**NORTHEAST OHIO REGIONAL AIRPORT AUTHORITY**
**ASHTABULA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

**NORTHEAST OHIO REGIONAL AIRPORT AUTHORITY**
**ASHTABULA COUNTY**
**DECEMBER 31, 2018**

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# INDEPENDENT AUDITOR'S REPORT

Northeast Ohio Regional Airport Authority
Ashtabula County
P.O. Box 379
Jefferson, Ohio 44047

To the Board of Directors:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Northeast Ohio Regional Airport Authority, Ashtabula County, Ohio (the Airport), a component unit of Ashtabula County, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Airport's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Airport's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Ohio Regional Airport Authority, Ashtabula County as of December 31, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, during 2018, the Airport adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

***Other Matters***

The Airport has suffered recurring losses from operations as of December 31, 2018 and prior years. Based solely on inquiries and scanning of unaudited fund cash balances as of August 30, 2019, the Airport may require additional revenue or cost-cutting measures to continue paying its obligations when due. The notes to the financial statements do not disclose this matter; however, this does not affect our opinion on these financial statements.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the Airport's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis 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 and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019, on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

Keith Faber
Auditor of State
Columbus, Ohio

September 23, 2019

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The discussion and analysis of the Northeast Ohio Regional Airport Authority's (the "Airport") financial performance provides an overall review of the Airport's financial activities for the year ended December 31, 2018. The intent of this discussion and analysis is to look at the Airport's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Airport's financial performance.

***Financial Highlights***

Key financial highlights for 2018 are as follows:

- The Airport's net position decreased by $634,530, or 4 percent.

- During 2018, the Airport had an operating loss of $1,219,001 and total net position decreased by $634,530. Capital grants of $137,402 coupled with contributions and donations made to the Airport from the County and private donors of $195,000 and $267,466, respectively, totaling $462,466 helped to keep the Airport operating.

- The Airport did not make its annual principal and interest payment on its outstanding revenue bond ("Bond Debt Service") this year because the cost to operate and maintain the Airport exceeded its operating revenues. The Airport is not obligated to make Bond Debt Service payments unless operating revenues exceed maintenance and operating expenses.

- The Airport entered into a five-year rental agreement to allow an outside party to manage and farm approximately 190 acres of its land at a price of $15,992 per year. The agreement commences on January 1, 2019 and expires on December 31, 2023.

- For 2018, the Airport adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB), resulting in the restatement of beginning net position from the previously reported $14,863,974, to $14,791,926.

- The Airport's total net pension liability increased to $179,628 from $177,125 and the OPEB liability increased to $116,194, from $73,732, a combined increase of $44,965. For more information on these liabilities see Notes 7 and 8 to the basic financial statements.

This report consists of a series of financial statements. The *Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position* provide information about the activities of the Airport and present a longer-term view of the Airport's finances.

A question typically asked about the Airport's finances "How did we do financially during 2018?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Airport and its activities in a way that helps answer this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the *accrual basis of accounting* which is similar to the accounting used by most private-sector companies. The Airport charges a fee to customers to help it cover part of the services it provides. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Airport's *net position* and *changes in that net position*. This change in net position is important because it tells the reader that, for the Airport as a whole, the *financial position* of the Airport has improved or diminished. The reader will need to consider other non-financial factors (e.g. fuel prices, FAA regulations, weather, etc.) in order to assess the overall health of the Airport.

## The Airport as a Whole

Recall that the Statement of Net Position provides the perspective of the Airport as a whole. Table 1 provides a summary of the Airport's net position for 2018, compared to 2017:

**(Table 1) Net Position**

| | Business-Type Activities | | |
|---|---|---|---|
| | | (Restated) | |
| | 2018 | 2017 | Change |
| **Assets** | | | |
| Current and Other Assets | $413,971 | $1,841,745 | ($1,427,774) |
| Capital Assets, Net of Depreciation | 15,077,462 | 15,451,909 | (374,447) |
| Total Assets | 15,491,433 | 17,293,654 | (1,802,221) |
| **Deferred Outflows of Resources** | | | |
| Pension - OPERS | 75,247 | 79,528 | 4,281 |
| OPEB - OPERS | 31,784 | 1,684 | 30,100 |
| Total | 107,031 | 81,212 | 34,381 |
| **Liabilities** | | | |
| Current and Other Liabilities | 78,444 | 1,375,279 | 1,296,835 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 81,000 | 39,700 | (41,300) |
| Due in More than One Year: | | | |
| Net Pension Liability | 179,628 | 177,125 | (2,503) |
| Net OPEB Liability | 116,194 | 73,732 | (42,462) |
| Revenue Bonds | 867,078 | 908,378 | 41,300 |
| Total Liabilities | 1,322,344 | 2,574,214 | 1,251,870 |
| **Deferred Inflows of Resources** | | | |
| Land Rent | 63,970 | 0 | (63,970) |
| Pension - OPERS | 46,098 | 8,726 | (37,372) |
| OPEB - OPERS | 8,656 | 0 | 8,656 |
| Total | 118,724 | 8,726 | (92,686) |
| **Net Position** | | | |
| Net Investment in Capital Assets | 14,129,384 | 14,503,831 | (374,447) |
| Restricted for Debt Service | 3,008 | 91,271 | (88,263) |
| Unrestricted | 25,004 | 196,824 | (171,820) |
| Total Net Position | $14,157,396 | $14,791,926 | ($634,530) |

The net pension liability (NPL) is one of the largest liabilities reported by the Airport at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the Airport adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Airport's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Airport's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Airport is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Airport's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Airport is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting.

Total assets decreased $1,802,221 during 2018. This decrease was the result of a decrease in intergovernmental receivables of $1,339,815 as the runway extension and shift project was completed and a capital assets decrease of $374,447 due to annual depreciation exceeding current year additions.

Total liabilities decreased by $1,251,870 during 2018, which is a 49 percent change from the prior year. This change is due to a decrease in accounts, contracts and retainage payable related to the runway shift and expansion project. Long-term liabilities increased slightly due to the increase in net pension and net OPEB liabilities of $44,965.

Deferred outflows and inflows of resources represent pension and OPEB related payments to OPERS and land rent payments.

In total, net position of the Airport decreased by $634,530 which can be attributed to the decrease in capital assets and receivables during the year. Table 2 shows the revenues, expenses and the changes in net position for the year ended December 31, 2018 compared to the year ended December 31, 2017.

**(Table 2)**
**Changes in Net Position**

| | Business-Type Activities | | |
|---|---|---|---|
| | 2018 | 2017 | Change |
| ***Revenues*** | | | |
| *Operating Revenues:* | | | |
| Charges for Services | $203,039 | $114,500 | $88,539 |
| Other Operating Revenues | 406 | 66,586 | (66,180) |
| *Total Operating Revenues:* | 203,445 | 181,086 | 22,359 |
| ***Expenses*** | | | |
| *Operating Expenses:* | | | |
| Personal Services | 99,673 | 151,953 | 52,280 |
| Fringe Benefits | 102,132 | 56,161 | (45,971) |
| Contractual Services | 592,071 | 268,492 | (323,579) |
| Materials and Supplies | 137,273 | 93,327 | (43,946) |
| Depreciation | 466,604 | 466,847 | 243 |
| Other Operating Expenses | 24,693 | 71,766 | 47,073 |
| *Total Operating Expenses:* | 1,422,446 | 1,108,546 | (313,900) |
| Operating Loss | (1,219,001) | (927,460) | (291,541) |
| ***Non-Operating Revenues (Expenses):*** | | | |
| Interest Income | 348 | 524 | (176) |
| Capital Grants | 137,402 | 9,207,582 | (9,070,180) |
| Contributions and Donations | 267,466 | 626,394 | (358,928) |
| Intergovernmental Revenue (County) | 195,000 | 194,538 | 462 |
| Land Rent/Management Proceeds | 38,394 | 0 | 38,394 |
| Interest and Fiscal Charges | (54,139) | (44,221) | (9,918) |
| ***Total Non-Operating Revenues (Expenses):*** | 584,471 | 9,984,817 | (9,400,346) |
| Change in Net Position | (634,530) | 9,057,357 | (9,691,887) |
| Net Position Beginning of Year - Restated | 14,791,926 | N/A | |
| Net Position End of Year | $14,157,396 | $14,791,926 | ($634,530) |

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $1,684 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of $21,017. Consequently, in order to compare 2018 total operating expenses to 2017, the following adjustments are needed:

| | |
|---|---|
| Total 2018 Operating Expenses under GASB 75 | $1,422,446 |
| OPEB Expense under GASB 75 | (21,017) |
| Adjusted 2018 Operating Expenses | 1,401,429 |
| Total 2017 Operating Expenses under GASB 45 | 1,108,546 |
| Increase in Operating Expenses not Related to OPEB | 292,883 |

Operating revenues increased by $22,359, or just over 12 percent from the previous year due to an increase in fuel sales and rents collected. Operating expenses increased by $313,900 from the prior year due mostly to an increase in contractual services operating expenses related to the cost of relocating and burying overhead lines on Airport property. The Airport's total net position decreased $634,530 from the prior year.

## Capital Assets

The largest portion of the Airport's net position each year is its net investment in capital assets. The Airport uses these capital assets to provide services to the businesses and public using the Airport. Table 3 shows 2018 balances compared with 2017.

**(Table 3)**
Capital Assets at December 31 (Net of Depreciation)
Business-Type Activities

| | 2018 | 2017 | Change |
|---|---|---|---|
| Land | $693,478 | $693,478 | $0 |
| Buildings and Improvements | 2,048,775 | 2,106,965 | (58,190) |
| Improvements other than Buildings | 12,034,750 | 12,389,870 | (355,120) |
| Vehicles | 216,830 | 183,939 | 32,891 |
| Furniture and Equipment | 83,629 | 77,657 | 5,972 |
| *Total* | $15,077,462 | $15,451,909 | ($374,447) |

The $374,447 decrease in capital assets was due to current year capital additions of $92,157 not exceeding current year depreciation of $466,604 during 2018. Note 10 of the basic financial statements provides a more detailed look at the capital asset activity during 2018.

## Long-Term Liabilities

In 2005, the Airport issued revenue bonds in the amount of $1,400,000 in order to finance new hangar construction. The revenue bonds will mature in thirty years and have an interest rate of 4.125 percent. The Airport's outstanding long-term obligations are included in the following table:

**(Table 4)**
**Outstanding Long-Term Liabilities, at December 31**

| | 2018 | (Restated) 2017 | Change |
|---|---|---|---|
| Revenue Bonds | $948,078 | $948,078 | $0 |
| Net Pension Liability | 179,628 | 177,125 | (2,503) |
| Net OPEB Liability | 116,194 | 73,732 | (42,462) |
| Total | $1,243,900 | $1,198,935 | ($44,965) |

The Airport did not make its scheduled principal and interest payment during 2018 but had made additional principal payments in the past, so they are ahead of schedule on payments. Additional information concerning the Airport's long-term obligations can be found in Note 6 to the basic financial statements.

**Current Financial Issues**

The Northeast Ohio Regional Airport generates revenue from two activities. One, the sale of aviation fuels for jet aircraft (Jet A) and piston powered aircraft (100LL gasoline). Second, rental of hangar units or space in community hangars. Other revenue sources are minimal and include sales of lubrications oils, navigation charts, parking and handling fees. During 2017, the Airport was closed from April through mid-August for a major reconstruction of the Airport. Tenants relocated their aircraft to nearby airports and fuel sales were restricted to all aircraft with the exception of helicopters. Fuel sales and rental revenue for 2016 vs 2018 are reported. 2018 revenues reflect the first full year of operations after the project completion.

Fuel sales volume for Jet fuel decreased 3 percent from 2016, to 20,634 gallons, generating $45,361 in revenue. Fuel sales for 100LL, typically used in light piston powered aircraft, increased 40 percent generating $8,334 in revenue. Markets for the two fuels are significantly different with Jet or Turbine fuels being used by business jets piloted by professional crews. 100LL fuel is used in single and twin-engine aircraft used for a variety of activities ranging from business or personal travel to simple local flying activity. Overall, we are seeing a long term reduction in fuel sales for 100LL which reflects a national trend driven by the total cost of flying and a reduction in the number of pilots and aircraft. Jet A sales are driven by the travel needs of various businesses. The business jets are significantly more capable of flying in adverse weather allowing operations at times, and in conditions, not possible with private aircraft. Hence, there is less seasonality in the income stream generated by business jets.

Hangar rentals increased to $54,730 in 2018 a slight increase compared to 2016. Hangar rental income peaked in 2011 at $110,480. These revenue decreases are due to the loss of hangar tenants resulting in owners quitting aviation and selling their aircraft or owners relocating to other airports.

During construction the Airport implemented a marketing effort to attract new tenants to the improved runway and new terminal building. We were able to attract one additional aircraft and all of our regular tenants returned. Business aircraft have returned with one regular customer having upgraded from a turboprop to a jet. A flying club has now been established on the Airport with two aircraft available for club members' use and instruction. The club is already generating fuel sales revenue and hangar rental.

All of the adverse trends are part of a weak local and national economy. This is mostly reflected in the personal use of aircraft and the cost of owning and operating an aircraft or renting from a flight school or flying club. Learning to fly or operating an aircraft is an expensive activity and requires a healthy economy and good paying jobs in order to thrive. Jet A fuel sales reflect visits from economic partners with operations in the region and our locally based jets.

During 2018, the Airport entered into an agreement with the local Affiliate of the Cleveland Clinic (Ashtabula County Medical Center) to support patient transfer activity between the hospital and the helicopter operations of the Clinic. During winter months, poor weather makes the heli-pad at the local hospital unusable which requires patients to travel in ambulances for care at the Cleveland Clinic. This travel delays needed care and exposes the patient to weather hazards typical of winter snow belt roads. The Airport does not expect significant revenue increase from this activity but views this as an opportunity to demonstrate the value of the Airport to county residents.

## Outlook:

We think that business travel will continue to grow and revenue generation from this business segment will continue to be a significant part of Airport financial performance. Personal aviation is not expected to quickly respond to efforts by various special interest organizations to promote flying and grow the pilot population.

During the first quarter of 2019 interest in the Airport has increased, resulting in discussions with several different entities. Three projects are in the discussion stage and have yet gotten to the point where we are negotiating. The projects are interesting and promise significant revenue potential. All of these projects involve development of a base of operation for turbine powered aircraft. We expect that by the third quarter of 2019, the Airport will have had substantive discussions with principal decision makers. Both our airport facility and our location in the northeast corner of Ohio are attracting this interest.

The Airport has entered into an agreement with a flight training and airport management company to develop and present a ground school course for young adults and adults that will end with the opportunity to take the written test for a private pilot training and a one hour familiarization flight lesson. The goal of this effort is to expose the young adults to the career opportunities available in aviation and to inspire everyone attending to take flight training. The Airport is providing support for the ground school course, meeting room and flight experience. The course is scheduled for late spring and marketing materials are developed and awaiting distribution.

The web site for the Northeast Ohio Regional Airport Authority is being redesigned to reflect our capabilities and highlight the investments made in the airport over the past couple of years. Social media postings are planned to maintain interest in Airport events as well as runway conditions in poor weather.

Policies and actions are in place to improve both Airport operating performance and financial performance in light of significant challenges. The County Commissioners also allocated $195,000 from the General fund to support Airport operations in 2018 with a like amount pledged for 2019.

## Contacting the Airport's Finance Department

This financial report is designed to provide our citizens, taxpayers, Airport users, and all interested parties with a general overview of the Airport's finances and to show the Airport's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dwight Bowden, President of Ashtabula County Airport Authority dba the Northeast Ohio Regional Airport Authority, 2382 Airport Road, P.O. Box 379, Jefferson, Ohio 44047.

**Northeast Ohio Regional Airport Authority**
Ashtabula County, Ohio

*Statement of Net Position*
*December 31, 2018*

| | |
|---|---|
| **Assets** | |
| *Current Assets:* | |
| Cash and Cash Equivalents | $215,456 |
| Prepaid Assets | 18,686 |
| Fuel Inventory | 30,548 |
| Lease Receivable | 61,875 |
| Rent Receivable | 79,962 |
| Cash and Cash Equivalents: | |
| In Segregated Accounts | 7,444 |
| *Total Current Assets* | 413,971 |
| *Non-Current Assets:* | |
| Nondepreciable Capital Assets | 693,478 |
| Depreciable Capital Assets, Net | 14,383,984 |
| *Total Non-Current Assets* | 15,077,462 |
| *Total Assets* | $15,491,433 |
| **Deferred Outflows of Resources** | |
| Pension | 75,247 |
| OPEB | 31,784 |
| *Total Deferred Outflows of Resources* | 107,031 |
| **Liabilities** | |
| *Current Liabilities:* | |
| Accounts Payable | $14,577 |
| Accrued Wages | 2,120 |
| Intergovernmental Payable | 863 |
| Accrued Interest Payable | 59,072 |
| Unearned Revenue | 1,812 |
| *Total Current Liabilities* | 78,444 |
| *Non-Current Liabilities:* | |
| Due Within One Year | 81,000 |
| Due In More than One Year: | |
| Net Pension Liability | 179,628 |
| Net OPEB Liability | 116,194 |
| Other Amounts Due in More than One Year | 867,078 |
| *Total Non-Current Liabilities* | 1,243,900 |
| *Total Liabilities* | 1,322,344 |
| **Deferred Inflows of Resources** | |
| Land Rent | 63,970 |
| Pension | 46,098 |
| OPEB | 8,656 |
| *Total Deferred Inflows of Resources* | 118,724 |
| **Net Position** | |
| Net Investment in Capital Assets | 14,129,384 |
| Restricted for Debt Service | 3,008 |
| Unrestricted | 25,004 |
| *Total Net Position* | $14,157,396 |

See accompanying notes to the basic financial statements

**Northeast Ohio Regional Airport Authority**
Ashtabula County, Ohio

*Statement of Revenues, Expenses and Changes in Net Position*
*For the year ended December 31, 2018*

| | |
|---|---|
| **Operating Revenue** | |
| Sales | $138,559 |
| Rent | 60,730 |
| Leases | 3,750 |
| Other Operating Revenues | 406 |
| *Total Operating Revenue* | 203,445 |
| **Operating Expenses** | |
| Personal Services | 99,673 |
| Fringe Benefits | 102,132 |
| Contractual Services | 592,071 |
| Materials and Supplies | 137,273 |
| Depreciation | 466,604 |
| Other Operating Expenses | 24,693 |
| *Total Operating Expenses* | 1,422,446 |
| *Operating Loss* | (1,219,001) |
| **Non-Operating Revenues (Expenses)** | |
| Interest Income | 348 |
| Capital Grants | 137,402 |
| Contributions and Donations | 267,466 |
| Intergovernmental Revenue - County Appropriation | 195,000 |
| Land Rent/Management Proceeds | 38,394 |
| Interest and Fiscal Charges | (54,139) |
| *Total Non-Operating Revenues (Expenses)* | 584,471 |
| *Change In Net Position* | (634,530) |
| *Net Position Beginning of Year - Restated (See Note 3)* | 14,791,926 |
| *Net Position End of Year* | $14,157,396 |

See accompanying notes to the basic financial statements

**Northeast Ohio Regional Airport Authority**
Ashtabula County, Ohio

*Statement of Cash Flows*
*For the year ended December 31, 2018*

| | |
|---|---|
| **Cash Flows From Operating Activities:** | |
| Cash Received from Customers | $198,033 |
| Other Operating Revenue | 406 |
| Cash Paid for Goods and Services | (739,085) |
| Cash Paid to Employees | (137,677) |
| Other Operating Expenses | (24,693) |
| *Net Cash Used for Operating Activities* | (703,016) |
| **Cash Flows From Non-Capital Financing Activities:** | |
| Land Rent/Management Proceeds | 22,402 |
| **Cash Flows From Investing Activities:** | |
| Interest on Investments | 348 |
| **Cash Flows From Capital and Related Financing Activities:** | |
| Contributions and Donations | 462,466 |
| Capital Grants | 1,477,217 |
| Payment for Capital Acquisitions | (1,415,354) |
| Interest Payments | (5,689) |
| *Net Cash Provided by Capital and Related Financing Activities* | 518,640 |
| Net Decrease in Cash and Cash Equivalents | (161,626) |
| Cash and Cash Equivalents at Beginning of Year | 384,526 |
| Cash and Cash Equivalents at End of Year | $222,900 |
| **Reconciliation of Operating Loss to Net Cash Used for Operating Activities** | |
| Operating Loss | ($1,219,001) |
| **Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:** | |
| Depreciation | 466,604 |
| *(Increase) Decrease in Assets and Deferred Outflows of Resources:* | |
| Accounts Receivable | 4,795 |
| Prepaid Assets | (873) |
| Inventory | 6,123 |
| Leases Receivable | (3,750) |
| Deferred Outflows of Resources - Pension | 4,281 |
| Deferred Outflows of Resources - OPEB | (30,100) |
| *Increase (Decrease) in Liabilities and Deferred Inflows of Resources:* | |
| Accounts Payable | (14,991) |
| Accrued Wages | (26) |
| Intergovernmental Payable | (1,020) |
| Unearned Revenue | (6,051) |
| Net Pension Liability | 2,503 |
| Net OPEB Liability | 42,462 |
| Deferred Inflows of Resources - Pension | 37,372 |
| Deferred Inflows of Resources - OPEB | 8,656 |
| Total Adjustments | 515,985 |
| Net Cash Used for Operating Activities | ($703,016) |

See accompanying notes to the basic financial statements

## Note 1 - Description of the Northeast Ohio Regional Airport and Reporting Entity

### *A. The Airport*

The Northeast Ohio Regional Airport Authority, Ashtabula County, (the Airport) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Airport is directed by a nine member Board, appointed by the County commissioners. The Board of Trustees has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name; the power to establish and collect rates, rentals and other charges; the authority to acquire, construct, operate, manage and maintain airport facilities; the authority to buy and sell real and personal property; and the authority to issue debt for acquiring or constructing any facility or permanent improvement. Since the Airport imposes a financial burden on the County, the Airport is reflected as a component unit of Ashtabula County. The Airport has a December 31 year end.

### *B. Reporting Entity*

The Airport has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Airport are not misleading. The primary government consists of all departments, boards and agencies that are not legally separate from the Airport.

Component units are legally separate organizations for which a primary government is financially accountable. The Airport is financially accountable for an organization if the primary government appoints a voting majority of the organization's governing board and (1) the Airport is able to significantly influence the programs or services performed or provided by the organization; or (2) the Airport is legally entitled to or can otherwise access the organization's resources; or (3) the Airport is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or (4) the Airport is obligated for the debt of the organization. Under the criteria specified in Statement No. 14, the Airport has no component units. Accordingly, the accompanying financial statements include only the accounts and transactions of the Airport. The Airport is, however, considered to be a component unit of Ashtabula County ("the County") by virtue of the fact the Airport's Board of Trustees is appointed by the County and the Airport imposes a financial burden on the County. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Airport is not financially accountable for any other organization.

## Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources are generally applicable to the primary government. The more significant of the Airport's accounting policies are described below.

### *A. Basis of Presentation*

The Airport reports its operations as a single enterprise fund. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

The accounting and financial reporting treatment is determined by measurement focus. Proprietary accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Airport finances and meets the cash flow needs of its enterprise activity.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Unbilled service charges are recognized as revenue at year end.

Non-exchange transactions, in which the Airport receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Airport must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the airport on a reimbursement basis.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before eligibility requirements are met are also recorded as a deferred inflow of resources. On the accrual basis of accounting, expenses are recognized at the time they are incurred.

*Deferred Outflows/Inflows of Resources* - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Airport, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are explained in Notes 7 and 8.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Airport, deferred inflows of resources were reported for land rent, pension, and OPEB. Deferred inflows of resources related to pension and OPEB are reported on the statement of net position (see Notes 7 and 8).

### *C. Cash and Cash Equivalents*

The Airport maintains interest bearing depository accounts. All funds of the Airport are maintained in these accounts. These interest bearing depository accounts are presented in the statement of net position as “Cash and Cash Equivalents”. The Airport has no investments.

The Airport has a segregated bank account for money held separate from the Airport's central bank accounts for donations related to the terminal building project. This account is presented as "Cash and Cash Equivalents: Segregated Accounts" since it is not required to be deposited into the Airport treasury.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general operating fund during 2018 amounted to $348.

### *D. Prepayments*

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

### *E. Fuel Inventory*

Inventory consists of two types of aviation fuel for sale to customers and is stated at cost, which is determined on a first-in, first-out basis. The cost of inventory is recorded as an expense when sold or used.

### *F. Capital Assets*

All capital assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Airport maintains a capitalization threshold of five thousand dollars.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported capital assets except land and construction in progress are depreciated. Depreciation in the enterprise fund is computed using the straight-line basis over the following estimated useful lives:

| Estimated Lives | Description |
|---|---|
| 25 - 40 years | Buildings and Improvements |
| 25 - 40 years | Improvements other than Buildings |
| 5 - 10 years | Vehicles |
| 3 - 20 years | Furniture and Equipment |

### *G. Net Position*

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for debt service represents monies set aside for the repayment of debt.

The Airport applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### *H. Operating Revenues and Expenses*

Operating revenues are those revenues that are generated directly from primary activities. For the Airport, these revenues are charges for services, rentals, leases and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Airport. Revenues and expenses which do not meet these definitions are reported as non-operating.

### *I. Pensions/Other Postemployment Benefits (OPEB)*

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

### *J. Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## **Note 3 – <u>Change in Accounting Principles & Restatement of Prior Year Net Position</u>**

### *A. Change in Accounting Principles*

For 2018, the Airport has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, Statement No. 81, “Irrevocable Split-Interest Agreements”, Statement No. 85, “Omnibus 2017”, and GASB Statement No. 86, “Certain Debt Extinguishment Issues”.

GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The implementation of GASB Statement 75 resulted in an overall restatement of beginning net position, as previously reported (see below).

GASB Statement No. 81 aims to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts-or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements-in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Airport.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB.) The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Airport.

GASB Statement No. 86 aims to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Airport.

### *B. Restatement of Prior Year Net Position*

| | Airport |
|---|---|
| Net Position at December 31, 2017, as Previously Reported | $14,863,974 |
| *Adjustments:* | |
| Net Other Postemployment Benefit (OPEB) Liability | (73,732) |
| Contributions Subsequent to Measurement Date | 1,684 |
| Restated Net Position at December 31, 2017 | $14,791,926 |

Other than employer contributions subsequent to the measurement date, the Airport made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**Note 4 – Deposits and Investments**

State statues classify monies held by the Airport into three categories.

Active monies are public deposits necessary to meet the demands on the treasury. Such monies must be maintained either as cash by the Airport, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Airport has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Airport's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies held by the Airport can be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in securities listed above;

4. Bonds and other obligations of the State of Ohio or Ohio local governments;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;

7. The State Treasurer's investment pool (STAR Ohio);

8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Airport, and must be purchased with the exception that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Cash on Hand**

At year-end, the Airport had $2,147 in un-deposited cash on hand which is included on the financial statements of the Airport as part of "Cash and Cash Equivalents."

**Deposits with Financial Institutions**

At December 31, 2018, the carrying amount of all Airport deposits was $222,900 and the bank balance of all Airport deposits was $237,645. All of the bank balance was covered by Federal Deposit Insurance Corporation (FDIC) and none was potentially exposed to custodial credit risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Airport will not be able to recover deposits or collateral securities that are in possession of an outside party. The Airport has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by (1) eligible securities pledged to the Airport and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the Airport's financial institutions participated in OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Airport to a successful claim by the FDIC.

## Note 5 – Operating Lease Agreements

In prior years, the Airport entered into two operating lease agreements for hangar improvements. The hangar improvements were paid for by tenants in exchange for the free use of the hangars for an agreed upon number of years. When these hangar agreements expire, the assets will revert to the Airport and will be capitalized at their current fair market value. The Airport will recognize a gain or loss on the expired lease transactions, which is the difference between the leases receivable being carried on the Airport's statement of net position and the fair market value of the assets acquired.

**Note 6 – Long-Term Obligations**

During 2005, the Airport issued revenue bonds where the government income derived from the constructed assets will be used to retire the debt. The interest rate on the revenue bonds is 4.125 percent and they are scheduled to mature in 2035. Changes in the long-term obligations during 2018 were as follows:

| | (Restated) Balance 12/31/2017 | Additions | Reductions | Balance 12/31/2018 | Amount Due In One Year |
|---|---|---|---|---|---|
| ***Business-Type Activities*** | | | | | |
| Revenue Bonds | $948,078 | $0 | $0 | $948,078 | $81,000 |
| Net Pension Liability | 177,125 | 2,503 | 0 | 179,628 | 0 |
| Net OPEB Liability | 73,732 | 42,462 | 0 | 116,194 | 0 |
| ***Total Business-Type Activities*** | $ 1,198,935 | $ 44,965 | $ 0 | $ 1,243,900 | $ 81,000 |

The Airport pays obligations related to employee compensation from the enterprise fund. The Airport did not make its annual principal and interest payment this year because it is not obligated to do so unless operating revenues exceed maintenance and operating expenses. The annual scheduled payments to retire this debt are as follows:

| | 2005 Revenue Bonds | | |
|---|---|---|---|
| Year | Principal | Interest | Total |
| 2019 | $81,000 | $83,338 | $164,338 |
| 2020 | 43,100 | 39,146 | 82,246 |
| 2021 | 44,800 | 37,368 | 82,168 |
| 2022 | 46,700 | 35,520 | 82,220 |
| 2023 | 48,600 | 33,594 | 82,194 |
| 2024-2028 | 285,100 | 136,199 | 421,299 |
| 2029-2033 | 325,900 | 74,658 | 400,558 |
| 2034-2035 | 72,878 | 6,386 | 79,264 |
| *Total* | $948,078 | $446,209 | $1,394,287 |

**Note 7 - Defined Benefit Pension Plan**

***Net Pension Liability***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the retirement systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The retirement systems report investments at fair value.

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions are provided to an employee, on a deferred payment basis, as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Airport's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and other variables. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Airport's share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting.

Ohio Revised Code limits the Airport's obligation for this liability to annually required payments. The Airport cannot control benefit terms or the manner in which pensions are financed; however, the Airport does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. A liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on the accrual basis of accounting.

***Plan Description - Ohio Public Employees Retirement System (OPERS)***

Plan Description – The Airport participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members of the Airport may elect the member-directed plan and the combined plan, substantially all employees are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional pension plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (800) 222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| **Group A** Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | **Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | **Group C** Members not in other Groups and members hired on or after January 7, 2013 |
|---|---|---|
| **State and Local** | **State and Local** | **State and Local** |
| **Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| **Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | State and Local |
|---|---|
| **2018 Statutory Maximum Contribution Rates** | |
| Employer | 14.0% |
| Employee | 10.0% |
| **2018 Actual Contribution Rates** | |
| Employer: | |
| Pension | 14.0% |
| Post-Employment Health Care Benefits | 0.0% |
| Total Employer | 14.0% |
| Employee | 10.0% |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Airport's contractual required contribution was $14,542 for 2018.

***Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Airport's proportion of the net pension liability was based on the Airport's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | OPERS |
|---|---|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.00078000% |
| Proportion of the Net Pension Liability Current Measurement Date | 0.00114500% |
| Change in Proportionate Share | 0.00036500% |
| Proportionate Share of the Net Pension Liability | $179,628 |
| Pension Expense | $58,698 |

At December 31, 2018, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS |
|---|---|
| **Deferred Outflows of Resources** | |
| Differences between expected and actual experience | $183 |
| Change of Assumptions | $21,467 |
| Change in proportionate share and difference between Airport contributions and proportionate share of contributions | 39,055 |
| Airport contributions subsequent to the measurement date | 14,542 |
| Total Deferred Outflows of Resources | $75,247 |
| **Deferred Inflows of Resources** | |
| Differences between expected and actual experience | $3,541 |
| Net difference between projected and actual earnings on pension plan investments | $38,562 |
| Change in proportionate share and difference between Airport contributions and proportionate share of contributions | 3,995 |
| Total Deferred Inflows of Resources | $46,098 |

$14,542 reported as deferred outflows of resources related to pension resulting from Airport contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | OPERS |
|---|---|
| **Year Ending December 31:** | |
| 2019 | $32,734 |
| 2020 | 14,701 |
| 2021 | (16,981) |
| 2022 | (15,847) |
| Total | $14,607 |

### *Actuarial Assumptions - OPERS*

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement, in accordance with the requirements of GASB 67:

| | |
|---|---|
| Wage Inflation | 3.25 Percent |
| Future Salary Increases, Including Inflation | 3.25 Percent to 10.75 Percent |
| COLA or Ad hoc COLA | Pre 1/7/2013 retirees: 3 Percent;<br>Post 1/7/2013 retirees: 3 Percent Simple through 2018, then 2.15 Percent Simple |
| Investment Rate of Return | 7.50 Percent |
| Actuarial Cost Method | Individual Entry Age |
| Mortality Tables | RP-2014 |

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP- 2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building–block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return |
|---|---|---|
| Fixed Income | 23.00 % | 2.20 % |
| Domestic Equities | 19.00 | 6.37 |
| Real Estate | 10.00 | 5.26 |
| Private Equity | 10.00 | 8.97 |
| International Equities | 20.00 | 7.88 |
| Other Investments | 18.00 | 5.26 |
| Total | 100.00 % | 5.66 % |

***Discount Rate*** The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

***Sensitivity of the Airport's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the Airport's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the Airport's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Airport's Proportionate Share of the Net Pension Liability | $318,974 | $179,628 | $63,456 |

In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 7.50 percent to 7.20 percent. Although the exact amount of these changes is not known, it has the potential to impact the Airport's net pension liability.

## Note 8 – Defined Benefit Other Postemployment Benefits (OPEB) Plan

### *Net OPEB Liability*

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the retirement systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The retirement systems report investments at fair value.

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions-between an employer and its employees-of salaries and benefits for employee services. OPEB is provided to an employee, on a deferred-payment basis, as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Airport's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments, cost trends and other variables. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Airport's share of each plan's unfunded benefits is presented as a long-term *net other postemployment benefit liability* on the accrual basis of accounting.

Ohio Revised Code limits the Airport's obligation for liabilities to OPERS to annual required payments. The Airport cannot control benefit terms or the manner in which OPEB from the cost-sharing, multiple-employer plans are financed; however, the Airport does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB Statement No. 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits but does not require the cost-sharing, multiple-employer retirement systems to provide health care to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

***Plan Description—Ohio Public Employees Retirement System (OPERS)***

The Airport contributes to the health care plans administered by OPERS. OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans; the Traditional Pension Plan, a defined benefit plan; the Combined Plan, a combination defined benefit/defined contribution plan; and the Member-Directed Plan, a defined contribution plan.

Prior to January 1, 2015, OPERS provided comprehensive health care coverage to retirees with 10 or more years of qualifying service credit and offered coverage to their dependents on a premium deduction or direct bill basis. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning January 1, 2016, Traditional Pension Plan and Combined Plan Medicare-eligible retirees could select supplemental coverage through the OPERS Medicare Connector (Connector). The Connector is a relationship with a vendor selected by OPERS and tasked with assisting eligible retirees, spouses and dependents with selecting and purchasing Medicare supplemental coverage through the Medicare market. Retirees that purchase supplemental coverage through the Connector may be eligible for monthly allowances deposited into a health reimbursement arrangement account (HRA) to be used for reimbursement of eligible health care expenses.

The OPERS health care plans and prescription drug coverage for non-Medicare eligible recipients are self-insured. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS and attempts to control costs by using managed care, case management and other programs. Participants in the Member-Directed Plan are not eligible for health care coverage offered to benefit recipients in the Traditional Pension and Combined plans. A portion of the employer contributions for these participants is allocated to a retiree medical account. Upon separation or retirement, participants may be reimbursed for qualified medical expenses from these accounts.

Effective January 1, 2007, OPERS implemented, with a five-year phase-in, the Health Care Preservation Plan (HCPP) to improve the long-term solvency of the health care fund. The HCPP features coverage levels and provides monthly allowances for health care coverage for retirees and their dependents based on the retiree's years of service. The allowance is determined at date of retirement and is adjusted for inflation annually thereafter based on OPERS Board-approved caps.

The financial report of the health care plans is included in the OPERS Comprehensive Annual Financial Report which can be obtained at https://www.opers.org/financial/reports.shtml#CAFR.

Funding Policy-The Ohio Revised Code permits, but does not require, OPERS to offer postemployment health care coverage. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees in Chapter 145 of the Ohio Revised Code. Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The portion of employer contributions allocated to health care for members in the Traditional Pension and Combined plans was 1.0 percent during calendar year 2017. For the calendar year 2018, OPERS decreased the portion allocated to health care to 0 percent. The Airport's contractually required contribution to OPERS health care for 2018 was $0.

***OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred inflows of Resources Related to OPEB***

The net OPEB liability for OPERS was measured as of December 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to December 31, 2017 by incorporating the expected value of health care cost accruals, the actual health care payments, and interest accruals during the year. The Airport's proportion of the net OPEB liability was based on the Airport's share of contributions to the retirement system relative to the contributions of all participating entities. The following is information related to the proportionate share and OPEB expense:

| | OPERS |
|---|---|
| Proportion of the Net OPEB Liability Prior Measurement Date | 0.00073000% |
| Proportion of the Net OPEB Liability Current Measurement Date | 0.00107000% |
| Change in Proportionate Share | 0.00034000% |
| Proportionate Share of the Net OPEB Liability | $116,194 |
| Pension Expense | $21,017 |

At December 31, 2018, the Airport reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | OPERS |
|---|---|
| **Deferred Outflows of Resources** | |
| Differences between expected and actual experience | $91 |
| Change of Assumptions | 8,460 |
| Change in proportionate share and difference between Airport contributions and proportionate share of contributions | 23,233 |
| Total Deferred Outflows of Resources | $31,784 |
| **Deferred Inflows of Resources** | |
| Net difference between projected and actual earnings on pension plan investments | $8,656 |

No amount was reported as deferred outflows of resources related to OPEB resulting from Airport contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

| | OPERS |
|---|---|
| **Year Ending December 31:** | |
| 2019 | $13,032 |
| 2020 | 13,032 |
| 2021 | (772) |
| 2022 | (2,164) |
| Total | $23,128 |

### *Actuarial Assumptions - OPERS*

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of health care costs for financial reporting purposes are based on the substantive plan and include the types of coverages provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017.

Key Methods and Assumptions Used in Valuation of the Total OPEB Liability:

| | |
|---|---|
| Actuarial Valuation Date | December 31, 2016 |
| Rolled-Forward Measurement Date | December 31, 2017 |
| Experience Study | 5-Year Period ended December 31, 2015 |
| Actuarial Cost Method | Individual Age Entry |
| Actuarial Assumptions: | |
| Single Discount Rate | 3.85 Percent |
| Investment Rate of Return | 6.50 Percent |
| Municipal Bond Rate | 3.31 Percent |
| Wage Inflation | 3.25 Percent |
| Projected Salary Increases | 3.25 - 10.75 Percent (includes wage inflation at 3.25 Percent) |
| Health Care Cost Trend Rate | 7.5 Percent, 3.25 Percent ultimate in 2028 |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above tables.

Since the prior measurement date, the single discount rate was decreased from 4.23 percent to 3.85 percent based on a change in the municipal bond rate used between measurement dates.

The allocation of investment assets within the Health Care portfolio is approved by the OPERS Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the OPERS Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 34.00 % | 1.88 % |
| Domestic Equities | 21.00 | 6.37 |
| REIT's | 6.00 | 5.91 |
| International Equities | 22.00 | 7.88 |
| Other Investments | 17.00 | 5.39 |
| Total | 100.00 % | 4.98 % |

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

***Discount Rate***. A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

***Sensitivity of the Airport's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates.*** The following table presents the net OPEB liability calculated using the single discount rate of 3.85% and the expected net OPEB liability if it were calculated using a discount rate that is 1.0 percent lower or 1.0 percent higher than the current rate:

| | 1% Decrease (2.85%) | Current Discount Rate (3.85%) | 1% Increase (4.85%) |
|---|---|---|---|
| Airport's Proportionate Share of the Net OPEB Liability | $154,369 | $116,194 | $85,311 |

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the Actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate:

| | 1% Decrease | Current Health Care Trend Rate | 1% Increase |
|---|---|---|---|
| Airport's Proportionate Share of the Net OPEB Liability | $111,173 | $116,194 | $121,381 |

## Note 9 – <u>Other Employee Benefits</u>

### *A. Sick and Personal Absence Days*

Full time employees are eligible for one paid personal absence day annually which can be used for personal business. Employees are also eligible for five paid sick days, which can be used for illness or sickness. Employment anniversary dates are used in establishing eligibility. The banked liability has no value for time off or for payment of unused days upon termination. Therefore, there was no liability for accrued but unused personal or sick days as of December 31, 2018.

### *B. Vacation*

Full time employees are eligible for paid vacation time depending upon length of service. Vacation time may not be carried over to the following year unless, prior written approval from the Board is granted. Eligible employees will not be paid for any earned but unused vacation upon termination. Therefore, there was no liability for accrued but unused vacation days as of December 31, 2018.

## Note 10 - Capital Assets

A summary of the Airport's capital assets at December 31, 2018 follows:

| | Balance 12/31/2017 | Additions | Deletions | Balance 12/31/2018 |
|---|---|---|---|---|
| ***Capital Assets, not being depreciated:*** | | | | |
| Land | $693,478 | $0 | $0 | $693,478 |
| ***Capital Assets, being depreciated:*** | | | | |
| Buildings and Improvements | 2,808,378 | 14,189 | 0 | 2,822,567 |
| Improvements other than Buildings | 13,452,007 | 0 | 0 | 13,452,007 |
| Vehicles | 655,682 | 53,614 | 0 | 709,296 |
| Furniture and Equipment | 220,800 | 24,354 | 0 | 245,154 |
| ***Total Capital Assets, being depreciated:*** | 17,136,867 | 92,157 | 0 | 17,229,024 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (701,413) | (72,379) | 0 | (773,792) |
| Improvements other than Buildings | (1,062,137) | (355,120) | 0 | (1,417,257) |
| Vehicles | (471,743) | (20,723) | 0 | (492,466) |
| Furniture and Equipment | (143,143) | (18,382) | 0 | (161,525) |
| *Total Accumulated Depreciation* | (2,378,436) | (466,604) | 0 | (2,845,040) |
| *Total Capital Assets being depreciated, net* | 14,758,431 | (374,447) | 0 | 14,383,984 |
| Total Capital Assets, Net | $15,451,909 | ($374,447) | $0 | $15,077,462 |

## Note 11 - Risk Management

### *Commercial Insurance*

The Airport has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**Note 12 – Contingent Liability**

The Airport receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits may require refunding to grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Airport as of December 31, 2018.

**Note 13 – Contributions and Donations**

The Airport receives significant contributions and donations which help it to operate. During 2018, the Airport received $195,000 from the County and $267,466 from other donors.

**Note 14 – Subsequent Event**

On September 12, 2019 the Board of Directors passed a resolution approving the Airport to omit the fiscal year 2019 annual principal and interest payment on its outstanding revenue bond because the cost to operate and maintain the Airport exceeded its operating revenues. The Airport is not obligated to make Bond Debt Service payments unless operating revenues exceed maintenance and operating expenses.

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**Northeast Ohio Regional Airport Authority**
Ashtabula County, Ohio

*Required Supplementary Information*
*Schedule of Airport's Proportionate Share of the Net Pension Liability*
*Ohio Public Employees Retirement System (OPERS) - Traditional Plan*
*Last Five Years (1)*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Airport's Proportion of the Net Pension Liability | 0.00114500% | 0.00078000% | 0.00087300% | 0.00076300% | 0.00076300% |
| Airport's Proportionate Share of the Net Pension Liability | $179,628 | $177,125 | $151,215 | $92,026 | $89,948 |
| Airport's Covered Payroll | $151,358 | $105,925 | $105,460 | $97,692 | $77,643 |
| Airport's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 118.68% | 167.22% | 143.39% | 94.20% | 115.85% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 84.66% | 77.25% | 81.08% | 86.45% | 86.36% |

(1) Information prior to 2014 is not available.

Amounts presented as of the Airport's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

**Northeast Ohio Regional Airport Authority**
Ashtabula County, Ohio

*Required Supplementary Information*
*Schedule of Airport's Proportionate Share of the Net OPEB Liability*
*Ohio Public Employees Retirement System (OPERS)*
*Last Two Years (1)*

| | 2018 | 2017 |
|---|---|---|
| Airport's Proportion of the Net OPEB Liability | 0.00107000% | 0.00073000% |
| Airport's Proportionate Share of the Net OPEB Liability | $116,194 | $73,732 |
| Airport's Covered Payroll | $151,358 | $105,925 |
| Airport's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 76.77% | 69.61% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 54.14% | 54.05% |

(1) Information prior to 2017 is not available.

Amounts presented as of the Airport's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

**Northeast Ohio Regional Airport Authority**
Ashtabula County, Ohio

*Required Supplementary Information*
*Schedule of Airport Pension Contributions*
*Ohio Public Employees Retirement System (OPERS) - Traditional Plan*
*Last Ten Years*

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually Required Pension Contribution | $14,542 | $19,928 | $12,105 | $12,656 |
| Pension Contributions in Relation to the Contractually Required Contribution | ($14,542) | ($19,928) | ($12,105) | ($12,656) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| Airport Covered Payroll | $105,116 | $151,358 | $105,925 | $105,460 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 13.00% | 12.00% | 12.00% |

See accompanying notes to the required supplementary information and amounts presented in Note 7.

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $11,723 | $10,094 | $6,270 | $5,780 | $3,500 | $5,053 |
| ($11,723) | ($10,094) | ($6,270) | ($5,780) | ($3,500) | ($5,053) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $97,692 | $77,643 | $62,703 | $57,800 | $39,407 | $62,554 |
| 12.00% | 13.00% | 10.00% | 10.00% | 8.88% | 8.08% |

**Northeast Ohio Regional Airport Authority**
Ashtabula County, Ohio

*Required Supplementary Information*
*Schedule of Airport OPEB Contributions*
*Ohio Public Employees Retirement System (OPERS)*
*Last Ten Years*

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually Required OPEB Contribution | $0 | $1,684 | $2,017 | $2,109 |
| OPEB Contributions in Relation to the Contractually Required Contribution | $0 | ($1,684) | ($2,017) | ($2,109) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| Airport Covered Payroll | $105,116 | $151,358 | $105,925 | $105,460 |
| Contributions as a Percentage of Covered Payroll | 0.00% | 1.00% | 2.00% | 2.00% |

See accompanying notes to the required supplementary information and amounts presented in Note 8.

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $1,954 | $776 | $2,508 | $2,312 | $2,017 | $3,705 |
| ($1,954) | ($776) | ($2,508) | ($2,312) | ($2,017) | ($3,705) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $97,692 | $77,643 | $62,703 | $57,800 | $39,407 | $62,554 |
| 2.00% | 1.00% | 4.00% | 4.00% | 5.12% | 5.92% |

## ***Pension***

*Ohio Public Employees Retirement System (OPERS)*

*Changes in benefit terms*: There were no changes in benefit terms from the amounts reported for 2014-2018.

*Changes in assumptions*: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumptions for 2018.

## ***Other Postemployment Benefits (OPEB)***

*Ohio Public Employees Retirement System (OPERS)*

*Changes in benefit terms*: There were no changes in benefit terms from the amounts reported for 2017-2018.

*Changes in assumptions*: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 4.23% down to 3.85%.

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED DECEMBER 31, 2018

| **FEDERAL GRANTOR**<br>***Pass Through Grantor***<br>**Program / Cluster Title** | **Federal CFDA Number** | **Pass Through Entity Identifying Number** | **Total Federal Expenditures** |
|---|---|---|---|
| **U.S. Department of Transportation**<br>***Direct Program*** | | | |
| Airport Improvement Program - FY16 | 20.106 | (A) | 1,337,811 |
| Airport Improvement Program - FY15 | 20.106 | (A) | 74,183 |
| Total - AIP | | | **1,411,994** |
| Total U.S. Department of Transportation | | | **1,411,994** |
| **Total Expenditures of Federal Awards** | | | **$1,411,994** |

(A) - Entity number not known or not applicable.

*The accompanying notes are an integral part of this Schedule.*

**NORTHEAST OHIO REGIONAL AIRPORT AUTHORITY**
**ASHTABULA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**2 CFR 200.510(b)(6)**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

## NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Northeast Ohio Regional Airport Authority (the Airport's) under programs of the federal government for the year ended December 31, 2018. The information on this Schedule is prepared in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Airport, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Airport.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Airport has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the Airport to contribute non-Federal funds (matching funds) to support the Federally funded programs. The Airport has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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OHIO AUDITOR OF STATE
KEITH FABER

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615 Superior Avenue, NW
Cleveland, Ohio 44113-1801
(216) 787-3665 or (800) 626-2297
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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Northeast Ohio Regional Airport Authority
Ashtabula County
P.O. Box 379
Jefferson, Ohio 44047

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Northeast Ohio Regional Airport Authority, Ashtabula County, (the Airport) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements and have issued our report thereon dated September 23, 2019.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Airport's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Airport's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the Airport's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Airport's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Airport's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Keith Faber
Auditor of State
Columbus, Ohio

September 23, 2019

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Northeast Ohio Regional Airport Authority
Ashtabula County
P.O. Box 379
Jefferson, Ohio 44047

To the Board of Directors:

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

We have audited the Northeast Ohio Regional Airport Authority's (the Airport) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Northeast Ohio Regional Airport Authority's major federal program for the year ended December 31, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Airport's major federal program.

***Management's Responsibility***

The Airport's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to opine on the Airport's compliance for the Airport's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and 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). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on the Major Federal Program***

In our opinion, the Northeast Ohio Regional Airport Authority complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2018.

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

The Airport's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Airport's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Airport'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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement 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 would not necessarily 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.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

September 23, 2019

**NORTHEAST OHIO REGIONAL AIRPORT AUTHORITY**
**ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS**
**2 CFR § 200.515**
**DECEMBER 31, 2018**

## 1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---|---|---|
| *(d)(1)(i)* | **Type of Financial Statement Opinion** | Unmodified |
| *(d)(1)(ii)* | **Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?** | No |
| *(d)(1)(ii)* | **Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?** | No |
| *(d)(1)(iii)* | **Was there any reported material noncompliance at the financial statement level (GAGAS)?** | No |
| *(d)(1)(iv)* | **Were there any material internal control weaknesses reported for major federal programs?** | No |
| *(d)(1)(iv)* | **Were there any significant deficiencies in internal control reported for major federal programs?** | No |
| *(d)(1)(v)* | **Type of Major Programs' Compliance Opinion** | Unmodified |
| *(d)(1)(vi)* | **Are there any reportable findings under 2 CFR §200.516(a)?** | No |
| *(d)(1)(vii)* | **Major Programs (list):** | Airport Improvement Program<br>CFDA #20.106 |
| *(d)(1)(viii)* | **Dollar Threshold: Type A\B Programs** | Type A: > $ 750,000<br>Type B: all others |
| *(d)(1)(ix)* | **Low Risk Auditee under 2 CFR §200.520?** | No |

## 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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OHIO AUDITOR OF STATE
KEITH FABER

**NORTHEAST OHIO REGIONAL AIRPORT AUTHORITY**

**ASHTABULA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**OCTOBER 8, 2019**