



KALAMAZOO/BATTLE CREEK INTERNATIONAL AIRPORT

ANNUAL FINANCIAL REPORT

JANUARY 1, 2016—DECEMBER 31, 2016

Presented: July, 2017

Kalamazoo/Battle Creek International Airport 2016 Annual Financial Report

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Kalamazoo/Battle Creek International Airport

2016 Annual Financial Report

DATE: July 13, 2017
TO: Kalamazoo County Aeronautics Board of Trustees
CC: Kalamazoo County Board of Commissioners
FROM: Amanda M. Woodin, CPFO, Assistant Director for Finance and Administration
RE: 2016 Annual Financial Report

I am pleased to present the 2016 Year End Financial Statements. The following is based on Kalamazoo County's annual audited financial statements. The financial statements enclosed include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position (Budget and Actual), and the Cash Flow Statement. A supplemental report on the acquisition of capital assets is also included.

Net position may serve over time as a useful indicator of the Airport's financial strength. The Airport's net position decreased by \$638,738. This is due to multiple factors, including PFC revenues not fully funding debt service obligations, and how the accounting for capital is handled. Later in this report, cash and investment balances are discussed to illustrate year over year changes and availability.

The largest portion of the Airport's net position, 89.3% in 2016, represents the investment in capital assets (e.g. land, buildings, machinery, equipment, and vehicles); less any related debt used to acquire those assets still outstanding. Capital assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt are provided from Passenger Facility Charges (PFC). Airport Administration has received authority to fund the debt service payments through the use of PFC funds. The Airport maintains a comprehensive plan for capital projects, which is managed to prioritize the ongoing needs of the operation and use of capital contributions.

Restricted net position relates to assets whose use is determined by outside entities, such as the Passenger Facility Charge and pension assets. This net position category came into use in 2014. The 2016 portion of net position that is restricted is \$366,757. \$75,219 is restricted for debt service, and \$291,538 is restricted for pension use.

Unrestricted net position increased by \$633,576 in 2016, or 13.4%. This is due to operating revenues and expenses exceeding budgetary expectations during the year.

Accounting and finance standards contain guidelines for determining and maintaining an adequate level of unrestricted net position. Based on the size and nature of the Airport operation, an unrestricted net position level in the range of three to six months of operating expenses is recommended. Based on the Airport's 2017 budgeted operating expenses, this range is \$1,706,675 to \$3,413,350. For year-end 2016, the airports unrestricted net position was \$5,347,521.

| Net Position: | 2016 | 2015 | 2014 |
|----------------------------------|---------------------|---------------------|---------------------|
| Net investment in capital assets | \$47,755,499 | \$48,993,268 | \$49,480,694 |
| Restricted | \$366,757 | \$401,302 | \$247,565 |
| Unrestricted | \$5,347,521 | \$4,713,945 | \$6,703,070 |
| Total Net Position: | \$53,469,777 | \$54,108,515 | \$56,431,329 |

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The airport maintains two unrestricted cash and one unrestricted investment account. These accounts make up the available cash for the airport. The combined balance for these accounts was \$4,539,916 at the start of 2016. At year end, there was a combined balance of \$5,277,425, an increase of \$737,509. The increase in cash position relates to operating revenues and expenses performing well during the year.

Cash & Investment Balances

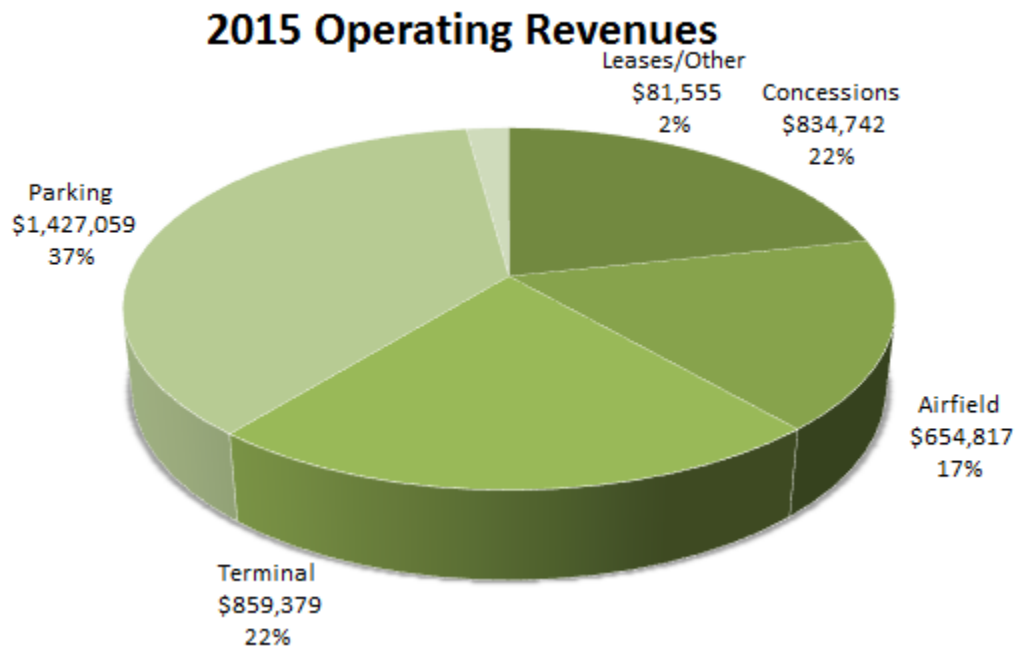
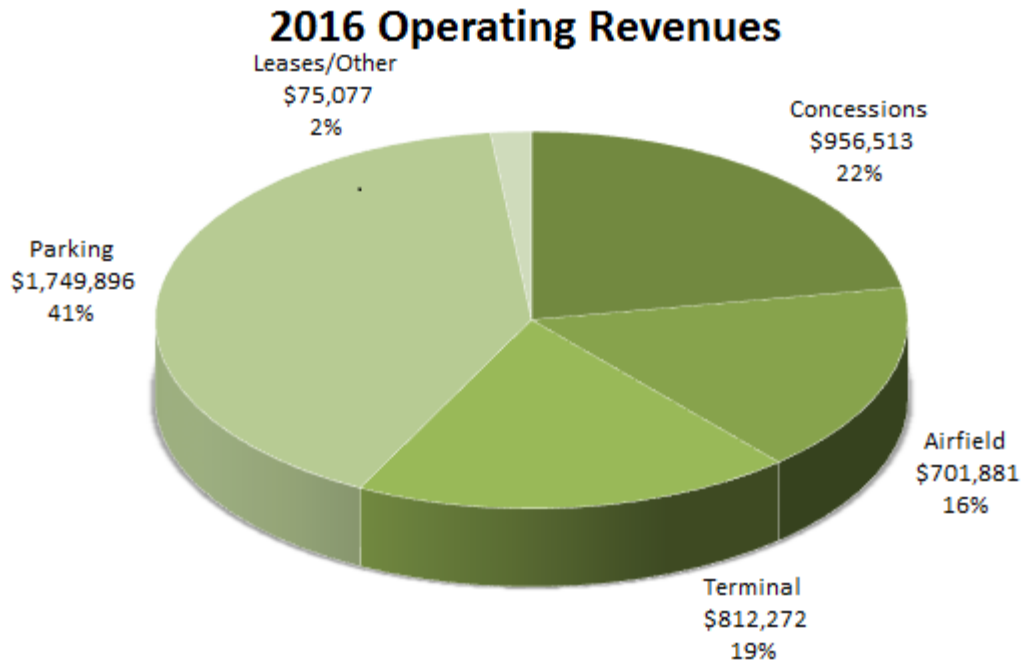
| | 2016 | 2015 | 2014 |
|---------------------|-----------------------|-----------------------|-----------------------|
| Cash | \$2,816,935.83 | \$1,509,294.58 | \$1,060,580.57 |
| Imprest Cash | \$100.00 | \$100.00 | \$100.00 |
| Investments | \$2,460,389.11 | \$3,030,521.89 | \$4,124,386.47 |
| Total | \$5,277,424.94 | \$4,539,916.47 | \$5,185,067.04 |
| Total Change | \$737,508.47 | \$(645,150.57) | |
| % Change | 16.24% | -12.44% | |

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Airport budgetary highlights are provided to identify and summarize differences between the 2016 final budget, 2016 activity, and 2015 activity. Overall enplanements increased from 2015 to 2016 by 29%, after a 7% decrease from 2014 to 2015. The Airport maintained three commercial carriers; American, Delta, and United, for the entire year. During the year, American held 25% of the market share, Delta held 55%, and United held 20%.

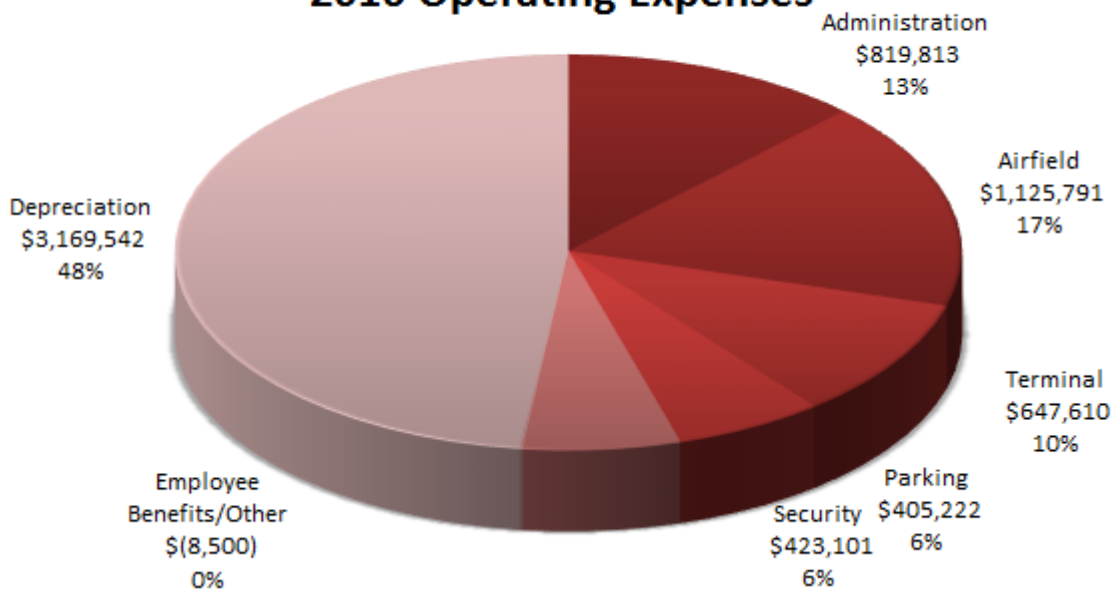
Because operating revenues are activity based, 2016 revenues were positively impacted by the increase in enplanements year over year. Operating revenues came in at 113.5% of budget. The Airport realized an overall increase of \$438,087 in operating revenues received in 2016 compared to 2015.



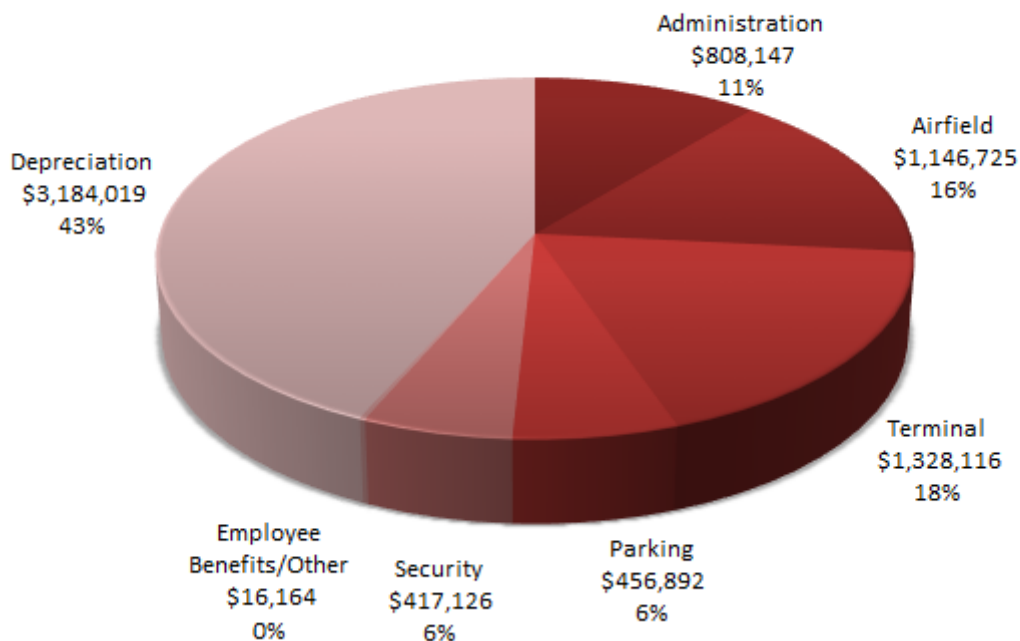
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Airport administration continues to monitor and consider methods to control all operating expenses. Overall, operating expenses dropped from 2015 to 2016. The 2015 operating expenses were high due to the large cost associated with the terminal demolition. All areas of operating expenses were at or below budget in 2016.

2016 Operating Expenses



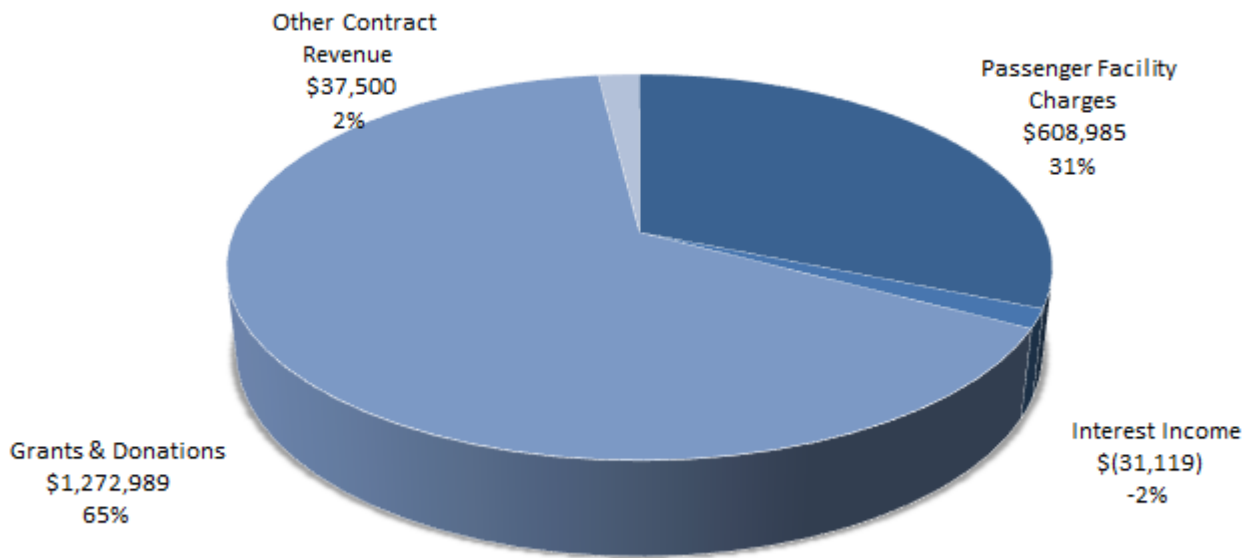
2015 Operating Expenses



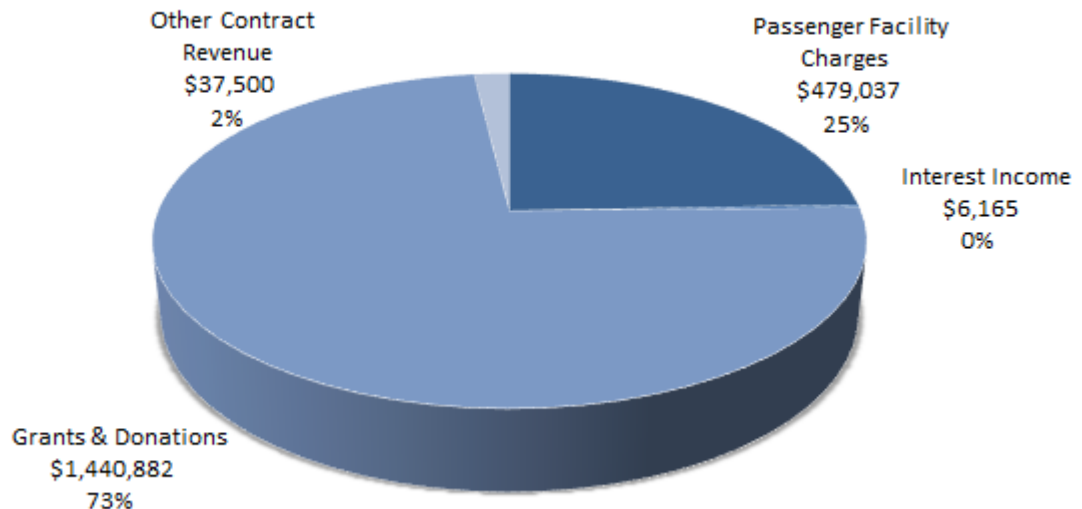
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The following pie charts depict non-operating revenues and capital contributions. The PFC revenue is strictly carrier activity based, fluctuating with increases and decreases in passenger traffic. 2016 PFC revenue was \$608,985, compared to revenues of \$479,037 in 2015. Interest revenue is showing a negative amount due to a year-end “mark-to-market” entry necessitated by the change in investment type for the airport in 2016. This type of entry will be used as long as the airport funds are invested in this type of investment, however, due to how the entries work, it is not expected that there will be this type of negative impact in the future. The grants and donations amounts shown relates to a reimbursement for law enforcement officers activities in and around the TSA checkpoint, as well as the state and federal portions of grant-funded capital projects. Contract revenue is revenue from Discover Kalamazoo to support marketing efforts of the Airport.

2016 Non-Operating Revenues & Capital Contributions



2015 Non-Operating Revenues & Capital Contributions



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Each year the annual budget is carefully developed and evaluated, with the intention of determining the impact to all users while also working to ensure the Airport's self sufficiency and continued growth. The 2017 financials are reviewed monthly and analyzed in relation to the adopted budget. Airport administration is currently working on the 2018 budget request. Administration is continually working to secure additional air service, reduce costs, and diversify revenue. A comparison of enplanement data for January through April 2016 and 2017 shows an increase in enplanements of 3% year over year. This is consistent with expectations that enplanements would level out after United service exceeded the one year mark. All of these factors impact each budget request.

I appreciate the opportunity to present the 2016 Financial Report. If you have any questions regarding the attached information, please feel free to contact me.

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Statement of Net Position

December 31, 2016

| Assets: | | Liabilities: | |
|---|---------------------|--|-------------------|
| Current assets: | | Current liabilities: | |
| Cash | \$2,817,036 | Accounts payable | 353,129 |
| Investments | 2,421,605 | Accrued liabilities | 28,515 |
| Receivables, net: | | Due to other governments | 14,577 |
| Accounts | 439,047 | Deposits payable | 9,723 |
| Interest | 8,838 | Accrued interest | 29,871 |
| Due from other governments | 54,208 | Unearned revenue | 31,226 |
| Inventories | 21,576 | Current portion of long-term debt | 707,518 |
| Prepays | 142,654 | | |
| Total current assets | 5,902,964 | Total current liabilities | 1,174,559 |
| Noncurrent assets: | | Noncurrent liabilities, net of current portion: | |
| Restricted assets: | | Long-term debt | 4,856,250 |
| Cash (PFC's) | 351 | | |
| Accounts receivable (PFC's) | 74,868 | | |
| Net Pension Asset | 388,127 | Total Liabilities | 6,030,809 |
| Capital assets not being depreciated | 5,368,248 | | |
| Capital assets being depreciated, net | 47,485,371 | Deferred Inflows of Resources: | |
| | | Deferred pension amounts | 213,205 |
| Total noncurrent assets | 53,316,965 | Total Deferred Inflows of Resources | 213,205 |
| Total Assets | \$59,219,929 | Net Position: | |
| Deferred Outflows of Resources: | | Net investment in capital assets | 47,755,499 |
| Deferred charge on refunding, net | 377,246 | Restricted for debt service | 75,219 |
| Deferred pension amounts | 116,616 | Restricted for pension | 291,538 |
| | | Unrestricted | 5,347,521 |
| | | Total Net Position | 53,469,777 |
| Total Deferred Outflows of Resources | 493,862 | | |

Kalamazoo/Battle Creek International Airport 2016 Annual Financial Report

Statement of Revenues, Expenses, and Changes in Net Position Budget and Actual

| | <i>Final Budget</i> | <i>2016 Actual</i> | <i>Budget Variance Favorable (Unfavorable)</i> | <i>2015 Actual</i> |
|---|-------------------------|------------------------|--|------------------------|
| Operating Revenues: | | | | |
| Concessions | 782,500 | 956,513 | 174,013 | 834,742 |
| Airfield | 602,100 | 701,881 | 99,781 | 654,817 |
| Terminal | 859,000 | 812,272 | (46,728) | 859,379 |
| Parking | 1,459,500 | 1,749,896 | 290,396 | 1,427,059 |
| Leased sites & other | 65,700 | 75,077 | 9,377 | 81,555 |
| Total Operating Revenues | 3,768,800 | 4,295,639 | 526,839 | 3,857,552 |
| Operating Expenses: | | | | |
| Administration | 878,100 | 819,813 | 58,287 | 808,147 |
| Airfield | 1,298,600 | 1,125,791 | 172,809 | 1,146,725 |
| Terminal (Less debt svc) | 836,600 | 647,610 | 188,990 | 1,328,116 |
| Parking | 427,300 | 405,222 | 22,078 | 456,892 |
| Security | 483,400 | 423,101 | 60,299 | 417,126 |
| Employee benefits | - | 6,888 | (6,888) | - |
| Other - Accrued vacation pay | - | (15,388) | 15,388 | 16,164 |
| Total Operating Expenses before Depreciation | 3,924,000 | 3,413,037 | 510,963 | 4,173,170 |
| Operating Income (Loss) before Depreciation | (155,200) | 882,602 | (1,037,802) | (315,618) |
| Depreciation | 3,113,000 | 3,169,542 | (56,542) | 3,184,019 |
| Operating Income (Loss) | (3,268,200) | (2,286,940) | (981,260) | (3,499,637) |
| Non-operating Revenues (Expenses): | | | | |
| Carryover (Budgetary item only) | 3,482,900 | - | (3,482,900) | - |
| Capital expense | (387,800) | - | 387,800 | - |
| Interest income | 5,100 | (31,119) | (36,219) | 6,165 |
| Grants and contributions | - | - | - | - |
| Other contract revenue | 37,500 | 37,500 | - | 37,500 |
| Interest expense and charges | (160,000) | (226,544) | (66,544) | (232,733) |
| Loss on sale of capital assets | - | (13,609) | 13,609 | (554,028) |
| Passenger facility charge reserve | (311,300) | - | 311,300 | - |
| Total Non-operating Revenues (Expenses) | 2,666,400 | (233,772) | (2,872,954) | (743,096) |
| Income (Loss) Before Capital Contributions | (601,800) | (2,520,712) | (3,854,214) | (4,242,733) |
| Capital Contributions | | | | |
| Grants & donations | 101,800 | 1,272,989 | 1,171,189 | 1,440,882 |
| Passenger facility charge revenues | 500,000 | 608,985 | 108,985 | 479,037 |
| Total Capital Contributions | 601,800 | 1,881,974 | 1,280,174 | 1,919,919 |
| Change in Net Position | - | (638,738) | | (2,322,814) |
| Net Position, beginning of year | | 54,108,515 | | 56,431,329 |
| Net Position, end of year | - | 53,469,777 | | 54,108,515 |

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Statement of Cash Flows

December 31, 2016

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Receipts from customers and users | \$ 4,249,182 |
| Payments to vendors | (1,931,523) |
| Payments for personnel services | (1,379,923) |
| Net cash provided by (used in) operating activities: | 937,736 |
| Cash flows from capital and related financing activities: | |
| Passenger facility charges collected | 608,985 |
| Other capital contributions received | 1,272,989 |
| Other contract revenue received | 84,214 |
| Proceeds from sale of capital assets | 7,916 |
| Purchase of capital assets | (1,366,164) |
| Principal paid on long-term debt | (630,000) |
| Interest paid on long-term debt | (185,775) |
| Net cash provided by (used in) capital and related financing activities: | (207,835) |
| Cash flows from investing activities: | |
| Sale of investments | 577,798 |
| Net cash provided by (used in) investing activities: | 577,798 |
| Net increase (decrease) in cash and cash equivalents | 1,307,699 |
| Cash and cash equivalents, beginning of year | 1,509,688 |
| Cash and cash equivalents, end of year | \$ 2,817,387 |
| Classification on the statement of net position | |
| Cash and cash equivalents | \$ 2,817,036 |
| Noncurrent restricted cash and cash equivalents | 351 |
| | \$ 2,817,387 |

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Cash Flow Statement (Concluded)

Year Ended December 31, 2016

| | |
|--|-------------------|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | |
| Operating income (loss) | \$(2,286,940) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | |
| Depreciation expense | 3,169,539 |
| (Increase) decrease in: | |
| Accounts receivable | 31,736 |
| Accrued interest receivable | (6,838) |
| Inventories | 17,473 |
| Prepays | (117,337) |
| Net pension asset and related deferred amounts | (20,724) |
| Accounts payable | 204,690 |
| Accrued liabilities | 8,285 |
| Unearned revenues | (71,355) |
| Deposits payable | (3,019) |
| Compensated absences | 12,226 |
| Cash Provided by Operating Activities | \$ 937,736 |

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Acquisition of Capital Assets - 2016

Local Capital

| | |
|--|-------------------|
| AIP 41-14 (Taxiway C & S. T-Hangar Pavement) | 14,576.82 |
| AIP 42-15 (Taxiway C & S. T-Hangar Pavement) | 171,831.21 |
| Airview Park Signs | 5,956.00 |
| ARFF Generator & Electric Panel | 9,713.00 |
| 2016 Ford F-150 | 28,889.00 |
| Plow & Salt Spreader | 6,600.00 |
| Zero Turn Mower | 11,155.35 |
| 3100 E. Milham Water Hookup | 15,000.00 |
| Plow 2 Joy Stick System | 5,742.36 |
| Plow 2 Blade Refurbishment | 10,000.00 |
| 9 FIDS Displays, 1 TV Display | 17,618.00 |
| Hangar 8 Roof Replacement | 51,870.00 |
| | <u>348,951.74</u> |

Contributed Capital

| | |
|--|------------------------|
| AIP 41-14 (Taxiway C & S. T-Hangar Pavement) | \$ 259,984.48 |
| AIP 42-15 (Taxiway C & S. T-Hangar Pavement) | \$ 3,264,792.96 |
| | <u>\$ 3,524,777.44</u> |

Debt (Building Authority)

| | |
|-----------|----------|
| \$ | - |
| <u>\$</u> | <u>-</u> |

Total Acquisition of Capital Assets

\$ 3,873,729.18

Total Local, Contributed and Debt Funded Capital:

| | |
|--------------------------|-------------------------------|
| Airfield | \$ 3,803,510.83 |
| Terminal | \$ 70,218.35 |
| Parking | \$ - |
| Roadways, trail, transit | \$ - |
| Other | \$ - |
| | <u>\$ 3,873,729.18</u> |



**KALAMAZOO | BATTLE CREEK
INTERNATIONAL AIRPORT**

The logo features a stylized graphic above the text, consisting of three curved, overlapping lines in blue, red, and white, resembling a wing or a stylized 'K'. The text is in a bold, dark blue, sans-serif font.