HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Huntsville-Madison County Airport Authority
Huntsville, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Huntsville-Madison County Airport Authority, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type and fiduciary activities of the Huntsville-Madison County Airport Authority as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note L to the financial statements, in the year ended June 30, 2018, the Authority adopted new accounting guidance, GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that a management's discussion and analysis on pages 3 through 7, schedule of changes in the net pension liability on page 37, schedule of employer contributions - pension on page 38, schedule of changes in the net OPEB liability on page 39, schedule of the net OPEB liability on page 40, schedule of employer contributions - OPEB on page 41 and schedule of investment returns - OPEB on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Huntsville-Madison County Airport Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of 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,* as well as the Schedule of Passenger Facility Charges as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the Schedule of Passenger Facility Charges are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the Schedule of Passenger Facility Charges are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2018, on our consideration of the Huntsville-Madison County Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Huntsville-Madison County Airport Authority's internal control over financial reporting and compliance.

Mercer & Associates, PC

October 9, 2018

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the Huntsville-Madison County Airport Authority (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the Authority's financial statements and notes to the financial statements, which immediately follow this analysis.

Airport Activities and Highlights

At June 30, 2018, the Huntsville International Airport was served by American Airlines, Delta Airlines and United Airlines directly or through their affiliates. At the date of this report, non-stop passenger service is provided to Dallas, Chicago, Atlanta, Houston, Charlotte, Detroit, Washington D.C. (DCA and IAD), and Denver. Silver Airlines commenced non-stop passenger service to Orlando in September 2018, and Frontier Airlines commenced non-stop passenger service to Orlando and Denver in October 2018.

Air cargo carriers include Atlas, Cargolux, Federal Express and UPS. Air cargo service includes domestic destinations as well as international destinations in Luxembourg, England, Mexico, Hong Kong, and Brazil.

The following charts highlights selected key activities of the Airport Authority:

	FY 18	FY 17	Difference	% Diff.
Enplanements	545,263	539,109	6,154	1.1%
Landed Weight-Air Carriers (000 pounds)	680,839	681,530	(691)	(0.1%)
Landed Weight-Air Cargo (000 pounds)	435,864	408,533	27,331	6.7%
Air Carrier Landings	9,337	9,724	(387)	(4.0%)
Rail Lifts	34,211	30,476	3,735	12.3%
Air Carrier Enplanements Share				
American Airlines	40.0%	40.3%	(0.3%)	
Delta Airlines	45.0%	45.5%	(0.5%)	
United Airlines	15.0%	14.2%	0.8%	
Air Carrier Load Factors (July 2018/2017)				
American Airlines	63.0%	66.5%	(3.5%)	
Delta Airlines	77.6%	70.3%	7.3%	
United Airlines	79.3%	75.4%	3.9%	

	FY 17	FY 16	Difference	% Diff.
Enplanements	539,109	539,667	(558)	(0.1%)
Landed Weight-Air Carriers (000 pounds)	681,530	661,083	20,447	3.1%
Landed Weight-Air Cargo (000 pounds)	408,533	412,438	(3,905)	(0.9%)
Air Carrier Landings	9,724	9,713	11	0.1%
Rail Lifts	30,476	27,535	2,941	10.7%
Air Carrier Enplanements Share				
American Airlines	40.3%	37.8%	2.5%	
Delta Airlines	45.5%	48.4%	(2.9%)	
United Airlines	14.2%	13.8%	0.4%	
Air Carrier Load Factors (July 2017/2016)				
American Airlines	66.5%	77.9%	(11.4%)	
Delta Airlines	70.3%	76.8%	(6.5%)	
United Airlines	75.4%	78.8%	(3.4%)	

Rail lifts increased significantly beginning in January 2016, primarily as a result of increased lifts from a single steamship line customer.

Using the Financial Statements - An Overview for the User

The financial section consists of five parts - management's discussion and analysis (this section), the independent auditors' report, the basic financial statements, required supplemental information and other supplemental information.

Analysis of the Airport Authority's Overall Financial Position

As indicated earlier, net assets may serve over time as a useful indicator of an organization's financial position.

- The Authority's assets and deferred outflows exceeded liabilities and deferred inflows by $326.2 million at June 30, 2018, and by $310.4 million at June 30, 2017.

- These figures include the Authority's net investment in capital assets totaling $275.6 million at June 30, 2018, and $258.2 million at June 30, 2017. The Authority uses these capital assets to provide services to the airlines, passengers and to service providers at the Airport; consequently, these assets are not available for future spending. Although the Authority's equity in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

- The use of certain assets is restricted by external requirements, such as by federal law or bond covenants. Restricted net assets were $10.9 million at June 30, 2018, an increase of $600,000 from 2017, which reflects an increase in the cash held in PFC funds. Restricted net assets were $10.3 million at June 30, 2017, an increase from $9.0 million in 2016; cash held in debt service accounts increased $1.4 million and PFC funds increased $0.2 million in 2017.

- The Authority made payments on long-term debt totaling $3.2 million in 2018 and $2.3 million in 2017.

Summary of Net Position

	2018	2017	2016
Current assets	$50,442,795	$52,396,286	$44,631,973
Restricted assets	11,419,761	10,803,899	9,287,057
Property and equipment, net of accumulated depreciation	305,249,683	291,048,163	280,766,128
Other assets	973,454	0	0
Total Assets	**368,085,693**	**354,248,348**	**334,685,158**
Deferred Outflow of Resources	**1,976,669**	**2,373,474**	**2,954,114**
Current liabilities	10,386,032	11,906,026	6,316,231
Current liabilities, payable from restricted assets	3,513,486	3,366,739	2,416,787
Long-term debt, net of current portion	26,458,972	29,766,409	32,909,125
Other liabilities	1,762,396	1,060,308	1,257,876
Total Liabilities	**42,120,886**	**46,099,482**	**42,900,019**
Deferred Inflow of Resources	**1,667,262**	**150,000**	**0**
Total Net Position	**$326,274,214**	**$310,372,340**	**$294,739,253**

- Unrestricted Net Position, which may be used at the Authority's discretion to meet ongoing obligations to passengers and other airport users, creditors and for future operations decreased $2.1 million in 2018 and increased $1.8 million in 2017.

Analysis of the Airport Authority's Operations

The results of this fiscal year's operations are reported in detail in the *Statement of Revenues and Expenses,* the highlights of which are as follows:

- Most of the revenue of $33.1 million in 2018 and $31.8 million in 2017 , was collected from users who benefited from services provided during the year, such as airlines, concessionaires, passengers, tenants, pilots using hangars and other users.

- State and federal grants funded capital projects totaling $16.9 million in 2018 and $16.5 million in 2017.

- Passenger facility charges of $2.1 million were collected in 2018 and 2017.

Summary of Revenue, Expenses and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Airport	$28,648,458	$27,625,754	$26,872,972
Industrial Park	112,000	92,605	83,059
Hotel	4,315,001	4,061,347	3,993,772
Other	3,750	870	33,783
Total Operating Revenues	**33,079,209**	**31,780,576**	**30,983,586**
Operating Expenses			
Airport	14,356,898	14,010,105	13,294,196
Industrial Park	788,161	752,774	605,100
Hotel	3,592,257	3,420,702	3,354,146
Other	411,032	447,312	392,212
Total Operating Expenses	**19,148,348**	**18,630,893**	**17,645,654**
Excess of Operating Revenue	13,930,861	13,149,683	13,337,932
Depreciation	13,811,143	13,205,525	13,911,728
Operating Income (Loss)	**119,718**	**(55,842)**	**(573,796)**
Interest income	462,847	292,431	228,230
Interest, amortization and other expense and income	(1,942,310)	(3,251,495)	(3,217,579)
Federal, State and Local Grants	16,850,090	16,536,451	11,564,989
Passenger Facility Charges	2,117,843	2,111,542	2,053,026
Increase in Net Position	**17,608,188**	**15,633,087**	**10,054,870**
Net Position – Beginning	**310,372,340**	**294,739,253**	**284,684,383**
Prior Period Adjustment	**(1,706,314)**	**0**	**0**
Net Position – Ending	**326,274,214**	**$310,372,340**	**$294,739,253**

Analysis of Airline Rates and Charges

At the beginning of each fiscal year, the Authority a Statement of Policy regarding Airline Use and Occupancy of Airport Facilities and Periodic Adjustment of Airline Rentals, Fees and Charges that establishes how the airlines will be assessed annual rates and charges for their use of the Airport. The policy includes a methodology for fueling, security and facilities charges.

The Authority also has the ability under the Agreement to adjust airline rates and charges at any time throughout the year to ensure adherence to all financial covenants in its bond resolutions. No such adjustments were required during 2018 or 2017. Airfield landing fees and terminal rental rates billed by the Airport are adjusted based on an annual year end settlement calculation for the landing fee and the terminal rental rate based on actual income and expenditures allocated to the cost centers.

The airline cost per enplanement calculated after the settlement of all rates and charges was $17.67 in 2018 and $17.86 in 2017.

Capital Acquisitions and Construction Activities

The Authority expended $28.4 million on capital assets in 2018 and $24.8 million in 2017. This included major construction projects, including pavement rehabilitation, jetbridge upgrades and Group VI infrastructure improvements. Acquisitions are funded primarily with Federal grants, Airport operating revenues and PFC charges.

Long Term Debt Administration

A summary of the bonds payable by the Authority and outstanding payable from airport operations or, in the case of the PFC bonds, the PFC charges, were as follows:

Issue / Interest Rates	June 30, 2018	June 30, 2017	June 30, 2016
Airport Revenue Bonds–2010-A /2.0-4.4%	$5,340,000	$6,125,000	$6,890,000
Airport Revenue Bonds–2010-B /2.5-4.25%	805,000	1,215,000	1,615,000
Airport Revenue Bonds–2016 /2.51%	13,365,000	14,150,000	14,150,000
PFC Bond-2010 /3.75%	0	11,323,666	12,447,160
PFC Bond-2017 /1.98%	10,171,777	0	0
Total Face Amount of Airport Bonds	**$29,681,777**	**$32,813,666**	**$35,102,160**

Credit Rating and Bond Insurance

Moody's Investors Service has assigned a rating of A3 on the Authority's outstanding Revenue Bonds, with a stable outlook. The 2010-A and 2010-B Issues are insured by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.).

Passenger Facility Charges (PFC)

The Authority collected a PFC of $4.50 per enplaned passenger. During the current year, the Authority collected a total of $2.1 million in PFCs. Passengers pay PFCs on the first two and last two portions of any trip. No PFCs are collected from non-revenue passengers such as a passenger using a frequent flier award ticket. PFCs are used for expenditures approved by FAA based upon formal request by the Authority. For further details, see the Schedule of Passenger Facility Charges in the Compliance Section of this report.

Financial Statements

The Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Authority's operating activities are structured as a single enterprise fund with revenues recognized when earned and expenses are recognized when incurred. Capital assets are capitalized and (except land) are depreciated over their useful lives. Amounts are restricted for debt service, passenger facility charges, FAA expenditures and, where applicable, for construction activities. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Request for Information

This Management's Discussion and Analysis is designed to provide information about the Authority's operations to those with an interest in the Authority's financial affairs. Questions concerning any of the information provided in this report or any request for additional information should be addressed to the Director of Finance & Administration at 256-772-9395.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018	2017
Current Assets		
Cash and investments (Notes A & B)	$ 41,381,605	$ 42,282,818
Accounts receivable	2,719,167	2,089,575
Investment interest receivable	185,175	79,106
Grants receivable	5,071,400	7,010,462
Inventories	730,190	582,104
Prepaid expenses	355,258	352,221
Total Current Assets	50,442,795	52,396,286
Restricted Assets		
Restricted cash and short-term investments	11,419,761	10,803,899
Total Restricted Assets	11,419,761	10,803,899
Property and Equipment (Note A & G)		
Land	50,858,192	50,912,582
Structures and improvements	409,010,858	388,936,264
Furniture and equipment	18,879,333	18,100,762
Construction in progress	32,019,828	24,988,939
Total	510,768,211	482,938,547
Accumulated depreciation	205,518,528	191,890,384
Total Property and Equipment	305,249,683	291,048,163
Other Assets		
Net pension asset (Note E)	973,454	0
Total Other Assets	973,454	0
Total Assets	368,085,693	354,248,348
Deferred Outflows of Resources		
Losses on debt refundings	144,962	198,320
Deferred outflows related to OPEB	192,548	0
Deferred outflows related to pension	1,639,159	2,175,154
Total Deferred Outflows of Resources	1,976,669	2,373,474
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 370,062,362	$ 356,621,822

See notes to financial statements.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2018	2017
Current Liabilities		
Accounts payable	$ 6,075,181	$ 8,059,815
Accrued expenses	1,682,229	1,637,629
Retainage payable	2,579,070	2,161,030
Unearned income and deposits	49,552	47,552
Total Current Liabilities	10,386,032	11,906,026
Current Liabilities Payable From Restricted Assets (Note C)		
Accrued interest	290,681	319,482
Current portion of long-term debt	3,222,805	3,047,257
Total Current Liabilities Payable From Restricted Assets	3,513,486	3,366,739
Long-Term Debt, Net of Current Portion (Note C)		
Bonds payable	26,458,972	29,766,409
Total Long-Term Debt, Net of Current Portion	26,458,972	29,766,409
Other Liabilities		
Net OPEB liability (Note K)	1,762,396	0
Net pension liability (Note E)	0	1,060,308
Total Other Liabilities	1,762,396	1,060,308
Total Liabilities	42,120,886	46,099,482
Deferred Inflows of Resources		
Deferred inflows related to OPEB	73,177	0
Deferred inflows related to pension	1,444,085	0
Warranty deposit held	150,000	150,000
Total Deferred Inflows of Resources	1,667,262	150,000
Net Position		
Net investment in capital assets	275,567,906	258,234,497
Restricted for:		
Debt service	4,450,047	4,458,226
Passenger facility charges	2,668,851	2,042,474
FAA Expenditures	3,743,319	3,743,319
Other Grants	50,000	50,000
Unrestricted	39,794,091	41,843,824
Total Net Position	326,274,214	310,372,340
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 370,062,362	$ 356,621,822

See notes to financial statements.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenue		
Airport	$ 28,648,458	$ 27,625,754
Industrial Park	112,000	92,605
Hotel	4,315,001	4,061,347
Other	3,750	870
Total Operating Revenue	33,079,209	31,780,576
Operating Expenses		
Airport	14,356,898	14,010,105
Industrial Park	788,161	752,774
Hotel	3,592,257	3,420,702
Other	411,032	447,312
Total Operating Expenses	19,148,348	18,630,893
Excess of Operating Revenue	13,930,861	13,149,683
Depreciation	13,811,143	13,205,525
Operating Income (Loss)	119,718	(55,842)
Other Revenue and Expenses		
Interest income - Airport Operations	278,511	175,930
Interest income - Industrial Park	167,843	105,488
Interest expense	(915,235)	(1,139,630)
Gain (loss) on sale of land and equipment	254,035	(218,967)
Federal grants (Note A)	16,641,310	16,486,451
State grants	208,780	50,000
Passenger facility charges	2,117,843	2,111,542
Interest income on passenger facility charges	16,493	11,013
Other revenue and expense items	(1,281,110)	(1,892,898)
Change in Net Position	$ 17,608,188	$ 15,633,087

See notes to financial statements.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Net Position, Beginning of Year	$ 310,372,340	$ 294,739,253
Prior Period Adjustment (Note L)	(1,706,314)	0
Net Position, Beginning of Year, Restated	308,666,026	294,739,253
Change in Net Position	17,608,188	15,633,087
Net Position, End of Year	$ 326,274,214	$ 310,372,340

See notes to financial statements.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Received from customers	$ 32,494,463	$ 31,894,501
Paid to suppliers for goods and services	(10,404,433)	(9,677,988)
Paid for employee services	(9,740,245)	(9,088,516)
Other receipts / (payments)	589,630	(34,402)
Net Cash Provided (Used) by Operating Activities	12,939,415	13,093,595
Cash Flows from Non-Capital Financing Activities:	0	0
Cash Flows from Capital Financing Activities:		
Federal, state and local grants	18,789,152	11,765,310
Passenger facility charges	2,117,843	2,111,542
Interest earned on passenger facility charges	15,938	9,864
Principal paid on bonds	(3,206,889)	(2,288,494)
Proceeds of Series 2017 bond	11,014,607	0
Redemcption of Series 2010 bond	(10,939,607)	0
Bond issuance costs paid	(75,000)	0
Interest paid on long-term debt	(890,678)	(990,542)
Proceeds from sale of equipment	309,589	225
Capital outlay	(30,700,561)	(19,251,769)
Net Cash Provided (Used) by Capital Financing Activities	(13,565,606)	(8,643,864)
Cash Flows from Investing Activities:		
Interest income	340,841	518,124
Net (funding) receipt of restricted passenger facilities charges cash	(626,377)	(207,624)
Net (funding) receipt of restricted deposits	10,514	(1,309,218)
Net Cash Provided (Used) by Investing Activities	(275,022)	(998,718)
Net change in cash and investments	(901,213)	3,451,013
Cash and investments at beginning of year	42,282,818	38,831,805
Cash and investments at end of year	$ 41,381,605	$ 42,282,818

See notes to financial statements.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating Income (Loss)	$ 119,718	$ (55,842)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	13,811,143	13,205,525
Other receipts/payments	589,630	(184,402)
Capitalized wages	(356,971)	(245,790)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources		
Accounts receivable	(586,744)	114,894
Accounts payable	(376,822)	(14,811)
Accrued liabilities	44,600	64,172
Prepaid items	(3,038)	(123,779)
Inventory	(148,086)	(145,117)
Deferred outflows	0	150,000
Pension items	1,708,714	329,714
OPEB items	(1,864,727)	0
Other items	1,998	(969)
Net Cash Provided (Used) by Operating Activities	$ 12,939,415	$ 13,093,595

See notes to financial statements.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash	$ 111,295	$ 5,762
Interest/dividends receivable	804	1,033
Contributions receivable	0	0
Investments, fair value		
Bond mutual funds	666,340	674,356
Total Assets	778,439	681,151
LIABILITIES		
Accounts payable	39,042	5,762
Total Liabilities	39,042	5,762
NET POSITION		
Net position - restricted for other post-employment benefits	$ 739,397	$ 675,389

See notes to financial statements.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Additions		
Contributions:		
Employer	$ 168,137	$ 71,430
Plan members	48,308	37,412
Total contributions	216,445	108,842
Investment earnings/(loss)	(2,645)	(4,799)
Less investment expenses	3,958	3,932
Net investment earnings	(6,603)	(8,731)
Total Additions	209,842	100,111
Deductions		
Benefits	145,834	103,111
Total Deductions	145,834	103,111
Change in Net Position	64,008	(3,000)
Net Position, Beginning of Year	675,389	678,389
Net Position, End of Year	$ 739,397	$ 675,389

See notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity - The Huntsville-Madison County Airport Authority (the Authority), a public corporation, applied for and received permission to reincorporate on October 10, 1991, under Title 4 of the Code of Alabama, 1975 as amended in the 1991 session. The Authority consists of a five member Board of Directors, of which two are appointed by the City Council of Huntsville, Alabama, two by the Madison County Commission and one jointly by the City Council and County Commission. The Authority is considered an enterprise fund that has financial accountability over the Huntsville International Airport and is the primary government for reporting purposes. The Authority is not considered a component unit of any other governmental reporting entity. In addition, there are no component units over which the Authority exercises control. Fiduciary fund financial statements are presented for the activities of the Authority's post-retirement medical benefits plan, which accumulates resources for post-employment benefit payments to qualified employees.

The Authority has three operating categories for presentation purposes. Airport operations include all terminal and airport activity as it relates to the Authority's public airport operations. The Industrial Park includes investments and property that are leased or held for future development of industrial and commercial tenants engaged in activities unrelated to the Authority's public airport operations. As described in Note F, financing leases with the industrial park tenants are not recorded in the Authority's financial statements. The Four Points Hotel is owned by the Authority and operated by a managing agent as described in Note D.

The financial section of the financial statements consists of five parts - *management's discussion and analysis*, the *independent auditors' report*, the *basic financial statements*, *required supplemental information*, and *other supplemental information*.

Accounting Principles - The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Revenue - Revenue is recognized as billed to airport users based on usage rates or rental agreements adopted by the Authority's Board. Related expenditures are charged against revenue when incurred.

Reserve for Doubtful Accounts - A reserve for doubtful accounts is established for those accounts considered, by management, to be doubtful of collection. At June 30, 2018 and 2017, $50,857 and $75,679 have been reserved as doubtful.

Passenger Facility Charges - Passenger Facility Charges (PFC) are recognized as collected. Accrual of PFC revenue is not reasonably measurable; therefore, no accrued PFC revenue is recognized.

Governmental Grants – Grant proceeds are recognized as revenue in the current year. Grants from FAA are included in revenues. Most FAA grants are for capital project purposes and are recognized as additions to assets. FAA grants are accrued as partial completion of grant requirements are met, and grant proceeds receivable are credited directly as grant income in the accompanying financial statements.

Inventories - Inventories are stated at the lower of cost or market, on a first in, first out basis.

Advertising – Advertising costs are expensed as incurred.

Investments - The Authority is legally authorized to invest in obligations of the U.S. Treasury and securities of federal agencies.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources - The Authority has deferred outflows and inflows of resources. Deferred outflows of resources is a consumption of assets by the Authority that is applicable to a future reporting period and consist of employer pension contributions subsequent to the September 30, 2017, measurement date, pension- and OPEB-related differences between expected and actual experience, changes of pension- and OPEB-related assumptions, pension- and OPEB-related net difference between projected and actual earnings on plan investments, and losses on refundings of debt. Deferred inflows of resources is an acquisition of assets by the Authority that is applicable to a future reporting period and consist of a warranty deposit held and OPEB-related differences between expected and actual experience.

Net Position – Net position on the Statement of Net Position includes the following:

Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Debt Service – The component of net position that represents amounts required by debt covenants to be separated for debt service.

Restricted for Passenger Facility Charges – The component of net position that represents passenger facility charge revenue in excess of expenditures.

Restricted for FAA expenditures – Land sales from land purchased with PFC, FAA noise or other federal funds are designated as restricted until proceeds are used in FAA-approved expenditures.

Restricted for Other Grants – The component of net position that represents amounts restricted by grant requirements.

Unrestricted – Net position that is not reported in Net Investment in Capital Assets, Net Position Restricted for Debt Service, Net Position Restricted for Passenger Facility Charges, Net Position Restricted for FAA Expenditures and Net Position Restricted for Other Grants.

Airport Property and Equipment- Property and equipment are stated at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives of plant and equipment items range from 40 years for buildings, 20 to 40 years for roads and field improvements, and 3 to 10 years for furniture and equipment. Land is not depreciated.

Interest costs relating to airport construction are capitalized during the construction period. Costs related to development of property in the Industrial Park are capitalized as improvements to the property. No interest was capitalized during the current period.

Maintenance and repairs are charged to operations in the period incurred. The costs and accumulated depreciation of properties disposed of are removed from the related asset accounts and the difference is recorded as an expense in the period of disposition.

Pensions - The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Post-Employment Benefits Other than Pensions (OPEB) - The Post-Retirement Medical Plan financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. This includes 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 Trust and additions to/deductions from the Trust's fiduciary net position. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable.

Annual leave accruals – A liability is recorded at June 30 for accrued vacation, accrued salaries and the estimated portion of accrued sick leave to be paid to employees at retirement. The liability is based on personnel policies for vacation and sick leave.

Statement of Cash Flows - For purposes of the statement of cash flows, the Board considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents, except restricted funds.

Estimates – Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires use of management's estimates. Management has made estimates related to accruals of revenues and expenses.

NOTE B – CASH, INVESTMENTS AND RESTRICTED TRUST FUNDS

At June 30, 2018 and 2017, unrestricted deposits on hand at banks and in certificates of deposit were fully collateralized by banks qualifying under the Security for Alabama Funds Enhancement Act (SAFE) as qualified public depositories. Funds held by the banks' trust departments or agents are invested in U.S. Government securities or are secured by U.S. Government Securities.

The unrestricted funds may be invested at the discretion of the Authority in accordance with state law. The Authority has invested $17,618,793 in certificates of deposit as of June 30, 2018, as follows:

Amount	Interest rate	Maturity Date	Amount	Interest Rate	Maturity Date
$2,521,340	1.85%	1/10/2019	$2,525,371	1.85%	1/10/2019
2,521,340	1.85%	1/10/2019	2,525,371	1.85%	1/10/2019
5,000,000	1.35%	7/17/2018	2,525,371	1.85%	1/10/2019

The Authority has invested $17,500,000 in certificates of deposit as of June 30, 2017, as follows:

Amount	Interest rate	Maturity Date	Amount	Interest Rate	Maturity Date
$2,500,000	1.01%	1/6/2018	$2,500,000	0.75%	7/6/2017
2,500,000	1.01%	1/6/2018	2,500,000	0.85%	1/11/2018
2,500,000	1.01%	1/6/2018	2,500,000	0.85%	1/11/2018
2,500,000	0.75%	7/6/2017			

The restricted funds may be invested at the discretion of the Authority in accordance with state law and the related trust indentures. The restricted trust funds are invested by their respective trustees (as authorized by related trust indentures). Funds invested in the trustee's U.S. Government security money market accounts and other U.S. Government secured investments are part of the funds held by trustees.

NOTE B – CASH, INVESTMENTS AND RESTRICTED TRUST FUNDS (CONTINUED)

	June 30, 2018	June 30, 2017
Unrestricted		
Cash and short-term savings	$ 23,762,812	$ 24,782,818
Certificates of deposit	17,618,793	17,500,000
	$ 41,381,605	$ 42,282,818
Restricted, cash and short-term investments		
Trust funds, Airport Operations	$ 4,740,728	$ 4,777,708
Warranty deposit held	151,176	150,178
FAA land	3,859,006	3,833,539
Passenger facility charges	2,668,851	2,042,474
	$ 11,419,761	$ 10,803,899

Market value equals carrying value for these unrestricted and restricted accounts. When the Authority incurs an expenditure for which it may use either restricted or unrestricted assets, restricted assets are used.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable input. The Authority has the following recurring fair value measurements as of June 30, 2018: Bond mutual fund investments, held by the Post-Employment Benefits Trust, of $666,340 are valued using quoted market prices (Level 1 inputs); restricted bond funds invested in short-term U.S. Treasury Obligations of $2,347,584 are valued using quoted market prices (Level 1 inputs). The Authority has the following recurring fair value measurements as of June 30, 2017: Bond mutual fund investments, held by the Post-Employment Benefits Trust, of $674,356 are valued using quoted market prices (Level 1 inputs); restricted bond funds invested in short-term U.S. Treasury Obligations of $2,518,346 are valued using quoted market prices (Level 1 inputs).

Post-Employment Benefits Trust

Investments - Post-Employment Benefits Trust investments at June 30, 2018 and 2017, are detailed below.

Mutual Fund Sector	June 30, 2018	June 30, 2017
Mortgage-backed	$393,141	$412,032
Treasury / Agency	221,225	206,353
Corporate	45,977	42,484
Other	5,997	13,487
	$666,340	$674,356

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. Interest rate risk is as follows:

NOTE B – CASH, INVESTMENTS AND RESTRICTED TRUST FUNDS (CONTINUED)

Maturity (in years)	June 30, 2018	June 30, 2017
0 – 1	$5,996	$16,858
1 – 3	135,933	111,269
3 – 5	73,297	88,341
5 – 10	51,308	49,902
10 – 20	82,626	95,084
More than 20	317,180	312,902
	$666,340	$674,356

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Credit risk is as follows:

Standard & Poor's Ratings	June 30, 2018	June 30, 2017
AAA	$607,035	$618,384
AA	17,325	18,882
A	21,323	18,208
BBB	20,657	18,882
	$666,340	$674,356

Concentration of Credit Risk – The mutual funds owned by the Trust included held securities of the Federal National Mortgage Association and Federal Home Loan Bank that each indirectly represent more than five percent of the total assets of the Trust.

NOTE C - LONG-TERM DEBT

A summary of the bonds payable by the Authority and outstanding at June 30, 2018 and 2017, from airport operations, or in the case of the PFC bonds, the PFC charges, are as follows:

Issue	June 30, 2017	Additions	Deletions and Reclassifications	June 30, 2018
Airport Revenue Bonds – 2010-A	$ 6,125,000	$ 0	$ (785,000)	$ 5,340,000
Airport Revenue Bonds – 2010-B	1,215,000	0	(410,000)	805,000
PFC Bond – 2010	11,323,666	0	(11,323,666)	0
Airport Revenue Bonds – 2016	14,150,000	0	(785,000)	13,365,000
PFC Bond – 2017	0	11,014,607	(842,830)	10,171,777
Total Face Amount of Airport Bonds	32,813,666	11,014,607	(14,146,496)	29,681,777
Plus Unamortized Premium	0	0	0	0
Less Unamortized Discount	0	0	0	0
Total Long-Term Debt per Financial Statements	32,813,666	11,014,607	(14,146,496)	29,681,777
Less Current Portion	(3,047,257)	0	(175,548)	(3,222,805)
Net Long-Term Debt	$ 29,766,409	$ 11,014,607	$ (14,322,044)	$ 26,458,972

NOTE C – LONG -TERM DEBT (CONTINUED)

Issue	June 30, 2016	Additions	Deletions and Reclassifications	June 30, 2017
Airport Revenue Bonds – 2010-A	$ 6,890,000	$ 0	$ (765,000)	$ 6,125,000
Airport Revenue Bonds – 2010-B	1,615,000	0	(400,000)	1,215,000
PFC Bond – 2010	12,447,160	0	(1,123,494)	11,323,666
Airport Revenue Bonds – 2016	14,150,000	0	0	14,150,000
Total Face Amount of Airport Bonds	35,102,160	0	(2,288,494)	32,813,666
Plus Unamortized Premium	0	0	0	0
Less Unamortized Discount	0	0	0	0
Total Long-Term Debt per Financial Statements	35,102,160	0	(2,288,494)	32,813,666
Less Current Portion	(2,193,035)	0	(854,222)	(3,047,257)
Net Long-Term Debt	$ 32,909,125	$ 0	$ (3,142,716)	$ 29,766,409

In April 2016, the Authority issued Airport Revenue Bonds Series 2016 for $14,150,000. Proceeds from the sale of the Series 2016 Bonds were used to currently refund Airport Revenue Bonds Series 2006. The Series 2016 Bonds were issued under the Ninth Supplemental Trust Indenture, which states additional requirements regarding funding of special trust funds originally created under the 1989 Trust Indenture, including a debt service reserve account. The purpose of the reserve fund is to provide a reserve in the event that revenues and receipts derived from the Authority are insufficient to pay the principal of and interest on the bonds.

In December 2010, the Authority issued Airport Revenue Bonds Series 2010-A for $10,175,000 and Series 2010-B for $3,310,000. Proceeds from the sale of the Series 2010-A Bonds were used to pay the cost of refunding the Authority's Airport Revenue Bonds, Series 1998 and the costs of issuing the Series 2010-A Bonds. Proceeds from the sale of the Series 2010-B Bonds were used to pay the cost of refunding the Authority's Airport Revenue Bonds, Series 2001 and the costs of issuing the Series 2010-B Bonds. The Series 2010-A Bonds and Series 2010-B Bonds were issued under the Eighth Supplemental Trust Indenture, which states additional requirements regarding funding of special trust funds originally created under the 1989 Trust Indenture.

The Series 2016, Series 2010-A and Series 2010-B Airport Revenue Bonds will be payable solely out of the pledged revenues derived from operation of the airport remaining after payment of operating expenses as defined in the indenture. The indenture does not constitute a mortgage on any of the physical properties forming a part of the airport. None of the Bonds are general obligations of the Authority and do not constitute a personal charge against the general credit of the Authority.

The Series 2016 Bonds are nontaxable bonds with a stated rate of 2.51% and with maturities ranging from July 1, 2017, to July 1, 2031. The Series 2010-A Bonds are nontaxable bonds with stated rates ranging from 2.0% to 4.5% and with maturities ranging from July 1, 2011, to July 1, 2023. The Series 2010-B Bonds are nontaxable bonds with stated rates ranging from 2.5% to 4.25% and with maturities ranging from July 1, 2011, to July 1, 2019.

NOTE C – LONG -TERM DEBT (CONTINUED)

The Series 2016 Bonds shall be subject to redemption and payment, at the option of the Authority, on any date at a redemption price of 100% of the principal amount, plus accrued interest. The Series 2010-A Bonds having a stated maturity in 2021 and thereafter shall be subject to redemption and payment, at the option of the Authority, on July 1, 2020, and on any date thereafter at a redemption price of 100% of the principal amount, plus accrued interest. The Series 2010-B Bonds are not subject to redemption.

In November 2017, the Authority issued its 2017 PFC Bond for $11,014,607 for the purpose of redeeming the 2010 PFC Bond and paying the costs of issuing the 2017 PFC Bond. The 2017 PFC Bond is a nontaxable bond with a stated rate of 1.98%, payable solely out of PFC collections in monthly payments of $122,975 through December 1, 2025. This Bond does not constitute a lien on, nor is it payable from, any other property or assets of the Authority. The principal of this Bond is subject to redemption and payment on or after November 1, 2022, at the option of the Authority, at the redemption price of 100%.

In November 2010, the Authority issued its 2010 PFC Bond for $18,000,000 for the purpose of additions to and renovation of the baggage claim area and payment of certain costs of issuance. The 2010 PFC Bond is a nontaxable bond with a stated rate of 3.75%, payable solely out of PFC collections in monthly payments of $130,900 through December 1, 2025. The 2010 PFC Bonds were redeemed in the year ended June 30, 2018.

Bond insurance costs paid related to bond issues are recognized as expense in the period incurred.

The Series 2010 PFC Bonds were redeemed in fiscal year 2018, with no economic gain or loss. There are no past current refunding transactions for which the refunded warrants are still outstanding at June 30, 2018 or 2017. Losses realized on prior advance refundings are being amortized over the shorter of the life of the refunded or refunding debt. Unamortized losses on refundings are reported as the deferred outflows in the statement of net position.

The Series 1989 Trust Indenture, as supplemented by nine supplemental indentures, creates special trust funds. All pledged revenues are required to be deposited as received into the Revenue Fund, and moneys in such fund are required to be applied and allocated on a monthly basis in the manner and priority established by the Indentures. Funding requirements at June 30, 2018 and 2017, have been met as set forth in the Indentures. The special funds and their balances are as follows:

	2018	2017
Rebate Fund	$ 124,271	$ 123,210
Bond Fund	2,561,561	2,518,348
Debt Service Reserve Fund	2,054,896	2,136,150
Restricted Trust Funds (Airport Operations)	$ 4,740,728	$ 4,777,708
Operating Reserve Account (Considered Unrestricted)	$ 2,770,270	$ 2,569,696
Revenue Fund (Considered Unrestricted)	$ 10,257,826	$ 14,815,936

The Indentures also require the Authority to maintain adequate rates and charges in a manner that produces Net Revenues (as described therein) of not less than 1.25 times the current Annual Debt Service Requirement in that fiscal year on all bonds issued under the Indenture.

NOTE C – LONG -TERM DEBT (CONTINUED)

Maturities for the Bonds due over the next five and succeeding fiscal years are as follows:

	2016	2010-A	2010-B	2017 PFC	Total
2019	$ 810,000	$ 810,000	$ 425,000	$ 1,177,805	$ 3,222,805
2020	830,000	840,000	380,000	1,309,474	3,359,474
2021	850,000	870,000	0	1,335,639	3,055,639
2022	870,000	900,000	0	1,362,326	3,132,326
2023	890,000	940,000	0	1,389,546	3,219,546
Succeeding	9,115,000	980,000	0	3,596,987	13,691,987
	$ 13,365,000	$ 5,340,000	$ 805,000	$ 10,171,777	$ 29,681,777

Principal and interest payments for the Bonds due over their remaining lives are as follows:

Fiscal	Series 2016	
Year	Principal	Interest
2019	$ 810,000	$ 325,296
2020	830,000	304,714
2021	850,000	283,630
2022	870,000	262,044
2023	890,000	239,956
2024	915,000	217,303
2025	935,000	194,086
2026	965,000	170,241
2027	985,000	145,768
2028	1,010,000	120,731
2029	1,035,000	95,066
2030	1,065,000	68,711
2031	1,085,000	41,729
2032	1,120,000	14,056
Total	$ 13,365,000	$ 2,483,331

Fiscal	Series 2010-A		Series 2010-B		Series 2017 PFC	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 810,000	$ 199,588	$ 425,000	$ 24,650	$ 1,177,805	$ 174,925
2020	840,000	171,200	380,000	8,075	1,309,474	166,231
2021	870,000	138,575	0	0	1,335,639	140,067
2022	900,000	102,614	0	0	1,362,326	113,379
2023	940,000	64,075	0	0	1,389,546	86,160
2024	980,000	22,050	0	0	1,417,310	58,396
2025	0	0	0	0	1,445,629	30,077
2026	0	0	0	0	734,048	4,242
Total	$ 5,340,000	$ 698,102	$ 805,000	$ 32,725	$ 10,171,777	$ 773,477

NOTE D - OPERATING CONTRACTS AND LEASES

The Authority has issued a rate ordinance with the air carriers, which, among other provisions, requires the airline to pay landing fees based upon the total landing weight of all aircraft landed. The ordinance also sets rates for counter space, loading bridges, and fuel flowage required at the airport by the airline in its conduct of air transportation. Rates are determined based upon a formula that covers expenses, debt service, and capital expenditures.

The Authority has entered into lease agreements with rental car agencies that include charges based upon revenue and space requirements. Minimum annual lease payment requirements in the leases

NOTE D - OPERATING CONTRACTS AND LEASES (CONTINUED)

total $450,000 per year. However, actual payments are based upon revenue of the lessee if it exceeds the minimum payment; the total lease payments in 2018 were $2.1 million.

The Authority has entered into lease agreements with air cargo tenants for space in its air cargo storage facilities. The current minimum annual lease payments provided in the lease agreements total $2.6 million. Lease agreements are from one to fifteen-year periods with certain leases containing options for further rental.

The Authority has entered into lease agreements with tenants for space in the terminal and concourse. The lease agreement for one tenant requires minimum lease payments of $70,000 per year through 2019 and includes payment of a percentage of the revenue earned, if the amount exceeds the minimum lease payment; the total lease payments in 2018 were $176,000. Another tenant has a minimum annual lease requirement of $99,000 and includes monthly payments based on the number of enplaned passengers, if the amount exceeds the minimum lease payment; the total lease payments in 2018 were $119,000. The Authority has an agreement with the United States of America for Transportation Security Administration space that requires annual lease payments of $214,799. Smaller spaces in the terminal and concourse are leased at fixed monthly amounts; the total lease payments in 2018 were $65,700.

The Authority has also entered into an agreement with a fixed base operator to operate fixed base air service from the facility located on the airport. The fixed based operator agreement states minimum annual lease payments, indexed for inflation with the current rate being about $382,000. The Authority has entered into separate operating and lease agreements with individuals related to use of hangars located at the airport based upon rate charges determined by the Authority; the total lease payments in 2018 were $307,500.

The Authority has entered into a variety of other leases for land and space in various buildings, which require annual lease payments of $126,300.

The Authority has entered into an operating agreement with Norfolk Southern Railway Company. The agreement, among other requirements, provides for payment of a fee per lift to the Intermodal Center for items transported by railroad under a revenue weigh bill.

The Authority has entered into a license agreement with The Sheraton LLC, a subsidiary of Marriott International, Inc., to operate the Authority's hotel facilities as the Four Points by Sheraton. The expiration of the agreement is December 31, 2030. The agreement requires certain franchise and marketing payments based on revenues. The Authority has entered into an agreement with a management company to manage the operations of the hotel, under which the Authority is obligated to pay the management company a base fee equal to three percent of revenue, and an incentive fee equal to fifty percent of the hotel's net operating profit as defined by the agreement. The initial term of the contract expired December 31, 2015, and has three five-year options to extend to December 31, 2030.

NOTE E - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description - The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan, was established October 1, 1945, under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of

NOTE E - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided - State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

Employees covered by benefit terms – At September 30, 2016, the following employees were covered by the benefit terms:

Retired members or their beneficiaries currently receiving benefits	38
Vested inactive members	8
Non-vested inactive members	7
Active members	108
	161

Contributions - Covered members of the ERS contribute 5% of earnable compensation to the ERS as required by statute. Certified law enforcement, correctional officers, and firefighters of the ERS contribute 6% of earnable compensation as required by statute.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued

NOTE E - DEFINED BENEFIT PENSION PLAN (CONTINUED)

liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended June 30, 2018, the Authority's average active employee contribution rate was 4.41% of covered employee payroll, and the Authority's average contribution rate to fund the normal and accrued liability costs was 4.03% of pensionable payroll.

The Authority's contractually required contribution rate for the year ended June 30, 2018, was 4.75% of pensionable pay for Tier 1 employee and 2.57% of pensionable pay for Tier 2 employees from July 1, 2017, through September 30, 2017, and 5.01% of pensionable pay for Tier 1 employees and 2.91% of pensionable pay for Tier 2 employees from October 1, 2017, through June 30, 2018. The Authority's contractually required contribution rate for the year ended June 30, 2017, was 8.82% of pensionable pay for Tier 1 employee and 6.09% of pensionable pay for Tier 2 employees from July 1, 2016, through September 30, 2016, and 4.75% of pensionable pay for Tier 1 employees and 2.57% of pensionable pay for Tier 2 employees from October 1, 2016, through June 30, 2017. These required contribution rates are based upon the actuarial valuations dated September 30, 2013, 2014 and 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Authority were $266,753 for the year ended June 30, 2018 and $304,722 for the year ended June 30, 2017.

Net Pension Liability - The Authority's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, rolled forward to September 30, 2017, using standard roll-forward techniques as shown in the following table:

		Expected	Actual
(a)	Total Pension Liability as of September 30, 2016	$23,245,101	$22,471,763
(b)	Discount Rate	7.75%	7.75%
(c)	Entry Age Normal Cost for the period October 1, 2016—September 30, 2017	462,135	462,135
(d)	Transfers Among Employers	0	(1,867)
(e)	Actual Benefit Payments and Refunds for the Period October 1, 2016—September 30, 2017	(1,028,805)	(1,028,805)
(f)	Total Pension Liability as of September 30, 2017 = [(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5 * (b))]	$24,440,060	$23,604,921
(g)	Difference Between Expected & Actual:		($835,139)
(h)	Less Liability Transferred for Immediate Recognition		(1,867)
(i)	Experience (Gain)/Loss = (g) – (h)		($833,272)

Actuarial assumptions - The total pension liability as of September 30, 2017, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return*	7.75%

*Net of pension plan investment expense

NOTE E - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an investigation of the economic and demographic experience based upon participant data as of September 30, 2015, completed by the RSA and its actuaries. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return *
Fixed income	17.00%	4.4%
U.S. large stocks	32.00%	8.0%
U.S. mid stocks	9.00%	10.0%
U.S. small stocks	4.00%	11.0%
International developed market stocks	12.00%	9.5%
International emerging market stocks	3.00%	11.0%
Alternatives	10.00%	10.1%
Real estate	10.00%	7.50%
Cash equivalents	3.00%	1.50%
Total	100.00%	

* Includes assumed rate of inflation of 2.50%

Discount rate - The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate - The following table presents the Authority's net pension liability/(asset) calculated using the discount rate of 7.75%, as well as what the Authority's net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

NOTE E - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	1 % Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Authority's net pension liability (asset)	$1,818,709	($973,454)	($3,332,752)

Changes in Net Pension Liability	**Increase (Decrease)**		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability /(Asset) (a-b)**
Balances at 9/30/2016	$23,245,101	$22,184,793	$1,060,308
Changes for the year:			
Service cost	462,135		462,135
Interest	1,761,629		1,761,629
Changes of assumptions			
Difference between expected & actual experience	(833,272)		(833,272)
Contributions--employer		244,264	(244,264)
Contributions--employee		366,329	(366,329)
Net investment income		2,813,661	(2,813,661)
Benefit payments, including refunds of employee contributions	(1,028,805)	(1,028,805)	0
Administrative expense		0	0
Transfers among employers	(1,867)	(1,867)	0
Net changes	359,820	2,393,582	(2,033,762)
Balances at 9/30/2017	$23,604,921	$24,578,375	($973,454)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated August 31, 2018, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended June 30, 2018, the Authority recognized pension expense of $233,610. For the year ended June 30, 2017, the Authority recognized pension expense of $629,280. At June 30, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

June 30, 2018:	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$1,094,148	$708,903
Changes of assumptions	361,552	0
Net difference between projected and actual earnings on pension plan investments	0	735,182
Employer contributions subsequent to the measurement date	183,459	0
Total	$1,639,159	$1,444,085

NOTE E - DEFINED BENEFIT PENSION PLAN (CONTINUED)

June 30, 2017:	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$1,351,023	$0
Changes of assumptions	436,876	0
Net difference between projected and actual earnings on pension plan investments	225,318	0
Employer contributions subsequent to the measurement date	161,937	0
Total	$2,175,154	$0

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

Year ended June 30:	
2019	$57,712
2020	155,459
2021	(102,741)
2022	(60,578)
2023	48,821
Thereafter	(87,058)

NOTE F - INDUSTRIAL PARK LEASES

The Authority has constructed facilities known as the “Industrial Park” for the benefit of certain industrial tenants and has leased the various facilities under direct financing leases. Revenue bonds were issued under various trust indentures which provide, among other things, that the revenues received from the leased "Industrial Park" facilities be pledged for payment of the principal and interest of the applicable issue. The current annual rents are sufficient to cover the annual retirement and interest payments. The Industrial Park financing leases have not been presented in the financial statements.

NOTE G – CAPITAL ASSET ACTIVITY

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

	Balance July 1, 2017	Additions And CIP Reclassifications	Retirements and Reclassifications	Balance June 30, 2018
Land	$ 50,912,582	$ 0	$ 54,390	$ 50,858,192
Structures and improvements	388,936,264	20,092,982	18,388	409,010,858
Furniture and equipment	18,100,762	944,346	165,775	18,879,333
Construction in progress	24,988,939	8,917,483	1,886,594	32,019,828
Total at historic cost	$ 482,938,547	$ 29,954,811	$ 2,125,147	$ 510,768,211
Less Accumulated Depreciation for:				
Structures and improvements	$ 177,769,930	$ 12,740,437	$ 18,388	$ 190,491,979
Furniture and equipment	14,120,454	1,070,706	164,611	15,026,549
Total accum. depreciation	191,890,384	13,811,143	182,999	205,518,528
Capital Assets, Net	$ 291,048,163	$ 16,143,668	$ 1,942,148	$ 305,249,683

NOTE G – CAPITAL ASSET ACTIVITY (CONTINUED)

Capital asset activity for the year ended June 30, 2017, follows:

	Balance July 1, 2016	Additions And CIP Reclassifications	Retirements and Reclassifications	Balance June 30, 2017
Land	$ 48,317,088	$ 2,595,494	$ 0	$ 50,912,582
Structures and improvements	379,532,771	9,646,557	243,064	388,936,264
Furniture and equipment	16,981,135	1,257,736	138,109	18,100,762
Construction in progress	13,648,955	12,685,255	1,345,271	24,988,939
Total at historic cost	$ 458,479,949	$ 26,185,042	$ 1,726,444	$ 482,938,547
Less Accumulated Depreciation for:				
Structures and improvements	$ 165,664,761	$ 12,158,569	$ 53,400	$ 177,769,930
Furniture and equipment	13,182,070	1,046,956	108,572	14,120,454
Total accum. depreciation	178,846,831	13,205,525	161,972	191,890,384
Capital Assets, Net	$ 279,633,118	$ 12,979,517	$ 1,564,472	$ 291,048,163

NOTE H – SUBSEQUENT EVENTS

The date through which subsequent events have been evaluated is October 9, 2018. The financial statements were available to be issued at that time.

Subsequent to year end, a contract of $29.1 million was entered into for Group VI Improvements Phase 4C. A federal Airport Improvement Program grant was awarded in September, 2018, to fund these improvements.

NOTE I - COMMITMENTS AND CONTINGENCIES

At June 30, 2018, the Authority has signed contracts for a number of construction projects. Payments and payables of $2.4 million on a $3.7 million contract for Administrative Offices Fit-Up are included in construction in progress at year end. Payments and payables of $6.8 million on a $7.6 million contract for Security System Upgrade are also included in construction in progress at year end. Certain of these costs are funded with grants from the Federal Aviation Administration (FAA), and the remainder from Authority funds, including bond proceeds and PFCs for approved projects.

The Authority is a party to certain legal actions arising in the ordinary course of the business. In management’s opinion, the Authority has adequate legal defenses and/or insurance coverage respecting each of these actions and does not believe that they will materially affect the Authority’s operations or financial position.

NOTE J – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Authority has insurance for its buildings and contents through commercial insurance. Settled claims in the past three years, if any, have not exceeded the commercial insurance coverage.

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan description - The Authority has established the Post-Employment Medical Benefits Plan ("Plan") to provide employees and their dependents with health care benefits after retirement. Under the Plan, retirees may purchase health insurance coverage through the Authority's then current health plan insurer. The Plan is a single-employer plan administered by the Authority and its board of directors, for which the Authority has established the Post-Employment Benefits Trust ("OPEB Trust") for the accumulation of resources to pay future benefits under the Plan. The OPEB Trust assets are held and managed for the Authority by a financial institution trustee.

Benefits provided - An employee who elects to retire under the State's retirement system may elect health insurance for him/her and any eligible dependent through the health plan insurer. The employee must elect coverage prior to retirement. The retiree and dependent's coverage ends in the event (1) the retiree dies or (2) the retiree no longer elects or is no longer eligible to continue coverage. The retiree and dependents pay a portion of the health plan premiums as determined by the Authority during the annual budget, and the Authority pays the balance. Effective August 1, 2017, the retiree and dependent premium requirement is $236 and $395 per month, respectively. As of that date, the total monthly premium is $895 for the retiree and $1,634 for family coverage. Upon reaching age 65, the retiree and dependents may continue coverage, but the retiree bears the entire cost of the premiums.

OPEB trust - Regarding the OPEB Trust, (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan. As stated above, the trust was created in June 2009 and has been funded every year. At June 30, 2017, the Trust Fund balance was $739,397, and the employer contribution for 2017 was $168,138. The most recent actuarial valuation was made as of September 30, 2017. Assets of the plan and its financial statements are available by contacting The Authority.

Refer to Note B for detailed disclosures about the OPEB Trust investments and concentration of credit risk.

Membership - At September 30, 2017, membership of the Plan consisted of the following:

Retirees and beneficiaries currently receiving benefits	15
Retirees entitled to but not yet receiving benefits	0
Active employees	106
	121

Net OPEB liability - The components of the net OPEB liability of the Authority at the June 30, 2018, measurement date is as follows:

Total OPEB liability (TOL)	$ 2,501,793
Plan fiduciary net position (FNP)	739,397
Authority's net OPEB liability (NOL)	$ 1,762,396
Ratio of FNP to TOL	29.55%

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Actuarial assumptions -The total OPEB liability was determined by an actuarial valuation as of September 30, 2017, using the following key actuarial assumptions and other inputs:

Inflation	2.75%
Real wage growth	0.25%
Wage inflation	3.00%
Salary increases, including wage inflation	3.00% - 5.00%
Long-term Investment Rate of Return, net of OPEB plan investment expense, including price inflation	2.50%
Single Equivalent Interest Rate, net of OPEB plan investment expense, including price inflation	
Prior Measurement Date	2.50%
Measurement Date	2.50%
Health Care Cost Trends	
Pre-Medicare	7.00% for 2017 decreasing to an ultimate rate of 5.00% by 2022
Medicare	5.50% for 2017 decreasing to an ultimate rate of 5.00% by 2022

The discount rate used to measure the TOL was based upon the long-term expected rate of return on plan investments where assets are projected to cover all future benefit payments plus inflation. Projections of the sharing of benefit-related costs are based on an established pattern of practice. Mortality rates were based on the SOA RP-2014 Total Dataset Mortality adjusted to 2006 and projected with Scale MP-2017.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 – September 30, 2015.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 valuation.

Rate of return - For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was (1.10%). The money-weighted rate of return expresses investment performances, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB plan investments was determined using best-estimate ranges of expected future real rates of return. The target allocation and best estimate of arithmetic real rate of return for each major asset class is summarized in the following table:

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	100.00%	2.50%
Total	100.00%	

Discount rate (single equivalent interest rate) - The discount rate used to measure the TOL as of the Measurement Date was 2.50%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projection's basis was an actuarial valuation performed as of September 30, 2017. In addition to the actuarial methods and assumptions of the September 30, 2017 actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 3.00% - 5.00%.
- Active employees do not explicitly contribute to the Plan.
- The employer will continue to make a contribution equal to the Actuarially Determined Contribution.
- Cash flows occur mid-year.

Based on these assumptions, the Plan's FNP was projected to not be depleted.

The FNP projections are based upon the Plan's financial status on the Valuation Date, the indicated set of methods and assumptions, and the requirements of GASB 74. As such, the FNP projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing plan basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of the Plan, or the Plan's ability to make benefit payments in future years.

Sensitivity of the net OPEB liability to changes in the trend rate - The following exhibit presents the NOL of the Plan, calculated using the health care cost trend rates, as well as what the Plan's NOL would be if it were calculated using a health care cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

Health Care Cost Trend Rates

	1% Decrease	Current	1% Increase
Net OPEB liability	$1,489,190	$1,762,396	$2,084,659

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Sensitivity of the net OPEB liability to changes in the discount rate - The following exhibit presents the NOL of the Plan, calculated using the discount rate of 2.50%, as well as what the Plan's NOL would be if it were calculated using a Discount Rate that is 1- percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (1.50%)	Current Discount Rate (2.50%)	1% Increase (3.50%)
Net OPEB liability	$1,964,109	$1,762,396	$1,575,692

Changes in Net OPEB Liability - The TOL is based upon an actuarial valuation performed as of the Valuation Date, September 30, 2017. An expected TOL is determined as of June 30, 2018 using standard roll forward techniques, shown in the following table:

	Increase (Decrease)		
	Total OPEB Liability (a)	**Plan Fiduciary Net Position (b)**	**Net OPEB Liability (Asset) (a)-(b)**
Balances at 6/30/17	$2,381,703	$675,389	$1,706,314
Changes for the year:			
Service cost	92,886		92,886
Interest	60,053		60,053
Changes of assumptions	195,764		195,764
Difference between expected & actual experience	(82,779)		(82,779)
Contributions--employer		168,138	(168,138)
Contributions--employee		48,308	(48,308)
Net investment income		(6,604)	6,604
Benefit payments	(145,834)	(145,834)	0
Administrative expense	0	0	0
Net changes	120,090	64,008	56,082
Balances at 6/30/18	$2,501,793	$739,397	$1,762,396

Changes since last year include updating the annual per capita claims to the current assumption, updating the assumed mortality and updating the assumed rate of salary increase to the current assumption.

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

For the year ended June 30, 2018, the Authority recognized OPEB expense of $96,055. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB of the following sources:

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$73,177
Changes of assumptions	173,055	0
Net difference between projected and actual earnings on OPEB plan investments	19,493	0
Total	$192,548	$73,177

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

Year ended June 30:	
2019	$17,980
2020	17,980
2021	17,980
2022	17,980
2023	13,107
Thereafter	34,343

Additional required disclosures for the year ended June 30, 2017:

Required Employer Contribution Rates for FY2017	
Normal Costs	0.98%
Accrued liability	0.33%
Total	1.31%

Schedule of Funding Progress for the System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage Of Covered Payroll
9/30/08	$0	$1,175,346	$1,175,436	0%	$5,109,721	23.00%
9/30/11	425,306	1,255,301	829,995	33.88%	4,915,963	16.88%
9/30/14	640,399	1,037,755	397,356	61.71%	5,122,879	7.76%

Valuation date	09/30/14
Actuarial cost method	Percentage unit credit
Amortization method	Level percentage of pay
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Investment rate of return*	5.00%
Medical cost trend rate	7.50%-5.00%
Year of ultimate trend rate	2019

* Includes inflation at 3.25%

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Trend Information for the System

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/12	$102,366	100%	$0
6/30/13	102,877	100%	0
6/30/14	111,626	100%	0
6/30/15	109,875	100%	0
6/30/16	66,919	100%	0
6/30/17	66,919	84%	11,004

NOTE L – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75. The information required to restate prior year data is not available.

Net position as previously reported at July 1, 2017	$310,372,340
Prior Period Adjustment:	
Net OPEB liability	(1,706,314)
Net position as restated at July 1, 2017	$308,666,026

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FISCAL YEARS ENDING SEPTEMBER 30

	2017	2016	2015	2014
Total pension liability				
Service cost	$462,135	$471,507	$437,233	$443,283
Interest	1,761,629	1,609,686	1,463,012	1,370,643
Changes of benefit terms	0	0	0	0
Differences between expected and actual experience	(833,272)	959,930	763,677	0
Changes of assumptions		512,200	0	0
Benefit payments, including refunds of employee contributions	(1,028,805)	(875,326)	(785,666)	(532,969)
Transfers among employers	(1,867)	8,371	0	0
Net change in total pension liability	359,820	2,686,368	1,878,256	1,280,957
Total pension liability - beginning	23,245,101	20,558,733	18,680,477	17,399,520
Total pension liability - ending (a)	$23,604,921	$23,245,101	$20,558,733	$18,680,477
Plan fiduciary net position				
Contributions - employer	$244,264	$1,436,819	$414,378	$2,814,637
Contributions - member	366,329	293,244	285,058	277,908
Net investment income	2,813,661	2,020,828	224,787	1,744,161
Benefit payments, including refunds of employee contributions	(1,028,805)	(875,326)	(785,666)	(532,969)
Transfers among employers	(1,867)	8,371	343,692	203,661
Net change in plan fiduciary net position	2,393,582	2,883,936	482,249	4,507,398
Plan net position - beginning	22,184,793	19,300,857	18,818,608	14,311,210
Plan net position - ending (b)	$24,578,375	$22,184,793	$19,300,857	$18,818,608
Net pension liability (asset) - ending (a) - (b)	($973,454)	$1,060,308	$1,257,876	($138,131)
Plan fiduciary net position as a percentage of the total pension liability	104.12%	95.44%	93.88%	100.74%
Covered payroll *	$5,755,062	$5,471,941	$5,566,175	$5,572,448
Net pension liability (asset) as a percentage of covered-employee payroll	-16.91%	19.38%	22.60%	-2.48%

* - Covered payroll during the measurement period is the total covered payroll. For FY2018, the measurement period is October 1, 2016 - September 30, 2017.

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

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION
FISCAL YEARS ENDING JUNE 30

	2018	2017	2016	2015
Actuarially determined contributions	$244,338	$283,625	$422,710	$398,196
Contributions in relation to the actuarially determined contribution	244,338	283,625	422,710	398,196
Contribution deficiency (excess)	$0	$0	$0	$0
Covered-employee payroll	$6,058,118	$5,701,773	$5,348,659	$5,407,134
Contributions as a percentage of covered-employee payroll	4.03%	4.97%	7.90%	7.36%

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported.

Contributions for fiscal year 2018 were based on the September 30, 2015 and 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2017, to September 30, 2018:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	28.8 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8.00% net of pension plan investment expense, including inflation

Methods and assumptions used to determine contribution rates for the period October 1, 2016, to September 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8.00% net of pension plan investment expense, including inflation

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

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
FISCAL YEARS ENDING JUNE 30

	2018	2017
Total OPEB liability		
Service cost at end of year	$92,886	$94,562
Interest on the Total OPEB Liability	60,053	42,556
Changes of benefit terms	0	0
Differences between expected and actual experience	(82,779)	0
Changes of assumptions or other inputs	195,764	0
Benefit payments *	(145,834)	(50,184)
Net change in total OPEB liability	120,090	86,934
Total OPEB liability - beginning	2,381,703	2,294,769
Total OPEB liability - ending (a)	$2,501,793	$2,381,703
Plan fiduciary net position		
Contributions - employer **	$168,138	$55,915
Contributions - member	48,308	0
Net investment income	(6,604)	(9,318)
Benefit payments *	(145,834)	(50,184)
Administrative expense	0	0
Other	0	0
Net change in plan fiduciary net position	64,008	(3,587)
Plan fiduciary net position - beginning	675,389	678,976
Plan fiduciary net position - ending (b)	$739,397	$675,389
Net OPEB liability - ending (a) - (b)	$1,762,396	$1,706,314

Changes to assumptions or other inputs:

Beginning with the ADC for June 30, 2018, (from the September 30, 2016, valuation), the funding method was changed from projected unit credit to entry age normal and the amortization method was changed from a level percent of pay to a level dollar method.

The discount rate for determining the ADC was decreased from 5.00% for the June 30, 2017, calculation to 2.50% for the June 30, 2018, calculation.

* - Benefit payments are net of participant contributions. Net benefit payments paid directly from the employer are also included.

** - Employer contributions include amounts paid directly from the employer.

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

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NET OPEB LIABILITY
FISCAL YEARS ENDING JUNE 30

	2018	2017	2016
Total OPEB liability	$2,501,793	$2,381,703	$2,294,769
Plan fiduciary net position	739,397	675,389	678,976
Net OPEB liability	$1,762,396	$1,706,314	$1,615,793
Plan fiduciary net position as a percentage of the total pension liability	29.55%	28.36%	29.59%
Covered payroll *	$5,897,181	$5,596,622	$5,596,622
Net OPEB liability as a percentage of covered payroll	29.89%	30.49%	28.87%

Changes to assumptions or other inputs:

Beginning with the ADC for June 30, 2018, (from the September 30, 2016, valuation), the funding method was changed from projected unit credit to entry age normal and the amortization method was changed from a level percent of pay to a level dollar method.

The discount rate for determining the ADC was decreased from 5.00% for the June 30, 2017, calculation to 2.50% for the June 30, 2018, calculation.

* - For years following the valuation date (when no new valuation is performed), covered payroll has been set equal to the covered payroll from the most recent valuation.

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

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
FISCAL YEARS ENDING JUNE 30

	2018	2017	2016
Actuarially determined contribution	$168,137	$66,919	$66,919
Contributions in relation to the actuarially determined contribution	168,138	71,430	67,000
Annual contribution deficiency (excess)	($1)	($4,511)	($81)
Covered payroll *	$5,897,181	$5,596,622	$5,596,622
Actual contributions as a percentage of covered payroll	2.85%	1.28%	1.20%

Notes to Schedule

The Actuarially Determined Contribution rates, as a percentage of payroll, used to determine the Actuarially Determined Contribution amounts are calculated with each biennial actuarial valuation. The following actuarial methods and assumptions (from the September 30, 2016, actuarial valuation) were used to determine contributions rates reported for the year ended June 30, 2018.

Actuarial cost method	Entry age normal
Amortization method	Level dollar method
Amortization period	30 years, closed
Asset valuation method	Market value of assets
Inflation	2.875%
Real wage growth	0.25%
Wage inflation	3.125%
Salary increases, including wage inflation	3.375 - 5.125%
Long-term investment rate of return, net of OPEB plan investment expense, including price inflation	2.50%
Health care cost trends	
Pre-Medicare	7.75% for 2016 decreasing to an ultimate rate of 5.00% by 2022

Changes to assumptions or other inputs:

Beginning with the ADC for June 30, 2018, (from the September 30, 2016, valuation), the funding method was changed from projected unit credit to entry age normal and the amortization method was changed from a level percent of pay to a level dollar method.

The discount rate for determining the ADC was decreased from 5.00% for the June 30, 2017, calculation to 2.50% for the June 30, 2018, calculation.

* - For years following the valuation date (when no new valuation is performed), covered payroll has been set equal to the covered payroll from the most recent valuation.

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

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS - OPEB
FISCAL YEARS ENDING JUNE 30

	2018	2017
Annual money-weighted rate of return, net of investment expense	-1.10%	-1.28%

Changes to assumptions or other inputs:

Beginning with the ADC for June 30, 2018, (from the September 30, 2016, valuation), the funding method was changed from projected unit credit to entry age normal and the amortization method was changed from a level percent of pay to a level dollar method.

The discount rate for determining the ADC was decreased from 5.00% for the June 30, 2017, calculation to 2.50% for the June 30, 2018, calculation.

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

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Board of Directors
Huntsville-Madison County Airport Authority
Huntsville, Alabama

Our report on our audit of the basic financial statements of the Huntsville-Madison County Airport Authority for June 30, 2018, appears on pages 1 and 2. That audit was made for the purpose of forming opinions on the basic financial statements. The schedules on pages 44 through 50 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules on pages 44 and 46 through 50 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The schedule of insurance policies and fidelity bonds in force on page 45, which is of a non-accounting nature, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Mercer & Associates, PC

October 9, 2018

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

Statement of Pledged Revenues and Operating Expenses
FOR THE YEAR ENDED JUNE 30, 2018

	GAAP Statement of Revenues and Expenses	Include Interest Income (1)	Remove GAAP Adjustments	Pledged Revenue & Operating Expenses
Pledged Revenues				
Airfield	$ 1,874,664	$ 214,137	$ 0	$ 2,088,801
Business Development	7,500	0	0	7,500
Public Safety	1,944,610	0	0	1,944,610
Landside	8,647,893	0	0	8,647,893
Terminal	8,979,162	0	0	8,979,162
General Aviation	693,799	0	0	693,799
Intermodal	2,713,345	0	0	2,713,345
Air Cargo	2,564,951	0	0	2,564,951
Loading Bridges	823,606	0	0	823,606
Fuel Farm	398,928	0	0	398,928
Total Pledged Revenues	28,648,458	214,137	0	28,862,595
Transfers	0	0	0	0
Operating Expenses				
Airfield	2,087,008	0	0	2,087,008
Public Safety	1,521,246	0	0	1,521,246
Landside	2,885,110	0	0	2,885,110
Terminal	5,003,970	0	0	5,003,970
General Aviation	206,407	0	0	206,407
Intermodal	1,883,093	0	0	1,883,093
Air Cargo	600,750	0	0	600,750
Loading Bridges	464,823	0	0	464,823
Fuel Farm	161,812	0	0	161,812
Other	(457,321)	0	457,321	0
Total Operating Expenses	14,356,898	0	457,321	14,814,219
Revenue in Excess of Operating Expenses				14,048,376
Debt Service (2)				2,626,362
Debt Service Ratio				5.35

(1) - Does not include interest earnings on PFC bond construction account.

(2) - Represents principal and interest due in the bond year ending July 1, 2018. Does not include debt service requirements for 2010 or 2017 PFC bond issues, which are payable solely from PFC charges.

AUDITED

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
ADDITIONAL INFORMATION
INSURANCE INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

The primary insurance policies of the Authority for which the policy periods began during the fiscal year are shown below. The coverage amounts shown generally represent the aggregate amount, including coverage-specific policies, general liability policies, and excess policies. This information is provided for a general understanding of the Authority's insurance coverage and should not be relied upon for any specific purpose without contacting the Authority for information that is applicable to a particular situation.

Policy Description	Approximate Coverage ($)
Liability	
Hotel Operators (incl. as contract operator's policy additional insured)	184,000,000
Products & Completed Operations	150,000,000
Non-Owned Aircraft	150,000,000
Hangarkeepers	150,000,000
Airside Auto	150,000,000
Railroad (Intermodal Operations)	110,000,000
Terminal Operations Legal Liability(Intermodal Operations)	2,500,000
Automobile	101,000,000
Employer, including workers compensation	100,500,000
Personal & Advertising Injury	100,000,000
Malpractice	100,000,000
War, Hi-Jacking & Other Perils Annual Aggregate	100,000,000
Liquor	2,000,000
Employee Benefits	51,000,000
Directors & Officers	5,000,000
Employment Practices	5,000,000
Premises Environmental	5,000,000
Fiduciary	1,000,000
Cybersecurity	1,000,000
Property (structures and Authority-owned personal property)	
Cranes and Public Safety Vehicles	10,181,000
Terminal Building including Hotel	99,474,000
Parking Garages	33,290,000
Air Cargo Buildings	24,359,000
General Aviation Hangars	6,801,000
Intermodal Buildings	3,234,000
Other Buildings & Structures	8,937,000
Business Income Loss Protection	7,490,000

UNAUDITED

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
ADDITIONAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017

DEBT SERVICE RESERVE

Balance, July 1, 2017	$ 2,136,150
Deposits	0
Deposits of interest income	18,391
Disbursements and transfers	(99,645)
Balance, June 30, 2018	$ 2,054,896

Balance, July 1, 2016	$ 2,123,870
Deposits	7,760
Deposits of interest income	4,520
Disbursements and transfers	0
Balance, June 30, 2017	$ 2,136,150

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
ADDITIONAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017

REBATE FUND

Balance, July 1, 2017	$ 123,210
Deposits of interest income	1,061
Balance, June 30, 2018	$ 124,271
Balance, July 1, 2016	$ 122,948
Deposits of interest income	262
Balance, June 30, 2017	$ 123,210

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
ADDITIONAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017

SERIES 2010A BOND FUND

Balance, July 1, 2017	$ 988,380
Deposits	937,521
Deposits of interest income	4,675
Deposit in transit	85,535
Payments of matured bonds and interest	(1,009,525)
Balance, June 30, 2018	$ 1,006,586

Balance, July 1, 2016	$ 894,668
Deposits	1,200,883
Deposits of interest income	618
Transfers	(95,014)
Payments of matured bonds and interest	(1,012,775)
Balance, June 30, 2017	$ 988,380

SERIES 2010B BOND FUND

Balance, July 1, 2017	$	471,930
Deposits		419,971
Deposits of interest income		2,270
Deposit in transit		33,012
Payments of matured bonds and interest		(450,325)
Balance, June 30, 2018	$	476,858

Balance, July 1, 2016	$	430,021
Deposits		580,466
Deposits of interest income		301
Transfers		(85,108)
Payments of matured bonds and interest		(453,750)
Balance, June 30, 2017	$	471,930

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
ADDITIONAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017

2016 BOND FUND

Balance, July 1, 2017	$ 1,058,038
Deposits	1,050,006
Deposits of interest income	4,958
Deposit in transit	95,428
Payments of matured bonds and interest	(1,130,313)
Balance, June 30, 2018	$ 1,078,117

Balance, July 1, 2016	$ 66,380
Deposits	1,270,843
Deposits of interest income	649
Transfers	(38,125)
Payments of matured bonds and interest	(241,709)
Balance, June 30, 2017	$ 1,058,038

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
Notes to the Schedules Included in
Additional Information

NOTE A - PLEDGED REVENUES

Pledged revenues are defined in the trust indenture to include all revenues from the operation, leasing, or sale of the airport. This definition includes certain interest income from various trusts. However, all revenue associated with the Four Points Hotel and Industrial Park is specifically excluded.

NOTE B - OPERATING EXPENSES

Operating expenses are defined in the trust indenture to include costs incurred in operating, maintaining, administering, and repairing the airport. The term excludes from its definition depreciation, cost of capital projects, cash revenues, payment of bonds, and all expenses associated with the Four Points Hotel and Industrial Park.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Huntsville-Madison County Airport Authority
Huntsville, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type and fiduciary activities of the Huntsville-Madison County Airport Authority, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Huntsville-Madison County Airport Authority's basic financial statements, and have issued our report thereon dated October 9, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Mercer & Associates, PC

October 9, 2018

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND PASSENGER FACILITY CHARGE (PFC) PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Huntsville-Madison County Airport Authority
Huntsville, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Huntsville-Madison County Airport Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Huntsville-Madison County Airport Authority's major federal programs, with the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide) for its PFC program for the years ended June 30, 2018 and 2017. The Huntsville-Madison County Airport Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and PFC program. However, our audit does not provide a legal determination on the Huntsville-Madison County Airport Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Huntsville-Madison County Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and its PFC program for the years ended June 30, 2018 and 2017.

Report on Internal Control Over Compliance

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

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

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

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

Mercer & Associates, PC

October 9, 2018

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor Agency	Federal CFDA Number	Agency or Pass-Through Number	Federal Disbursements/ Expenditures
Department of Transportation			
Airport Improvement Programs	20.106	N/A	$ 16,641,310
TOTAL DOT			$ 16,641,310
Department of Homeland Security			
Transportation Security Administration	97.U01	N/A	$ 116,800
TOTAL DHS			$ 116,800
TOTAL			$ 16,758,110

See accompanying notes to Schedule of Expenditures of Federal Awards.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the Authority's federal award programs presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR), Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

The Authority did not elect to use the 10% de minimis indirect cost rate.

NOTE B - TRANSPORTATION SECURITY ADMINISTRATION

Transportation Security Administration revenue and expenditures of $116,800 are included in Airport Operations revenue and expenses in the accompanying financial statements.

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES
FOR THE YEAR ENDED JUNE 30, 2018

	Unliquidated PFC 6/30/17	PFC Collected	Interest Collected	Expenditures	Unliquidated PFC 6/30/18
Passenger Facility Charges					
Huntsville-Madison County Airport Authority	$ 2,042,474	$ 2,117,843	$ 15,938	$ 1,507,404	$ 2,668,851

HUNTSVILLE-MADISON COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Huntsville-Madison County Airport Authority were prepared in accordance with GAAP.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses are reported.

3. No instances of noncompliance material to the financial statements of the Huntsville-Madison County Airport Authority, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditor's Report on Compliance for Each Major Program and Passenger Facility Charge (PFC) Program and on Internal Control Over Compliance Required by the Uniform Guidance. No material weaknesses are reported.

5. The auditor's report on compliance for the major federal award programs for the Huntsville-Madison County Airport Authority expresses an unmodified opinion on all major federal programs.

6. The audit disclosed no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) in Part C of this schedule.

7. The programs tested as major programs include:

Airport Improvement Program	CFDA # 20.106

8. The threshold for distinguishing Types A and B programs was $750,000.

9. The Huntsville-Madison County Airport Authority was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None