

# **New Hanover County Airport Authority**

**A Component Unit of New Hanover County**

Financial Statements and Compliance  
Year Ended June 30, 2018

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## **FINANCIAL SECTION**

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## Independent Auditor's Report

New Hanover County Airport Authority  
Wilmington, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of New Hanover County Airport Authority, a component unit of New Hanover County, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 New Hanover County Airport Authority as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 17 to the financial statements, in the year ended June 30, 2018, the Authority adopted new accounting guidance provided in Governmental Accounting Standards Board Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, the Schedule of Proportionate Share of the Net Pension Liability – Local Government Employees' Retirement System and Local Government Employees' Retirement Contribution Schedule on pages 34 and 35, respectively, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered-Employee Payroll on pages 36 and 37 and the Changes in the Total OPEB Liability and Related Ratios Schedule on page 38 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 the basic financial statements of New Hanover County Airport Authority. The other supplementary information, and the accompanying schedule of expenditures of federal and state awards and passenger facility charges as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act, and as specified in the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information and the accompanying schedule of expenditures of federal and state awards and passenger facility charges are the responsibility of management and were derived from and relate 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 other supplementary information and the schedule of expenditures of federal and state awards and passenger facility charges are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of New Hanover County Airport Authority'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 New Hanover County Airport Authority'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 New Hanover County Airport Authority's internal control over financial reporting and compliance.

*RSM US LLP*

Wilmington, North Carolina  
November 30, 2018

## **New Hanover County Airport Authority**

### **Management's Discussion and Analysis (Unaudited)**

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As management of the New Hanover County Airport Authority (Authority), we offer readers of our financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the accompanying financial statements, which follow this narrative.

The Authority is responsible for the operation and maintenance of the Wilmington International Airport (ILM) facilities.

#### **Financial Highlights**

- Assets exceeded liabilities by \$102,953,674 (net position) at June 30, 2018. Of this amount, \$24,855,307 is unrestricted and available to meet ongoing future obligations of the Authority including its share of capital projects.
- Capital asset expenditures from the Capital Projects subfund for the year ended June 30, 2018, were \$6,581,125 compared to \$5,302,173 expended in the year ended June 30, 2017, as the Authority is still engaged in ongoing construction projects.
- Net position increased \$8,115,874 during the year ended June 30, 2018, compared to an increase of \$3,468,512 during the year ended June 30, 2017. The unrestricted portion of net position increased \$2,852,432 during the year ended June 30, 2018, compared to an increase of \$3,654,276 during the year ended June 30, 2017. Net position invested in capital assets, which is net of related debt, increased \$528,556 during the year ended June 30, 2018, compared to a decrease of \$1,396,293 during the year ended June 30, 2017.
- Operating income before depreciation of \$3,575,001 for the current year reflects a increase of \$517,964 from the prior year's operating income before depreciation of \$3,057,037.
- The statement of cash flows, which identifies the sources and uses of cash activity for the fiscal year, indicates cash and cash equivalents decreased \$201,881 from the prior year.

#### **Overview of the Financial Statements**

The financial statements of the Authority consist of five components. They are as follows:

- Independent auditor's report
- Management's discussion and analysis
- Financial statements
- Notes to the financial statements
- Required supplemental financial data
- Other supplementary information

Our financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The Authority is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used. Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. These are followed by notes to the financial statements. In addition to the financial statements, this report also contains required and other supplemental information that will enhance the reader's understanding of the financial condition of the Authority.

The statement of net position presents information on the Authority's net position – the difference between total assets plus deferred outflows and total liabilities plus deferred inflows. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

## New Hanover County Airport Authority

### Management's Discussion and Analysis (Unaudited)

The statement of revenues, expenses and changes in net position reports the operating revenues and expenses and non-operating revenues and expenses of the Authority for the fiscal year with the difference – income or loss before capital contributions – being combined with any capital contributions to determine the change in net position for the fiscal year. That change combined with last year-end net position total reconciles to the net position total at the end of this fiscal year.

The statement of cash flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalents balance at the end of the current fiscal year.

### Financial Information

**Net position** – The following schedule presents a summary of net position at June 30, 2018 and 2017.

	June 30, 2018	June 30, 2017	Increase (Decrease)
Current and other assets	\$ 28,889,316	\$ 23,190,985	\$ 5,698,331
Restricted assets	9,308,587	4,803,337	4,505,250
Certificate of deposit	450,000	250,000	200,000
Capital assets	72,144,713	72,708,054	(563,341)
<b>Total assets</b>	<b>110,792,616</b>	<b>100,952,376</b>	<b>9,840,240</b>
Contributions to pension plan in current fiscal year	217,415	200,857	16,558
Pension deferrals	335,055	632,975	(297,920)
OPEB deferrals	18,273	-	18,273
<b>Total deferred outflows of resources</b>	<b>570,743</b>	<b>833,832</b>	<b>(263,089)</b>
Current liabilities	4,226,015	1,403,058	2,822,957
Net pension liability	648,366	897,960	(249,594)
Total pension liability	135,022	123,466	11,556
OPEB liability	308,328	312,633	(4,305)
Long-term debt	3,050,000	3,948,195	(898,195)
<b>Total liabilities</b>	<b>8,367,731</b>	<b>6,685,312</b>	<b>1,682,419</b>
Pension deferrals	30,886	33,527	(2,641)
OPEB deferrals	11,068	-	11,068
<b>Total deferred inflows of resources</b>	<b>41,954</b>	<b>33,527</b>	<b>8,427</b>
Net position:			
Net investment in capital assets	68,789,713	68,261,157	528,556
Restricted	9,308,587	4,803,337	4,505,250
Unrestricted	24,855,374	22,002,875	2,852,499
<b>Total net position</b>	<b>\$ 102,953,674</b>	<b>\$ 95,067,369</b>	<b>\$ 7,886,305</b>

## New Hanover County Airport Authority

### Management's Discussion and Analysis (Unaudited)

**Change in net position** – The following schedule presents a summary of the change in net position for the fiscal years ended June 30, 2018 and 2017.

	Years Ended June 30		Increase (Decrease)
	2018	2017	
Operating revenues:			
Aviation	\$ 1,536,157	\$ 1,529,156	\$ 7,001
Parking lot	4,015,680	3,939,324	76,356
Rent	2,401,926	2,153,607	248,319
Commissions	1,580,006	1,396,253	183,753
Security	787,291	688,155	99,136
Miscellaneous	200,882	309,579	(108,697)
<b>Total operating revenues</b>	<b>10,521,942</b>	<b>10,016,074</b>	<b>505,868</b>
Operating expenses:			
Salaries and employee benefits	3,992,768	3,862,021	130,747
Contracted services	872,650	753,375	119,275
Utilities	367,811	357,776	10,035
Repairs and maintenance	529,439	421,289	108,150
Other operating expenses	1,184,273	1,564,576	(380,303)
Depreciation and amortization	6,780,834	6,801,848	(21,014)
<b>Total operating expenses</b>	<b>13,727,775</b>	<b>13,760,885</b>	<b>(33,110)</b>
<b>Operating loss</b>	<b>(3,205,833)</b>	<b>(3,744,811)</b>	<b>538,978</b>
Non-operating revenues (expenses):			
Interest revenue	151,074	25,214	125,860
Passenger facility charge revenue, including interest	1,852,322	1,718,907	133,415
Contract facility charge revenue	1,054,755	1,056,944	(2,189)
Loss on disposal of assets	(317,109)	(20,513)	(296,596)
Federal grants	705,803	-	705,803
Air service development revenue	200,000	-	200,000
Air service development expense	(1,020,547)	-	(1,020,547)
Interest expense	(196,258)	(164,301)	(31,957)
<b>Total non-operating revenues, net</b>	<b>2,430,040</b>	<b>2,616,251</b>	<b>(186,211)</b>
<b>Loss before capital contributions</b>	<b>(775,793)</b>	<b>(1,128,560)</b>	<b>352,767</b>
Capital contributions	8,891,667	4,597,072	4,294,595
<b>Change in net position</b>	<b>8,115,874</b>	<b>3,468,512</b>	<b>4,647,362</b>
Net position, July 1	95,067,369	91,641,461	3,425,908
Restatement	(229,569)	(42,604)	(186,965)
Net position, July 1, restated	94,837,800	91,598,857	3,238,943
Net position, June 30	<b>\$ 102,953,674</b>	<b>\$ 95,067,369</b>	<b>\$ 7,886,305</b>

## **New Hanover County Airport Authority**

### **Management's Discussion and Analysis (Unaudited)**

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Operating revenues for the current year increased 5.1% from the previous year. The increase is due largely to an increase in certain rates and fees that affect revenues that include parking, commissions, and other aviation revenues and also to increased rental income from new tenants.

Non-operating revenues in the current year include contract facility charges from contracts with rental car agencies, effective July 1, 2016, for two years, which contain provisions for contract facility charges that are intended to be used for capital improvements and maintenance of rental car facilities.

**Capital Assets** – During the fiscal year ended June 30, 2018, the Authority expended \$6,581,125 on capital assets within its Capital Projects subfund. This included \$5,091,722 for airfield improvements that included new jet bridge, lighting, drainage and wildlife mitigation, \$97,980 for land and building improvements in connection with the business park, \$1,160,038 for a new rental car service center and \$79,985 for other capital items. At June 30, 2018, commitments for future capital outlay were approximately \$4,227,000.

**Long-Term Debt** – The Authority incurred long-term debt in 2008 of \$2,700,000 in order to finance the construction of a new international terminal building. Financing was acquired through an interlocal agreement with New Hanover County. This debt was paid in full as of June 30, 2018.

The Authority incurred additional long-term debt in 2014 of \$4,570,000 in order to finance a new consolidated car rental facility construction project. Financing was acquired through an interlocal agreement with New Hanover County. Interest rates are currently ranging from 2.29 % to 4.29%. There are no remaining draws available to the Authority as of June 30, 2018.

The aggregate balance of long-term debt at June 30, 2018, is \$3,355,000. The Authority's debt service for the year ended June 30, 2018, was \$1,091,897 for principal and \$196,258 for interest.

**Capital Contributions** – Capital contributions increased \$4,294,595 as compared to the prior year. This increase is primarily due to receiving grant funding in advanced of capital outlays in the current year.

## **New Hanover County Airport Authority**

### **Management's Discussion and Analysis (Unaudited)**

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#### **Economic Factors and Next Year's Budget**

Commercial airline traffic at Wilmington International Airport was up 4.7% for the year ended June 30, 2018, in comparison to the prior fiscal year. Airlines continue to evaluate routes frequently to determine profitability and yields. Airlines have provided a slight increase in seat capacity and customers have responded positively resulting in high load factors for the Authority. These high load factors along with strong fares are producing high yields for the airlines and is seen as very favorable for the Authority. The continued introduction of additional seats into the market by the airlines looks positive for the future. The focus of airlines is to continue routing more passengers through their hubs which works well for the Authority with service to multiple hubs. Long-term forecasts show a slow increase in passenger traffic nationwide. The Authority expects an increase in traffic for the upcoming year. Revenue streams continue to be strong across all lines of business for the Authority. Parking revenue set a new record and other concession related revenues continue to improve demonstrating more confidence in the economy.

The Contract Facility Charge collections were up this year and the forecast for future rentals looks positive. Passenger Facility Charge collections continue to remain consistent and future projections look strong. Due to strong forecast of collections from these two funding sources, the Authority is positioned well for future funding of capital projects and debt service.

The Authority had a very successful year with leasing existing tenant facilities reflecting the positive turn in the commercial real estate sector. These new and renewed leases have increased the business park revenue and future business park revenue looks favorable.

These factors have been incorporated into the 2019 fiscal year budget.

#### **Requests for Information**

The financial report is intended to provide an overview of the finances of the New Hanover County Airport Authority for those with an interest in this organization. Questions concerning any information contained in this report may be directed to the Airport Director, 1740 Airport Boulevard, Wilmington, North Carolina, 28405.

**New Hanover County Airport Authority**

**Statement of Net Position  
June 30, 2018**

<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 13,336,672
Certificates of deposit	450,000
Investments in commercial paper	10,000,000
Trade accounts receivable, net of allowance of \$50,000	692,106
Capital grants receivable	1,037,827
Other receivables	792,646
Prepaid expenses	29,438
<b>Total current assets</b>	<u>26,338,689</u>
Restricted assets:	
Cash – restricted state capital grants	3,633,279
Cash – passenger facility charges	5,325,255
Other receivable – passenger facility charges	350,053
Cash – contract facility charges	3,000,627
Capital assets not being depreciated	30,903,125
Capital assets being depreciated, net of accumulated depreciation	41,241,588
<b>Total assets</b>	<u>110,792,616</u>
<b>Deferred outflows of resources:</b>	
Contributions to pension plan subsequent the measurement date	217,415
Pension deferrals	335,055
OPEB deferrals	18,273
<b>Total deferred outflows of resources</b>	<u>570,743</u>
<b>Liabilities</b>	
Current liabilities:	
Current portion of long-term debt	305,000
Trade accounts payable	619,945
Construction accounts payable	1,704,124
Accrued expenses and other liabilities	1,596,946
<b>Total current liabilities</b>	<u>4,226,015</u>
Net pension liability	648,366
Total pension liability	135,022
Total OPEB liability	308,328
Long-term debt	3,050,000
<b>Total liabilities</b>	<u>8,367,731</u>
<b>Deferred inflows of resources:</b>	
Pension deferrals	30,886
OPEB deferrals	11,068
<b>Total deferred inflows of resources</b>	<u>41,954</u>
<b>Net position:</b>	
Net investment in capital assets	68,789,713
Restricted	9,308,587
Unrestricted	24,855,374
<b>Total net position</b>	<u>\$ 102,953,674</u>

See notes to financial statements.

**New Hanover County Airport Authority**

**Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2018**

Operating revenues:	
Aviation revenue	\$ 1,536,157
Parking lot	4,015,680
Rent	2,401,926
Commissions	1,580,006
Security	787,291
Miscellaneous revenue	200,882
<b>Total operating revenues</b>	<u>10,521,942</u>
Operating expenses:	
Salaries and employee benefits	3,992,768
Contracted services	872,650
Utilities	367,811
Repairs and maintenance	529,439
Other operating expenses	1,184,273
Depreciation and amortization	6,780,834
<b>Total operating expenses</b>	<u>13,727,775</u>
<b>Operating loss</b>	<u>(3,205,833)</u>
Non-operating revenues (expenses):	
Interest revenue	151,074
Passenger facility charge revenue, including interest	1,852,322
Contract facility charge revenue	1,054,755
Loss on disposal of capital assets	(317,109)
Federal grants	705,803
Air service development revenue	200,000
Air service development expense	(1,020,547)
Interest expense	(196,258)
<b>Total net non-operating revenues</b>	<u>2,430,040</u>
<b>Loss before capital contributions</b>	<u>(775,793)</u>
Capital contributions:	
Federal grants	2,630,086
State grants	2,628,302
Restricted state grants	3,633,279
<b>Total capital contributions</b>	<u>8,891,667</u>
<b>Change in net position</b>	<u>8,115,874</u>
Net position:	
Beginning of year, previously reported	95,067,369
Restatement (Note 17)	(229,569)
Total net position, beginning	<u>94,837,800</u>
End of year	<u>\$ 102,953,674</u>

See notes to financial statements.

**New Hanover County Airport Authority**

**Statement of Cash Flows  
Year Ended June 30, 2018**

Cash flows from operating activities:	
Cash received from tenants and concessionaires	\$ 10,143,200
Cash payments to suppliers for goods and services	(2,538,906)
Cash payments to employees for services	(3,835,517)
Other miscellaneous revenue	318,632
<b>Net cash provided by operating activities</b>	<b>4,087,409</b>
Cash flows from noncapital financing activities	
Contributions - air service development	200,000
Air service development payments	(70,547)
<b>Net cash provided by noncapital and related financing activities</b>	<b>129,453</b>
Cash flows from capital and related financing activities:	
Passenger facility charges	1,802,537
Contract facility charges	1,054,755
Capital contributions – federal grants	2,046,312
Capital contributions – state grants	7,214,224
Proceeds from sale of assets	46,522
Principal payments on long-term debt	(1,091,897)
Interest payments on long-term debt	(196,258)
Acquisition and construction of capital assets	(5,246,012)
<b>Net cash provided by capital and related financing activities</b>	<b>5,630,183</b>
Cash flows from investing activities:	
Investment in certificate of deposit	(200,000)
Investment in commercial paper	(10,000,000)
Interest on investments	151,074
<b>Net cash used in investing activities</b>	<b>(10,048,926)</b>
<b>Net change in cash and cash equivalents</b>	<b>(201,881)</b>
Cash and cash equivalents:	
Beginning of year	25,497,714
End of year	<b>\$ 25,295,833</b>
Reconciliation of operating loss to net cash from operating activities:	
Operating loss	\$ (3,205,833)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	6,780,834
Changes in assets, deferred outflows of resources, and liabilities:	
Accounts receivable:	
Trade	(13,243)
Other	(67)
Deferred outflows of resources – pensions	276,016
Deferred outflow of resources – OPEB	(12,927)
Net pension liability	(249,594)
Total pension liability	11,556
OPEB liability	4,305
Deferred inflows of resources – pensions	(2,641)
Deferred inflows of resources – OPEB	11,068
Accounts payable	420,700
Accrued expenses and other liabilities	72,668
Prepaid expenses	(5,433)
<b>Net cash provided by operating activities</b>	<b>\$ 4,087,409</b>
Noncash investing, capital and financing activities:	
Change in payables for construction, retainages and land acquisition costs	\$ (1,335,112)
Change in capital grants receivable	(368,869)
Change in non-capital grants receivable	(705,803)
Change in non-capital grants payable	950,000

See notes to financial statements.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

The accounting policies of New Hanover County Airport Authority (Authority) conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

**Reporting entity:** The Authority is a public body and a body corporate and politic created under the laws of the State of North Carolina. The Authority, which consists of seven individuals appointed by New Hanover County (County) Board of Commissioners, is responsible for the operation and maintenance of the Wilmington International Airport facilities, which are owned by the County. County management is committed to the continual operation of the Authority. For financial reporting purposes, in conformity with generally accepted accounting principles as promulgated by the GASB, the Authority is a component unit of the County and is included as such in the County's comprehensive annual financial report.

**Basis of presentation:** The accounts of the Authority are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses.

The Authority accounts for its operations in one proprietary fund, an enterprise fund. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b) Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c) The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grants and interest earnings, result from non-exchange transactions or ancillary activities.

**Measurement focus and basis of accounting:** The Authority's proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are rentals of property and charges to customers for services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with North Carolina General Statutes, the Authority's fund is maintained during the year using the modified accrual basis of accounting.

**Budgetary data:** The Authority's budgets are adopted as required by the North Carolina General Statutes and were prepared on the modified accrual basis of accounting, as required by the Budget and Fiscal Control Act. Expenditures may not legally exceed appropriations at the fund level and the Authority board must approve all increases in appropriations. Project budgets are adopted for capital projects. The enterprise fund projects are consolidated with the operating fund for reporting purposes.

**Deposits and investments:** All deposits of the Authority are made in board-designated official depositories and are secured as required by North Carolina General Statute 159-31. The Authority may designate as an official depository any bank or savings association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

North Carolina General Statute 159-30(c) authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the state of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Authority's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT – Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price.

**Cash and cash equivalents:** For the purpose of reporting cash flows, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and acquired within three months of their maturity date. Cash and cash equivalents also include restricted cash from receipt of passenger facility charge revenue, designated cash from contract facility charges, and residual restricted state grants.

**Allowance for doubtful accounts:** Trade accounts receivable are reported net of an allowance in the amount of \$50,000 for possible uncollectible accounts. Allowances for uncollectible receivables are based on collection history, aviation industry trends, and current information regarding the credit worthiness of the tenants and others doing business with the Authority.

**Capital assets:** Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Donated capital assets received prior to June 15, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015, are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Depreciation is computed by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Airfield improvements	10
Buildings	25
Building improvements, including parking facilities	5-15
Vehicles	5-20
Machinery and equipment	5-15

**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 expense until then. In addition to liabilities, the statement of net position can sometimes also 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 revenue until then. Deferred inflows and outflows includes current year pension plan contributions and other pension deferrals.

**Compensated absences:** Full-time employees accumulate sick leave and personal leave time in varying amounts depending on the length of service and job classification. Part-time permanent employees who work a minimum of 20 hours per week earn personal leave at a pro rata amount of that granted to full-time employees. Personal leave may accumulate to a maximum of 480 hours per employee and is paid to an employee at termination. Accumulated earned personal leave at June 30, 2018, of \$290,999 has been recorded as a liability and included in accrued expenses and other liabilities.

Sick leave accumulation is not limited. Sick leave does not vest, but any sick leave accumulated at the time of retirement may be used in the determination of the length of service for retirement benefit purposes. Since the Authority has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**Net position:** Net position in proprietary fund financial statements is classified as follows:

**Net investment in capital assets:** This component of net position consists of capital assets, net of accumulated depreciation and reduced by balances in long-term debt that were used to fund capital asset acquisitions, and increased by any unspent debt proceeds.

**Restricted:** This component of net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

**Unrestricted:** This component of net position consists of assets that do not meet the definition of "restricted" or "net investment in capital assets," above.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

The Authority has designated \$2,650,783 of unrestricted net position for repair and replacement of property and equipment in future years and also designated \$4,000,000 of unrestricted net position as an operational reserve.

#### Note 2. Stewardship, Compliance and Accountability

##### Budget Violations

During the fiscal year ended June 30, 2018, the Authority reported non-operating revenues and expenditures that were not timely budgeted in the amount of \$905,803 and \$950,000, respectively. Management will monitor budgets regularly and make necessary amendments timely to avoid budget violations.

#### Note 3. Cash and Cash Equivalents and Investments

A summary of cash, cash equivalents and investments follows:

On hand	\$ 1,000
Deposits	15,029,957
Certificates of deposit	450,000
Investments in North Carolina Capital Management Trust – Government Portfolio	10,264,876
Commercial Paper	10,000,000
Total	<u>\$ 35,745,833</u>

**Deposits:** All of the Authority's deposits are either insured or collateralized under the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the Authority's agent in the Authority's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The Authority relies on the State Treasurer to monitor those financial institutions. As a formal policy, the Authority maintains a list of authorized financial institutions and complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2018, the Authority's deposits, including certificates of deposit, had a carrying amount of \$15,479,957 and a bank balance of \$15,517,465. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### **Note 3. Cash and Cash Equivalents and Investments (Continued)**

**Investments:** Amounts invested with the North Carolina Capital Management Trust – Government Portfolio reflect both the reported value and the amortized cost, which approximates fair value. Amounts invested in commercial paper consists of various short-term investments, with maturities between 6 and 9 months, in high quality commercial paper funds, reflect the amortized cost, which approximates fair value. There were no realized or unrealized gains or losses on the Authority’s investments during the year ended June 30, 2018.

**Interest rate risk:** To reduce interest rate risk, the Authority’s policy is to continuously invest a portion of the portfolio in readily available funds such as commercial paper or mutual fund for local government investment certified by the Local Government Commission pursuant to G.S. 159-30, currently The North Carolina Capital Management Trust – Government Portfolio.

**Credit risk:** To reduce credit risk, the Authority’s policy is to limit investments to the provisions of G.S. 159-30, and restrict the purchase of securities to the highest possible ratings whenever particular types of securities are rated. Currently, the Authority’s only investments are in the North Carolina Capital Management Trust – Cash Portfolio and commercial paper which, respectively, carried a rating of AAA and A-1 by Standard and Poor’s as of June 30, 2018.

**Custodial credit risk:** Custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority’s formal policy indicates that the Authority shall utilize a third-party custodial agent which shall be a trust department authorized to do trust work in North Carolina who has an account with the Federal Reserve.

**Concentrations of Credit risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of government’s investment in a single issuer. As of June 30, 2018, securities issued by JP Morgan, Korea Development, and Natixis represent 19.5%, 9.8%, and 9.7% of the Authority’s investment portfolio, respectively.

#### **Note 4. Capital Assets**

The County holds title to certain properties which are reflected as capital assets in the financial statements of the Authority. Under a lease agreement amended in 2015, the County leases the facilities to the Authority for \$1 per year through 2049. The lease gives the Authority full use of the facilities and contains certain restrictions including requiring that the facility be used as an airport, and that the Authority carry insurance, maintain the facilities, notify the County prior to disposing of certain assets, and certain other restrictions. At June 30, 2018, the Authority was in compliance with the terms of the lease.

## New Hanover County Airport Authority

### Notes to Financial Statements

#### Note 4. Capital Assets (Continued)

Capital asset activity for the Authority for the year ended June 30, 2018, is as follows:

	Balance June 30, 2017	Additions	Disposals	Transfers	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 15,386,425	\$ -	\$ -	\$ -	\$ 15,386,425
Easements	888,167	-	-	-	888,167
Construction in progress	16,452,300	6,403,756	(125,824)	(8,101,699)	14,628,533
Total capital assets not being depreciated	<u>32,726,892</u>	<u>6,403,756</u>	<u>(125,824)</u>	<u>(8,101,699)</u>	<u>30,903,125</u>
Capital assets being depreciated:					
Land improvements	1,793,655	22,980	(8,500)	-	1,808,135
Airfield improvements	84,270,279	-	(74,747)	8,101,699	92,297,231
Buildings and improvements	51,474,412	75,000	(1,516,088)	-	50,033,324
Vehicles	1,612,537	39,693	-	-	1,652,230
Machinery and equipment	4,992,655	39,696	(613,043)	-	4,419,308
Total capital assets being depreciated	<u>144,143,538</u>	<u>177,369</u>	<u>(2,212,378)</u>	<u>8,101,699</u>	<u>150,210,228</u>
Less accumulated depreciation for:					
Land improvements	323,887	88,232	-	-	412,119
Airfield improvements	60,259,339	4,827,662	(74,750)	-	65,012,251
Buildings and improvements	39,406,595	1,540,275	(1,286,778)	-	39,660,092
Vehicles	1,000,483	68,226	-	-	1,068,709
Machinery and equipment	3,172,072	256,440	(613,043)	-	2,815,469
Total accumulated depreciation	<u>104,162,376</u>	<u>\$ 6,780,835</u>	<u>\$ (1,974,571)</u>	<u>\$ -</u>	<u>108,968,640</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>39,981,162</u>				<u>41,241,588</u>
Capital assets, net	<u>\$ 72,708,054</u>				<u>\$ 72,144,713</u>

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 5. Retirement Plans

##### North Carolina Local Governmental Employees' Retirement System:

**Plan description:** The Authority is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the state of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives and the State Treasurer and State Superintendent, respectively, who serve as ex-officio members. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

**Benefits provided:** LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

**Contributions:** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Authority's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.55% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were \$217,415 for the year ended June 30, 2018.

## New Hanover County Airport Authority

### Notes to Financial Statements

#### Note 5. Retirement Plans (Continued)

**Refunds of contributions:** Authority employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:** At June 30, 2018, the Authority reported a liability of \$648,366 for its proportionate share of LGERS's net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017, utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Authority's proportion was 0.042%, which is consistent with its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Authority recognized pension expense of \$244,436. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,352	\$ 18,354
Changes of assumptions	92,596	-
Net difference between projected and actual earnings on pension plan investments	157,424	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	39,317	-
Authority contributions subsequent to measurement date	217,415	-
Total	<u>\$ 544,104</u>	<u>\$ 18,354</u>

The \$217,415 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	
2019	\$ 57,556
2020	198,148
2021	100,076
2022	(47,445)
2023	-
Thereafter	-

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 5. Retirement Plans (Continued)

**Actuarial assumptions:** The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.50% to 8.10%, including inflation and productivity factor
Investment rate of return	7.20%, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e., general, law enforcement officer) and health status (i.e., disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016, valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.0%	

## New Hanover County Airport Authority

### Notes to Financial Statements

#### Note 5. Retirement Plans (Continued)

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

**Discount rate:** The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Authority's proportionate share of the net pension asset to changes in the discount rate:** The following presents the Authority's proportionate share of the net pension asset calculated using the discount rate of 7.20%, as well as what the Authority's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20%) or one percentage point higher (8.20%) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Authority's proportionate share of the net pension liability (asset)	\$ 1,946,408	\$ 648,366	\$ (435,090)

**Pension plan fiduciary net position:** Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

#### Law Enforcement Officers Special Separation Allowance:

**Plan description:** The Authority administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Authority's qualified sworn law enforcement officers. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the Authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Authority are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	10
Total	10

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 5. Retirement Plans (Continued)

##### Summary of Significant Accounting Policies

**Basis of accounting:** The Authority has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expense is recorded in these statements on the accrual basis. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 73.

**Actuarial assumptions:** The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.50% to 7.35%, including inflation and productivity factor
Discount rate	3.16%

The discount rate is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

Mortality rates are based on the RP-2014 mortality tables with adjustments for mortality improvements based on MP-2015.

**Contributions:** The Authority is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis. The Authority paid no benefits for the fiscal year ended June 30, 2018, as there were no eligible retirees. The Authority's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:** At June 30, 2018 the Authority reported a liability of \$135,022. The total pension liability was measured as of December 31, 2017, based on a December 31, 2016, actuarial valuation. The total pension liability according to the actuarial valuation was then rolled forward to the measurement date of December 31, 2017, utilizing procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Authority recognized pension expense of \$13,997.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,853
Changes of assumptions	8,366	1,679
Authority benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ 8,366	\$ 12,532

**New Hanover County Airport Authority**

**Notes to Financial Statements**

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**Note 5. Retirement Plans (Continued)**

There was nothing reported as deferred outflows of resources related to pension resulting from benefit payments and administrative expenses incurred subsequent to the measurement date. Other amounts reported as deferred inflows of resources related to pension will be recognized in pension expense as follows:

Years ending June 30:

2018	\$	(870)
2019		(870)
2020		(870)
2021		(870)
2022		(644)
Thereafter		(42)

**Sensitivity of the Authority's total pension liability to changes in the discount rate:** The following presents the Authority's total pension liability calculated using the discount rate of 3.16%, as well as what the Authority's total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.16%) or one percentage point higher (4.16%) than the current rate:

	1% Decrease (2.16%)	Discount Rate (3.16%)	1% Increase (4.16%)
Total pension liability	\$ 144,183	\$ 135,022	\$ 126,329

Schedule of changes in total pension liability law enforcement officers' special separation allowance:

Beginning balance of the pension liability as of December 31, 2016	\$	123,466
Service cost		9,766
Interest on the total pension liability		4,766
Change in benefit terms		-
Differences between expected and actual experience in the measurement of total pension liability		(12,989)
Changes of assumptions or other inputs		10,013
Benefit payments		-
Other changes		-
Ending balance of the total pension liability as of December 31, 2017	<u>\$</u>	<u>135,022</u>

The plan currently uses mortality tables that vary by age and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portion of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 5. Retirement Plans (Continued)

The actuarial assumptions used in the December 31, 2016, valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

**Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of Related to Pensions:** Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension expense	\$ 244,436	\$ 13,997	\$ 258,433
Pension liability	648,366	135,022	783,388
Proportionate share of the net pension liability	0.04244%	n/a	
Deferred of outflows of resources:			
Differences between expected and actual experience	37,352	-	37,352
Changes of assumptions	92,596	8,366	100,962
Net difference between projected and actual earnings on plan investments	157,424	-	157,424
Changes in proportion and differences between contributions and proportionate share of contributions	39,317	-	39,317
Benefit payments and administrative costs paid subsequent to the measurement date	217,415	-	217,415
Deferred of inflows of resources:			
Differences between expected and actual experience	18,354	10,853	29,207
Changes of assumptions	-	1,679	1,679
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-

#### Supplemental Retirement Income Plan for Law Enforcement Officers:

**Plan description:** The Authority contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Authority. Article 5 of G.S. Chapter 135 assigns the Authority to establish and amend benefit provisions to the North Carolina General Assembly. The Plan is included in the CAFR for the state of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding policy:** Article 12E of G.S. Chapter 143 requires the Authority to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the plan.

The Authority made contributions of \$51,844 for the reporting year, which consisted of \$26,914 from the Authority and \$24,930 from the LEOs.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 5. Retirement Plans (Continued)

The Authority is only required to make contributions on behalf of the LEOs. The Authority has elected to contribute on behalf of employees not engaged in law enforcement at the same rate as for LEOs. Authority contributions on behalf of employees not engaged in law enforcement were \$114,574 for the year ended June 30, 2018. The Plan provides for voluntary contributions on the part of all employees. Voluntary contributions by employees not engaged in law enforcement were \$90,313 for the year ended June 30, 2018.

**Deferred compensation plan:** The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

#### Note 6. Other Postemployment Benefit (OPEB)

##### Healthcare Benefits

**Plan description:** Under the terms of an Authority resolution, the Authority administers a single-employer defined benefit healthcare plan. The Authority may amend the benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. A separate report was not issued for the plan.

**Benefits Provided:** The plan provides healthcare benefits to retirees of the Authority who have not yet reached their 65<sup>th</sup> birthday and who participate in the North Carolina Local Governmental Employees' Retirement System (System). If the retiree's age and service equal 70 years with 10 years of creditable service, the Authority will pay 100% of the premium not to exceed \$300 per month, and with five years of creditable service, the Authority pays 50% of the premium not to exceed \$150 per month.

Membership of the healthcare benefits plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	5
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	44
	<u>49</u>

##### Total OPEB Liability

The Authority's total OPEB liability of \$308,328 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

## New Hanover County Airport Authority

### Notes to Financial Statements

#### Note 6. Other Postemployment Benefit (OPEB) (Continued)

*Actuarial assumptions and other inputs.* The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation		2.50%
Salary increases	3.50% – 7.75%, including inflation	
Discount rate		3.56%
Healthcare cost trend rates		7.50%

The discount rate used to measure the TOL was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

#### Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2017, as restated (Note 16)	\$ 312,633
Changes for the year:	
Service cost	21,557
Interest	9,035
Changes of benefit terms	-
Differences between expected and actual experience	3,119
Changes in assumptions or other inputs	(12,916)
Benefit payments	(25,100)
Net changes	(4,305)
Balance at June 30, 2018	308,328

Changes in assumption and other inputs reflect a change in the discount rate from 3.01% to 3.56%

Mortality rates were based on the RP-2014 mortality tables, with adjustments from LGERS experience and generational mortality improvements using Scale MP-2015.

The actuarial assumptions used in the December 31, 2017 valuations were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB Liability	\$ 332,247	\$ 308,328	\$ 286,305

**New Hanover County Airport Authority**

**Notes to Financial Statements**

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**Note 6. Other Postemployment Benefit (OPEB) (Continued)**

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.50%)	Health Care Cost Trend Rates (7.50%)	1% Increase (8.50%)
Total OPEB Liability	\$ 291,126	\$ 308,328	\$ 328,302

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

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$29,190. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,273	\$ -
Changes of assumptions	-	11,068
Total	\$ 18,273	\$ 11,068

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

Years ending June 30:	
2018	\$ 1,203
2019	\$ 1,203
2020	\$ 1,203
2021	\$ 1,203
2022	\$ 1,203
Thereafter	\$ 1,189

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 7. Other Employment Benefits

The Authority has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Authority, the Authority does not determine the number of eligible participants. The Authority has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Authority considers these contributions to be immaterial.

#### Note 8. Long-Term Debt

The Authority incurred long-term debt in 2008 of \$2,700,000 in order to finance a new international terminal building construction project. Financing was acquired through an interlocal agreement with New Hanover County. Under the agreement, New Hanover County incurred debt on behalf of the Authority, and the Authority agreed to repay all expenses attributable to the debt, including principal, interest and issuance costs. As of June 30, 2018, this obligation was paid in full.

The Authority incurred long-term debt in 2014 of \$4,570,000 in order to finance a new consolidated car rental facility construction project. Financing was acquired through an interlocal agreement with New Hanover County. Under the agreement, New Hanover County incurred debt on behalf of the Authority, and the Authority agreed to repay all expenses attributable to the debt, including principal, interest and issuance costs. Interest rates range from 2.2% to 4.3%, as a result of the County's bond refunding with Limited Obligation Bonds in 2014.

The following is a summary of changes in the Authority's long-term debt obligations, as detailed above, all due to New Hanover County, for the fiscal year ended June 30, 2018:

	Balance			Balance		Current
	June 30, 2017	Increases	Decreases	June 30, 2018		Portion
Principal:						
\$2,700,000 issue	\$ 786,897	\$ -	\$ (786,897)	\$ -	\$ -	
\$4,570,000 issue	3,660,000	-	(305,000)	3,355,000	305,000	
	<u>\$ 4,446,897</u>	<u>\$ -</u>	<u>\$ (1,091,897)</u>	<u>\$ 3,355,000</u>	<u>\$ 305,000</u>	

**New Hanover County Airport Authority**

**Notes to Financial Statements**

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**Note 8. Long-Term Debt (Continued)**

Debt service requirements are as follows:

	Principal	Interest	Total
Years ending June 30:			
2019	\$ 305,000	\$ 115,912	\$ 420,912
2020	305,000	109,086	414,086
2021	305,000	101,226	406,226
2022	305,000	92,299	397,299
2023	305,000	82,420	387,420
2024-2028	1,525,000	246,074	1,771,074
2029	305,000	13,081	318,081
	<u>\$ 3,355,000</u>	<u>\$ 760,098</u>	<u>\$ 4,115,098</u>

**Note 9. Major Customers**

The Authority's operating revenues consist of rents, commissions and charges for the use of airport property and fees for use of the parking lots. In addition, certain customers also pay contract facility charges, a non-operating revenue.

Transactions with three customers accounted for the following revenues, percentages of operating revenues, inclusive of contract facility charges and exclusive of parking lot revenues, and related trade accounts receivable balances as of and for the year ended June 30, 2018:

Customer	Revenues	Percentage of Revenues	Accounts Receivable
A	\$ 3,431,736	45%	\$ 476,093
B	1,270,531	17%	157,188
C	1,085,355	14%	108,508
	<u>\$ 5,787,622</u>		<u>\$ 741,789</u>

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 10. Contingencies

**Federal and state financial assistance:** Under the terms of Federal and State grants and the passenger facility charge program, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Authority management believes disallowances, if any, will not be significant. No provision has been made in the accompanying financial statements for the refund of grant monies.

Also, under the terms of Federal and State assistance programs, fixed assets acquired partially or entirely with Federal or State funds have asset disposition restrictions which provide for the disposition of assets or proceeds from the approved sales in accordance with Federal or State regulations.

**Risk management:** The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2015, the Authority ceased participating in the NCACC pools and obtained commercial coverage for these risks of loss. Through commercial coverage, the Authority obtained property coverage equal to replacement cost values of owned property subject to a limit of \$57.5 million for any one occurrence, auto liability coverage of \$1 million per occurrence, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value or cost of repair, crime coverage of \$250,000 per occurrence, and workers' compensation coverage up to the statutory limits; and health and dental insurance for Authority employees. The Authority also carries commercial coverage for airport liability coverage of \$75 million per occurrence. There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the last three fiscal years.

The Authority carries earth movement/flood insurance through AmWINS Brokerage of Florida Inc. subject to a limit of \$10 million for any one occurrence.

The Finance Director is bonded for \$250,000. All remaining employees that have access to funds are bonded through the aforementioned crime package.

#### Note 11. Passenger Facility Charges

The Federal Aviation Administration (FAA), under applicable regulations, can approve the collection and use of passenger facility charges (PFC). Air carriers are responsible for the collection of the PFC and are required to submit to the Authority the revenue collected by the last day of each month following the month in which the PFC was recorded in the carrier's accounting system. The Authority may use the PFC revenue only for FAA-approved airport improvement projects, including debt service on indebtedness incurred to carry out such projects, and deposits the PFC revenues in a restricted bank account until disbursed in payment of eligible costs of these capital projects.

Effective June 1, 1998, the Authority was approved by the FAA to impose a passenger facility charge of \$3 per enplaning passenger. Total approved PFC revenue to be collected was \$8,179,319. The Authority received approval to amend the 1998 PFC application increasing the passenger facility charge to \$4.50 per enplaning passenger and reducing the approved total to be collected to \$7,984,994. The Authority has received approval to impose a passenger facility charge of \$4.50 per enplaning passenger, effective April 1, 2007, for an amended amount of \$9,668,699.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 11. Passenger Facility Charges (Continued)

The April 1, 2007, charge effective date was based upon the estimated charge expiration date for the 1998 PFC application. In addition, the Authority has received approval to impose a passenger facility charge of \$4.50 per enplaning passenger, effective November 1, 2014, for an amended amount of \$6,028,314. The November 1, 2014, charge effective date was based upon the estimated charge expiration date for the original 2003 PFC application and may change such that the Authority will continue to collect the authorized PFC revenue without a cessation in collections. During 2015, the Authority received approval to impose a passenger facility charge of \$4.50 per enplaning passenger, with an effective charge date of October 1, 2019, for an amount of \$7,947,596. The effective charge date is based upon estimated charge expiration date of the November 1, 2014, amendment.

During 2018, PFC funds were disbursed for FAA-approved land acquisition, debt service related to the terminal renovations, security vehicle, and various terminal projects.

The Authority also records a restriction of net position in an amount equal to the balance in the restricted bank account plus any PFC receivables at year-end. PFC revenue for 2018 is summarized as follows:

PFC earned	\$ 1,833,987
Interest earned on restricted bank account	18,335
	<u>\$ 1,852,322</u>

#### Note 12. Operating Leases

The Authority has subleased certain portions of the facility to several different tenants that expire at various times. Some contain provisions for rent increases based on a formula which includes a government inflation index or payment of commissions based on sales.

Minimum payments to be received under these subleases are as follows for the years ending June 30:

2019	\$ 2,171,132
2020	1,353,377
2021	1,310,269
2022	1,250,628
2023	1,187,630
2024-2028	5,182,119
2029-2033	5,466,599
2034-2038	4,137,228
2039-2043	4,661,995
2044-2048	3,081,948
	<u>\$ 29,802,925</u>

Approximately \$4.1 million of the above minimum payments to be received are from one tenant, subject to a 40-year lease, beginning in 2005, approximately \$16.4 million from a tenant, subject to a 40-year lease, beginning in 2006, and approximately \$5.0 million from a tenant, subject to a 20-year lease, beginning in January 2013.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### Note 13. Contract Facility Charges

Contracts with rental car agencies, effective July 1, 2011, for five years, contain provisions for contract facility charges that are intended to be used for capital improvements, maintenance of rental car facilities and debt service for construction of rental car facilities. During August 2018, the Authority amended agreements to extend through June 30, 2023.

#### Note 14. Security Revenue

Security revenue includes \$117,750 in reimbursements of certain operating expenses under an agreement with the Department of Homeland Security, through the Transportation Security Administration. The agreement expires in April 2026.

#### Note 15. Commitments

**Management agreement:** Pursuant to a management agreement, the Authority retains USA Parking System, Inc. to provide management and operational services for the parking lot. The agreement provides that USA Parking System, Inc. shall employ, furnish and supervise certain personnel necessary for the management of the parking lot.

The Authority reimburses USA Parking System, Inc. for all operating expenses incurred in the management of the parking lot in addition to annual management, insurance and accounting services. In May 2017, the Authority entered into an amended contract with USA Parking, for five years, effective November 1, 2017 through October 31, 2022. The Authority may cancel the agreement at any time after October 31, 2022, by providing USA Parking System, Inc. 30 days prior written notice. For the year ended June 30, 2018, the Authority paid fees and expenses totaling \$390,215 which is included in contracted services.

Estimated future commitments under the agreement are as follows:

2019	\$	395,000
2020		399,000
2021		403,000
2022		408,000
		<u>\$ 1,605,000</u>

**Other commitments and agreements:** The Authority has also entered into other contracts and agreements as of June 30, 2018, primarily related to construction projects and equipment, with the remaining commitment under these contracts and agreements aggregating approximately \$4,227,000.

## New Hanover County Airport Authority

### Notes to Financial Statements

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#### **Note 16. Recently Issued Pronouncements**

The GASB has issued several pronouncements prior to June 30, 2018, that have effective dates applicable to future years and may impact future financial presentations. Of these pronouncements, the following may have an impact on future financial presentations:

GASB Statement Number 83, *Certain Asset Retirement Obligations*, will be effective for the Authority beginning with its year ending June 30, 2019.

GASB Statement Number 84, *Fiduciary Activities*, will be effective for the Authority beginning with its year ending June 30, 2020.

GASB Statement Number 87, *Leases*, will be effective for the Authority beginning with its year ending June 30, 2021.

GASB Statement Number 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, will be effective for the Authority beginning with its year ending June 30, 2019.

GASB Statement Number 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, will be effective for the Authority beginning with its year ending June 30, 2021.

GASB Statement Number 90, *Majority Equity Interest* – an amendment of GASB Statements No. 14 and No. 61, will be effective for the Authority beginning with its year ending June 30, 2020

#### **Note 17. Change in Accounting Principles/Restatement**

The Authority implemented GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* in the fiscal year ended June 30, 2018. The implementation of Statement 75 required the Authority to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Authority related to OPEB during the measurement period (fiscal year ending December 31, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position decreased \$229,569.

**New Hanover County Airport Authority**

**Notes to Financial Statements**

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**Note 18. Subsequent Event**

During September 2018, the Authority incurred storm losses due to the impact of Hurricane Florence, including canceled flights and property damage. The Authority management is continuing to evaluate the impact of the storm.

**REQUIRED  
SUPPLEMENTAL FINANCIAL DATA**

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**New Hanover County Airport Authority**

**The Authority's Proportionate Share of Net Pension Liability (Asset)  
Required Supplementary Information  
Last Five Fiscal Years\***

**Local Government Employees' Retirement System**

	<b>2018</b>	2017	2016	2015	2014
Authority's proportion of the net pension liability (asset) (%)	<b>0.04244%</b>	0.04231%	0.03964%	0.03895%	0.03600%
Authority's proportion of the net pension liability (asset) (\$)	<b>\$ 648,366</b>	\$ 897,960	\$ 177,902	\$ (229,705)	\$ 433,938
Authority's covered-employee payroll	<b>\$ 2,689,850</b>	\$ 2,689,289	\$ 2,520,623	\$ 2,523,268	\$ 2,480,213
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<b>24.10%</b>	<b>33.39%</b>	<b>7.06%</b>	<b>-9.10%</b>	<b>17.50%</b>
Plan fiduciary net position as a percentage of Plan total pension liability**	<b>94.18%</b>	91.47%	98.09%	102.64%	94.35%

\* The amounts presented for each fiscal year were determined as of June 30.

\*\* This will be the same percentage for all participant employers in the LGERS plan.

This schedule is intended to show information for 10 years, additional years will be displayed as they become available.

**New Hanover County Airport Authority**

**Authority's Contributions  
Required Supplementary Information  
Last Five Fiscal Years**

**Local Government Employees' Retirement System**

	<b>2018</b>	2017	2016	2015	2014
Contractually required contribution	<b>\$ 217,415</b>	\$ 200,857	\$ 183,880	\$ 179,600	\$ 179,283
Contributions in relation to the contractually required contribution	<b>217,415</b>	200,857	183,880	179,600	179,283
Contribution deficiency (excess)	<b>\$ -</b>	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	<b>\$ 2,829,763</b>	\$ 2,689,850	\$ 2,689,289	\$ 2,520,623	\$ 2,523,268
Contributions as a percentage of covered-employee payroll	<b>7.68%</b>	7.47%	6.84%	7.13%	7.11%

This schedule is intended to show information for 10 years, additional years will be displayed as they become available.

**New Hanover County Airport Authority**

**Law Enforcement Officers' Special Separation Allowance  
Schedule of Changes in Total Pension Liability  
Required Supplementary Information**

	2018	2017
Beginning total pension liability	\$ 123,466	\$ 111,591
Service cost	9,766	10,332
Interest on the total pension liability	4,766	3,984
Changes of benefit terms	-	
Differences between expected and actual experience in the measurement of the total pension liability	(12,989)	
Changes of assumptions or other inputs	10,013	(2,441)
Benefit payments	-	
Other changes	-	
Ending total pension liability	<u>\$ 135,022</u>	<u>\$ 123,466</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

This schedule is intended to show information for 10 years, additional years will be displayed as they become available.

**New Hanover County Airport Authority**

**Law Enforcement Officers' Special Separation Allowance**

**Schedule of Total Pension Liability as a Percentage of Covered-Employee Payroll**

**Required Supplementary Information**

	2018		2017
Total pension liability	\$ 135,022	\$	123,466
Covered-employee payroll	547,890		567,747
Total pension liability as a percentage of covered-employee payroll	24.64%		21.75%

The Authority has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 74 to pay related benefits

This schedule is intended to show information for 10 years, additional years will be displayed as they become available.

**New Hanover County Airport Authority**

**Schedule of Changes in Total OPEB Liability and Related Ratios  
June 30, 2018**

	2018
Total OPEB liability:	
Service cost	\$ 21,557
Interest	9,035
Changes of benefit terms	-
Differences between expected and actual experience	3,119
Changes of assumptions	(12,916)
Benefit payments	(25,100)
Net change in total OPEB Liability	(4,305)
Total OPEB liability – beginning	312,633
Total OPEB liability – ending	308,328
 Covered payroll	 2,440,968
Total OPEB liability as a percentage of covered payroll	12.63%

Note to schedule:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

Fiscal year	Rate
2017	3.01%
2018	3.56%

This schedule is intended to show information for 10 years, additional years will be displayed as they become available.

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**OTHER SUPPLEMENTARY INFORMATION**

**New Hanover County Airport Authority**

**Operating Fund  
Schedule of Revenues and Expenses/Expenditures  
Budget and Actual (Non-GAAP)  
Year Ended June 30, 2018**

	Budget	Actual	Variance Positive (Negative)
<b>Operating revenues:</b>			
Aviation revenue	\$ 1,371,700	\$ 1,536,157	\$ 164,457
Parking lot	3,831,000	4,015,680	184,680
Rent	1,455,200	1,638,293	183,093
Commissions	1,316,000	1,580,006	264,006
Security	623,000	669,541	46,541
Business park	745,550	763,633	18,083
Miscellaneous revenue	299,290	318,632	19,342
<b>Total operating revenues</b>	<b>9,641,740</b>	<b>10,521,942</b>	<b>880,202</b>
<b>Operating expenditures:</b>			
Advertising and marketing	242,500	167,669	74,831
Business park	171,500	159,065	12,435
Contracted services	887,550	872,650	14,900
Dues and subscriptions	16,500	6,671	9,829
Economic development	100,000	62,876	37,124
Insurance	444,000	339,455	104,545
Lease payments	16,700	13,357	3,343
Maintenance:			
Vehicle	47,000	38,978	8,022
Equipment	170,000	158,578	11,422
Building and grounds	415,500	331,883	83,617
Professional services	235,000	202,578	32,422
Salaries and employee benefits	4,146,000	3,970,846	175,154
Supplies	26,300	21,316	4,984
Travel	130,000	126,155	3,845
Uniforms	39,000	27,235	11,765
Utilities	435,000	367,810	67,190
Vehicle operation	55,000	28,609	26,391
<b>Total operating expenditures</b>	<b>7,577,550</b>	<b>6,895,731</b>	<b>681,819</b>
<b>Excess of operating revenues over operating expenditures</b>	<b>2,064,190</b>	<b>3,626,211</b>	<b>1,562,021</b>

(Continued)

**New Hanover County Airport Authority**

**Operating Fund  
Schedule of Revenues and Expenses/Expenditures –  
Budget and Actual (Non-GAAP) (Continued)  
Year Ended June 30, 2018**

	Budget	Actual	Variance Positive (Negative)
<b>Non-operating revenues (expenditures):</b>			
Air service development revenue	\$ 905,000	\$ 905,803	\$ 803
Air service development expense	(1,021,000)	(1,020,547)	453
Interest revenue	15,900	151,074	135,174
Principal payments on long-term debt	(590,236)	(1,091,897)	(501,661)
Interest on long-term debt	(200,000)	(196,258)	3,742
<b>Total non-operating expenses/ expenditures, net</b>	<b>(890,336)</b>	<b>(1,251,825)</b>	<b>(361,489)</b>
<b>Excess of revenues over expenditures</b>	<b>1,173,854</b>	<b>2,374,386</b>	<b>1,200,532</b>
<b>Other financing sources (uses):</b>			
Operating transfers – out:			
Capital Projects Fund	(3,244,557)	(662,966)	2,581,591
Appropriated fund balance	2,070,703	-	(2,070,703)
<b>Total other financing sources (uses), net</b>	<b>(1,173,854)</b>	<b>(662,966)</b>	<b>510,888</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>1,711,420</b>	<b>\$ 1,711,420</b>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual basis:</b>			
Capital contributions in project fund		8,891,667	
PFC revenues in project fund		1,852,322	
CFC revenues in project fund		1,054,755	
Depreciation		(6,780,834)	
Operating transfers to Capital Projects Fund		662,966	
Increase in deferred outflows of resources – pensions		(276,016)	
Increase in deferred outflows of resources – OPEB		12,927	
Increase in net pension liability		249,594	
Decrease in deferred inflows of resources – pensions		2,641	
Decrease in deferred inflows of resources – OPEB		(11,068)	
Principal payments on long-term debt		1,091,897	
Loss on disposal of capital assets		(317,109)	
Other		(29,288)	
<b>Change in net position</b>		<b>\$ 8,115,874</b>	

**New Hanover County Airport Authority**

**Capital Projects Fund  
Schedule of Revenues and Expenditures –  
Budget and Actual (Non-GAAP)  
From Inception and Year Ended June 30, 2018**

	Grant Project	Actual		Totals	Variance
	Authorization	Prior	Current	to Date	Positive
		Years	Year		(Negative)
<b>Revenues:</b>					
Restricted intergovernmental:					
Federal grants	\$ 17,084,381	\$ 6,828,016	\$ 2,630,086	\$ 9,458,102	\$ (7,626,279)
State grants	7,323,890	(159,663)	6,261,581	6,101,918	(1,221,972)
PFC revenues	13,191,850	10,637,497	1,852,322	12,489,819	(702,031)
CFC revenues	4,225,000	5,460,523	1,054,755	6,515,278	2,290,278
<b>Total revenues</b>	<b>41,825,121</b>	<b>22,766,373</b>	<b>11,798,744</b>	<b>34,565,117</b>	<b>(7,260,004)</b>
<b>Expenditures:</b>					
Airfield improvements	31,823,367	9,117,584	5,091,722	14,209,306	17,614,061
Land, easements and improvements	7,850,850	6,311,759	22,980	6,334,739	1,516,111
Business park buildings and improvements	225,000	-	75,000	75,000	150,000
Parking lot	250,000	-	151,400	151,400	98,600
Rental car service center		4,648,690	1,160,038	5,808,728	(5,808,728)
Jet bridge – gate 1	7,681,825	-	-	-	7,681,825
Other equipment and improvements	446,485	44,504	79,985	124,489	321,996
<b>Total expenditures</b>	<b>48,277,527</b>	<b>20,122,537</b>	<b>6,581,125</b>	<b>26,703,662</b>	<b>21,573,865</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(6,452,406)</b>	<b>2,643,836</b>	<b>5,217,619</b>	<b>7,861,455</b>	<b>(28,833,869)</b>
<b>Other financing sources:</b>					
Operating transfers – in	1,952,406	13,015,881	662,966	13,678,847	(11,726,441)
Release of debt proceeds by County	4,500,000	4,500,000	-	4,500,000	-
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ 20,159,717</b>	<b>\$ 5,880,585</b>	<b>\$ 26,040,302</b>	<b>\$ (40,560,310)</b>

**COMPLIANCE SECTION**

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RSM US LLP

**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

New Hanover County Airport Authority  
Wilmington, North Carolina

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 New Hanover County Airport Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise New Hanover County Airport Authority's basic financial statements, and have issued our report thereon dated November 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered New Hanover County Airport Authority'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 New Hanover County Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of New Hanover County Airport Authority'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether New Hanover County Airport Authority'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001.

**New Hanover County Airport Authority's Response to Findings**

New Hanover County Airport Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Question Costs. New Hanover County Airport Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Wilmington, North Carolina  
November 30, 2018

**Independent Auditor's Report on Compliance for the Major Federal Program  
and the Passenger Facility Charge Program and Report on Internal Control Over Compliance  
Required by The Uniform Guidance**

New Hanover County Airport Authority  
Wilmington, North Carolina

**Report on Compliance for the Major Federal Program and the Passenger Facility Charge Program**

We have audited New Hanover County Airport Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, and with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, that could have a direct and material effect on its major federal program and its passenger facility charge program for the year ended June 30, 2018. New Hanover County Airport Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal and state statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs and the passenger facility charge program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for New Hanover County Airport Authority's major federal program and its passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); the State Single Audit Implementation Act; and the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Audit Guide). Those standards, the Uniform Guidance, the State Single Audit Implementation Act and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about New Hanover County Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program and the passenger facility charge program. However, our audit does not provide a legal determination of New Hanover County Airport Authority's compliance.

### **Opinion on the Major Federal Program and the Passenger Facility Charge Program**

In our opinion, New Hanover County Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program and its passenger facility charge program for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of New Hanover County Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered New Hanover County Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program and the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and the passenger facility charge program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *Passenger Facility Charge Audit Guide for Public Agencies*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of New Hanover County Airport Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *Passenger Facility Charge Audit Guide for Public Agencies*. Accordingly, this report is not suitable for any other purpose.

*RSM US LLP*

Wilmington, North Carolina  
November 30, 2018

**Independent Auditor's Report on Compliance for the Major State Program and  
Report on Internal Control Over Compliance in accordance With  
The Uniform Guidance and the State Single Audit Implementation Act**

New Hanover County Airport Authority  
Wilmington, North Carolina

**Report on Compliance for the Major State Program**

We have audited New Hanover County Airport Authority's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the North Carolina Local Government Commission, which could have a direct and material effect on New Hanover County Airport Authority's major state program for the year ended June 30, 2018. New Hanover County Airport Authority's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with state statutes, regulations and the terms and conditions of its state awards applicable to its state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for New Hanover County Airport Authority's major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about New Hanover County Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state program. However, our audit does not provide a legal determination of New Hanover County Airport Authority's compliance.

**Opinion on the Major State Program**

In our opinion, New Hanover County Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

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

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

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

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

*RSM US LLP*

Wilmington, North Carolina  
November 30, 2018

**New Hanover County Airport Authority**

**Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

\_yes ✓no  
✓yes \_none reported

Noncompliance material to financial statements noted?

✓yes \_no

**Federal Awards**

Internal control over major federal program:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

\_yes ✓no  
\_yes ✓none reported

Type of auditor’s report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_yes ✓no

Identification of major federal program:

CFDA #

Program Name

20.106

Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B Programs

\$750,000

Auditee qualified as low-risk auditee?

✓yes \_no

(Continued)

**New Hanover County Airport Authority**

**Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2018**

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**Section I – Summary of Auditor’s Results (Continued)**

**State Awards**

Internal control over major State program:

- Material weakness(es) identified? \_yes  no
- Significant deficiency(ies) identified? \_yes  none reported

Type of auditor’s report issued on compliance for major State program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? \_yes  no

Identification of major State program:

Program Name

State Aid to Airports Program

**Non-Award Program – Passenger Facility Charges**

Internal control over passenger facilities charges program:

- Material weakness(es) identified? \_yes  no
- Significant deficiency(ies) identified? \_\_\_yes  none reported

Type of auditor’s report issued on compliance for passenger facilities charges program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the *Passenger Facilities Charge Audit Guide for Public Agencies*? \_yes  no

## **New Hanover County Airport Authority**

### **Schedule of Findings and Questioned Costs (Continued) For the Fiscal Year Ended June 30, 2018**

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#### **Section II – Financial Statement Findings**

##### 2018-001, Internal Control – Noncompliance – Budget Ordinance – Significant Deficiency

Criteria: G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance. G.S 159-28 states rules regarding the pre-auditing of disbursements from un-encumbered budget balances.

Condition: The Authority earned \$905,804 more in revenues from air service development activities and expended \$950,000 more for air service development expenditures than appropriated in the adjusted budget ordinance as of June 30, 2018. The Authority also failed to record the revenues and expenditures and as a result the Schedule of Expenditures of Federal and State Awards and Passenger Facility Charges for the year ended June 30, 2018 did not originally include these amounts.

Context: The Authority expended \$950,000 for air service development expenditures as part of a revenue guarantee agreement with an airline carrier for the year ending June 30, 2018. The expenditures were subject to reimbursement from the Federal Department of Transportation as well as local organizations under the Small Community Air Service Development Program Grant (SCASD). Total revenues earned under the SCASD grant in year ending June 30, 2018 totaled \$905,803, in which \$197,226 were local awards and \$708,557 were federal awards.

Effect: The Authority failed to record \$905,803 of air-service development revenues and \$950,000 of air-service development expenditures and as a result failed to budget for these revenues and expenditures until after the year ending June 30, 2018.

Cause: This error was caused by lack of management oversight.

Recommendations: We recommend the Authority design and implement a system to ensure that management understands the terms of both non-capital and capital grants in order to appropriately record and budget for grant related expenditures.

Views of responsible officials: The Authority has corrected the error. The Authority will implement a process to ensure all non-capital grant related expenditures are recorded and subject to budgetary approval before the completion of the fiscal year.

#### **Section III – Federal Awards Findings and Questioned Costs**

None reported.

#### **Section IV – Findings and Questioned Costs for State Awards**

None reported.

#### **Section V – Non-Award Program – Passenger Facility Charges**

None reported



**New Hanover County Airport Authority**

**Corrective Action Plan  
Year Ended June 30, 2018**

**Financial Statements – Internal Control**

**Finding 2018-001:**

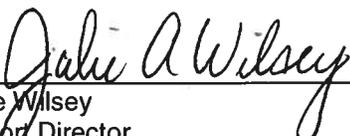
Condition: The Authority earned \$905,804 more in revenues from air service development activities and expended \$950,000 more for air service development expenditures than appropriated in the adjusted budget ordinance as of June 30, 2018. The Authority also failed to record the \$905,804 of revenue and the \$950,000 of expenditures associated with the air service development grant.

Contact Person: Finance Director

Corrective Action: The Authority implemented a process of review and approval of all grant related entries. This process will to ensure that all grant funds are properly accounted for and reported in the financial statements.

Proposed Completion Date: December 1, 2018

**New Hanover County Airport Authority**

  
\_\_\_\_\_  
Julie Wilsey  
Airport Director

  
\_\_\_\_\_  
Robert Campbell  
Finance Director

**Airport Authority**

Carter T. Lambeth  
Chairman

Dan Hickman  
Vice-Chairman

Donna Girardot  
Secretary

Thomas Wolfe

Thomas C. Barber, II

Harry W. Stovall

W. Lee Williams

**Airport Director**

Julie A. Wilsey, AAE

Wilmington  
International Airport  
1740 Airport Blvd., Ste. 12  
Wilmington, NC 28405

910.341.4333

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**New Hanover County Airport Authority**

**Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2018**

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**Non-Award Program – Passenger Facility Charges**

**Finding 2017-001:**

Status: PFC fund are being properly transferred to the PFC account and appropriately reported to the FAA.

Corrective Action: The Authority implemented a process that reconciles the activity in the bank statement to the activity in the accounting records on a monthly basis. This process will ensure all PFC funds are properly transferred to the PFC account and appropriately reported to the FAA

**New Hanover County Airport Authority**

**Schedule of Expenditures of Federal and State Awards and Passenger Facility Charges  
Year Ended June 30, 2018**

Grantor/Program Title	Federal CFDA/ State DOT		Expenditures			
	Number	Grantor's Number	Federal	State	Local	Total
<u>Federal awards:</u>						
U.S. Department of Transportation						
Direct Federal Programs:						
Federal Aviation Administration (FAA):						
Airport Improvement Program	20.106	3-37-0084-050-2014	\$ 231,918	\$ -	\$ 25,768	\$ 257,686
Airport Improvement Program	20.106	3-37-0084-051-2015	133,523	-	14,836	148,359
Airport Improvement Program	20.106	3-37-0084-052-2016	62,014	-	6,891	68,905
Airport Improvement Program	20.106	3-37-0084-053-2017	858,168	-	100,266	958,434
Airport Improvement Program	20.106	3-37-0084-054-2017	1,344,463	-	163,568	1,508,031
SCASD	20.930	2013-0120-0064	705,803	-	314,744	1,020,547
<b>Total Federal awards</b>			<b>3,335,889</b>	<b>-</b>	<b>626,073</b>	<b>3,961,962</b>
<u>State awards:</u>						
N.C. Department of Transportation:						
State Aid to Airports	DOT-8	36244.36.15.1	-	13,920	-	13,920
State Aid to Airports	DOT-8	36244.36.18.1	-	7,239	-	7,239
State Aid to Airports	DOT-8	36244.36.19.1	-	259,384	13,252	272,636
State Aid to Airports	DOT-8	36244.36.20.1	-	123,055	-	123,055
State Aid to Airports	DOT-8	36244.36.20.2	-	2,190,611	-	2,190,611
State Aid to Airports (AIP 51)	DOT-8	46306.3.1	-	34,093	-	34,093
<b>Total State Awards</b>			<b>-</b>	<b>2,628,302</b>	<b>13,252</b>	<b>2,641,554</b>
<b>Total Federal and State Awards</b>			<b>3,335,889</b>	<b>2,628,302</b>	<b>639,325</b>	<b>6,603,516</b>
<u>Passenger facility charges (Note 3):</u>						
Federal Aviation Administration (FAA):						
Passenger facility charges	-	98-03-C-00-ILM	17,300	-	-	17,300
Passenger facility charges	-	07-05-C-00-ILM	861,789	-	-	861,789
Passenger facility charges	-	14-06-C-00-ILM	165,396	-	-	165,396
<b>Total Passenger Facility Charges</b>			<b>1,044,485</b>	<b>-</b>	<b>-</b>	<b>1,044,485</b>
			<b>\$ 4,380,374</b>	<b>\$ 2,628,302</b>	<b>\$ 639,325</b>	<b>\$ 7,648,001</b>

See notes to schedule of expenditures of federal and state awards and passenger facility charges.

## New Hanover County Airport Authority

### Notes to Schedule of Expenditures of Federal and State Awards and Passenger Facility Charges

---

#### Note 1. General

The accompanying schedule of expenditures of Federal and State awards and passenger facility charges (PFC) reports the activity of all Federal and State financial award programs of New Hanover County Airport Authority (Authority) and the passenger facility charge program. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance, Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. State matching portions of Federal programs are reflected in the State section of the schedule. The entire local matching portion of the programs is reflected as applicable in the Federal section and the State section of the schedule. All Federal and State financial awards received from Federal and State agencies are included on the schedule, as well as PFC activity as described below.

#### Note 2. Basis of Accounting

Expenditures of passenger facility charges that represent reimbursements to the Authority are reported as amounts are transferred from the restricted bank account and made available to the Authority in accordance with program guidelines. Otherwise, the accompanying schedule of expenditures of federal and state awards and passenger facility charges is presented using the modified accrual basis of accounting, which is its budgetary basis of accounting. Under the modified accrual basis, expenditures include capital outlay and principal payments on long-term debt.

The Authority has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. The Authority has no subrecipient expenditures.

Expenditures are reported on the schedule only at such time as there is an approved award and as activity occurs that obligates the Authority to make a payment, not when the award has been received. As a result, occasionally Federal or State expenditures are reported as reimbursements of local expenditures that have been recorded in a prior year. In addition, certain expenditures reported in the current year reflect a reclassification of expenditures made in a prior year. The following schedule shows the local funds expended in 2017 prior to approval of the project that were reported as expenditures in the 2018 schedule.

Program	Grantor's Number	Total Expenditures Reported in 2018	Local Funds Expended in 2017 Prior to Approval
Airport Improvement Program	3-37-0084-052-2016	68,905	55,665
Airport Improvement Program	3-37-0084-053-2017	958,434	253,387
Airport Improvement Program	3-37-0084-054-2017	1,508,031	169,186

#### Note 3. Passenger Facility Charges

The Authority was authorized to impose a passenger facility charge to a maximum of \$7,984,994 under application 98-03-C-00-ILM, as amended; \$9,668,699 under application 03-04-C-00-ILM, as amended; \$6,028,314 under application 07-05-C-00-ILM, as amended; and \$7,947,596 under 14-06-C-00-ILM. Current year expenditures from these funds were \$1,044,485 and are included on the schedule of federal and state awards and passenger facility charges.

## **New Hanover County Airport Authority**

### **Notes to Schedule of Expenditures of Federal and State Awards and Passenger Facility Charges**

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#### **Note 3. Passenger Facility Charges (Continued)**

Revenue from passenger facility charges for the year ended June 30, 2018, consists of \$1,833,987 for passenger facility charges plus \$18,335 of interest earnings from the restricted bank account. Passenger facility charges are administered by the FAA but are not considered federal awards. The Authority's presentation in this schedule is in accordance with FAA requirements.

Expenditures are reported on the schedule only at such time as there is an approved award and as activity occurs that obligates the Authority to make a payment, not when the award has been received. As a result, certain passenger facility charges expenditures are reported as reimbursements that have been recorded in a prior year. In the 2018 schedule, no passenger facility charges expenditures reported were expended in a previous year.

#### **Note 4. State Grant Received in Advance**

Under award 36244.36.20.2, the Authority received state funds from the North Carolina Department of Transportation totaling \$5,823,890 during the year ended June 30, 2018. The funds were received for the purpose of funding improvements to the airport and paying debt service or related financing costs and expenses on revenue bonds or notes issued by the Authority. During the year ended June 30, 2018, the Authority incurred and paid expenditures totaling \$2,190,544 for improvements associated with award 36244.36.20.2. As of June 30, 2018, the Authority has a restricted cash balance and restricted net position of \$3,633,346 for projects associated with award 36244.36.30.2.