

**Broward County Aviation Department**

A Major Fund of Broward County, Florida

**Financial Statements**

**For the Years Ended September 30, 2017 and 2016**

BROWARD COUNTY AVIATION DEPARTMENT  
 FINANCIAL STATEMENTS  
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 FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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## Independent Auditor's Report

RSM US LLP

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, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion 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 the BCAD, as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year 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, 2017, and its changes in financial position, or where applicable, its cash flows for the year 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 2 to the financial statements, the financial statements as of and for the year ended September 30, 2016 were restated. Our opinion is not modified with respect to this matter.

#### **Other Matters**

##### *Predecessor Auditor*

The financial statements of BCAD, as of and for the year ended September 30, 2016, before being restated as discussed in Note 2 to the financial statements, were audited by other auditors whose report, dated March 22, 2017, expressed an unmodified opinion on those financial statements. As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 2 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the BCAD other than with respect to the adjustments and accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

##### *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 schedule of revenue bond debt service coverage 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 schedule of revenue bond debt service coverage 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 23, 2018 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 23, 2018

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2017 and 2016. 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 2017**

- BCAD's assets and deferred outflows of resources exceeded liabilities and deferred inflows at the close of fiscal year 2017 by \$1.5 billion.
- Total revenue bonds payable were \$1.9 billion at September 30, 2017, a decrease of \$51.0 million, or 2.7%, over fiscal year 2016.
- Operating revenues were \$245.8 million in fiscal year 2017, which represents a 5.9% increase over fiscal year 2016, primarily due to an increase in airline revenues as a result of an increase in enplanements and landed weights of 10.1% and 8.9%, 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 parking showed a moderate increase of 1.4% and rental car revenues a decrease of 2.6%, respectively, mainly due to impact of Transportation Network Companies (TNCs).
- Operating expenses were \$162.0 million in fiscal year 2017, representing a 14.2% increase over fiscal year 2016. The increase is mainly due to increases in salaries, wages and benefits, shuttle services and management services for ground transportation and parking, utilities, law enforcement and fire rescue, and maintenance.
- Capital contributions were \$43.7 million in fiscal year 2017 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 \$33.9 million, or 2.4%, over fiscal year 2016.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Activity Highlights**

Passenger enplanements at FLL increased by 10.1% during fiscal year 2017, resulting in another year of record levels of enplanements. The increase in enplanements in fiscal year 2016 over fiscal year 2015 was 8.6%. An increase in commercial aviation operations of 8.2%, a decrease in cargo operations of 13.5% and an increase in general aviation operations of 4.3% resulted in an overall increase in aircraft operations in fiscal year 2017 of 7.3% compared with fiscal year 2016. Below is a comparative table of activities by fiscal year:

Activity	Fiscal Years Ended September 30		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Enplanements	15,805,217	14,352,450	13,214,469
Landed weight (1,000 pounds)			
Passenger airlines	16,816,732	15,351,187	14,297,942
Cargo airlines	528,758	503,860	478,284
General aviation	454,634	485,391	424,794
Total landed weight	17,800,124	16,340,438	15,201,020
Aircraft operations	298,712	278,499	259,168

**Airline Market Share and Passenger Enplanements**

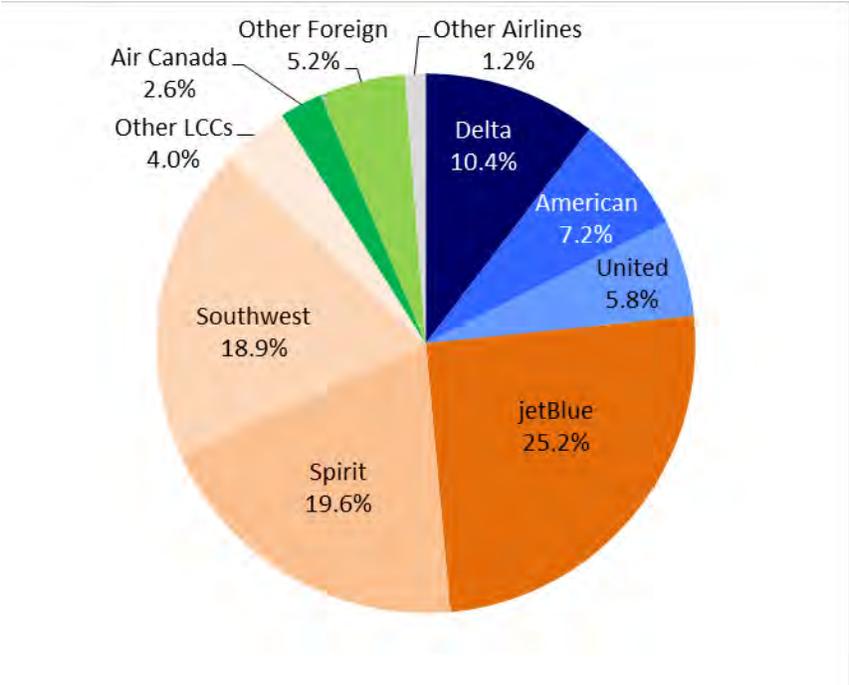
In fiscal year 2017, the ten Signatory Airlines represented 92.8% of enplanements, of which the top five airlines totaled 81.2% and with no carrier above 25.2%. This diversity reduces the reliance on the performance of one dominant airline.

Passenger Enplanements	Fiscal Years Ended September 30					
	<u>2017</u>		<u>2016</u>		<u>2015</u>	
JetBlue Airways	3,976,918	25%	3,514,272	24%	2,886,760	22%
Spirit Airlines	3,092,263	20%	2,749,666	19%	2,492,900	19%
Southwest Airlines	2,992,568	19%	2,478,315	17%	2,293,689	17%
Delta Air Lines	1,644,120	10%	1,644,358	11%	1,602,977	12%
American Airlines*	1,133,179	7%	1,267,733	9%	1,345,025	10%
United Airlines	918,205	6%	819,022	6%	770,579	6%
Air Canada	404,578	3%	373,573	3%	354,148	3%
Allegiant Air	334,586	2%	288,644	2%	168,598	1%
Silver Airways	163,663	1%	143,830	1%	160,634	1%
Others	1,145,137	7%	1,073,037	7%	1,139,159	9%
Total Enplanements	<b>15,805,217</b>	<b>100%</b>	<b>14,352,450</b>	<b>100%</b>	<b>13,214,469</b>	<b>100%</b>

\* Includes US Airways in fiscal year 2015 operated under a separate signatory agreement during that fiscal year.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Low Cost Carriers' (LCC) market share of enplanements (shaded in orange hues below) was 67.7% in fiscal year 2017, which represents an increase of 2.9 percentage points compared with fiscal year 2016 and a significant increase from the LCC's 45.8% market share ten years ago. There has also been a significant increase in international market share from 12.3% of total enplanements in fiscal year 2007 to 22.5% in fiscal year 2017.



**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.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**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 and net position for the fiscal years ended September 30, 2017, 2016, and 2015 (in thousands):

Net Position			
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Current and other assets	\$ 823,412	\$ 1,106,499	\$ 798,504
Capital assets, net	2,838,002	2,582,184	2,378,902
<b>Total assets</b>	<b>3,661,414</b>	<b>3,688,683</b>	<b>3,177,406</b>
<b>Deferred outflow of resources</b>	<b>10,818</b>	<b>8,668</b>	<b>6,278</b>
<b>Liabilities</b>			
Current liabilities	235,002	236,010	236,156
Noncurrent liabilities	1,970,412	2,029,395	1,596,538
<b>Total liabilities</b>	<b>2,205,414</b>	<b>2,265,405</b>	<b>1,832,694</b>
<b>Deferred inflow of resources</b>	<b>1,587</b>	<b>531</b>	<b>1,970</b>
Net investment in capital assets	963,651	941,370	918,654
Restricted	396,050	381,831	354,470
Unrestricted	105,530	108,214	75,896
<b>Total Net Position</b>	<b>\$ 1,465,231</b>	<b>\$ 1,431,415</b>	<b>\$ 1,349,020</b>

Total net position as of September 30, 2017, was \$1.5 billion, representing an increase of \$33.8 million, or 2.4% compared to 2016. Total net position as of September 30, 2016, was \$1.4 billion, representing an increase of \$82.4 million, or 6.1%, compared to 2015.

At September 30, 2017, 65.8% 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 (27.0% at September 30, 2017), 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 (7.2% at September 30, 2017), may be used to meet any of BCAD's ongoing obligations.

**Capital assets, net of depreciation** increased by \$255.8 million, or 9.9%, from \$2.6 billion at September 30, 2016, to \$2.8 billion at September 30, 2017 and by \$203.3 million, or 8.5%, during fiscal year 2016. 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.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Current and other assets** at September 30, 2017, totaled \$823.4 million, representing a decrease of \$283.1 million, 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.

Current and other assets at September 30, 2016, totaled \$1.106 billion, representing an increase of \$308.0 million, or 38.6 %, compared to September 30, 2015, primarily due to unspent bond proceeds and an increase in bond reserves from bonds issued in November 2015 for the Terminal Projects and other major capital projects.

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 two 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 \$2.3 million in fiscal year 2017 compared to fiscal year 2016 and deferred inflows on pensions increased by \$1.1 million during the same period.

**Current liabilities** at September 30, 2017, are \$235.0 million representing a decrease of \$1.0 million, or 0.4%, over the prior year. This is attributable to a decrease in unearned revenues and due to other County funds partially offset by an increase on revenue bonds payable. The decrease in current liabilities during fiscal year 2016 was insignificant at \$0.1 million, or 0.1%.

**Noncurrent liabilities** decreased by \$59.0 million, or 2.9%, during fiscal year 2017 mainly due to the repayment of bond principal. Noncurrent liabilities increased by \$432.9 million, or 27.1%, during fiscal year 2016 compared to fiscal year 2015 due to the issue of the Series 2015A-B Bonds in November 2015.

At September 30, 2017, there are \$140.1 million in unamortized bond premiums, net of unamortized bond discounts, primarily from the new money issues in fiscal years 2012, 2013 and 2015, and the refunding issues in fiscal years 2012 and 2015. At September 30, 2016, there were \$147.6 million in unamortized bond premiums, net of unamortized bond discounts.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**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, 2017, 2016, and 2015 (in thousands):

Summary of Revenues, Expenses and Changes in Net Position	Fiscal Years Ended September 30		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>	\$ 245,835	\$ 232,076	\$ 213,940
<b>Operating Expenses</b>	162,031	141,890	135,406
Operating income before depreciation	83,804	90,186	78,534
Depreciation	99,688	87,777	67,908
<b>Operating Income</b>	(15,884)	2,409	10,626
<b>Nonoperating Revenues (Expenses)</b>	6,001	(822)	(2,716)
<b>Capital Contributions</b>	43,699	80,808	47,843
<b>Transfer Out</b>	-	-	(5,160)
<b>Change in Net Position</b>	<b>33,816</b>	<b>82,395</b>	<b>50,593</b>
<b>Total Net Position - Beginning of Year, as Restated</b>	<b>1,431,415</b>	<b>1,349,020</b>	<b>1,298,427</b>
<b>Total Net Position - End of Year</b>	<b>\$ 1,465,231</b>	<b>\$ 1,431,415</b>	<b>\$ 1,349,020</b>

In 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 the same period last year.

During fiscal year 2016, operating revenues increased by \$18.1 million, or 8.5%, while operating expenses increased \$6.5 million, or 4.8%, compared to fiscal year 2015.

Overall, BCAD's net position increased by \$33.8 million in fiscal year 2017 compared to an increase of \$82.4 million during fiscal year 2016. Details of operating revenues and expenses and variances to prior years are provided in the following sections.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

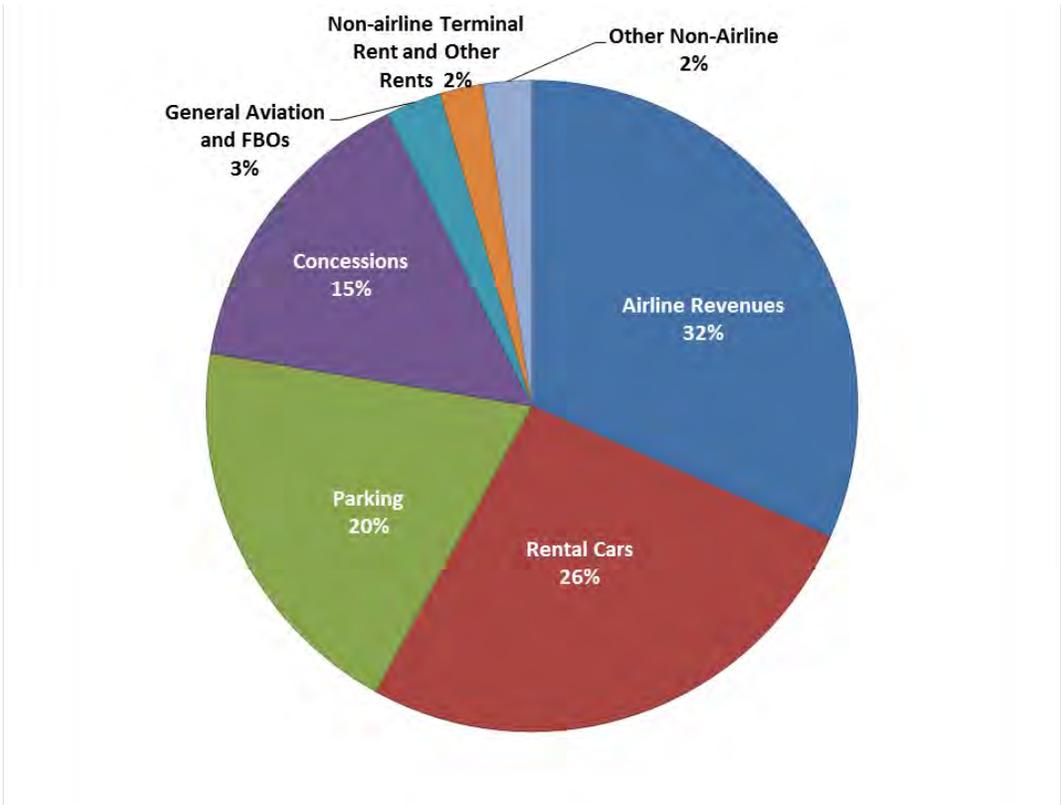
Operating Revenues

The major sources of operating revenues for the fiscal years ended September 30, 2017, 2016, and 2015 are (in thousands):

Operating Revenues	Fiscal Years Ended September 30		
	2017	2016	2015
Airline revenues	\$ 77,665	\$ 67,168	\$ 60,398
Rental cars	64,872	66,583	63,864
Parking	48,209	47,554	44,221
Concessions <sup>1</sup>	37,138	33,370	27,379
General aviation and fixed based operators	6,766	6,532	7,169
Non-airline terminal rent and other rents	5,247	4,448	4,851
North Perry Airport	1,404	1,343	1,259
Cargo	1,714	1,840	2,164
Miscellaneous operating revenues	2,820	3,238	2,635
<b>Total Operating Revenues</b>	<b>\$ 245,835</b>	<b>\$ 232,076</b>	<b>\$ 213,940</b>

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

Fiscal year 2017 operating revenues by source as a percentage of total operating revenues are:



BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**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 \$10.5 million, or 15.6%, in fiscal year 2017, 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 31.6% of overall operating revenues in fiscal year 2017, resulting in a favorable CPE of \$4.86 that is significantly below the industry average for a large hub airport.

Airline Cost per Enplanement	Fiscal Years Ended September 30		
(in thousands)	<u>2017</u>	<u>2016</u>	<u>2015</u>
Airline revenues	\$ 77,665	\$ 67,168	\$ 60,398
Take out: Airline revenue adjustment	(779)	(10,550)	16,767
Airline revenues, excluding revenue adjustment	\$ 76,886	\$ 56,618	\$ 77,165
Enplaned passengers	15,805,217	14,352,450	13,214,469
Average Cost Per Enplanement (CPE)	\$4.86	\$3.94	\$5.84

Airline revenues increased by \$6.8 million, or 11.2%, in fiscal year 2016 mainly due to excess revenues carried over from fiscal year 2015, as well as an increase in airline activity compared to the prior year. Airline revenues represented 28.9% and 28.2% of overall operating revenues in fiscal years 2016 and 2015, respectively.

**Non-airline revenues** represented 68.4% of total operating revenues in fiscal year 2017. 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 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.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Rental car revenues, including customer facility charges ("CFCs") and rental car commissions** decreased by \$1.7 million, or 2.6% in fiscal year 2017, as some passengers opted for other modes of transportation while in South Florida. In fiscal year 2016 rental car revenues increased by \$2.7 million, or 4.3%, 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 2017 at 26.4% 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 \$0.7 million, or 1.4% in fiscal year 2017, following an increase in fiscal year 2016 of \$3.3 million, or 7.5%, compared to fiscal year 2015. At 19.6% of operating revenues for fiscal year 2017, 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. With the steady increases in recent years, parking revenues in fiscal year 2017 are \$0.5 million above their previous peak of \$47.7 million in fiscal year 2008. 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 \$3.8 million, or 11.3%, in fiscal year 2017, compared to fiscal year 2016, and by \$6.0 million, or 21.9%, during fiscal year 2016, compared to the prior fiscal year. Concession revenues, which accounted for 15.1% of total operating revenues in fiscal year 2017, 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 \$17.0 million (6.9%) and \$6.9 million (2.8%) of fiscal year 2017 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.

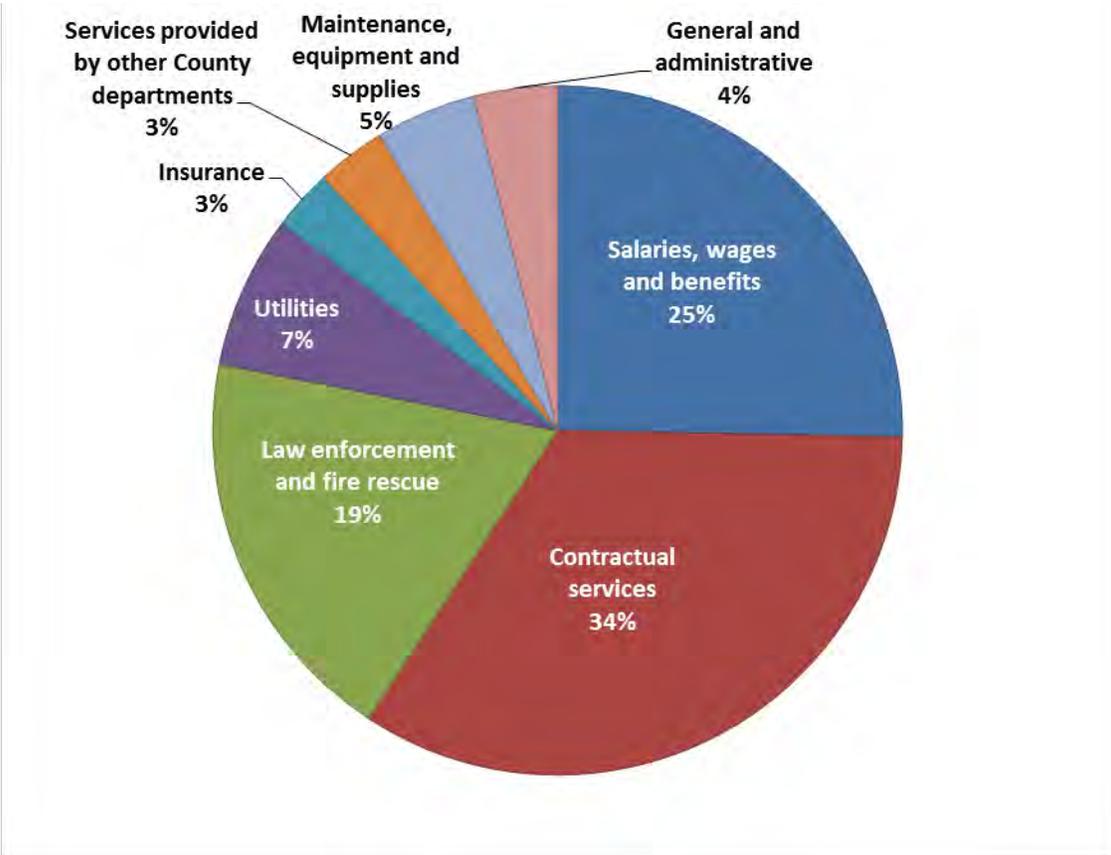
**BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Operating Expenses

The table below shows the major categories of operating expenses for the fiscal years ended September 30, 2017, 2016, and 2015 (in thousands):

Operating Expenses	Fiscal Years Ended September 30		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries, wages and benefits	\$ 41,005	\$ 36,719	\$ 32,874
Contractual services	54,984	45,232	43,110
Law enforcement and fire rescue	30,558	28,300	27,619
Utilities	11,603	9,157	9,342
Insurance	4,639	4,744	4,774
Services provided by other County departments	5,266	4,964	5,075
Maintenance, equipment and supplies	7,630	6,817	6,051
General and administrative	6,346	5,957	6,561
<b>Total Operating Expenses</b>	<b>\$ 162,031</b>	<b>\$ 141,890</b>	<b>\$ 135,406</b>

The chart below shows the distribution of operating expenses for the fiscal year 2017:



BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall operating expenses in fiscal year 2017 increased by \$20.1 million or 14.2% compared to fiscal year 2016. This increase is attributable to various factors within all the expense categories

**Salaries, wages and benefits** increased by \$4.3 million, or 11.7%, in fiscal year 2017 from fiscal year 2016 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. Furthermore, there was a \$0.8 million or 18.1% increase in healthcare costs. Salaries, wages and benefits increased by \$3.8 million, or 11.7%, in fiscal year 2016 from fiscal year 2015 due to increased headcount, salary adjustments as a result of a compensation study, increased pension expenses and increased healthcare costs. Salaries, wages and benefits accounted for 25.3% of total operating expenses before depreciation in fiscal year 2017.

**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 \$9.8 million, or 21.6%, in fiscal year 2017 from fiscal year 2016 as a result of increased shuttle service costs for off-site employee parking, janitorial costs, and security costs for curbside security and employee screening. Furthermore, there were contractual service costs relating to the active shooter incident in January 2017 of \$0.9 million. Contractual services increased by \$2.1 million, or 4.9%, in fiscal year 2017 from fiscal year 2016 as a result of increased parking management, janitorial and security costs.

**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. These expenses represented 18.9% of total operating expenses before depreciation in fiscal year 2017. Law enforcement and fire rescue expenses increased \$0.7 million, or 2.5% in fiscal year 2017 to \$28.3 million from \$27.6 million in fiscal year 2016.

**Utilities** increased by \$2.4 million, or 26.7%, in fiscal year 2017 from fiscal year 2016 due to additional terminal facilities, airfield improvements and an electricity rate increase. The decrease in utilities in fiscal year 2016 compared to the prior year was insignificant at \$0.2 million, or 2.0%,

**Services provided by other County departments** increased by \$0.3 million, or 6.1%, in fiscal year 2017 from fiscal year 2016. The increase in services provided by other County departments is mainly attributable to increased services provided by the Purchasing and County Attorney Departments as a result of FLL's increased construction activity. Services provided by other County departments decreased by \$0.1 million, or 2.2%, in fiscal year 2016, which is mainly attributable to services previously provided by other County departments now provided by BCAD.

**Maintenance, equipment and supplies** increased by \$0.8 million, or 11.9%, from fiscal year 2016 to fiscal year 2017, mainly due to additional service and supplies for new facilities. Maintenance, equipment and supplies increased by \$0.8 million, or 12.7%, from fiscal year 2016 to fiscal year 2017, mainly due to increased runway and grounds maintenance.

**General and administrative services** increased by \$0.4 million, or 6.5%, in fiscal year 2017, compared to fiscal year 2016, which, in turn, was \$0.6 million, or 9.2%, lower than fiscal year 2015. The increase in fiscal year 2017 is mainly a result of a facility condition assessment report and increased wireless communication services for additional emergency functions. The higher costs in fiscal year 2015 are primarily due to the costs associated with an airline incentive program and a new parking advertising campaign.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Depreciation

Depreciation expense increased \$19.9 million or 29.3% in fiscal year 2016 compared to prior year and an additional \$11.9 million or 13.5% in fiscal year 2017 due to assets placed in service as a result of the ongoing airport expansion and improvement program.

Non-Operating Revenues (Expenses)

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 higher in fiscal year 2017 than the prior year by \$6.8 million. This is mainly attributable to a capital asset donation of an airport surveillance radar to the Federal Aviation Administration (FAA) of \$7.2 million and bond issuance costs of \$3.0 million in fiscal year 2016 and increases in PFC collections of \$5.9 million and gains on disposal of capital asset of \$2.4 million in fiscal year 2017, offset by an increase in interest expense of \$6.6 million and a decrease in interest income of \$2.7 million.

Overall non-operating expenses, net of revenues, are lower in fiscal year 2016 than the prior year by \$1.9 million. This is attributable to an increase in PFC collections of \$4.9 million and a decrease in capital asset donations to the FAA of \$8.7 million, offset by an \$8.7 million increase in noise mitigation expenses and bond issuance costs of \$3.0 million.

PFCs increased \$5.9 million, or 9.9% in fiscal year 2017 compared to fiscal year 2016 due to increased passenger numbers, which is also the reason for the \$4.9 million or 9.0% increase in fiscal year 2016 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 an \$0.11 collection charge retained by the airlines.

Capital Contributions

Capital contributions consist mainly of grants from Federal and State governments. Capital contributions in fiscal year 2017 were \$37.1 million lower at \$43.7 million compared to \$80.8 million in fiscal year 2016, mainly due to a decrease in grants from the TSA to assist with the funding of in-line baggage handling systems in the terminals. Contributions were higher in fiscal year 2016 by \$32.9 million or 68.9% compared to the prior year mainly due to the TSA grants.

The FAA has approved through a Letter of Intent, approximately \$250 million of funding for the South Runway Expansion project and FDOT also authorized, through a multi-year agreement, approximately \$129 million of funding for the project. Both sources of funding will be available subject to annual limits through fiscal year 2022.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Capital Acquisition and Construction Activities**

During fiscal year 2017, BCAD expended \$364.9 million on capital acquisitions and projects under construction, compared to \$298.4 million during fiscal year 2016, mainly on the major terminal projects. The amounts expended (including capitalized interest) on capital acquisitions and major projects under construction during fiscal year 2017 are as follows (in thousands):

Capital Acquisitions and Projects under Construction during Fiscal Year 2017	
Noise Mitigation Avigation Easements for South Runway Expansion	\$ 10,837
Miscellaneous Capital Acquisitions <\$1 million	4,941
Projects Under Construction:	
Terminal 1 Concourse A	115,104
Terminal 4 Concourse G	88,465
Terminal Improvements	85,195
Terminal 4 Federal Inspection Facility	30,243
Terminal 4 Ramp	10,324
Terminal In-line Baggage Systems	4,316
Pedestrian Bridges	3,328
Security Facility and System Improvements	2,084
Airfield Projects	1,988
Airport Master Plan	1,455
Landscaping	1,264
Parking Facility and System Improvements	1,082
Utilities Upgrades	1,924
Ground Transportation Facility and System Improvements	1,422
Miscellaneous Projects < \$1 million	959
<b>Total</b>	<b>\$ 364,931</b>

Major projects completed and the amounts transferred to fixed assets during fiscal year 2017 are as follows (in thousands):

Capital Projects Completed during Fiscal Year 2017	
Terminal 1 Concourse A	\$ 190,853
Terminal Improvements	59,351
Utilities Upgrades	11,128
Pedestrian Bridges	6,653
Parking Facility and System Improvements	5,712
Airfield Projects	2,019
Miscellaneous Projects < \$1 million	1,665
<b>Total</b>	<b>\$ 277,381</b>

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

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Debt Administration**

As of September 30, 2017, 2016, and 2015, BCAD had \$1.9 billion, \$1.9 billion and \$1.5 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 16, 2015, BCAD issued \$426,315,000 in Airport System Revenue Bonds, Series 2015A (AMT) with interest rates ranging from 2.00% to 5.00%, \$9,575,000 in Airport System Revenue Bonds, Series 2015B (Non-AMT) with an interest rate of 5.00%, and \$46,305,000 in Airport System Revenue Refunding Bonds, Series 2015C (AMT) with interest rates ranging from 2.00% to 5.00%, with a combined premium of \$56,813,000 resulting in a combined true interest rate of 4.01%. The Series 2015A and Series 2015B 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 Series 2015C Bonds were issued to advance refund \$52,915,000 of Series 2004L Bonds, which had interest rates ranging from 4.00% to 5.00%.

The following table summarizes the outstanding bonded indebtedness as of September 30, 2017

(in thousands):

Airport System Revenue Bonds				
	<u>Outstanding Principal</u>	<u>Expected To Be Paid From</u>		<u>Final Maturity</u> *
		<u>PFCs/Grants</u>	<u>Airport Revenues</u>	
Bond Series				
2001 J-2	\$ 64,885	\$ -	\$ 64,885	2021
2009 O	84,350		84,350	2029
2012 P-1	156,975		156,975	2026
2012 P-2	80,075	33,760	46,315	2026
2012 Q-1	480,785	480,785		2042
2012 Q-2	100,365		100,365	2042
2013 A	157,510		157,510	2043
2013 B	52,665		52,665	2043
2013 C	201,080	201,080		2043
2015 A	425,880		425,880	2045
2015 B	9,575		9,575	2045
2015 C	42,505	42,505		2025
<b>Total Bond Indebtedness</b>	<b>\$ 1,856,650</b>	<b>\$ 758,130</b>	<b>\$ 1,098,520</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 2017.

**BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Airport System Revenue Bonds	1.68	1.75	1.68

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 6.1 million residents in 2016.

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 3.3% in September 2017, compared to 4.8% for the same period in September 2016 and the national rate of 4.1%. 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 2017 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 17.5% and 12.0% in fiscal year 2017 and 2016, respectively. According to FAA 2016 calendar year data, FLL was ranked 21<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 13<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 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, improvements to the ticketing lobbies, passenger security checkpoints, restrooms, passenger hold rooms, and baggage claim areas.

BROWARD COUNTY AVIATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Director of Finance, Broward County Aviation Department, 2200 S.W. 45<sup>th</sup> Street, Suite 101, Dania Beach, FL 33312.

BROWARD COUNTY AVIATION DEPARTMENT  
STATEMENTS OF NET POSITION  
SEPTEMBER 30, 2017 AND 2016  
(in thousands)

<b>ASSETS</b>	<u>2017</u>	<u>2016</u>
<b>Current Assets</b>		
Unrestricted Assets		
Cash and cash equivalents	\$ 45,624	\$ 49,527
Investments	107,989	106,343
Receivables		
Accounts receivable, net of allowance of \$415 and \$371, respectively	13,279	12,883
Interest receivable	284	233
Due from other governments	5,697	4,723
Inventories	454	405
Prepaid items	5,815	7,137
Total current unrestricted assets	<u>179,142</u>	<u>181,251</u>
Restricted Assets		
Cash and cash equivalents	178,612	183,358
Interest receivable	1,102	867
Prepaid items	1,412	-
Total current restricted assets	<u>181,126</u>	<u>184,225</u>
Total current assets	<u>360,268</u>	<u>365,476</u>
<b>Noncurrent Assets</b>		
Restricted Assets		
Cash and cash equivalents	38,505	148,713
Investments	380,597	578,304
Passenger facility charges receivable	5,009	4,918
Prepaid items	507	-
Due from other governments	38,526	9,088
Capital assets		
Non-depreciable	760,865	712,786
Depreciable, net of accumulated depreciation of \$861,913 and \$762,297, respectively	<u>2,077,137</u>	<u>1,869,398</u>
Total capital assets, net	<u>2,838,002</u>	<u>2,582,184</u>
Total noncurrent assets	<u>3,301,146</u>	<u>3,323,207</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,661,414</u>	<u>\$ 3,688,683</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding	\$ 1,195	\$ 1,301
Deferred outflows on pensions	9,623	7,367
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 10,818</u>	<u>\$ 8,668</u>

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
STATEMENTS OF NET POSITION (Continued)  
SEPTEMBER 30, 2017 AND 2016  
(in thousands)

<b>LIABILITIES</b>	<u>2017</u>	<u>2016</u>
<b>Current Liabilities</b>		
Payable from Unrestricted Assets		
Accounts payable	\$ 15,769	\$ 10,368
Accrued liabilities	4,099	3,639
Due to other County funds	2,132	4,253
Due to other governments	1,231	1,193
Deposits	5,442	5,269
Unearned revenue	23,001	25,089
Compensated absences	2,202	1,974
Total current liabilities payable from unrestricted assets	<u>53,876</u>	<u>51,785</u>
 Payable from Restricted Assets		
Accounts payable	\$ 80,431	\$ 85,482
Accrued interest payable	46,487	47,753
Revenue bonds payable	53,840	50,990
Deposits	368	-
Total current liabilities payable from restricted assets	<u>181,126</u>	<u>184,225</u>
Total current liabilities	<u>235,002</u>	<u>236,010</u>
 <b>Noncurrent Liabilities</b>		
Revenue bonds payable, net of discount and premiums	1,942,873	2,004,264
Compensated absences	2,782	2,708
Other post employment benefits	1,285	1,196
Net pension liability	23,472	21,227
Total noncurrent liabilities	<u>1,970,412</u>	<u>2,029,395</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 2,205,414</u></b>	<b><u>\$ 2,265,405</u></b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows on pensions	<u>\$ 1,587</u>	<u>\$ 531</u>
 <b>NET POSITION</b>		
Net investment in capital assets	963,651	941,370
Restricted for		
Debt service	232,603	242,039
Capital projects	163,447	139,792
Unrestricted	105,530	108,214
<b>TOTAL NET POSITION</b>	<b><u>\$ 1,465,231</u></b>	<b><u>\$ 1,431,415</u></b>

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016  
(in thousands)

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>		
Airline revenues	\$ 77,665	\$ 67,168
Rental cars	64,872	66,583
Parking	48,209	47,554
Concessions	37,138	33,370
General aviation and fixed based operators	6,766	6,532
Non-airline terminal rent and other rents	5,247	4,448
North Perry Airport	1,404	1,343
Cargo	1,714	1,840
Miscellaneous	2,820	3,238
Total operating revenues	<u>245,835</u>	<u>232,076</u>
<b>Operating Expenses</b>		
Salaries, wages and benefits	41,005	36,719
Contractual services	54,984	45,232
Law enforcement and fire rescue	30,558	28,300
Utilities	11,603	9,157
Insurance	4,639	4,744
Services provided by other County departments	5,266	4,964
Maintenance, equipment and supplies	7,630	6,817
General and administrative	6,346	5,957
Total operating expenses before depreciation	<u>162,031</u>	<u>141,890</u>
<b>Operating Income before Depreciation</b>	83,804	90,186
Depreciation	<u>99,688</u>	<u>87,777</u>
<b>Operating Income (Loss)</b>	<u>(15,884)</u>	<u>2,409</u>
<b>Nonoperating Revenues (Expenses)</b>		
Passenger facility charges	65,451	59,529
Federal grants	15,984	18,073
Interest income	4,208	6,893
Interest expense, net of capitalized interest	(61,529)	(54,926)
Bond issuance costs	-	(3,026)
Noise mitigation costs	(20,897)	(20,302)
Capital asset donation	-	(7,195)
Gain on disposal of capital assets	2,537	105
Other	247	27
Total nonoperating revenues (expenses)	<u>6,001</u>	<u>(822)</u>
<b>Profit (Loss) before Capital Contributions and Transfers</b>	<u>(9,883)</u>	<u>1,587</u>
Capital contributions	<u>43,699</u>	<u>80,808</u>
<b>Change in Net Position</b>	<u>33,816</u>	<u>82,395</u>
<b>Total Net Position - Beginning of Year, As Restated</b>	<u>1,431,415</u>	<u>1,349,020</u>
<b>Total Net Position - End of Year</b>	<u>\$ 1,465,231</u>	<u>\$ 1,431,415</u>

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016  
(in thousands)

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 243,877	\$ 219,054
Cash payments to suppliers for goods and services	(118,201)	(104,444)
Cash payments to employees for services	(39,515)	(36,214)
Other cash received	586	27
Net cash provided by operating activities	<u>86,747</u>	<u>78,423</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Payment of noise mitigation costs	(23,225)	(16,849)
Nonoperating grants received	17,322	14,115
Passenger facility charges received	3,193	4,530
Net cash used for noncapital financing activities	<u>(2,710)</u>	<u>1,796</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from issuance of bonds	-	484,033
Proceeds from bond refunding	-	52,808
Payment to refunded bond escrow agent	-	(53,241)
Payment of bond issuance costs	-	(770)
Acquisition and construction of property, plant and equipment	(343,127)	(273,413)
Proceeds from sale of capital assets	11,366	106
Debt principal payment	(50,990)	(48,015)
Interest and fiscal charges	(94,241)	(83,052)
Capital contributions	11,949	71,945
Passenger facility charges received	62,167	53,973
Net cash provided by (used for) capital and related financing activities	<u>(402,876)</u>	<u>204,374</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investment securities	(753,692)	(769,573)
Proceeds from sale and maturities of investment securities	949,753	640,507
Interest and dividends on investments	3,921	6,130
Net cash provided by (used for) investing activities	<u>199,982</u>	<u>(122,936)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(118,857)	161,657
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>381,598</u>	<u>219,941</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 262,741</u>	<u>\$ 381,598</u>
Cash and Cash Equivalents - Unrestricted Assets	\$ 45,624	\$ 49,527
Cash and Cash Equivalents - Restricted Assets	<u>217,117</u>	<u>332,071</u>
	<u>\$ 262,741</u>	<u>\$ 381,598</u>

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
STATEMENTS OF CASH FLOWS (Continued)  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016  
(in thousands)

	2017	2016
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
Operating income (loss)	\$ (15,884)	\$ 2,409
Adjustments to reconcile operating income (loss) to cash flows from operating activities		
Depreciation expense	99,688	87,777
Other nonoperating revenues	586	27
(Increase) Decrease in assets and deferred outflows of resources		
Accounts receivable	(396)	(2,525)
Inventories	(49)	(25)
Prepaid items	(101)	(112)
Deferred outflows on pensions	(2,256)	(4,895)
Increase (Decrease) in liabilities and deferred inflows of resources		
Accounts payable	5,005	535
Accrued liabilities	460	(247)
Due to other County funds	(2,121)	(144)
Due to other governments	38	(108)
Deposits	173	(148)
Unearned revenues	(2,088)	(10,282)
Compensated absences	302	230
Other post employment benefits liability	89	86
Net pension liability	2,245	7,284
Deferred inflows on pensions	1,056	(1,439)
Net adjustments	102,631	76,014
Net cash provided by operating activities	\$ 86,747	\$ 78,423
 <b>Noncash Investing, Capital and Financing Activities</b>		
Amortization of bond discount and premiums	\$ (7,551)	\$ (7,371)
Amortization of deferred charge on refunding	106	126
Bond issuance costs deducted from bond proceeds	-	(2,167)
Capital contributions from grants	44,223	13,811
Capital assets acquired through current accounts payable	80,197	82,524
Capital asset donation	-	(7,195)
Change in fair value of investments	(4,984)	423

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

**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, 2017:

**1. *GASB Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"***

Statement No. 74 establishes financial reporting standards for state and local governmental other postemployment benefit (OPEB) plans other than pensions plans that are administered through trusts or equivalent arrangements. The adoption of this Statement had no impact on the BCAD's financial statements.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. GASB Statement No.77 "Tax Abatement Disclosures"**

Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. This Statement requires disclosure of tax abatement information about the reporting government's own tax abatement agreements and those that are entered into by other governments that reduce the reporting government's tax revenues. The adoption of this Statement had no impact on the BCAD's financial statements.

**3. GASB Statement No. 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"**

Statement No. 78 amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*, to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, liabilities, note disclosures, and required supplementary information for pensions that have the characteristics described above. The adoption of this Statement had no impact on BCAD's financial statements.

**4. GASB Statement No. 80 "Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14"**

Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*. The adoption of this Statement had no impact on BCAD's financial statements.

**5. GASB Statement No. 82 "Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73"**

Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this Statement was insignificant and did not impact the payroll-related measures reflected in BCAD's required supplementary information for the Pension Plans.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. 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.

**E. 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.

**F. 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.

**G. 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.

**H. 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

**I. 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, 2017, was \$85,531,000 and, of this, \$24,002,000 was included as part of the cost of construction-in-progress (CIP). During the fiscal year ended September 30, 2016, total interest expense was \$85,611,000 and \$30,685,000 was included as part of the cost of CIP.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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

**J. 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 and pensions. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. Deferred outflows on pension activities are more fully disclosed in Note 1, Section O 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 relate to pension activities and are more fully disclosed in Note 1, Section O and Note 11.

**K. 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.

**L. 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.

**M. 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 deferred and 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.

**N. 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.

**O. Retirement Plans**

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.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

**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.

**P. 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 for general use 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.

**Q. 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.

**R. 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.

**S. 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 enhanced competition between or among carriers.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

**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 \$1,842,791,000, of which \$860,039,000 has been collected as of September 30, 2017. 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, 2017, \$713,289,000 of the collected PFCs had been spent on approved projects or debt service, and the remaining \$146,750,000, along with a PFC receivable of \$5,009,000 and interest receivable of \$283,000, is reflected in the net position restricted for capital projects.

**T. Reclassifications**

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

**U. 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 – PRIOR PERIOD ADJUSTMENTS**

The October 1, 2016 and 2015, beginning net position was restated as it was determined that noise mitigation costs that were previously capitalized as construction in progress should be expensed as incurred. The restatement to net position is as follows (in thousands):

	October 1,	
	2016	2015
Net position as previously stated	\$ 1,483,352	\$ 1,380,655
Restatement due to the write off of noise mitigation costs	(51,937)	(31,635)
Net position as restated	\$ 1,431,415	\$ 1,349,020

The effect of the above restatement on the change in net position for the fiscal years ended September 30, 2016 and 2015 was a decrease of \$20,302,000 and \$11,587,000, respectively.

A prior period adjustment of \$9,779,000 was also made to increase accrued interest payable and construction in progress at September 30, 2016 relating to interest incurred on the Series 2015A bonds during the period from April 1, 2016 through September 30, 2016. The adjustment had no effect on the total net position as of September 30, 2016.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - DEPOSITS AND INVESTMENTS**

At September 30, 2017 and 2016, BCAD's deposits and investments consisted of the following (in thousands):

	September 30,	
	2017	2016
Cash Deposits	\$ 102,432	\$ 80,453
Investments:		
U.S. Treasuries	113,578	94,558
U.S. Agencies	329,005	551,758
Commercial Paper	16,877	23,334
World Bank	29,126	14,997
Money Market Mutual Funds	160,309	301,145
Total Investments	<u>648,895</u>	<u>985,792</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 751,327</u>	<u>\$ 1,066,245</u>

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

	September 30,	
	2017	2016
Current Assets		
Cash and cash equivalents, unrestricted	\$ 45,624	\$ 49,527
Cash and cash equivalents, restricted	178,612	183,358
Investments, unrestricted	107,989	106,343
Noncurrent Assets		
Cash and cash equivalents, restricted	38,505	148,713
Investments, restricted	380,597	578,304
Total Cash, Cash Equivalents and Investments	<u>\$ 751,327</u>	<u>\$ 1,066,245</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 an approved financial institution.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

**NOTE 3 - 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, 2017 and 2016, the portfolio weighted average maturity was 600 days and 576 days, respectively, 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.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

As of September 30, 2017 and 2016, the County's investments in U.S. Treasuries and U.S. Agencies, except for investments of \$13,028,000 and \$129,781,800, respectively, 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.

*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. As of September 30, 2017 the investment in the Federal Home Loan Bank is 16.12%, the Federal Home Loan Mortgage Corporation is 10.02%, the Federal National Mortgage Association is 26.02%, the Federal Farm Credit Bank is 7.86% and the Federal Agricultural Mortgage Corporation is 5.24%. As of September 30, 2016 the investment in the Federal Home Loan Bank is 17.52%, the Federal Home Loan Mortgage Corporation is 12.35%, the Federal National Mortgage Association is 22.46%, the Federal Farm Credit Bank is 9.73% and the Federal Agricultural Mortgage Corporation is 7.35%.

*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.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

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

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>

As of September 2016	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	\$ 94,558	\$ -	\$ 94,558
U.S. Agencies	551,758		551,758
Commercial Paper	23,334		23,334
World Bank	14,997		14,997
<b>Total Debt Securities</b>	<b>\$ 684,647</b>	<b>\$ -</b>	<b>\$ 684,647</b>
Money Market Mutual Funds	\$ 301,145	\$ 301,145	\$ -
<b>Total Investments at Fair Value</b>	<b>\$ 985,792</b>	<b>\$ 301,145</b>	<b>\$ 684,647</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.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 4 - RESTRICTED ASSETS**

Restricted assets of BCAD at September 30, 2017 and 2016, 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 and regulatory requirements. 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,	
	2017	2016
Bond reserve accounts	\$ 134,035	\$ 126,322
Debt service accounts	279,091	289,792
Passenger facility charges account	152,042	139,738
Bond construction accounts	67,330	369,342
Grant proceeds	11,772	54
	<u>\$ 644,270</u>	<u>\$ 925,248</u>

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

	September 30,	
	2017	2016
Current Restricted Assets		
Cash and cash equivalents	\$ 178,612	\$ 183,358
Other accounts receivable	1,102	867
Prepaid items	1,412	-
Noncurrent Restricted Assets		
Cash and cash equivalents	38,505	148,713
Investments	380,597	578,304
Passenger facility charges receivable	5,009	4,918
Prepaid items	507	-
Due from other governments	38,526	9,088
	<u>\$ 644,270</u>	<u>\$ 925,248</u>

See accompanying notes to financial statements

**BROWARD COUNTY AVIATION DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 5 - CAPITAL ASSETS**

Changes in capital assets for the years ended September 30, 2017 and 2016, are as follows (in thousands):

	Balance October 1, 2016*	Increases	Decreases	Balance September 30, 2017
<b>Capital assets not being depreciated:</b>				
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>
<b>Capital assets being depreciated:</b>				
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>
<b>Less accumulated depreciation:</b>				
Buildings and facilities	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>
<b>Total capital assets, net</b>	<u>\$ 2,582,184</u>	<u>\$ 542,624</u>	<u>\$ 286,806</u>	<u>\$ 2,838,002</u>
	Balance October 1, 2015*	Increases	Decreases	Balance September 30, 2016
<b>Capital assets not being depreciated:</b>				
Construction in progress	\$ 402,524	\$ 241,880	\$ 296,903	\$ 347,501
Land and land improvements	362,667	1,920		364,587
Property held for leasing - land and land improvements	698			698
Total capital assets not being depreciated	<u>765,889</u>	<u>243,800</u>	<u>296,903</u>	<u>712,786</u>
<b>Capital assets being depreciated:</b>				
Buildings and facilities	1,806,112	283,831		2,089,943
Property held for leasing - buildings and facilities	441,878	57,144		499,022
Equipment	40,638	3,188	1,096	42,730
Total capital assets being depreciated	<u>2,288,628</u>	<u>344,163</u>	<u>1,096</u>	<u>2,631,695</u>
<b>Less accumulated depreciation:</b>				
Buildings and facilities	483,811	69,466		553,277
Property held for leasing - buildings and facilities	161,763	15,027		176,790
Equipment	30,041	3,284	1,095	32,230
Total accumulated depreciation	<u>675,615</u>	<u>87,777</u>	<u>1,095</u>	<u>762,297</u>
Total capital assets being depreciated, net	<u>1,613,013</u>	<u>256,386</u>	<u>1</u>	<u>1,869,398</u>
<b>Total capital assets, net</b>	<u>\$ 2,378,902</u>	<u>\$ 500,186</u>	<u>\$ 296,904</u>	<u>\$ 2,582,184</u>

\*The October 1, 2015 and 2016 beginning balance for construction in progress was restated as a result of prior period adjustments. See Note 2 for additional information on these prior period adjustments. Certain reclassifications were also made in the opening balances between land and land improvements, property held for leasing – land and land improvements and construction in progress.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 5 - CAPITAL ASSETS (Continued)**

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.

As of September 30, 2016, 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 \$499,022,000, totaling \$499,720,000, less accumulated depreciation of \$176,790,000 for a net book value of \$322,930,000.

**NOTE 6 - LEASE AND CONCESSION AGREEMENTS**

Property held for leasing consists of property leased under operating leases to commercial enterprises. 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, 2017 (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 104,815
2019	86,623
2020	80,140
2021	78,811
2022	77,863
2023-2027	327,361
2028-2032	87,309
2033-2037	21,843
2038-2042	4,468
2043-2047	1,353
Total minimum future revenues	<u>\$ 870,586</u>

Minimum future revenues for fiscal years 2018 onwards are based on fiscal year 2018 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 \$43,119,000 and \$43,406,000 for the years ended September 30, 2017 and 2016, respectively.

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 7 - 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, 2017 and 2016, these funds amounted to \$22,437,000 and \$23,216,000, respectively.

**NOTE 8 - LONG-TERM OBLIGATIONS**

Changes in long-term obligations for the years ended September 30, 2017 and 2016, are as follows (in thousands):

	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	187	98	1,285	-	1,285
Net pension liability	21,227	2,245	-	23,472	-	23,472
<b>Total</b>	<b>\$ 2,082,359</b>	<b>\$ 5,370</b>	<b>\$ 61,275</b>	<b>\$ 2,026,454</b>	<b>\$ 56,042</b>	<b>\$ 1,970,412</b>

	Balance October 1, 2015	Additions	Deductions	Balance September 30, 2016	Amount Due Within One Year	Amount Due After One Year
Revenue Bonds payable	\$ 1,526,375	\$ 482,195	\$ 100,930	\$ 1,907,640	\$ 50,990	\$ 1,856,650
Unamortized bond premiums and discount	100,552	56,813	9,751	147,614	-	147,614
Compensated absences	4,452	2,056	1,826	4,682	1,974	2,708
Other post employment benefits	1,110	171	85	1,196	-	1,196
Net pension liability	13,943	7,284	-	21,227	-	21,227
<b>Total</b>	<b>\$ 1,646,432</b>	<b>\$ 548,519</b>	<b>\$ 112,592</b>	<b>\$ 2,082,359</b>	<b>\$ 52,964</b>	<b>\$ 2,029,395</b>

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 8 - 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, 2017 (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	Year					
2001 J-2	Improvements	Term	6.9	4/1 & 10/1	M	2016	10/1/2021	\$ 75,460	\$ (10,575)	\$ 64,885
2009 O	Refunding	Serial	2.0-5.0	4/1 & 10/1	O	2019	10/1/2020	29,395	(16,790)	12,605
2009 O	Refunding	Term	5.0-5.375	4/1 & 10/1	M	2021	10/1/2029	71,745		71,745
2012 P-1	Refunding	Serial	3.0-5.0	4/1 & 10/1	O	2022	10/1/2026	217,080	(60,105)	156,975
2012 P-2	Refunding	Serial	3.25-5.0	4/1 & 10/1	O	2022	10/1/2026	92,775	(12,700)	80,075
2012 Q-1	Improvements	Serial	3.0-5.0	4/1 & 10/1	O	2022	10/1/2033	283,600	(34,835)	248,765
2012 Q-1	Improvements	Term	4.0-5.0	4/1 & 10/1	M	2034	10/1/2042	232,020		232,020
2012 Q-2	Improvements	Serial	5.0	4/1 & 10/1	O	2022	10/1/2032	51,800	(5,345)	46,455
2012 Q-2	Improvements	Term	5.0	4/1 & 10/1	M	2033	10/1/2042	53,910		53,910
2013 A	Improvements	Serial	1.25-5.25	4/1 & 10/1	O	2023	10/1/2033	81,345	(7,795)	73,550
2013 A	Improvements	Term	5.125-5.25	4/1 & 10/1	M	2034	10/1/2043	83,960		83,960
2013 B	Improvements	Serial	2.00-5.50	4/1 & 10/1	O	2023	10/1/2033	27,395	(2,735)	24,660
2013 B	Improvements	Term	5.00-5.25	4/1 & 10/1	M	2034	10/1/2043	28,005		28,005
2013 C	Improvements	Serial	1.25-5.50	4/1 & 10/1	O	2023	10/1/2033	103,265	(9,895)	93,370
2013 C	Improvements	Term	5.125-5.25	4/1 & 10/1	M	2034	10/1/2043	107,710		107,710
2015 A	Improvements	Serial	2.0-5.0	4/1 & 10/1	O	2025	10/1/2037	248,120	(435)	247,685
2015 A	Improvements	Term	5.0	4/1 & 10/1	M	2040	10/1/2040	61,990		61,990
2015 A	Improvements	Term	5.0	4/1 & 10/1	M	2045	10/1/2045	116,205		116,205
2015 B	Improvements	Term	5.0	4/1 & 10/1	O	2025	10/1/2045	9,575		9,575
2015 C	Refunding	Serial	2.0-5.0	4/1 & 10/1	M	2025	10/1/2025	46,305	(3,800)	42,505
<u>\$ 1,856,650</u>										

\* The optional and mandatory redemptions are at par

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

Fiscal Year	Principal	Interest	Total
2018	\$ 53,840	\$ 91,551	\$ 145,391
2019	63,620	88,437	152,057
2020	67,010	85,008	152,018
2021	70,485	81,391	151,876
2022	72,860	77,561	150,421
2023-2027	375,765	331,170	706,935
2028-2032	283,030	247,166	530,196
2033-2037	297,640	179,110	476,750
2038-2042	378,785	96,108	474,893
2043-2046	193,615	14,274	207,889
	<u>\$ 1,856,650</u>	<u>\$ 1,291,776</u>	<u>\$ 3,148,426</u>

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 8 - 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. Pledged revenues for the fiscal years ended September 30, 2017 and 2016, are as follows (in thousands):

	2017	2016
Revenues pledged	\$ 116,479	\$ 120,823
Debt Service*	127,257	127,037
Passenger facility charge and grant offset	(57,976)	(58,082)
Total debt service	\$ 69,281	\$ 68,955
Percentage of debt service to pledged revenues	59%	57%
Total future revenues pledged**	\$ 3,148,426	\$ 3,293,657
Passenger facility charge, grant and bond proceeds offset	(1,290,936)	(1,348,241)
Net future revenues pledged	\$ 1,857,490	\$ 1,945,416

\* Fiscal year 2017 revenues are pledged for 4/1/2017 and 10/1/2017 debt service payments and fiscal year 2016 revenues are pledged for 4/1/2016 and 10/1/2016 debt service payments.

\*\* Total future pledged revenues are to repay principal and interest on a cash basis through fiscal year 2046.

**NOTE 9 - 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):

	2017	2016
Federal Grants	\$ 31,269	\$ 72,866
State of Florida Grants	12,430	7,942
	\$ 43,699	\$ 80,808

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 10 - RISK MANAGEMENT**

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.

**Self-Insurance Program**

BCAD participates in the County's self-insured program, for its Workers' Compensation, Health Insurance, Auto Liability and General Liability claims which are not covered under the airport owners and operators 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 up to a maximum of \$1,500,000 (Self-Insured Retention Limit) for each occurrence. BCAD is insured for losses above the self-insured retention limit by the County's purchased excess workers' compensation policy.

*The Owner Controlled Insurance Program (OCIP)* is a large deductible insurance program for County construction projects providing qualified participants with workers' compensation, general liability, and environmental insurance coverage. The program has a \$250,000 per occurrence deductible for workers' compensation and general liability claims and a \$25,000 deductible for environmental claims. BCAD participates in the OCIP program.

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.

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, 2017. 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 amount of payouts), 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 Government Crime, Pollution Liability, Terrorism, Fine Arts coverage, and numerous smaller policies that are required by lease agreements, union contracts, State Statutes, etc. In addition, BCAD carries separate policies for airport owners and operators general liability insurance, property insurance, environmental liability insurance, and cyber liability insurance.

*Property Insurance* - BCAD has a property portfolio consisting of 40 individual structures comprising over \$1.2 billion in insurable values. The property insurance in place 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. Losses attributable to named windstorm are subject to a limit of \$125,000,000 per occurrence with a deductible of \$25,000,000. Flood losses are subject to a limit of \$25,000,000 per occurrence with a minimum deductible of \$500,000. BCAD's facilities are also covered under the Boiler and Machinery policy purchased for the County. This program provides \$200,000,000 of coverage with a \$250,000 deductible.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 10 - RISK MANAGEMENT (Continued)**

BCAD also insures the elevated section of the new runway for a limit of \$220,000,000, 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 limits of \$100,000,000 per occurrence with no deductible from its primary insurer and \$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. BCAD is responsible for the first \$50,000 of each loss under this policy and extends coverage for information security and privacy breach response.

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

**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.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 11 - RETIREMENT PLANS (Continued)**

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

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 and SMSC 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. 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 COLA each July, and earn monthly interest equivalent to an annual rate of 1.30%. DROP participants with an effective DROP commencement date before July 1, 2011, earn monthly interest equivalent to an annual rate of 6.50%.

*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>

See accompanying notes to financial statements

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**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, 2016 through June 30, 2017 and from July 1, 2017 through September 30, 2017, respectively, were as follows: Regular - 5.80% and 6.20%, Senior Management Service – 20.05% and 20.99% and DROP participants 11.33% and 11.60%. The employer contribution rates by job class for the period from July 1, 2015 through June 30, 2016 were as follows: Regular - 5.56%, Senior Management Service – 19.73% and DROP participants 11.22%. These employer contribution rates do not include the HIS Plan contribution rate and the administrative cost assessment.

For the fiscal years ended September 30, 2017 and 2016, contributions, including employee contributions of \$684,000 and \$614,000 respectively, to the Pension Plan for BCAD totaled \$2,117,000 and \$1,803,000 respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* - At September 30, 2017 and 2016, BCAD reported liabilities of \$15,968,000 and \$13,186,000, respectively, for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2017 and June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2017 and July 1, 2016. BCAD's proportionate share of the net pension liability was based on its share of the County's 2016-2017 and 2015-2016 fiscal year contributions relative to the 2016-2017 and 2015-2016 fiscal year contributions of all participating members. At June 30, 2017, the BCAD's proportionate share was 0.05398%, which was an increase of 0.00176 percentage points from its proportionate share measured at June 30, 2016. At June 30, 2016, BCAD's proportionate share was 0.05222%, which was a decrease of 0.00220 percentage points from its proportionate share measured at June 30, 2015.

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

For the fiscal years ended September 30, 2017 and 2016, BCAD recognized pension expense of \$2,359,000 and \$1,842,000, respectively. In addition, BCAD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
As of September 30, 2017		
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	\$ 8,114	\$ (810)
As of September 30, 2016		
Differences between expected and actual experience	\$ 1,014	\$ (123)
Change of assumptions	801	
Net difference between projected and actual earnings on Pension Plan investments	3,423	
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	275	(332)
Pension Plan contributions subsequent to the measurement date	391	
Total	\$ 5,904	\$ (455)

The deferred outflows of resources related to the Pension Plan, totaling \$436,000 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, 2018. 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>	
2018	\$ 937
2019	2,410
2020	1,637
2021	303
2022	1,145
Thereafter	436
Total	\$ 6,868

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BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 11 - RETIREMENT PLANS (Continued)**

*Actuarial Assumptions* - The total pension liability in the July 1, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions:

Inflation	2.60%
Salary Increases	3.25% average, including inflation
Investment Rate of Return	7.10% in 2017 and 7.60% in 2016, 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, 2017 and 2016 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, 2017 valuation were unchanged from those used in the prior valuation as of July 1, 2016 except for the investment return assumption which was decreased from 7.60% to 7.10%.

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.

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, 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%

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BROWARD COUNTY AVIATION DEPARTMENT  
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**NOTE 11 - RETIREMENT PLANS (Continued)**

As of September 30, 2016 Asset Class	Target Allocation*	Annual Arithmetic Return	Compound Annual	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.7%
Fixed Income	18.0%	4.7%	4.6%	4.6%
Global Equity	53.0%	8.1%	6.8%	17.2%
Real Estate (Property)	10.0%	6.4%	5.8%	12.0%
Private Equity	6.0%	11.5%	7.8%	30.0%
Strategic Investments	12.0%	6.1%	5.6%	11.1%
	<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 at June 30, 2017 and 2016 was 7.10% and 7.60% 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 7.10% rate of return assumption used in the June 30, 2017 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.

*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, 2017 and 2016, using the discount rates of 7.10% and 7.60% 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 (6.10% and 6.60% respectively) or one percentage point higher (8.10% and 8.60% respectively) than the current rate (in thousands):

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
As of September 30, 2016	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Proportional Share of the Net Pension Liability	\$24,234	\$13,186	\$3,989

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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

*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, 2017 and 2016, BCAD reported payables in the amount of \$186,000 and \$142,000, respectively, for outstanding contributions to the Pension Plan required for the fiscal years ended September 30, 2017 and 2016.

**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.

*Benefits Provided* - For the fiscal year ended September 30, 2017, 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, 2015 through June 30, 2017 and from July 1, 2017 through September 30, 2017 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, 2017 and 2016, contributions to the HIS Plan for BCAD totaled \$379,000 and \$340,000 respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* - At September 30, 2017 and 2016, BCAD reported liabilities of \$7,504,000 and \$8,041,000, respectively, for its proportionate share of the HIS Plan's net pension liability. The net pension liabilities were measured as of June 30, 2017 and June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. Liabilities originally calculated as of the actuarial valuation date have been recalculated as of June 30, 2017 using a standard roll-forward technique. BCAD's proportionate share of the net pension liability was based on its share of the County's 2016-2017 and 2015-2016 fiscal year contributions relative to the 2016-2017 and 2015-2016 fiscal year contributions of all participating members.

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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

At June 30, 2017, BCAD's proportionate share was 0.07018%, which was an increase of 0.00118 percentage points from its proportionate share measured at June 30, 2016. At June 30, 2016, the BCAD's proportionate share was 0.06900% which was an increase of 0.00121 percentage points from its proportionate share measured at June 30, 2015.

For the fiscal years ended September 30, 2017 and 2016, BCAD recognized pension expense of \$498,000 and \$637,000 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):

	Deferred Outflows of Resources	Deferred Inflows of Resources
As of September 30, 2017		
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	115	
Total	\$ 1,509	\$ (777)
As of September 30, 2016		
Differences between expected and actual experience	\$	\$ (19)
Change of assumptions	1,271	
Net difference between projected and actual earnings on Pension Plan investments	4	
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	92	(57)
Pension Plan contributions subsequent to the measurement date	96	
Total	\$ 1,463	\$ (76)

The deferred outflows of resources as of September 30, 2017 related to the HIS Plan, totaling \$115,000 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, 2018.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2017 AND 2016

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

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>	
2018	\$ 161
2019	160
2020	160
2021	135
2022	79
Thereafter	<u>(78)</u>
Total	<u>\$ 617</u>

*Actuarial Assumptions* - Actuarial valuations for the HIS plan are conducted biennially. The July 1, 2016 HIS valuation is the most recent actuarial valuation and was used to develop the liabilities as of June 30, 2017 and June 30, 2016. Liabilities originally calculated as of the July 1, 2016 actuarial date were recalculated as of June 30, 2017 and June 30, 2016 using a standard actuarial roll-forward technique. The total pension liabilities as of June 30, 2017 and 2016 were determined using the following actuarial assumptions:

Inflation	2.60%
Salary Increases	3.25% average, including inflation
Investment Rate of Return	3.58% in 2017 and 2.85% in 2016, 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, 2017 and 2016 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, 2017 and 2016 was 3.58% and 2.85% 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 changes in the applicable municipal bond index between the dates.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2017 AND 2016

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

*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, 2017 and 2016 using the discount rate of 3.58% and 2.85%, 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 (2.58% and 1.85% respectively) or one percentage point higher (4.58% and 3.85% respectively) than the current rate (in thousands):

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

As of September 30, 2016

	1% Decrease 1.85%	Current Discount Rate 2.85%	1% Increase 3.85%
Proportional Share of the Net Pension Liability	\$9,226	\$8,041	\$7,059

*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, 2017 and 2016, BCAD reported payables in the amount of \$42,000 and \$34,000, respectively, for outstanding contributions to the HIS plan required for the fiscal years ended September 30, 2017 and 2016.

**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 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 percent of payroll and by forfeited benefits of plan members.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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

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% and 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 years ended September 30, 2017 and 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to BCAD.

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 lump sum 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 \$515,000 and \$489,000 for the fiscal years ended September 30, 2017 and 2016, respectively.

*Payables to the Investment Plan* - At September 30, 2017 and 2016, BCAD reported payables in the amount of \$54,000 and \$40,000, respectively, for outstanding contributions to the Investment Plan required for the fiscal year ended September 30, 2017 and 2016.

**NOTE 12 - 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.

**Funding Policy and Annual OPEB Cost**

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. The County's actuaries, in their actuarial valuation, calculate an offset to the cost of these benefits, which is called the Employer Contribution.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

**NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

BCAD's annual OPEB cost for the plan is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions".

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The annual OPEB cost allocated to BCAD for the 2017 and 2016 fiscal years, and the related information for the plan, is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Required contributions rates:		
Employer	Pay as you go	Pay as you go
Plan members	N/A	N/A
Annual required contribution	\$ 203	\$ 185
Interest on net OPEB obligations	53	47
Adjustment to annual required contribution	<u>(69)</u>	<u>(61)</u>
Annual OPEB cost	187	171
Contributions made	<u>(98)</u>	<u>(85)</u>
Increase in net OPEB obligation	89	86
Net OPEB obligation - beginning of year	<u>1,196</u>	<u>1,110</u>
Net OPEB obligation - end of year	<u>\$ 1,285</u>	<u>\$ 1,196</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2017, 2016 and 2015 for BCAD were as follows (in thousands):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB cost	\$ 187	\$ 171	\$ 185
Percentage of OPEB cost contributed	52.36%	50.00%	49.99%
Net OPEB obligation	\$ 1,285	\$ 1,196	\$ 1,110

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2017 AND 2016

**NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

**Funded Status and Funding Progress**

The funded status of the County's plan as of October 1, 2015, the date of the latest actuarial valuation, was as follows (in thousands):

Actuarial accrued liability	\$ 24,196
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	24,196
Funded ratio	0.00%
Covered payroll	\$ 265,122
Unfunded actuarial accrued liability as a percentage of covered payroll	9.13%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information is designed to provide multi-year trend information to show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, the County has not contributed assets to the plan at this time.

**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 and the actuarial value of assets.

Significant methods and assumptions were as follows:

Actuarial valuation date	10/1/2015
Actuarial cost method	Entry age
Amortization method	Level Percent, closed
Remaining amortization period	21 years
Asset valuation method	Unfunded
Actuarial assumptions:	
Investment rate of return*	3.75%
Projected salary increases*	3.70% - 7.80%
Healthcare inflation rate	8.5% initial, 4.5% ultimate

\*Includes 2.60% general inflation rate

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

**NOTE 13 - 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 \$14,116,000 and \$18,948,000 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016 totaled approximately \$2,653,000 and \$2,322,000, respectively.

BCAD contracts directly with the Broward County Sheriff's Office for security services at FLL. The cost of these services was approximately \$18,930,000 and \$18,217,000 for the years ended September 30, 2017 and 2016, 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 \$10,859,000 and \$9,233,000 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016, was approximately \$21,000 and \$17,000, 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, 2017 and 2016, were approximately \$103,000 and \$85,000, respectively.

At September 30, 2017 and 2016, there was no receivable from other County funds and departments and approximately \$2,132,000 and \$4,253,000, respectively, was payable to other County funds for security and fire-rescue services and permits.

**NOTE 14 - 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. Additionally, five lawsuits were filed relating to the South Runway Expansion Project at FLL. Three of those lawsuits are seeking relief on behalf of approximately 200 homeowners living adjacent to the airport. The County has successfully defended these claims resulting in the dismissal of many of them. The Court recently entered an Order in relation to the fourth lawsuit finding that the South Runway construction activities resulted in the flooding of and deprivation of access to a nursery property adjacent to FLL. The case will now proceed to a determination of value of the property taken. The County intends to continue pursuit of indemnification from contractors and engineers whose actions contributed to this result. Additionally, certain runway project liability insurance may also provide coverage for some of the claim. The fifth lawsuit was filed on behalf of a business in close proximity to the south runway, and asserts claims for trespass, negligence, and nuisance. The County is just starting discovery.

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.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

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, 2017, BCAD had in process various uncompleted construction projects with commitments totaling \$216,013,000. The retainage payable on these contracts totaled \$44,250,000. Funding of these projects is made primarily through the proceeds of the related bond issues.

**NOTE 15 – SUBSEQUENT EVENTS**

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.

See accompanying notes to financial statements

BROWARD COUNTY AVIATION DEPARTMENT  
REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Funding Progress - Other Post Employment Benefits**  
(in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2011	\$ -	\$ 24,800	\$ 24,800	0.00%	\$ 231,302	10.72%
10/1/2013	\$ -	\$ 25,389	\$ 25,389	0.00%	\$ 242,246	10.48%
10/1/2015	\$ -	\$ 24,196	\$ 24,196	0.00%	\$ 265,122	9.13%

This schedule shows the County's actuarial accrued liability (AAL). An estimated 7% of this liability can be attributed to BCAD

BROWARD COUNTY AVIATION DEPARTMENT  
REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014
BCAD's proportion of the net pension liability (asset)	0.05398%	0.05222%	0.05442%	0.05484%
BCAD's proportionate share of the net pension liability (asset)	\$ 15,968	\$ 13,186	\$ 7,029	\$ 3,347
BCAD's covered-employee payroll	\$ 22,650	\$ 19,142	\$ 18,433	\$ 18,608
BCAD's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	70.49%	68.88%	38.13%	17.98%
Plan fiduciary net position as a percentage of the total pension liability	83.89%	84.88%	92.00%	96.00%

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

**Schedule of Contributions**

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

	2017	2016	2015	2014
Contractually required contribution	\$ 1,433	\$ 1,189	\$ 1,188	\$ 1,170
Contributions in relation to the contractually required contribution	\$ (1,433)	\$ (1,189)	\$ (1,188)	\$ (1,170)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
BCAD's covered-employee payroll	\$ 22,827	\$ 20,474	\$ 18,258	\$ 19,529
Contributions as a percentage of covered-employee payroll	6.28%	5.81%	6.51%	5.99%

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.

BROWARD COUNTY AVIATION DEPARTMENT  
REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014
BCAD's proportion of the net pension liability (asset)	0.07018%	0.06900%	0.06779%	0.06807%
BCAD's proportionate share of the net pension liability (asset)	\$ 7,504	\$ 8,041	\$ 6,914	\$ 6,365
BCAD's covered-employee payroll	\$ 22,650	\$ 19,142	\$ 18,433	\$ 18,608
BCAD's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.13%	42.01%	37.51%	34.21%
Plan fiduciary net position as a percentage of the total pension liability	1.64%	0.97%	0.50%	0.99%

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)

	2017	2016	2015	2014
Contractually required contribution	\$ 379	\$ 340	\$ 232	\$ 234
Contributions in relation to the contractually required contribution	\$ (379)	\$ (340)	\$ (232)	\$ (234)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
BCAD's covered-employee payroll	\$ 22,827	\$ 20,474	\$ 18,258	\$ 19,529
Contributions as a percentage of covered-employee payroll	1.66%	1.66%	1.27%	1.20%

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.

BROWARD COUNTY AVIATION DEPARTMENT  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

**NOTE 1 – PENSION INFORMATION**

The discount rate used to measure the pension liability of the Pension Plan at June 30, 2017 was decreased from 7.60% to 7.10%. 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, 2017 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.

BROWARD COUNTY AVIATION DEPARTMENT  
SUPPLEMENTARY INFORMATION

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

	2017	2016
Revenues	\$ 245,835	\$ 232,076
Interest income*	9,192	6,470
Current expenses**	(160,985)	(140,939)
Net revenues	94,042	97,607
Transfer from General Purposes Account	22,437	23,216
Net revenues and transfers available for debt service	\$ 116,479	\$ 120,823
Debt service		
Series 2001J-2 Bonds	\$ 15,782	\$ 15,782
Series 2004L Bonds		629
Series 2009O Bonds	7,326	7,326
Series 2012P-1 Bonds	14,381	14,375
Series 2012P-2 Bonds	13,186	13,190
Series 2012Q-1 Bonds	32,072	32,073
Series 2012Q-2 Bonds	6,983	6,982
Series 2013A Bonds	10,991	10,990
Series 2013B Bonds	3,636	3,640
Series 2013C Bonds	14,095	14,092
Series 2015A Bonds	2,076	1,813
Series 2015B Bonds	479	419
Series 2015C Bonds	6,250	5,726
Passenger facility charge and grant offset	(57,976)	(58,082)
Total debt service	\$ 69,281	\$ 68,955
Debt service coverage	168%	175%
Required debt service coverage per bond resolution	125%	125%

\*Interest income excludes a net unrealized loss on investments of \$4,984,000 for fiscal year 2017 and a net unrealized gain on investments of \$423,000 for fiscal year 2016.

\*\*Current expenses exclude pension adjustments relating to GASB Statement No. 68 of \$1,046,000 and \$951,000 for fiscal year 2017 and fiscal year 2016, respectively.

**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, 2017, and the related notes to the financial statements, which collectively comprise the BCAD's basic financial statements, and have issued our report thereon dated March 23, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the BCAD's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. We did identify a certain deficiency in internal control related to the BCAD Noise Mitigation Program which is presented as item 2017-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

**Broward County Aviation Department's Response to Finding**

The BCAD's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. BCAD's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 23, 2018

## Broward County Aviation Department

### Schedule of Findings and Questioned Costs Fiscal Year Ended September 30, 2017

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#### 2017 – 001 Improper Capitalization of Noise Mitigation Costs

**Criteria:** Governmental Accounting Standards Board (GASB) Statement No. 34, paragraph 19, as amended by GASB statement No. 51 defines a capital asset as a tangible or intangible asset acquired for use in operations that will benefit more than a single fiscal period. Also per paragraph 18 of GASB Statement No. 34 ancillary charges include costs that are directly attributable to asset acquisition such as freight and transportation charges, site preparation costs and professional fees. Further, GASB Statement No. 51 states that intangible assets are assets that lack physical substance, are nonfinancial in nature, and have an initial life extending beyond a single reporting period. Intangible assets should only be recognized if they are identifiable (i.e., separable and/or arising from contractual or other legal rights.)

**Condition:** The Noise Mitigation Program is a Federal Aviation Administration (FAA) approved enabling project of the South Runway Extension project. The program addresses noise impacts from the expanded runway and is made up of two components; the Voluntary Residential Sound Insulation Program (RSI) and the Sales Assistance/Conveyance and Release Program (SA/CAR). In prior years, all costs associated with the program were being capitalized as incurred. However, upon further review and evaluation in the current year, it was determined that the costs associated with the RSI program did not meet the definition of a County owned capital asset or intangible asset as described above in the criteria. The costs for the RSI program resulted in improvements to assets that are not under the ownership or control of BCAD or the County and as such they should have been expensed as incurred as period costs and not capitalized. The result of removing these costs was a reduction in capital assets and net position of approximately \$52 million as of October 1, 2016 which was recorded as a prior period adjustment.

**Cause:** Given the nature of this program, there was a lack of clarity around what the County was receiving and, as a result, the amounts were capitalized as part of the runway expansion. However, they do not meet the definition of an intangible asset or an ancillary cost of the runway project.

**Effect:** An overstatement of capital assets and net position of \$52 million and a correlating understatement of non-operating expenses.

**Recommendation:** We recommended and management has processed the prior period adjustment to correct the accounting records and financial statements for these items. We suggest that for future projects, management establish a more robust process for consideration of unique transactions which includes the documentation of the facts, relevant accounting guidance, alternatives considered and final conclusion. The accounting memo would be approved by Department and County personnel and reviewed with their external auditors.

**Views of Responsible Officials and Planned Corrective Actions:** The Noise Mitigation Program is a complex program and was an absolute condition for the FAA to approve and fund the South Runway Expansion Project. The program was also required per the Interlocal Agreement with the City of Dania Beach and to be compliant with the Environmental Impact Statement. There is no specific guidance from GASB or airport organizations regarding the accounting treatment for the program and our research indicated a disparate treatment among airports. The majority of US airports capitalize their noise mitigation program costs, including the sound insulation costs, as BCAD had done in prior audited financial statements. However, given Fort Lauderdale – Hollywood International Airport's (FLL) specific circumstances, including the RSI agreements with the homeowners that do not require an aviation easement, we concur that the costs for the RSI program should be expensed as incurred as non-operating expenses and the costs for the SA/CAR program to remain capitalized as intangible assets.

We will continue to monitor all costs to ensure they are recorded correctly.