

**Broward County Aviation Department**  
A Major Fund of Broward County, Florida  
**Financial Statements**  
**For the Years Ended September 30, 2018 and 2017**

BROWARD COUNTY AVIATION DEPARTMENT  
FINANCIAL STATEMENTS  
TABLE OF CONTENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Independent Auditor’s Report .....	3
Management’s Discussion and Analysis .....	5
Financial Statements:	
Statements of Net Position.....	21
Statements of Revenues, Expenses and Changes in Net Position.....	23
Statements of Cash Flows.....	24
Notes to Financial Statements.....	27
Required Supplementary Information:	
Schedule of Change in BCAD’s Other Post Employment Benefits Liability and Related Ratios....	61
Schedule of the Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan .....	62
Schedule of Contributions – Florida Retirement System Pension Plan .....	62
Schedule of the Proportionate Share of the Net Pension Liability – Florida Retirement System Health Insurance Subsidy Plan .....	63
Schedule of Contributions – Florida Retirement System Health Insurance Subsidy Plan .....	63
Note to Required Supplementary Information .....	64
Supplementary Information:	
Schedule of Net Revenue and Debt Service Coverage Calculation .....	65
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	66



RSM US LLP

## Independent Auditor's Report

To The Honorable Board of County Commissioners  
Broward County Aviation Department  
Broward County, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the Broward County Aviation Department (BCAD), an enterprise fund of Broward County, Florida, as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise BCAD's financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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.

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 on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BCAD as of September 30, 2018 and 2017, and the respective changes in financial position and cash flows 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 to the financial statements, the financial statements present only BCAD and do not purport to, and do not, present fairly the financial position of Broward County, Florida as of September 30, 2018 and 2017, and its changes in financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the accompanying financial statements, BCAD adopted the recognition and disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective October 1, 2017. A cumulative effect adjustment to the beginning net position balance of the Fund as of October 1, 2017, has been reported. Our opinion was not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the pension and other post-employment benefit related schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise BCAD's basic financial statements. The accompanying supplementary information such as the introductory section and schedule of revenue bond debt service coverage are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section has 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 it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019 on our consideration of the BCAD'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 solely 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 the effectiveness of the BCAD's 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 BCAD's internal control over financial reporting and compliance.

*RSM US LLP*

Fort Lauderdale, Florida  
March 29, 2019

The following discussion and analysis of the financial performance and activity of the Broward County Aviation Department (BCAD) is to provide an introduction and overview for readers to interpret BCAD's financial statements for the years ended September 30, 2018 and 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## **Introduction**

BCAD operates the Fort Lauderdale/Hollywood International Airport (FLL) and the North Perry Airport (HWO). FLL is a large hub airport and has had scheduled airline service since 1953. HWO is a general aviation facility that is categorized as a basic utility high activity airport and is currently designated as a general aviation reliever airport for FLL.

BCAD operates as an enterprise fund of the County. It is self-supporting and does not rely on local tax dollars to fund its operations. Operating revenues must therefore be generated from aviation users, automobile parking, concessions, investment income, and other non-operating revenues in order to (1) cover the airport system's operating expenses, debt service payments, certain capital outlays, and other requirements, and (2) comply with the rate covenant provided in the Bond Resolution.

## **Financial Highlights for fiscal year 2018**

- BCAD's assets and deferred outflows of resources exceeded liabilities and deferred inflows at the close of fiscal year 2018 by \$1.5 billion.
- Total revenue bonds payable were \$2.3 billion at September 30, 2018, an increase of \$234.1 million, or 12.6%, over fiscal year 2017, attributed to the \$287.9M bond issuance in November 2018.
- Operating revenues were \$284.7 million in fiscal year 2018, which represents a 15.8% increase over fiscal year 2017, primarily due to an increase in airline revenues as a result of an increase in enplanements and landed weights of 11.7% and 9.7%, respectively. There was also a noteworthy increase in concession revenues due to higher levels of passenger spending in addition to the increased activity levels. Other non-airline revenues such as non-airline terminal rents and other rents increased 32.0%, parking showed an increase of 8.7% and rental car revenues a moderate increase of 1.2%.
- Operating expenses were \$175.9 million in fiscal year 2018, representing a 45.3% increase over fiscal year 2017. The increase is mainly due to increases in salaries, wages and benefits, shuttle services, law enforcement and fire rescue, and maintenance.
- Capital contributions were \$52.0 million in fiscal year 2018 and are comprised primarily of amounts received from the Federal Aviation Administration's (FAA), Florida Department of Transportation (FDOT) and Transportation Security Administration (TSA).
- Net position increased by \$51.1 million, or 3.5%, over fiscal year 2017.

## Activity Highlights

Passenger enplanements at FLL increased by 11.7% during fiscal year 2018, resulting in another year of record levels of enplanements. The increase in enplanements in fiscal year 2017 over fiscal year 2016 was 10.1%. An increase in commercial aviation operations of 9.2%, an increase in cargo operations of 3.2% and an increase in general aviation operations of 2.0% resulted in an overall increase in aircraft operations in fiscal year 2018 of 8.0% compared with fiscal year 2017. Below is a comparative table of activities by fiscal year:

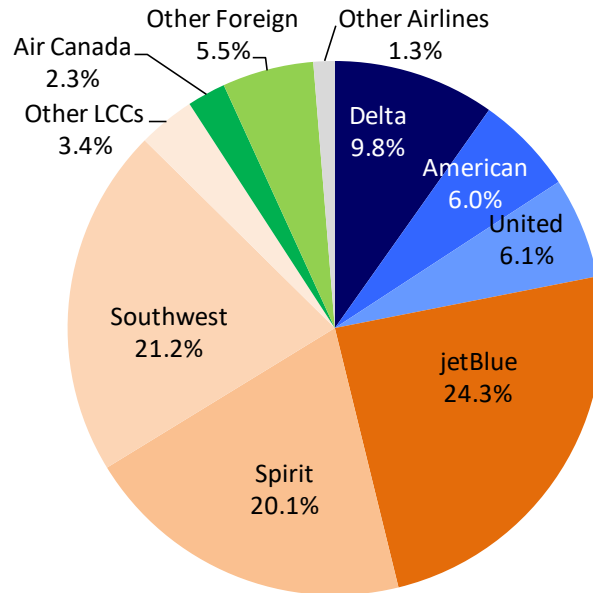
Activity	Fiscal Years Ended September 30		
	2018	2017	2016
Enplanements	17,656,324	15,805,217	14,352,450
Landed weight (1,000 pounds)			
Passenger airlines	18,460,436	16,816,732	15,351,187
Cargo airlines	504,587	528,758	503,860
General aviation	570,281	454,634	485,391
Total landed weight	19,535,303	17,800,124	16,340,438
Aircraft operations	322,667	298,712	278,499

## Airline Market Share and Passenger Enplanements

In fiscal year 2018, the nine Signatory Airlines represented 93% of enplanements, of which the top five airlines totaled 81% and with no carrier above 24%. This diversity reduces the reliance on the performance of one dominant airline.

Passenger Enplanements	Fiscal Years Ended September 30					
	2018		2017		2016	
JetBlue Airways	4,284,617	24%	3,976,918	25%	3,514,272	24%
Spirit Airlines	3,545,132	20%	3,092,263	20%	2,749,666	19%
Southwest Airlines	3,735,073	21%	2,992,568	19%	2,478,315	17%
Delta Air Lines	1,728,709	10%	1,644,120	10%	1,644,358	11%
United Airlines	1,079,231	6%	918,205	6%	819,022	6%
American Airlines	1,059,204	6%	1,133,179	7%	1,267,733	9%
Air Canada	411,458	2%	404,578	3%	373,573	3%
Allegiant Air	424,439	2%	334,586	2%	288,644	2%
Silver Airways	199,432	1%	163,663	1%	143,830	1%
Others	1,189,029	7%	1,145,137	7%	1,073,037	7%
Total Enplanements	<b>17,656,324</b>	<b>100%</b>	<b>15,805,217</b>	<b>100%</b>	<b>14,352,450</b>	<b>100%</b>

The Low Cost Carriers' (LCC) market share of enplanements (shaded in orange hues below) was 69% in fiscal year 2018, which represents an increase of 1.2 percentage points compared with fiscal year 2017 and a significant increase from the LCC's 41.6% market share ten years ago.



## Overview of the Financial Statements

As an enterprise fund, BCAD engages only in business-type activities, which are reported in the financial statements using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Capital assets are capitalized and, with the exception of land and construction in progress, are depreciated over their useful lives.

The **Statement of Net Position** includes all of BCAD's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether BCAD's financial position is improving or deteriorating.

Revenues and expenses are accounted for in the **Statement of Revenues, Expenses and Changes in Net Position**. This statement measures the success of BCAD's operations over the past year and can be used to determine whether BCAD has recovered all of its costs through its user fees and other charges.

The **Statement of Cash Flows** provides information about BCAD's cash receipts, cash payments and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of data provided in the statements. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the progress in funding the obligation to provide post-employment and pension benefits.

## Financial Position

The Statement of Net Position presents BCAD's financial position at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. The following is a comparative summary of BCAD's assets, deferred outflow of resources, liabilities, deferred inflows of resources, and net position for the fiscal years ended September 30, 2018, 2017, and 2016 (in thousands):

Net Position			
	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
Current and other assets	\$ 1,094,945	\$ 823,412	\$ 1,106,499
Capital assets, net	2,927,661	2,838,002	2,582,184
Total assets	4,022,606	3,661,414	3,688,683
<b>Deferred outflow of resources</b>	12,513	10,818	8,668
<b>Liabilities</b>			
Current liabilities	277,151	235,002	236,010
Noncurrent liabilities	2,239,027	1,970,412	2,029,395
Total liabilities	2,516,178	2,205,414	2,265,405
<b>Deferred inflow of resources</b>	2,941	1,587	531
Net investment in capital assets	962,858	963,651	941,370
Restricted	433,820	396,050	381,831
Unrestricted	119,322	105,530	108,214
<b>Total Net Position</b>	<b>\$ 1,516,000</b>	<b>\$ 1,465,231</b>	<b>\$ 1,431,415</b>

Total net position as of September 30, 2018, was \$1.5 billion, representing an increase of \$51.1 million, or 3.5% compared to 2017. Total net position as of September 30, 2017, was \$1.5 billion, representing an increase of \$33.5 million, or 2.3%, compared to 2016.

At September 30, 2018, 63.5% of BCAD's net position is represented by its net investment in capital assets. These capital assets are used to provide services to passengers and visitors to the airports. The restricted portion (28.6% at September 30, 2018), of net position relates to assets that are subject to external restrictions on how they can be used under bond resolution covenants and Passenger Facility Charge regulations. The remaining unrestricted net position (7.9% at September 30, 2018), may be used to meet any of BCAD's ongoing obligations.

**Capital assets, net of depreciation** increased by \$89.7 million, or 3.2%, from \$2.8 billion at September 30, 2017, to \$2.9 billion at September 30, 2018 and by \$255.8 million, or 9.9%, during fiscal year 2017. The increases in both years are mainly attributable to construction in progress relating to the new Concourses A and G and other major terminal projects.



**Current and other assets** at September 30, 2018, totaled \$1.1 billion, representing an increase of \$271.5 million, or 33.0 %, compared to September 30, 2017, primarily due to unspent bond proceeds and an increase in bond reserves from bonds issued in November 2018 for the Terminal Projects and other major capital projects.

Current and other assets at September 30, 2017, totaled \$823.4 million, representing a decrease of \$283.1million, or 25.6 %, compared to September 30, 2016, primarily due to a reduction in unspent bond proceeds as construction in progress on major projects continued.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 65, **deferred outflows and inflows of resources** are reported separately from assets and liabilities. BCAD has three items that qualify for reporting as deferred outflows and inflows of resources. The first item relates to a loss on refunding from a bond refunding in fiscal year 2015, offset by a gain on refunding from a bond refunding during fiscal year 2017 that is reported as a deferred outflow of resources. There was a decrease in the deferred amount during fiscal year 2017 due to amortization. The second item relates to deferred variances according to GASB Statement No. 68. These deferred variances can occur due to actuarial assumptions that differ between the actual pension plan experience and the original actuarial assumed rates. Differences can result from, among others, earnings on investments, changes in assumptions, and other experience gains or losses. A variance represents a gain or a loss, shown as deferred inflows of resources or deferred outflows of resources, respectively, in the statements of net position. These deferred outflows and inflows are amortized in accordance with the provisions of GASB Statement No. 68. Furthermore, employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources. Deferred outflows on pensions increased by \$1.7 million in fiscal year 2018 compared to fiscal year 2017 and deferred inflows on pensions increased by \$1.3 million during the same period. The third item relates to deferred variances according to GASB Statement No. 75. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits (OPEB). Deferred outflows on OPEB are \$54,000 in fiscal year 2018 and deferred inflows on OPEB are \$23,000.

**Current liabilities** at September 30, 2018, are \$277.2 million representing an increase of \$42.1 million, or 17.9%, over the prior year. This is attributable to an increase in unearned revenues and due to other County funds as well as increase on revenue bonds payable. During fiscal year 2017 current liabilities decreased by \$1.0million, or 0.4% over 2016.

**Noncurrent liabilities** increased by \$268.6 million, or 13.6%, during fiscal year 2018 mainly due to the issue of the Series 2017A Bonds in November 2018. Noncurrent liabilities decreased by \$59.0 million, or 2.9%, during fiscal year 2017 compared to fiscal year 2016 due to the repayment of bond principal.

At September 30, 2018, there are \$182.3 million in unamortized bond premiums, net of unamortized bond discounts, primarily from the new money issues in fiscal years 2012, 2013, 2015 and 2017, and the refunding issues in fiscal years 2012 and 2015. At September 30, 2017, there were \$140.1 million in unamortized bond premiums, net of unamortized bond discounts.

## Revenues, Expenses and Changes in Net Position

Below is a comparative summary of BCAD's revenues, expenses and changes in net position for the fiscal years ended September 30, 2018, 2017, and 2016 (in thousands):

Summary of Revenues, Expenses and Changes in Net Position	Fiscal Years Ended September 30		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>	\$ 284,678	\$ 245,835	\$ 232,076
<b>Operating Expenses</b>	175,841	162,031	141,890
Operating income before depreciation	108,837	83,804	90,186
Depreciation	114,318	99,688	87,777
<b>Operating Income</b>	(5,481)	(15,884)	2,409
<b>Nonoperating Revenues (Expenses)</b>	4,628	6,001	(822)
<b>Capital Contributions</b>	51,979	43,699	80,808
<b>Change in Net Position</b>	<b>51,126</b>	<b>33,816</b>	<b>82,395</b>
<b>Net Position , as previously reported</b>	1,465,231		
<b>Cumulative effect of adoption of GASB Statement No. 75</b>	(357)		
<b>Total Net Position - Beginning of Year, as restated</b>	<b>1,464,874</b>	<b>1,431,415</b>	<b>1,349,020</b>
<b>Total Net Position - End of Year</b>	<b>\$ 1,516,000</b>	<b>\$ 1,465,231</b>	<b>\$ 1,431,415</b>

In fiscal year 2018, operating revenues increased by \$38.8 million, or 15.8%, while operating expenses increased \$13.8 million, or 8.5%, compared to the same period last year.

During fiscal year 2017, operating revenues increased by \$13.8 million, or 5.9%, while operating expenses increased \$20.1 million, or 14.2%, compared to fiscal year 2016.

Overall, BCAD's net position increased by \$51.1 million in fiscal year 2018 compared to an increase of \$33.8 million during fiscal year 2017. Details of operating revenues and expenses and variances to prior years are provided in the following sections.

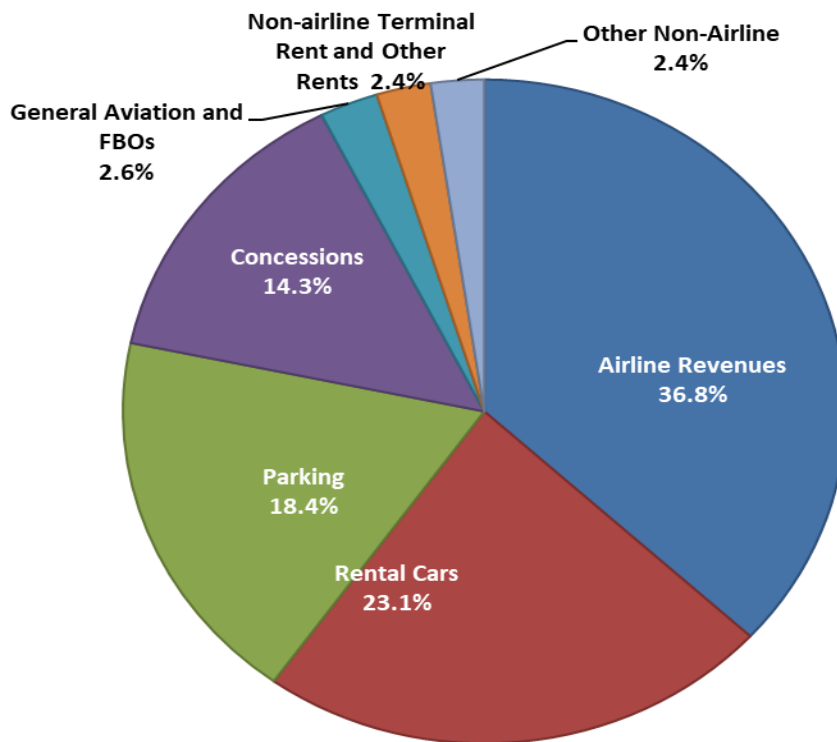
Operating Revenues

The major sources of operating revenues for the fiscal years ended September 30, 2018, 2017, and 2016 are (in thousands):

Operating Revenues	Fiscal Years Ended September 30		
	2018	2017	2016
Airline revenues	\$ 104,874	\$ 77,665	\$ 67,168
Rental cars	65,649	64,872	66,583
Parking	52,409	48,209	47,554
Concessions <sup>1</sup>	40,583	37,138	33,370
General aviation and fixed based operators	7,451	6,766	6,532
Non-airline terminal rent and other rents	6,926	5,247	4,448
North Perry Airport	1,476	1,404	1,343
Cargo	2,037	1,714	1,840
Miscellaneous operating revenues	3,273	2,820	3,238
<b>Total Operating Revenues</b>	<b>\$ 284,678</b>	<b>\$ 245,835</b>	<b>\$ 232,076</b>

<sup>1</sup>Concessions exclude rental car commissions, which are included in Rental cars.

Fiscal year 2018 operating revenues by source as a percentage of total operating revenues are:



**Airline revenues** are calculated in accordance with the Airline Lease and Use Agreements. The contractual rate-making formula in the agreements is based on a residual cost approach, which annually projects non-airline operating revenues and deducts this amount from the projected operating expenses, including debt service and cash-funded capital costs. The residual amount remaining is the amount the Signatory Airlines pay through their annual terminal rentals and landing fees, and forms the basis of the airline Cost Per Enplanement ("CPE"), a common industry measure. The airline agreements require that landing fees and terminal rentals be reviewed annually and adjusted, as necessary, so that the total revenue is sufficient to meet BCAD's requirements, as determined by the agreements. At the end of a fiscal year, after all required deposits have been made, any remaining excess funds are used to meet the requirements in the following fiscal year. This excess is recorded as a liability (unearned revenues) through a revenue accounting adjustment to current year operating revenues.

Airline revenues increased by \$27.2 million, or 35.0%, in fiscal year 2018, in accordance with the residual rate-making formula in the airline agreements, as well as an increase in the level of activity. Airline revenues represented 36.8% of overall operating revenues in fiscal year 2018, resulting in a favorable CPE of \$7.72 that is significantly below the industry average for a large hub airport.

Airline Cost per Enplanement (in thousands)	Fiscal Years Ended September 30		
	2018	2017	2016
Airline revenues	\$ 104,874	\$ 77,665	\$ 67,168
Take out: Airline revenue adjustment	31,349	(779)	(10,550)
Airline revenues, excluding revenue adjustment	\$ 136,223	\$ 76,886	\$ 56,618
Enplaned passengers	17,656,324	15,805,217	14,352,450
Average Cost Per Enplanement (CPE)	\$7.72	\$4.86	\$3.94

Airline revenues increased by \$10.5 million, or 15.6%, in fiscal year 2017 mainly due to an increase in airline activity compared to the prior year. Airline revenues represented 31.6% and 28.9% of overall operating revenues in fiscal years 2017 and 2016, respectively.

**Non-airline revenues** represented 63.2% of total operating revenues in fiscal year 2018. The main categories of non-airline revenues are rental car revenues, parking revenues, and concessions. Revenues from parking and concessions have steadily been increasing over the last few years, due to increases in passenger activity and also increases in sales per passenger. In 2017 there was a decrease in rental car revenue over fiscal year 2016 attributed to passengers favoring other transportation options. However, the overall increase in non-airline revenues year over year has contributed to the ability to maintain low terminal rents and landing fees that result in a low CPE. This low-cost structure makes FLL attractive to air carriers, especially low-cost carriers.

**Rental car revenues, including customer facility charges ("CFCs") and rental car commissions** increased by \$0.8 million, or 1.2% in fiscal year 2018. In fiscal year 2017 rental car revenues decreased by \$1.7 million, or 2.6%, over the prior fiscal year. The increases were mainly attributable to an increase in visitors, especially international, to South Florida. Rental car revenues represented the largest source of non-airline revenues in fiscal year 2018 at 23.1% of total operating revenues. CFCs are fees charged by the on-airport rental car companies and are a per-day charge on a car rental. In addition to certain ground rental payments, BCAD receives revenues from automobile rental companies under agreements which guarantee annual minimum payments or, if greater, a percentage of gross revenues from automobile rentals at FLL. BCAD has agreements with 12 rental car companies operating at the consolidated rental car facility located on airport property.

**Parking revenues** increased \$4.2 million, or 8.7% in fiscal year 2018, following an increase in fiscal year 2017 of \$0.7 million, or 1.4%, compared to fiscal year 2016. At 18.4% of operating revenues for fiscal year 2018, the County-owned parking facilities at FLL are one of the largest sources of revenues other than payments by the airlines and rental car revenue. Since fiscal year 2008 passengers have increasingly sought alternative transportation to and from the airport, including the use of TNCs and a shift toward less expensive off-site airport parking. In addition, there has been a shift in the mix of passengers from local residents, who use the parking facilities, towards visitors to South Florida. The parking facilities also compete with several off-airport private parking operators that provide free shuttle service to their customers.

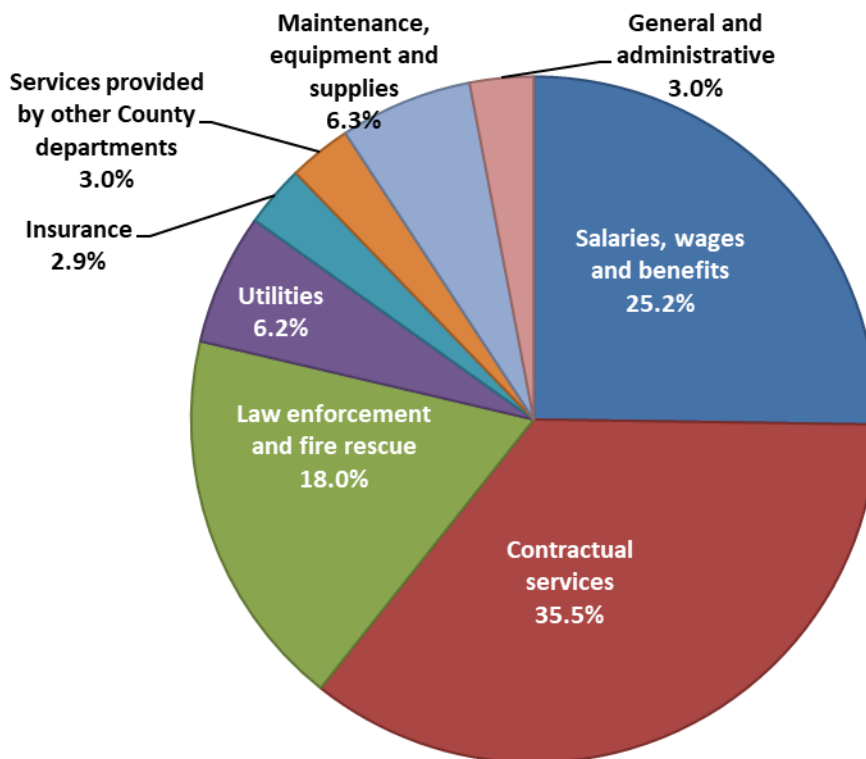
**Concession revenues** (excluding rental car commissions) increased by \$3.4 million, or 9.3%, in fiscal year 2018, compared to fiscal year 2017, and by \$3.8 million, or 11.3%, during fiscal year 2017, compared to the prior fiscal year. Concession revenues, which accounted for 14.3% of total operating revenues in fiscal year 2018, increased mainly due to improved concessions and the introduction of new food and beverage concessions. Within the category of concessions, food and beverage and news and gift concessions amounted to \$19.6 million (6.9%) and \$7.1 million (2.5%) of fiscal year 2018 operating revenues, respectively. BCAD has a proactive approach to increasing non-airline revenues, which includes the renovation of concession areas and soliciting new concession vendors. The revenues paid to BCAD under these concession agreements are usually based on the greater of certain annual minimum guarantees or a percentage of gross revenues received by the concessionaires.

Operating Expenses

The table below shows the major categories of operating expenses for the fiscal years ended September 30, 2018, 2017, and 2016 (in thousands):

Operating Expenses	Fiscal Years Ended September 30		
	2018	2017	2016
Salaries, wages and benefits	\$ 44,366	\$ 41,005	\$ 36,719
Contractual services	62,339	54,984	45,232
Law enforcement and fire rescue	31,625	30,558	28,300
Utilities	10,898	11,603	9,157
Insurance	5,115	4,639	4,744
Services provided by other County departments	5,194	5,266	4,964
Maintenance, equipment and supplies	11,012	7,630	6,817
General and administrative	5,292	6,346	5,957
<b>Total Operating Expenses</b>	<b>\$ 175,841</b>	<b>\$ 162,031</b>	<b>\$ 141,890</b>

The chart below shows the distribution of operating expenses for the fiscal year 2018:



Overall operating expenses in fiscal year 2018 increased by \$13.8 million or 8.5% compared to fiscal year 2017. This increase is attributable to various factors within all the expense categories.

**Salaries, wages and benefits** increased by \$3.4 million, or 8.2%, in fiscal year 2018 from fiscal year 2017 due to increased headcount as a result of the increase in airport activity, additional terminal facilities and an increased focus on security, customer service and maintenance. In fiscal year 2017 salaries, wages and benefits increased by \$4.3 million, or 11.7%, from fiscal year 2016 due to a \$0.8 million or 18.1% increase in healthcare costs. Salaries, wages and benefits accounted for 25.2% of total operating expenses before depreciation in fiscal year 2018.

**Contractual services** consist mainly of parking and ground transportation management fees, shuttle service costs, security costs, janitorial and other maintenance contracts, and various professional fees. Contractual services increased by \$7.4 million, or 13.4%, in fiscal year 2018 from fiscal year 2017 as a result of increased shuttle service costs for off-site employee parking, janitorial costs, and security costs for curbside security and employee screening.

**Law enforcement and fire rescue expenses** increased \$1.1 million, or 3.5% in fiscal year 2018 to \$31.6 million from \$30.6 million in fiscal year 2017. These expenses represented 18.0% of total operating expenses before depreciation in fiscal year 2018. Law enforcement and fire rescue expenses increased \$2.3 million, or 8.0% in fiscal year 2017 to \$30.6 million from \$28.3 million in fiscal year 2016.

**Utilities** decreased by \$0.7 million, or 6.1%, in fiscal year 2018 from fiscal year 2017 due to the conversion of more cost effective LED lighting. The increase in utilities in fiscal year 2017 compared to the prior year was \$2.4 million, or 8.0% due to additional terminal facilities, airfield improvements and an electricity rate increase.

**Services provided by other County departments** decreased by \$0.1 million, or 1.4%, in fiscal year 2018 from fiscal year 2017. The increase in services provided by other County departments is mainly attributable to increased services provided by Fleet Services as a result of FLL's increased construction activity and expanded facilities and operation. Services provided by other County departments increased by \$0.3 million, or 6.1%, in fiscal year 2017, which was mainly attributable to increased services provided by Purchasing and County Attorney Departments as a result of FLL's increased construction activity.

**Maintenance, equipment and supplies** increased by \$3.4 million, or 44.3%, from fiscal year 2018 to fiscal year 2017, mainly due to additional service and supplies for new facilities. Maintenance, equipment and supplies increased by \$0.8 million, or 11.9%, from fiscal year 2017 to fiscal year 2018.

**General and administrative services** decreased by \$1.1 million, or 16.6%, in fiscal year 2018, compared to fiscal year 2017, which, in turn, was \$0.4 million, or 6.5%, higher than fiscal year 2016. The decrease in fiscal year 2018 is mainly a result of a completing some marketing programs related to promotion of the new terminal facilities that opened in late 2017 and early 2018 and new/upgraded parking facilities and services. The higher costs in fiscal year 2017 are mainly a result of a facility condition assessment report and increased wireless communication services for additional emergency functions.

**Depreciation expense** increased \$11.9 million or 13.6% in fiscal year 2017 compared to prior year and an additional \$14.6 million or 14.7% in fiscal year 2018 due to assets placed in service as a result of the ongoing airport expansion and improvement program.

**Non-operating revenues (expenses)**, represent passenger facility charges (PFCs), interest income and expense, bond issuance costs, and other non-operating revenues and expenses. Overall non-operating revenues, net of expenses, are lower in fiscal year 2018 than the prior year by \$1.4 million. This is mainly attributable to \$2.0 million bond issuance costs and \$12.5 million increased interest expense incurred due to the new bond series, \$8.2 million decrease in federal grants and \$2.5 million in gains on disposal of capital assets in fiscal year 2017, offset by \$7.6 million increase in PFC's, \$5.3 million increase in interest income, \$9.8 million decreased noise mitigation costs, and \$1.1 million in legal settlements.

PFCs increased \$7.6 million, or 11.6% in fiscal year 2018 compared to fiscal year 2017 due to increased passenger numbers, which is also the reason for the \$8.9 million or 9.9% increase in fiscal year 2017 over the prior fiscal year. PFCs are authorized for collection at FLL at \$4.50 per enplaning passenger and remitted to the airport net of a \$0.11 collection charge retained by the airlines.

**Capital contributions** consist of Federal approved passenger facility charges, and grants from the federal and state governments. Capital contributions in fiscal year 2018 were \$8.3 million higher at \$52 million compared to \$43.7 million in fiscal year 2017. The increase was mainly due to \$8.8M in federal grants that assisted with the funding of the Terminal 4 Apron.

The South Runway, Noise Mitigation, and T4 Apron projects made up 95% of FY 2018's contributions, and going forward will account for \$121M to be collected through FY 2022. For FY 2019, FDOT and the FAA have programed \$89M to be collected through FY 2021 to cover cost of the FLL North Runway Rehabilitation.



### Capital Acquisition and Construction Activities

During fiscal year 2018, BCAD expended \$151.1 million on capital acquisitions and projects under construction, compared to \$364.9 million during fiscal year 2017, mainly on the major terminal projects. The amounts expended (including capitalized interest) on capital acquisitions and major projects under construction during fiscal year 2018 are as follows (in thousands):

<b>Capital Acquisitions and Projects under Construction during Fiscal Year 2018</b>	
Noise Mitigation Avigation Easements for South Runway Expansion	\$ 19,063
Miscellaneous Capital Acquisitions <\$1 million	7,013
Projects Under Construction:	
Terminal Improvements	57,000
Terminal 4 Federal Inspection Facility	23,661
Terminal 4 Concourse G	17,472
Airfield Projects	7,255
Terminal In-line Baggage Systems	2,930
System Improvements	1,858
Ground Transportation Facility and System Improvements	957
Airport Master Plan	859
Utilities Upgrades	1,333
Parking Facility and System Improvements	1,062
Terminal Connectors	1,114
Security Facility and System Improvements	904
Landscaping	160
Miscellaneous Projects < \$1 million	8,480
<b>Total</b>	<b>\$ 151,121</b>

Major projects completed and the amounts transferred to fixed assets during fiscal year 2018 are as follows (in thousands):

<b>Capital Projects Completed during Fiscal Year 2018</b>	
Terminal 4 Concourse G	\$ 194,970
Terminal Improvements	143,368
Miscellaneous Projects < \$1 million	5,005
Security Facility and System Improvements	3,062
Ground Transportation Facility and System Improvements	2,263
Landscaping	1,919
Parking Facility and System Improvements	73
<b>Total</b>	<b>\$ 350,660</b>

Note 5 to the financial statements provides additional information about BCAD's capital assets.

## Debt Administration

As of September 30, 2018, 2017, and 2016, BCAD had \$2.1 billion, \$1.9 billion and \$1.9 billion, respectively, in outstanding long-term revenue bonds. These bonds are secured by a pledge of and lien on net revenues, as defined in the Bond Resolution.

On November 21, 2017, BCAD issued \$287,905,000 in Airport System Revenue Bonds, Series 2017 (AMT) with a coupon interest rate of 5.00%. The issuance included a premium of \$51,220,000 resulting in a true interest rate of 3.69%. The Series 2017 Bonds were issued to provide funding for terminal renovation and expansion projects and related airport improvement projects, fund the reserve account to satisfy the reserve requirements, and pay the underwriters' discount and certain other costs of issuance.

The following table summarizes the outstanding bonded indebtedness as of September 30, 2018 (in thousands):

Airport System Revenue Bonds	Outstanding Principal	Expected To Be Paid From		Final Maturity *
		PFCs/Grants	Airport Revenues	
Bond Series				
2001 J-2	\$ 53,580	\$ -	\$ 53,580	2021
2009 O	81,400		81,400	2029
2012 P-1	150,370		150,370	2026
2012 P-2	70,875	29,881	40,994	2026
2012 Q-1	471,005	471,005		2042
2012 Q-2	98,400		98,400	2042
2013 A	154,685		154,685	2043
2013 B	51,675		51,675	2043
2013 C	197,495	197,495		2043
2015 A	425,370		425,370	2045
2015 B	9,575		9,575	2045
2015 C	38,380	38,380		2025
2017A	287,905		287,905	2047
<b>Total Bond Indebtedness</b>	<b>\$ 2,090,715</b>	<b>\$ 736,761</b>	<b>\$ 1,066,049</b>	

\* Calendar year

Additional information about BCAD's long-term debt can be found in Note 8 to the financial statements.

BCAD's Bond Resolution enables it to adopt a resolution irrevocably designating certain revenues as revenues (which may include, without limitation, PFC revenues, state and federal grants, or other identified revenues) to be used to pay debt service on Airport System Revenue Bonds. In addition to airport net revenues, \$58.0 million of PFC and grant revenues, available from the subsequent reimbursement of capital outlays, were used to pay principal and interest due for fiscal year 2018.

In accordance with the Bond Resolution, BCAD is required to set its rates and charges to provide sufficient net revenues that, together with transfers (which include excess airline fees and charges from the prior year), are at least equal to 1.25 times the debt service on all outstanding bonds. Historically, BCAD has maintained a debt service coverage ratio higher than its requirement:

Debt Service Coverage	Fiscal Years Ended September 30		
	2018	2017	2016
Airport System Revenue Bonds	1.86	1.68	1.75

BCAD's Airport System Revenue Bonds are rated A+ (with stable outlook) by Standard and Poor's Ratings Services, A1 (with stable outlook) by Moody's Investors Service and A+ (with stable outlook) by Fitch Ratings.

### Economic Factors and Outlook

FLL is located in Broward County, which, together with neighboring Miami-Dade and Palm Beach counties, comprises the Miami-Fort Lauderdale-Pompano Beach Metropolitan Statistical Area (MSA) according to the U.S. Census Bureau. The MSA is the nation's eighth largest with a population of approximately 6.15 million residents in 2017.

Population growth rates over the last couple of decades have exceeded growth rates for the United States as a whole. Furthermore, the local economy continues to be strong with an unemployment rate in Broward County of 2.8% in September 2018, compared to 3.1% for the same period in September 2017 and the national rate of 3.7%. However, as South Florida is a major tourist destination, the majority of FLL passengers are visitors to Broward County and South Florida. BCAD partners with the Convention and Visitors Bureau (CVB), Office of Economic Development (OED) and Port Everglades on marketing and promotional activities.

In 2018 FLL was the fastest growing large hub airport in the United States. As of August 31, 2017 there had been thirty-five consecutive months of growth in total passenger traffic. This trend was impacted by Hurricane Irma in September 2017, but the effect was short-lived as in October 2017 the significant year-over-year growth resumed. The last couple of years have seen a significant increase in international travel as international enplaned passengers grew by 21.6% and 17.5% in fiscal year 2018 and 2017, respectively. According to FAA 2017 calendar year data, FLL was ranked 19<sup>st</sup> in total passenger traffic in the United States. The US Department of Transportation (DOT) data for the same period indicated that FLL ranked 19<sup>th</sup> in terms of domestic origin and destination passengers. FLL offers non-stop service to all of its top 58 domestic markets. Also, with the exception of Hawaiian Airlines, all of the major domestic airlines provide service from FLL.

In order to accommodate current and future anticipated growth, BCAD's approximately \$3.2 billion ten-year capital improvement program is underway. The extended South Runway was opened in September 2014, the west portion of Concourse G in Terminal Four, with five new gates, opened in December 2016 and a new Concourse A in Terminal One, with five additional gates and international arrivals facilities, opened in July 2017. The majority of the east portion of Concourse G, 6 additional gates, opened in December 2017. All four existing terminals and the international arrivals facility in Terminal Four are being renovated.

The South Runway extension increased the capacity for airfield operations by 44% by permitting simultaneous dual operations of air carrier aircraft of all sizes. The terminal renovations will include additional space, new interior finishes, a new concessions program, and improvements to the ticketing lobbies, passenger security checkpoints, restrooms, passenger hold rooms, and baggage claim areas.

The capital improvement program is funded through federal and state grants, PFCs, and bond issues. Part of the debt will be funded through airline rates and charges, which will increase the overall CPE in future years, although passenger growth and planned improvements in non-airline revenues are anticipated to mitigate the impact.

### **Request for Information**

This financial report is designed to provide a general overview of BCAD's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Broward County Aviation Department, 2200 S.W. 45<sup>th</sup> Street, Suite 101, Dania Beach, FL 33312.

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Unrestricted Assets		
Cash and cash equivalents	\$ 42,368	\$ 45,624
Investments	157,275	107,989
Receivables		
Accounts receivable, net of allowance of \$718 and \$415, respectively	19,195	13,279
Interest receivable	592	284
Due from other governments	5,598	5,697
Inventories	481	454
Prepaid items	5,899	5,815
Total current unrestricted assets	<u>231,408</u>	<u>179,142</u>
Restricted Assets		
Cash and cash equivalents	187,683	178,612
Interest receivable	1,351	1,102
Prepaid items	-	1,412
Total current restricted assets	<u>189,034</u>	<u>181,126</u>
Total current assets	<u>420,442</u>	<u>360,268</u>
<b>Noncurrent Assets</b>		
Restricted Assets		
Cash and cash equivalents	102,054	38,505
Investments	540,381	380,597
Passenger facility charges receivable	6,955	5,009
Prepaid items	-	507
Due from other governments	25,113	38,526
Capital assets		
Non-depreciable	556,854	760,865
Depreciable, net of accumulated depreciation of \$974,457 and \$861,913, respectively	2,370,807	2,077,137
Total capital assets, net	<u>2,927,661</u>	<u>2,838,002</u>
Total noncurrent assets	<u>3,602,164</u>	<u>3,301,146</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,022,606</u></b>	<b><u>\$ 3,661,414</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding	\$ 1,089	\$ 1,195
Deferred outflows on Other Post Employment Benefits	54	-
Deferred outflows on pensions	11,370	9,623
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 12,513</u></b>	<b><u>\$ 10,818</u></b>

<b>LIABILITIES</b>	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Payable from Unrestricted Assets		
Accounts payable	\$ 15,790	\$ 15,769
Accrued liabilities	3,089	4,099
Due to other County funds	5,459	2,132
Due to other governments	1,252	1,231
Deposits	5,304	5,442
Unearned revenue	54,802	23,001
Compensated absences	2,421	2,202
Total current liabilities payable from unrestricted assets	<u>88,117</u>	<u>53,876</u>
Payable from Restricted Assets		
Accounts payable	\$ 71,843	\$ 80,431
Accrued interest payable	52,261	46,487
Revenue bonds payable	63,620	53,840
Deposits	1,310	368
Total current liabilities payable from restricted assets	<u>189,034</u>	<u>181,126</u>
Total current liabilities	<u>277,151</u>	<u>235,002</u>
<b>Noncurrent Liabilities</b>		
Revenue bonds payable, including discounts and premiums	2,209,405	1,942,873
Compensated absences	2,985	2,782
Total other post employment benefits liability	1,733	1,285
Net pension liability	24,904	23,472
Total noncurrent liabilities	<u>2,239,027</u>	<u>1,970,412</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 2,516,178</u>	<u>\$ 2,205,414</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows on Other Post Employment Benefits	\$ 23	-
Deferred inflows on pensions	2,918	1,587
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 2,941</u>	<u>\$ 1,587</u>
<b>NET POSITION</b>		
Net investment in capital assets	962,858	963,651
Restricted for		
Debt service	249,074	232,603
Capital projects	184,746	163,447
Unrestricted	119,322	105,530
<b>TOTAL NET POSITION</b>	<u>\$ 1,516,000</u>	<u>\$ 1,465,231</u>

See notes to financial statements

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>		
Airline revenues	\$ 104,874	\$ 77,665
Rental cars	65,649	64,872
Parking	52,409	48,209
Concessions	40,583	37,138
General aviation and fixed based operators	7,451	6,766
Non-airline terminal rent and other rents	6,926	5,247
North Perry Airport	1,476	1,404
Cargo	2,037	1,714
Miscellaneous	3,273	2,820
Total operating revenues	<u>284,678</u>	<u>245,835</u>
<b>Operating Expenses</b>		
Salaries, wages and benefits	44,366	41,005
Contractual services	62,339	54,984
Law enforcement and fire rescue	31,625	30,558
Utilities	10,898	11,603
Insurance	5,115	4,639
Services provided by other County departments	5,194	5,266
Maintenance, equipment and supplies	11,012	7,630
General and administrative	5,292	6,346
Total operating expenses before depreciation	<u>175,841</u>	<u>162,031</u>
<b>Operating Income before Depreciation</b>	108,837	83,804
Depreciation	<u>114,318</u>	<u>99,688</u>
<b>Operating Income (Loss)</b>	<u>(5,481)</u>	<u>(15,884)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Passenger facility charges	73,032	65,451
Federal grants	7,756	15,984
Interest income	9,531	4,208
Interest expense, net of capitalized interest	(73,978)	(61,529)
Bond issuance costs	(2,010)	-
Noise mitigation costs	(11,057)	(20,897)
Gain on disposal of capital assets	32	2,537
Other	1,322	247
Total nonoperating revenues (expenses)	<u>4,628</u>	<u>6,001</u>
<b>Loss before Capital Contributions</b>	<u>(853)</u>	<u>(9,883)</u>
Capital contributions	<u>51,979</u>	<u>43,699</u>
<b>Change in Net Position</b>	<u>51,126</u>	<u>33,816</u>
<b>Total Net Position - Beginning of Period</b>	1,465,231	1,431,415
Cumulative effect of adoption of GASB statement No. 75	<u>(357)</u>	<u>-</u>
Net Position - Beginning, as restated	1,464,874	-
<b>Total Net Position - End of Period</b>	<u>\$ 1,516,000</u>	<u>\$ 1,465,231</u>

See notes to financial statements

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 309,365	\$ 243,877
Cash payments to suppliers for goods and services	(129,151)	(118,201)
Cash payments to employees for services	(42,780)	(39,515)
Other cash received	2,607	586
Other cash paid	(368)	-
Net cash provided by operating activities	<u>139,672</u>	<u>86,747</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Payment of noise mitigation costs	(7,563)	(23,225)
Nonoperating grants received	7,043	17,322
Passenger facility charges received	1,986	4,530
Net cash provided by (used for) noncapital financing activities	<u>1,466</u>	<u>(1,373)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from issuance of bonds	337,910	-
Payment of bond issuance costs	(795)	-
Acquisition and construction of property, plant and equipment	(193,549)	(343,127)
Proceeds from sale of capital assets	41	11,366
Debt principal payment	(53,840)	(50,990)
Interest and fiscal charges	(96,749)	(94,241)
Capital contributions	66,204	11,949
Passenger facility charges received	69,100	60,830
Net cash provided by (used for) capital and related financing activities	<u>128,322</u>	<u>(404,213)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investment securities	(1,747,988)	(753,692)
Proceeds from sale and maturities of investment securities	1,538,918	949,753
Interest and dividends on investments	8,974	3,921
Net cash provided by (used for) investing activities	<u>(200,096)</u>	<u>199,982</u>
<b>Net Increase (Net Decrease) in Cash and Cash Equivalents</b>	69,364	(118,857)
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>262,741</u>	<u>381,598</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 332,105</u>	<u>\$ 262,741</u>
Cash and Cash Equivalents - Unrestricted Assets	\$ 42,368	\$ 45,624
Cash and Cash Equivalents - Restricted Assets	<u>289,737</u>	<u>217,117</u>
	<u>\$ 332,105</u>	<u>\$ 262,741</u>



**Reconciliation of operating income (loss) to net cash provided by operating activities**

Operating income (Loss)	\$ (5,481)	\$ (15,884)
Adjustments to reconcile operating income (loss) to cash flows from operating activities		
Depreciation expense	114,318	99,688
Other nonoperating revenues	2,239	586
(Increase) Decrease in assets and deferred outflows of resources		
Accounts receivable	(5,916)	(396)
Inventories	(27)	(49)
Prepaid items	(84)	(101)
Deferred outflows on other post employment benefits	(54)	-
Deferred outflows on pensions	(1,747)	(2,256)
Increase (Decrease) in liabilities and deferred inflows of resources		
Accounts payable	(877)	5,005
Accrued liabilities	(1,009)	460
Due to other County funds	3,327	(2,121)
Due to other governments	21	38
Deposits	(138)	173
Unearned revenues	31,801	(2,088)
Compensated absences	422	302
Total other post employment benefits liability	97	89
Net pension liability	1,426	2,245
Deferred inflows on other post employment benefits	23	-
Deferred inflows on pensions	1,331	1,056
Net adjustments	<u>145,153</u>	<u>102,631</u>
Net cash provided by operating activities	<u>\$ 139,672</u>	<u>\$ 86,747</u>

**Noncash Investing, Capital and Financing Activities**

Amortization of bond discount and premiums	\$ (8,973)	\$ (7,551)
Amortization of deferred charge on refunding	106	106
Bond issuance costs deducted from bond proceeds	(1,215)	-
Capital contributions	30,711	44,223
Capital assets acquired through current accounts payable	69,012	80,197
Change in fair value of investments	(5,207)	(4,984)

See notes to financial statements

Note 1: Summary of Significant Accounting Policies .....	27
Note 2: Deposits and Investments.....	34
Note 3: Restricted Assets .....	38
Note 4: Capital Assets .....	39
Note 5: Lease and Concession Agreements.....	40
Note 6: Airline-Airport Lease and Use Agreement .....	41
Note 7: Long-Term Obligations.....	41
Note 8: Capital Contributions .....	43
Note 9: Risk Management .....	43
Note 10: Other Post-Employment Benefits (OPEB) .....	45
Note 11: Retirement Plans.....	48
Note 12: Transactions with Other County Departments .....	58
Note 13: Commitments and Contingent Liabilities .....	59
Note 14: Major Customers.....	60
Note 15: Subsequent Events.....	60

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Reporting Entity**

These financial statements present the financial position, changes in net position and cash flows of the Broward County Aviation Department (BCAD), a major enterprise fund of Broward County (the County), and not the County as a whole.

The Board of County Commissioners (the Board) is responsible for legislative and fiscal control of the County. A County Administrator is appointed by the Board and is responsible for administrative and fiscal control of all County departments through the administration of directives and policies established by the Board.

Pursuant to the general laws of Florida, the County owns Fort Lauderdale-Hollywood International Airport (FLL), a major air carrier airport, and the North Perry Airport (HWO), a general aviation airport, both of which are operated by BCAD. All accounts of FLL and HWO are included in BCAD's reporting entity; there are no other financial activities or funds considered for inclusion.

### **B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

BCAD operates as a major enterprise fund of the County and uses the enterprise fund type to account for all of its operations. The financial statements are presented using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place.

The financial statements distinguish operating revenues and operating expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with BCAD's principal ongoing operations. BCAD's principal operating revenues are from airlines, rental cars, parking, and concessions. Operating expenses include employee wages and benefits, purchases of services and other expenses related to operating the airport, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **C. Implementation of Governmental Accounting Standards Board Statements**

BCAD adopted the following Governmental Accounting Standards Board (GASB) Statements during the fiscal year ended September 30, 2018:

#### ***I. GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"***

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was implemented in fiscal year 2018. Due to the implementation of this statement, BCAD adopted the accounting and reporting requirements of a new standard, which resulted in a restatement of total OPEB liability as of October 1, 2017. Information was not available to implement GASB Statement No. 75 for the prior period presented in the financial statements. Also refer to Note 10 for additional information on the impact of the adoption of this statement. The adoption of Statement No. 75 resulted in the restatement of the October 1, 2017 net position (see Note 1, Section D).

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **2. GASB Statement No. 85 "Omnibus 2017"**

Statement No. 85 establishes practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). BCAD implemented this statement for fiscal year 2018. The adoption of GASB 85 did not impact the BCAD's financial position or results in operations.

### **3. GASB Statement No. 86 "Certain Debt Extinguishment Issues"**

Statement No. 86 establishes improved consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. BCAD implemented this statement for fiscal year 2018. The adoption of GASB 85 did not impact BCAD's financial position or results in operations.

BCAD evaluated the following issued but unadopted GASB Statements during the fiscal year ended September 30, 2018:

### **4. GASB Statement No. 83 "Certain Asset Retirement Obligations"**

Statement No. 83 will be effective for BCAD beginning with its year ending September 30, 2019. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. Management is currently evaluating the impact of the adoption of this statement on the BCAD's financial statements.

### **5. GASB Statement No. 84 "Fiduciary Activities"**

Statement No. 84 will be effective for BCAD beginning with its year ending September 30, 2020. This Statement establishes improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should and establishes criteria for identifying fiduciary activities of all state and local governments. Management is currently evaluating the impact of the adoption of this statement on the BCAD's financial statements.

### **6. GASB Statement No. 87 "Leases"**

Statement No. 87 will be effective for BCAD beginning with its year ending September 30, 2020. The Statement establishes the new guidance that for a single approach to accounting for and reporting leases by state and local governments to better align reporting these leases with their particular situations, as well as, provide greater transparency and usefulness of financial statements. Management is currently evaluating the impact of the adoption of this statement on BCAD's financial statements. This will have a material effect on the statement of net position, the exact effect of which cannot be determined at this time given the airport has a large number of leases.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**7. GASB Statement No. 88 "Certain disclosures related to debt, including direct borrowings and direct placements"**

The primary objective of this Statement is to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placement. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for th fiscal year ending September 30, 2019.

**8. GASB Statement No. 89 "Accounting for Interest Cost Incurred Before the End of a Construction Period."**

The primary objective of this Statement is to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for the reporting period, and (2) simplify accounting for interest cost incurred before the end of a construction period. This Statement is effective for the fiscal year ending September 2021.

**9. GASB Statement No. 90 "Majority equity interests - An amendment of GASB Statements No. 14 and No. 61."**

The primary objective of this Statement is to improve the consistency of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

**D. Change in Accounting Principle**

Due to the implementation of GASB Statement No. 75, BCAD adopted the accounting and reporting requirements of the new standard, which resulted in a restatement of the total OPEB liability as of October 1, 2017. Information was not available to implement GASB Statement NO. 75 for the prior period presented in the financial statements. Also refer to Note 10 for additional information on the impact of the adoption of this Statement. The adjustment to the beginning net position is presented below (in thousands):

Net Position September 30, 2017, as previously reported	\$ 1,465,231
Net Postion Effect of GASB 75	(357)
Net Position October 1, 2017, as restated	<u>\$ 1,464,874</u>

**E. Deposits and Investments**

Cash and cash equivalents consist of cash on hand, demand deposits, as well as investments with original maturities at time of purchase of three months or less.

BCAD participates in the cash and investment pool maintained by the County. BCAD's portion of the pool is presented as "cash and cash equivalents," "investments," or "restricted assets," as appropriate. Earnings are allocated to BCAD based on the average daily cash and investment balances. BCAD also maintains cash and investments outside of the County pool relating to bond proceeds for the purpose of funding debt service payments and bond reserve requirements, as well as for investment purposes. All investments are carried at fair value.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### F. Accounts Receivable

Accounts receivable are composed primarily of monthly billings to airlines and concessionaires operating at BCAD for various rentals and other fees. An allowance for doubtful accounts is provided for receivables where there is uncertainty as to ultimate collectability based on current economic conditions and consideration of the customer's ability to pay. Receivables for BCAD are presented in the accompanying financial statements, net of an allowance for uncollectible accounts.

### G. Due from Other Governments

The amounts due from other governments represent grants receivable from Federal and State governments for their share of amounts expended on various capital and related projects.

### H. Inventories and Prepaid Items

Inventories consist of maintenance materials and supplies for consumption and are recorded at the lower of cost or market value, using the first-in, first-out method.

Prepaid items consist primarily of insurance costs that will benefit future accounting periods.

### I. Capital Assets

Capital assets, which include property, plant and equipment, are recorded at cost or, if donated, at acquisition value at the date of donation. The capitalization levels are \$1,000 for equipment and \$5,000 for land and improvements and buildings and facilities. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated on the straight-line basis over the following estimated useful lives:

Buildings and Facilities (including property held for leasing)	3-40 years
Equipment	3-15 years

### J. Capitalized Interest

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by BCAD during the fiscal year ended September 30, 2018, was \$93,656,000 and, of this, \$19,678,000 was included as part of the cost of construction-in-progress (CIP). During the fiscal year ended September 30, 2017, total interest expense was \$85,531,000 and \$24,002,000 was included as part of the cost of CIP.

### K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The category of deferred outflows of resources reported in BCAD's Statement of Net Position relates to debt refunding, other post-employment benefits, and pensions. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. Deferred outflows on other post employment benefits are more fully disclosed in Note 1, Section P and Note 10 while pension activities are more fully disclosed in Note 1, Section Q and Note 11. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by BCAD related to other post employment benefits are more fully disclosed in Note 1, Section P, and Note 10 while those related to pension activities and are more fully disclosed in Note 1, Section Q and Note 11.

### **L. Due to or from Other County Funds**

During the course of operations, BCAD has activity with other County funds for various purposes. Any residual balances outstanding at year end are reported as due to or from other County funds.

### **M. Unearned Revenue - Airline Fees and Charges**

Unearned revenue represents revenues collected in excess of the airline net revenue requirement in accordance with the Airline-Airport Lease and Use Agreement.

### **N. Long-term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest rate method. Bonds payable as reported include unamortized amounts of bond premiums or discounts.

### **O. Compensated Absences**

BCAD's policy is to permit employees to accumulate earned but unused vacation and sick leave. The cost of earned but unused vacation is accrued as a liability in the period in which the leave is earned. A liability for earned but unused sick leave is accrued only to the extent that the leave will result in cash payments at termination.

### **P. Total OPEB Liability**

The total OPEB liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service. The total OPEB liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. The total OPEB liability is reported in the statement of net position.

### **Q. Pensions**

In the Statement of Net Position, pension liabilities are recognized for BCAD's proportionate share of the County's share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System Pension Plan (Pension Plan) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan, and additions to and deductions from the

Pension Plan's and the HIS's fiduciary net position, have been determined on the same basis as they are reported by the Pension Plan and HIS plans.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Changes in the net pension liability during the period are recorded as pension expense, deferred outflows of resources, or deferred inflows of resources depending on the nature of the change. Those changes in the net pension liability that are recorded as deferred outflows of resources or deferred inflows of resources that arise from changes in actuarial assumptions or other inputs, changes in the proportionate share of the net pension liability, and differences between expected or actual experience, are amortized over the average expected remaining service lives of all employees that are provided with pensions through the pension plans, and recorded as a component of pension expense beginning with the period in which they arose. Differences between projected and actual investment earnings are reported as deferred outflows of resources or deferred inflows of resources, and amortized as a component of pension expense using a systematic and rational method over a five year period beginning with the period in which a difference arose.

### **R. Net Position and Net Position Flow Assumption**

Net position represents the residual interest in BCAD's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets includes capital assets, net of accumulated depreciation, reduced by outstanding debt incurred to acquire, construct, or improve those assets, excluding unexpended proceeds. The restricted category represents the balance of assets restricted by external parties (creditors, grantors, contributors, or laws or regulations of other governments), or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

Sometimes BCAD will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts reported as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is BCAD's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

### **S. Capital Contributions**

Capital contributions consist mainly of grants from Federal and State governments. These capital contributions are recognized as earned when all eligibility requirements have been met.

### **T. Noise Mitigation Costs**

Funds expended for Residential Sound Insulation relating to the Noise Mitigation Program are recorded as non-operating expenses in the period they are incurred. Funds expended for Avigation Easements relating to the Noise Mitigation Program are included in land and land improvements and are not depreciated.

### **U. Passenger Facility Charges**

In 1990, Congress authorized domestic airports to impose a passenger facility charge (PFC) on each departing passenger. Subsequently, the Federal Aviation Administration (FAA) issued regulations for the use and reporting of PFCs. Airports are authorized to use PFCs for projects that must meet at least one of the following eligibility requirements: (1) preserve or enhance safety, security, or capacity of the national transportation system; (2) reduce noise or reduce noise impacts resulting from an airport; or (3) furnish opportunities for enhance competition between or among carriers.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Effective January 1, 1995, the FAA authorized BCAD to impose and use collected PFCs of \$3.00 per departing passenger at FLL. In July 2005, FLL received approval from the FAA to implement a \$4.50 PFC effective October 1, 2005. The ticketing airline includes the departing PFC in the price of each ticket when it is sold to the traveler. The \$4.50 PFC collected by the airlines is remitted monthly to FLL, less an \$0.11 per passenger administrative fee retained by the airlines.

Through initial and subsequent FAA approvals, BCAD is currently authorized to collect PFCs up to \$1,901,125,000, of which \$932,098,000 has been collected as of September 30, 2018. The net receipts from PFCs are nonrefundable and restricted for use on FAA-approved capital projects and debt service on revenue bonds that fund approved PFC-eligible projects. As of September 30, 2018, \$765,959,000 of the collected PFCs had been spent on approved projects or debt service, and the remaining \$166,139,000, along with a PFC receivable of \$6,955,000 and interest receivable of \$380,000, is reflected in the net position restricted for capital projects.

**V. Reclassifications**

Certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation.

**W. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 - DEPOSITS AND INVESTMENTS

At September 30, 2018 and 2017, BCAD's deposits and investments consisted of the following (in thousands):

	September 30,	
	2018	2017
Cash Deposits	\$ 184,324	\$ 102,432
Investments:		
U.S. Treasuries	106,110	113,578
U.S. Agencies	423,277	329,005
Commercial Paper	112,344	16,877
World Bank	54,965	29,126
Money Market Mutual Funds	147,781	160,309
Sovereign Bond	960	-
Total Investments	<u>845,437</u>	<u>648,895</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 1,029,761</u>	<u>\$ 751,327</u>

Cash and cash equivalents and investments are classified in the Statements of Net Position as follows (in thousands):

	September 30,	
	2018	2017
Current Assets		
Cash and cash equivalents, unrestricted	\$ 42,368	\$ 45,624
Cash and cash equivalents, restricted	187,683	178,612
Investments, unrestricted	157,275	107,989
Noncurrent Assets		
Cash and cash equivalents, restricted	102,054	38,505
Investments, restricted	<u>540,381</u>	<u>380,597</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 1,029,761</u>	<u>\$ 751,327</u>

### Deposits

*Custodial Credit Risk* - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The County mitigates custodial credit risk by requiring public funds to be deposited in a qualified public depository pursuant to State Statutes. Under the State Statutes, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depositories' collateral pledging level. The pledging level may range from 25% to 150% depending upon the depositories' financial condition ranking from two nationally recognized financial rating services, as well as consideration of financial ratios, trends and other pertinent information. All collateral must be deposited with the approved financial institution.

## **NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Any potential losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral, and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

### **Investments**

BCAD follows the County's investment practices, which are governed by 218.415 of the Florida Statutes, County Code of Ordinances, Chapter 1, Article 1, Section 1-10, and the requirements of outstanding bond covenants. The County has a formal investment policy that, in the opinion of management, is designed to ensure conformity with State Statutes and seeks to limit exposure to investment risks. The investment policy specifies the types, issuer, maturity, and performance measurement of investment securities that are permissible. Securities are held to maturity with limited exceptions outlined in the investment policy. Qualified institutions utilized for investment transactions are also addressed within the policy, as well as diversification requirements for the investment portfolio.

Under State Statutes and County Ordinances, the County is authorized to invest in obligations of the U.S. Government, its agencies and instrumentalities, the Florida Local Government Surplus Trust Fund or any intergovernmental investment pool, authorized pursuant to the Florida Interlocal Cooperation Act, repurchase agreements with primary dealers, commercial paper, bonds, notes or obligations of the State of Florida or any municipality, political subdivision or agency or authority of the State, certificates of deposit, securities in certain open-end or closed-end investment companies or trusts, World Bank notes, bonds and discount notes, obligations of the Tennessee Valley Authority, certain money market funds and rated or unrated bonds, notes or instruments backed by the full faith of the government of Israel. The County may also invest in collateralized mortgage obligations, reverse repurchase agreements and asset-backed commercial paper with the approval of the County's Chief Financial Officer. County policy requires that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreements.

*Interest Rate Risk* - In accordance with its investment policy, the County manages its exposure to interest rate volatility by limiting the weighted average maturity of its investment portfolio within the following maturity categories: overnight 35%; 1-30 days 80%; 31-90 days 80%; 91 days to 1 year 70%; 1-2 years 40%; 2-3 years 25%; 3-4 years 20%; 4-5 years 15%; and 5-7 years 10%. Assets held pursuant to bond covenants are exempt from these maturity limitations. As of September 30, 2018, the portfolio weighted average maturity was 509 days, and was in accordance with the County's investment policy.

*Credit Risk* -The County's investment policy contains specific rating criteria for certain investments. The policy states that commercial paper and asset-backed commercial paper, as well as bonds, notes, or obligations of the State of Florida, any municipality or political subdivision, or any agency or authority of the State, must be rated in one of the two highest rating categories by at least two nationally recognized rating agencies. Commercial paper not rated must be backed by a letter of credit or line of credit rated in one of the two highest rating categories. Any investments in World Bank notes, bonds, and discount notes must be rated AAA or equivalent by Moody's Investors Service and/or Standard & Poor's Ratings Services. Investments in Securities and Exchange Commission registered money market funds must have the highest credit quality rating from a nationally recognized rating agency.

## **NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Investments in Sovereign Bonds are allowable by the Broward County Investment Policy whether the bonds are rated or unrated.

The County's investments in U.S. Treasuries and U.S. Agencies, except for investments of \$32.6 million in the Federal Agricultural Mortgage Corporation which are not rated, are rated AA+ by Standard & Poor's Rating Services and Aaa by Moody's Investors Services. The County's investments in commercial paper are rated A-1 and A-1+ by Standard & Poor's Rating Services, P-1 by Moody's Investors Service and F1 by Fitch. The County's investments in World Bank notes are rated AAA by Standard & Poor's Rating Services and Aaa by Moody's Investors Service. The County's investments in the Money Market Mutual Funds are rated AAAM by Standard & Poor's Ratings Services and Aaa-mf by Moody's Investors Services. The County's investments in Sovereign (State of Israel) Bonds are rated AA- by Standard & Poor's Rating Services, A1 by Moody's Investors Services, and A+ by Fitch.

*Concentration of Credit Risk* - The County places no limit on the amount that may be invested in securities of the U. S. Government and U.S. Agencies thereof, or government-sponsored corporation securities. The County requires that all other investments be diversified with no more than 5% of the value of the portfolio invested in the securities of any single issuer. GASB Statement No. 40, "Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3" requires disclosure when 5% or more is invested in any one issuer. The investment in the Federal Home Loan Bank is 17.75%, the Federal Home Loan Mortgage Corporation is 16.90%, the Federal National Mortgage Association is 18.21%, and the Federal Farm Credit Bank is 8.55%.

*Fair Value Measurement* - BCAD categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset and liability. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. BCAD does not have any investments that are categorized as Level 3.

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

BCAD has the following recurring fair value measurements (in thousands):

As of September 2018	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Investments by Fair Value Level</b>			
Debt Securities:			
U.S. Treasuries	\$ 106,110	\$ -	\$ 106,110
U.S. Agencies	423,277		423,277
Commercial Paper	112,344		112,344
World Bank	54,965		54,965
Sovereign Bonds	960		960
<b>Total Debt Securities</b>	<b>\$ 697,656</b>	<b>\$ -</b>	<b>\$ 697,656</b>
Money Market Mutual Funds	\$ 147,781	\$ 147,781	\$ -
<b>Total Investments at Fair Value</b>	<b>\$ 845,437</b>	<b>\$ 147,781</b>	<b>\$ 697,656</b>

As of September 2017	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Investments by Fair Value Level</b>			
Debt Securities:			
U.S. Treasuries	\$ 113,578	\$ -	\$ 113,578
U.S. Agencies	329,005		329,005
Commercial Paper	16,877		16,877
World Bank	29,126		29,126
<b>Total Debt Securities</b>	<b>\$ 488,586</b>	<b>\$ -</b>	<b>\$ 488,586</b>
Money Market Mutual Funds	\$ 160,309	\$ 160,309	\$ -
<b>Total Investments at Fair Value</b>	<b>\$ 648,895</b>	<b>\$ 160,309</b>	<b>\$ 488,586</b>

U.S. Treasuries, U.S. Agencies, Commercial Paper and World Bank debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices (Level 2 inputs).

Money market mutual funds are valued using the quoted market prices (Level 1 inputs).

The investment balances categorized by fair value above include BCAD's investment in the County "pool" and the input levels presented are based on the actual allocation of the underlying investments held directly by the County.

**NOTE 3 - RESTRICTED ASSETS**

Restricted assets of BCAD at September 30, 2018 and 2017, represent amounts restricted for debt service and for construction and improvements of the FLL and HWO airport and aviation facilities under the terms of outstanding bond agreements. The bond reserve accounts represents 125% of the average annual principal and interest requirements for all series of bonds secured by the reserve account. The debt service accounts contain the principal and interest amounts required for payment due on October 1 in addition to funds restricted for future debt service payments. The PFC account contains amounts collected and receivables, but unspent. The bond construction accounts include bond proceeds available for the design and construction of major capital projects.

The composition of restricted accounts is as follows (in thousands):

	September 30,	
	2018	2017
Bond reserve accounts	\$ 144,449	\$ 134,035
Debt service accounts	301,335	279,091
Passenger facility charges account	173,474	152,042
Bond construction accounts	231,697	67,330
Grant proceeds	12,582	11,772
	<u>\$ 863,537</u>	<u>\$ 644,270</u>

Restricted assets are classified in the Statements of Net Position as follows (in thousands):

	September 30,	
	2018	2017
<b>Current Restricted Assets</b>		
Cash and cash equivalents	\$ 187,683	\$ 178,612
Other accounts receivable	1,351	1,102
Prepaid items	-	1,412
<b>Noncurrent Restricted Assets</b>		
Cash and cash equivalents	102,054	38,505
Investments	540,381	380,597
Passenger facility charges receivable	6,955	5,009
Prepaid items	-	507
Due from other governments	25,113	38,526
	<u>\$ 863,537</u>	<u>\$ 644,270</u>

#### NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the years ended September 30, 2018 and 2017, are as follows (in thousands):

	Balance October 1, 2017	Increases/ Transfers (1)	Decreases/ Transfers (1)	Balance September 30, 2018
Capital assets not being depreciated:				
Construction in progress	\$ 393,538	\$ 127,586	\$ 350,659	\$ 170,465
Land and land improvements	366,629	19,062		385,691
Property held for leasing - land and land improvements	698			698
Total capital assets not being depreciated	<u>760,865</u>	<u>146,648</u>	<u>350,659</u>	<u>556,854</u>
Capital assets being depreciated:				
Buildings, facilities and other improvements	2,377,930	268,489	74,814	2,571,605
Property held for leasing - buildings, facilities and other improvements	501,271	202,015	266	703,020
Equipment	59,849	12,578	1,788	70,639
Total capital assets being depreciated	<u>2,939,050</u>	<u>483,082</u>	<u>76,868</u>	<u>3,345,264</u>
Less accumulated depreciation:				
Buildings, facilities and other improvements	632,620	87,960	860	719,720
Property held for leasing - buildings, facilities and other improvements	193,125	22,467		215,592
Equipment	36,168	4,751	1,774	39,145
Total accumulated depreciation	<u>861,913</u>	<u>115,178</u>	<u>2,634</u>	<u>974,457</u>
Total capital assets being depreciated, net	<u>2,077,137</u>	<u>367,904</u>	<u>74,234</u>	<u>2,370,807</u>
Total capital assets, net	<u>\$ 2,838,002</u>	<u>\$ 514,552</u>	<u>\$ 424,893</u>	<u>\$ 2,927,661</u>

(1) The buildings, facilities and other improvements totaling \$74,814,000, less accumulated depreciation of \$860,000 for a net book value of \$73,954,000 was reclassified to property held for leasing, and property held for leasing totaling \$266,000 is reclassified to buildings, facilities and other improvements during the fiscal year 2018.

	October 1, 2016	Increases	Decreases	September 30, 2017
Capital assets not being depreciated:				
Construction in progress	\$ 347,501	\$ 324,015	\$ 277,978	\$ 393,538
Land and land improvements	364,587	10,837	8,795	366,629
Property held for leasing - land and land improvements	698			698
Total capital assets not being depreciated	<u>712,786</u>	<u>334,852</u>	<u>286,773</u>	<u>760,865</u>
Capital assets being depreciated:				
Buildings, facilities and other improvements	2,089,943	287,987		2,377,930
Property held for leasing - buildings, facilities and other improvements	499,022	2,249		501,271
Equipment	42,730	17,224	105	59,849
Total capital assets being depreciated	<u>2,631,695</u>	<u>307,460</u>	<u>105</u>	<u>2,939,050</u>
Less accumulated depreciation:				
Buildings, facilities and other improvements	553,277	79,343		632,620
Property held for leasing - buildings, facilities and other improvements	176,790	16,335		193,125
Equipment	32,230	4,010	72	36,168
Total accumulated depreciation	<u>762,297</u>	<u>99,688</u>	<u>72</u>	<u>861,913</u>
Total capital assets being depreciated, net	<u>1,869,398</u>	<u>207,772</u>	<u>33</u>	<u>2,077,137</u>
Total capital assets, net	<u>\$ 2,582,184</u>	<u>\$ 542,624</u>	<u>\$ 286,806</u>	<u>\$ 2,838,002</u>

**NOTE 4 - CAPITAL ASSETS (Continued)**

As of September 30, 2018, property held for leasing included both non-depreciable capital assets (land and land improvements) of \$698,000 and depreciable capital assets (buildings, facilities and other improvements) of \$703,020,000, totaling \$703,718,000, less accumulated depreciation of \$214,732,000 for a net book value of \$488,986,000.

As of September 30, 2017, property held for leasing included both non-depreciable capital assets (land and land improvements) of \$698,000 and depreciable capital assets (buildings, facilities and other improvements) of \$501,271,000, totaling \$501,969,000, less accumulated depreciation of \$193,125,000 for a net book value of \$308,844,000.

**NOTE 5 - LEASE AND CONCESSION AGREEMENTS**

Property held for leasing consists of property leased under operating leases to commercial enterprises including signatory airlines through current agreement expiring in 2026. Lease terms vary from one to fifty years and require, in some cases, the construction of leasehold improvements that will be contributed to the County at lease termination.

The following is a schedule by years of minimum future revenues from non-cancelable agreements as of September 30, 2018 (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 107,131
2020	83,008
2021	82,122
2022	81,223
2023	76,671
2024-2028	265,050
2029-2033	92,093
2034-2038	32,620
2039-2043	9,243
2044-2048	7,466
Total minimum future revenues	<u>\$ 836,627</u>

Minimum future revenues for fiscal years 2019 onwards are based on fiscal year 2019 established rates. Rates are subject to change on an annual basis effective October 1. Total minimum future revenues does not include revenues that may be received under certain concession leases on the basis of a percentage of the tenant's gross revenue in excess of stipulated minimum annual guarantees (MAGs). MAGs amounted to approximately \$44,411,000 and \$43,119,000 for the years ended September 30, 2018 and 2017, respectively.



**NOTE 6 - AIRLINE-AIRPORT LEASE AND USE AGREEMENT**

BCAD has entered into lease and use agreements with its major airline tenants (Signatory Airlines). The airline agreements, which are based on a residual rate-setting methodology for the terminal complex and the airfield, will terminate on September 30, 2026.

The agreements require that landing fees and terminal rentals be reviewed annually and adjusted, as necessary, so that the total revenue is sufficient to meet BCAD’s requirements, as determined by the signatory airline agreements. At the end of the fiscal year, after all required deposits have been made, any remaining excess funds are used to meet the requirements in the following fiscal year. These excess funds have been recorded as unearned revenue by BCAD and have been included in current liabilities payable from unrestricted assets. For the years ended September 30, 2018 and 2017, these funds amounted to \$53,786,000 and \$22,437,000, respectively.

**NOTE 7 - LONG-TERM OBLIGATIONS**

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

	Balance October 1, 2017 (1)	Additions	Deductions	Balance September 30, 2018	Amount Due Within One Year	Amount Due After One Year
Revenue Bonds payable	\$ 1,856,650	\$ 287,905	\$ 53,840	\$ 2,090,715	\$ 63,620	\$ 2,027,095
Unamortized bond premiums and discount	140,063	51,220	8,973	182,310	-	182,310
Compensated absences	4,984	3,511	3,089	5,406	2,421	2,985
Total other post employment benefits liability	1,636	97	-	1,733	-	1,733
Net pension liability	23,478	1,426	-	24,904	-	24,904
Total	<u>\$ 2,026,811</u>	<u>\$ 344,159</u>	<u>\$ 65,902</u>	<u>\$ 2,305,068</u>	<u>\$ 66,041</u>	<u>\$ 2,239,027</u>
	Balance October 1, 2016	Additions	Deductions	Balance September 30, 2017	Amount Due Within One Year	Amount Due After One Year
Revenue Bonds payable	\$ 1,907,640	\$ -	\$ 50,990	\$ 1,856,650	\$ 53,840	\$ 1,802,810
Unamortized bond premiums and discount	147,614	-	7,551	\$ 140,063	-	140,063
Compensated absences	4,682	2,938	2,636	4,984	2,202	2,782
Other post employment benefits	1,196	89	-	1,285	-	1,285
Net pension liability	21,227	2,245	-	23,472	-	23,472
Total	<u>\$ 2,082,359</u>	<u>\$ 5,272</u>	<u>\$ 61,177</u>	<u>\$ 2,026,454</u>	<u>\$ 56,042</u>	<u>\$ 1,970,412</u>

(1) The beginning balance of October 1, 2017 is restated due to the implementation of GASB Statement No. 75.

**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

The following is a summary of the major provisions and significant debt service requirements for the outstanding bonds at September 30, 2018 (in thousands):

Airport System Revenue Bonds	Primary Purpose	Type	Interest Payment		Optional (O) or Mandatory (M) Redemption *	Final Maturity Date	Original Amount Issued	Retired/ Refunded	Outstanding September 30
			Rate %	Date					
2001J-2	Improvements	Term	6.9	4-1 & 10-1	M	2016 10/1/2021	\$ 75,460	\$ (21,880)	\$ 53,580
2009O	Refunding	Serial	2.0-5.0	4-1 & 10-1	O	2019 10/1/2020	29,395	(19,740)	9,655
2009O	Refunding	Term	5.0-5.375	4-1 & 10-1	M	2021 10/1/2029	71,745		71,745
2012P-1	Refunding	Serial	3.0-5.0	4-1 & 10-1	O	2022 10/1/2026	217,080	(66,710)	150,370
2012P-2	Refunding	Serial	3.25-5.0	4-1 & 10-1	O	2022 10/1/2026	92,775	(21,900)	70,875
2012Q-1	Improvements	Serial	3.0-5.0	4-1 & 10-1	O	2022 10/1/2033	283,600	(44,615)	238,985
2012Q-1	Improvements	Term	4.0-5.0	4-1 & 10-1	M	2034 10/1/2042	232,020		232,020
2012Q-2	Improvements	Serial	5.0	4-1 & 10-1	O	2022 10/1/2032	51,800	(7,310)	44,490
2012Q-2	Improvements	Term	5.0	4-1 & 10-1	M	2033 10/1/2042	53,910		53,910
2013A	Improvements	Serial	1.25-5.25	4-1 & 10-1	O	2023 10/1/2033	81,345	(10,620)	70,725
2013A	Improvements	Term	5.125-5.25	4-1 & 10-1	M	2034 10/1/2043	83,960		83,960
2013B	Improvements	Serial	2.00-5.50	4-1 & 10-1	O	2023 10/1/2033	27,395	(3,725)	23,670
2013B	Improvements	Term	5.00-5.25	4-1 & 10-1	M	2034 10/1/2043	28,005		28,005
2013C	Improvements	Serial	1.25-5.50	4-1 & 10-1	O	2023 10/1/2033	103,265	(13,480)	89,785
2013C	Improvements	Term	5.125-5.25	4-1 & 10-1	M	2034 10/1/2043	107,710		107,710
2015A	Improvements	Serial	2.0-5.0	4-1 & 10-1	O	2025 10/1/2037	248,120	(945)	247,175
2015A	Improvements	Term	5.0	4-1 & 10-1	M	2038 10/1/2040	61,990		61,990
2015A	Improvements	Term	5.0	4-1 & 10-1	M	2041 10/1/2045	116,205		116,205
2015B	Improvements	Term	5.0	4-1 & 10-1	O	2025 10/1/2045	9,575		9,575
2015C	Refunding	Serial	2.0-5.0	4-1 & 10-1	M	2025 10/1/2025	46,305	(7,925)	38,380
2017	Improvements	Serial	5.0	4-1 & 10-1	O	2027 10/1/2037	138,495		138,495
2017	Improvements	Term	5.0	4-1 & 10-1	M	2038 10/1/2042	65,640		65,640
2017	Improvements	Term	5.0	4-1 & 10-1	M	2043 10/1/2047	83,770		83,770
									\$ 2,090,715

\* The optional and mandatory redemptions are at par

A schedule of future debt service is as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 63,620	\$ 102,833	\$ 166,453
2020	67,010	99,403	166,413
2021	75,065	95,671	170,736
2022	78,040	91,598	169,638
2023	82,200	87,485	169,685
2024-2028	386,950	377,155	764,105
2029-2033	320,995	288,801	609,796
2034-2038	363,775	208,048	571,823
2039-2043	462,870	106,660	569,530
2044-2048	190,190	17,652	207,842
	\$ 2,090,715	\$ 1,475,306	\$ 3,566,021

**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

Airport System Revenue Bonds are issued to finance the construction or improvement of the airports' facilities and are payable solely from and are secured by a pledge of net revenues, as defined in the Bond Resolution.

	<u>2018</u>	<u>2017</u>
Current year revenues pledged	\$ 177,995	\$ 116,479
Current year debt service	\$ 80,221	\$ 67,697
Percentage of debt service to pledged revenues	45.1%	58.1%
Total future revenues pledged*	\$ 3,566,021	\$ 3,148,426
Passenger facility charge, grant and bond proceeds offset	<u>(1,233,483)</u>	<u>(1,290,936)</u>
Net future revenues pledged	<u>\$ 2,332,538</u>	<u>\$ 1,857,490</u>

\*Total future pledged revenues are to repay principal and interest on a cash basis through fiscal year 2048.

On November 21, 2017, BCAD issued \$287,905,000 in Airport System Revenue Bonds, Series 2017 (AMT) with a coupon interest rate of 5.00%. The issuance included a premium of \$51,220,000 resulting in a true interest rate of 3.69%. The Series 2017 Bonds were issued to provide funding for terminal renovation and expansion projects and related airport improvement projects, fund the reserve account to satisfy the reserve requirements, and pay the underwriters' discount and certain other costs of issuance.

**NOTE 8 - CAPITAL CONTRIBUTIONS**

Grants and other contributions used to acquire or construct capital assets are classified as capital contributions in the Statements of Revenues, Expenses and Changes in Net Position. Capital contributions consist of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Federal Grants	\$ 14,159	\$ 31,269
State of Florida Grants	<u>37,820</u>	<u>12,430</u>
	<u>\$ 51,979</u>	<u>\$ 43,699</u>

**NOTE 9 - RISK MANAGEMENT**

As a Florida governmental agency, BCAD is afforded protection by sovereign immunity as set forth in FL statute 7689.28. The statute sets forth a tort cap of \$200,000 per individual claim or judgement and \$300,000 for claims arising out of the same incident or occurrence.

BCAD is exposed to various risks and losses related to alleged torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. BCAD purchases its own insurance policies as well as participates in several of the County's programs.

## **NOTE 9 – RISK MANAGEMENT (Continued)**

### **Insurance Policies Exclusive to BCAD:**

Property Insurance - BCAD has a property portfolio structure comprising over \$2 billion in insurable values. The property insurance purchased affords \$500,000,000 in coverage per occurrence with a deductible of \$250,000. Coverage for property losses emanating from "Terrorism" are covered up to \$350,000,000 per occurrence (deductible is \$250,000). Losses attributable to named windstorm (hurricane) are subject to a limit of \$125,000,000 per occurrence with a deductible of \$36,900,000. Flood losses are subject to a limit of \$25,000,000 per occurrence with a minimum deductible of \$500,000. In the event a windstorm or flood is declared a disaster, BCAD would be eligible for public assistance under the FEMA disaster program.

BCAD has a separate property insurance policy, which insures the "**elevated section**" of the new runway for a limit of \$234,500,000, with a deductible of \$250,000 per occurrence. This policy excludes losses resulting from named windstorm events.

**Airport Owners and Operators General Liability Insurance** - Due to the unique nature of the exposures presented by airport operations, BCAD purchases airport owners and operators general liability insurance coverage with an aggregate limit of \$500,000,000 in excess coverage from various insurers.

**Environmental Liability Insurance** - BCAD carries an environmental liability insurance policy with coverage limits of \$10,000,000 per occurrence and \$26,000,000 in the aggregate. BCAD is responsible for the first \$100,000 of each loss under this policy.

**Cyber Liability Insurance** - BCAD carries a cyber-liability policy with limits of \$5,000,000 per occurrence and in the aggregate, with a per claim retention of \$50,000.

**Owner Controlled Insurance Program (OCIP)** – The original OCIP program is a large deductible insurance program for County construction projects. The program is winding down and has been extended solely for BCAD projects. The program provides qualified participants with general liability, limit \$25,000,000 and environmental insurance coverage \$25,000,000. The program has a \$250,000 per occurrence deductible general liability claims and a \$50,000 deductible for environmental claims.

**Fire Truck Insurance** - BCAD carries a Commercial Truck insurance policy on the Fire Trucks that service the FLL facility. The limit is \$1,250,000 per loss and the deductible is \$25,000 each occurrence.

Settled claims have not exceeded commercial coverage in the past three years.

### **County's Self-Insurance Program**

BCAD participates in the County's self-insured programs for its Workers' Compensation, Health Insurance, Auto Liability and any General Liability claims which may fall outside of the coverage provided by the airport owners and operator's general liability, environmental liability, or cyber liability insurance policies that BCAD purchases.

Workers' Compensation benefits are provided in accordance with Florida State Statutes by the County's Self-insurance fund. The County purchases excess insurance to protect the self-insurance fund from catastrophic losses. The excess insurance coverage provides full statutory benefits above the County's self-insured retention of \$1,500,000 per occurrence. There is no aggregate.

## **NOTE 9 – RISK MANAGEMENT (Continued)**

The County is self-insured for employee health insurance through a self-insurance program and has also purchased stop-loss coverage for the group medical and pharmacy plan with a specific deductible of \$400,000 per individual; which is the most the County or BCAD would be liable for.

BCAD makes payments for the County's Self-Insurance Programs to the Self-Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to fund reserves for all BCAD losses. The estimated liabilities for self-insured losses were determined by independent actuarial valuations performed as of September 30, 2018. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends (including frequency and payout amounts), and other economic and social factors. The claim liability estimates also include amounts for incremental adjustment expenses as well as estimated recoveries from salvage or subrogation. The claim liabilities for the Self-Insurance Programs are reported in the County's Self-Insurance Fund. BCAD is not liable for amounts beyond the premiums paid to the Self-Insurance Fund.

### **Other Insurance Coverage**

BCAD also participates in other insurance policies purchased by the County, including Crime, Terrorism, Fine Arts coverage, as well as purchasing or partaking in various policies which may be required by miscellaneous agreements or laws, statutes or regulations.

## **NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

### **Plan Description**

BCAD, as a department of the County, participates in the County's single-employer, defined benefit healthcare plan. The plan allows its employees and their beneficiaries to continue obtaining health, dental and other insurance benefits upon retirement. The benefits of the plan conform to Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue separate financial reports. The total retirees covered under this plan for the County is 237, whereas individual totals of retirees by department is not available. BCAD had 432 OPEB active benefit eligible employees in the plan at September 30, 2018.

### **Funding Policy**

BCAD makes no direct contribution to the plan. Retirees and their beneficiaries pay the same group rates as are charged to BCAD for active employees.

### **Actuarial Methods and Assumptions**

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the County and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities.

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

Significant methods and assumptions were as follows.

Healthcare inflation rate	2.60%
Salary Increases	3.25%
Source of Mortality Assumptions	Florida State Retirement System
Healthcare Cost Trend Rates	8.50% - Ultimate of 4.50%
Discount Rate	4.15%
Projected Cash flows	Pay as you go
Municipal Bond rate	20-Year Tax Exempt General Obligation
Bond Rate Basis	Average Rating of AA/Aa or higher
Actuarial valuation date	9/30/2018
Measurement date	9/30/2018
Actuarial cost method	Entry age Normal based on level percentage of project salary

**Changes to Total OPEB Liability and Related Ratio**

Due to the implementation of GASB Statement No. 75, BCAD's total OPEB liability as of October 1, 2017 was restated from the reported balance \$1,285,000 to \$1,636,000, an increase of \$351,000. As of September 30, 2018 the total OPEB Liability of \$1,733,000 was determined by an actuarial valuation with the measurement date of September 30, 2018.

Below are the details regarding the BCAD's total OPEB liability for the period from October 1, 2017 to September 30, 2018 (in thousands):

Total OPEB Liability recognized at 10/1/17	\$	1,636
Changes for Fiscal Year:		
Service Cost		90
Interest		68
Difference between Actual and Expected Experience		60
Assumption changes		(26)
Benefit Payments		(95)
Net Change in total OPEB		97
Total OPEB Liability at 9/30/18	\$	<u>1,733</u>
Covered Employee Payroll	\$	24,967
Total as a percentage of Covered Employee Payroll		6.94%

Covered employee payroll based on pay provided for the September 30, 2018 valuation.

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

**Sensitivity of the OPEB Liability to the Discount Rate Assumption**

The following presents the total BCAD OPEB liability, as well as what the total BCAD OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.5 percent) or 1 percentage point higher (4.5 percent) than the current discount rate (in thousands):

	1% Decrease	Current Discount Rate	1% Increase
Trend Rates	3.15%	4.15%	5.15%
OPEB Liability	\$ 1,975	\$ 1,733	\$ 1,525

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

The following presents the total BCAD OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates (in thousands):

	1% Decrease	Current Trend Rates	1% Increase
Trend Rates	7.50% to 3.50%	8.50% to 4.50%	9.50% to 5.50%
OPEB Liability	\$ 1,490	\$ 1,733	\$ 2,045

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

For the year ended September 30, 2018, BCAD recognized OPEB expense of \$162,000. At September 30, 2018, BCAD reported deferred outflows and deferred inflows of resources related to OPEB for the following sources (in thousands):

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 54	
Change of assumptions or other inputs		\$ (23)
Total	\$ 54	\$ (23)

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

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

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 3
2020	3
2021	3
2022	3
2023	3
Thereafter	16
	<u>\$ 31</u>

**NOTE 11 - RETIREMENT PLANS**

Eligible BCAD employees, as employees of the County, participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the Pension Plan and the Retiree Health Insurance Subsidy (HIS Plan). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan (Investment Plan) alternative to the Pension Plan, which is administered by the State Board of Administration (SBA). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments (COLA), and death benefits to plan members and beneficiaries. The Florida Legislature establishes and may amend the contribution requirements and benefit terms of all FRS plans.

The plan administrator for FRS prepares and publishes its own stand-alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of this report can be obtained from the Department of Management Services, Division of Retirement, Bureau of Research and Member Communications, P.O. Box 9000, Tallahassee, Florida 32315-9000; or at the Division's website ([www.frs.myflorida.com](http://www.frs.myflorida.com)).

**A. Pension Plan**

*Plan Description* - The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees.

The general classes of membership for BCAD are as follows:

- Regular Class - Members of the FRS who do not qualify for membership in the other classes
- Senior Management Service Class (SMSC) - Members in senior management level positions



**NOTE 11 – RETIREMENT PLANS (Continued)**

Employees enrolled in the Pension Plan prior to July 1, 2011, vest after six years of creditable service, and employees enrolled in the Pension Plan on or after July 1, 2011, vest after eight years of creditable service. Regular Class, SMSC, and EOC members initially enrolled in the Pension Plan before July 1, 2011, once vested, are eligible for normal retirement benefits at age 62 or at any age after 30 years of creditable service. Members in these classes initially enrolled in the Pension Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Special Risk members initially enrolled in the Pension Plan before July 1, 2011, once vested, are eligible for normal retirement benefits at age 55 or at any age after 25 years of creditable service. Members in this class initially enrolled in the Pension Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 60 or any age after 30 years of creditable service. Early retirement may be taken any time after vesting within 20 years of normal retirement age, however, there is a 5.0% benefit reduction for each year prior to the normal retirement age.

DROP is available under the Pension Plan when the member first reaches eligibility for normal retirement. The DROP allows a member to retire while continuing employment for up to 60 months. While in the DROP, the member's retirement benefits accumulate in the FRS Trust Fund increased by a cost-of-living adjustment each July, and earn monthly interest equivalent to an annual rate of 1.30% on the preceding month's DROP accumulation until DROP participation ends.

*Benefits Provided* - Benefits under the Pension Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement plan and/or class to which the member belonged when the service credit was earned. The following chart shows the percentage value for each year of service credit earned.

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value (Per Year of Service)</u>
<b>Regular Class Members Initially Enrolled Before July 1, 2011</b>	
Retirement up to age 62 or up to 30 years of service	1.60%
Retirement at age 63 or with 31 years of service	1.63%
Retirement at age 64 or with 32 years of service	1.65%
Retirement at age 65 or with 33 or more years of service	1.68%
<b>Regular Class Members Initially Enrolled On or After July 1, 2011</b>	
Retirement up to age 65 or up to 33 years of service	1.60%
Retirement at age 66 or with 34 years of service	1.63%
Retirement at age 67 or with 35 years of service	1.65%
Retirement at age 68 or with 36 or more years of service	1.68%
<b>Senior Management Service Class</b>	<b>2.00%</b>

#### **NOTE 11 – RETIREMENT PLANS (Continued)**

The benefits received by retirees and beneficiaries are increased by a COLA each July. If the member was initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before that time, the annual COLA is 3.0% per year. The annual COLA for retirees with an effective retirement date or DROP date beginning on or after August 1, 2011, who were initially enrolled before July 1, 2011, is a proportion of 3.0% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3.0%. Pension Plan members initially enrolled on or after July 1, 2011, will not have a COLA after retirement.

*Contributions* - Effective July 1, 2011, all enrolled members of the Pension Plan, other than DROP participants, are required to contribute 3.0% of their salary to the Pension Plan. In addition to member contributions, governmental employers are required to make contributions to the Pension Plan based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from July 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018, respectively, were as follows: Regular – 6.20% and 6.54%; Senior Management Service – 20.99% and 22.34%; Special Risk – 21.55% and 22.78%; Elected Officers' – 43.78% and 46.98%; and DROP participants - 11.60% and 12.37%. These employer contribution rates do not include the HIS Plan contribution rate and the administrative cost assessment.

For the fiscal year ended September 30, 2018, contributions, included employee contributions of \$626,000 and \$684,000 respectively, to the Pension Plan for BCAD totaled \$2,385,000 and \$2,117,000 respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* - At September 30, 2018 and 2017, BCAD reported liabilities of \$17,105,000 and \$15,974,000, respectively, for its proportionate share of the County's Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. BCAD's proportionate share of the County's net pension liability was based on its share of the County's 2017-2018 fiscal year contributions relative to the 2017-2018 fiscal year contributions of all participating members. At June 30, 2018, the BCAD's proportionate share was 0.06695%. The proportionate share for the BCAD at June 30, 2018 as compared to June 30, 2017 was an increase of 0.01297%. At June 30, 2017, BCAD's proportionate share was 0.05398%, which was a decrease of 0.00176 percentage points from its proportionate share measured at June 30, 2016.

**NOTE 11 – RETIREMENT PLANS (Continued)**

For the fiscal years ended September 30, 2018 and 2017, BCAD recognized pension expense of \$3,458,000 and \$2,359,000, respectively. In addition, BCAD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

As of September 30, 2018	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,708	\$ (62)
Change of assumptions	6,589	
Net difference between projected and actual earnings on Pension Plan investments		(1,558)
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	654	(246)
Pension Plan contributions subsequent to the measurement date	554	
Total	<u>\$ 9,505</u>	<u>\$ (1,866)</u>
As of September 30, 2017	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,572	\$ (95)
Change of assumptions	5,756	
Net difference between projected and actual earnings on Pension Plan investments		(424)
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	350	(291)
Pension Plan contributions subsequent to the measurement date	436	
Total	<u>\$ 8,114</u>	<u>\$ (810)</u>

**NOTE 11 – RETIREMENT PLANS (Continued)**

The deferred outflows of resources related to the Pension Plan, totaling \$554,000 for BCAD, resulting from contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows (in thousands):

<u>Years Ending September 30</u>	
2019	\$ 2,587
2020	1,765
2021	246
2022	1,176
2023	786
Thereafter	<u>525</u>
Total	<u>\$ 7,085</u>

*Actuarial Assumptions* - The total pension liability in the July 1, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions:

Inflation	2.60%
Salary Increases	3.25% average, including inflation
Investment Rate of Return	7.00% in 2018 and 7.10% in 2017, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013. The assumptions used in the July 1, 2018 valuation were unchanged from those used in the prior valuation as of July 1, 2017 except for the investment return assumption which was decreased from 7.10% to 7.00%.

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption.

**NOTE 11 - RETIREMENT PLANS (Continued)**

The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

As of September 30, 2018 Asset Class	Target Allocation*	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	2.9%	2.9%	1.8%
Fixed Income	18.0%	4.4%	4.3%	4.0%
Global Equity	54.0%	7.6%	6.3%	17.0%
Real Estate (Property)	11.0%	6.6%	6.0%	11.3%
Private Equity	10.0%	10.7%	7.8%	26.5%
Strategic Investments	6.0%	6.0%	5.7%	8.6%
	<u>100.0%</u>			

Assumed Inflation - Mean 2.6% 1.9%

As of September 30, 2017 Asset Class	Target Allocation*	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.8%
Fixed Income	18.0%	4.5%	4.4%	4.2%
Global Equity	53.0%	7.8%	6.6%	17.0%
Real Estate (Property)	10.0%	6.6%	5.9%	12.8%
Private Equity	6.0%	11.5%	7.8%	30.0%
Strategic Investments	12.0%	6.1%	5.6%	9.7%
	<u>100.0%</u>			

Assumed Inflation - Mean 2.6% 1.9%

\*As outlined in the Pension Plan's investment policy.

*Discount Rate* - The discount rate used to measure the total pension liability was 7.00% and 7.10% in FY2018 and FY2017, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions will be made at the statutorily required rates. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The FRS Actuarial Assumption Conference is responsible for setting the assumptions used in the valuations of the defined benefit pension plans pursuant to Section 216.136(10), Florida Statutes. The 7.00% rate of return assumption used in the June 30, 2018 calculations was determined by the Plan's consulting actuary to be reasonable and appropriate per

**NOTE 11 - RETIREMENT PLANS (Continued)**

Actuarial Standard of Practice No. 27 (ASOP 27) for accounting purposes which differs from the rate used for funding purposes which is used to establish the contribution rates for the Pension Plan.

*Sensitivity of the Proportionate Share of the Net Position Liability to Changes in the Discount Rate* - The following represents BCAD's proportionate share of the net pension liability calculated as of September 30, 2018 and 2017, using the discount rates of 7.00% and 7.10% respectively, as well as what the proportionate share of the net pension liability will be if it were calculated using the discount rate that is one percentage point lower (6.00% and 6.10% respectively) or one percentage point higher (8.00% and 8.10% respectively) than the current rate (in thousands):

As of September 30, 2018	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Proportional Share of the Net Pension Liability	\$36,802	\$17,105	\$6,347
As of September 30, 2017	1% Decrease 6.10%	Current Discount Rate 7.10%	1% Increase 8.10%
Proportional Share of the Net Pension Liability	\$24,739	\$15,968	\$4,072

*Pension Plan Fiduciary Net Position* - Detailed information regarding the Pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

*Payables to the Pension Plan* - At September 30, 2018 and 2017, BCAD reported payables in the amount of \$143,000 and \$186,000, respectively, for outstanding contributions to the Pension Plan required for the fiscal years ended September 30, 2018 and 2017.

**B. HIS Plan**

*Plan Description* - The HIS Plan is a non-qualified, cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

**NOTE 11 - RETIREMENT PLANS (Continued)**

*Benefits Provided* - For the fiscal year ended September 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

*Contributions* - The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. The employer contributions are a percentage of gross compensation for all active FRS members. The employer contribution rates for the periods from July 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018 were 1.66% respectively. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

For the fiscal years ended September 30, 2018 and 2017, contributions to the HIS Plan for BCAD totaled \$390,000 and \$379,000 respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* - At September 30, 2018 and 2017, BCAD reported liabilities of \$7,799,000 and \$7,504,000, respectively, for its proportionate share of the County's HIS Plan's net pension liability. The net pension liabilities were measured as of June 30, 2018 and June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. Liabilities originally calculated as of the actuarial valuation date have been recalculated as of June 30, 2018 using a standard roll-forward technique. BCAD's proportionate share of the County's net pension liability was based on its share of the County's 2017-2018 and 2016-2017 fiscal year contributions relative to the 2017-2016 and 2016-2017 fiscal year contributions of all participating members. At June 30, 2018, BCAD's proportionate share was 0.08922%, which was an increase of 0.01904 percentage points from its proportionate share measured at June 30, 2017. At June 30, 2017, the BCAD's proportionate share was 0.07081% which was an increase of 0.00118 percentage points from its proportionate share measured at June 30, 2016.

For the fiscal years ended September 30, 2018 and 2017, BCAD recognized pension expense of \$703,000 and \$498,000 respectively. In addition, BCAD reported deferred outflows of resources and deferred inflows of resources related to the HIS Plan from the following sources (in thousands):

As of September 30, 2018	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ (16)
Change of assumptions	\$ 1,195	(998)
Net difference between projected and actual earnings on Pension Plan investments	6	
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	533	(38)
Pension Plan contributions subsequent to the measurement date	131	
Total	<u>\$ 1,865</u>	<u>\$ (1,052)</u>

**NOTE 11 - RETIREMENT PLANS (Continued)**

As of September 30, 2017	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ (17)
Change of assumptions	\$ 1,157	(712)
Net difference between projected and actual earnings on Pension Plan investments	5	
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	232	(48)
Pension Plan contributions subsequent to the measurement date	<u>115</u>	
Total	<u>\$ 1,509</u>	<u>\$ (777)</u>

The deferred outflows of resources as of September 30, 2018 related to the HIS Plan, totaling \$131,000 for BCAD, resulting from contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

<u>Years Ending September 30</u>	
2019	\$ 130
2020	129
2021	91
2022	21
2023	(126)
Thereafter	<u>437</u>
Total	<u>\$ 682</u>

*Actuarial Assumptions* - Actuarial valuations for the HIS plan are conducted biennially. The July 1, 2017 HIS valuation is the most recent actuarial valuation and was used to develop the liabilities as of June 30, 2018 and June 30, 2017. Liabilities originally calculated as of the July 1, 2017 actuarial date were recalculated as of June 30, 2018 and June 30, 2017 using a standard actuarial roll-forward technique. The total pension liabilities as of June 30, 2018 and 2017 were determined using the following actuarial assumptions:

Inflation	2.60%
Salary Increases	3.25% average, including inflation
Investment Rate of Return	3.87% in 2018 and 3.58% in 2017, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions that determined the total pension liability as of June 30, 2018 and 2017 were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

*Discount Rate* - The discount rate used to measure the total pension liability at June 30, 2018 and 2017 was 3.87%



**NOTE 11 - RETIREMENT PLANS (Continued)**

and 3.58% respectively. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the FRS Actuarial Assumption Conference. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The change between the two measurement dates is due to the

*Sensitivity of the Proportionate Share of the Net Position Liability to Changes in the Discount Rate* - The following represents BCAD's proportionate share of the net pension liability calculated as of September 30, 2018 and 2017 using the discount rate of 3.87% and 3.58%, respectively, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.87% and 2.58% respectively) or one percentage point higher (4.87% and 4.58% respectively) than the current rate (in thousands):

As of September 30, 2018

	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
Proportional Share of the Net Pension Liability	\$10,755	\$7,799	\$8,349

As of September 30, 2017

	1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
Proportional Share of the Net Pension Liability	\$8,559	\$7,504	\$6,625

*Pension Plan Fiduciary Net Position* - Detailed information regarding the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

*Payables to the HIS Plan* - At September 30, 2018 and 2017, BCAD reported payables in the amount of \$30,000 and \$42,000, respectively, for outstanding contributions to the HIS plan required for the fiscal years ended September 30, 2018 and 2017.

**C. Investment Plan**

The SBA administers the defined contribution plan officially titled the FRS Investment Plan. The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the defined benefit pension plan. County employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida State Legislature. The Investment Plan is funded with the same employer and

#### **NOTE 11 - RETIREMENT PLANS (Continued)**

employee contribution rates that are based on salary and membership class as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04% of payroll and by forfeited benefits of plan members. Effective July 1, 2012, allocations to the investment member's accounts, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular Class - 6.30%, Senior Management Service Class - 7.67.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2018, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the County.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lumpsum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The Investment Plan pension expense for BCAD totaled \$525,000 and \$515,000 for the fiscal years ended September 30, 2018 and 2017, respectively.

*Payables to the Investment Plan* - At September 30, 2018 and 2017, BCAD reported payables in the amount of \$42,000 and \$54,000, respectively, for outstanding contributions to the Investment Plan required for the fiscal year ended September 30, 2018 and 2017.

#### **NOTE 12 - TRANSACTIONS WITH OTHER COUNTY DEPARTMENTS**

BCAD reimburses the General Fund of the County for an allocated portion of certain support department costs, which include such services as management, administrative, fiscal, internal audit, legal, personnel, purchasing, computer services and information systems, and communication costs. Furthermore, BCAD is charged for the cost of services provided by the Risk Management, Building Code Services, Fleet Services and Print Shop Funds. The total cost for the above services was approximately \$17,206,000 and \$14,116,000 for the years ended September 30, 2018 and 2017, respectively. BCAD also pays the Water and Wastewater Fund, an enterprise fund of the County, for water. The water charges for the years ended September 30, 2018 and 2017 totaled approximately \$2,272,000 and \$2,653,000, respectively.

#### **NOTE 12 - TRANSACTIONS WITH OTHER COUNTY DEPARTMENTS (Continued)**

BCAD contracts directly with the Broward County Sheriff's Office for security services at FLL. The cost of these services was approximately \$19,725,000 and \$18,930,000 for the years ended September 30, 2018 and 2017, respectively.

BCAD also contracts with Broward Sheriff's Office Department of Fire Rescue for fire-rescue services at FLL. The cost of these services was approximately \$11,234,000 and \$10,859,000 for the years ended September 30, 2018 and 2017, respectively.

The Port Everglades Fund, an enterprise fund of the County, reimburses BCAD for their allocation of maintenance costs for the landscaping on U.S. 1 at FLL. The amount invoiced for the years ended September 30, 2018 and 2017, was approximately \$25,000 and \$21,000, respectively. Similarly, the Public Works Department, through the General Fund of the County, reimburses BCAD for their allocation of maintenance costs for the landscaping on U.S. 1 at FLL. The reimbursements for the years ended September 30, 2018 and 2017, were approximately \$123,000 and \$103,000, respectively.

At September 30, 2018 and 2017, there was no receivable from other County funds and departments and approximately \$5,459,000 and \$2,132,000, respectively, was payable to other County funds for security and fire-rescue services and permits.

#### **NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES**

The County from time to time is involved in disputes with construction contractors and currently is actively engaged in other lawsuits with construction contractors.

A lawsuit filed in January 2018 on behalf of a business in close proximity to the south runway, and asserts claims in state court for unconstitutional taking under the Florida Constitution, negligence, trespass, and nuisance. The case is in early stages of discovery. The alleged damages have not been quantified.

A lawsuit was filed in March 2018 by an individual seeking to participate in the noise mitigation program approved by the Federal Aviation Administration in connection with the south runway expansion. In interpreting the program, the County concluded the homeowner was not eligible to participate and if benefits were conferred by the County they would not be reimbursed by the FAA. The Court recently ruled that the homeowner was a beneficiary entitled to participate. The County plans to appeal the decision.

Lastly, a lawsuit was filed in January 2018 on behalf of a business in close proximity to the south runway, and asserts claims in state court for inverse condemnation under the Florida Constitution. This is also in early stages of discovery. The alleged damages have not be quantified.

The County will continue to vigorously defend all claims. The Office of the County Attorney is of the opinion that the possible exposure resulting from the outcome of above litigation would not have a material adverse economic effect on BCAD or the County.

Federal and State of Florida grants are subject to audit by the granting agencies to determine if activities comply with conditions of the grants. Management believes that no material liability will arise from any grant audits.

At September 30, 2018, BCAD had in process various uncompleted construction projects with commitments totaling \$420,474,000. The retainage payable on these contracts totaled \$31,819,000. Funding of these projects is made primarily through the proceeds of the related bond issues.

**NOTE 14 – MAJOR CUSTOMERS**

A significant portion of the BCAD’s earnings and revenues are directly or indirectly attributed to the activity of a number of major airlines operating out of FLL.

BCAD’s earnings and revenues could be materially and adversely affected should any of these major airlines discontinue operations at FLL and should BCAD be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of the enplaned passengers.

Major customers, based on number enplaned passengers, are as follows:

Passenger Enplanements	2018		2017	
JetBlue Airways	4,284,617	24.3%	3,976,918	25.2%
Spirit Airlines	3,545,132	20.1%	3,092,263	19.6%
Southwest Airlines	3,735,073	21.2%	2,992,568	18.9%
Delta Air Lines	1,728,709	9.8%	1,644,120	10.4%
United Airlines	1,079,231	6.1%	918,205	5.8%
American Airlines	1,059,204	6.0%	1,133,179	7.2%
Air Canada	411,458	2.3%	404,578	2.6%
Allegiant Air	424,439	2.4%	334,586	2.1%
Silver Airways	199,432	1.1%	163,663	1.0%
Others	1,189,029	6.7%	1,145,137	7.2%
Total Enplanements	17,656,324	100.0%	15,805,217	100.0%

**NOTE 15 - SUBSEQUENT EVENTS**

On October 11, 2018 Broward County purchased the Shaw property from Shaw Farms & Land Company of Florida, LLC. BCAD reimbursed the County \$7.0 million for the portion of the land that will be used by the airport.

On November 16, 2018 BCAD received a payment of \$899,000 from Triple R Paving Inc. as a settlement payment from Triple R Paving Inc. for the failed construction of Taxiway C and the South Apron at FLL by Triple R Paving Inc.

**Schedule of Change in BCAD's Other Post Employment Benefits Liability and Related Ratios (1)**  
(in Thousands)

	<u>2018</u>
Service Cost	\$ 90
Interest	68
Difference between Actual and Expected Experience	60
Assumptions Changes	(26)
Benefits Payments.	<u>(95)</u>
Net Change in OPEB	<u>97</u>
Total OPEB Liability beginning	\$ 1,636
Total OPEB Liability ending	<u>\$ 1,733</u>
Covered Employee Payroll	\$ 24,967
Total as a percentage of Covered Employee Payroll	6.94%

Note: (1) The amounts presented for each fiscal year were determined as of September 20 (in thousands). Additional years will be displayed as they become available.

Changes in Assumption:

The discount rate was changed from 3.50 percent as of September 30, 2017 to 4.15 percent as of September 30, 2018

**Schedule of the Proportionate Share of the Net Pension Liability**  
**Florida Retirement System Pension Plan**  
**Last Ten Fiscal Years**  
( in Thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
BCAD's proportion of the net pension liability (asset)	0.06695%	0.05398%	0.05222%	0.05442%
BCAD's proportionate share of the net pension liability (asset)	\$ 17,105	\$ 15,974	\$ 13,186	\$ 7,029
BCAD's covered payroll	\$ 23,307	\$ 22,650	\$ 19,142	\$ 18,433
BCAD's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	73.39%	70.52%	68.88%	38.13%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.89%	84.88%	92.00%

The amounts presented for each fiscal year were determined as of June 30th

**Schedule of Contributions**

**Last Ten Fiscal Years**  
( in Thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,759	\$ 1,433	\$ 1,189	\$ 1,188
Contributions in relation to the contractually required contribution	\$ (1,759)	\$ (1,433)	\$ (1,189)	\$ (1,188)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
BCAD's covered payroll	\$ 23,469	\$ 22,827	\$ 20,474	\$ 18,258
Contributions as a percentage of covered payroll	7.50%	6.28%	5.81%	6.51%

The amounts presented for each fiscal year were determined as of September 30th.

GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available.

**Schedule of the Proportionate Share of the Net Pension Liability  
Florida Retirement System Health Insurance Subsidy Plan  
Last Ten Fiscal Years  
( in Thousands)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
BCAD's proportion of the net pension liability (asset)	0.08922%	0.07018%	0.06900%	0.06779%
BCAD's proportionate share of the net pension liability (asset)	\$ 7,799	\$ 7,504	\$ 8,041	\$ 6,914
BCAD's covered payroll	\$ 23,307	\$ 22,650	\$ 19,142	\$ 18,433
BCAD's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	33.46%	33.13%	42.01%	37.51%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%	0.97%	0.50%

The amounts presented for each fiscal year were determined as of June 30th

**Schedule of Contributions  
Florida Retirement System Health Insurance Subsidy Plan  
Last Ten Fiscal Years  
( in Thousands)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 390	\$ 379	\$ 340	\$ 232
Contributions in relation to the contractually required contribution	\$ (390)	\$ (379)	\$ (340)	\$ (232)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
BCAD's covered payroll	\$ 23,469	\$ 22,827	\$ 20,474	\$ 18,258
Contributions as a percentage of covered payroll	1.66%	1.66%	1.66%	1.27%

The amounts presented for each fiscal year were determined as of September 30th.

GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available.

**NOTE 1 – OTHER POSTEMPLOYMENT BENEFITS INFORMATION**

BCAD did not have plan assets accumulated in a trust. For the measurement date of September 30, 2018, the actuarial valuation used a discount rate of 3.5% as of October 1, 2017 and 4.15% as of September 30, 2018. The discount rate will be updated annually to reflect market conditions as of the measurement date.

**NOTE 2 – PENSION INFORMATION**

The discount rate used to measure the pension liability of the Pension Plan at June 30, 2018 was decreased from 7.10% to 7.00%. The FRS Actuarial Assumption Conference is responsible for setting the assumptions used in the valuations of the defined benefit pension plans pursuant to Section 216.136(10), Florida Statutes. The rate of return assumption used in the June 30, 2018 calculations was determined by the Plan's consulting actuary to be reasonable and appropriate per Actuarial Standard of Practice No. 27 (ASOP 27) for accounting purposes, which differs from the rate used for funding purposes, which is used to establish the contribution rates of the Plan.



**Schedule of Revenue Bond Debt Service Coverage**  
(in Thousands)

	2018	2017
Revenues	\$ 284,678	\$ 245,835
Interest income*	14,738	9,192
Current expenses**	(174,830)	(160,985)
Net revenues	124,586	94,042
Transfer from General Purposes Account	53,409	22,437
Net revenues and transfers available for debt service	\$ 177,995	\$ 116,479
 Debt service		
Series 2001J-2 Bonds	\$ 15,782	\$ 15,782
Series 2004L Bonds		
Series 2009O Bonds	7,328	7,326
Series 2012P-1 Bonds	14,376	14,381
Series 2012P-2 Bonds	13,191	13,186
Series 2012Q-1 Bonds	32,073	32,072
Series 2012Q-2 Bonds	6,980	6,983
Series 2013A Bonds	10,990	10,991
Series 2013B Bonds	3,637	3,636
Series 2013C Bonds	14,090	14,095
Series 2015A Bonds	28,574	2,076
Series 2015B Bonds	479	479
Series 2015C Bonds	6,249	6,250
Series 2017 Bonds	-	
Passenger facility charge and grant offset	(57,974)	(57,976)
Total debt service	\$ 95,775	\$ 69,281
 Debt service coverage		
	186%	168%
 Required debt service coverage per bond resolution		
	125%	125%

\*Interest income excludes a net unrealized loss on investments of \$5,207,000 for fiscal year 2018 and a net unrealized loss on investments of \$4,984,000 for fiscal year 2016.

\*\*Current expenses exclude pension adjustments relating to GASB Statement No. 68 of \$1,011,000 and \$1,052,000 for fiscal year 2018 and fiscal year 2017, respectively.



RSM US LLP

**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards**

**Independent Auditor's Report**

To The Honorable Board of County Commissioners  
Broward County Aviation Department  
Broward County, Florida

We have audited, in accordance with the 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, the financial statements of the Broward County Aviation Department (BCAD), an enterprise fund of Broward County, Florida, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise BCAD's basic financial statements, and have issued our report thereon dated March 29, 2019. Our report includes an emphasis of matter paragraph for the adoption of Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, effective October 1, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered BCAD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BCAD's internal control. Accordingly, we do not express an opinion on the effectiveness of BCAD's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether BCAD's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Fort Lauderdale, Florida  
March 29, 2019