

ANNUAL FINANCIAL REPORT

January 1, 2009 – December 31, 2009

July, 2010



Table of Contents

| | |
|--|---|
| Narrative | 2 |
| Statement of Net Assets | 5 |
| Statement of Revenues, Expenses, and Changes in Net Assets | 6 |
| Cash Flow Statement | 8 |
| Acquisition of Capital Assets | 9 |

DATE: July 9, 2010
TO: Airport Aeronautics Board of Trustees
FROM: Ann Simmons, Assistant Director for Finance and Administration
RE: 2009 Year End Financials

I am pleased to present the 2009 Year End Financial Statements, and the 2010 budget update. These Financial Statements are comprised of three components: 1) Statement of Net assets, 2) Statement of Revenues, Expenses, and Changes in Net Assets, Budget and Actual, and 3) Cash Flow Statement. This report also contains a supplemental report on acquisition of capital assets.

Net assets may serve over time as a useful indicator of the Airport's financial position. The Airports net assets increased in the amount of \$3,212,141. This is due to the receipt of various capital grants and is net of accumulated depreciation on grant funded assets. Note in 2009, the County transitioned to recording depreciation in all funds the same way, in order to achieve a consistent presentation in the County's financial statements. This change had \$409,791 negative impact. It is discussed in more detail in Attachment A.

A substantial portion of the Airport's net assets (68%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets still outstanding. These 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 the resources needed to repay this debt is provided from passenger facility charges (PFC). Airport Administration has received authority to fund the debt service payments through the use of PFC funds.

Unrestricted net assets have been categorized into committed and unreserved. Committed net assets are comprised of amounts for restricted assets including bond proceeds and related interest income, PFC revenues, and other non-current assets. Unreserved net assets (working capital) are available for spending. Working capital at December 31, 2009 is \$6,269,543, a decrease of \$405,630 (6%) due to the general economic conditions, businesses instituting employee travel restrictions resulting in a reduction in capacity by air carriers to combat financial concerns, and consolidation of two air carriers serving the Kalamazoo market.

Accounting and finance literature contains guidelines for determining and maintaining an adequate level of working capital. Due to the size and nature of the Airport operation, a working capital level in the range of three to six months operating expenses is recommended. Based upon the 2010 budgeted expenses, the range would be \$1,200,000 to \$2,500,000. Airport budgetary highlights are provided to identify and summarize differences between the final budget, actual 2009 results, and 2008 activity.

Airport Aeronautics Board of Trustees
 Year End Financial Statements
 July 9, 2010

| <u>Description</u> | <u>Budget</u> | <u>Actual 2009</u> | <u>Budget Variance Favorable (Unfavorable)</u> | <u>% Variance</u> | <u>Actual 2008</u> | <u>2008 / 2009 Variance Favorable (Unfavorable)</u> | <u>% Variance</u> |
|--------------------|---------------|--------------------|--|-----------------------|--------------------|---|-----------------------|
| Operating Revenues | \$4,211,200 | \$3,298,454 | (\$912,746) | -22% | \$3,503,960 | (\$205,506) | -6% |

The economic struggles that started in 2008 continued through 2009, negatively impacting the aviation industry. Air carrier enplanements decreased 16% over 2008 in Kalamazoo. This produced a negative variance in operating revenues which are activity based.

| | | | | | | | |
|--|-------------|-------------|-------------|-----|-------------|-------------|-----|
| Operating Expense | \$4,762,400 | \$4,880,920 | (\$118,520) | -2% | \$4,614,274 | \$266,646 | 6% |
| Operating Expense (Net of Depreciation) | \$3,922,800 | \$3,618,103 | \$304,697 | 8% | \$3,757,194 | (\$139,091) | -4% |

In 2009 Kalamazoo County implemented a change in the accounting method of depreciation. This resulted in a negative change to our operating expenses of \$409,791. Excluding depreciation were under budget 8% in our expenses. For further details concerning the accounting method change for depreciation see Attachment A.

| | | | | | | | |
|--------------------------------------|-----------|-----------|-------------|------|-----------|-------------|------|
| Non-Operating Revenues (Expenses) | \$274,100 | \$430,292 | \$156,192 | 57% | \$627,785 | (\$197,493) | -31% |
| Passenger Facility Charges (PFC) | \$800,000 | \$472,619 | (\$327,381) | -41% | \$398,631 | \$73,988 | 19% |
| Interest Income | \$100,000 | \$155,079 | \$55,079 | 55% | \$393,031 | (\$237,952) | -61% |

The greater part of Non-Operating revenues is Passenger Facility Charges (PFC). PFC revenue is strictly carrier activity based. The reduction in 2009 enplanements, and the consolidation of two major airlines caused a significant negative impacted on this revenue stream. The 2009 PFC revenue was greater than the previous year due to a lapse in impose authority, as a result of FAA administrative oversight. Interest revenue saw a significant reduction over 2008. The low interest rates due to the recession, and the utilization of bond funds as the terminal project proceeds were the major contributing factors.

The airport administration is cautiously optimistic with the 2010 preliminary projection. The 2010 budget of ~\$5.1 million took into account the anticipated capacity reductions and other economic factors. We expect improved revenues over 2009, yet approximately 10% under budget. We project to be approximately 8% under the budgeted expenditures. Staff continues to work diligently in 2010 to ensure all revenue sources are recognized and collected in a timely manner, and are closely scrutinizing expenditures to ensure optimal income. The funding for the Airport Terminal Project is secured. The actual project cost is expected to be 5-7% under the original design budgeted due to economic conditions and a very competitive bidding environment. The staff will monitor 2010 closely and make adjustments as needed to offset any decreased activity, and have been engaged in evaluating other revenue streams to further insulate the airport from activity based revenue.

I appreciate the opportunity to present the 2009 Financial Report. If you have any questions regarding the attached information, please contact me.

cc: Kalamazoo Board of Commissioners

ATTACHMENT A

Subject: Kalamazoo County Accounting Change for Method of Depreciation

Historically, the County has handled depreciation in the Enterprise and Internal Services Funds differently than in the Governmental Funds. In 2009, the County transitioned to recording depreciation in all funds the same way, in order to achieve a consistent presentation in the County's financial statements.

The Governmental Funds use the Straight-line/Half Year depreciation method, with new assets being depreciated for six (6) months during the year of purchase, regardless of the actual date of purchase. However, in the Enterprise and Internal Services Funds, no depreciation was being recorded during the year of purchase. In 2009, this practice was changed. The County began to record depreciation on assets in the Enterprise and Internal Services Funds in the same manner as it does for the Governmental Funds, using the Straight-line/Half Year depreciation method. New assets for all funds are now depreciated for six (6) months during the year of purchase, regardless of the actual date of purchase.

During the transition year of 2009, it was necessary to charge an additional half year of depreciation on any assets in the Enterprise and Internal Services Funds that were not fully depreciated, recognizing that they had not been charged a half year of depreciation during the year of purchase. In this way, the accumulated depreciation in the Enterprise and Internal Services Funds was adjusted to what it would have been had the Straight-line/Half Year depreciation method been used from the very beginning.

The impact of the change in the method of depreciation in the Airport Fund and the Internal Services Funds is as follows:

| | <u>Airport Fund</u> |
|--|---------------------|
| Depreciation Recorded in 2009 | \$3,269,607 |
| Depreciation without Change in Method of Depreciation | <u>\$2,241,266</u> |
| Impact of Change | \$1,028,341 |
| | |
| Depreciation Recorded in 2009 (net of amortized grant funds) | \$3,269,607 |
| Depreciation without Change in Method of Depreciation (net of amortized grant funds) | <u>\$2,241,266</u> |
| Impact of Change | \$1,028,341 |

County of Kalamazoo
Kalamazoo/Battle Creek International Airport
Statement of Net Assets

December 31, 2009

| Assets: | | Liabilities: | |
|--------------------------------|---------------------|---|---------------------|
| Current assets: | | Current liabilities: | |
| Cash | \$ 2,359,052 | Accounts payable | \$ 130,261 |
| Investments | 4,041,877 | Accrued liabilities | 136,550 |
| Receivables: | | Deposits payable | 11,533 |
| Accounts | 312,171 | Deferred revenue | 3,898 |
| Interest | 889 | Accrued interest | 58,000 |
| Due from federal government | 55,258 | Due to other funds | - |
| Inventories | 24,884 | Current maturities of | |
| Prepaid items | 65,654 | long-term debt | 250,000 |
| Total current assets | 6,859,785 | Total current liabilities | 590,242 |
| Noncurrent assets: | | Noncurrent liabilities: | |
| Due from state of Michigan | 145,582 | General obligation limited tax bonds | 8,400,000 |
| Bond discount | 52,647 | | |
| Bond issuance costs | 54,472 | | |
| Restricted assets: | | Total Liabilities | 8,990,242 |
| Cash | 4,321,710 | | |
| Investment | 1,999,482 | Net Assets: | |
| Accounts receivable | 64,461 | Investment in capital assets, | |
| Land | 3,868,097 | net of related debt | 27,771,531 |
| Construction in progress | 7,175,668 | Unrestricted | |
| Capital assets, net of | | Committed | 6,638,354 |
| accumulated depreciation | 25,127,766 | Unreserved (Working Capital) | 6,269,543 |
| Total noncurrent assets | 42,809,885 | Total Net Assets | 40,679,428 |
| Total Assets | \$49,669,670 | Total Liabilities and Net Assets | \$49,669,670 |

County of Kalamazoo
Kalamazoo/Battle Creek International Airport
Statement of Revenues, Expenses, and Changes in Net Assets
Budget and Actual

| <i>December 31, 2009</i> | <i>Final</i> <i>Budget</i> | <i>2009</i> <i>Actual</i> | <i>Budget</i> <i>Variance</i> <i>Favorable</i> <i>(Unfavorable)</i> | <i>2008</i> <i>Actual</i> |
|---|-------------------------------|------------------------------|--|------------------------------|
| Operating Revenues: | | | | |
| Charges for services: | | | | |
| Airport concessions | \$ 879,000 | \$ 593,800 | \$ (285,200) | 775,455 |
| Airfield | 742,500 | 629,959 | (112,541) | 653,651 |
| Airport terminal | 639,500 | 704,545 | 65,045 | 596,901 |
| Airport parking | 1,880,000 | 1,302,145 | (577,855) | 1,407,553 |
| Airport leases site and other income | 70,200 | 68,005 | (2,195) | 70,400 |
| Penalties and interest | 0 | - | - | - |
| Total Operating Revenues | 4,211,200 | 3,298,454 | (912,746) | 3,503,960 |
| Operating Expenses: | | | | |
| Airport administration | 1,095,000 | 1,007,353 | 87,647 | 1,065,237 |
| Airfield maintenance | 1,116,800 | 1,065,402 | 51,398 | 1,105,024 |
| Airport terminal maintenance (Less debt service) | 545,600 | 530,331 | 15,269 | 590,350 |
| Airport parking | 487,600 | 470,802 | 16,798 | 504,381 |
| Airport security | 526,000 | 541,706 | (15,706) | 490,600 |
| Depreciation (Net of amortization of grant funds) | 839,600 | 1,262,817 | (423,217) | 857,080 |
| Other | 151,800 | 2,509 | 149,291 | 1,602 |
| Total Operating Expenses | 4,762,400 | 4,880,920 | (118,520) | 4,614,274 |
| Operating Income (Loss) | (551,200) | (1,582,466) | (794,226) | (1,110,314) |
| Nonoperating Revenues (Expenses): | | | | |
| Passenger facility charges | 800,000 | 472,619 | (327,381) | 398,631 |
| Reserve for PFC (Budgetary item only) | (198,200) | - | 198,200 | - |
| Interest income | 100,000 | 155,079 | 55,079 | 393,031 |
| Federal revenue | 180,000 | 159,178 | (20,822) | 197,926 |
| Gain on sale of fixed assets | - | - | - | - |
| Miscellaneous | 0 | (16) | (16) | 1,823 |
| Interest expense and charges | (607,700) | (356,568) | 251,132 | (363,626) |
| Total Nonoperating Revenues | 274,100 | 430,292 | 156,192 | 627,785 |
| Income Before Contributions and Transfers | (277,100) | (1,152,174) | (875,074) | (482,529) |
| Capital Contributions Received | | | | |
| (net of amortization of grant funds) | 0 | 4,364,315 | 4,364,315 | 1,789,654 |
| Change in Net Assets | (277,100) | 3,212,141 | 3,489,241 | 1,307,125 |
| Net Assets, beginning of year | 37,467,287 | 37,467,287 | - | 36,160,162 |
| Net Assets, end of year | \$ 37,190,187 | \$ 40,679,428 | \$ 3,489,241 | \$ 37,467,287 |

County of Kalamazoo
Kalamazoo/Battle Creek International Airport
Cash Flow Statement

December 31, 2009

| | |
|--|---------------------|
| Operating Activities: | |
| Cash received from customers and users | \$ 3,173,003 |
| Cash paid to employees | (958,191) |
| Cash paid for interfund services used | (237,649) |
| Cash paid to suppliers | (2,600,076) |
| Cash Provided by Operating Activities | (622,913) |
| Capital and Related Financing Activities: | |
| Capital contributions | 6,369,114 |
| Passenger facility charges | 472,619 |
| Acquisition of capital assets | (6,824,821) |
| Other | (16) |
| Principal paid on debt | (250,000) |
| Interest and fiscal charges paid | (351,975) |
| Cash Used in Capital and Related Financing Activities | (585,079) |
| Non-Capital Financing Activities: | |
| Cash received from other governmental units | 105,120 |
| Transfers (to) from other funds | - |
| Cash Provided by (Used in) Non-Capital Financing Activities | 105,120 |
| Investing Activities: | |
| Sale of investments | 16,075,216 |
| Purchase of investments | (13,380,446) |
| Interest received | 265,019 |
| Cash Provided by (Used in) Investing Activities | 2,959,789 |
| Net Increase in Cash | 1,856,917 |
| Cash, beginning of year | 4,823,845 |
| Cash, end of year | \$ 6,680,762 |
| Reconciliation of Cash to Statement of Net Assets: | |
| Cash | \$ 2,359,052 |
| Restricted cash | 4,321,710 |
| Total Cash at December 31, 2009 | \$ 6,680,762 |

County of Kalamazoo
Kalamazoo/Battle Creek International Airport
Cash Flow Statement

Year Ended December 31, 2009

Airport

**Reconciliation of Operating Income (Loss) to
Cash Provided by (Used in)**

Operating Activities:

| | |
|--|----------------|
| Operating income (loss) | \$ (1,582,466) |
| Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities: | |
| Depreciation and amortization * Net of amortization of grant funds | 1,262,817 |
| (Increase) decrease in: | |
| Accounts receivable | (102,886) |
| Penalties and interest receivable | - |
| Due from state of Michigan | (22,565) |
| Interest | - |
| Inventories | (14,813) |
| Prepaid items | (34,764) |
| Increase (decrease) in: | |
| Deposits payable | 147 |
| Accounts payable | (163,393) |
| Accrued expenses | 31,112 |
| Deferred revenue | 3,898 |
| Liability for estimated claims | - |

Cash Provided by Operating Activities

\$ (622,913)

County of Kalamazoo
Kalamazoo/Battle Creek International Airport
Acquisition of Capital Assets

December 31, 2009

Working Capital

| | |
|--|-----------------------------|
| Runway 17/35 Fed & State Grant | \$ 4,097.33 |
| Taxiway Bravo Fed & State Grant | 63,668.43 |
| Gate Operators | 30,777.00 |
| Computers - Sheriff Vehicles (2000) | 1,990.00 |
| New Terminal/ Airfield Marking/ Obstruction Clearing (CIP) | 326,398.22 |
| Master Plan Update Fed & State Project (CIP) | 209.18 |
| Sub-total acquisitions from working capital | <u>\$ 427,140.16</u> |

Contributed Capital

| | |
|--|-------------------------------|
| Federal/State Portion FAA Project (31-05 Runway 17/35) | \$ 7,412.88 |
| Federal/State Portion FAA Project (32-07 Taxiway Bravo) | \$ 779,168.35 |
| Federal/State Portion FAA Project (33-09 New Terminal, Airfield Marking & Obstruct Clearing (CIP)) | \$ 5,574,374.53 |
| Federal/State Portion FAA Project (34-09 Master Plan Update (CIP)) | 8,157.97 |
| Sub-total acquisitions from contributed capital | <u>\$ 6,369,113.73</u> |

Debt (Building Authority)

| | |
|---|----------------------------|
| Misc. Admin Expenses - New Terminal | \$ 30,558.29 |
| Sub-total acquisitions from debt | <u>\$ 30,558.29</u> |

| | |
|--|--------------------------------------|
| Total Acquisition of Capital Assets | <u><u>\$ 6,826,812.18</u></u> |
|--|--------------------------------------|