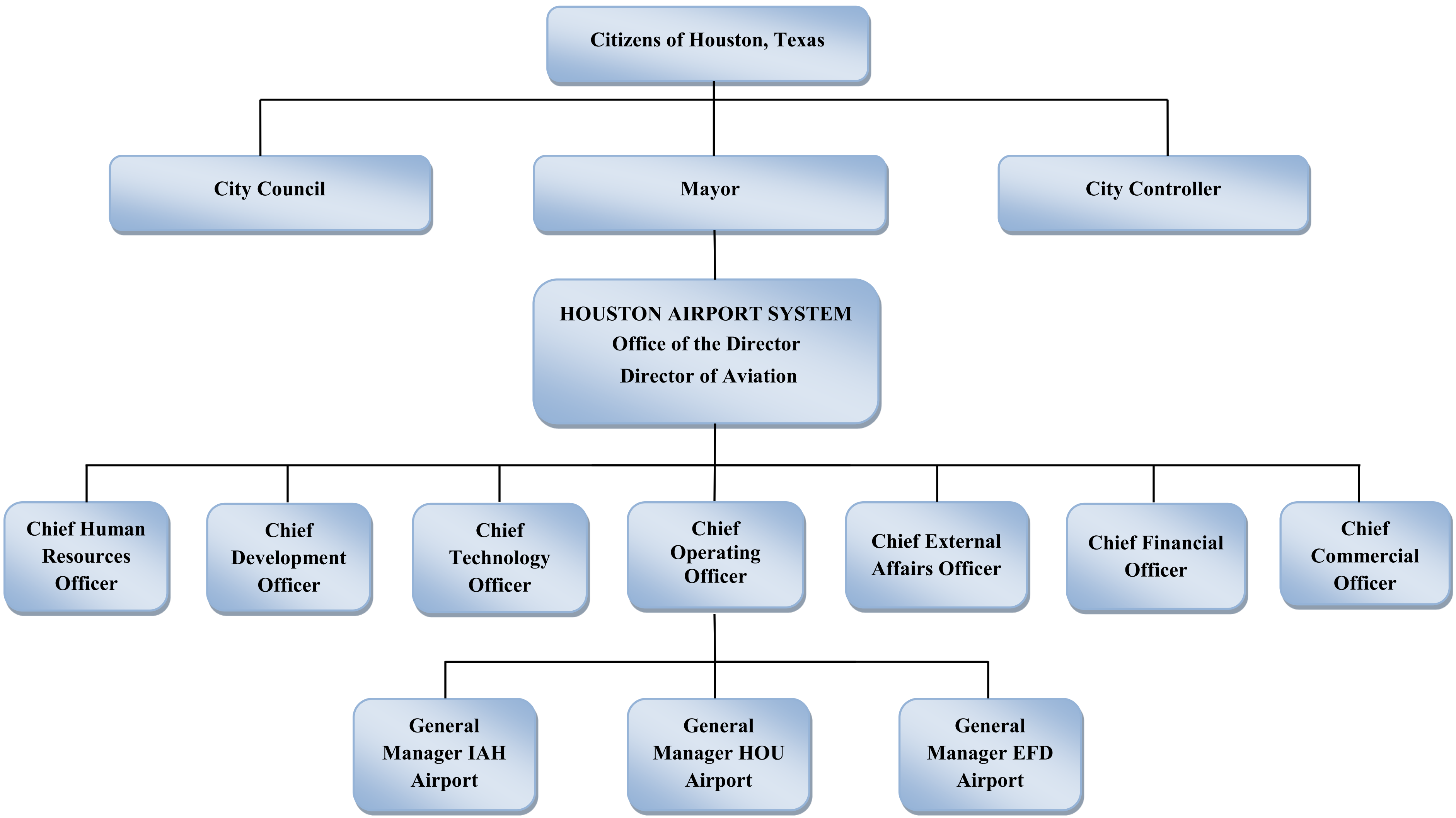
AS OF AUGUST 6, 2018:

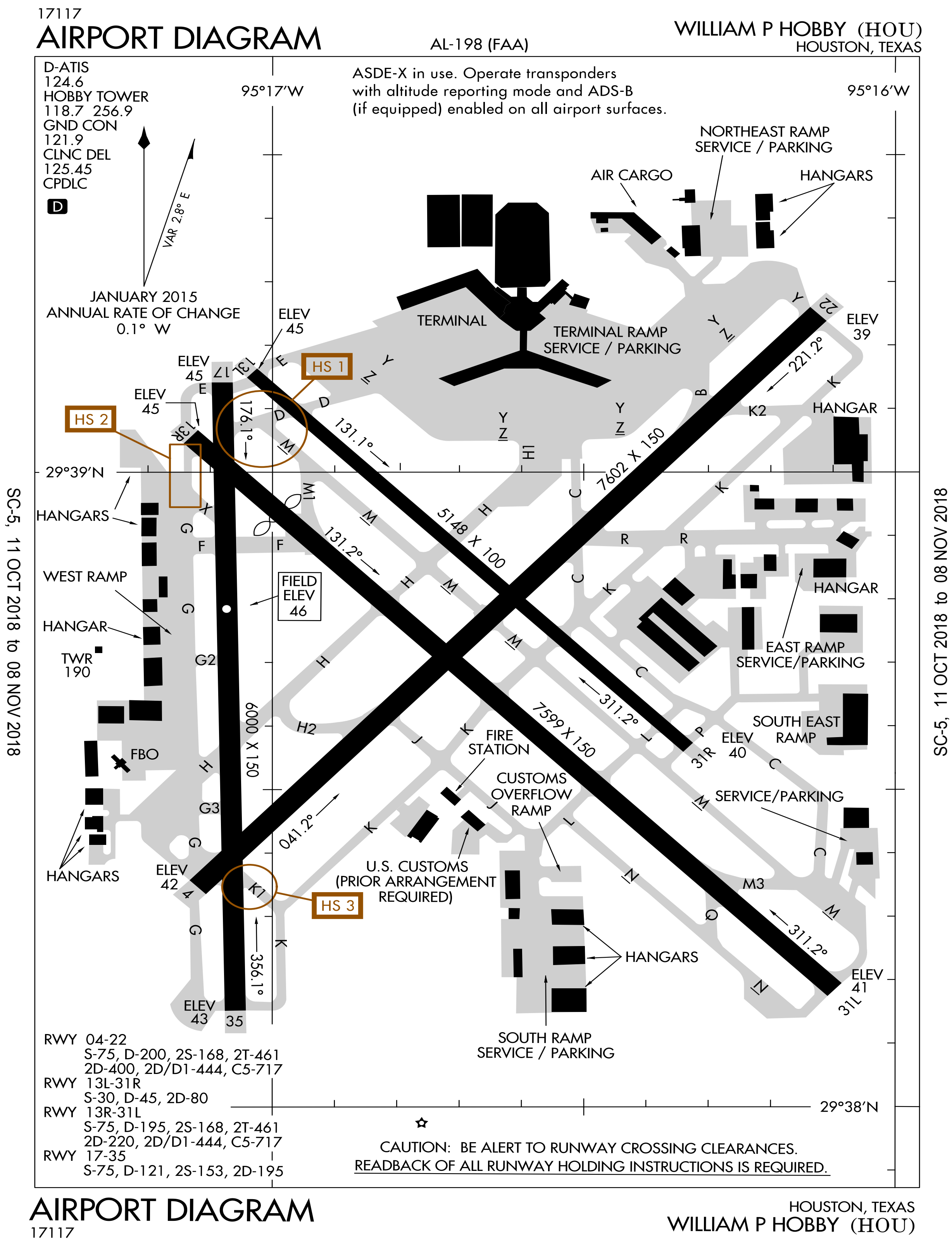
Chief Financial Officer-- J'Maine Chubb

AS OF SEPTEMBER 14, 2018:

Interim General Manager George Bush Intercontinental Airport--------------------Kelly Woodward

INTRODUCTORY SECTION
ORGANIZATIONAL CHART AS OF JUNE 30, 2018





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FINANCIAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON
TEXAS

Independent Auditors' Report

To the Honorable Mayor,
Members of City Council, and City Controller
City of Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Airport System Fund (the "Fund") of the City of Houston, Texas (the "City"), which comprise the statement of net position as of June 30, 2018 and 2017 the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Airport System Fund of the City of Houston, Texas, as of June 30, 2018 and 2017 the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statement presents only the Airport System Fund and do not purport to and do not, present fairly the net position of the City of Houston, Texas as of June 30, 2018 and 2017, the changes in its net position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 7 to the financial statements, in 2018, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Our opinion is not modified with respect to these matters

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 4 through 11) and the Pension System Supplementary Information and Other Post-Employment Benefits Supplementary Information (page 52 through 54) be presented to supplement the basic financials statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The Introductory Section, the Statistical Section and Compliance Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Passenger Facility Charge Revenues and Disbursements Schedule and accompanying notes on pages 77 to 81 are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as describe above, the above-mentioned schedule is fairly stated in all material respects in relation to the financial statements as a whole.

The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018, on our consideration of the City of Houston, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Houston, Texas's internal control over financial reporting and compliance.

McConnell & Jones LLP   Banks, Finley, White & Co.

November 29, 2018

As management of the Airport System Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2018 and June 30, 2017. Please read the Management's Discussion and Analysis (unaudited) section in conjunction with the financial statements and the notes to the financial statements, which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

The Fund's net position increased by $31.7 million or 2.2% during fiscal year 2018 and increased $128.1 million or 9.5% during fiscal year 2017.

In fiscal year 2018, operating income decreased $55.7 million or 100.5%. In fiscal year 2017, operating income increased $61.3 million or 1,035.5%. These variances are primarily due to the fiscal year 2017 reduction in pension expense arising from pension reform efforts of the City of Houston (City) not being replicated in fiscal year 2018.

Maintenance and operating expenses increased $80.6 million or 31.7% in fiscal year 2018 and decreased $61.0 million or 19.3% in fiscal year 2017. Depreciation expense decreased $8.2 million or 4.4% in fiscal year 2018 and increased $4.8 million or 2.7% in fiscal year 2017.

Investment income increased by $5.2 million or 152.5% in fiscal year 2018 and decreased by $9.9 million or 74.3% in fiscal year 2017.

In fiscal year 2018, the Fund implemented GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The cumulative effect of the implementation added a deficit of $21.3 million to the unrestricted net position as of July 1, 2017. Beginning in fiscal year 2018, the Airport System will set its rates and charges to amortize the deficit in the unrestricted net position over thirty years. See Notes 1 and 7 for more information.

The Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 68 at the start of fiscal year 2015, to record a net pension liability based not on the City's legal funding requirement, but on an actuarial calculation of total pension liability less the net position of the Houston Municipal Employee Pension System (HMEPS). This resulted in an unrestricted net position of $(178.0) million as of June 30, 2015 and 2016. The unrestricted net position as of June 30, 2017 was reduced further to $(126.9) million due to cost savings included in pension reforms implemented by the City. See Notes 1 and 6 for more information.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The Airport System Fund's financial statements consist of the following components: this management's discussion and analysis, the financial statements, the notes to the financial statements, and required supplementary information. The notes are essential to a full understanding of this report. In addition, a statistical section is included for further analysis. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. An enterprise fund is used to account for a business-like activity within a government. The Airport System Fund is an enterprise fund of the City of Houston. The Houston Airport System (HAS), consisting of George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU), and Ellington Airport (EFD), is managed and operated as a department of the City. The Airport System Fund is also included in the City of Houston's Comprehensive Annual Financial Report (CAFR).

The statement of net position presents information on all the Fund's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any), with the difference between these sections reported as net position. Changes in net position from year to year may serve as a useful indicator of whether the financial position of the Airport System Fund is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Fund's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows reports how much cash was provided by or used for the Fund's operations, investing activities, non-capital financing activities, and capital and related financing activities.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post employment benefits to its employees.

Net Position

Total net position at June 30, 2018 was $1,505.5 million, a 2.2% increase from June 30, 2017.
Total net position at June 30, 2017 was $1,473.8 million, a 9.5% increase from June 30, 2016.

NET POSITION
JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016
(in thousands)

	June 30, 2018	June 30, 2017	June 30, 2016
Assets			
Current assets	$ 480,903	$ 452,246	$ 445,841
Noncurrent assets	963,092	892,490	854,870
Net capital assets	2,816,044	2,883,432	2,958,464
Total assets	4,260,039	4,228,168	4,259,175
Deferred outflows of resources	51,334	81,177	59,367
Liabilities			
Current liabilities	243,095	218,419	318,700
Long term liabilities	2,551,512	2,612,622	2,651,555
Total liabilities	2,794,607	2,831,041	2,970,255
Deferred inflows of resources	11,253	4,487	2,526
Net Position			
Net investment in capital assets	531,232	542,363	537,172
Restricted net position	1,117,578	1,058,392	986,592
Unrestricted (deficit)	(143,297)	(126,938)	(178,003)
Total net position	$ 1,505,513	$ 1,473,817	$ 1,345,761

More than a third of the Fund's total net position (35.3% in fiscal year 2018; 36.8% in fiscal year 2017) reflects net investment in capital assets (e.g., land, buildings, runways, equipment and infrastructure) less any related outstanding debt used to acquire those assets. The Fund uses these capital assets to operate the airports; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from airport revenue or other sources procured by the Fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The other portions of the Fund's net position represent resources that are restricted and the unrestricted deficit. The restricted resources (74.2% in fiscal year 2018; 71.8% in fiscal year 2017) are subjected to external restrictions on how they may be used. Most of these restrictions are due to covenants made to the holders of the Fund's revenue bonds within ordinances passed by City Council. These covenants further require that any positive unrestricted net position carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements. The unrestricted (deficit) net position was $(143.3 million) as of June 30, 2018 and was $(126.9 million) as of June 30, 2017.

Changes in Net Position

From July 1, 2017 to June 30, 2018, net position of the Airport System Fund increased by $31.7 million or 2.2%.
From July 1, 2016 to June 30, 2017, net position of the Airport System Fund increased by $128.1 million or 9.5%.

CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016
(in thousands)

	June 30, 2018	June 30, 2017	June 30, 2016
Operating revenues	$ 510,864	$ 494,041	$ 488,897
Operating expenses	511,157	438,662	494,817
Operating income (loss)	(293)	55,379	(5,920)
Nonoperating revenues	133,566	124,738	134,031
Nonoperating expenses	94,061	87,574	86,259
Nonoperating income (loss)	39,505	37,164	47,772
Revenues over expenses	39,212	92,543	41,852
Capital contributions	13,784	35,513	22,542
Change in net position	52,996	128,056	64,394
Beginning net position as previously reported	1,473,817	1,345,761	1,281,367
Cumulative effect of implementation of new accounting principle	(21,300)	-	-
Total net position, July 1	1,452,517	1,345,761	1,281,367
Total net position, June 30	$ 1,505,513	$ 1,473,817	$ 1,345,761

Operating revenues increased by $16.8 million or 3.4% for fiscal year 2018 and increased by $5.1 million or 1.1% for fiscal year 2017. In fiscal year 2018, total (enplaned and deplaned) system (IAH and HOU) passenger volume increased by 1.0%. Also, there was a 4.0% rate increase in landing fees from $2.642 to $2.757 per 1,000 pounds. In addition, parking rates increased 10.0% from $20 to $22. In fiscal year 2017 total (enplaned and deplaned) system (IAH and HOU) passenger volume decreased 1.6%. The effect of this decrease was offset by increases in rentals (2.4%) and concessions (4.1%). Detailed passenger statistics and comparative rates and charges can be found in the statistical section of this report.

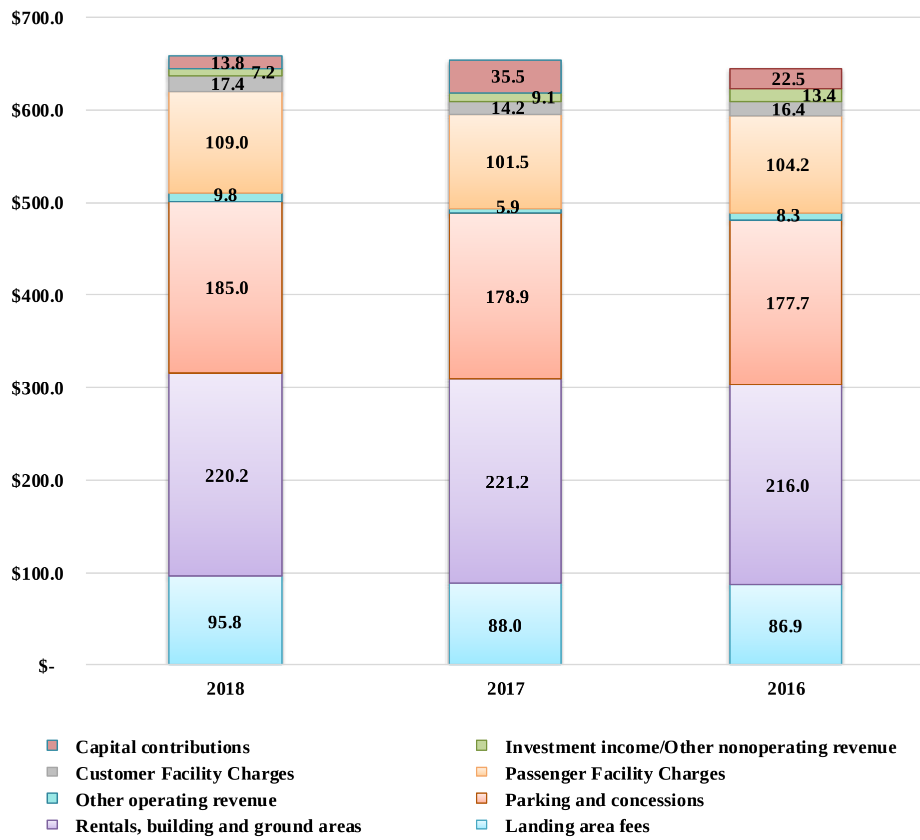
Capital contributions are grant awards that are primarily related to reimbursements for expenses from construction projects. Amounts received from Federal Aviation Administration (FAA) discretionary, FAA entitlement and Transportation Security Administration (TSA) grants fluctuate year-to-year because of timing differences between the date of the award and the date of construction completion. In fiscal year 2018, capital contributions decreased $21.7 million or 61.2% and in fiscal year 2017, capital contributions increased $13.0 million or 57.5%.

In fiscal year 2018, nonoperating revenues increased by $8.8 million or 7.1% due to a $5.2 million increase in investment income, a $7.5 million increase in Passenger Facility Charge (PFC) revenue and $3.2 million increase in Customer Facility Charge (CFC) revenues, partially offset by an unfavorable $5.0 million prior years' cumulative rates and charges adjustment. For fiscal year 2017, nonoperating revenues decreased by $9.3 million or 6.9% due to a $9.9 million decrease in investment income, a $4.9 million or 4.1% decrease in combined PFC and CFC collections associated with a decline in passenger traffic, a $7.1 million refund to the airlines on prior year landing fees and terminal leasing charges, and recordation of a prior year unearned grant award of $3.1 million.

TOTAL REVENUES AND CAPITAL CONTRIBUTION
YEARS ENDED JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016
(in thousands)

	June 30, 2018	June 30, 2017	June 30, 2016
Operating revenue:			
Landing area fees	$ 95,779	$ 88,046	$ 86,870
Rentals, building and ground areas	220,214	221,181	216,018
Parking and concessions	185,035	178,888	177,685
Other operating revenue	9,836	5,926	8,324
Nonoperating revenue:			
Passenger Facility Charges	109,021	101,539	104,230
Customer Facility Charges	17,374	14,200	16,417
Investment income (loss)	8,591	3,403	13,260
Other nonoperating revenue	(1,420)	5,596	124
Total revenues	644,430	618,779	622,928
Capital contributions	13,784	35,513	22,542
Total revenues and capital contribution	$ 658,214	$ 654,292	$ 645,470

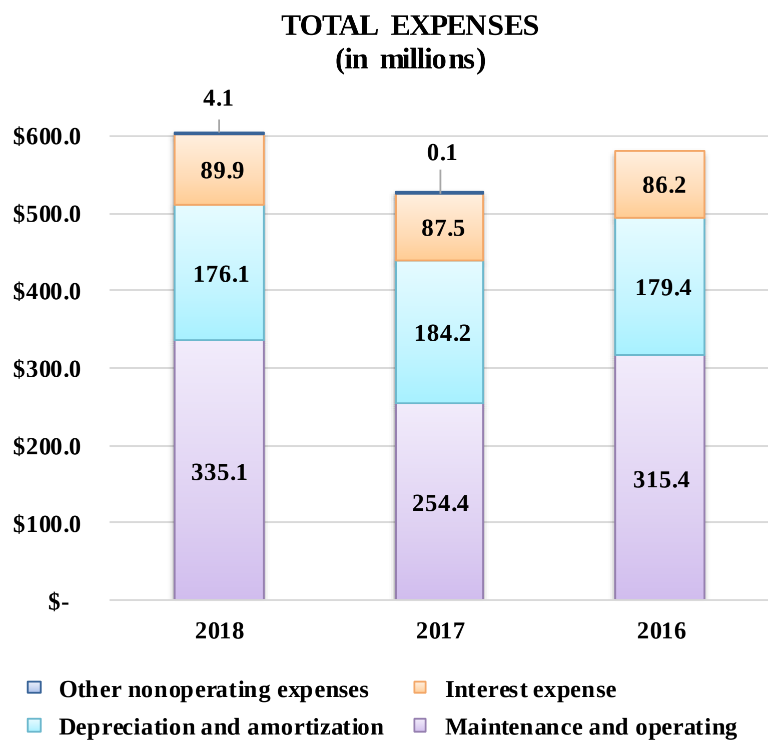
TOTAL REVENUES and CAPITAL CONTRIBUTION
(in millions)



Investment income increased by $5.2 million or 152.5% in fiscal year 2018 due mostly to higher yields in the City's General Taxable Investment Pool, which resulted in an increase in the average monthly income apportionment rate to the Fund. In fiscal year 2017, investment income decreased $9.9 million or 74.3%, due to a $12.6 million decrease in net unrealized fair value adjustments, partly offset by an increase in realized investment income of $2.8 million related to a 26% increase in apportioned income from the City's General Taxable Pool.

TOTAL EXPENSES
YEARS ENDED JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016
(in thousands)

	June 30, 2018	June 30, 2017	June 30, 2016
Operating expenses:			
Maintenance and operating	$ 335,104	$ 254,459	$ 315,419
Depreciation and amortization	176,053	184,203	179,398
Interest expense	89,944	87,482	86,212
Other nonoperating expenses	4,117	92	47
Total expenses	$ 605,218	$ 526,236	$ 581,076



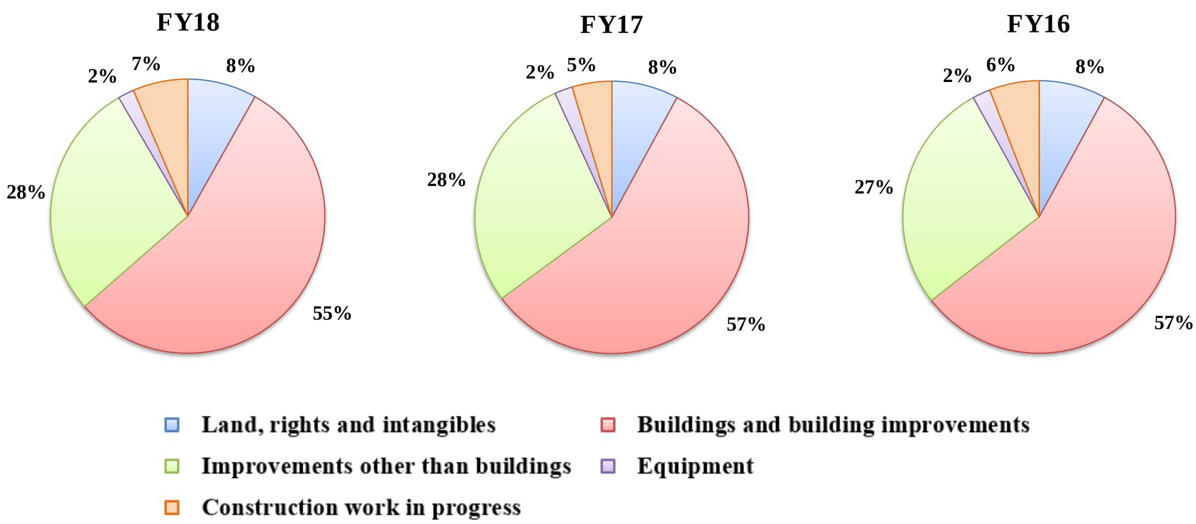
In fiscal year 2018, total operating expenses increased $72.5 million or 16.5%; maintenance and operating expenses increased by $80.6 million or 31.7% and depreciation expense decreased $8.2 million or 4.4%. In fiscal year 2017, total operating expenses decreased $56.2 million or 11.3%; maintenance and operating expenses decreased $61.0 million or 19.3% and depreciation increased $4.8 million or 2.7%. The fluctuations in maintenance and operating expenses, a 31.7% increase in fiscal year 2018 over fiscal year 2017, and 19.3% decrease in fiscal year 2017 over fiscal year 2016, are mainly a result of the pension reform efforts of the City of Houston which were recognized in 2017, lowering expenses in that year.

In fiscal year 2018, interest expense increased $2.5 million or 2.8%. Interest expense increased $1.3 million or 1.5% in fiscal year 2017.

Capital Assets

CAPITAL ASSETS
JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016
(Net of Depreciation and Amortization)
(in thousands)

	June 30, 2018	June 30, 2017	June 30, 2016
Land	$ 216,107	$ 216,079	$ 222,886
Rights and intangibles	13,607	11,528	12,373
Buildings and building improvements	1,560,127	1,642,234	1,673,156
Improvements other than buildings	789,944	817,193	812,542
Equipment	53,415	61,165	62,565
Construction work in progress	182,844	135,233	174,942
	$ 2,816,044	$ 2,883,432	$ 2,958,464



The Airport System Fund's investment in capital assets (net of accumulated depreciation and amortization) amounts to $2.82 billion at June 30, 2018, a decrease of $67.4 million or 2.3%, from June 30, 2017. Capital assets at June 30, 2017 were $2.88 billion, a decrease of $75.0 million or 2.5%, from June 30, 2016. See Note 3 for further information.

At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP) that includes the newly constructed 11-gate concourse just west of the existing Terminal C North (becoming the "New Terminal C North") and reconstructing and integrating the existing Terminal C North and Terminal D into a new single common-use international facility (the Mickey Leland International Terminal (MLIT)) and a new centralized ticketing hall. The expansion of the terminal facilities will also necessitate an enlargement of certain components of the existing Federal Inspection Services (FIS) facility as well as related improvements to aircraft parking aprons and roadways. The terminal and ticketing hall will be used by United Airlines and all foreign-flag airlines serving IAH and share the existing FIS Facility. The City awarded contracts for executive program manager and program management support services in fiscal year 2015 and architectural/engineering and construction management contracts for MLIT in fiscal year 2017. In fiscal year 2018 the City began the selection process for architectural/engineering and construction management firms for the FIS facility.

At HOU, capital improvements are planned for the airfield as required by the FAA, as well as normal pavement management and customer service enhancements for the HOU Central Concourse. Additionally, certain drainage and roadway improvement projects are scheduled to take place in fiscal year 2019.

At EFD, a new air traffic control tower is nearing completion and procurement is underway for a design/build contract for Spaceport infrastructure to provide roadways and utilities for future tenants.

Debt

OUTSTANDING DEBT
JUNE 30, 2018, JUNE 30, 2017, AND JUNE 30, 2016
(in thousands)

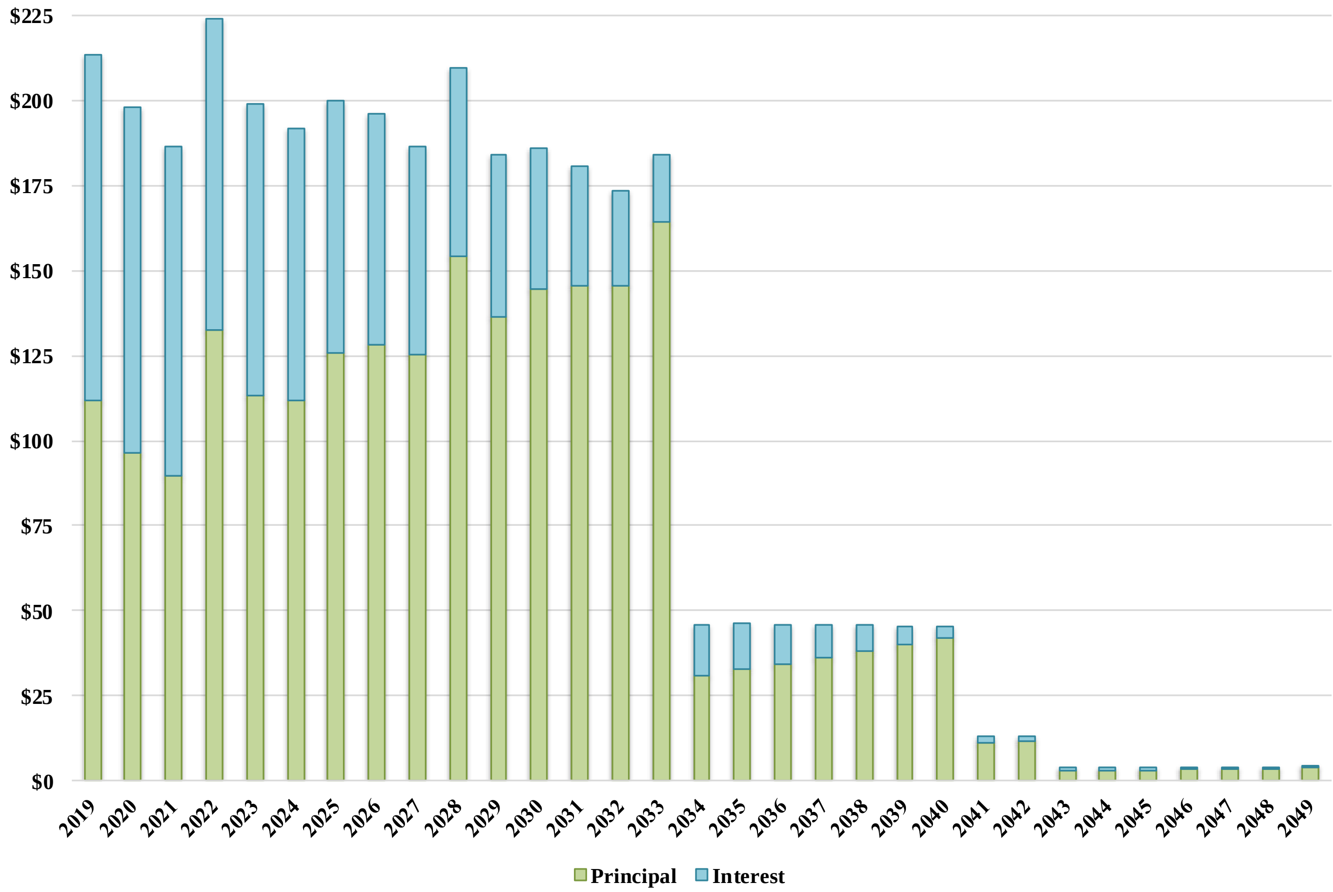
	June 30, 2018	June 30, 2017	June 30, 2016
Senior lien debt:			
Current maturities-revenue bonds	$ 10,735	$ 10,225	$ 9,740
Long-term revenue bonds payable	409,685	420,420	430,645
Unamortized discounts and premium	(359)	(476)	(603)
Commercial paper	21,473	87,000	87,000
Total senior lien debt	441,534	517,169	526,782
Subordinate lien debt:			
Current maturities-revenue bonds	67,785	67,630	64,925
Long-term revenue bonds payable	1,598,790	1,512,135	1,579,765
Unamortized discounts and premium	110,299	59,061	65,705
Total subordinate lien debt	1,776,874	1,638,826	1,710,395
Inferior lien debt:			
Current maturities-contract	-	6,240	5,915
Long-term contract payable	-	-	6,240
Total inferior lien debt	-	6,240	12,155
Other debt:			
Current maturities-note payable	-	5,018	5,018
Long-term note payable	-	110,403	115,421
Pension obligation bonds			
Current maturities	27,610	-	-
Long-term payable	2,006	2,006	2,006
Special facility revenue bonds - Consolidated rental car facility:			
Current maturities	5,715	5,490	5,305
Long-term payable	80,385	86,100	91,590
Total other debt	115,716	209,017	219,340
Total outstanding debt	$ 2,334,124	$ 2,371,252	$ 2,468,672
Deferred outflows of resources:			
Unamortized costs of refunding debt	$ (20,499)	$ (27,329)	$ (30,154)

At the end of the fiscal year, the Airport System Fund had total debt of $2.3 billion, which represents outstanding senior and subordinate lien revenue bonds net of unamortized discounts and premiums, senior lien commercial paper, and an inferior lien contract, all secured solely by Airport System Fund revenues. The Fund is also responsible for paying the debt service costs on $28.6 million of taxable general obligation pension bonds. The Airport System Fund has elected to report $86.1 million of special facility revenue bonds (consolidated rental car facility), payable solely from customer facility charges. There is no pledge for these bonds against any revenue of the Fund or the City.

Total outstanding debt decreased $37.1 million or 1.6% during fiscal year 2018. $478.6 million in debt was added for the issuance of Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018A and Series 2018B, while $465.5 million in bonds, commercial paper, and a note to Southwest Airlines were refunded or paid off from the proceeds. $18.0 million in new commercial paper was issued, and $27.6 million in new taxable pension obligation bonds, Series 2017, was assigned to the airport system for payment. $89.6 million in principal was paid from existing debt, and $6.2 million in net premiums were amortized. At the end of fiscal years 2017 and 2016, the Fund had total debt of $2.4 billion and $2.5 billion, respectively. Total outstanding debt decreased $97.4 million or 3.9% during fiscal year 2017, due to retirement of existing debt. See Note 5 for further information.

The graph below represents the required principal and interest payments on outstanding debt through fiscal year 2049.

Debt Service Requirements to Maturity
(in millions)



The underlying ratings of the Airport System Fund's obligations for fiscal year 2018:

	Senior Lien	Subordinate Lien	Consolidated Rental Car SFRB
Fitch's Bond Rating:	Not Rated	A	A-
Moody's Bond Rating:	Aa3	A1	A3
Standard & Poor's Bond Rating:	AA-	A+	A-

Requests for Information

This financial report is designed to provide a general overview of the City of Houston, Texas Airport System Fund finances for all of those with an interest in the fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby, 8th Floor, P.O. Box 1562, Houston, Texas 77251-1562.

STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2018 AND 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 134,358	$ 171,334
Investments	259,813	191,385
Restricted cash and cash equivalents	6,125	5,796
Restricted accounts receivable	1,444	1,300
Accounts receivable (net of allowance for doubtful accounts of $1,723 in 2018 and $1,623 in 2017)	50,114	42,924
Due from City of Houston	276	201
Inventory	1,881	1,875
Prepaids	4,495	2,938
Due from other governments - grants receivable	22,397	34,493
Total current assets	480,903	452,246
Noncurrent assets		
Investments	924,410	853,294
Restricted cash and cash equivalents	37,753	37,813
Prepaids	929	1,383
Capital assets		
Land	216,107	216,079
Rights and intangibles	17,376	14,604
Buildings, improvements and equipment	5,435,669	5,377,615
Construction in progress	182,844	135,233
Total capital assets	5,851,996	5,743,531
Less accumulated depreciation and amortization	(3,035,952)	(2,860,099)
Net capital assets	2,816,044	2,883,432
Total noncurrent assets	3,779,136	3,775,922
Total assets	4,260,039	4,228,168
Deferred Outflows of Resources		
Deferred outflows from refunding of debt	20,499	27,329
Deferred outflows on pension liability	30,835	53,848
Total deferred outflows of resources	$ 51,334	$ 81,177

(continued)

STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2018 AND 2017

	2018	2017
Liabilities		
Current Liabilities		
Accounts payable	$ 16,774	$ 14,893
Cost of issuance payable	180	-
Accrued payroll liabilities	3,026	3,366
Due to City of Houston	394	713
Due to other governments	1,800	-
Advances and deposits	2,176	2,193
Unearned revenue	10,837	5,296
Claims for workers' compensation	881	777
Compensated absences	6,127	6,367
Revenue bonds payable	78,520	77,855
Special facility revenue bonds payable	5,715	5,490
Inferior lien contract payable	-	6,240
Pension obligation bonds payable	27,610	-
Note payable	-	5,018
Accrued interest payable	43,464	45,689
Contracts and retainages payable	35,591	34,522
Other current liabilities	10,000	10,000
Total current liabilities	243,095	218,419
Noncurrent liabilities		
Revenue bonds payable, net	2,118,415	1,991,140
Special facility revenue bonds payable	80,385	86,100
Commercial paper payable	21,473	87,000
Pension obligation bonds payable	2,006	2,006
Note payable	-	110,403
Claims for workers' compensation	1,395	642
Compensated absences	6,932	6,254
Net pension liability payable	230,999	254,420
Other post employment benefits	89,450	74,657
Other post employment benefits - LTD	457	-
Total noncurrent liabilities	2,551,512	2,612,622
Total liabilities	2,794,607	2,831,041
Deferred Inflows of Resources		
Deferred inflows on pension liability	1,100	4,487
Deferred inflows on OPEB health benefits liability	10,147	-
Deferred inflows on OPEB LTD liability	6	-
Total deferred inflows of resources	11,253	4,487
Net position		
Net investment in capital assets	531,232	542,363
Restricted net position		
Restricted for debt service	357,588	287,858
Restricted for maintenance and operations	56,891	54,805
Restricted for special facility	36,049	29,369
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	657,050	676,360
Unrestricted (deficit)	(143,297)	(126,938)
Total net position	$ 1,505,513	$ 1,473,817

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (in thousands)
FOR YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenues		
Landing area fees	$ 95,779	$ 88,046
Rentals, building and ground area	220,214	221,181
Parking	103,961	99,752
Concessions	81,074	79,136
Other	9,836	5,926
Total operating revenues	510,864	494,041
Operating Expenses		
Maintenance and operating	335,104	254,459
Depreciation and amortization	176,053	184,203
Total operating expenses	511,157	438,662
Operating income (loss)	(293)	55,379
Nonoperating revenues (expenses)		
Investment income (loss)	8,591	3,403
Interest expense	(89,944)	(87,482)
Gain / (Loss) on disposal of assets	(176)	1,455
Passenger Facility Charges	109,021	101,539
Customer Facility Charges	17,374	14,200
Special facility cost	(294)	(92)
Cost of issuance for debt	(3,647)	-
Other revenue (expense)	(1,420)	4,141
Total nonoperating revenues (expenses)	39,505	37,164
Income/(loss) before capital contributions	39,212	92,543
Capital contributions	13,784	35,513
Change in net position	52,996	128,056
Beginning net position as previously reported	1,473,817	1,345,761
Cumulative effect of implementation of new accounting principle	(21,300)	-
Total net position, July 1	1,452,517	1,345,761
Total net position, June 30	$ 1,505,513	$ 1,473,817

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS (in thousands)
FOR YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Receipts from customers	$ 509,538	$ 454,955
Payments to employees	(131,160)	(102,834)
Payments to suppliers	(127,244)	(116,498)
Payments to the City of Houston	(67,604)	(34,214)
Claims paid	(881)	(777)
Other receipts (payments)	(1,420)	4,141
Net cash provided by operating activities	181,229	204,773
Cash flows from investing activities		
Sale of investments	1,711,524	1,548,829
Purchase of investments	(1,851,068)	(1,473,462)
Investment income (loss)	8,591	3,403
Net cash (used for) provided by investing activities	(130,953)	78,770
Cash flows from noncapital financing activities		
Issuance of pension obligation bonds	27,610	-
Interest expense for pension obligation bonds	(223)	(106)
Cost of issuance expense for pension obligation bonds	(102)	-
Net cash (used for) provided by noncapital financing activities	27,285	(106)
Cash flows from capital and related financing activities		
Proceeds from issuance of revenue bonds	475,472	-
Retirement of revenue bonds	(336,809)	(74,665)
Interest expense on debt	(103,296)	(99,558)
Retirement of note payable	(115,882)	-
Proceeds from issuance of commercial paper	18,000	-
Retirement of commercial paper	(83,527)	-
Retirement of inferior lien contract	(6,240)	(5,915)
Retirement of special facility bonds	(5,490)	(5,305)
Cost of issuance expense for revenue bonds	(3,365)	-
Passenger Facility Charges	108,220	95,710
Customer Facility Charges	17,232	14,068
Grant receipts	27,680	12,132
Acquisition of capital assets	(106,263)	(133,260)
Net cash (used for) capital and related financing activities	(114,268)	(196,793)
Net increase (decrease) in cash and cash equivalents	(36,707)	86,644
Cash and cash equivalents, beginning of year	214,943	128,299
Cash and cash equivalents, end of the year	$ 178,236	$ 214,943
Current cash and cash equivalents	$ 134,358	$ 171,333
Current restricted cash and cash equivalents	6,125	5,796
Noncurrent restricted cash and cash equivalents	37,753	37,813
Cash and cash equivalents, end of the year	$ 178,236	$ 214,942

The accompanying notes are an integral part of the financial statements. (continued)

STATEMENTS OF CASH FLOWS (in thousands)
FOR YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Noncash transactions		
Capitalized interest expense	$ 8,832	$ 9,789
Capital additions included in note payable	(115,882)	(5,018)
Capital additions included in other liabilities	1,069	(30,142)
Grants included in receivables	(13,895)	23,238
Bond amortization expense	3,438	3,595
Gain (loss) on disposal of assets	(183)	(6,073)
Noncash transactions	$ (116,621)	$ (4,611)
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ (293)	$ 55,379
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Terminal space revenue-note payable	(461)	(7,656)
Depreciation	176,053	184,203
Capital improvement plan expense	7,027	5,243
Other receipts (payments)	(1,420)	4,141
Changes in assets and liabilities		
Accounts receivable	(6,388)	(34,916)
Due from the City of Houston	(75)	31,632
Inventory and prepaids	(1,563)	(364)
Accounts payable	1,881	806
Accrued payroll liabilities	(341)	233
Other current liabilities	-	10,000
Due to the City of Houston	(319)	(257)
Advances and deposits	5,525	3,485
Other post-employment benefits and deferred amounts	4,103	4,454
Pension related payables and deferred amounts	(3,795)	(51,065)
Claims for workers' compensation	857	(386)
Compensated absences	438	(159)
Net cash provided by operating activities	$ 181,229	$ 204,773

The accompanying notes are an integral part of the financial statements.

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1. Summary of Significant Accounting Policies

Reporting Entity

The Airport System Fund (Fund), an enterprise fund of the City of Houston (City), is responsible for the operations, maintenance, and development of the City's Airport System. The Airport System consists of the George Bush Intercontinental Airport (Intercontinental), William P. Hobby Airport (Hobby) and Ellington Airport.

The Mayor and City Council members serve as the governing body that oversees operation of the Fund. The Fund is operated by the Houston Airport System as a self-sufficient enterprise and is administered by the Houston Airport System Director, who reports to the City's Mayor.

The Fund is not financially accountable for any other operations, and accordingly, is accounted for as a single major enterprise fund. The Fund is included in the City's Comprehensive Annual Financial Report, which is a matter of public record.

Basis of Accounting

The City accounts for the Fund as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the cost of operations, including depreciation, be financed or recovered through user charges. The Fund is accounted for on a cost of services or "economic resources" measurement focus using the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measurable. All assets and liabilities, current, noncurrent and capital in addition to deferred outflows are included on the statement of net position.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB) which establishes combined statements as the required level for governmental entities that present financial statements in accordance with generally accepted accounting principles. The Fund defines operating revenues as receipts from customers and other receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities. All other revenue is recognized as non-operating. The Fund defines operating expenses as personnel and supply costs, utilities and other charges for service, the purchase of furniture and equipment with a value of less than $5,000, and other expenses that do not result from transactions defined as capital or related financing, non-capital financing, or investing activities. All other expense is recognized as non-operating.

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund have implemented GASB No. 75 in this annual report.

In November 2016, the GASB issued Statement No. 83, "Certain Asset Retirement Obligations". This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain ARO's, including obligations that may not have been previously reported. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018 (fiscal year 2019). The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities". This statement will enhance consistency and comparability for establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. (fiscal year 2020) The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

1. Summary of Significant Accounting Policies, continued:

In March 2017, the GASB issued Statement No. 85, "Omnibus 2017". This statement will enhance consistency in the application of accounting and financial reporting requirements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund have implemented GASB No. 85 in this annual report.

In May 2017, the GASB issued Statement No. 86, "Certain Debt Extinguishment Issues". This statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in a irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund have implemented GASB No. 86 in this annual report.

In June 2017, the GASB issued Statement No. 87, "Leases". This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019 (fiscal year 2021). The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2018, the GASB issued Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements". This statement will improve the information that is disclosed in notes of governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018 (fiscal year 2020). The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2018, the GASB issued Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period." This statement will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and will simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019 (fiscal year 2021). The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2018, the GASB issued Statement No. 90, "Majority Equity Interests." This statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018 (fiscal year 2019). The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Inventories of Material and Supplies

Inventories of material and supplies are valued at average cost and charged to expense as used. Fuel is carried at market/replacement cost.

Capital Assets

The Fund defines capital assets as assets with an initial cost of more than $5,000. Acquired or constructed property is recorded at historical cost or estimated historical cost. Donated property is recorded at the acquisition value on the date received. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are placed in service and are depreciated following completion. Depreciation on equipment begins in the year it is placed in service. Interest costs on funds borrowed to finance the construction of capital assets are capitalized based on the weighted average interest rate of the outstanding debt applied to the average on-going construction in progress during the fiscal year. In the year ended June 30, 2018, $8.8 million in interest costs was capitalized. In the year ended June 30, 2017, $9.8 million in interest costs was capitalized.

1. Summary of Significant Accounting Policies, continued:

Depreciation on Airport System buildings and improvements is computed using the straight-line method on the component asset base over the estimated useful life, ranging from fifteen (15) to fifty (50) years. Depreciation on equipment is computed using the straight-line method over the estimated useful life, ranging from three (3) to fifteen (15) years. Depreciation on depreciable intangibles is computed using the straight line method over a useful life that is dependent on the nature of the individual asset.

Passenger Facility Charges

The Federal Aviation Administration (FAA) approved a $3.00 passenger facility charge (PFC) per enplaned passenger to be used for the construction of FAA approved airport capital assets at George Bush Intercontinental (IAH) effective December 1, 2008 and at William P. Hobby Airport (HOU) effective November 1, 2006. On January 20, 2015, the FAA approved an amendment to the existing PFC at both IAH and HOU increasing the rate from $3.00 to $4.50 per enplaned passenger effective March 1, 2015. On April 20, 2016, a second PFC application was approved at HOU with an earliest collection date of August 1, 2017. The current collection expiration dates are January 1, 2028 for IAH and September 1, 2038 for HOU. The airlines collect and remit this revenue, and the Fund records it as non-operating revenue. See Compliance Section for further information.

Compensated Absences

Full-time civilian employees of the City are eligible for 10 days of vacation leave per year. After four years, employees receive 15 days. The amount of vacation time gradually increases after that, reaching a maximum of 25 days per year after 18 years of service. Employees may accumulate up to 105 days of vacation leave (60 days for employees hired after December 31, 1999). However, upon termination or retirement, full-time employees are paid a maximum of 90 days of unused vacation leave (45 days for employees with a computation date after December 31, 1999) which is based on the average rate of pay during the employee’s highest paid 60 days of employment. Part-time and temporary employees (those working less than 30 hours per week) are not eligible for vacation or sick leave benefits.

Most full-time civilian employees are covered under the compensatory sick leave plan and receive a leave time allowance of 2.5 hours per payroll period (bi-weekly) up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee’s balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee’s rate of pay at the time of termination. An employee who uses less than 16 hours of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave, but will not accumulate and will not be paid out at termination. The other remaining full time civilian employees are covered by a sick plan that was closed to employees in 1985. That plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement.

The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act. These policies provide limits to the accumulation of compensatory time and also provide that time not used will be paid in cash. Only classified employees and civilian employees in certain pay grades routinely earn compensatory time.

Vacation and other compensatory time benefits are accrued as liabilities as the benefits are earned, to the extent that the City’s obligation is attributable to employees’ services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts and prepaid bond insurance in the Airport Fund are amortized over the term of the bonds using the effective interest method for fixed rate bonds and the straight-line method for variable rate bonds. Gains or losses on bond refunding are reported as net inflows or outflows and amortized over the term of the new bonds or the refunded bonds, whichever is lesser, using the same respective methods. Debt issuance costs are recognized as expense when incurred.

Statements of Net Position and Cash Flow – Cash and Cash Equivalents and Investments

All highly liquid securities with a maturity date of three months or less are considered to be cash equivalents. Investments are carried at fair value based on quoted market prices.

1. **Summary of Significant Accounting Policies, continued:**

Statements of Net Position and Cash Flow - Restricted Cash and Accounts Receivable

The Fund reports assets as "restricted" when they are held by trustees according to trust indentures supporting various bond issues, principally the Special Facility Revenue Bonds (Consolidated Rental Car Facility) and commercial paper. See Note 2 for restricted deposit details.

Statement of Net Position – Contracts and Retainages Payable

The portion of the contracts and retainages payable which is attributable to the acquisition, construction, or improvement of capital assets is allocated and applied to net investment in capital assets.

Statement of Net Position – Net Position Classification

Net position is displayed in three separate categories: net investment in capital assets; restricted net position; and unrestricted net position, based on the accessibility of the underlying assets. Net investment in capital assets includes all capital assets, however acquired, including accumulated depreciation, and the outstanding debt and deferred inflows of resources used to finance the construction, acquisition, or improvement of capital assets.

Restricted net position includes assets, net of related liabilities, which are limited as to the manner in or purpose for which they may be used. Restrictions reported by the Fund are imposed either by other governments, as in grants or passenger facility charges, or through legally enforceable City ordinances, passed by City Council, which prioritize the use of Fund revenue as a protection to Airport System bondholders.

Restricted net position – Restricted for debt service

This category includes net position in the interest and sinking funds, debt service funds, and debt reserve funds that pay principal and interest for the Revenue Bonds, the Inferior Lien Contract, and the Special Facility Revenue Bonds (Consolidated Rental Car Facility Project). Unexpended Passenger Facility Charges are also included in this category, as they are primarily held, through agreements with the Federal Aviation Administration (FAA), for the repayment of capital financing.

Restricted net position – Restricted for maintenance and operations

This category primarily consists of a reserve fund dedicated to operating and maintenance expense, mandated by the various City ordinances which authorized the issuance of revenue and revenue refunding bonds. At fiscal year end, the reserve fund is required to hold a balance representing at least 60 days of operating expenses, based on the annual operating budget authorized by City Council for the next fiscal year. At June 30, 2018, the net position restricted for maintenance and operations also included $4.6 million restricted for past and future Disaster Recovery operating expenses.

Restricted net position – Restricted for special facility

This category holds Customer Facility Charges dedicated to administrative costs and facility improvements for the Consolidated Rental Car Facility (CRCF). These funds are held by The Bank of New York Mellon Trust Company, under a trust indenture authorized by City Council in conjunction with the issuance of the Special Facility Revenue Bonds and Revenue Refunding Bonds (CRCF Project).

Restricted net position – Restricted for renewal and replacement

The Renewal and Replacement (R&R) Fund was created by the various City ordinances which authorized the issuance of airport revenue and revenue refunding bonds. The R&R Fund is intended to replace depreciable assets, and to make major repairs and renovations. Airport revenue is transferred to this fund if it is not needed for maintenance and operations, or for the debt service and reserve funds, or for the operating and maintenance reserve. The R&R fund can also be used for operations or debt service, if other funds are exhausted. If the R&R fund does not have a net position of at least $10 million at the end of a fiscal year, then additional revenue must be transferred in the next fiscal year. If the R&R fund has a net position that is greater than $10 million, then the excess is restricted for capital improvements.

1. **Summary of Significant Accounting Policies, continued:**

Restricted net position – Restricted for capital improvements

This category consists primarily of the Airport Improvement Fund (AIF), created by the various City ordinances which authorized the issuance of revenue bonds. After maintenance and operating expenses are paid, and after all other transfers mandated by City ordinances are made, any net revenue remaining is required to be transferred to the AIF. The AIF is intended for capital expenditures, but it can also be used to cure deficiencies in the R&R fund. If the unappropriated AIF balance is (1) sufficient to cover the capital improvement program for 24 months, or (2) $50 million, whichever is greater, then the AIF may be used by the City for any lawful purpose not inconsistent with the terms of any Federal grants or aid or any contracts to which the City is a party. Net position restricted for capital improvements also includes grant or contract funds received from the FAA or Transportation Security Administration (TSA) for the construction or acquisition of capital assets. Unspent proceeds from debt issuance are included in this category, along with an allocated portion of the associated unpaid debt, if the debt was issued for capital construction, improvement, or acquisition.

Net position – Unrestricted (deficit)

This category is defined as any portion of net position that is not classified as either net investment in capital assets or restricted net position. The Fund's Master Ordinance for the Issuance of Revenue Obligations requires that system revenue not used for specific defined purposes be restricted for capital improvement. Before the Fund's implementation of GASB No. 68, "Accounting and Financial Reporting for Pensions," the Fund defined compliance with the Ordinance as the annual restriction of net revenue so that unrestricted net position would always be reported as zero. The unrestricted deficit in net position on June 30, 2017 is the amount of the Fund's net pension liability that was not covered by Fund assets when the Fund implemented GASB No. 68 on July 1, 2014, subsequently improved by a change in the pension plan to ($126.9 million). See Note 6 for further information.

In fiscal year 2018, the Fund implemented GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". See Note 7 for further information. The cumulative effect of the implementation added a deficit of ($21.3 million) to the unrestricted net position. Beginning in fiscal year 2018, the Airport System will set its rates and charges to amortize the deficit in the unrestricted net position over thirty years. The deficit was reduced by $4.9 million in fiscal year 2018 to ($143.3 million).

2. **Deposits and Investments**

Deposits

The City's investment policy requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgages backed securities prohibited by the Public Funds Investment Act); or in any other manner and amount provided by law for the deposits of the City. At all times, such securities should have a fair value of not less than 102% of the amount of the deposits collateralized thereby, adjusted by the amount of applicable depository insurance. There were no deposits with custodial risk at year end.

Cash and Cash Equivalents and Investments

The City maintains a cash and investment pool (the Pool) that is available for use by all funds. On the Statement of Net Position, "Cash and Cash Equivalents" includes each fund's portion of the Pool and each fund's non-pooled cash; "Investments" represents each fund's portion of the Pool and non-pooled investment. Participation in the Pool is limited to normal operating activities of the fund and other funds that are restricted because of statutory or contractual considerations, but does not include cash on hand (petty cash and change funds) which is included in non-pooled cash. Earnings from the Pool are allocated to the funds based upon each fund's average daily balance in the Pool. A summary of balances in pooled and non-pooled accounts follows.

Fiscal Year	Pooled Cash and Cash Equivalents	Pooled Investments	Total Pooled Cash and Investment	Non-pooled cash	Total Cash and Investments
2018	$ 134,352,929	$ 1,184,222,647	$ 1,318,575,576	$ 43,883,483	$ 1,362,459,059
2017	$ 171,328,365	$ 1,044,679,159	$ 1,216,007,524	$ 43,614,720	$ 1,259,622,244

The Airport Fund had petty cash and change funds totaling $5,450 included in the non-pooled cash at June 30, 2018 and June 30, 2017.

2. Deposits and Investments, continued:

Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2018 and June 30, 2017. On these dates, the City had $4.0 billion and $3.6 billion, respectively, in high grade, fixed income investments. All investments are governed by state law and the City's Investment Policy, which dictates the following objectives, in order of priority:

1. Safety
2. Liquidity
3. Return on Investment
4. Legal Requirements

These funds are managed internally by City personnel within a citywide investment pool. The investments listed below do not include the City's three pension funds, which are described separately in this report. This pool consists of all working capital, construction, and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. The funds of the City's enterprise systems which include the Airport Fund, as well as the general fund, are commingled in this pool in order to gain operational efficiency. Approximately 98.5% and 98.3% of the City's total investable funds are contained in this portfolio on June 30, 2018 and June 30, 2017 respectively.

City of Houston Investment	(1)(2) FY2018 & FY2017 Credit Quality Ratings	June 30, 2018 Fair Value ($ in millions)	June 30, 2018 WAM* (years)	June 30, 2017 Fair Value ($ in millions)	June 30, 2017 WAM* (years)
U.S. Treasury Securities	AAA	$ 2,705.11	1.509	$ 1,757.01	1.595
Government Agency Securities (3)	AAA	681.34	1.544	999.72	1.522
Government Agency Securities (State of Israel Bond)	A+	5.01	0.173	4.98	1.173
Government Agency Securities (3) (4)	Not Rated	-	-	26.02	0.392
Government Mortgaged Backed Seurities (3) (4)	Not Rated	9.57	1.894	15.71	1.894
MMF - TexSTAR Cash Reserves	AAA Short Term	262.35	0.060	210.00	0.088
Commercial Paper	A-1+/P-1 Short Term	139.59	0.136	314.09	0.215
Municipal Securities	AAA Long Term	80.41	1.329	100.06	1.279
Municipal Securities	AA Long Term	121.93	1.215	195.64	1.230
Municipal Securities	A Long Term	5.71	1.391	8.78	1.681
Total Investments		**$ 4,011.02**	**1.358**	**$ 3,632.01**	**1.332**

* Weighted Average Maturity (WAM) is computed using average life of mortgage backed securities and effective maturity of callable securities.

(1) Fitch Ratings Inc. has assigned an AAA credit quality rating and S1 volatility rating to the City's General Investment Pool. The AAA signifies the highest level of credit protection, and the S1 rating signifies volatility consistent with a portfolio of government securities maturing from one to three years.

(2) All credit ratings shown are either actual Fitch ratings, or if a Fitch credit rating is not available, the equivalent Fitch credit rating is shown to represent the actual Moody's or Standard & Poor's credit rating.

(3) These are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Corporation (Fannie Mae), and Federal Farm Credit Bank.

(4) These securities were issued by the Federal Home Loan Bank, Freddie Mac, Fannie Mae, and Farmer Mac. While these individual issues were not rated, senior lien debt of these entities is rated AAA.

2. Deposits and Investments, continued:

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this investment portfolio's dollar-weighted average maturity to 2.5 years maximum. As of June 30, 2018, this investment portfolio's dollar-weighted average maturity was 1.36 years. Modified duration was 1.33 years. Modified duration can be used as a multiplier to determine the percent change in price of a bond portfolio for every 100 basis point (1%) change in yield. For example, a portfolio with a modified duration of 1.33 years would experience approximately a 1.33% change in market price for every 100 basis point change in yield.

Credit Risk – Investments. The U.S. Treasury Securities and Housing and Urban Development Securities are direct obligations of the United States government. Government Agency Securities and Mortgage Backed Securities were issued by government sponsored enterprises but are not direct obligations of the U.S. Government. The Money Market Mutual Funds were rated AAA. Municipal Securities were rated at least A+. The City's investment policy limits investments in the General Investment Pool to high quality securities with maximum maturity of five years for all U.S. Treasuries, Government Agency, and Municipal Securities with the exception of Government Mortgaged Backed Securities which can have maximum maturity of 15 years. Certificates of Deposit maximum maturity is two years, and Commercial Paper maximum maturity is 270 days. The General Investment Pool maximum sector exposure are as follow: U.S. Treasuries up to 100%; Government Agency Securities up to 85% with maximum exposure to any one Agency issuer is 35%; Mortgage Backed Securities up to 20%; Municipal Securities up to 20% with a rating not less than A by a nationally recognized rating agency; Money Market Mutual Funds up to 25%; Certificates of Deposit up to 15%; and Commercial Paper up to 15%.

Credit Risk – Securities Lending. Under its securities lending program, the City receives 102% of fair value for its U.S. Treasury securities at the time the repurchase agreements are signed, and agreements are limited to 90 days by policy and have been less than 35 days by practice. At June 30, 2018 there were no securities lending agreements outstanding.

Custodial Credit Risk. The custodial credit risk for investments is the risk that in the event of failure of a counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2018, none of the City's investments in the General Investment Pool 9900 were subject to custodial credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that investments will change value due to changes in exchange rates between time of purchase and reporting or sale. The City's general pool investments are limited by policy to US dollar denominated investments and not subject to this risk.

2. Deposits and Investments, continued:

A summary of the Pool's investment under the requirements of the fair value hierarchy follows:

	Fair Value Measurements Using ($ in millions)							
Investments by fair value level	Total June 30, 2018	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total June 30, 2017	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
U.S. Treasury Securities	$ 2,705.11	$ 2,705.11	$ -	$ -	$ 1,757.01	$ 1,757.01	$ -	$ -
Government Agency Securities	681.34	-	681.34	-	1,025.74	-	1,025.74	-
Government Agency Securities (State of Israel Bd)	5.01	-	-	5.01	4.98	-	-	4.98
Government Mortgaged Backed Seurities	9.57	-	9.57	-	15.71	-	15.71	-
Municipal Securities	208.05	-	208.05	-	304.48	-	304.48	-
Commercial Paper	139.59	-	139.59	-	314.09	-	314.09	-
Total Investments by Fair Value Level	$ 3,748.67	$ 2,705.11	$ 1,038.55	$ 5.01	$ 3,422.01	$ 1,757.01	$ 1,660.02	$ 4.98
Investments measured at the net asset value (NAV)								
MMF - TexSTAR Cash Reserves	$ 262.35	-	$ 262.35	-	$ 210.00	-	$ 210.00	-
Total investments measured at the net asset value (NAV)	$ 262.35	-	$ 262.35	-	$ 210.00	-	$ 210.00	-
Total investments measured at fair value and NAV	$ 4,011.02	$ 2,705.11	$ 1,300.90	$ 5.01	$ 3,632.01	$ 1,757.01	$ 1,870.02	$ 4.98

Security Valuation Disclosure:

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 & 3 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pricing Sources: IDC for municipal securities and Reuters for all else.

TexSTAR uses the fair value method to report its investments. Under the fair value method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third party broker-dealers. In instances where sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are than discounted to calculate the fair values.

2. Deposits and Investments, continued:

Restricted Cash and Cash Equivalents - Miscellaneous Money Market Accounts

In addition to its investment pools, the City maintains several money market accounts for various purposes. These accounts are considered cash and cash equivalents on the Statements of Cash Flows because they maintain a weighted average maturity of less than three months. The Fund's portion of these is as follows:

	FY2018 Credit Quality Ratings	Fair Value June 30, 2018 ($ in millions)	FY2017 Credit Quality Ratings	Fair Value June 30, 2017 ($ in millions)	FY2018 & FY2017 Weighted Average Maturity
Blackrock Federal Institutional Fund Balances held for Consolidated Rental Car Facility operations, improvements, debt service	AAA	$ 43.218	AAA	$ 36.632	< 60 days
JP Morgan US Government Money Market Fund: Balances held for Airport System Special Facilities Revenue Bd Series 1997A debt service	AAA	-	AAA	6.594	< 60 days
JP Morgan US Treasury Securities Money Market Fund: Balances held for auction bonds debt service	AAA	0.653	AAA	0.376	< 60 days
First American US Treasury Money Market Fund: Balance held for commercial paper debt service	AAA	0.007	AAA	0.007	< 60 days
Total Fair Value - Money Market Accounts		**$ 43.878**		**$ 43.609**	

Risk Disclosures:

Interest Rate Risk. These money market funds maintain an average maturity of less than 60 days and seek to maintain a stable net asset value of $1.00. These funds are redeemable on a same day notice.

Credit Risk. These funds hold only US dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

Custodial Credit Risk. As of June 30, 2018, none of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in these accounts are all US dollar denominated and not subject to foreign currency risk.

A summary of investments under the requirements of the fair value hierarchy follows:

	Fair Value Measurements Using ($ in millions)					
Investments measured at the net asset value (NAV)	Total June 30, 2018	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Total June 30, 2017	Quoted prices (Level 1)	Other significant observable inputs (Level 2)
JP Morgan US Government MMF (Airport System Special Facilities Revenue Bd Series 1997A)	$ -	$ -	$ -	$ 6.594	$ -	$ 6.594
BlackRock FedFund-Institutional	43.218	-	43.218	36.632	-	36.632
JP Morgan US Treasury Securities MMF	0.653	-	0.653	0.376	-	0.376
First American US Treasury MMF	0.007	-	0.007	0.007	-	0.007
Total investments measured at the net asset value (NAV)	$ 43.878	$ -	$ 43.878	$ 43.609	$ -	$ 43.609

Security Valuation Disclosure:

Security fair value levels are established on a security by security basis. Matrix pricing, market corroborated pricing inputs such as yield curve and indices; often includes fixed income bonds, over the counter swaps, and other derivatives. These can also include securities priced using quoted prices for similar assets or liabilities in active markets and quoted prices for similar assets or liabilities in markets that are not active.

3. Capital Assets

Summaries of changes in fixed assets for the years ended June 30, 2018 and June 30, 2017 follow (in thousands):

	Balance June 30, 2017	Additions	Retirements	Transfers	Balance June 30, 2018
Capital assets not being depreciated :					
Land	$216,079	-	-	$28	$216,107
Rights & Intangibles - Non-Amortizable	9,569	-	-	3,110	12,679
Construction work in progress	135,233	107,032	-	(59,421)	182,844
Total capital assets not being depreciated	360,881	107,032	-	(56,283)	411,630
Other capital assets:					
Buildings and building improvements	2,970,950	-	(228)	14,805	2,985,527
Improvements other than buildings	2,145,180	-	-	36,703	2,181,883
Equipment	261,485	2,176	(177)	4,775	268,259
Rights & Intangibles - Amortizable	5,035	(338)	-	-	4,697
Total other capital asset	5,382,650	1,838	(405)	56,283	5,440,366
Less accumulated depreciation for:					
Buildings and building improvements	(1,328,716)	(96,707)	23	-	(1,425,400)
Improvements other than buildings	(1,327,987)	(63,952)	-	-	(1,391,939)
Equipment	(200,320)	(14,701)	177	-	(214,844)
Rights & Intangibles	(3,076)	(693)	-	-	(3,769)
Total accumulated depreciation	(2,860,099)	(176,053)	200	-	(3,035,952)
Other capital assets, net	2,522,551	(174,215)	(205)	56,283	2,404,414
Total Capital assets, net	$2,883,432	($67,183)	($205)	-	$2,816,044

	Balance June 30, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
Capital assets not being depreciated :					
Land	$222,886	5,390	($12,649)	$452	$216,079
Rights & Intangibles - Non-Amortizable	9,752	-	-	(183)	9,569
Construction work in progress	174,942	105,020	-	(144,729)	135,233
Total capital assets not being depreciated	407,580	110,410	(12,649)	(144,460)	360,881
Other capital assets:					
Buildings and building improvements	2,900,383	296	-	70,271	2,970,950
Improvements other than buildings	2,072,293	3,451	-	69,436	2,145,180
Equipment	249,028	8,280	(576)	4,753	261,485
Rights & Intangibles - Amortizable	4,084	951	-	-	5,035
Total other capital asset	5,225,788	12,978	(576)	144,460	5,382,650
Less accumulated depreciation for:					
Buildings and building improvements	(1,227,227)	(101,538)	-	49	(1,328,716)
Improvements other than buildings	(1,259,750)	(68,217)	-	(20)	(1,327,987)
Equipment	(186,464)	(14,403)	576	(29)	(200,320)
Rights & Intangibles	(1,463)	(1,613)	-	-	(3,076)
Total accumulated depreciation	(2,674,904)	(185,771) *	576	-	(2,860,099)
Other capital assets, net	2,550,884	(172,793)	-	144,460	2,522,551
Total Capital assets, net	$2,958,464	($62,383)	($12,649)	-	$2,883,432

Interest Cost: (in thousands)	FY2018	FY2017	Percentage Change
Total Interest Cost	$ 98,777	$ 97,271	1.5%
Capitalized Interest	(8,833)	(9,789)	-9.8%
Interest Expense	$ 89,944	$ 87,482	2.8%

Fiscal year 2018 Construction Work in Progress ending balance is 35% higher than in fiscal year 2017. This increase is due to large projects in Construction Work in Progress in 2018 that include the Reconstruction of Taxiway NA, ITRP Project Management Office, Terminal D Renovation, Ellington ATC Tower, Terminal C/E Explosive Detective System Upgrades, Southwest Hangar Development and United Maintenance Hanger Development.

*In fiscal year 2017 the $185.771 million addition to accumulated depreciation differs from the $184.203 million depreciation expense reflected on the Statements of Revenues, Expenses, and Changes in Net Position because of an adjustment for found buildings and improvements that was recorded at book value which increased accumulated depreciation but did not affect that year's depreciation.

In fiscal year 2017, HAS retired $12,649,049.34 of land due to the sale of 147 acres and the write-down of Bahr Woods preserve mitigation easement originally recorded as land. The Bahr Woods easement is entrusted to Legacy Land Trust, and Houston Airport System has no obligation or duty to the asset.

In fiscal year 2017 HAS closed out several large construction projects from Construction Work in Progress including Hobby Parking Garage, Satellite Utility Plant, and the New Terminal C North Ramp.

4. Leases

A. The Fund as Lessee

The Airport System has obtained equipment through long-term operating leases. The total cost for such leases was $298,871 for the year ended June 30, 2018.

B. The Fund as Lessor

The Airport System is the lessor of approximately ten percent of its land and substantially all of its buildings and improvements. These lease agreements are non-cancelable operating leases with fixed minimum rentals and non-cancelable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land with asset costs of $21,610,698 to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Airlines and airport concessionaires lease various sections of City owned airport buildings and improvements for ticket counters, passenger hold rooms, baggage carousels, restaurants, retail stores and other facilities. Leased buildings, improvements and equipment have asset costs of $5,435,669,142 and carrying costs of $2,399,717,458. Accumulated depreciation on all these assets is $3,035,951,684.

Minimum guaranteed income on such non-cancelable operating leases is as follows (in thousands):

Year Ending June 30		Minimum Rental Income
2019	$	72,221
2020		71,086
2021		60,546
2022		57,037
2023		56,621
2024-2028		196,229
2029-2033		59,896
2034-2038		51,688
2039-2043		50,513
2044-2048		39,195
2049-2053		37,419
2054-2055		4,878
Total	$	757,329

Contingent income associated with the Airport System non-cancelable operating leases was approximately $13,083,404 and $10,697,316 for the years ended June 30, 2018 and 2017, respectively. Contingent income is earned when a concessionaire's payment, based on a percentage of sales, is higher than the minimum amount guaranteed to the Airport System under the terms of the lease. In addition, income is earned from certain non-cancelable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Compensatory income for the years ended June 30, 2018 and 2017 is as follows (in thousands):

	Compensatory Income			
	2018		2017	
Landing Fees	$	92,585	$	86,966
Terminal Space – Airline		194,511		194,191
	$	287,096	$	281,157

5. Long-Term Liabilities

Changes in long-term liabilities for the years ended June 30, 2018 and 2017 are summarized as follows (in thousands):

	Balance June 30, 2017	Additions	Retirements/ Transfers	Balance June 30, 2018	Amounts Due within One Year
Revenue bonds payable	$ 2,010,410	$ 415,770	$ (339,185)	$ 2,086,995	$ 78,520
Plus unamortized premium	61,302	62,819	(11,759)	112,362	-
Less unamortized discount	(2,717)	-	295	(2,422)	-
Revenue bonds payable, net	2,068,995	478,589	(350,649)	2,196,935	78,520
Special facility bonds payable	91,590	-	(5,490)	86,100	5,715
Inferior lien contract	6,240	-	(6,240)	-	-
Commercial paper payable	87,000	18,000	(83,527)	21,473	-
Pension obligation bonds	2,006	27,610	-	29,616	27,610
Note payable	115,421	1,939	(117,360)	-	-
Claims for workers compensation	1,419	1,739	(882)	2,276	881
Compensated absences	12,621	10,061	(9,623)	13,059	6,127
Net pension liability payable	254,420	-	(23,421)	230,999	-
Other post employment benefits	74,657	20,842	(6,049)	89,450	-
Other post employment benefits - LTD	-	459	(2)	457	-
Total long-term liabilities	$ 2,714,369	$ 559,239	$ (603,243)	$ 2,670,365	$ 118,853

	Balance June 30, 2016	Additions	Retirements/ Transfers	Balance June 30, 2017	Due within One Year
Revenue bonds payable	$ 2,085,075	$ -	$ (74,665)	$ 2,010,410	$ 77,855
Plus unamortized premium	68,118	-	(6,816)	61,302	-
Less unamortized discount	(3,016)	-	299	(2,717)	-
Revenue bonds payable, net	2,150,177	-	(81,182)	2,068,995	77,855
Special facility bonds payable	96,895	-	(5,305)	91,590	5,490
Inferior lien contract	12,155	-	(5,915)	6,240	6,240
Commercial paper payable	87,000	-	-	87,000	-
Pension obligation bonds	2,006	-	-	2,006	-
Note payable	120,439	-	(5,018)	115,421	5,018
Claims for workers compensation	1,805	390	(776)	1,419	777
Compensated absences	12,780	9,849	(10,008)	12,621	6,367
Net pension liability payable	282,811	-	(28,391)	254,420	-
Other post employment benefits	70,203	4,454	-	74,657	-
Total long-term liabilities	$ 2,836,271	$ 14,693	$ (136,595)	$ 2,714,369	$ 101,747

Purpose of Debt

The Fund issues revenue bonds and commercial paper for the purpose of enlarging, maintaining and improving the Houston Airport System. The Fund has issued refunding bonds from time to time when there have been opportunities for economic gain. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt has been removed from the Fund's books.

5. Long-Term Liabilities, continued:

Debt Service Requirements to Maturity

Aggregate future Airport system debt service payments to maturity as of June 30, 2018 were as follows (in thousands):

Year Ending June 30	Airport System Total Future Requirements Principal	Interest	Total
2019	$ 111,845	$ 101,617	$ 213,462
2020	96,475	101,597	198,072
2021	89,720	97,036	186,756
2022	132,398	91,814	224,212
2023	113,215	85,874	199,089
2024-2028	645,385	338,587	983,972
2029-2033	736,442	172,410	908,852
2034-2038	171,514	57,306	228,820
2039-2043	107,785	13,398	121,183
2044-2048	15,765	2,957	18,722
2049-2053	3,640	91	3,731
Total	$ 2,224,184	$ 1,062,687	$ 3,286,871

Year Ending June 30	Airport System Senior Lien Revenue Bonds Principal	Interest
2019	$ 10,735	$ 22,089
2020	11,275	21,538
2021	11,835	20,961
2022	12,430	20,354
2023	13,050	19,717
2024-2028	75,725	87,846
2029-2033	97,295	65,555
2034-2038	126,970	35,009
2039-2043	61,105	3,406
2044-2048	-	-
2049-2053	-	-
Total	$ 420,420	$ 296,475

Year Ending June 30	Airport System Subordinate Lien Revenue Bonds Principal	Interest
2019	$ 67,785	$ 72,631
2020	79,240	73,900
2021	71,645	70,079
2022	90,990	66,197
2023	92,000	61,876
2024-2028	517,145	238,788
2029-2033	637,520	106,486
2034-2038	44,165	22,257
2039-2043	46,680	9,992
2044-2048	15,765	2,957
2049-2053	3,640	91
Total	$ 1,666,575	$ 725,254

Year Ending June 30	Airport System Commercial Paper Principal	Interest
2019	$ -	$ 1,012
2020	-	1,014
2021	-	1,012
2022	21,473	466
2023	-	-
2024-2028	-	-
2029-2033	-	-
2034-2038	-	-
2039-2043	-	-
2044-2048	-	-
2049-2053	-	-
Total	$ 21,473	$ 3,504

Year Ending June 30	Airport System Special Facility Bonds - Rental Car Facility Principal	Interest
2019	$ 5,715	$ 5,170
2020	5,960	5,038
2021	6,240	4,877
2022	7,505	4,691
2023	8,165	4,175
2024-2028	52,515	11,421
2029-2033	-	-
2034-2038	-	-
2039-2043	-	-
2044-2048	-	-
Total	$ 86,100	$ 35,372

Year Ending June 30	Airport System Pension Obligations Principal	Interest
2019	$ 27,610	$ 715
2020	-	107
2021	-	107
2022	-	106
2023		106
2024-2028	-	532
2029-2033	1,627	369
2034-2038	379	40
2039-2043	-	-
2044-2048	-	-
Total	$ 29,616	$ 2,082

5. Long-Term Liabilities, continued:

	Maturity Year	Original Interest Rate Range	Face Value Outstanding June 30, 2018	Face Value Outstanding June 30, 2017
Airport System Subordinate Lien Revenue Bonds:				
Series 2000B, $269,240,000 original principal	2030	5.45%-5.7%	$ 44,515	$ 44,515
Series 2002A, $200,050,000 original principal	2032	5%-5.625%	20,005	20,005
Series 2002B, $274,455,000 original principal	2032	5%-5.5%	27,450	27,450
Periodic Auction Reset Securities				
Series 2000P-1, $50,000,000 original principal	2030	N/A	32,275	34,100
Series 2000P-2, $50,000,000 original principal	2030	N/A	32,050	33,875
Auction Rate Securities				
Series 2002C, $100,000,000 original principal	2032	N/A	71,175	76,875
Series 2002D-1, $75,000,000 original principal	2032	N/A	55,800	55,800
Series 2002D-2, $75,000,000 original principal	2032	N/A	50,975	53,825
Airport System Subordinate Lien Revenue Refunding Bonds:				
Series 2007B, $298,670,000 original principal	2032	4%-5%	8,715	274,315
Series 2011A, $449,975,000 original principal	2026	3%-5%	245,200	283,580
Series 2011B, $116,930,000 original principal	2026	3%-5%	72,650	82,040
Series 2012A, $286,585,000 original principal	2032	5%	280,355	283,545
Series 2012B, $217,135,000 original principal	2032	5%	217,135	217,135
Series 2018A, $130,550,000 original principal	2041	5%	130,550	-
Series 2018B, $285,220,000 original principal	2048	5%	285,220	-
Variable Rate Debt Obligations				
Series 2010, $93,730,000 original principal	2030	N/A	92,505	92,705
Airport System Senior Lien Revenue and Refunding Bonds:				
Series 2009A, $449,660,000 original principal	2039	5%-5.5%	420,420	430,645
Total principal			$ 2,086,995	$ 2,010,410
Less: Total current maturities			(78,520)	(77,855)
Unamortized discount			(2,422)	(2,717)
Unamortized premium			112,362	61,302
Total revenue bonds payable - long term			$ 2,118,415	$ 1,991,140

5. **Long-Term Liabilities, continued:**

New Bonds

On March 20, 2018, the City issued $130,550,000 in Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018A (AMT), and $285,220,000 in Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018B (Non-AMT). Series A matures in varying amounts from 2019 to 2041. Series B matures in varying amounts from 2019 to 2048. All the bonds carry a stated interest rate of 5% with a yield of 3.05%.

Series A was issued to current refund $21,112,000 in Commercial Paper Notes (AMT), to increase the Subordinate Lien Reserve Fund, to pay for costs of issuance, and to provide $115.9 million used to buy out the note payable to Southwest Airlines for its interest in the Hobby International Terminal Project.

Series B was issued to current refund $62,415,000 in Commercial Paper Notes (Non-AMT), to current refund $261,330,000 in Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2007B (Non-AMT), to increase the Subordinate Lien Reserve Fund, and to pay for costs of issuance. Net present value savings related to the refunded Series 2007B bonds totaled $39.6 million, or 15.2% of the refunded bonds. Total debt service was reduced by $49.5 million.

Security for Airport Debt

To the extent it legally may do so, the Fund covenants in its bond ordinances to charge rates for use of the Airport System in order that in each fiscal year the net revenues will be not less than 125% of the debt service requirements for Senior Lien Bonds for such fiscal year and 110% of the debt service requirements for Subordinate Lien Bonds for such fiscal year. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at prices which include premiums ranging downward from 1%.

The Fund presently has three outstanding Senior Lien Debt Service Reserve Fund Surety Policies issued by Financial Guaranty Insurance Corporation (FGIC) and reinsured by National Public Finance Guarantee Corporation for any outstanding Senior Lien Notes. These policies have an aggregate maximum amount of $12,374,996 and terminate on October 25, 2023 and July 1, 2030. Using proceeds of the Series 2009A Bonds, the Fund has also deposited $33,095,994 into the Senior Lien Bond Reserve Fund.

The Fund has purchased Subordinate Lien Debt Service Reserve Fund Surety Policies that unconditionally guarantee the payment of the current principal and interest on all outstanding Airport System subordinate lien issues. The surety policies have termination dates ranging from July 1, 2022 to July 1, 2032. Each of the draws made against the surety policies shall bear interest at the prime rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw. The policies were issued by (1) FGIC in the aggregate maximum amount of $102,949,865, reinsured by National Public Finance Guarantee Corporation; (2) Assured Guarantee Municipal Corporation in the aggregate maximum amount of $31,921,384; and (3) Syncora Guarantee in the aggregate maximum amount of $15,756,228. The Syncora policies will be active until the Airport System Subordinate Lien Revenue Bonds, Series 2002C, Series 2002D-1, and Series 2002D2 are redeemed. The Airport System Fund also has a cash reserve of $35,864,010 in the Subordinate Lien Bond Reserve Fund. For information on events that occurred after June 30, 2018, see Note 12.

Airport System Inferior Lien Contract

On July 1, 2004 the City and United Airlines, formerly Continental Airlines, Inc., entered into a Sublease Agreement associated with the Special Facilities Lease for the Automated People Mover System and the City's Airport System Special Facilities Revenue Bonds (Automated People Mover Project) Series 1997A (1997A Special Facilities Bonds). The City assumed United Airlines' interest in the project upon completion of the expansion of the Automated People Mover System on January 25, 2005. As part of the Sublease, the City agreed to make sublease payments that include amounts equal to the debt service on the 1997A Special Facilities Bonds. The payments are payable from Airport System net revenues on the same priority as inferior lien bonds. Accordingly, the principal amount remaining on the 1997A Special Facilities Bonds, totaling $6,240,000 at June 30, 2017, is recorded as an Inferior Lien Contract. The 1997A Bonds reached final maturity on July 15, 2017.

5. Long-Term Liabilities, continued:

Variable Rate Debt

The Fund has issued variable rate debt in Airport System Subordinate Lien Revenue Bonds Series 2000P-1 and Series 2000P-2. They were issued as auction reset securities with Series 2000P-1 to be auctioned every 7 days, and Series 2000P-2 to be auctioned every 28 days. On July 20, 2005, Series P-2 changed to being auctioned every 7 days. The rate in effect at June 30, 2018, including dealer and auction fees, was 3.8085% for Series 2000P-1 and 3.9585% for Series 2000P-2. Additional variable rate debt was issued as Series 2002C, Series 2002D-1, and Series 2002D-2 as auction rate securities to be auctioned every 35 days. These changed to being auctioned every 7 days as of August 10, 2005, August 3, 2005, and July 13, 2005, respectively. Rates in effect at June 30, 2018, including dealer and auction fees, were 4.235% for Series 2002C and Series 2002D-1, and 4.245% for Series 2002D-2. Starting in February 2008, various auction rate securities began, and through June 30, 2018, continue, to not be remarketed. Auction rate bonds that cannot be sold remain with the bondholder.

However, if the auction is not successful, the rate is reset based on predetermined formulae which include the rating of the insurer, or the underlying rating of the Fund if it is higher than the insurer's rating. The formula for the Series 2000P-1 and Series 2000P-2 was 125% of the commercial paper rate until July 30, 2009, 150% until April 16, 2010 and 200% thereafter. The formula for the Series 2002C, Series 2002D-1, and Series 2002D-2 is 200% of LIBOR. For events that occurred after June 30, 2018, see Note 12.

Additional variable rate debt was issued as Series 2005A as variable rate demand obligations with a weekly reset. Series 2005A was refunded by Series 2010 on December 21, 2010. Series 2010 is also a variable rate demand obligations issue with a weekly reset. The rate in effect at June 30, 2018, including remarketing fees, was 1.61%. Should Series 2010 be tendered and not remarketed, principal and interest will be paid by a letter of credit issued by Barclay's Bank, PLC. The reimbursement agreement for the letter of credit was amended on December 6, 2017, to extend the termination date to December 22, 2020 unless further extended or terminated. The letter of credit covers the outstanding par value of the bonds plus 35 days accrued interest at a 12% annual rate. The facility fee rate for the letter of credit was increased to .46% from.425% as of January 1, 2018. If the remarketing agent is unable to resell the Series 2010 bonds, then the letter of credit will pay the principal to the bondholders and the bonds will become bank bonds, subject to the greater of several options for interest rates. The maximum interest rate permitted under the ordinance is 10%. After 60 days, the bank bonds become a term loan, where the Airport System must pay six semi-annual principal payments over three years to retire the loan. The Fund has made no draws on the letter of credit through June 30, 2018. Because the Series 2010 Bonds were issued as multi-modal bonds, the Houston Airport System can elect to convert the Bonds into long-term fixed rate bonds that would not require a letter of credit.

Arbitrage Rebate

Arbitrage rebate rules, under Chapter 148 of the Federal Tax Code, require generally that a tax-exempt bond issuer pay to the federal government any profit made from investing bond proceeds at a yield above the bond yield, when investing in a taxable market. Payments based on cumulative profit earned by bonds are due, in general, every five years. During Fiscal Year 2017, the Airport Fund paid $1,682 of arbitrage rebate on interest income earned by commercial paper notes. At June 30, 2018 and June 30, 2017, yield restriction and arbitrate rebate payable by the Airport Fund was $0 and $0, respectively.

Commercial Paper

Airport System Commercial Paper Notes (Notes) were originally authorized for $150 million for Series A and B and $150 million for Series C to establish, improve, enlarge, and extend the Houston Airport System, acquire land, and pay interest on the Notes. Between July 1, 2013 and December 20, 2013, Series A and B were collateralized by a direct pay letter of credit issued by Bank of America, N.A. On November 20, 2013, the City re-authorized and amended the Series A and B Notes. A new direct pay letter of credit was issued by the Royal Bank of Canada on December 18, 2013, covering $150 million in face value plus $11.1 million in respect of 270 days accrued interest computed at 10%. This letter of credit expired on December 16, 2016 and was replaced by a letter of credit for the same amount issued by Sumitomo Mitsui Banking Corporation, which will expire on December 15, 2021. On June 30, 2017 there were $87.0 million in Series A and B Notes outstanding. Subordinate Lien Revenue and Refunding Bonds, Series 2018A and Series 2018B, together refunded $83.5 million in Commercial Paper Notes, and additional draws for $18 million brought the balance of Series A Notes outstanding at June 30, 2018 to $21.5 million.

5. Long-Term Liabilities, continued:

Forward Delivery Bond Purchase Agreement

On October 21, 2015, the City terminated its authorization for the $150 million Series C Commercial Paper Notes, and instead authorized the issuance of $450 million in Airport System Inferior Lien Revenue Bonds in one or more series. The City also authorized the execution of a forward delivery bond purchase agreement. This authorization is valid until October 3, 2018 unless extended by a separate City Council action. Please refer to Note 12, titled "Subsequent Events". On November 5, 2015, The City executed a forward delivery bond purchase agreement for the issuance of up to $450 million of Airport System Inferior Lien Revenue Bonds with the Royal Bank of Canada. The agreement expires on November 5, 2022. No bonds have been issued as of June 30, 2018.

Pledged Revenues

The Fund has pledged airport system revenues, net of operation and maintenance expenses, to pay principal and interest on outstanding Senior Lien Commercial Paper Notes, Senior Lien Revenue Bonds, Subordinate Lien Revenue Bonds, and any Inferior Lien Bonds, with outstanding principal amounts of $21.5 million, $420.4 million, $1,666.6 million and $0 million respectively at June 30, 2018. The Commercial Paper Notes and Revenue Bonds are issued to establish, improve, enlarge, extend and repair the Airport System. An Inferior Lien Sublease Agreement with United Airlines paid debt service on the Airport System Special Facilities Bonds, (Automated People Mover Project) Series 1997A until their final maturity on July 15, 2017.

Pledged airport system revenues exclude: proceeds of any bonds, replacement proceeds, or any investment income earned by bond proceeds; fair value adjustments to investment income; passenger facility charges; grants or gifts for construction or acquisition; insurance proceeds; revenue from special facilities pledged to Special Facility Bonds; taxes collected for others; and proceeds from the sale of property. Pledged airport system revenues, net of operation and maintenance expense, totaled $195.5 million in Fiscal Year 2018, covering principal of $81.1 million and interest of $93.3 million. In addition to pledged airport system revenue, passenger facility charges totaling $50.6 million were available to pay debt service in Fiscal Year 2018, making the ratio of net pledged revenue to cover debt service costs 1.58%.

Special Facility Bonds

The Airport System Special Facilities Taxable Revenue Bonds, (Consolidated Rental Car Facility Project), Series 2001, original par value $130,250,000, financed the design and construction at Intercontinental of a common car customer service building, a parking structure, maintenance, storage and administrative facilities for each car rental company lessee, a common bus fleet and maintenance facility, and related infrastructure. The City holds legal title to the completed Consolidated Rental Car Facility (CRCF), as it was constructed on airport property, but the facility is operated and maintained by IAH RACS, LLC, a limited liability company formed by various car rental companies. The bonds are payable from customer facility charges collected by the car rental companies from their customers and remitted to a trustee for payment of debt service and other uses allowable by a trust indenture. As of June 30, 2018, the daily usage charge per customer is set at $4.00. The trust indenture determines when and how the City is responsible for changing the rate, which under the Bond covenants must be set to provide a debt service coverage ratio of at least 125%. The bonds are limited special obligations of the City, payable solely from and secured by pledged customer facility charges. There is no pledge of the car rental companies' revenues, or against any general revenue of the City or Fund.

On September 4, 2014, the City issued $38,225,000 in Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014, at coupons ranging from 6.49% to 7.13%. The stated interest rate was 3.117%. The bonds mature in varying amounts from 2015 to 2021. Proceeds of the bonds were used to refund $37,245,000 of the City's outstanding Airport System Special Facilities Taxable Revenue Bonds (CRCF), Series 2001, and to pay costs of issuance. Net present value savings related to the refunded bonds totaled $5,078,199 or 13.63% of the refunded bonds and reduced total debt service by $6,110,108. The bonds are limited special obligations of the City, payable solely from and secured by pledged customer facility charges. These bonds do not constitute a debt or pledge of the faith or credit of the City or the Fund.

5. Long-Term Liabilities, continued:

In reporting periods prior to FY2015, the Airport Fund elected not to report the CRCF facility or the Special Facility Revenue Bonds (CRCF) on its financial statements, under the Governmental Accounting Standards Board guidance for conduit debt obligations. Beginning in the fiscal year ended June 30, 2015, the Airport Fund elected to change its method of accounting, and to report the CRCF assets, revenues, and associated debt and expenses, with retroactive adjustments on comparative data. At June 30, 2018 and June 30, 2017, special facilities revenue and refunding bonds (CRCF) outstanding totaled $86.1 million and $91.6 million, respectively.

Pension Obligation Bonds

On December 22, 2017, the City issued City of Houston Pension Obligation Bonds, Series 2017 (Taxable), with a par value of $1,005,145,000, and a lien against the general revenues of the City, including ad valorem tax. Although there is no direct lien against Airport System Fund revenues, the Airport System Fund has been assigned the responsibility to pay principal and interest on a portion of the pension obligation bonds with a par value of $27,610,000, a coupon rate of 2.203%, and a final maturity on March 1, 2019, along with related costs of issuance. The Airport System Fund has previously been assigned the responsibility to pay principal and interest on a portion of the City of Houston Pension Obligation Bonds, Series 2005 (Taxable), with a par value of $2,005,656, a coupon rate of 5.31%, and a final maturity on March 1, 2035.

Note Payable

In February of 2013, the City entered into a contract with Southwest Airlines Co. (“Southwest”) under which Southwest would construct five international gates, a Federal Inspection Service Facility, and associated enabling projects (the “Project”) at William P. Hobby Airport. Southwest was responsible for the initial funding of all costs of the Project including any related financing costs, but title to the Project was passed to the City at each point in construction. The new gates and FIS Facility opened on October 15, 2015. The Airport Fund recorded an initial note payable to Southwest Airlines of $123,785,000, for its interest in the Project, to be amortized at a 2.19% rate over a 25-year period, with a final maturity at June 30, 2040. Amortization amounts were used to offset lease revenue owed by Southwest Airlines for the use of the Project facilities, and to record interest expense on the note. The balance of the outstanding note payable on June 30, 2017 was recorded as $115,421,000.

On November 15, 2017, City Council authorized the issuance of Airport System Revenue Bonds to buyout Southwest Airlines’ remaining interest in the Project. Southwest Airlines and the City agreed on a revised amortization schedule, with a final unamortized note principal balance of $115,882,000 as of November 15, 2017. The Airport Fund paid this balance to Southwest Airlines on March 20, 2018, from the proceeds of Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018A (AMT).

6. Defined Benefit Pension Plan

As a department of the City, the Houston Airport System Fund participates in the pension plan of the City of Houston's municipal employees, for which separately published financial statements are available. Since the plan does not separately account for the Fund, the following disclosures generally relate to the City as a whole. A complete copy of the summary plan description and the stand-alone financial reports can be obtained from the Houston Municipal Employees Pension System at 1201 Louisiana St., Suite 900, Houston, Texas 77002-2555 or via http://hmeps.org.

Plan Description

The Houston Municipal Employees' Pension System (HMEPS) of the City is a single employer defined benefit pension plan that covers all eligible municipal employees, including all employees of the Fund. This pension plan was established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Article 6243g), which establish the various benefit provisions. An independent Board of Trustees administers each plan. The fiscal year of each pension fund ends June 30. In this CAFR, the Fund reports separately from the City and is required to report as a cost-sharing plan since it is allocated a proportionate share of the Houston Municipal Employees Pension System liability. The schedules of Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources show the Fund's cost share of the City's plan.

Benefits Provided

The Houston Municipal Employees' Pension System includes three contributory groups and provides for service-connected disability and death benefits to eligible members and surviving spouse and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of debited service, as defined in the Pension Statute. Pension benefits are adjusted annually for a fixed cost of living adjustment of 3% for eligible recipients. The maximum pension benefit is 90% of the participant's average monthly salary. A Deferred Retirement Option Plan (DROP) is available to eligible members.

Contributions

For the Houston Municipal Employees' Pension System, employer and employee obligations to contribute, as well as employee contribution rates, are included in the enabling pension statutes, and some requirements are delineated in an amended and restated meet and confer agreement, effective July 1, 2011. Additionally, these laws provide that employer funding be based on periodic actuarial valuations, statutorily approved amounts or, in the cases of the Municipal Employees' Pension System, amounts agreed to in meet and confer agreements. The employer contribution rate is a percentage of base salary which was 27.96% for fiscal year 2018 and 29.36% for fiscal year 2017. All pension plans provide service, disability, death, and survivor benefits. In addition, each pension plan recognizes participant and employer contributions as revenues in the period in which they are due pursuant to formal commitments and recognizes benefits and refunds when they are due and payable in accordance with the terms of the pension statutes.

As of most recent measurement date of the net pension liability, membership data for the pension plan are as follows:

Retirees and beneficiaries currently receiving benefits	10,601
Former members entitled to benefits but not yet receiving them	5,576
Former members - not entitled to benefits	-
Active members:	
Vested	7,791
Non-vested	4,275
Total participants	28,243

6. Defined Benefit Pension Plan, continued:

Net Pension Liability

The Airport System Fund's liability for the net pension liability in the City's pension plan was allocated and reported on the statement of net position.

The "Net Pension Liability" (NPL) is the difference between the "Total Pension Liability" (TPL) and the plan's "Fiduciary Net Position" (FNP). The TPL is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service, and automatic cost of living adjustments (COLA's). In addition, ad hoc COLA's are also included in the TPL to the extent they are substantively automatic. The FNP is determined on the same basis used by the pension plans. The City's net pension liability and certain sensitivity information are based on an actuarial valuation performed as of July 1, 2017. The total pension liability was rolled forward from that valuation date to the measurement date of June 30, 2018 using generally accepted actuarial principles. A schedule of Net Pension Liability, in addition to the information above, includes multi-year trend information (beginning with fiscal year 2015) and is presented in the Required Supplementary Information section.

Net Pension Liability (in thousands)

Measurement Date	June 30, 2018		June 30, 2017	
	Municipal Employees' Pension	The Fund's proportionate share of NPL	Municipal Employees' Pension	The Fund's proportionate share of NPL
Total Pension Liability	$ 5,113,358	$ 555,982	$ 4,959,510	$ 535,376
Less: Fiduciary Net Position	(2,988,864)	(324,983)	(2,602,665)	(280,956)
Net Pension Liability	$ 2,124,494	$ 230,999	$ 2,356,845	$ 254,420

The Fund's proportionate percentage of NPL is 10.87% and 10.79% for fiscal years 2018 and 2017.

Schedule of Changes in Net Pension Liability (in thousands)

	June 30, 2018			June 30, 2017		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service Cost	$ 78,149	$ -	$ 78,149	$ 75,961	$ -	$ 75,961
Interest on the Total Pension Liability	341,276	-	341,276	331,166	-	331,166
Benefit Changes	-	-	-	(724,683)	-	(724,683)
Difference between Expected and Actual Experience	19,158	-	19,158	(38,387)	-	(38,387)
Employer Contributions	-	421,562	(421,562)	-	182,558	(182,558)
Employees Contributions	-	27,905	(27,905)	-	15,902	(15,902)
Pension Plan Net Investment Income	-	231,815	(231,815)	-	290,911	(290,911)
Assumptions Changes	-	-	-	562,237		562,237
Benefit Payments	(283,928)	(283,928)	-	(280,456)	(280,456)	-
Refunds	(807)	(807)	-	(718)	(718)	-
Administrative Expense	-	(6,443)	6,443	-	(6,827)	6,827
Other	-	(3,905)	3,905	-	1,272	(1,272)
Net Change	153,848	386,199	(232,351)	(74,880)	202,642	(277,522)
Net Pension Liability Beginning	4,959,510	2,602,665	2,356,845	5,034,390	2,400,023	2,634,367
Net Pension Liability Ending	$ 5,113,358	$ 2,988,864	$ 2,124,494	$ 4,959,510	$ 2,602,665	$ 2,356,845

The Fund participated in the December 22, 2017 issuance of Houston Pension Obligation Bonds, Series 2017 in the amount of $27,610,000 which is reflected in Employer contributions. For further information, see Note 5, Long Term Liabilities, Pension Obligation Bonds.

6. Defined Benefit Pension Plan, continued:

Pension Expense

For the years ended June 30, 2018 and June 30, 2017, the City recognized pension expense as follows (in thousands):

	June 30, 2018	June 30, 2017
Changes for the year:		
Service Cost	$ 78,149	$ 75,961
Interest	341,276	331,166
Difference between Expected and Actual Experience	146,476	141,691
Differences between Projected and Actual Earnings on plan investments	23,166	32,011
Member Contributions	(27,905)	(15,902)
Net Investment Income	(187,590)	(164,912)
Administrative Expense	6,442	6,827
Assumption Changes	-	(724,683)
Other	3,905	(1,272)
Total Pension Expense	$ 383,919	$ (319,113)

The Fund's proportionate share of pension expenses are $38.7 million and $(32.6) million for June 30, 2018 and June 30, 2017, respectively.

Schedule of Deferred Outflows and Inflow of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the Fund at June 30, 2018 and June 30, 2017 (in thousands).

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflow of Resources	Deferred Outflows of Resources	Deferred Inflow of Resources
Differences between expected actual experience	$ 1,071	$ 195	$ -	$ 1,346
Changes of assumptions	23,037	-	40,988	-
Employers contribution subsequent to measurment date		-	-	-
Net difference between projected and actual earnings on pension plan investments	6,727	905	12,860	3,141
Total	$ 30,835	$ 1,100	$ 53,848	$ 4,487

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2018 for the Fund will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2019	$ 18,673
2020	14,316
2021	(2,313)
2022	(941)
2023	
Thereafter	-
Total	$ 29,735

6. Defined Benefit Pension Plan, continued:

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability for Municipal Employees' Pension plan, calculated using the current discount rate, as well as what the Fund's net pension liability would have been if they were calculated using a discount rate that is 1-percent-point lower and 1-percent-point higher than the current rate (in thousands):

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Municipal Employees' Pension	$ 2,686,429	$ 2,124,494	$ 1,655,389
The Fund's proportionate share of NPL	$ 292,099	$ 230,999	$ 179,993

Schedule of Assumptions

Inflation	2.25%
Salary changes	3.00% to 5.25%
Investment rate of return	7.00%
Valuation Date	7/1/2017
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent of Payroll
Amortization Period	30 years
Asset Valuation Method	5 Year Smoothed, direct offset of deferred gains and losses
Ad hoc OPEB and Ad hoc COLA	3% to 6%
Mortality assumption	RP-2000 Table scaled by 125% for males and 112% for females

7. Other Employee Benefits

Post-Retirement Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care premiums incurred by the City (employer and subscriber) amounted to approximately $89,413,859 and $90,273,155 for the years ended June 30, 2018 and June 30, 2017, respectively. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2018, there were 10,970 retirees including active survivors eligible to receive benefits. Effective August 1, 2011, all Medicare Eligible Retirees must enroll in an insured Medicare Advantage Program Plan.

The City of Houston OPEB plan is a single-employer plan, and calculations are based on the OPEB benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. As a department of the City of Houston, the Airport System Fund participates in the OPEB plan of the City of Houston's municipal employees. A separate accounting is not done for The Fund and it is allocated its share on an annual basis.

7. Other Employee Benefits, continued:

Actuarially Determined Contribution and Total OPEB Liability

The Annual OPEB Cost associated with the City's retiree health care costs for the current year is as follows (in thousands):

Actuarially Determined Contribution before Timing Adjustment	$ 188,579
Timing Adjustment (3% payroll increase)	5,657
Actuarially Determined Contribution	194,236
Contribution made	(39,820)
Net OPEB liability before Timing Adjustment	1,832,938
Timing Adjustment	758,974
Net OPEB liability, end of year	2,591,912
Change in Net OPEB liability	(153,340)
Net OPEB liability, end of year	$ 2,438,572
HAS Portion of Net OPEB Liability, end of the year	$ 89,450

	Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
City	2018	$ 166,044	23.98%	$ 2,438,572
HAS	2018	$ 5,611	26.96%	$ 89,450

Membership

As of the most recent actuarial valuation of the net OPEB liability, membership data is as follows:

	City	HAS
Retirees and beneficiaries currently receiving benefits	12,304	308
Active members:	21,499	1,200
Total participants	33,803	1,508

Net OPEB Liability

The Net OPEB liability was measured as of June 30, 2017. The Total OPEB Liability was determined from an actuarial valuation as of July 1, 2016. The Net OPEB Liability is the Total OPEB Liability less the Plan Fiduciary Net Position. The Total OPEB Liability is the present value of all future benefit payments for current retirees and active employees, considering assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

Net OPEB Liability (in thousands)

Measurement Date	June 30, 2017	
Reporting Date	June 30, 2018	
	City	**HAS**
Total OPEB Liability	$ 2,438,572	$ 89,450
Less: Fiduciary Net Position	-	-
Net OPEB Liability	$ 2,438,572	$ 89,450

A schedule of New OPEB Liability, in addition to the information above, includes multi-year trend information (beginning with year 2018) and is presented in the Required Supplementary Information section.

7. Other Employee Benefits, continued:

Schedule of Changes in New OPEB Liability

Change in Net OPEB Liability (in thousands)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	HAS Net OPEB Liability
Service Cost	$ 139,332	$ 39,820	$ 99,512	$ 3,095
Interest on the Total Pension Liability	73,306	-	73,306	2,694
Difference between Expected and Actual Experience	(15,727)	-	(15,727)	(597)
Assumptions Changes	(310,431)	-	(310,431)	(11,240)
Benefit Payments	(39,820)	(39,820)	-	-
Net Change	(153,340)	-	(153,340)	(6,048)
Net OPEB Liability Beginning	2,591,912	-	2,591,912	95,498 *
Net OPEB Liability Ending	$ 2,438,572	$ -	$ 2,438,572	$ 89,450

* Beginning balance as presented includes $20.8 million due to the cumulative effect of the implementation of GASB No. 75. This amount, in addition to the cumulative liability increase of OPEB-LTD of $0.5 million (see pg. 45), equals the total of $21.3 million reflected as "Cumulative effect of implementation of new accounting principle" stated on the Statements of Revenues, Expenses, and Changes in Net Position on pg. 14.

OPEB Expense

For the reporting year ended June 30, 2018, the city recognized OPEB expense of $166,044. The Fund recognized $5,611. OPEB expense recognized is as follows (in thousands):

Components of OPEB Expense:	City	HAS
Service Cost	$ 139,332	$ 4,608
Interest	73,306	2,694
Difference between Expected and Actual Experience	(2,247)	(85)
Expensed Portion of Current Period Changes in Assumptions	(44,347)	(1,606)
OPEB Expense	$ 166,044	$ 5,611

Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are differences between actual and expected experience that are not reflected in current year's expenses. Deferred inflows and outflows of resources related to OPEB reported by the City and by the Fund at June 30, 2018 is as follows (in thousands):

	OPEB Liability (in thousands)			
	City		HAS	
	Deferred Outflows of Resources	Deferred Inflow of Resources	Deferred Outflows of Resources	Deferred Inflow of Resources
Changes of assumptions	-	$ 266,084	-	$ 9,635
Difference between expected and actual earnings in the Total OPEB Liability	-	13,480	-	512
Total	$ -	$ 279,564	$ -	$ 10,147

7. Other Employee Benefits, continued:

Amounts reported as deferred outflows of resources and deferred inflows of resources related the Net OPEB Liability at June 30, 2018 will be recognized in OPEB expense as follows (in thousands):

	City	HAS
Year ended June 30:		
2019	(46,594)	(1,691)
2020	(46,594)	(1,691)
2021	(46,594)	(1,691)
2022	(46,594)	(1,691)
2023	(46,594)	(1,691)
2024	(46,594)	(1,692)
Total	$ (279,564)	$ (10,147)

Sensitivity of the Net OPEB Liability to changes in the discount rate

The following presents the Net OPEB Liability, calculated using the discount rate, as well as what the City's Net OPEB Liability would have been if it were calculated using a discount rate that is 1 percentage-point lower and 1 percentage point higher than the current rate (in thousands):

		1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
City	Net OPEB Liability	$2,878,365	$2,438,572	$2,090,457
HAS	Net OPEB Liability	$105,582	$89,450	$76,681

Schedule of Assumptions

The total OPEB liability was rolled forward from an actuarial valuation as of July 1, 2016 using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3%
Salary Increases	2.00% to 14.00%, varies by employee class and service/age
Discount Rate	3.58%
Measurement Date	June 30, 2017 and 2016
Healthcare costs trends rates	
Medicare	7.00% trending down to 4.5%
Other Medical	6.50% trending down to 4.5%
Prescription drug	10.00% trending down to 4.5%
Administrative costs	3.00%
Healthy Mortality Rates	RP-2000 Combined Healthy Mortality Table for males and females.

7. Other Employee Benefits, continued:

Health Benefits Internal Service Fund

Effective May 1, 2011, the City elected to be substantially self-insured and on May 1, 2014 once again awarded CIGNA a three-year contract with two (2) one-year renewal options for 4 new health plans. All have a heavy emphasis on a wellness component, and include: 1) a limited network HMO-type plan, 2) an open access PPO type plan with out-of-network coverage, 3) a consumer driven high deductible health plan, partnered with a health reimbursement account, and, 4) a specific plan for retirees, mostly those under age 65, who live outside the limited network service area but who live in Texas. Effective May 1, 2013, the City no longer purchases individual and aggregate stop-loss coverage. The City has assumed the financial risk of catastrophic and overall claim liability. The plan is administered by CIGNA.

Premiums paid (employer and subscriber) for current employees to third party administrators including claim liability totaled $253,198,575 and $243,918,034 for the years ended June 30, 2018 and June 30, 2017, respectively.

The changes in the actuarial estimate of claims liability for the City related to the CIGNA plans are as follows (in thousands):

	CIGNA Schedule of Changes in Liability	
	June 30, 2018	June 30, 2017
Beginning actuarial estimate of Claims liability, July 1	$ 19,136	$ 18,065
Catastrophic claim reserve, July 1	13,000	13,000
Additional increase to Catastrophic claims reserve, August 2018	2,000	-
Incurred claims for fiscal year	295,713	294,001
Payments on claims - net of RX rebates and refunds	(296,573)	(293,995)
Actuarial adjustment	4791	1,065
Ending actuarial estimate of claims liability including catastrophic claims liability, June 30	$ 38,067	$ 32,136

The City also provides one times the salary of basic life insurance, with a minimum of $15,000, at no cost to the employee. The employee, at no cost to the City, may then obtain additional life insurance up to four times their annual salary. The current cost for active employees for both basic and voluntary life insurance totaled $6,158,748 and $6,064,196 for the years ended June 30, 2018 and June 30, 2017, respectively.

Incurred for Catastrophic claims

In addition to the IBNR, to mitigate claim volatility, the city has funded a catastrophic claim liability of $15 million. This would increase the total liability to $36 million and designated fund balance of $29 million for claim volatility.

Long-Term Disability Plan (LTD)

The long-term disability plan, accounted for as an internal service fund of the City, is a part of the Income Protection Plan implemented effective September 1, 1985 (renamed the Compensable Sick Leave Plan (CSL) in October, 1996) and is provided at no cost to City employees who are members of CSL. Coverage is effective the later of September 1, 1985 or upon completion of one year of continuous service. When an employee cannot work because of injury or illness, the plan provides income equal to 50% of base pay plus longevity or 70% of base plus longevity when combined with income benefits available from other sources. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months absence from work. The plan is administered by ReedGroup (previously Hewitt Associates LLC), which is reimbursed from the fund for claims as they are paid along with a fee for administrative services. As a department of the City of Houston, the Airport System Fund participates in the OPEB LTD plan of the City of Houston's municipal employees. A separate accounting is not done for The Fund and it is allocated its share on an annual basis.

7. Other Employee Benefits, continued:

Schedule of Changes in City Liability (in thousands)

	June 30, 2018		June 30, 2017	
Beginning actuarial estimate of claims liability, July 1	$	8,184	$	8,371
Incurred claims for fiscal year		1,481		1,331
Payments on claims		(976)		(1,074)
Actuarial adjustment		(2,699)		(444)
Ending actuarial estimate of claims liability, June 30	$	5,990	$	8,184

Actuarially Determined Contribution and Total Claim Liability

During fiscal year 2018, there was a decrease of $2,193,825 in the amount of disabled life reserves.

Total claim liability at beginning of period	$	8,184
Changes due to assumption changes		(488)
Decrease attributable to terminations		(1,128)
Change attributable to passage of time and adjustments		(578)
Net change	$	(2,194)
Total claim liability at end of period	$	5,990

	Fiscal Year Ended June 30	Annual OPEB Cost		Percentage of Annual OPEB Cost Contributed	Net OPEB Liability	
City	2018	$	1,092	120.24%	$	11,040
HAS	2018	$	45	120.24%	$	457

Changes in Net OPEB Liability

	Increase (Decrease)								
	Total OPEB Liability		Plan Fiduciary Net Position		Net OPEB Liability (NPL)		HAS Portion		
Balance at 06/30/2017	$	11,078	$	-	$	11,078	$	459	*
Changes for the year									
Service Cost		730		-		730		30	
Interest		379		-		379		16	
Experience		(14)		-		(14)		(1)	
Employer Contributions		-		(975)		(975)		(40)	
Benefit Payments		(975)		975		-		-	
Assumption Changes		(158)		-		(158)		(7)	
Net Changes		(38)		-		(38)		(2)	
Balance at 06/30/2018	$	11,040	$	-	$	11,040	$	457	

* Beginning balance as presented includes $0.5 million due to the cumulative effect of the implementation of GASB No. 75. This amount, in addition to the cumulative liability increase of OPEB of $20.8 million, equals the total of $21.3 million reflected as “Cumulative effect of implementation of new accounting principle” stated on the Statements of Revenues, Expenses, and Changes in Net Position on pg. 14.

OPEB LTD Expense Components

	City		HAS	
Service Cost	$	730	$	30
Interest on TOL		379		16
Differences between expected and actual experience		(2)		(0)
Changes in Assumptions		(15)		(1)
Employer Contributions		(975)		(40)
Total OPEB Expense	$	117	$	5
Administrative Charges to HAS Department				94
Total OPEB LTD Expense - HAS			$	99

7. Other Employee Benefits, continued:

For the year ended June 30, 2018, the City will recognize OPEB expense of $1,092,095. At June 30, 2018, the City reports deferred outflows of resources and deferred inflows of resources related to OPEB expense from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources

	City		HAS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 13	$ -	$ 1
Changes in assumptions	-	143	-	6
	$ -	$ 156	$ -	$ 6

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

	Deferred Outflows and Inflows of Resources	
	City	HAS
Year ended June 30:		
2019	$ (17)	$ (1)
2020	(17)	(1)
2021	(17)	(1)
2022	(17)	(1)
2023	(17)	(1)
Thereafter	(71)	(3)
Total	$ (156)	$ (6)

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

The following presents the net OPEB liability, calculated using the discount rate of 3.87%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

		1% Decrease 2.87%	Current Discount Rate of 3.87%	1% Decrease 4.87%
City	Net OPEB-LTD Liability	$ 11,642	$ 11,040	$ 10,460
HAS	Net OPEB-LTD Liability	$ 482	$ 457	$ 433

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The Plan, available to all City employees permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available until termination, retirement, death or unforeseeable emergency. However, the Plan now offers loans to participant employees. The maximum loan amount is the lesser of $50,000 or 50% of the total account balance, less any outstanding loans. The minimum loan amount is $1,000. Pursuant to tax law changes, the Plan's assets are no longer subject to the City's general creditors and are not included in these financial statements.

7. Other Employee Benefits, continued:

Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan, accounted for within the various operating funds. The plan is administered by Tristar Insurance Group, Inc. Funds are wire transferred to Tristar as needed to pay claims.

At June 30, 2018, the City has an accumulated liability in the amount of $88 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the government-wide Statement of Net Position and Enterprise Funds. The amount of liability is based on an actuarial study. The accumulated liability at June 30, 2017 was $61 million.

Schedule of Changes in Liability
(in thousands)

	June 30, 2018		June 30, 2017	
Beginning actuarial estimate of claims liability, July 1	$	61,244	$	58,761
Incurred claims for fiscal year		13,220		10,002
Payments on claims		(16,832)		(16,135)
Actuarial adjustment		29,870		8,616
Ending actuarial estimate of claims liability, June 30	$	87,502	$	61,244

8. Transactions with City of Houston

Interfund Services

The City charges the Fund for certain services performed by other City funds on behalf of the Airport System Fund. Such charges were as follows for the years ended June 30, 2018 and 2017 (in thousands):

	June 30, 2018		June 30, 2017	
Police services	$	29,690	$	28,662
Fire services		20,145		20,048
Indirect support services		3,211		3,168
Water and sewer services		3,605		3,507
Other		10,964		10,602
Total	$	67,615	$	65,987

Indirect costs are incurred in connection with the general administration of City affairs, which cannot be directly associated with specific funds. Such costs include finance, materials management, legal, human resources, and administration. These costs are allocated to the Fund each year based on an annual indirect cost study.

The Fund also pays for services provided by other City departments and funds, including the Combined Utility Fund for water and wastewater services and the internal service funds for risk financing activities.

In Fiscal year 2017 HAS started performing administrative work for vendors seeking airport related permits. Per an Memorandum of Understanding entered into between HAS and Houston Public Works (HPW), HAS began to receive proceeds from permitting revenues from HPW. HAS was reimbursed $508,325 and $312,908 in permitting fees as a result of this agreement for the years ended June 30, 2018 and 2017, respectively.

Due to and Due from the City of Houston

Amounts due to and due from other funds of the City at June 30, 2018 and 2017 are as follows (in thousands):

	June 30, 2018				June 30, 2017			
	Due to		Due From		Due to		Due From	
General Fund	$	394	$	276	$	713	$	201
Total	$	394	$	276	$	713	$	201

9. Major Customers

In fiscal year 2018, the Fund earned 41.9% of its operating revenues from two major customers, United Continental Holdings, Inc. and Southwest Airlines Company. No other company represents more than 2.2% of revenue. The two major companies and their respective percentage of revenue are as follows:

	Percentage of Operating Revenue	
	2018	2017
United Continental Holdings, Inc.	33.7%	33.4%
Southwest Airlines Co.	8.2%	9.3%

10. Conduit Debt

The City has authorized various issues of Special Facilities Bonds to enable United Airlines, Inc. (successor to Continental Airlines, Inc.) a private company, to construct facilities at Intercontinental that were deemed to be in the public interest (Special Facilities). These bonds are limited special obligations of the City, payable solely from and secured by a pledge of revenues generated from lease agreements with United Airlines. Collected pledged revenues are remitted directly to a trustee by United Airlines. Under the terms of the related lease agreements, United Airlines operates, maintains, and insures the terminal, and manages and retains revenues from all concessions operated in the Terminal B and E Special Facilities. The City operates, maintains, insures, and manages and retains revenues from all concessions operated in all other terminal facilities.

The City holds legal title to the completed facilities, as they are constructed on airport property, but the constructed facilities are operated and controlled by private companies through long-term leases, and the Fund will enjoy no direct financial benefit from these facilities for the term of the lease agreements. Accordingly, the Fund accounts for the United Airlines' Special Facilities Bonds shown in the following table as conduit debt, and neither the debt nor the related assets have been recorded in the accompanying financial statements.

Conduit debt outstanding at June 30, 2018 and 2017 (in thousands):

	June 30, 2018	June 30, 2017
Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT), $113,305,000 original principal, matures in 2038	$ 113,305	$ 113,305
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project), Series 2014 (AMT), $308,660,000 original principal, matures in 2029	308,660	308,660
Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT), $176,650,000 original principal, matures in 2035	176,650	176,650
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-2 (AMT), $47,390,000 original principal, matures in 2020	47,390	47,390
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C (AMT), $65,785,000 original principal, matures in 2020	65,785	65,785
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Technical Operations Center), Series 2018 (AMT), $90,650,000 original principal, matures in 2028	90,650	-
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT), $46,425,000 original principal, matures in 2028	46,425	-
Total conduit debt outstanding	$ 848,865	$ 711,790

On February 20, 2018, the City issued $90,650,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Technical Operations Center Project), Series 2018 (AMT) on behalf of United Airlines, to finance the construction of a technical operations center and related facilities at the George Bush Intercontinental Airport. The bonds were issued as a 5% Term Bond due July 15, 2028, with a yield of 3.60%.

10. Conduit Debt Obligations, continued:

On February 20, 2018, the City issued $46,425,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT) on behalf of United Airlines, to finance the improvement, renovation, expansion and repair of certain special facilities at George Bush Intercontinental Airport, including improvements to an existing aircraft maintenance hangar facility, construction of an aircraft shops facility, and renovation of a maintenance and parts storage facility. The bonds were issued as a 5% Term Bond due July 15, 2028, with a yield of 3.60%. On March 16, 2015, the City issued $176,650,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT) on behalf of United Airlines, to finance the construction of a new North Concourse building at Terminal B with jet bridge loading, and to make improvements to related facilities. The bonds were issued with a coupon rate of 5.00%, and a yield of 4.75%, to mature in varying amounts from 2026 to 2035.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc., Terminal Improvement Projects) Series 1997B and 1998B financed various leasehold improvements for United Airlines in Terminals B, C and D. On March 16, 2015, the City issued $47,390,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-2 (AMT) on behalf of United Airlines, with a 5.00% coupon rate, to mature on July 15, 2020. Proceeds of the bonds were used to refund the outstanding Airport System Special Facilities Revenue Bonds, Series 1997B and 1998B and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $12,049,244 or 18.36% of the refunded bonds and reduced total debt service by $45,281,400.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc., Airport Improvement Projects) Series 1997C and 1998C, financed the construction of an aircraft hangar, maintenance and parts storage facility, mail sort facility, flight simulator, and inflight training facility. On March 26, 2015, the City issued $65,785,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C, on behalf of United Airlines, with a coupon rate of 5.00%, to mature on July 15, 2020. Proceeds of the bonds were used to refund the outstanding Airport System Special Facilities Revenue Bonds, Series 1997C and 1998C, and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $14,553,627 or 20.95% of the refunded bonds and reduced total debt service by $40,135,502.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc. Terminal E Project), Series 2001, financed the construction of international Terminal E and related airport facilities for the exclusive use of United Airlines (Terminal E Special Facilities). On May 8, 2014, the City issued $308,660,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project) Series 2014 on behalf of United Airlines, at coupon rates ranging from 4.50% to 5.00%. The bonds mature in varying amounts from 2020 to 2029. Proceeds of the bonds were used to refund a portion of the City’s outstanding Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal E project) Series 2001 and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $40,519,909 or 13.31% of the refunded bonds and reduced total debt service by $58,675,823.

The Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT) financed the replacement of two flight stations at Terminal B with a new South Concourse building to serve United Airlines’ regional jet operations (Terminal B Special Facilities). The Terminal B Special Facilities went into service in March 2014.

11. Commitments and Contingencies

Litigation and Claims

The City is the defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. These matters affecting the Airport System Fund are primarily contract and real property disputes. The status of such litigation ranges from early discovery to various levels of appeal, against which the City will continue to vigorously defend itself. Additionally, there are also various personal injury claims filed against the Airport System Fund which will also be vigorously defended. The amount of damages is limited in certain cases under the Texas Torts Claim Act and is subject to appeal. Management has determined the amounts of loss, if any, would not be material in these financial statements.

11. Commitments and Contingencies, continued:

Environmental Liabilities

Houston Airport System recorded a $10 million environmental liability in fiscal year 2017 for pollution remediation associated with a hangar addition project at George Bush Intercontinental. The scope of work encompasses vapor intrusion mitigation and soil & groundwater remediation. The $10 million liability recorded in fiscal year 2017 remains on the books in fiscal year 2018.

Houston Airport System is awaiting completion of supplemental site testing and an independent study that may result in additional environmental remediation costs associated with the aforementioned hangar addition project. These costs are indeterminable at this time. No additional pollution remediation liability has been recorded in these financial statements in accordance with GASB 49.

The Houston Airport System management is aware of additional sites polluted by asbestos, mold, and soil contamination. The assessment and remediation of asbestos, mold and groundwater contamination are ongoing and included in the costs of the capital project at the time it becomes an obligating event under GASB 49. Management has determined the costs of this additional remediation for which Houston Airport System is ultimately liable would not be material in these financial statements.

Commitments for Capital Facilities

At June 30, 2018 and 2017, the Fund had contracted for, but not spent, $325,858,459 and $400,036,024 respectively, for capital projects.

Risk Management

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of $100 million and commercial property insurance with a per occurrence loss limit of $175 million. The commercial property insurance sublimit for flood is $175 million. Property insurance provides deductibles as follows: $2.5 million per occurrence for all perils except; 3% of the damaged insured value for windstorm or hail from a named storm, subject to a $2.5 million minimum and a $15 million maximum deductible; and 3% of the damaged insured value for flood, subject to a $2.5 million minimum and a $15 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is $15 million.

The City has a separate terrorism policy which covers insured property value. The policy insures up to $250 million aggregate loss limit (including $25 million sub-limit for nuclear, chemical, biological and biochemical coverage) with a $500,000 deductible on all claims except a 48-hour waiting period deductible on business interruption.

Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis.

Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

For unemployment claims, the City pays claims as they are settled. Unemployment claim activity is as follows:

Unemployment Claim Activity

	June 30, 2018	June 30, 2017
Unpaid claims, beginning of fiscal year	$ 153,018	$ 198,257
Incurred claims (including IBNRs)	654,107	687,143
Claim payments	(647,197)	(732,382)
Unpaid claims, end of fiscal year	$ 159,928	$ 153,018

11. Commitments and Contingencies, continued:

Electricity Futures Contracts

At June 30, 2018, the City had entered into agreements to lock rates for part of the natural gas component of its expected electricity use from July 1, 2017 through June 30, 2018. The total committed price is approximately $89 million for expected usage. The City may pay a different amount if actual electricity usage varies. This amount will be appropriated in future annual budgets.

12. Subsequent Events

Debt

The Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018C (AMT) and the Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018D (Non-AMT) were priced on July 17, 2018 and delivered on August 2, 2018, with a combined par amount of $569,110,000. The bonds have a coupon rate of 5.0%, a true interest cost of 3.34%, and an arbitrage yield of 2.86%. They mature in varying amounts from 2019 to 2039.

Series 2018C was issued with a par amount of $212,820,000 to current refund the following auction rate bonds: Airport System Subordinate Lien Revenue Bonds, Series 2000P-1 (AMT) $32,275,000; Airport System Subordinate Lien Revenue Bonds, Series 2000P-2 (AMT) $32,050,000; Airport System Subordinate Lien Revenue Bonds, Series 2002C (AMT) $71,175,000; Airport System Subordinate Lien Revenue Bonds, Series 2002D-1 (AMT) $55,800,000; and Airport System Subordinate Lien Revenue Bonds, Series 2002D-2 (AMT) $50,975,000, and to pay for costs of issuance. Net present value savings on the refunding were $12.9 million or 5.3%, with total debt service reduced by $15.6 million. Series 2018C will reach final maturity on July 1, 2032.

Series 2018D was issued with a par amount of $356,290,000 to current refund $409,685,000 in outstanding Airport System Senior Lien Revenue and Refunding Bonds Series 2009A (Non-AMT) and to pay costs of issuance. Series 2018D will reach final maturity on July 1, 2039. Net present value savings on the refunding were $77.4 million or 18.9% of the refunded bonds. Total debt service was reduced by $107.0 million.

On September 25, 2018, the City extended its authorization of $450 million in Inferior Lien Airport System Revenue Bonds through October 4, 2019, while confirming the forward delivery bond purchase agreement with the Royal Bank of Canada.

Houston Municipal Pension System Supplementary Information (unaudited)

Schedule of Changes in the Municipal Net Pension Liability and Related Ratios

for the Fiscal Years ended June 30

(in thousands)

	Municipal			
	2018	2017	2016	2015
Total Pension Liability				
Service Cost	$78,149	$75,961	$68,968	$65,810 (1)
Interest	341,276	331,166	379,781	361,007
Changes of benefit terms	-	(724,683)	-	-
Differences between expected and actual experience	19,158	(38,387)	(16,194)	(23,380)
Changes of assumptions	-	562,237	91,248	-
Benefit payments including refunds of employee contributions	(283,928)	(280,456)	(253,178)	(234,955)
Refunds	(807)	(718)	(1,105)	(1,549)
Net change in total pension liability	153,848	(74,880)	269,520	166,933
Total pension liability - beginning	4,959,510	5,034,390	4,764,870	4,597,937
Total pension liability - ending (a)	5,113,358	4,959,510	5,034,390	4,764,870
Plan fiduciary net position				
Contributions-employer	421,562	182,558	159,958	145,007
Contributions-employee	27,905	15,902	15,874	16,198
Net investment income	231,815	290,911	27,639	73,370
Benefit payments, including refunds of employee contributions	(283,928)	(280,456)	(253,178)	(234,955)
Administrative expense	(807)	(718)	(1,105)	(1,549)
Refunds	(6,442)	(6,827)	(7,360)	(7,007)
Other	(3,905)	1,272	1,651	1,041
Net change in plan fiduciary net position	386,200	202,642	(56,521)	(7,895)
Plan fiduciary net position-beginning	2,602,665	2,400,023	2,456,544	2,464,439
Plan fiduciary net position-ending (b)	2,988,865	2,602,665	2,400,023	2,456,544
City's net pension liability-ending (a)-(b)	$2,124,493	$2,356,845	$2,634,367	$2,308,326
Plan fiduciary net position as percentage of the total pension Liability	58.45%	52.48%	47.67%	51.56%
Covered payroll	$611,493	$607,975	$593,285	$580,395
Net position liability as a percentage of covered payroll	347.43%	387.65%	444.03%	397.72%

Schedule is intended to show information for 10 years. 2015 is the first year for this presentation. Additional years will be included as they become available.

1. The 2015 amounts are based on 8.0% per City actuary.

The Fund's proportionate share of NPL is as follows (in thousands):

	2018	2017	2016	2015
Total Pension Liability	$ 555,982	$ 535,376	$ 540,464	$ 512,642
Fiduciary Net Position	(324,983)	(280,956)	(257,653)	(264,294)
Net Pension Liability	$ 230,999	$ 254,420	$ 282,811	$ 248,348
Proportionate Percentage	10.87%	10.79%	10.74%	10.76%

Schedule is intended to show information for 10 years. 2015 is the first year for this presentation. Additional years will be included as they become available.

Schedule of City Contributions for Municipal Pension Plans for the Fiscal Years ended June 30

(in thousands)

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 423,989	$ 184,733	$ 162,230	$ 155,299	$ 144,953
Contributions in relation to the actuarially determined contribution	421,562	182,558	159,959	145,007	128,274
Contribution deficiency (excess)	$ 2,427	$ 2,175	$ 2,271	$ 10,292	$ 16,679
Covered payroll	611,493	607,975	593,285	580,395	557,226
Contributions as a percentage of covered payroll	68.9%	30.0%	27.0%	25.0%	23.0%

Schedule of the Fund's Contributions for Municipal Pension Plans for the Fiscal Years ended June 30

(in thousands)

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 42,738	$ 18,898	$ 17,148	$ 16,306	$ 15,626
Contributions in relation to the actuarially determined contribution	42,493	18,676	17,171	15,547	14,029
Contribution deficiency (excess)	$ 245	$ 223	$ (23)	$ 759	$ 1,597
Covered payroll	61,638	62,196	62,710	60,941	60,069
Contributions as a percentage of covered payroll	68.9%	30.0%	27.4%	25.5%	23.4%

Schedule is intended to show information for 10 years. 2014 is the first year for this presentation. Additional years will be included as they become available.

REQUIRED OTHER POST-EMPLOYMENT COST SUPPLEMENTARY INFORMATION

Schedule of OPEB Contributions
(in thousands)

	2018	
	Health Benefits	Long-term Disability
Actuarially determined contribution	$ 194,236	$ 5,990
Contributions in relation to the actuarially determined contribution	(39,820)	(975)
Contribution deficiency (excess)	$ 154,416	$ 5,015
Covered payroll	1,234,545	818
Contribution as a perecentage of covered payroll	15.73%	732.27%

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

	2018	
	Health Benefits	**Long-term Disability**
Total OPEB Liability		
Service Cost	$ 139,332	$ 730
Interest	73,306	379
Differences between expected and actual experience	(15,727)	(14)
Changes of assumptions	(310,431)	(158)
Benefit payments including refunds of employee contributions	(39,820)	(975)
Net change OPEB liability	(153,340)	(38)
Net OPEB liability - beginning	2,591,912	11,078
Net OPEB liability - ending (a)	$ 2,438,572	$ 11,040
Plan fiduciary net position		
Service Cost	39,820	-
Employer contributions	-	(975)
Benefit payments including refunds of employee contributions	(39,820)	975
Net change in plan fiduciary net position	-	-
Net OPEB liability - beginning	-	-
Net OPEB liability - ending (b)	-	-
City's net OPEB liability-ending (a)-(b)	$ 2,438,572	$ 11,040
Plan fiduciary net position as percentage of the total OPEB liability	0.00%	0.00%
Covered payroll	$ 611,493	$ 611,493
Net OPEB liability as a percentage of covered payroll	398.79%	1.81%

The Fund's proportionate share of OPEB is as follows (in thousands):

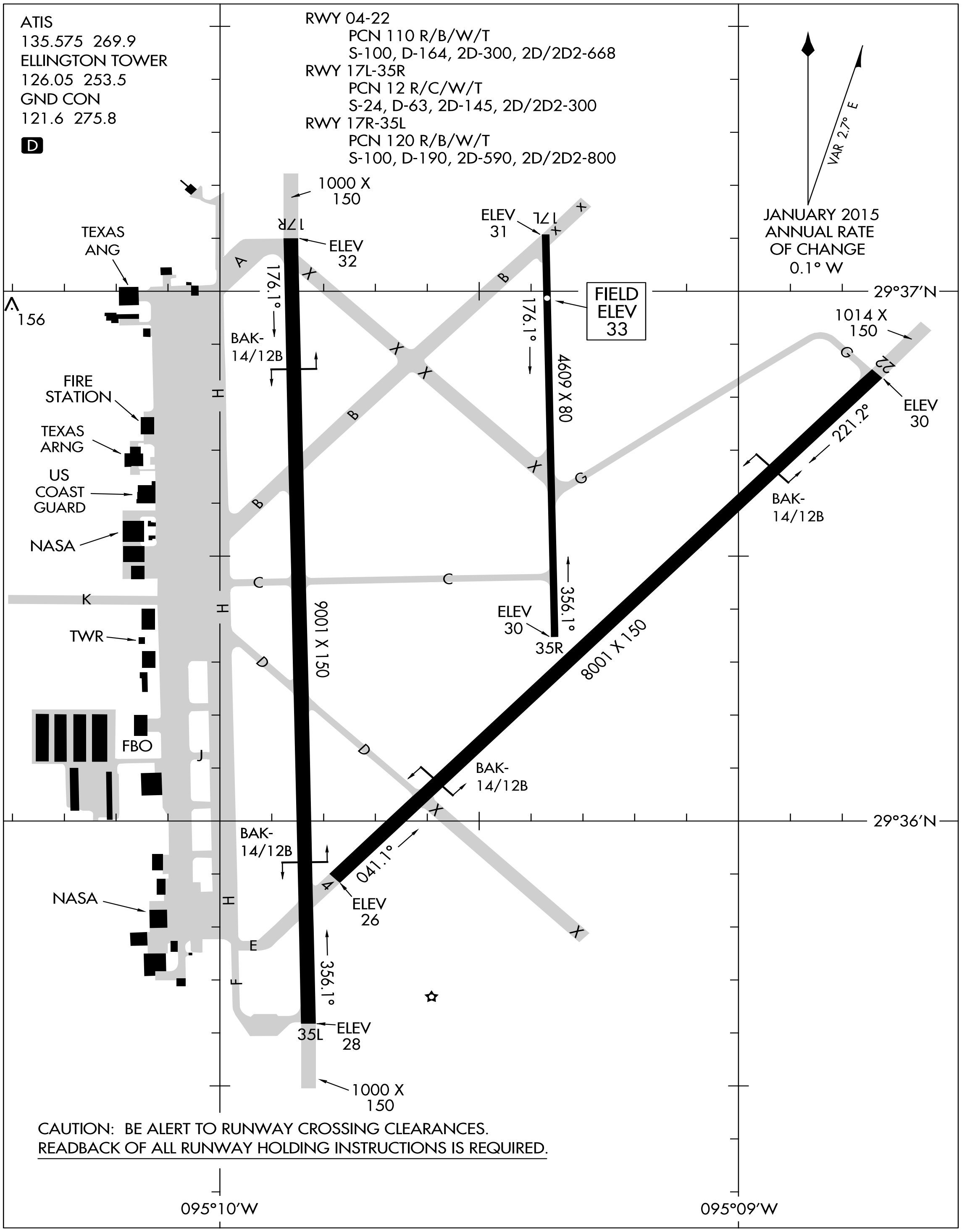
	Health Benefits	Long Term Disability
Total OPEB Liability	$ 89,450	$ 457
Fiduciary Net Position	-	-
Net OPEB Liability	$ 89,450	$ 457
Proportionate Percentage	8.79%	4.14%

Schedule is intended to show information for 10 years. 2018 is the first year for this presentation. Additional years will be included as they become available.

18200
AIRPORT DIAGRAM

AL-197 (FAA)

ELLINGTON (EFD)
HOUSTON, TEXAS



SC-5, 11 OCT 2018 to 08 NOV 2018

SC-5, 11 OCT 2018 to 08 NOV 2018

AIRPORT DIAGRAM
18200

HOUSTON, TEXAS
ELLINGTON (EFD)

https://flightaware.com/resources/airport/EFD/APD/AIRPORT+DIAGRAM/pdf

(Unaudited) STATISTICAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Statistical Section

This section contains statistical information and differs from the financial statements because it usually covers more than one fiscal year and may present non-accounting data.

This information is presented in five categories:

Financial Trend – intended to assist users in understanding and assessing how the Houston Airport System's financial position has changed over time.

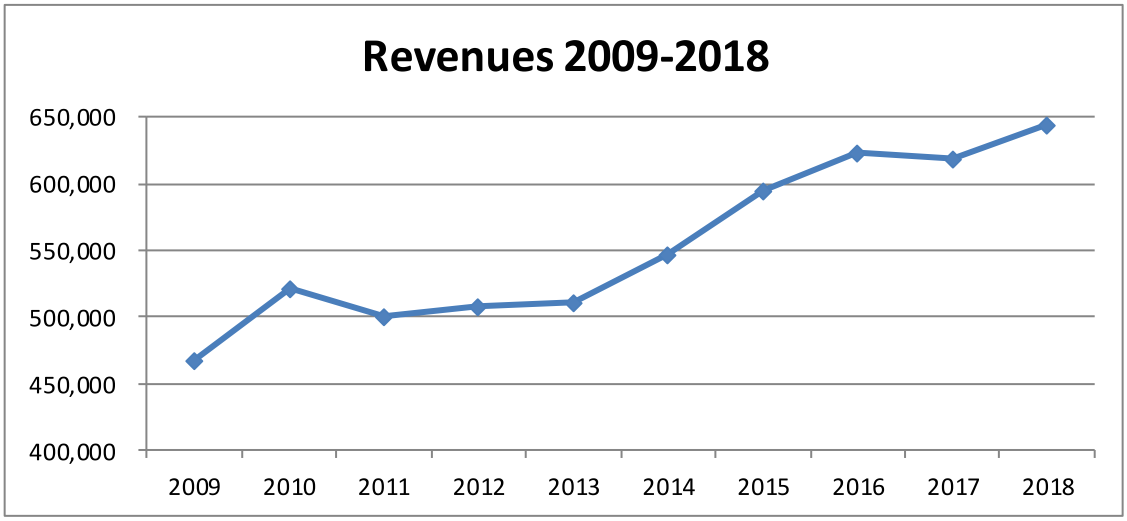
Revenue Capacity – intended to assist users in understanding and assessing the factors affecting the Houston Airport System's ability to generate its own sources of revenues.

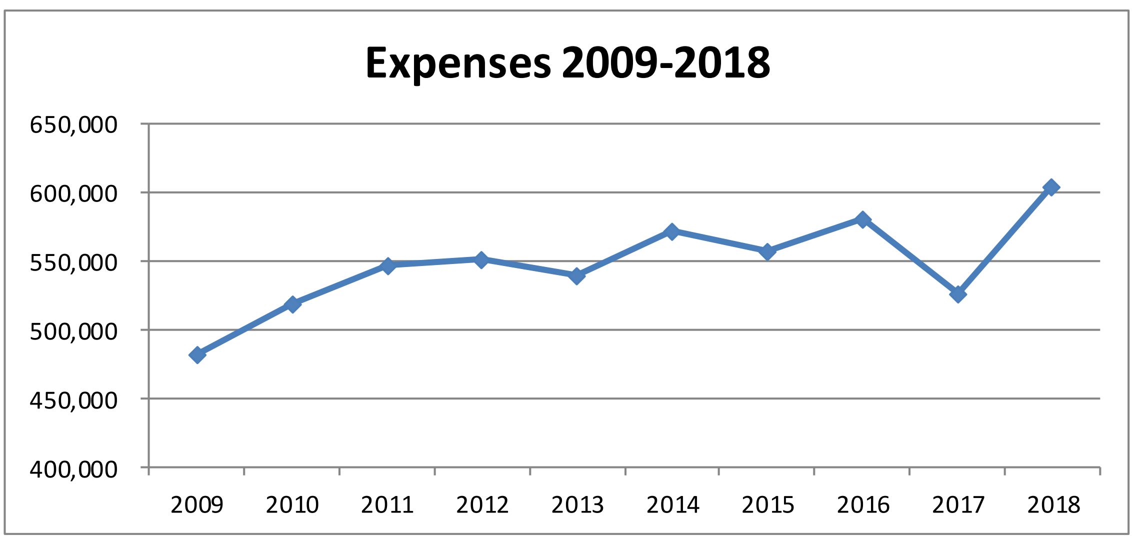
Debt Capacity – intended to assist users in understanding and assessing the Houston Airport System's debt burden and its ability to cover and issue additional debt.

Operational Information – intended to provide contextual information about the Houston Airport System's operations and resources to assist readers in using financial statement information to understand and assess the Houston Airport System economic condition.

Demographic and Economic – intended to assist users in understanding the socioeconomic environment within which the Houston Airport System operates and to provide information that facilitates comparisons of financial statement information over time and among similar entities.

TOTAL ANNUAL REVENUES AND TOTAL ANNUAL EXPENSES (in thousands)
STATISTICAL SECTION





TOTAL ANNUAL REVENUES AND EXPENSES (in thousands)
STATISTICAL SECTION

CHANGE IN NET POSITION	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
OPERATING REVENUES										
Landing area fees	$ 82,823	$ 94,165	$ 90,384	$ 86,935	$ 91,059	$ 88,342	$ 93,575	$ 86,870	$ 88,046	$ 95,779
Building and ground area fees	174,433	182,105	181,182	182,320	181,701	186,505	197,039	216,018	221,181	220,214
Concession, parking, and other revenues	128,501	130,309	138,836	148,295	160,234	177,260	185,668	186,009	184,814	194,871
TOTAL OPERATING REVENUES	385,757	406,579	410,402	417,550	432,994	452,107	476,282	488,897	494,041	510,864
NONOPERATING REVENUES										
Investment income (loss)	37,507	30,488	9,735	5,636	(1,934)	11,170	7,496	13,260	3,403	8,591
Passenger Facility Charges	32,398	66,383	63,138	63,550	61,195	62,602	85,392	104,230	101,539	109,021
Customer Facility Charges	10,171	10,981	13,478	15,904	17,104	17,152	17,535	16,417	14,200	17,374
Other nonoperating revenues	1,093	7,525	3,409	4,644	1,978	3,225	7,969	124	5,596	(1,420)
TOTAL NONOPERATING REVENUES	81,169	115,377	89,760	89,734	78,343	94,149	118,392	134,031	124,738	133,566
TOTAL REVENUES	466,926	521,956	500,162	507,284	511,337	546,256	594,674	622,928	618,779	644,430
OPERATING EXPENSES										
Maintenance and operating										
Personnel costs	105,974	109,681	111,861	107,532	104,162	108,520	114,947	123,872	56,721	133,253
Supplies	6,061	5,817	6,534	7,290	7,344	8,823	7,933	8,140	7,794	8,219
Services	126,939	128,761	143,327	139,612	140,019	149,957	159,577	177,677	184,032	184,826
Non-capital outlay	2,329	792	22,585	9,626	14,052	10,202	4,072	5,730	5,912	8,806
Impairment to capital assets	-	-	-	-	6,514	7,710	-	-		-
Total M & O Expenses	241,303	245,051	284,307	264,060	272,091	285,212	286,529	315,419	254,459	335,104
Depreciation expense	139,157	166,788	165,657	193,266	173,448	174,825	177,512	179,398	184,203	176,053
TOTAL OPERATING EXPENSES	380,460	411,839	449,964	457,326	445,539	460,037	464,041	494,817	438,662	511,157
NONOPERATING EXPENSES										
Interest expense and others	102,036	107,444	97,515	94,012	93,749	112,350	92,803	86,259	87,574	94,061
TOTAL NONOPERATING EXPENSES	102,036	107,444	97,515	94,012	93,749	112,350	92,803	86,259	87,574	94,061
TOTAL EXPENSES	482,496	519,283	547,479	551,338	539,288	572,387	556,844	581,076	526,236	605,218
CONTRIBUTIONS	70,936	51,457	44,135	15,029	12,761	44,614	36,432	22,542	35,513	13,784
TOTAL CHANGE IN NET POSITION	$ 55,366	$ 54,130	$ (3,182)	$ (29,025)	$ (15,190)	$ 18,483	$ 74,262	$ 64,394	$ 128,056	$ 52,996

(continued)

CHANGES IN NET POSITION AND PASSENGER FACILITY CHARGE COLLECTIONS (in thousands)
STATISTICAL SECTION

NET POSITION AT YEAR END	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net investment in capital assets	754,848	661,854	624,507	580,636	518,464	469,971	466,196	537,172	542,363	531,232
Restricted net position										
Restricted for debt service	82,436	160,873	168,841	189,966	213,064	242,558	303,371	333,635	287,858	357,588
Restricted for maintenance and operations	41,899	42,405	43,320	44,023	46,309	49,736	53,912	54,942	54,805	56,891
Restricted for special facility	12,353	12,444	15,081	20,025	26,026	30,986	25,732	26,944	29,369	36,049
Restricted for renewal and replacement	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Restricted for capital improvement	458,356	526,446	549,091	537,165	552,762	581,857	600,159	561,071	676,360	657,050
Unrestricted (deficit)	-	-	-	-	-	-	(178,003)	(178,003)	(126,938)	(143,297)
TOTAL NET POSITION	$ 1,359,892	$ 1,414,022	$ 1,410,840	$ 1,381,815	$ 1,366,625	$ 1,385,108	$ 1,281,367	$ 1,345,761	$ 1,473,817	$ 1,505,513

Passenger Facility Charge Collections (in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Intercontinental	$ 23,046	$ 54,284	$ 50,982	$ 50,358	$ 47,464	$ 48,181	$ 66,491	$ 80,574	$ 77,351	$ 83,220
Hobby	9,352	12,099	12,156	13,192	13,731	14,421	18,901	23,656	24,188	25,801
Total	$ 32,398	$ 66,383	$ 63,138	$ 63,550	$ 61,195	$ 62,602	$ 85,392	$ 104,230	$ 101,539	$ 109,021
Year-over-Year Change	179.10%	104.90%	-4.89%	0.65%	-3.71%	2.30%	36.40%	22.06%	-2.58%	7.37%

PLEDGED REVENUES (in thousands)
STATISTICAL SECTION

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating revenues:										
Landing area fees:										
Landing fees	$ 80,420	$ 91,032	$ 87,163	$ 83,059	$ 86,911	$ 84,098	$ 89,426	$ 82,703	$ 84,036	$ 91,258
Aviation fuel	1,313	1,329	1,378	1,382	1,444	1,529	1,521	1,527	1,350	1,679
Aircraft parking	1,090	1,804	1,843	2,494	2,704	2,715	2,628	2,640	2,660	2,842
Subtotal	82,823	94,165	90,384	86,935	91,059	88,342	93,575	86,870	88,046	95,779
Building and ground area revenues:										
Terminal space rentals	155,396	161,960	160,563	160,247	158,237	163,297	173,392	191,321	196,162	195,198
Cargo building rentals	2,374	2,490	2,511	2,473	2,397	2,432	2,506	2,484	2,448	2,390
Other rentals	5,017	5,158	5,067	5,394	5,848	6,174	6,252	6,808	6,453	6,460
Hangar rental	4,051	4,920	5,446	6,165	6,675	6,605	6,355	6,577	6,813	6,691
Ground rental	7,595	7,577	7,595	8,041	8,544	7,997	8,534	8,828	9,305	9,475
Subtotal	174,433	182,105	181,182	182,320	181,701	186,505	197,039	216,018	221,181	220,214
Parking, concession, and other revenues:										
Retail concessions	27,023	27,996	34,426	38,429	41,604	41,444	41,855	35,215	39,999	41,245
Auto parking	66,565	70,127	70,681	72,833	77,596	90,173	97,515	101,650	99,752	103,961
Auto rental concession	24,389	22,889	23,932	26,771	29,522	32,783	31,991	30,737	28,735	28,767
Ground transportation	4,724	4,987	5,946	6,186	6,639	8,301	9,323	10,083	10,402	11,062
Other operating revenues	5,800	4,310	3,851	4,076	4,873	4,559	4,984	8,324	5,926	9,836
Subtotal	128,501	130,309	138,836	148,295	160,234	177,260	185,668	186,009	184,814	194,871
Total operating revenues	$ 385,757	$ 406,579	$ 410,402	$ 417,550	$ 432,994	$ 452,107	$ 476,282	$ 488,897	$ 494,041	$ 510,864

Gross revenues include all operating revenue of the Airport Fund, and all nonoperating revenue except for revenue with legal spending restrictions. Maintenance and operating expenses include all operating expenses of the system except for depreciation and capital expenses. Net revenues in each fiscal year are required to be at least equal to the larger of either: (1) the debt service and reserve transfer requirements of each fiscal year or; (2) 125%, 110% and 100% of the debt service requirements for such fiscal year of the Senior Lien Bonds (or Commercial Paper assumed to be refinanced as Senior Lien Revenue Bonds), Subordinate Lien Revenue Bonds and Inferior Lien debt, respectively.

(continued)

PLEDGED REVENUES (in thousands), continued:
STATISTICAL SECTION

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net revenues										
Operating revenue	$ 385,757	$ 406,579	$ 410,402	$ 417,550	$ 432,994	$ 452,107	$ 476,282	$ 488,897	$ 494,041	$ 510,864
Interest on investments - revenue fund	23,664	15,988	12,889	9,826	7,029	5,499	6,014	6,986	9,306	13,348
Other nonoperating revenues	300	2,504	341	2,289	1,222	3,162	7,526	(52)	7,177	(1,805)
Gross revenues	409,721	425,071	423,632	429,665	441,245	460,768	489,822	495,831	510,524	522,407
Less: Maintenance and operating expenses	(242,449)	(245,147)	(262,668)	(255,507)	(252,745)	(268,745)	(283,557)	(314,715)	(254,506) *	(326,889)
Net pledged revenue	$ 167,272	$ 179,924	$ 160,964	$ 174,158	$ 188,500	$ 192,023	$ 206,265	$ 181,116	$ 256,018	$ 195,518
Debt Service										
Principal	$ 49,692	$ 51,832	$ 61,136	$ 59,575	$ 56,800	$ 60,419	$ 71,999	$ 79,093	$ 82,707	$ 81,137
Interest	100,746	93,298	97,546	91,736	97,138	96,005	91,320	84,811	92,316	93,319
	150,438	145,130	158,682	151,311	153,938	156,424	163,319	163,904	175,023	174,456
Less PFC revenue available for debt service	(15,847)	(27,087)	(38,828)	(36,619)	(34,390)	(35,614)	(38,054)	(42,320)	(54,673)	(50,642)
Less grant revenue available for debt service	(38,835)	(29,084)	(17,999)	(7,360)	-	(22,942)	(16,399)	(13,888)	-	-
Total debt service	$ 95,756	$ 88,959	$ 101,855	$ 107,332	$ 119,548	$ 97,868	$ 108,866	$ 107,696	$ 120,350	$ 123,814
Coverage of debt service	1.75	2.02	1.58	1.62	1.58	1.96	1.89	1.68	2.13	1.58
Net Required revenue per bond rate covenant	$ 105,208	$ 98,571	$ 112,873	$ 119,343	$ 133,552	$ 108,369	$ 122,822	$ 120,125	$ 134,348	$ 137,474
Ratio of required revenue	1.59	1.83	1.43	1.46	1.41	1.77	1.68	1.51	1.91	1.42

Debt service requirements is equal to interest expense (excluding amortization of bond discount and amounts provided for payment of interest by bond proceeds and other sources and deposited into a restricted fund for that purpose) for each respective fiscal year ended June 30, plus principal payment payable on the next July 1. Certain grant revenue and passenger facility charge revenue is available to cover net required revenue and required debt service. In FY2016, $6,250,000 in remaining series 2009A proceeds were used to pay senior lien bond debt service.

Net revenues in each fiscal year are required to be at least equal to the larger of either: (1) the debt service and reserve transfer requirements of each fiscal year or; (2) 125%, 110% and 100% of the debt service requirements for such fiscal year of the Senior Lien Bonds (or Commercial Paper assumed to be refinanced as Senior Lien Revenue Bonds), Subordinate Lien Revenue Bonds and Inferior Lien debt, respectively.

Revenues and expenses cannot be included in net pledged revenue if they are accounted for outside of the Airport Revenue Fund, and do not affect amounts available for transfer to debt service funds.

*** Operating and maintenance expense for debt coverage calculations decreased by $60.2 million between FY17 and FY16, primarily due to a $67.4 million decrease in pension expense associated with pension reform enacted in 2017. Without the effects of pension reform, it is estimated that debt service coverage would have been 1.63.**

PLEDGED REVENUES FOR CONSOLIDATED RENTAL CAR FACILITY
STATISTICAL SECTION

(not rounded to the nearest thousand)	For Years Ended December 31: 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Customer facility charge collections	$ 11,323,569	$ 9,523,308	$ 12,300,253	$ 14,596,573	$ 16,444,942	$ 17,317,058	$ 17,451,368	$ 17,359,920	$ 14,822,377	$ 15,369,389
Interest income	146,789	8,417	7,961	475	318	731	785	3,840	29,003	56,976
Transfers from Rate Stabilization Account	-	1,142,458	-	-	-	-	-	-	-	-
Transfers from Coverage Account	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143
Total resources available for debt service	$ 14,639,501	$ 13,843,326	$ 15,477,357	$ 17,766,191	$ 19,614,403	$ 20,486,932	$ 20,621,296	$ 20,532,903	$ 18,020,523	$ 18,595,508
Total annual debt service:										
Special Facility Revenue Bonds, Series 2001:										
Principal	$ 2,170,000	$ 2,415,000	$ 2,675,000	$ 2,960,000	$ 3,260,000	$ 3,590,000	$ -	$ -	$ -	$ -
Interest	8,386,419	8,255,351	8,108,278	7,944,033	7,759,329	7,552,645	6,006,288	4,691,128	4,691,128	4,691,128
Subtotal Series 2001	10,556,419	10,670,351	10,783,278	10,904,033	11,019,329	11,142,645	6,006,288	4,691,128	4,691,128	4,691,128
Special Facility Refunding Bonds, Series 2014:										
Principal	-	-	-	-	-	-	4,355,000	5,160,000	5,305,000	5,490,000
Interest	-	-	-	-	-	-	230,243	691,019	652,835	584,082
Subtotal Series 2014	-	-	-	-	-	-	4,585,243	5,851,019	5,957,835	6,074,082
Total annual debt service	$ 10,556,419	$ 10,670,351	$ 10,783,278	$ 10,904,033	$ 11,019,329	$ 11,142,645	$ 10,591,531	$ 10,542,147	$ 10,648,963	$ 10,765,210
Debt service coverage ratio	1.39	1.30	1.44	1.63	1.78	1.84	1.95	1.95	1.69	1.73

- Customer Facility Charges are used first to pay debt service on the Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 and on the Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014. Additional collections are used to pay administrative costs for the special facility agreement, and then for capital improvements and major repairs on the special facility. Customer facility charges are kept and invested separately by BNYMellon Bank as trustee, and cannot be used for any other City or Airport Fund purpose as long as any Special Facility Revenue Bonds (CRCF) remain outstanding.
- No other City or Airport Fund revenues are pledged toward the payment of Special Facility Revenue Bonds (CRCF).
- The Special Facilities Revenue Bond (CRCF) covenants require the Airport Fund to maintain a debt service coverage ratio of at least 125%
- The City imposed a $3.00 Customer Facility Charge as of April 1, 2001, which was increased to $3.50 effective July 1, 2003, reduced to $3.25 effective April 1, 2005, reduced to $3.00 effective July 1, 2006, increased to $3.75 effective November 1, 2009, increased to $4.25 effective April 1, 2011, reduced to $4.00 effective April 1, 2013, and reduced again to $3.00 effective April 1, 2016, and increased to $4.00 effective April 1, 2017.
- For purposes of coverage calculation, collections are considered available for debt service when they are received by the trustee.
- For purposes of coverage calculation, interest and principal is calculated on the accrual basis, for instance, in 2008, funding is accumulated for payments due on 7/1/2008 and 1/1/2009.
- For more information on the Consolidated Rental Car Facility assets and debt, see Notes 1 and 5.

OUTSTANDING DEBT (in thousands)
STATISTICAL SECTION

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Outstanding debt by type (1):										
Senior lien revenue bonds, fixed rate	$ -	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 440,385	$ 430,645	$ 420,420
Subordinate lien revenue bonds, fixed rate	1,660,055	1,622,090	1,582,080	1,464,905	1,419,125	1,376,505	1,331,765	1,284,860	1,232,585	1,331,795
Subordinate lien revenue bonds, periodic auction rate	330,300	322,775	315,550	305,425	298,525	286,300	276,275	266,925	254,475	242,275
Subordinate lien revenue bonds, variable rate	92,900	92,900	93,730	93,630	93,505	93,305	93,105	92,905	92,705	92,505
Subtotal, revenue bonds payable	2,083,255	2,487,425	2,441,020	2,313,620	2,260,815	2,205,770	2,150,805	2,085,075	2,010,410	2,086,995
Unamortized discount	(15,153)	(18,071)	(16,216)	(4,176)	(3,905)	(3,619)	(3,317)	(3,016)	(2,717)	(2,422)
Unamortized premium	10,853	12,319	11,583	96,928	89,587	82,318	75,141	68,118	61,302	112,362
Revenue bonds payable, net	$ 2,078,955	$ 2,481,673	$ 2,436,387	$ 2,406,372	$ 2,346,497	$ 2,284,469	$ 2,222,629	$ 2,150,177	$ 2,068,995	$ 2,196,935
Senior lien commercial paper payable	93,000	6,000	-	-	-	1,200	49,500	87,000	87,000	21,473
Inferior lien contract payable	45,820	41,735	37,430	32,895	28,115	23,075	17,760	12,155	6,240	-
Pension obligation bonds payable (2)	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	29,616
Note payable (3)								120,439	115,421	-
Special facilities revenue bonds, rental car (4)	120,330	117,915	115,240	112,280	109,020	105,430	102,055	96,895	91,590	86,100
Total outstanding debt payable	$ 2,340,111	$ 2,649,329	$ 2,591,063	$ 2,553,553	$ 2,485,638	$ 2,416,180	$ 2,393,950	$ 2,468,672	$ 2,371,252	$ 2,334,124
Total enplaned passengers	24,030,602	24,531,054	24,944,816	25,303,825	25,132,792	25,944,623	26,903,969	27,813,447	27,364,057	27,712,788
Outstanding debt per enplaned passenger	$ 97.38	$ 108.00	$ 103.87	$ 100.92	$ 98.90	$ 93.13	$ 88.98	$ 88.76	$ 86.66	$ 84.23
Outstanding conduit debt:										
Special facilities revenue bonds (5)	$ 462,940	$ 459,395	$ 455,895	$ 565,500	$ 561,500	$ 561,470	$ 711,790	$ 711,790	$ 711,790	$ 848,865

(1) Includes both current and long-term liabilities.
(2) A portion of the City of Houston Taxable General Obligation Pension Bonds, Series 2005 and Series 2017, have been allocated to the Airport Fund for payment.
(3) A Note payable to Southwest Airlines for the construction of the Hobby International Terminal project was paid with Revenue and Refunding Bond Series 2018A proceeds on March 20, 2018.
(4) The Special Facilities Revenue and Refunding Bonds (Consolidated Rental Car Facility), Series 2001 and Series 2014, are included in the Airport Fund financial statements (See Notes 1 and 5).
(5) These Special Facilities Revenue Bonds are conduit bonds secured solely by lease payments from United Airlines. No revenues of the Airport System Fund are pledged to pay these bonds.

SUMMARY OF CERTAIN FEES AND CHARGES
STATISTICAL SECTION

IAH	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Landing Rates (1) (5)	3.014	2.931	2.737	2.743	2.850	2.844	2.803	2.812	2.642	2.757
Terminal Space Rentals (2) (5)	25.26-83.48	24.36-82.96	23.88-80.97	21.38-79.14	21.67-78.25	20.77-72.51	21.75-75.45	22.41-75.77	22.70-74.97	23.59-73.44
Apron Rentals (2) (5)	2.166-3.223	1.926-2.626	1.841-2.613	1.712-2.612	1.927-2.702	2.051-2.576	2.114-2.597	2.326-2.854	2.289-2.832	2.420-2.769
Aircraft Parking (per day) (4)	70.00-300.00	70.00-300.00	70.00-300.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00
Cargo (per day) (3)	125.00-450.00	125.00-450.00	125.00-450.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00
Parking Rates (6)										
Economy (Ecopark) Uncovered (7)	6.00	5.00	5.00	5.00	5.00	6.00	6.00	6.00	6.00	6.00
Economy (Ecopark) Covered (7)		7.00	7.00	7.00	7.00	8.00	8.00	8.00	8.00	8.00
Economy (Ecopark2) Covered (8)	-	-	-	-	-	-	-	5.00	6.00	6.00
Structured (9)	15.00	17.00	17.00	17.00	17.00	19.00	19.00	20.00	22.00	22.00
Sure Park (10)	17.00	20.00	20.00	20.00	20.00	23.00	23.00	24.00	24.00	24.00
Valet (10)	-	-	-	-	23.00	25.00	25.00	26.00	26.00	26.00

HOU	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Landing Rates (1) (5)	2.202	2.568	2.227	1.941	1.925	1.768	2.113	1.835	1.982	2.013
Terminal Space Rentals (2) (5)	84.82-103.79	88.95-110.29	96.91-99.41	90.77-93.27	85.95-88.45	87.73-90.23	92.77-95.27	87.62-90.12	64.79-67.29	48.10-68.15
Apron Rentals (2) (5)	2.004	2.355	1.973	1.787	1.815	1.891	2.209	1.765	1.652-1.853	1.791-1.848
Aircraft Parking (per day) (4)	70.00-300.00	70.00-300.00	70.00-300.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00
Cargo (per day) (3)	125.00-450.00	125.00-450.00	125.00-450.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00
Parking Rates (6)										
Economy (Ecopark) (11)	6.00	8.00	8.00	10.00	10.00	12.00	-	-	-	-
Economy (Ecopark2) (12)	-	6.00	6.00	6.00	6.00	10.00	10.00	10.00	10.00	10.00
Structured (9)	15.00	17.00	17.00	17.00	17.00	19.00	19.00	20.00	22.00	22.00
Valet (10)	-	-	-	-	23.00	25.00	25.00	26.00	26.00	26.00

(1) Per 1,000 pounds of landing weight
(2) Range per square foot
(3) Daily cargo rates increased on August 1, 2011 at Intercontinental and Hobby to a range of $200-$600
(4) Daily aircraft parking rates increased on August 1, 2011 at Intercontinental and Hobby to a range of $100-$400
(5) 2008-2016 actual rates provided versus budgeted, as reported in CAFR 2016 & prior; 2017 budgeted rates provided.
(6) Maximum per day
(7) New rates effective September 1, 2013
(8) New rates effective October 1, 2016
(9) New rates effective May 1, 2017
(10) New rates effective July 1, 2015
(11) Ecopark 1 at Hobby closed March 18, 2014
(12) New rates effective May 5, 2014

PASSENGER STATISTICS
LAST TEN YEARS

Domestic Passengers								
	Intercontinental		Hobby		Ellington Airport		Total	
Fiscal Year	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
2009	31,995	-9.1%	8,286	-8.9%	-	-	40,281	-9.1%
2010	32,093	0.3%	8,755	5.7%	-	-	40,848	1.4%
2011	31,666	-1.3%	9,434	7.8%	-	-	41,100	0.6%
2012	31,778	0.4%	10,192	8.0%	-	-	41,970	2.1%
2013	30,830	-3.0%	10,690	4.9%	-	-	41,520	-1.1%
2014	30,832	0.0%	11,609	8.6%	-	-	42,441	2.2%
2015	31,968	3.7%	11,837	2.0%	-	-	43,805	3.2%
2016	31,959	0.0%	12,209	3.1%	-	-	44,168	0.8%
2017	30,809	-3.6%	12,423	1.8%	-	-	43,232	-2.1%
2018	31,102	1.0%	12,864	3.5%	-	-	43,966	1.7%

International Passengers							HAS Passengers	
	Intercontinental		Hobby		Total		Total	
Fiscal Year	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
2009	7,642	-4.2%	-	-	7,642	-4.2%	47,923	-8.3%
2010	8,138	6.5%	-	-	8,138	6.5%	48,986	2.2%
2011	8,732	7.3%	-	-	8,732	7.3%	49,832	1.7%
2012	8,686	-0.5%	-	-	8,686	-0.5%	50,656	1.7%
2013	8,795	1.3%	-	-	8,795	1.3%	50,315	-0.7%
2014	9,470	7.7%	-	-	9,470	7.7%	51,911	3.2%
2015	10,018	5.8%	4	-	10,022	5.8%	53,827	3.7%
2016	10,904	8.8%	519	12875.0%	11,423	14.0%	55,591	3.3%
2017	10,662	-2.2%	860	65.7%	11,522	0.9%	54,754	-1.5%
2018	10,404	-2.4%	957	11.3%	11,361	-1.4%	55,327	1.0%

PASSENGER STATISTICS BY CARRIER
FOR YEARS ENDED JUNE 30, 2018 AND 2017

Domestic	Intercontinental				Hobby			
	Fiscal Year 2017		Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2018	
Airlines	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
Alaska Airlines	185,191	0.4%	185,838	0.4%	-	0.0%	-	0.0%
American Airlines, Inc.	1,749,382	4.1%	1,678,994	4.1%	17,213	0.1%	124	0.0%
Compass Airlines - AE	147,057	0.4%	132,886	0.4%	-	0.0%	-	0.0%
EpressJet Airlines Inc. - AE	70	0.0%	-	0.0%	25,307	0.2%	12,552	0.1%
Mesa Airlines, Inc. - AE	70,301	0.2%	135,999	0.3%	146,187	1.1%	260,734	1.9%
Republic Airlines - AE	122,752	0.3%	179,472	0.4%	-	0.0%	-	0.0%
SkyWest Airlines -AE	91,704	0.2%	59,665	0.1%	-	0.0%	-	0.0%
Envoy (American Eagle) - AA	63,960	0.2%	101,030	0.2%	107,094	0.8%	30,889	0.2%
American Airlines, Inc. Subtotal	**2,245,226**	**5.4%**	**2,288,046**	**5.5%**	**295,801**	**2.2%**	**304,299**	**2.2%**
Delta	733,804	1.8%	783,676	1.9%	408,046	3.1%	407,279	2.9%
Atlantic Southeast - DL	-	0.0%	-	0.0%	39,345	0.3%	26,900	0.3%
Compass Airlines - DL	24,988	0.1%	6,345	0.0%	-	0.0%	-	0.0%
ExpressJet Airlines Inc. - DL	88,483	0.2%	23,525	0.1%	-	0.0%	-	0.0%
GO JET - DL	48,881	0.1%	69,655	0.2%	-	0.0%	-	0.0%
Endeavor - DL	155,063	0.4%	178,510	0.4%	-	0.0%	1,564	0.0%
Republic Airlines Inc. - DL	67,960	0.2%	175,732	0.4%	-	0.0%	-	0.0%
Shuttle America Corporation - DL	88,748	0.2%	-	0.0%	-	0.0%	-	0.0%
SkyWest Airlines - DL	267,422	0.6%	290,692	0.7%	38	0.0%	-	0.0%
Delta Subtotal	**1,475,349**	**3.6%**	**1,528,135**	**3.7%**	**447,429**	**3.4%**	**435,743**	**3.2%**
Frontier	421,582	1.0%	285,337	0.7%	-	0.0%	-	0.0%
JetBlue	-	0.0%	-	0.0%	190,099	1.4%	179,012	1.2%
Kalitta Charters, LLC	1	0.0%	16	0.0%	22	0.0%	4	0.0%
Southwest Airlines Company	-	0.0%	-	0.0%	11,484,628	86.5%	11,937,077	86.4%
Southwest Airlines Company Subtotal	**-**	**0.0%**	**-**	**0.0%**	**11,484,628**	**86.5%**	**11,937,077**	**86.4%**
Spirit Airlines	1,769,051	4.3%	2,024,422	4.9%	-	0.0%	-	0.0%
United Airlines Inc.	16,252,312	39.3%	16,619,285	40.1%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - UA	2,820,852	6.8%	3,170,575	7.6%	-	0.0%	-	0.0%
Republic Airlines Inc. - UA	1,015,256	2.4%	1,477,664	3.6%	-	0.0%	-	0.0%
Trans States - UA	44,096	0.1%	-	0.0%	-	0.0%	-	0.0%
ExpressJet Airlines, Inc. - UA	3,544,987	8.5%	3,002,395	7.2%	-	0.0%	-	0.0%
Shuttle America Corporation - UA	4,083	0.0%	-	0.0%	-	0.0%	-	0.0%
SkyWest Airlines - UA	1,016,617	2.5%	517,489	1.2%	-	0.0%	-	0.0%
United Airlines Inc. Subtotal	**24,698,203**	**59.6%**	**24,787,408**	**59.7%**	**-**	**0.0%**	**-**	**0.0%**
Charter Airlines	14,185	0.0%	3,098	0.0%	5,379	0.0%	8,248	0.1%
Total Domestic	30,808,788	74.3%	31,102,300	74.9%	12,423,358	93.5%	12,864,383	93.1%

Domestic	Houston Airport System			
	Fiscal Year 2017		Fiscal Year 2018	
Airlines	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
Alaska Airlines	185,191	0.3%	185,838	0.3%
American Airlines, Inc.	1,766,595	3.2%	1,679,118	3.0%
Compass Airlines - AE	147,057	0.3%	132,886	0.2%
EpressJet Airlines Inc. - AE	25,377	0.0%	12,552	0.0%
Mesa Airlines, Inc. - AE	216,488	0.4%	396,733	0.7%
Republic Airlines - AE	122,752	0.1%	179,472	0.3%
SkyWest Airlines -AE	91,704	0.2%	59,665	0.1%
Envoy (American Eagle) - AA	171,054	0.3%	131,919	0.2%
American Airlines, Inc. Subtotal	**2,541,027**	**4.6%**	**2,592,345**	**4.7%**
Delta	1,141,850	2.1%	1,190,955	2.2%
Atlantic Southeast - DL	39,345	0.1%	26,900	0.0%
Compass Airlines - DL	24,988	0.0%	6,345	0.0%
ExpressJet Airlines Inc. - DL	88,483	0.2%	23,525	0.0%
GO JET - DL	48,881	0.1%	69,655	0.1%
Endeavor (Pinnacle Airlines, Inc.) - DL	155,063	0.4%	180,074	0.3%
Republic Airlines Inc. - DL	67,960	0.1%	175,732	0.3%
Shuttle America Corporation - DL	88,748	0.2%	-	0.0%
SkyWest Airlines - DL	267,460	0.6%	290,692	0.5%
Delta Subtotal	**1,922,778**	**3.5%**	**1,963,878**	**3.5%**
Frontier	421,582	0.8%	285,337	0.5%
JetBlue	190,099	0.2%	179,012	0.3%
Kalitta Charters, LLC	23	0.0%	20	0.0%
Southwest Airlines Company	11,484,628	21.0%	11,937,077	21.6%
Southwest Airlines Company Subtotal	**11,484,628**	**21.0%**	**11,937,077**	**21.6%**
Spirit Airlines	1,769,051	3.3%	2,024,422	3.7%
United Airlines Inc.	16,252,312	29.7%	16,619,285	30.0%
Mesa Airlines, Inc. - UA	2,820,852	5.2%	3,170,575	5.7%
Republic Airlines Inc. - UA	1,015,256	1.9%	1,477,664	2.7%
Trans States - UA	44,096	0.1%	-	0.0%
ExpressJet Airlines, Inc. - UA	3,544,987	6.5%	3,002,395	5.4%
Shuttle America Corporation - UA	4,083	0.0%	-	0.0%
SkyWest Airlines - CO	1,016,617	1.9%	517,489	0.9%
United Airlines Inc. Subtotal	**24,698,203**	**45.1%**	**24,787,408**	**44.8%**
Charter Airlines	19,564	0.0%	11,346	0.0%
Total Domestic	43,232,146	79.0%	43,966,683	79.5%

(continued)

PASSENGER STATISTICS BY CARRIER TOTAL
FOR YEARS ENDED JUNE 30, 2018 AND 2017

International	Intercontinental Fiscal Year 2017 Total Passengers (in thousands)	Intercontinental Fiscal Year 2017 Market Share	Intercontinental Fiscal Year 2018 Total Passengers (in thousands)	Intercontinental Fiscal Year 2018 Market Share	Hobby Fiscal Year 2017 Total Passengers (in thousands)	Hobby Fiscal Year 2017 Market Share	Hobby Fiscal Year 2018 Total Passengers (in thousands)	Hobby Fiscal Year 2018 Market Share
AeroMexico	255,782	0.6%	155,258	0.4%	-	0.0%	-	0.0%
All Nippon Airways Company, Ltd. - ANA	147,727	0.4%	141,286	0.3%	-	0.0%	-	0.0%
American	1,304	0.0%	-	0.0%	-	0.0%	-	0.0%
Mesa Airlines - AE	154	0.0%	-	0.0%	-	0.0%	-	0.0%
American Airlines, Inc. Subtotal	**1,458**	**0.0%**	**-**	**0.0%**	**-**	**0.0%**	**-**	**0.0%**
Air China	117,743	0.3%	120,146	0.3%	-	0.0%	-	0.0%
Air France	152,537	0.4%	146,276	0.4%	-	0.0%	-	0.0%
Air New Zealand	141,272	0.3%	137,657	0.3%	-	0.0%	-	0.0%
Atlas Air	16,131	0.0%	8,318	0.0%	-	0.0%	-	0.0%
BahamasAir	-	0.0%	5,074	0.0%	-	0.0%	-	0.0%
British Airways	240,874	0.6%	226,636	0.5%	-	0.0%	-	0.0%
Emirates	202,812	0.5%	207,496	0.5%	-	0.0%	-	0.0%
EVA Airways Corporation	175,392	0.4%	183,622	0.4%	-	0.0%	-	0.0%
Interjet	136,881	0.3%	168,409	0.4%	-	0.0%	-	0.0%
Jazz Air - AC	353,721	0.9%	349,571	0.8%	-	0.0%	-	0.0%
KLM	165,431	0.4%	164,806	0.4%	-	0.0%	-	0.0%
Kalitta Charters, LLC	-	0.0%	2	0.0%	1	0.0%	-	0.0%
Korean Air Lines Co., Ltd.	79,779	0.2%	19,847	0.0%	-	0.0%	-	0.0%
Lufthansa	291,713	0.7%	279,421	0.8%	-	0.0%	-	0.0%
Qatar Airways	154,652	0.4%	154,917	0.5%	-	0.0%	-	0.0%
Singapore Airlines	83,037	0.2%	94,029	0.2%	-	0.0%	-	0.0%
Spirit Airlines	120,767	0.3%	120,318	0.3%	-	0.0%	-	0.0%
Southwest Airlines Company	-	0.0%	-	0.0%	860,206	6.5%	956,910	6.9%
TACA	63,924	0.2%	47,793	0.1%	-	0.0%	-	0.0%
Turkish Airlines	167,402	0.4%	189,048	0.5%	-	0.0%	-	0.0%
United Airlines Inc.	6,229,253	15.0%	6,211,165	15.0%	-	0.0%	-	0.0%
ExpressJet Airlines, Inc. - UA	281,987	0.7%	292,503	0.7%	-	0.0%	-	0.0%
Mesa Airlines - UA	844,395	2.0%	780,774	1.9%	-	0.0%	-	0.0%
Republic Airlines Inc. - UA	1,177	0.0%	10,860	0.0%		0.0%		0.0%
SkyWest Airlines - UA	75,915	0.2%	11,678	0.0%	-	0.0%	-	0.0%
United Airlines Inc. Subtotal	**7,432,727**	**17.9%**	**7,306,980**	**17.6%**	**-**	**0.0%**	**-**	**0.0%**
WestJet Airlines	61,524	0.1%	99,371	0.2%	-	0.0%	-	0.0%
Viva Aerobus	40,879	0.1%	38,072	0.1%	-	0.0%	-	0.0%
Volaris Airline	52,879	0.1%	38,214	0.1%	-	0.0%	-	0.0%
Charter Airlines	4,599	0.0%	1,170	0.0%	-	0.0%	-	0.0%
Total International	10,661,643	25.7%	10,403,737	25.1%	860,207	6.5%	956,910	6.9%
Total Airlines	41,470,431	100.0%	41,506,037	100.0%	13,283,565	100.0%	13,821,293	100.0%

International Airlines	Houston Airport System Fiscal Year 2017 Total Passengers (in thousands)	Houston Airport System Fiscal Year 2017 Market Share	Houston Airport System Fiscal Year 2018 Total Passengers (in thousands)	Houston Airport System Fiscal Year 2018 Market Share
AeroMexico	255,782	0.5%	155,258	0.3%
All Nippon Airways Company, Ltd. - ANA	147,727	0.3%	141,286	0.3%
American	1,304	0.0%	-	0.0%
Mesa Airlines - AE	154	0.0%	-	0.0%
American Airlines, Inc. Subtotal	**1,458**	**0.0%**	**-**	**0.0%**
Air China	117,743	0.2%	120,146	0.2%
Air France	152,537	0.3%	146,276	0.3%
Air New Zealand	141,272	0.3%	137,657	0.2%
Atlas Air	16,131	0.0%	8,318	0.0%
BahamasAir	-	0.0%	5,074	0.0%
British Airways	240,874	0.4%	226,636	0.4%
Emirates	202,812	0.4%	207,496	0.4%
EVA Airways Corporation	175,392	0.3%	183,622	0.3%
Interjet	136,881	0.2%	168,409	0.3%
Jazz Air - AC	353,721	0.6%	349,571	0.6%
KLM	165,431	0.3%	164,806	0.3%
Kalitta Charters, LLC	1	0.0%	2	0.0%
Korean Air Lines Co., Ltd.	79,779	0.1%	19,847	0.0%
Lufthansa	291,713	0.5%	279,421	0.5%
Qatar Airways	154,652	0.3%	154,917	0.3%
Singapore Airlines	83,037	0.2%	94,029	0.2%
Spirit Airlines	120,767	0.3%	120,318	0.2%
Southwest Airlines Company	860,206	1.6%	956,910	1.7%
TACA	63,924	0.1%	47,793	0.1%
Turkish Airlines	167,402	0.3%	189,048	0.3%
United Airlines Inc.	6,229,253	11.4%	6,211,165	11.2%
ExpressJet Airlines, Inc.	281,987	0.5%	292,503	0.5%
Mesa Airlines - UA	844,395	1.5%	780,774	1.4%
Republic Airlines Inc. - UA	1,177	0.0%	10,860	0.0%
SkyWest Airlines - UA	75,915	0.1%	11,678	0.0%
United Airlines Inc. Subtotal	**7,432,727**	**13.6%**	**7,306,980**	**13.2%**
WestJet Airlines	61,524	0.1%	99,371	0.2%
Viva Aerobus	40,879	0.1%	38,072	0.1%
Volaris Airline	52,879	0.1%	38,214	0.1%
Charter Airlines	4,599	0.0%	1,170	0.0%
Total International	11,521,850	21.0%	11,360,647	20.5%
Total Airlines	54,753,996	100.0%	55,327,330	100.0%

ORIGINATING PASSENGER ENPLANEMENTS
STATISTICAL SECTION

George Bush Intercontinental Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2009	9,190,724	10,680,955	19,871,679	46.3%
2010	9,278,705	10,854,946	20,133,651	46.1%
2011	9,696,972	10,508,661	20,205,633	48.0%
2012	9,926,431	10,249,285	20,175,716	49.2%
2013	9,235,098	10,521,105	19,756,203	46.7%
2014	9,653,120	10,452,170	20,105,290	48.0%
2015	10,453,670	10,504,885	20,958,555	49.9%
2016	11,130,370	10,301,326	21,431,696	51.9%
2017	11,127,432	9,602,708	20,730,140	53.7%
2018	11,332,305	9,443,422	20,775,727	54.5%

William P. Hobby Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2009	3,322,678	836,245	4,158,923	79.9%
2010	3,343,393	1,054,010	4,397,403	76.0%
2011	3,617,541	1,121,642	4,739,183	76.3%
2012	3,906,900	1,221,209	5,128,109	76.2%
2013	3,959,666	1,416,922	5,376,588	73.6%
2014	4,134,726	1,701,165	5,835,891	70.8%
2015	4,271,166	1,674,247	5,945,413	71.8%
2016	4,695,633	1,687,702	6,383,335	73.6%
2017	4,852,811	1,807,446	6,660,257	72.9%
2018	4,829,823	2,107,238	6,937,061	69.6%

Houston Airport System

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2009	12,513,402	11,517,200	24,030,602	52.1%
2010	12,622,098	11,908,956	24,531,054	51.5%
2011	13,314,513	11,630,303	24,944,816	53.4%
2012	13,833,331	11,470,494	25,303,825	54.7%
2013	13,194,764	11,938,027	25,132,791	52.5%
2014	13,787,846	12,153,335	25,941,181	53.2%
2015	14,724,836	12,179,132	26,903,968	54.7%
2016	15,826,003	11,989,028	27,815,031	56.9%
2017	15,980,243	11,410,154	27,390,397	58.3%
2018	16,162,128	11,550,660	27,712,788	58.3%

AIRCRAFT OPERATIONS, LANDING WEIGHT AND CARGO ACTIVITY STATISTICAL SECTION

Aircraft Operations (in thousands)				Aircraft Landed Weight (in million pounds)		
Fiscal Year	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
2009	892	(82)	-8.42%	31,907	(2,189)	-6.42%
2010	858	(34)	-3.81%	31,707	(200)	-0.63%
2011	861	3	0.35%	32,564	857	2.70%
2012	838	(23)	-2.67%	32,844	280	0.86%
2013	799	(39)	-4.65%	33,041	197	0.60%
2014	811	12	1.50%	33,881	840	2.54%
2015	816	5	0.62%	34,969	1,088	3.21%
2016	787	(29)	-3.55%	35,519	550	1.57%
2017	760	(27)	-3.43%	34,648	(871)	-2.45%
2018	735	(25)	-3.29%	34,822	174	0.50%

Cargo Activity (in metric tons)					
Fiscal Year	Domestic Freight	International Freight	Mail	Total Cargo	Year-over-Year Change
2009	186,085	164,840	36,082	387,007	-9.3%
2010	195,617	181,453	37,011	414,081	7.0%
2011	205,174	208,748	33,897	447,819	8.1%
2012	200,619	219,318	33,253	453,190	1.2%
2013	201,464	218,311	27,142	446,917	-1.4%
2014	193,776	225,400	27,333	446,509	-0.1%
2015	192,331	252,876	30,026	475,233	6.4%
2016	195,644	205,361	25,713	426,718	-10.2%
2017	209,343	224,226	24,983	458,552	7.5%
2018	232,050	238,217	23,790	494,057	7.7%

PERFORMANCE MEASURES
STATISTICAL SECTION

Performance Measures	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue per Enplaned Passenger	$ 19.43	$ 21.28	$ 20.05	$ 20.05	$ 20.35	$ 21.06	$ 22.10	$ 22.40	$ 22.59	$ 23.25
Maintenance and Operations Expenses per Enplaned Passenger	$ 10.04	$ 9.99	$ 11.40	$ 10.44	$ 10.83	$ 10.99	$ 10.65	$ 11.34	$ 9.29	$ 12.09
Debt Service per Enplaned Passenger	$ 6.71	$ 6.37	$ 6.81	$ 6.43	$ 6.58	$ 6.47	$ 6.54	$ 6.69	$ 7.06	$ 6.77
Outstanding Debt per Enplaned Passenger (1)	$ 97.56	$ 108.23	$ 104.06	$ 97.25	$ 95.49	$ 90.11	$ 86.31	$ 86.41	$ 84.43	$ 80.26
Intercontinental Budgeted Airline Cost per Est. Enplaned Passenger (2)	$ 11.04	$ 11.06	$ 10.42	$ 10.79	$ 10.72	$ 11.21	$ 11.28	$ 10.94	$ 11.31	$ 11.38
Intercontinental Actual Airline Cost per Enplaned Passenger (2)	$ 11.53	$ 10.52	$ 10.52	$ 10.39	$ 10.52	$ 10.61	$ 10.56	$ 10.62	$ 11.08	$ 11.39
Hobby Budgeted Airline Cost per Est. Enplaned Passenger (2)	$ 8.20	$ 9.44	$ 7.99	$ 7.24	$ 7.34	$ 7.37	$ 6.99	$ 6.76	$ 6.48	$ 6.22
Hobby Actual Airline Cost per Enplaned Passenger (2)	$ 8.64	$ 8.75	$ 7.68	$ 6.63	$ 6.64	$ 6.19	$ 6.43	$ 7.15	$ 6.15	$ 6.40

(1) The calculation of outstanding debt per enplaned passenger does not include unamortized discount and premium.

(2) Airline Costs include terminal building charges, aircraft parking apron charges and landing fees only for passenger carriers. The costs are calculated during the rates and charges process based on budget and estimated passengers. They are then recalculated, after the annual audit, during the rates and charges reconciliation process. The estimated costs utilized are based on projected results and are subjected to change.

CASH AVAILABLE BY DAYS FUNDED (in thousands)
STATISTICAL SECTION

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Airport System Revenue Fund (1) (2)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating & Maintenance Reserve	41,417	42,643	43,630	46,397	49,633	50,754	51,615	51,807	52,686
Renewal & Replacement Fund (3)	19,194	19,777	20,876	11,822	11,822	10,011	10,001	10,514	11,483
Airports Improvement Fund (3)	403,564	438,368	455,030	460,634	487,974	396,631	449,768	417,930	444,464
Total cash available for operations	$ 464,175	$ 500,788	$ 519,536	$ 518,853	$ 549,429	$ 457,396	$ 511,384	$ 480,251	$ 508,633
Maintenance and operating expense (4)(5)	$ 245,147	$ 262,668	$ 255,507	$ 252,745	$ 268,745	$ 283,557	$ 314,715	$ 254,506	$ 326,889
Days in fiscal year	365	365	366	365	365	365	366	365	365
Daily cash requirement	$ 672	$ 720	$ 698	$ 692	$ 736	$ 777	$ 860	$ 697	$ 896
Days funded	691	696	744	749	746	589	595	689	568
Total Airport System Cash and Investments	$ 1,045,347	$ 1,057,458	$ 1,034,122	$ 1,087,394	$ 1,139,956	$ 1,222,307	$ 1,248,346	$ 1,259,622	$ 1,362,459

(1) The funds are listed in order of availability; each fund must be fully depleted before the next can be used.

(2) Available funding in the Airport System Revenue Fund on June 30th is transferred to the Airports Improvement Fund to comply with airport bond ordinances.

(3) Excludes cash required for accrued liabilities and capital appropriations.

(4) Excludes capital asset impairments and retirements, and expense incurred on cancelled capital projects. Includes interest expense for the Series 2005 pension obligation bonds and the debt service on the note payable to Southwest Airlines.

(5) Maintenance and operating expense funded by cash available for operations decreased by $60.2 million between FY2017 and FY2016, primarily due to a $67.4 million decrease in pension expense associated with pension reform enacted in 2017. Without the reform, it is estimated that days funded at June 30, 2017 would be 557.

All of the necessary appropriation data for FY2009 is not readily available; this table will be expanded to cover ten years on June 30, 2019.

AIRPORT INFORMATION
STATISTICAL SECTION

	IAH	HOU	EFD (1)
Location	22 miles N of downtown Houston	7 miles SE of downtown Houston	15 miles SE of downtown Houston
Area	10,080.10 acres	1,501.9 acres	1,944.60 acres
Elevation	97 MSL	46 MSL	32 MSL
Airport Code	IAH	HOU	EFD
Runways	8R-26L 9,402x150 ft 9-27 10,000x150 ft 15L-33R 12,001x150 ft 15R-33L 10,000x150 ft 8L-26R 9,000x150 ft	13L-31R 5,148x100 ft 13R-31L 7,602x150 ft 17-35 6,000x150 ft 4-22 7,602x150 ft	17L-35R 4,609x 80 ft 17R-35L 9,001x150 ft 4-22 8,001x150 ft
Terminal Space	Airlines 2,932,429 sf Tenants 188,306 sf Public/Common 769,716 sf Mechanical 278,048 sf Other 208,570 sf Total 4,377,069 sf	Airlines 537,790 sf Tenants 63,672 sf Public/Common 147,287 sf Mechanical 115,815 sf Other 47,615 sf Total 912,179 sf	n/a
Number of Gates/Hardstand Positions	128/7	30/n/a	n/a
Commercial Airlines Apron	4,023,940 sf	681,239 sf	n/a
Rental Car Facility	10 Rental Car Agencies	12 Rental Car Agencies	n/a
Parking Spaces	S-T Hourly 14,701 L-T ECO 8,612 Employee 2,033 Total 25,346	S-T Hourly 5,601 L-T ECO 934 Employee 915 Total 7,450	n/a

Note 1: No scheduled commercial flights.

EMPLOYEE STAFFING BY FUNCTION
STATISTICAL SECTION

Full time Equivalent (FTE)
Number of Employees (1)

Department	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Administration	343.8	347.8	361.0	329.6	292.3	303.5	314.3	343.0	321.1	304.4
George Bush Intercontinental (IAH) Operations (2)	898.7	851.7	833.9	789.9	755.8	775.6	704.4	630.5	620.4	615.8
William P. Hobby (HOU) Operations (2)	331.6	314.7	300.8	266.6	264.1	260.1	245.6	246.3	244.2	243.9
Ellington Airport Operations (2)	30.7	30.5	30.8	28.9	27.3	29.5	27.7	25.4	25.8	25.9
Total FTE Employees	1,604.8	1,544.7	1,526.5	1,415.0	1,339.5	1,368.7	1,292.0	1,245.2	1,211.5	1,190.0

Note 1: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full time equivalent employment is calculated by dividing total labor hours including overtime by 2,080. Human Resources, Police and Fire Operations are not included in employee counts for the Houston Airport System. They are provided by the City of Houston and paid for through interfund service charges. See Note #8 in the Notes to the Financial Statements.

Note 2: Includes Airside, Landside, Communication Center and Ground Transportation.

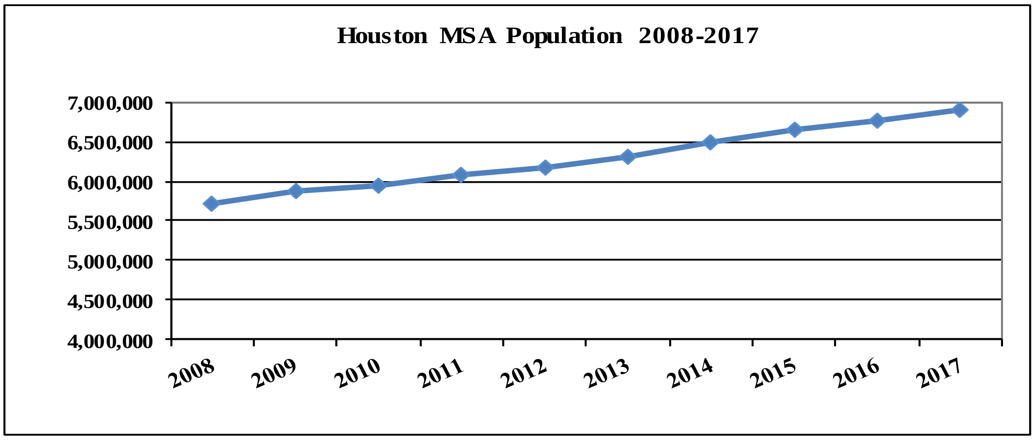
SERVICE AREA/SERVICE AREA POPULATION/PRINCIPAL EMPLOYERS
STATISTICAL SECTION

The primary service region for the Houston Airport System, the 9-county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area ("MSA"), has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, retail, and distribution center. The MSA extends out five additional counties of Matagorda, Trinity, Walker, Washington, and Wharton for the broader The Houston-The Woodlands Combined Statistical Area ("CSA"). According to U.S. Bureau of the Census, the population estimate was 6.89 million for the MSA and 7.09 million for the CSA as of July 1, 2017.

Houston, the nation's fourth most populous city, is the largest in the South and Southwest. The Houston MSA ranks fifth in population among the nation's metropolitan areas.

Service Area Population

Year	Houston MSA Population
2008	5,726,705
2009	5,867,489
2010	5,946,800
2011	6,086,538
2012	6,177,035
2013	6,313,158
2014	6,490,180
2015	6,656,947
2016	6,772,470
2017	6,892,427



PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

Employer	June 30, 2018			June 30, 2009		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Walmart	34,000	1	2.88%			
HEB	26,956	2	2.29%	19,500	1	1.94%
Memorial Hermann Health System	26,011	3	2.21%	9,991	7	0.99%
Houston Methodist	22,247	4	1.89%			
The University of Texas MD Anderson Cancer Center	20,189	5	1.71%	12,000	5	1.19%
Kroger Company	17,188	6	1.46%			
McDonald's Corporation	16,100	7	1.37%			
United Airlines	14,084	8	1.19%			
Texas Children's Hospital	13,445	9	1.14%	13000	3	1.29%
Exxon Mobil Corporation	13,000	10	1.10%	16,000	2	1.59%
Continental Airlines, Inc.				9,000	10	0.89%
St.Luke's Episcopal Health System				9,232	8	0.92%
Baylor College of Medicine				9,000	9	0.89%
Hewlett-Packard Corporation				13,000	4	1.29%
Shell Oil Company				10,000	6	0.99%
National Oilwell Varco						
Total :	203,220		17.24%	120,723		11.98%

SOURCE:GHP Houston Facts - 2018; Houston Chronicle (Houston biggest employers reflect local economy)

Employers excludes school districts and city, county, state and federal governments.
Employee numbers are for the ten-county region, not the city only.
Employee may live outside the City.

Total Houston Residents employed regardless of where they work:

June 2018 Local Area Unemployment Statistics, Bureau of Labor Statistics	2018	1,179,434
U.S. Census Bureau, American Community Survey	2009	1,007,600

DEMOGRAPHIC AND ECONOMIC STATISTICAL SECTION

Fiscal Year	Population (1)	Personal Income (in thousands) (2)	Per Capita Personal Income (2)	Median Age (2)	Education Level in Years of Formal Schooling (2)	School Enrollment (2)	Average Unemployment Rate (percentage) (3)
2009	2,244,615	$ 57,795,120	$ 25,563	32.9	13.2	520,118 (6)	5.9 (2)
2010	2,257,926	$ 51,886,111	$ 24,623	32.8	12.4	525,506 (6)	7.0 (2)
2011	2,099,451 (11)	Not available	$ 26,109	32.2	12.7	560,316 (6)	8.2 (7)
2012	2,145,146	Not available	$ 26,179 (8)	33.2 (9)	13.0 (9)	576,020 (8)	7.5 (10)
2013	2,160,821	Not available	$ 26,849 (8)	32.1 (8)	13.0 (6), (8)	548,061 (6)	6.5 (7)
2014	2,195,914	Not available	$ 27,029 (8)	32.3 (8)	13.0 (8)	557,780 (8)	9.0 (8)
2015	2,239,558	Not available	$ 27,305 (11)	32.4 (11)	13.0 (6), (8)	564,871 (8)	4.4 (12)
2016	2,296,224 (8)	Not available	$ 27,938 (8)	32.6 (8)	13.0 (6), (8)	580,250 (8)	5.8 (10)
2017	2,303,482 (8)	Not available	$ 28,503 (8)	32.6 (8)	13.1 (6), (8)	594,377 (8)	5.7 (10)
2018	2,312,717 (8)	Not available	$ 29,224 (8)	32.7 (8)	13.2 (6)	597,728 (8)	5.1 (10)

(1) Source: Population Estimate program, U. S. Census Bureau, as of the beginning of the fiscal year. (Fiscal year 2017 is as of July 1, 2016.)

(2) Source: American Community Survey, U. S. Census Bureau. (Fiscal year 2017 data is for calendar year 2016.)

(3) Source: University of Houston, Center for Public Policy. (Data for fiscal year 2016 is calendar year 2015.)

(4) Source: Texas Workforce Commission

(5) School enrollment for the City of Houston is not available. The number reflects the Houston metropolitan area.

(6) School enrollment includes nursery school through graduate school.

(7) Source: Local Area Unemployment Statistics, Bureau of Labor Statistics Texas Workforce Commission

(8) Source: U. S. Census Bureau FactFinder

(9) This is the average for the MSA (Metropolitan Service Area).

(10) Source: Bureau of Labor Statistics

(11) Source: American FactFinder

(12) Source: Texas Labor Market TRACER

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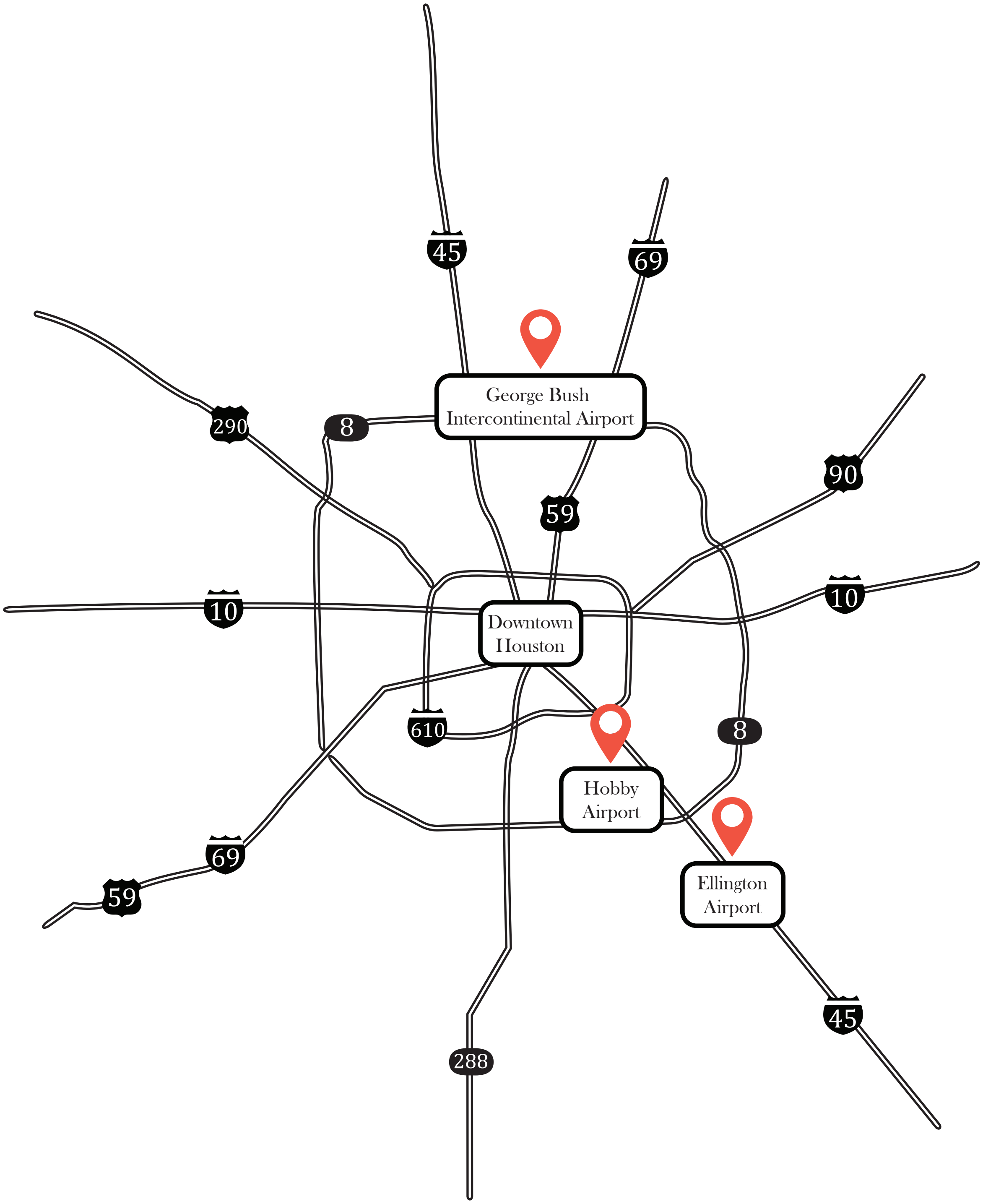

COMPLIANCE SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON

TEXAS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIREMENTS ISSUED BY THE FEDERAL AVIATION ADMINISTRATION

To the Honorable Mayor, Members of City Council
and City Controller of the City of Houston, Texas

Report on Compliance

We have audited the City of Houston, Texas ("the City") compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration ("the Guide"), that could have a direct and material effect on its Passenger Facility Charge ("PFC") Program for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its PFC.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's PFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the PFC program; however, our audit does not provide a legal determination on the City's compliance.

Opinion

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the PFC program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, noncompliance with a type of compliance requirement of the Guide on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the Guide will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a PFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Report on Passenger Facility Charge Revenues and Disbursements Schedules

We have audited the basic financial statements of the City, as of and for the year ended June 30, 2018, and have issued our report thereon dated November 29, 2018, which contained an unmodified opinion on those financial statements and a reference to other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying passenger facility charge revenues and disbursements schedules are presented for purposes of additional analysis as required by the Guide and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the passenger facility charge revenues and disbursements schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

McConnell & Jones LLP   Banks, Finley, White & Co.

November 29, 2018

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULE
CITY OF HOUSTON AIRPORT SYSTEM
WILLIAM P. HOBBY AIRPORT (HOU)
For the Year Ended June 30, 2018

	June 30, 2017 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2018 Total	June 30, 2018 Program Total
REVENUES							
Collections (Note 3)	$ 157,495,731	$ 5,840,484	$ 6,164,856	$ 6,127,684	$ 6,852,222	$ 24,985,246	$ 182,480,977
Other revenue-insurance (Note 3)	-	-	-	-	755,196	755,196	755,196
Interest	2,875,510	76,425	100,244	119,844	159,054	455,567	3,331,077
Total Revenues	160,371,241	5,916,909	6,265,100	6,247,528	7,766,472	26,196,009	186,567,250
DISBURSEMENTS							
1.01 Rehab Runways	3,047,975	-	57,441	-	242,583	300,024	3,347,999
1.02 Rehab & Modification to Taxiways	13,845,011	-	132,281	-	502,041	634,322	14,479,333
1.03 Expand Taxiway Electrical System	3,220,026	-	-	-	-	-	3,220,026
1.04 Arpt Drainage & Stormwater Improvs	3,636,792	-	154,308	-	321,609	475,917	4,112,709
1.05 Acquire Runway 17 Protection Zone	517,761	-	13,601	-	39,896	53,497	571,258
1.06 Airfield Lighting & Control	7,127,990	-	46,601	-	65,047	111,648	7,239,638
1.07 Central Terminal Expansion	26,587,923	-	460,824	-	1,502,174	1,962,998	28,550,921
1.08 Conduct Master Plan	393,948	-	-	-	-	-	393,948
1.09 Central Concourse Equipment	12,848,822	-	106,550	-	139,014	245,564	13,094,386
1.10 Apron Reconstruction	2,856,592	-	123,199	-	120,658	243,857	3,100,449
1.11 Taxiway & Taxilane Reconstruction	5,979,954	-	257,902	-	252,585	510,487	6,490,441
1.12 Overlay Runway 12R/30L	5,132,711	-	29,839	-	21,982	51,821	5,184,532
1.13 Perimeter Fencing & Obstruction	1,512,496	-	1,142	-	842	1,984	1,514,480
1.14 Access Controls & Telecom	576,083	-	33,623	-	24,769	58,392	634,475
1.15 Environmental Impact Statement	221,394	-	9,548	-	17,417	26,965	248,359
1.16 Land Acquisition RW4 RPZ	576,038	-	3,427	-	13,005	16,432	592,470
1.17 Drainage/Stormwater Plan	1,375,000	-	-	-	-	-	1,375,000
1.18 PFC Consulting, Admin, Audit	97,621	-	-	-	-	-	97,621
Subtotal HOU 1.00 Projects	89,554,137	-	1,430,286	-	3,263,622	4,693,908	94,248,045
2.01 International Terminal Expansion	-	-	-	-	1,220,196	1,220,196	1,220,196
2.02 International Terminal - Apron	-	-	-	-	196,908	196,908	196,908
2.03 International Terminal - Roadways	3,295,421	-	-	-	152,410	152,410	3,447,831
2.04 Elevated passenger walkway	449,304	-	-	-	50,795	50,795	500,099
2.05 Satellite utilities plant - Phase I	1,458,059	-	-	-	173,901	173,901	1,631,960
2.07 Central concourse expansion	35,478,237	-	3,108,541	-	7,280,422	10,388,963	45,867,200
2.08 Explosive detection baggage equip.	5,295,282	-	-	-	-	-	5,295,282
2.09 Partial reconstruction R/W 4-22	1,407,091	-	57,658	-	105,725	163,383	1,570,474
2.10 Partial reconstruction Taxiway C	356,727	-	14,618	-	26,803	41,421	398,148
2.11 Partial reconstruct NE perimeter rd	218,000	-	8,933	-	16,380	25,313	243,313
Subtotal HOU 2.00 Projects	47,958,121	-	3,189,750	-	9,223,540	12,413,290	60,371,411
Total Disbursements	137,512,258	-	4,620,036	-	12,487,162	17,107,198	154,619,456
Net PFC Revenues	$ 22,858,983	$ 5,916,909	$ 1,645,064	$ 6,247,528	$ (4,720,690)	$ 9,088,811	$ 31,947,794
PFC Account Balance	$ 22,858,983	$ 28,775,892	$ 30,420,956	$ 36,668,484	$ 31,947,794	$ 31,947,794	$ 31,947,794

See Notes to the Passenger Facility Charge Revenues and Disbursements Schedules.

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULE
CITY OF HOUSTON AIRPORT SYSTEM
GEORGE BUSH INTERCONTINENTAL AIRPORT (IAH)
For the Year Ended June 30, 2018

	June 30, 2017 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2018 Total	June 30, 2018 Program Total
REVENUES							
Collections (Note 3)	$ 485,696,370	$ 20,188,863	$ 19,032,375	$ 19,029,175	$ 22,169,205	$ 80,419,618	$ 566,115,988
Other revenue-insurance (Note 3)	-	-	-	-	2,059,629	2,059,629	2,059,629
Interest	7,107,285	379,905	467,598	574,823	728,216	2,150,542	9,257,827
Total Revenues	492,803,655	20,568,768	19,499,973	19,603,998	24,957,050	84,629,789	577,433,444
DISBURSEMENTS							
1.01 Automated People Mover System	156,616,831	256,013	2,971,411	-	15,494,706	18,722,130	175,338,961
1.02 Terminal B Expansion & Improvements	91,116,959	-	678,105	-	1,143,116	1,821,221	92,938,180
1.03 Central FIS Facility	75,742,289	-	1,485,564	-	5,891,543	7,377,107	83,119,396
1.04 North Parallel Runway 8L/26R	26,946,822	-	736,041	-	1,312,317	2,048,358	28,995,180
1.05 Administrative Costs	112,917	-	-	-	-	-	112,917
1.06 Central Plant HVAC Upgrades	13,498,785	-	672,925	-	635,925	1,308,850	14,807,635
1.07 Terminal A/B South Taxiways	11,950,416	-	638,446	-	1,618,983	2,257,429	14,207,845
Total Disbursements	375,985,019	256,013	7,182,492	-	26,096,590	33,535,095	409,520,114
Net PFC Revenues	$ 116,818,636	$ 20,312,755	$ 12,317,481	$ 19,603,998	$ (1,139,540)	$ 51,094,694	$ 167,913,330
PFC Account Balance	$ 116,818,636	$ 137,131,391	$ 149,448,872	$ 169,052,870	$ 167,913,330	$ 167,913,330	$ 167,913,330

See Notes to the Passenger Facility Charge Revenues and Disbursements Schedules.

CITY OF HOUSTON, TEXAS
NOTES TO THE PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULES
For the year ended June 30, 2018

NOTE 1 - PASSENGER FACILITY CHARGE PROGRAM

The Passenger Facility Charge ("PFC") was established by Title 49, United States Code ("U.S.C."), Section 40117, which authorizes the Secretary of Transportation (further delegated to the FAA Administrator) to approve the local imposition of an airport PFC of $1, $2, $3, $4, or $4.50 per enplaned passenger for use on certain airport projects. Under Part 158, public agencies (as defined in the statute and regulation) controlling commercial service airports can apply to the FAA for authority to impose a PFC for use on eligible projects.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying passenger facility charge revenues and disbursements schedules present revenues received on a cash basis, while expenditures are reported based upon the allocation of costs to approved projects.

NOTE 3 - RECONCILIATION TO STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Passenger facility charges are reported on an accrual basis in the City of Houston Airport System Fund Statement of Revenues, Expenses and changes in Net Position in the Comprehensive Annual Financial Report. Reporting standards adopted by the FAA require for purposes of the PFC Revenues and Disbursements Schedule such charges be reported on a cash basis. A reconciliation between cash collections and revenue reported on the accrual basis is as follows:

Fiscal year 2018	William P. Hobby Airport	George Bush Intercontinental	Airport System Total
Passenger Facility Charges:			
Cash collections per Revenues and Disbursements Schedule	$ 24,985,246	$ 80,419,618	$ 105,404,864
Add other revenue-insurance (1)	755,196	2,059,629	2,814,825
Less prior year accrual	(2,338,353)	(13,034,554)	(15,372,907)
Add current year accrual	2,399,524	13,774,926	16,174,450
Amounts per Statement of Revenues, Expenses and Changes in Net Position	$ 25,801,613	$ 83,219,619	$ 109,021,232

Note 1: During fiscal year 2018, the City received $100 million in insurance proceeds, which represents advances on business interruption claims, related to the Hurricane Harvey disaster. Of that amount, $2.8 million was recognized as "other revenue-insurance" and included in passenger facility charges on the Statement of Revenues, Expenses and Changes in Net Position.

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE PROGRAM AUDIT SUMMARY
For the year ended June 30, 2018

1.	Type of report issued on PFC financial statements.	Unmodified
2.	Type of report on PFC compliance.	Unmodified
3.	Quarterly Revenues and Disbursements reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts.	__X__ Yes ____ No
4.	PFC Revenues and Interest are accurately reported.	__X__ Yes ____ No
5.	The Public Agency maintains a separate financial accounting record for each application.	__X__ Yes ____ No
6.	Funds disbursed were for PFC-eligible items as identified in the FAA Decision to pay only for the allowable costs of the projects.	__X__ Yes ____ No
7.	Monthly carrier receipts were reconciled with quarterly carrier reports.	__X__ Yes ____ No
8.	PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds.	__X__ Yes ____ No
9.	Serving carriers were notified of PFC program actions/changes approved by the FAA.	__X__ Yes ____ No
10.	Quarterly Reports were transmitted (or available via website) to remitting carriers.	__X__ Yes ____ No
11.	The Public Agency is in compliance with Assurances 5, 6, 7 and 8.	__X__ Yes ____ No
12.	Project design and implementation are carried out in accordance with Assurance 9.	__X__ Yes ____ No
13.	Program administration is carried out in accordance with Assurance 10.	__X__ Yes ____ No
14.	For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.	__X__ Yes ____ No

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2018

A. SUMMARY OF AUDITORS' RESULTS

1) There were no material weaknesses identified during the audit of the passenger facility charge program.
2) There were no significant deficiencies identified during the audit of the passenger facility charge program.
3) The auditors' report on compliance for the passenger facility charge program expresses an unmodified opinion.

B. FINDINGS AND QUESTIONED COSTS

None reported