Years Ended December 31, 2018 and 2017

# Comprehensive Annual Financial Report

(A Component unit of the County of Kent, Michigan)

Prepared by: Finance and Administrative Department

Interim President and CEO, CFO
*Brian Picardat, A.A.E.*

# Contents

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# Introductory Section

# Elected Officers and Key Staff Members

**GOVERNING BOARD**

Dan Koorndyk
Board Chairman

Floyd Wilson, Jr.
Board Vice Chairman

Ted Vonk*
Board Secretary

Steve Heacock

Birgit Klohs

Roger Morgan*

Robert Buchanan
General Counsel

| | |
|---|---|
| Brian Picardat, A.A.E. | Interim CEO, CFO |
| Alex Peric, A.A.E. | Vice President and COO |
| Lisa M. Carr, C.M., P.E.M., C.T.A, ASC | Public Safety and Operations Director |
| Casey W. Ries, P.E. | Engineering and Planning Director |
| Tara M. Hernandez | Marketing and Communications Director |

* Kent County Commissioner

May 21, 2019

Gerald R. Ford International Airport Board
Kent County, Michigan

We are pleased to submit the Gerald R. Ford International Airport Authority Financial Report for the years ended December 31, 2018 and 2017. This report was prepared by the Authority's Finance and Administration Division, and the financial statements were audited by Plante & Moran, PLLC, an independent firm of Certified Public Accountants. This report is prepared for the purpose of disclosing the Authority's financial condition and to provide the reader additional information about the Authority's mission, goals and operating trends. The auditors' unmodified opinion has been included in this report. In addition, the Authority's Management Discussion and Analysis provides an introduction to the Financial Statements.

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. The reliability of the information contained in this report is based upon a comprehensive framework of internal controls that have been established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Authority; and that all disclosures necessary to enable the reader to gain the maximum understanding of the Authority's financial activity have been included.

The Gerald R. Ford International Authority (Authority) was created by the Kent County Board of Commissioners under Act 95, Public Acts of Michigan 2015, as amended on August 27, 2015. Prior to this the Kent County Airport Board of Control was created by resolution of the Board of Supervisors (now County Board of Commissioners) on June 26, 1956. The name was changed to the Kent County Aeronautics Board in 1959. In 1959, the Department was created by resolution of the Kent County Board of Supervisors. On November 3, 2011 the County Commission changed the Board name to the Gerald R. Ford International Airport Board. With the creation of the Authority the Gerald R. Ford International Airport Authority Board (Board) was established to direct and govern the Authority. The Board is currently made up of two County Commissioners and four citizens at-large, all appointed by the County Commission. One Citizen Member has to be from outside Kent County; this position is currently vacant, awaiting an appointee from the County Commission. The Board is responsible for governing the affairs of the Authority and sets all policies under an Airport Lease and Asset Transfer Agreement with Kent County. On July 1, 2016 the Authority received an Airport Operating Certificate from the Federal Aviation Administration which transferred the operation from Kent County through the Gerald R. Ford International Airport Board to the Authority. The Authority adopted its own Board Policies but there were no significant changes to the Policies. However there were some impacts on the Financial Statements due to the creation of the Board. These impacts are disclosed through these Financial Statements.

As an Authority, users of the Airport facilities provide the revenues to operate, maintain and provide necessary services and facilities. The Authority is not supported by general tax revenues of the County. The Authority is responsible for operating the Gerald R. Ford International Airport (Airport).

The Authority maintains a 5 year Capital Improvement Program (CIP) as required by the Federal Aviation Administration. The CIP is funded through a combination of Federal and State Grants, Passenger Facility Charges, Customer Facility Charges, Bond Issuance and Airport Reserves. The CIP is revised annually by the Gerald R. Ford International Airport Authority Board and the current CIP has been approved in the amount of $351,875,100.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2017. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the twenty-fifth consecutive year the Department received the award.

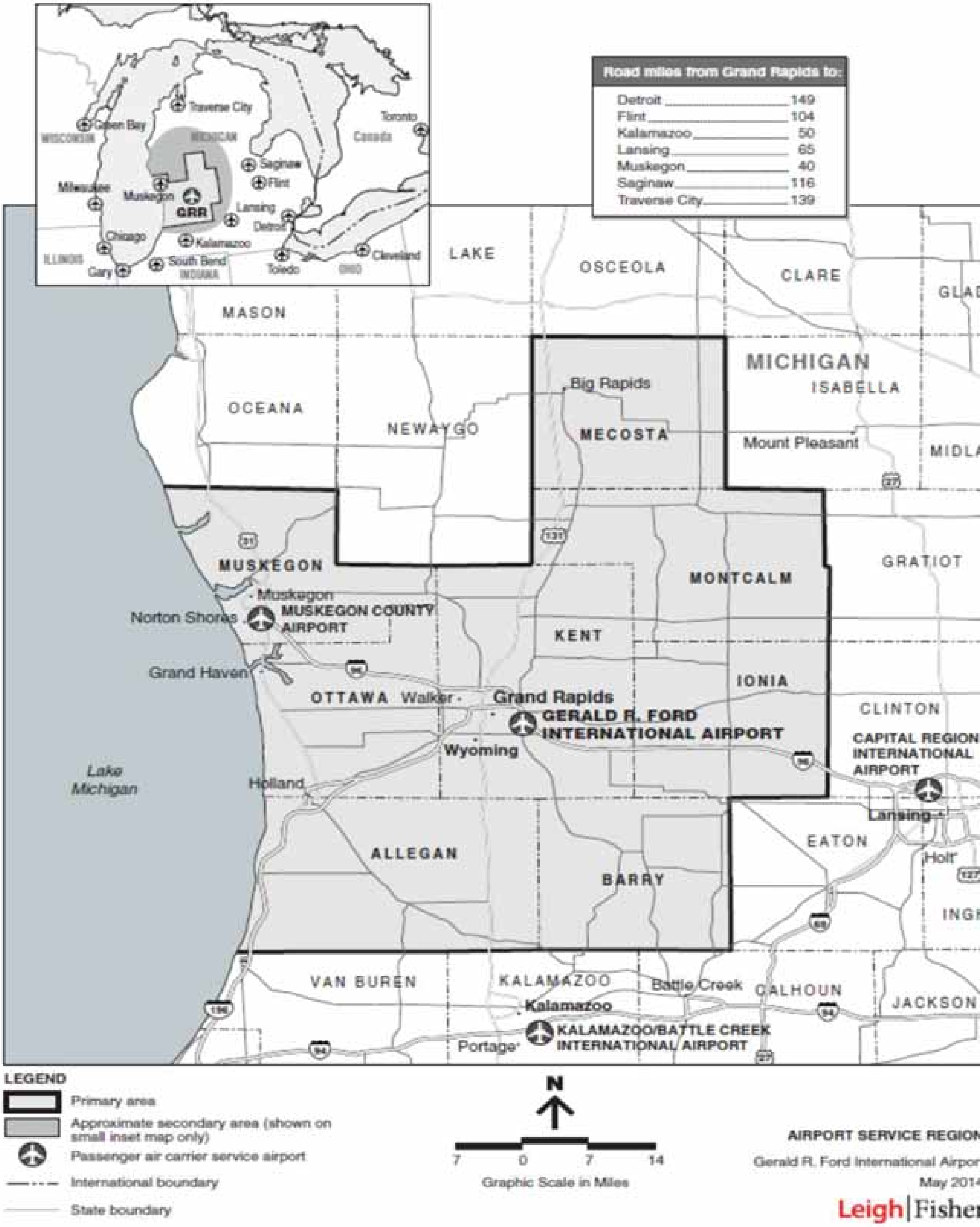
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

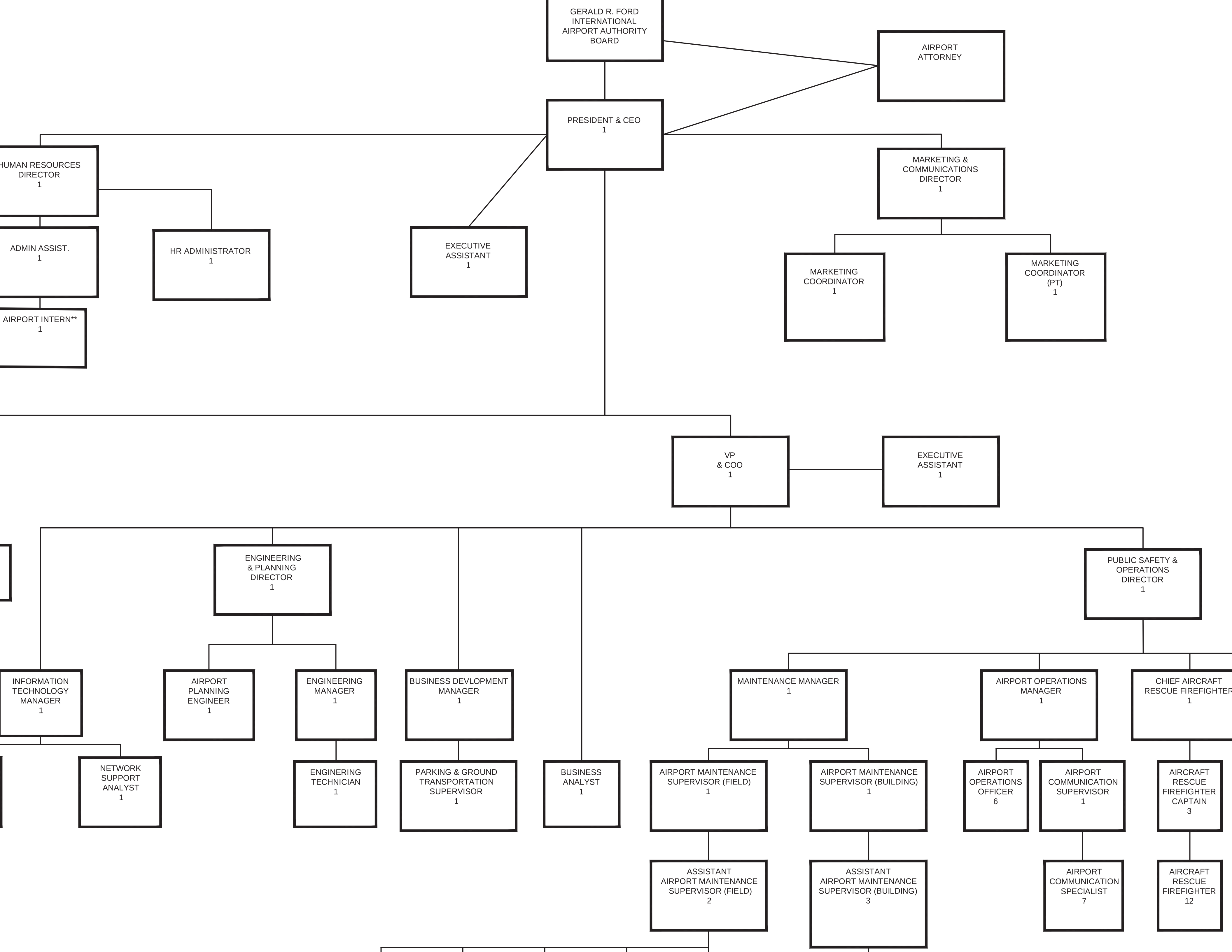
The preparation of this Financial Report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance & Administration Division. Each member of our finance division has our sincere appreciation for the contributions made in preparation of this report.

Respectfully submitted,

Brian Picardat, A.A.E.
Interim CEO, CFO

# Service Area Map




GERALD R. FORD INTERNATIONAL AIRPORT AUTHORITY BOARD
AIRPORT ATTORNEY
PRESIDENT & CEO 1
HUMAN RESOURCES DIRECTOR 1
ADMIN ASSIST. 1
AIRPORT INTERN** 1
HR ADMINISTRATOR 1
EXECUTIVE ASSISTANT 1
MARKETING & COMMUNICATIONS DIRECTOR 1
MARKETING COORDINATOR 1
MARKETING COORDINATOR (PT) 1
VP & COO 1
EXECUTIVE ASSISTANT 1
ENGINEERING & PLANNING DIRECTOR 1
PUBLIC SAFETY & OPERATIONS DIRECTOR 1
INFORMATION TECHNOLOGY MANAGER 1
NETWORK SUPPORT ANALYST 1
AIRPORT PLANNING ENGINEER 1
ENGINEERING MANAGER 1
ENGINERING TECHNICIAN 1
BUSINESS DEVLOPMENT MANAGER 1
PARKING & GROUND TRANSPORTATION SUPERVISOR 1
BUSINESS ANALYST 1
MAINTENANCE MANAGER 1
AIRPORT MAINTENANCE SUPERVISOR (FIELD) 1
AIRPORT MAINTENANCE SUPERVISOR (BUILDING) 1
ASSISTANT AIRPORT MAINTENANCE SUPERVISOR (FIELD) 2
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AIRPORT OPERATIONS OFFICER 6
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AIRPORT COMMUNICATION SPECIALIST 7
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AIRCRAFT RESCUE FIREFIGHTER CAPTAIN 3
AIRCRAFT RESCUE FIREFIGHTER 12

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Gerald R. Ford International Airport Authority, Michigan**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

**December 31, 2017**

Christopher P. Morrill

Executive Director/CEO

# Financial Section

Plante & Moran, PLLC
Suite 360
4444 W. Bristol Road
Flint, MI 48507
Tel: 810.767.5350
Fax: 810.767.8150
plantemoran.com

# Independent Auditor's Report

To the Board of Directors
Gerald R. Ford International Airport Authority

## Report on the Financial Statements

We have audited the accompanying basic financial statements of Gerald R. Ford International Airport Authority (the "Authority"), a component unit of the County of Kent, Michigan, as of and for the year ended December 31, 2018 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Gerald R. Ford International Airport Authority as of December 31, 2018 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

*Report on Prior Year Financial Statements*

The basic financial statements of Gerald R. Ford International Airport Authority as of and for the year ended December 31, 2017 were audited by a predecessor auditor, which expressed an unmodified opinion. The predecessor auditor's report was dated May 30, 2018.

To the Board of Directors
Gerald R. Ford International Airport Authority

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplemental information, as identified in the table of contents, 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, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Gerald R. Ford International Airport Authority's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*; passenger facility charges collected and expended, as required by the *Passenger Facility Charge Audit Guide for Public Agencies*; and introductory and statistical section schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The schedules of expenditures of federal awards and passenger facility charges collected and expended 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 schedules of expenditures of federal awards and passenger facility charges collected and expended are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections, as identified in the table of contents, have 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 them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019 on our consideration of Gerald R. Ford International Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Gerald R. Ford International Airport Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

May 21, 2019

The following Management's Discussion and Analysis (MD&A) of the Gerald R. Ford International Airport Authority's activities and financial performance provide an introduction to the financial statements of the Authority, a component unit of the County of Kent, Michigan (the "County") for the year ended December 31, 2018. The information contained in this MD&A should be considered in conjunction with the information contained in the Letter of Transmittal included in the Introductory Section and various historic summaries of activities and financial performance included in the Statistical Section of this report.

Following this MD&A are the basic financial statements of the Authority together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

Operations of the Gerald R. Ford International Airport were previously reported as an enterprise fund of Kent County. By resolution of the Kent County Board of Commissioners, a legally-separate Airport Authority was established. The Authority was incorporated with the State of Michigan on September 20, 2015 and commenced operations on July 1, 2016. Therefore, the Summary of Changes in Net Position for 2016 shown here is only representing the latter six month's of operations while under the Authority. Schedule A in the Statistical Section shows the full year's operations for true comparison.

## FINANCIAL POSITION SUMMARY

The Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $244.0 million at December 31, 2018, a $27.9 million increase from December 31, 2017, compared to a $8.7 million increase in 2017.

A condensed summary of the Authority's net position at December 31 is provided below:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Current and other assets | $ 60,988,263 | $ 57,232,638 | $ 65,175,876 |
| Capital assets, net | 346,957,790 | 333,872,590 | 328,813,737 |
| **Total assets** | 407,946,053 | 391,105,228 | 393,989,613 |
| **Deferred outflows of resources** | 8,667,247 | 7,167,748 | 7,096,348 |
| **Liabilities** | | | |
| Long-term debt | 164,463,012 | 173,490,782 | 182,075,740 |
| Other liabilities | 8,172,135 | 7,700,893 | 11,443,440 |
| **Total liabilities** | 172,635,147 | 181,191,675 | 193,519,180 |
| **Deferred inflows of resources** | - | 1,044,553 | 192,062 |
| **Net position** | | | |
| Net investment in capital assets | 189,170,383 | 167,820,231 | 152,970,366 |
| Restricted | 37,803,626 | 32,053,609 | 41,271,131 |
| Unrestricted | 17,004,144 | 16,162,908 | 13,133,222 |
| **Total net position** | $ 243,978,153 | $ 216,036,748 | $ 207,374,719 |

The largest portion of the Authority's net position each year (77.5% and 77.7% at December 31, 2018 and 2017, respectively) represents its investment in capital assets (e.g., land, buildings, improvements and equipment), less the related debt outstanding used to acquire those capital assets. The Authority uses these capital assets to provide facilities to its tenants, users and customers. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the Authority's net position (15.5% and 14.8% at December 31, 2018 and 2017, respectively) represents resources that are subject to external restrictions on how they can be used under bond resolutions and Federal regulations. The remaining unrestricted net position (7.0% and 7.5% at December 31, 2018 and 2017, respectively) may be used to meet any of the Authority's ongoing obligations.

## SUMMARY OF CHANGES IN NET POSITION

A condensed summary of the Authority's change in net position for the year ended December 31 is provided below:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Operating revenues** | $ 49,175,216 | $ 41,831,316 | $ 19,673,319 |
| **Operating expenses** | (44,959,109) | (41,941,147) | (17,237,085) |
| Operating income | 4,216,107 | (109,831) | 2,436,234 |
| **Nonoperating revenues (expenses)** | | | |
| Investment earnings | 241,091 | 125,884 | 66,383 |
| Interest & other expenses | (6,506,680) | (6,505,053) | (3,436,327) |
| Passenger and customer facility charges | 9,269,325 | 7,938,471 | 3,791,470 |
| Gain on sale of capital assets | 77,416 | 1,000 | 46,460 |
| **Total nonoperating revenues (expenses)** | 3,081,152 | 1,560,302 | 467,986 |
| Loss before capital contributions | 7,297,259 | 1,450,471 | 2,904,220 |
| **Capital contributions** | 20,644,146 | 7,211,558 | 6,644,391 |
| Change in net position before special item | 27,941,405 | 8,662,029 | 9,548,611 |
| Special item - Transfer from Kent County | - | - | 197,826,108 |
| **Change in net position** | 27,941,405 | 8,662,029 | 207,374,719 |
| Net position, beginning of year | 216,036,748 | 207,374,719 | - |
| **Net position, end of year** | $ 243,978,153 | $ 216,036,748 | $ 207,374,719 |

## FINANCIAL OPERATIONS HIGHLIGHTS

- Operating revenues increased 17.6% from $41.8 million in 2017 to $49.2 million in 2018 principally due to increased passenger growth as a result of the airport expansion.
- Operating Expenses increased 7.2% from $41.9 million in 2017 to $45.0 million in 2018 principally due to increases in contractual services and supplies. These increases are also due to the passenger growth.
- As a result of the above, operating income increased to $4.3 million in 2018 from a ($0.1) million loss in 2017.
- Net non-operating revenues (expenses) increased to $3.1 million in 2018 from $1.6 million in 2017, due primarily to a 16.8% increase in Passenger and Customer facility charges.
- Capital contributions received in the form of grants from the Federal and State governments vary year to year and within the year, based on availability of grant funding and timing of federally funded projects.

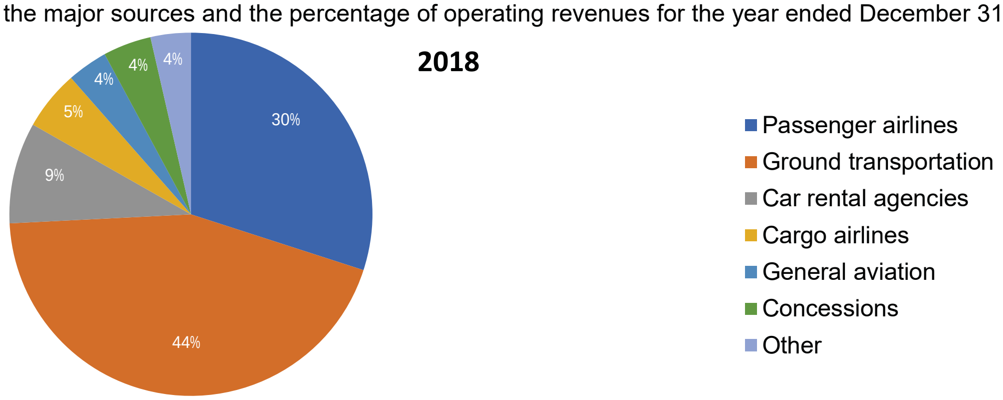
## AIRLINE RATES AND CHARGES

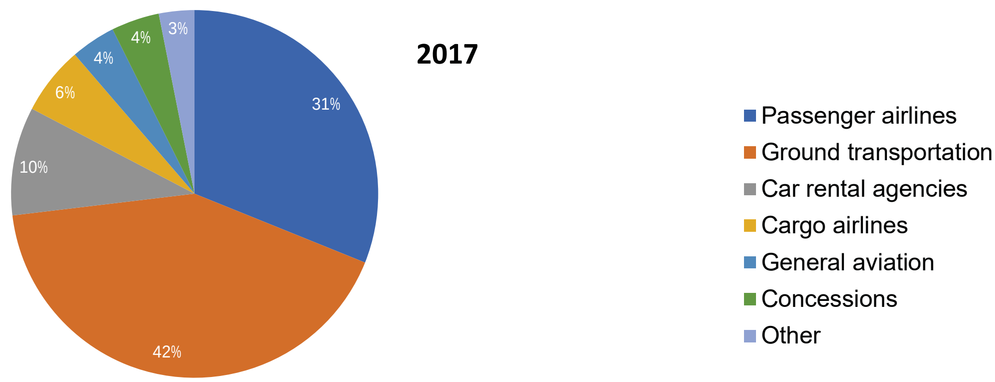
The Gerald R. Ford International Airport Authority Board sets cost recovery rates and charges annually by adoption of a resolution based on a compensatory (cost of services) rates and charges methodology. This methodology utilizes the Authority's annual operating and capital budgets which have been approved by the Gerald R. Ford International Airport Authority Board. The rates include the terminal rental rates, landing fees and airline apron fees. Rates as of December 31 are as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Landing fees (per 1,000 lbs) | $ 2.98 | $ 2.84 | $ 2.98 |
| Terminal rental rates (per square | 49.87 | 48.26 | 48.25 |
| Airline apron fee (per 1,000 lbs) | 1.70 | 1.81 | 1.79 |

**REVENUES**

The following chart shows the major sources and the percentage of operating revenues for the year ended December 31:



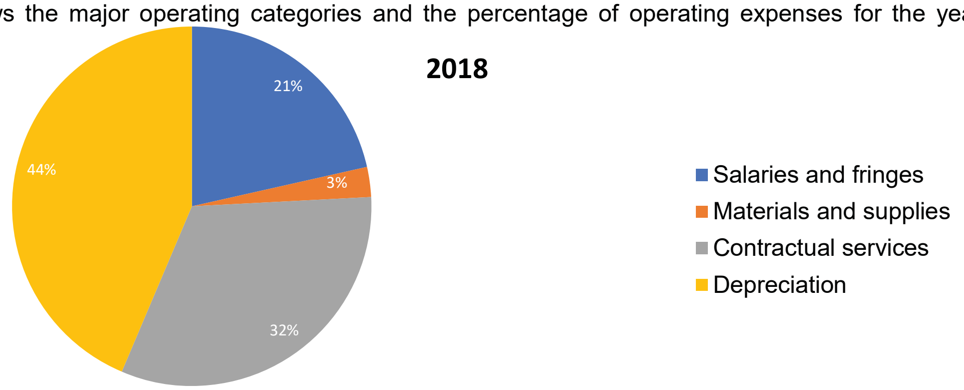



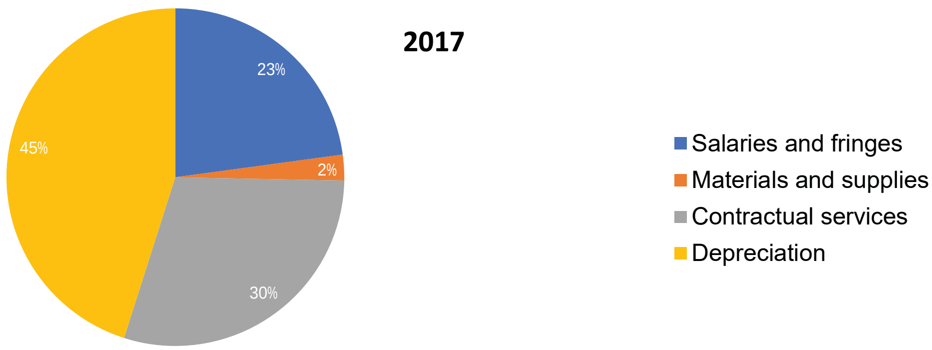

A summary of operating revenues for the year ended December 31, 2018 and 2017 is as follows:

| **Operating revenues** | 2018 | Percent of Total | 2017 | Percent of Total |
|---|---|---|---|---|
| Charges for services: | | | | |
| Passenger airlines | $ 14,741,958 | 30.0% | $ 13,005,828 | 31.1% |
| Ground transportation | 21,743,935 | 44.2% | 17,578,842 | 42.0% |
| Car rental agencies | 4,430,856 | 9.0% | 3,988,797 | 9.5% |
| Cargo airlines | 2,606,076 | 5.3% | 2,525,442 | 6.0% |
| General aviation | 1,782,545 | 3.6% | 1,651,675 | 3.9% |
| Concessions | 2,105,971 | 4.3% | 1,765,274 | 4.2% |
| Other | 1,763,875 | 3.6% | 1,315,458 | 3.1% |
| **Total operating revenues** | $ 49,175,216 | | $ 41,831,316 | |

**EXPENSES**

The following chart shows the major operating categories and the percentage of operating expenses for the year ended December 31:




A summary of operating expenses for the year ended December 31, 2018 and 2017 is as follows:

| **Operating expenses** | 2018 | Percent of Total | 2017 | Percent of Total |
|---|---|---|---|---|
| Salaries and fringes | $ 9,655,579 | 21.5% | $ 9,590,573 | 22.9% |
| Materials and supplies | 1,212,095 | 2.7% | 1,022,374 | 2.4% |
| Contractual services | 14,483,179 | 32.2% | 12,421,445 | 29.6% |
| Depreciation | 19,608,256 | 43.6% | 18,906,755 | 45.1% |
| **Total operating expenses** | $ 44,959,109 | | $ 41,941,147 | |

## FINANCIAL STATEMENTS

The Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board. The Authority is structured as an enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and are depreciated (except land and construction in progress) over their useful lives. Amounts are restricted for debt service, construction purposes, and pension benefits. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

## CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

For the year ended December 31, 2018 the Authority had capital additions totaling $32,788,712. The major capital additions were:

| | |
|---|---|
| Terminal Apron Reconstruction | $ 18,943,574 |
| Consolidated Checkpoint Expansion | 1,774,900 |
| Gateway Transformation - Phase II | 1,595,908 |
| Sand Storage Building | 1,379,501 |
| East Parking Lot Rehabilitation | 1,331,568 |
| Parking Revenue Control System | 821,266 |
| Other | 6,941,995 |

Capital asset acquisitions are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including federal and state grants, private investment, debt issuance and Authority revenues. Additional information on the Authority's capital assets can be found in Note 4 of this report.

## LONG-TERM DEBT ADMINISTRATION

In November 2018, the Authority issued $12.7 million of Revenue Refunding Bonds to pay the cost of refunding the outstanding Airport Revenue Refunding Bonds, Series 2009. This bond issue, like the 2009 Refunding Bonds, was sold with the limited tax general obligation of the County and utilized the County's bond rating. Their rating for this issue was AAA from Standard & Poor's and Aaa from Moody's.

In February 2015, the Department issued $93.9 million of Revenue Refunding Bonds to pay the cost of the outstanding Airport Bonds, Series 2007. This bond issue was sold with the limited tax general obligation of the County and utilized the County's bond rating. Their rating for this issue was AAA from Standard & Poor's and Aaa from Moody's.

In March 2015, the Department issued $14.6 million of Revenue Bonds to pay the construction cost of the parking deck roof. This bond issue was sold with the limited tax general obligation of the County and utilized the County's bond rating. Their rating for this issue was AAA from Standard & Poor's and Aaa from Moody's.

On November 1, 2011, the Department issued $38.7 million of Revenue Refunding Bonds to pay the cost of the outstanding Airport Bonds, Series 1998. This bond issue, unlike the 1998 Bonds but like the 2009 Refunding Bonds, was sold with the limited tax general obligation of the County and utilized the County's bond rating. Their rating for this issue was AAA from Standard & Poor's and Aaa from Moody's.

On April 30, 2009, the Department issued $30.1 million of Revenue Refunding Bonds to pay the cost of refunding the outstanding Airport Revenue Refunding Bonds, Series 1999. This bond issue, like the 1999 Refunding Bonds, was sold with the limited tax general obligation of the County and utilized the County's bond rating. Their rating for this issue was AAA from Standard & Poor's and Aaa from Moody's.

On February 2009, Standard & Poor's downgraded the Airport's rating to BBB+ with a stable outlook from A- with a stable outlook. Standard & Poor's indicated the key credit concerns were the amount of additional debt taken on with the Series 2007 Bonds and the declining traffic. On March 30, 2011 Standard & Poor's affirmed the Airport's BBB+ rating with a stable outlook. With the issue of the Series 2011 Refunding Bonds noted above, all of the outstanding Bond issues have the limited tax general obligation of the County and therefore carry the County's AAA rating from Standard & Poor's and Aaa from Moody's.

Additional information on the Authority's revenue bonds payable can be found in Note 5 of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S RATES

The economy of West Michigan has outperformed the rest of the state and country and this has been reflected in the passenger growth seen by the airport over the last six years. The Authority has seen continued growth in the first three months of 2019 as well. With this growth and our staff's continued review of costs, it is expected that airline rates will continue to be held flat or with a very little increase in 2019.

## REQUESTS FOR INFORMATION

This financial report is designed to provide general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, may be addressed to the Vice President and CFO, Gerald R. Ford International Airport Authority, 5500 44th Street SE, Grand Rapids, Michigan 49512-4055.

Respectfully submitted,

Brian Picardat, A.A.E.
Interim CEO, CFO

# Statement of Net Position

## December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 20,740,606 | $ 14,949,213 |
| Restricted cash and cash equivalents (Note 3) | 12,127,877 | 12,107,922 |
| Receivables: | | |
| Accounts receivable - Net | 2,549,185 | 2,253,730 |
| Due from other governments | 366,615 | 5,405,396 |
| Inventory | 221,407 | 217,693 |
| Prepaid expenses and deposits | 1,298,466 | 1,037,769 |
| Total current assets | 37,304,156 | 35,971,723 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents (Note 3) | 17,048,526 | 12,420,974 |
| Accounts receivable - Net (Note 3) | 1,120,371 | 894,253 |
| Net pension asset (Note 8) | 5,515,210 | 7,945,688 |
| Capital assets: (Note 4) | | |
| Assets not subject to depreciation | 30,172,676 | 11,626,872 |
| Assets subject to depreciation - Net | 316,785,114 | 322,245,718 |
| Total noncurrent assets | 370,641,897 | 355,133,505 |
| Total assets | 407,946,053 | 391,105,228 |
| **Deferred Outflows of Resources** | | |
| Deferred charges on bond refundings (Note 5) | 5,807,456 | 6,577,088 |
| Deferred pension costs (Note 8) | 2,859,791 | 590,660 |
| Total deferred outflows of resources | 8,667,247 | 7,167,748 |
| **Liabilities** | | |
| Current liabilities: | | |
| Payables: | | |
| Accounts payable | 2,166,959 | 1,883,021 |
| Construction contracts payable | 1,867,273 | 1,144,522 |
| Payables from restricted assets: | | |
| Accrued interest payable | 3,143,637 | 3,657,875 |
| Bonds payable (Note 5) | 8,984,240 | 8,450,047 |
| Unearned revenue | 330,336 | 318,307 |
| Other accrued liabilities | 663,930 | 697,168 |
| Total current liabilities | 17,156,375 | 16,150,940 |
| Noncurrent liabilities - Bonds payable - Net of current portion (Note 5) | 155,478,772 | 165,040,735 |
| Total liabilities | 172,635,147 | 181,191,675 |
| **Deferred Inflows of Resources** - Deferred pension cost reductions (Note 8) | - | 1,044,553 |
| **Net Position** | | |
| Net investment in capital assets | 189,170,383 | 167,820,231 |
| Restricted: | | |
| Debt service | 11,369,540 | 11,732,868 |
| Debt reserve | 3,004,354 | 3,558,376 |
| Passenger facility charges - Debt service | 2,550,288 | 523,018 |
| Passenger facility charges - Capital improvements | 10,044,535 | 7,555,284 |
| Customer facility charges - Capital improvements | 2,459,908 | 1,192,268 |
| Pension benefits | 8,375,001 | 7,491,795 |
| Unrestricted | 17,004,144 | 16,162,908 |
| Total net position | **$ 243,978,153** | **$ 216,036,748** |

See notes to financial statements.

## Statement of Revenue, Expenses, and Changes in Net Position

### Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Operating Revenue** | | |
| Passenger airlines | $ 14,741,958 | $ 13,005,828 |
| Ground transportation | 21,743,935 | 17,578,842 |
| Car rental agencies | 4,430,856 | 3,988,797 |
| Cargo airlines | 2,606,076 | 2,525,442 |
| General aviation | 1,782,545 | 1,651,675 |
| Concessions | 2,105,971 | 1,765,274 |
| Other | 1,763,875 | 1,315,458 |
| Total operating revenue | 49,175,216 | 41,831,316 |
| **Operating Expenses** | | |
| Salaries and fringes | 9,655,579 | 9,590,573 |
| Materials and supplies | 1,212,095 | 1,022,374 |
| Contractual services | 14,483,179 | 12,421,445 |
| Depreciation | 19,608,256 | 18,906,755 |
| Total operating expenses | 44,959,109 | 41,941,147 |
| **Operating Income (Loss)** | 4,216,107 | (109,831) |
| **Nonoperating Revenue (Expense)** | | |
| Gain on sale of assets | 77,416 | 1,000 |
| Interest earnings | 241,091 | 125,884 |
| Interest expense | (6,298,931) | (6,505,053) |
| Bond sale expenses | (207,749) | - |
| Passenger facility charges | 6,886,079 | 5,785,974 |
| Customer facility charges | 2,383,246 | 2,152,497 |
| Total nonoperating revenue | 3,081,152 | 1,560,302 |
| **Income** - Before capital contributions | 7,297,259 | 1,450,471 |
| **Capital Contributions** | | |
| Capital grants | 18,702,479 | 5,497,863 |
| Capital donations | 1,941,667 | 1,713,695 |
| Total capital contributions | 20,644,146 | 7,211,558 |
| **Change in Net Position** | 27,941,405 | 8,662,029 |
| **Net Position** - Beginning of year | 216,036,748 | 207,374,719 |
| **Net Position** - End of year | **$ 243,978,153** | **$ 216,036,748** |

See notes to financial statements.

## Statement of Cash Flows

### Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from customers and users | $ 48,894,612 | $ 41,769,124 |
| Payments to suppliers | (15,697,799) | (14,628,234) |
| Payments to employees and fringes | (10,552,793) | (10,234,184) |
| Net cash and cash equivalents provided by operating activities | 22,644,020 | 16,906,706 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Passenger facility charges collected | 6,685,521 | 5,626,582 |
| Customer facility charges collected | 2,357,686 | 2,146,326 |
| Capital contributions received | 25,682,927 | 3,975,039 |
| Proceeds from sale of capital assets | 172,698 | 25,567 |
| Purchase of capital assets | (32,065,987) | (26,860,837) |
| Issuance of revenue bonds | 12,725,000 | - |
| Principal paid on revenue bonds | (21,560,000) | (7,255,000) |
| Interest paid on revenue bonds | (6,236,307) | (7,477,950) |
| Payment of bond sale expenses | (207,749) | - |
| Net cash and cash equivalents used in capital and related financing activities | (12,446,211) | (29,820,273) |
| **Cash Flows Provided by Investing Activities** - Interest received | 241,091 | 125,884 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 10,438,900 | (12,787,683) |
| **Cash and Cash Equivalents** - Beginning of year | 39,478,109 | 52,265,792 |
| **Cash and Cash Equivalents** - End of year | **$ 49,917,009** | **$ 39,478,109** |
| **Classification of Cash and Cash Equivalents** | | |
| Cash and cash equivalents | $ 20,740,606 | $ 14,949,213 |
| Current restricted cash and cash equivalents | 12,127,877 | 12,107,922 |
| Noncurrent restricted cash and cash equivalents | 17,048,526 | 12,420,974 |
| Total cash and cash equivalents | **$ 49,917,009** | **$ 39,478,109** |
| **Reconciliation of Operating Income (Loss) to Net Cash and Cash Equivalents from Operating Activities** | | |
| Operating income (loss) | $ 4,216,107 | $ (109,831) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | |
| Depreciation | 19,608,256 | 18,906,755 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (295,455) | (92,240) |
| Inventories | (3,714) | (52,618) |
| Prepaid expenses and deposits | (260,697) | (277,630) |
| Net pension asset and deferred pension costs | (883,206) | (758,045) |
| Accounts payable | 283,938 | (854,167) |
| Unearned revenue | 12,029 | 30,048 |
| Other accrued liabilities | (33,238) | 114,434 |
| Total adjustments | 18,427,913 | 17,016,537 |
| Net cash and cash equivalents provided by operating activities | **$ 22,644,020** | **$ 16,906,706** |

See notes to financial statements.

## Note 1 - Significant Accounting Policies

***Reporting Entity***

Gerald R. Ford International Airport Authority (the "Authority") was incorporated as a public body on September 2, 2015 and commenced operations on July 1, 2016. The Authority's purpose is to operate and maintain the Gerald R. Ford International Airport in Grand Rapids, Michigan. It is the second largest airport in Michigan with flights to 26 domestic locations.

The Authority is governed by a seven-member board whose members are appointed by the County of Kent, Michigan (the "County") and is reported as a discretely presented component unit of the County.

***Accounting and Reporting Principles***

The Authority follows accounting principles and policies generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB).

***Report Presentation***

This report includes the fund-based statements of the Authority. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

***Fund Accounting***

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. The Authority reports all activity in a single enterprise fund. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenue of the Authority is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

***Basis of Accounting***

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Restricted net position is reported for assets that are subject to restrictions beyond the Authority's control, less any liabilities payable from such restricted assets. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

***Specific Balances and Transactions***

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, demand deposits, short-term investments with a maturity of three months or less when acquired, and short-term accrued interest.

***Investments***

The Airport's investments are composed entirely of a balance in the Kent County External Investment Pool, managed by the County Treasurer. Investments underlying the County External Investment Pool consist primarily of short-term certificates of deposit, which are carried at cost plus accrued interest, and U.S. treasuries and agencies, which are carried at fair value. Investment income earned as a result of cash pooling is allocated to participating governments. Positions in external investment pools are not required to be categorized within the fair value hierarchy and are classified as cash equivalents.

## Note 1 - Significant Accounting Policies (Continued)

***Accounts Receivable***

Accounts receivable are customer obligations generally due under normal trade terms. The allowance for possible losses is determined by reviewing known customer exposures and applying historical credit loss experience to the current receivable accounts with consideration given to the current condition of the economy, assessment of the financial position of the customer, and overall trends in receivables aged beyond their contractual terms. After all attempts to collect a receivable have failed, the receivable is written off against the allowance for possible losses.

***Due from Other Governments***

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenue at the time eligible project costs are incurred and reimbursement is requested. Revenue received in advance of project costs being incurred is reported as unearned revenue.

***Inventories and Prepaid Items***

Inventories, which consist of fuel and runway deicers, are valued at cost, on a first-in, first-out basis. Inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods. For such payments, the Authority accrues prepaid items in the financial statements.

***Restricted Assets***

Restricted assets consist of monies and other resources whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like or through restrictions imposed by law through constitutional provisions or enabling legislation. The distinction between current and noncurrent restricted assets is that noncurrent assets are restricted for long-term debt service, reserves, and capital expenditures.

***Bond Discounts and Premiums***

Premiums and discounts associated with various bond issues are being amortized by the straight-line method over the repayment periods of the related bonds. Amortization of these items is charged to interest expense.

***Capital Assets***

Capital assets include land improvements, buildings and improvements, equipment, systems, office equipment and furniture, and vehicles. Capital assets are defined by the Authority as assets with an initial individual cost of more than $50,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, net of accumulated depreciation. Donated capital assets are recorded at estimated acquisition value at the date of donation. Interest incurred during the construction of capital assets is included as part of the capitalized value of the assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized.

## Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

| Asset Type | Depreciable Life - Years |
|---|---|
| Land improvements | 20-30 |
| Buildings and improvements | 30-50 |
| Equipment and systems | 3-12 |
| Office equipment and furniture | 5-15 |
| Vehicles | 3-7 |

The Authority reviews long-lived assets, including land, buildings and other capital assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair market value. If it is determined that an impairment loss has occurred based on expected future undiscounted cash flows, the asset is written down to its net value and a current charge to income is recognized.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows related to pension costs, as well as for deferred losses on refunding. See Note 8 for details on pension costs. A deferred refunding loss results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows related to pension cost reductions. See Note 8 for details on pension costs.

***Net Position***

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

***Net Position Flow Assumption***

The Authority will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

## Note 1 - Significant Accounting Policies (Continued)

***Passenger Airline Charges***

The Authority sets rates and charges for landing fees, terminal rental rates, and apron fees that are charged to the airlines for services based on the adopted operating and capital budgets. These rates and charges are adopted by the board in October and are effective January 1. At the end of the year, the Authority does a recalculation of the rates based on actual activity and audited information. The difference between the rates and charges is then either credited to the airlines if they have overpaid during the year or billed to the airlines if they underpaid during the year.

***Facility Charges and Capital Contributions***

Passenger facility charges (PFC) are collected from airlines that service the airport for each enplaned passenger, and such charges must be used to fund capital projects. The Authority received approval from the Federal Aviation Administration (FAA) on September 9, 1992 to start collecting a $3 PFC. The Authority received approval to "use" PFC revenue previously collected, as well as future charges, on February 2, 1996. The PFC revenue is being used to pay debt service on the Airport Revenue Refunding Bonds, Series 2018 (previously Series 2009). On September 8, 2005, the FAA approved a $1.50 increase of the PFC to $4.50. The additional PFC revenue will be used for terminal improvements. Revenue is recognized when earned and is classified as nonoperating revenue.

Customer facility charges (CFC) are collected for rental car related capital projects. The CFC of $3 per transaction day on rental car transactions was approved by the Gerald R. Ford International Airport board on August 31, 2005. The CFC revenue was used to develop new rental car service facilities and rental vehicle ready/return spaces in the parking structure. Consequently, revenue is recognized when earned and is classified as nonoperating revenue. As of March 1, 2016, the amount collected in CFC's and rental income from the car rental agencies reached the total amount expended in the development of the new rental car service facilities. At that time, the board approved for the CFC revenue to be put towards the payment of debt incurred during the 2015 construction of the roof of the parking structure, as well as a maintenance fund for the car rental service facilities. The Authority estimates that the total amount needed to pay off the debt and the maintenance fund for 15 years is $37 million. Based on current collection rates, the Authority anticipates that the total amount will be collected via CFCs by December 31, 2030.

The Authority received a significant amount of funding through the Airport Improvement Program of the Federal Aviation Administration, with certain matching funds provided by the Authority and the State of Michigan. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred. Grants for capital asset acquisitions, facilities development, and rehabilitation are reported in the statement of revenue, expenses, and changes in net position after nonoperating revenue and expenses as other capital contributions.

***Pension***

The Authority offers a defined benefit pension plan to its employees, as described in Note 8. The Authority records a net pension asset for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Gerald R. Ford International Airport Authority Municipal Employees' Retirement System of Michigan pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## Note 1 - Significant Accounting Policies (Continued)

***Compensated Absences***

Authority employees are granted vacation leave in varying amounts based on their length of service. Employees may accumulate up to a predetermined amount of vacation leave. Upon termination, employees are paid for unused vacation at the current rates. It is the Authority’s policy to recognize the cost of vacation pay at the time the liability is incurred. The Authority's compensated absences liability is recorded as an other accrued liability on the statement of net position.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

***Reclassifications***

Certain 2017 restricted cash and cash equivalents and accounts receivable amounts have been reclassified between current and noncurrent assets to conform to the 2018 presentation, with no effect on 2017 net income.

***Upcoming Accounting Pronouncements***

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending December 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending December 31, 2020.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending December 31, 2019.

## Note 1 - Significant Accounting Policies (Continued)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Authority's financial statements for the December 31, 2020 fiscal year.

## Note 2 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows:

| | 2018 | 2017 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 20,740,606 | $ 14,949,213 |
| Restricted cash and cash equivalents | 12,127,877 | 12,107,922 |
| Noncurrent assets - Restricted cash and cash equivalents | 17,048,526 | 12,420,974 |
| Total deposits and investments | $ 49,917,009 | $ 39,478,109 |

These amounts are classified into the following deposits and investment categories:

| | 2018 | 2017 |
|---|---|---|
| Deposits with financial institutions | $ 35,505,773 | $ 24,174,932 |
| Collateralized deposits | 14,373,894 | 15,291,244 |
| County of Kent, Michigan investment pool | 15,465 | 56 |
| Cash on hand | 21,877 | 11,877 |
| Total deposits and investments | $ 49,917,009 | $ 39,478,109 |

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. State law does not require and the Authority does not have a specific policy pertaining to custodial credit risk for deposits that is more restrictive than state law. As of December 31, 2018 and 2017, the Authority had $49,226,763 and $39,033,079, respectively, of bank deposits that were uninsured. The Authority's collateralized deposits represent amounts held in bond reserve and redemption accounts that are collateralized by U.S. government treasuries and agencies. Custodial credit risk for the balance held in the County investment pool cannot be determined because the Authority's balance does not correspond to specific bank accounts.

***Custodial Credit Risk of Investments***

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a specific policy pertaining to custodial credit risk for deposits that is more restrictive than state law.

## Note 2 - Deposits and Investments (Continued)

***Interest Rate Risk***

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's investments do not have identifiable maturity dates.

***Credit Risk***

State law limits investments to specific government securities, certificates of deposit, bank accounts with qualified financial institutions, and commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds, and qualified external investment pools, as identified above. The Authority has no investment policy that would further limit its investment choices. The County investment pool is not rated.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk, as identified in the list of authorized investments above. The Authority's investment policy minimizes concentration of credit risk by requiring that, with the exception of U.S. Treasuries and authorized pools, no more than 25 percent of the portfolio be invested in a single security type or with a single financial institution.

## Note 3 - Restricted Assets

At December 31, 2018 and 2017, restricted assets are composed of the following:

| | 2018 | 2017 |
|---|---|---|
| Current restricted cash and cash equivalents - Debt service | $ 12,127,877 | $ 12,107,922 |
| Noncurrent restricted cash and cash equivalents: | | |
| Debt service | 2,246,017 | 3,183,322 |
| Passenger facility charges | 11,641,051 | 7,325,088 |
| Customer facility charges | 2,293,309 | 1,051,229 |
| Unspent bond proceeds | 868,149 | 861,335 |
| Noncurrent restricted accounts receivable: | | |
| Passenger facility charges | 953,772 | 753,214 |
| Customer facility charges | 166,599 | 141,039 |
| Total noncurrent restricted assets | 18,168,897 | 13,315,227 |
| Total restricted assets | $ 30,296,774 | $ 25,423,149 |

## Note 4 - Capital Assets

Capital asset activity of the Authority was as follows:

| | Balance January 1, 2018 | Reclassifications | Additions | Disposals and Adjustments | Balance December 31, 2018 |
|---|---|---|---|---|---|
| Capital assets not being depreciated - Construction in progress | $ 11,626,872 | $ (14,242,908) | $ 32,788,712 | $ - | $ 30,172,676 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 248,253,093 | 1,381,378 | - | - | 249,634,471 |
| Buildings and improvements | 309,294,293 | 2,973,289 | - | - | 312,267,582 |
| Equipment | 25,978,772 | 2,458,418 | - | (2,210,621) | 26,226,569 |
| Systems | 6,116,061 | 7,150,881 | - | - | 13,266,942 |
| Office equipment and furniture | 1,964,882 | 187,639 | - | (62,593) | 2,089,928 |
| Vehicles | 1,152,015 | 91,303 | - | (112,738) | 1,130,580 |
| Subtotal | 592,759,116 | 14,242,908 | - | (2,385,952) | 604,616,072 |
| Accumulated depreciation: | | | | | |
| Land improvements | 144,081,749 | - | 7,542,481 | - | 151,624,230 |
| Buildings and improvements | 107,687,625 | - | 10,081,909 | - | 117,769,534 |
| Equipment | 11,589,137 | - | 1,114,142 | (2,134,876) | 10,568,403 |
| Systems | 4,881,883 | - | 588,289 | - | 5,470,172 |
| Office equipment and furniture | 1,536,165 | - | 84,736 | (48,941) | 1,571,960 |
| Vehicles | 736,839 | - | 196,699 | (106,879) | 826,659 |
| Subtotal | 270,513,398 | - | 19,608,256 | (2,290,696) | 287,830,958 |
| Net capital assets being depreciated | 322,245,718 | 14,242,908 | (19,608,256) | (95,256) | 316,785,114 |
| Net capital assets | $ 333,872,590 | $ - | $ 13,180,456 | $ (95,256) | $ 346,957,790 |

| | Balance January 1, 2017 | Reclassifications | Additions | Disposals and Adjustments | Balance December 31, 2017 |
|---|---|---|---|---|---|
| Capital assets not being depreciated - Construction in progress | $ 28,727,822 | $ (41,008,367) | $ 23,931,984 | $ (24,567) | $ 11,626,872 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 244,307,164 | 3,945,929 | - | - | 248,253,093 |
| Buildings and improvements | 274,718,983 | 34,575,308 | - | - | 309,294,291 |
| Equipment | 23,960,977 | 2,017,795 | - | - | 25,978,772 |
| Systems | 5,867,686 | 190,186 | 58,191 | - | 6,116,063 |
| Office equipment and furniture | 1,964,885 | - | - | - | 1,964,885 |
| Vehicles | 872,869 | 279,149 | - | - | 1,152,018 |
| Subtotal | 551,692,564 | 41,008,367 | 58,191 | - | 592,759,122 |
| Accumulated depreciation: | | | | | |
| Land improvements | 136,582,629 | - | 7,499,120 | - | 144,081,749 |
| Buildings and improvements | 97,732,210 | - | 9,955,415 | - | 107,687,625 |
| Equipment | 10,644,487 | - | 944,652 | - | 11,589,139 |
| Systems | 4,618,845 | - | 263,040 | - | 4,881,885 |
| Office equipment and furniture | 1,455,747 | - | 80,419 | - | 1,536,166 |
| Vehicles | 572,731 | - | 164,109 | - | 736,840 |
| Subtotal | 251,606,649 | - | 18,906,755 | - | 270,513,404 |
| Net capital assets being depreciated | 300,085,915 | 41,008,367 | (18,848,564) | - | 322,245,718 |
| Net capital assets | $ 328,813,737 | $ - | $ 5,083,420 | $ (24,567) | $ 333,872,590 |

## Note 4 - Capital Assets (Continued)

The construction in progress as of December 31, 2018 and 2017 of $30,172,676 and $11,626,872, respectively, relates to various projects being funded by federal, state, and authority funds.

Depreciation expense for the years ended December 31, 2018 and 2017 was $19,608,256 and $18,906,755, respectively.

The County of Kent, Michigan owns the land underlying the Authority's operations. The Authority has entered into a 40-year lease with the County to use the land for any purposes the Authority deems to be consistent with the best interest of operating the airport for a payment of $1. At the end of the 40-year term, the lease shall renew for successive 20-year terms unless either party gives proper notice of termination.

***Construction Commitments***

The Authority has active construction projects at year end. The projects include the Terminal Apron Reconstruction, Sand Storage Building, East Lot Rehabilitation, and Gateway Transformation Phase II, among others. At December 31, 2018, the Authority's commitments with contractors were approximately $31,505,000.

## Note 5 - Long-term Debt

Long-term debt activity for the years ended December 31, 2018 and 2017 can be summarized as follows:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
| Bonds and contracts payable: | | | | | |
| Revenue bonds | $ 155,080,000 | $ 12,725,000 | $ (21,560,000) | $ 146,245,000 | $ 7,735,000 |
| Unamortized bond premiums | 18,410,782 | 1,184,358 | (1,377,128) | 18,218,012 | 1,249,240 |
| Total bonds payable | $ 173,490,782 | $ 13,909,358 | $ (22,937,128) | $ 164,463,012 | $ 8,984,240 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
| Bonds payable: | | | | | |
| Revenue bonds | $ 162,335,000 | $ - | $ (7,255,000) | $ 155,080,000 | $ 7,370,000 |
| Unamortized bond premiums | 19,740,740 | - | (1,329,958) | 18,410,782 | 1,080,047 |
| Total bonds payable | $ 182,075,740 | $ - | $ (8,584,958) | $ 173,490,782 | $ 8,450,047 |

The Authority had deferred outflows of $5,807,456 and $6,577,088 related to deferred charges on bond refundings at December 31, 2018 and 2017, respectively.

## Note 5 - Long-term Debt (Continued)

### *Revenue Bonds*

Revenue bonds payable consist of the following bond issues as of December 31, 2018 and 2017:

| | Maturity Date | Interest Rate | 2018 | 2017 |
|---|---|---|---|---|
| Airport revenue refunding bonds, Series 2009 | 1/1/2019 | 2.00-5.00% | $ 2,015,000 | $ 18,125,000 |
| Airport revenue refunding bonds, Series 2011 | 1/1/2028 | 2.00-5.00% | 27,190,000 | 29,260,000 |
| Airport revenue bonds, Series 2015 | 1/1/2035 | 1.50-5.00% | 13,255,000 | 13,765,000 |
| Airport revenue refunding bonds, Series 2015 | 1/1/2037 | 4.00-5.00% | 91,060,000 | 93,930,000 |
| Airport revenue refunding bonds, Series 2018 | 1/1/2025 | 5.00% | 12,725,000 | - |
| Total | | | $ 146,245,000 | $ 155,080,000 |

### *Debt Service Requirements to Maturity*

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| Years Ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 7,735,000 | $ 6,502,687 | $ 14,237,687 |
| 2020 | 7,795,000 | 6,360,625 | 14,155,625 |
| 2021 | 8,265,000 | 5,959,125 | 14,224,125 |
| 2022 | 8,680,000 | 5,535,500 | 14,215,500 |
| 2023 | 9,110,000 | 5,090,750 | 14,200,750 |
| 2024-2028 | 44,770,000 | 18,743,425 | 63,513,425 |
| 2029-2033 | 31,650,000 | 9,892,700 | 41,542,700 |
| 2034-2037 | 28,240,000 | 2,662,775 | 30,902,775 |
| Total | $ 146,245,000 | $ 60,747,587 | $ 206,992,587 |

There are a number of limitations and restrictions contained in the various bond indentures. All revenue bonds outstanding and interest thereon are secured by a statutory first lien, subject only to prior liens, on the net revenue of the Authority. In compliance with bond agreements, the Authority has a letter of credit available totaling $11,435,300, which has not been drawn upon. The letter of credit expires on September 11, 2020. In addition, all bonds bear the limited tax pledge of the full faith and credit of the County of Kent, Michigan to advance necessary amounts to meet principal and interest payments in the event that revenue of the Authority are insufficient to meet requirements.

### *Bond Refunding*

In November 2018, the Authority issued $12,725,000 in Series 2018 revenue bonds with an average interest rate of 5.0 percent. The proceeds of these bonds were used to refund $14,190,000 of outstanding Series 2009 revenue refunding bonds with an interest rate ranging from 4.0-5.0 percent. The net proceeds of $14,479,161 (after payment of $213,831 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to currently refund on the original bonds original scheduled to mature on January 1, 2022, except for the final payment of $2,015,000 due on January 1, 2019. As a result, the refunded portion of the Series 2009 revenue refunding bonds has been removed from long-term debt. The refunding reduced total debt service payments over the next seven years by approximately $1,628,000, which represents an economic gain of approximately $1,503,000.

## Note 5 - Long-term Debt (Continued)

***Pledged Revenue***

The Authority has pledged airport revenue as security for outstanding bonds, which were issued to provide funding for various capital projects. The Authority has committed to appropriate each year, from certain airport revenue net of related operating expenses, amounts sufficient to cover the principal and interest requirements of the debt. Total principal and interest remaining on the debt is $206,992,587, with annual requirements ranging from $14,238,000 in 2019 to $7,149,000 in the final year. For the years ended December 31, 2018 and 2017, there were $7,370,000 and $7,255,000, respectively, in principal payments, and interest expense totaled $6,298,931 and $6,505,053, respectively. Net revenue pledged for debt service were $33,334,779 and $26,861,279 for the years ended December 31, 2018 and 2017, respectively.

## Note 6 - Leases

***Operating Leases***

The Authority has entered into agreements to lease airport facilities to various airlines and vendors. The aggregate amount of future minimum lease payments expected to be received by the Authority, exclusive of expected extensions and airline month-to-month agreements. The future minimum lease payments for these leases are as follows:

| Years Ending | Amount |
|---|---|
| 2019 | $ 8,615,371 |
| 2020 | 8,306,131 |
| 2021 | 8,207,145 |
| 2022 | 8,113,263 |
| 2023 | 5,791,980 |
| Thereafter | 39,369,189 |
| Total | $ 78,403,079 |

## Note 7 - Risk Management

The Authority is exposed to various risks of loss during the normal course of operation. The Authority participates in the County's self-insurance program for property insurance. The cost of coverage is recognized as an operating expense in the year incurred. The Authority also purchases commercial insurance for catastrophic loss claims. No liability is recorded at December 31, 2018 and 2017 for outstanding claims or for any potential claims incurred but not reported as of that date.

The Michigan Municipal Risk Management Authority (MMRMA) risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to MMRMA that it uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Authority. Settled claims have not exceeded available coverage for any of the last three years. There were no estimated claims liability at December 31, 2018 and 2017 and no claim payments for the years then ended.

## Note 7 - Risk Management (Continued)

In March 2018, the Gerald R. Ford International Airport Authority was approached by the Michigan Department of Environmental Quality (MDEQ) Remediation and Redevelopment Division, Grand Rapids District Office, regarding historical use of firefighting foam. In response, the Authority began a stepwise approach to further understand the use of aqueous film-forming foam (AFFF) at the airport. Use is generally summarized as follows from our April 13, 2018 response to the MDEQ: "Firefighting materials at the Airport (and all U.S. commercial airports) are specified and regulated by the Federal Aviation Administration (FAA). The military specification (Mil-Spec) specifying which aqueous film-forming foam (AFFF) is permitted to be used pursuant to FAA regulations has changed over time. The latest Mil-Spec from September 2016 requires AFFF formulations and the immediately prior formulation contain some form of per- and polyfluoroalkyl substances (PFAS)." There are three main scenarios in which AFFF may be used at an airport: training, equipment testing, and to extinguish fuel-fed fires. The Authority has utilized best practices to meet FAA regulations in all of these use scenarios. Following the April 2018 letter, the Authority fostered a collaborative effort with regulatory agencies, including the MDEQ, Michigan Department of Health and Human Services, and the Kent County Health Department and conducted numerous water and soil tests in the vicinity of a former on-site firefighter training area. This investigation is ongoing. As of December 31, 2018, the Authority recorded a liability related to its share of the site assessment costs of $500,000. Management of the Authority is of the opinion that the outcome of legal actions will not have a material effect on the financial position of the Authority and, therefore, has not reflected loss reserves in the financial statements.

## Note 8 - Pension Plan

***Plan Description***

The Authority participates in the Municipal Employees' Retirement System of Michigan (MERS of Michigan), an agent multiple-employer defined benefit pension plan. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report, which includes financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmichigan.com or in writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

***Benefits Provided***

The plan provides certain retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amended the benefit provisions of the participants in MERS.

Pension benefits vary based on date of hire. Employees with a hire date prior to July 1, 2016 that transferred employment from the County participate in a defined benefit plan. Service credit for employment as a county employee was retained. Benefit payments are calculated as final average compensation (based on a three-year period) and a multiplier of 2.5 percent. Participants are considered to be fully vested in the plan after five years. Normal retirement age is 60 with five or more years of service or any age with 25 or more years of service. Early retirement options are available at age 55 with a reduced benefit.

Employees hired on or after July 1, 2016 participate in a hybrid plan. Benefit payments under the hybrid plan are calculated as final average compensation (based on a three-year period) and a multiplier of 1.5 percent. Participants are considered to be fully vested in the plan after six years. Employer defined contribution payments vest on a graded scale over six years. Employee contributions vest immediately. Normal retirement age is 60 with six years of service with an early retirement option available at age 55 with 25 years of service.

## Note 8 - Pension Plan (Continued)

### *Employees Covered by Benefit Terms*

The following members were covered by the benefit terms:

| Date of member count | December 31, 2017 |
|---|---|
| Inactive plan members or beneficiaries currently receiving benefits | 7 |
| Inactive plan members entitled to but not yet receiving benefits | 3 |
| Active plan members | 102 |
| Total employees covered by the plan | 112 |

### *Contributions*

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the years ended December 31, 2018 and 2017, employee contributions to the closed defined benefit plan are expressed as a percentage of covered payroll and amount to 6.50 percent of covered payroll. For the years ended December 31, 2018 and 2017, employer contributions to the hybrid plan are expressed as a percentage of covered payroll and amount to 7.97 and 8.68 percent of covered payroll, respectively.

### *Net Pension Asset*

The Authority has chosen to use the December 31 measurement date as its measurement date for the net pension asset.

The December 31, 2018 fiscal year end reported net pension asset was determined using a measure of the total pension liability and the pension net position as of the December 31, 2018 measurement date. The December 31, 2018 total pension liability was determined by an actuarial valuation performed as of December 31, 2017, which used update procedures to roll forward the estimated liability to December 31, 2018.

The December 31, 2017 fiscal year end reported net pension asset was determined using a measure of the total pension liability and the pension net position as of the December 31, 2017 measurement date. The December 31, 2017 total pension liability was determined by an actuarial valuation performed as of that date.

## Note 8 - Pension Plan (Continued)

Changes in the net pension asset during the measurement year were as follows:

| | Increase (Decrease) | | |
|---|---|---|---|
| Changes in Net Pension Asset | Total Pension Liability | Plan Net Position | Net Pension Asset |
| **Balance at December 31, 2017** | $ 16,118,957 | $ 24,064,645 | $ (7,945,688) |
| Changes for the year: | | | |
| Service cost | 835,093 | - | 835,093 |
| Interest | 1,314,122 | - | 1,314,122 |
| Differences between expected and actual experience | 899,368 | - | 899,368 |
| Contributions - Employer | - | 325,207 | (325,207) |
| Contributions - Employee | - | 354,221 | (354,221) |
| Net investment loss | - | (980,257) | 980,257 |
| Benefit payments | (205,774) | (205,774) | - |
| Administrative expenses | - | (47,669) | 47,669 |
| Miscellaneous other charges | (966,603) | - | (966,603) |
| Net changes | 1,876,206 | (554,272) | 2,430,478 |
| **Balance at December 31, 2018** | $ 17,995,163 | $ 23,510,373 | $ (5,515,210) |

The plan's fiduciary net position represents 130.6 percent of the total pension liability.

Changes in the net pension asset during the prior measurement year were as follows:

| | Increase (Decrease) | | |
|---|---|---|---|
| Changes in Net Pension Asset | Total Pension Liability | Plan Net Position | Net Pension Asset |
| **Balance at January 1, 2017** | $ 13,617,812 | $ 20,543,624 | $ (6,925,812) |
| Changes for the year: | | | |
| Service cost | 829,449 | - | 829,449 |
| Interest | 1,144,760 | - | 1,144,760 |
| Differences between expected and actual experience | 675,040 | - | 675,040 |
| Contributions - Employer | - | 470,266 | (470,266) |
| Contributions - Employee | - | 417,953 | (417,953) |
| Net investment income | - | 2,798,042 | (2,798,042) |
| Benefit payments | (121,103) | (121,103) | - |
| Administrative expenses | - | (44,137) | 44,137 |
| Miscellaneous other charges | (27,001) | - | (27,001) |
| Net changes | 2,501,145 | 3,521,021 | (1,019,876) |
| **Balance at December 31, 2017** | $ 16,118,957 | $ 24,064,645 | $ (7,945,688) |

The plan's fiduciary net position represents 149.3 percent of the total pension liability.

## Note 8 - Pension Plan (Continued)

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the years ended December 31, 2018 and 2017, the Authority recognized a reduction to pension expense of $557,997 and $287,779, respectively.

At December 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ 1,293,227 | $ - | $ 590,660 | $ - |
| Net difference between projected and actual earnings on pension plan investments | 1,566,564 | - | - | 1,044,553 |
| Total | $ 2,859,791 | $ - | $ 590,660 | $ 1,044,553 |

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

| Years Ending December 31 | Amount |
|---|---|
| 2019 | $ 508,153 |
| 2020 | 508,153 |
| 2021 | 556,168 |
| 2022 | 781,295 |
| 2023 | 196,801 |
| Thereafter | 309,221 |
| Total | $ 2,859,791 |

***Actuarial Assumptions***

The total pension liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 2.5 percent, assumed salary increases (including inflation) of 3.75 percent, an investment rate of return (net of investment expenses) of 8.00 percent, and the RP-2014 mortality tables.

***Discount Rate***

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

***Projected Cash Flows***

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

## Note 8 - Pension Plan (Continued)

***Investment Rate of Return***

The long-term expected rate of return on pension plan investments was determined using a model 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 allocation and best estimates of arithmetic real rates of return as of the December 31, 2018 measurement date for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---|---|---|
| Global equity | 55.50 % | 6.65 % |
| Global fixed income | 18.50 | 1.76 |
| Real assets | 13.50 | 7.72 |
| Diversifying strategies | 12.50 | 5.50 |

***Sensitivity of the Net Pension Asset to Changes in the Discount Rate***

The following presents the net pension asset of the Authority, calculated using the discount rate of 8.00 percent, as well as what the Authority's net pension asset 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 Percent Decrease (7.00%) | Current Discount Rate (8.00%) | 1 Percent Increase (9.00%) |
|---|---|---|---|
| Net pension asset of the plan | $ (3,076,638) | $ (5,515,210) | $ (7,554,637) |

***Pension Plan Fiduciary Net Position***

Detailed information about the plan’s fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan’s fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

## Note 9 - Health Care Savings Plan

The Authority sponsors a Health Care Savings Plan (HCSP) for employees. The HCSP allows for employee and employer contributions while employed to be used toward eligible medical expenses upon retirement. Employees contribute at a rate of 1 percent of covered payroll. The Authority supplements employee contributions with an annual contribution of $3,000 (paid on a quarterly basis). Employee contributions are vested immediately. Authority contributions are vested on a graded scale over six years. For the years ended December 31, 2018 and 2017, the Authority contributed $296,000 and $1,327,613 and employees contributed $78,139 and $66,431, respectively, to the HCSP.

## Note 9 - Health Care Savings Plan (Continued)

Employees hired before July 1, 2016 were previously part of the Kent County Voluntary Employees' Beneficiary Association (VEBA), a defined benefit other postemployment benefits plan. Upon transferring to the Authority, these employees are no longer eligible under the VEBA. Accordingly, the Authority provided these employees with a contribution to their new HCSP account for prior service credit under the County. The total of contributions due for prior service credit was $2,497,500, of which $1,458,387 was contributed in the six months ended December 31, 2016 ($436,193 from the airport's share of VEBA assets plus a cash contribution of $1,022,194). The payment of $1,039,133 to fully fund the HCSP for prior service credit was made in March 2017.

## Note 10 - Deferred Compensation Plan

The Authority offers a supplemental retirement program in accordance with Section 457 of the Internal Revenue Code (IRC) that will provide for payments on retirement, as well as death benefits in the event of death prior to retirement. The benefits of plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and are managed by these individuals. As such, these amounts have not been included in the accompanying financial statements. The Authority contributed $40,485 and $40,394 and employees contributed $196,070 and $158,706 to the deferred compensation plan for the years ended December 31, 2018 and 2017, respectively.

## Note 11 - Major Customers

Rentals and fees earned from passenger air carriers accounted for 30.0 and 31.1 percent of operating revenue for the years ended December 31, 2018 and 2017, respectively.

## Note 12 - Concentrated Credit Risk

During the years ended December 31, 2018 and 2017, the Authority provided gate access to 17 and 16 passenger airlines, respectively, and two all-cargo airlines. Additional revenue is earned through parking lot fees, lease arrangements with various rental car agencies and concessionaires, and leasing of airport land and buildings. The Authority's primary exposure to credit risk is in trade receivables, and management performs ongoing credit evaluations of the major tenants.

# Required Supplemental Information

# Required Supplemental Information
## Schedule of Changes in the Net Pension Asset and Related Ratios
## MERS Agent Multiple-employer Defined Benefit Pension Plan

**Last Three Fiscal Years**

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Total Pension Liability** | | | |
| Service cost | $ 835,093 | $ 829,449 | $ 756,113 |
| Interest | 1,314,122 | 1,144,760 | 29,228 |
| Differences between expected and actual experience | 899,368 | 675,040 | - |
| Benefit payments | (205,774) | (121,103) | (25,404) |
| Other changes | (966,603) | (27,001) | 12,857,875 |
| **Net Change in Total Pension Liability** | 1,876,206 | 2,501,145 | 13,617,812 |
| **Total Pension Liability** - Beginning of year | 16,118,957 | 13,617,812 | - |
| **Total Pension Liability** - End of year | **$ 17,995,163** | **$ 16,118,957** | **$ 13,617,812** |
| **Plan Fiduciary Net Position** | | | |
| Contributions - Employer | $ 325,207 | $ 470,266 | $ 16,038,027 |
| Contributions - Member | 354,221 | 417,953 | 3,529,014 |
| Net investment (loss) income | (980,257) | 2,798,042 | 1,020,983 |
| Administrative expenses | (47,669) | (44,137) | (18,996) |
| Benefit payments | (205,774) | (121,103) | (25,404) |
| **Net Change in Plan Fiduciary Net Position** | (554,272) | 3,521,021 | 20,543,624 |
| **Plan Fiduciary Net Position** - Beginning of year | 24,064,645 | 20,543,624 | - |
| **Plan Fiduciary Net Position** - End of year | **$ 23,510,373** | **$ 24,064,645** | **$ 20,543,624** |
| **Authority's Net Pension Asset** - Ending | **$ (5,515,210)** | **$ (7,945,688)** | **$ (6,925,812)** |
| **Plan Fiduciary Net Position as a Percentage of Total Pension Liability** | 130.65 % | 149.29 % | 150.86 % |
| **Covered Payroll** | $ 6,721,352 | $ 6,721,352 | $ 5,635,428 |
| **Authority's Net Pension Asset as a Percentage of Covered Payroll** | (82.06)% | (118.22)% | (122.90)% |

*The Authority enrolled in this defined benefit pension plan in 2016. The Authority's beginning total pension liability in 2016 was recorded in the "other changes" section of the schedule above. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# Required Supplemental Information
# Schedule of Pension Contributions
# MERS Agent Multiple-employer Defined Benefit Pension Plan

**Last Three Fiscal Years**

**Years Ended December 31**

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Actuarially determined contribution | $ 146,856 | $ 169,775 | $ 15,881,370 |
| Contributions in relation to the actuarially determined contribution | 325,207 | 470,266 | 16,038,027 |
| **Contribution Excess** | **$ 178,351** | **$ 300,491** | **$ 156,657** |
| **Covered Payroll** | $ 6,721,352 | $ 6,721,352 | $ 5,635,428 |
| **Contributions as a Percentage of Covered Payroll** | 4.84 % | 7.00 % | 284.59 % |

*The Authority enrolled in this defined benefit pension plan in 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**Notes to Schedule of Pension Contributions**

Actuarial valuation information relative to the determination of contributions:

| | |
|---|---|
| Valuation date | Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the Authority's fiscal year ended December 31, 2018 were determined based on the actuarial valuation as of December 31, 2016. |

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarial cost method | Entry age |
| Amortization method | Level percent of payroll, open |
| Remaining amortization period | 10 years (15 years for the hybrid plan) |
| Asset valuation method | 10 years smoothed |
| Inflation | 2.50 percent |
| Salary increase | 3.75 percent |
| Investment rate of return | 7.75 percent, net of investment and administrative expense including inflation |
| Retirement age | Age-based table of rates that are specific to the type of eligibility condition |
| Mortality | 50 percent male - 50 percent female blend of the following tables:<br>1. RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent<br>2. RP-2014 Employee Mortality Tables<br>3. RP-2014 Juvenile Mortality Tables |

# Statistical Section

# Statistical Section Table of Contents

The objective of the statistical section is to provide financial statement users with additional historical perspective, context and detail to assist in using the information in the financial statements, notes to financial statements and required supplementary information to understand and assess a governmental unit's economic condition.

The statistical section information is presented in the following categories:



Through June 30, 2016, the Gerald R. Ford International Airport was reported as an enterprise fund of Kent County, Michigan. Effective July 1, 2016, operations (which were substantially unchanged) were transferred to a newly-created Authority. Since this change was in legal name only, the Airport has presented a full year of data for all years included in the Statistical Section.

## Gerald R. Ford International Airport Authority

# Schedule A

# Net Assets / Net Position and Changes in Net Assets / Net Position

**Last Ten Fiscal Years**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Operating revenues** | | | | | |
| Airfield | $ 8,729 | $ 9,372 | $ 9,811 | $ 9,608 | $ 8,878 |
| Terminal | 6,960 | 7,321 | 5,715 | 6,746 | 6,832 |
| Ground transportation | 9,818 | 14,745 | 15,511 | 14,878 | 16,780 |
| Other | 516 | 544 | 593 | 641 | 700 |
| **Total operating revenues** | 26,023 | 31,982 | 31,630 | 31,873 | 33,190 |
| **Operating expenses** | | | | | |
| Salaries and fringes | 8,588 | 8,925 | 8,263 | 7,918 | 7,825 |
| Services and supplies | 9,050 | 9,148 | 9,793 | 9,183 | 10,301 |
| Depreciation | 11,555 | 16,009 | 16,275 | 16,523 | 16,540 |
| **Total operating expenses** | 29,193 | 34,082 | 34,331 | 33,624 | 34,666 |
| Operating income (loss) | (3,170) | (2,100) | (2,701) | (1,751) | (1,476) |
| **Nonoperating revenue (expenses)** | | | | | |
| Interest income | 429 | 148 | 154 | 159 | 122 |
| Interest expense | (3,684) | (9,147) | (8,187) | (8,321) | (8,165) |
| Passenger facility charges | 3,466 | 4,505 | 4,636 | 4,339 | 4,599 |
| Customer facility charges | 1,188 | 1,374 | 1,543 | 1,473 | 1,699 |
| Other | 66 | 22 | 50 | 22 | 51 |
| **Total nonoperating revenue (expenses)** | 1,465 | (3,098) | (1,804) | (2,328) | (1,694) |
| Income (Loss) before capital contributions | (1,705) | (5,198) | (4,505) | (4,079) | (3,170) |
| **Capital contributions** | 2,164 | 5,727 | 1,440 | 9,641 | 4,413 |
| **Special Item** | - | - | - | - | - |
| **Change in net assets / net position** | $ 459 | $ 529 | $ (3,065) | $ 5,562 | $ 1,243 |
| **Net assets / net position** | | | | | |
| Invested in capital assets, net of related debt / net investment in capital assets | $ 155,704 | $ 150,727 | $ 146,699 | $ 142,094 | $ 140,926 |
| Restricted for: | | | | | |
| Debt service | 10,643 | 11,294 | 11,790 | 12,387 | 13,355 |
| Capital improvements | 2,923 | 3,418 | 2,684 | 5,791 | 9,307 |
| Pension Benefits | | | | | |
| Unrestricted | 17,794 | 22,154 | 22,114 | 28,578 | 26,504 |
| **Total net assets / net position** | $ 187,064 | $ 187,593 | $ 183,287 | $ 188,850 | $ 190,092 |

GASB Statement No. 63 and 65 were implemented for the year ended December 31, 2012. This resulted in a change renaming net assets to net position and invested in capital assets, net of related debt to net investment in capital assets. As a result of implementation, bond issuance costs have been eliminated. Comparative information for the year ended December 31, 2011 was restated. Data for years 2010 and prior were not restated retroactively.

GASB Statement No. 68 was implemented for the year ended December 31, 2015. This resulted in presentation of the Authority's net pension liability on the statement of net position. Prior years were not restated.

| | December 31, | | | |
|---|---|---|---|---|
| 2014 | 2015 | 2016 | 2017 | 2018 |
| $ 9,456 | $ 10,639 | $ 10,889 | $ 11,695 | $ 13,090 |
| 7,813 | 7,566 | 7,475 | 7,776 | 8,723 |
| 17,821 | 19,327 | 20,598 | 21,568 | 26,175 |
| 752 | 687 | 756 | 792 | 1,187 |
| 35,842 | 38,219 | 39,718 | 41,831 | 49,175 |
| 8,094 | 8,918 | 5,729 | 9,590 | 9,656 |
| 10,411 | 12,475 | 13,395 | 13,444 | 15,695 |
| 16,446 | 16,685 | 18,288 | 18,907 | 19,608 |
| 34,951 | 38,078 | 37,412 | 41,941 | 44,959 |
| 891 | 141 | 2,306 | (110) | 4,216 |
| 136 | 178 | 233 | 126 | 241 |
| (7,971) | (7,269) | (6,873) | (6,505) | (6,299) |
| 4,788 | 5,242 | 5,424 | 5,786 | 6,886 |
| 1,829 | 1,956 | 2,016 | 2,152 | 2,383 |
| 50 | 56 | 58 | 1 | (130) |
| (1,168) | 163 | 858 | 1,560 | 3,081 |
| (277) | 304 | 3,164 | 1,450 | 7,297 |
| 14,818 | 11,633 | 6,495 | 7,212 | 20,644 |
| - | - | (21,184) | - | - |
| $ 14,541 | $ 11,937 | $ (11,525) | $ 8,662 | $ 27,941 |
| $ 150,950 | $ 161,636 | $ 152,970 | $ 167,820 | $ 189,170 |
| 13,253 | 10,424 | 11,511 | 15,814 | 16,925 |
| 13,269 | 17,762 | 23,027 | 8,748 | 12,504 |
| | | 6,734 | 7,492 | 8,375 |
| 27,161 | 29,078 | 13,133 | 16,163 | 17,004 |
| $ 204,633 | $ 218,900 | $ 207,375 | $ 216,037 | $ 243,978 |

## Gerald R. Ford International Airport Authority

# Schedule B
# Changes in Cash and Cash Equivalents

**Last Ten Fiscal Years**
**(dollars in thousands)**

| | December 31, | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| **Cash flows from operating activities** | | | |
| Receipts from customers and users | $ 26,721 | $ 31,964 | $ 32,652 |
| Cash paid to suppliers | (9,628) | (9,370) | (11,428) |
| Cash paid to employees | (8,565) | (8,807) | (8,302) |
| **Net cash provided by operating activities** | 8,528 | 13,787 | 12,922 |
| **Capital and related financing activities** | | | |
| Passenger facility charges collected | 3,364 | 4,303 | 4,689 |
| Customer facility charges collected | 1,200 | 1,358 | 1,544 |
| Capital contributions received | 1,103 | 3,900 | 1,154 |
| Proceeds from sale of capital assets | 66 | 22 | 30 |
| Proceeds from sale of bonds | 30,619 | - | 41,049 |
| Cash transferred to escrow for defeased bonds | (31,112) | - | (41,555) |
| Purchase of capital assets | (47,245) | (5,476) | (7,416) |
| Principal paid on revenue bonds | (2,740) | (3,595) | (4,180) |
| Interest and other bond expenses paid on revenue bonds | (9,035) | (9,220) | (9,059) |
| **Net cash provided by (used in) capital and related financing activities** | (53,780) | (8,708) | (13,744) |
| **Cash flow from investing activities** | | | |
| Interest received on investments | 1,546 | 148 | 205 |
| **Net increase (decrease) in cash and cash equivalents** | (43,706) | 5,227 | (617) |
| Cash and cash equivalents, beginning of year | 78,933 | 35,227 | 40,454 |
| **Cash and cash equivalents, end of year** | $ 35,227 | $ 40,454 | $ 39,837 |

| December 31, | | | | | | |
|---|---|---|---|---|---|---|
| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| $ 33,058 | $ 33,942 | $ 36,550 | $ 39,373 | $ 38,976 | $ 41,768 | $ 48,895 |
| (10,686) | (10,509) | (11,652) | (13,708) | (12,268) | (14,628) | (15,698) |
| (6,994) | (7,843) | (8,108) | (8,277) | (10,673) | (10,234) | (10,553) |
| 15,378 | 15,590 | 16,790 | 17,388 | 16,035 | 16,906 | 22,644 |
| 4,319 | 4,705 | 4,777 | 5,130 | 5,383 | 5,627 | 6,686 |
| 1,460 | 1,682 | 1,825 | 1,948 | 2,010 | 2,146 | 2,358 |
| 7,105 | 1,480 | 8,119 | 16,345 | 11,488 | 3,975 | 25,683 |
| 28 | 51 | 50 | 68 | 118 | 26 | 173 |
| - | - | - | 127,556 | - | - | 12,725 |
| - | - | - | (111,059) | - | - | - |
| (6,879) | (8,843) | (21,496) | (35,338) | (22,528) | (26,861) | (32,066) |
| (4,645) | (5,220) | (5,715) | (6,290) | (6,870) | (7,255) | (21,560) |
| (7,987) | (8,382) | (8,206) | (8,004) | (7,768) | (7,478) | (6,445) |
| (6,599) | (14,527) | (20,646) | (9,644) | (18,167) | (29,820) | (12,446) |
| 160 | 130 | 130 | 178 | 233 | 126 | 241 |
| 8,939 | 1,193 | (3,726) | 7,922 | (1,899) | (12,788) | 10,439 |
| 39,837 | 48,776 | 49,969 | 46,243 | 54,165 | 52,266 | 39,478 |
| $ 48,776 | $ 49,969 | $ 46,243 | $ 54,165 | $ 52,266 | $ 39,478 | $ 49,917 |

# Schedule C
# Passenger Activity - Enplaned Passengers

**Last Ten Fiscal Years**

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| **Airline** | | | | | | |
| Air Canada (Air Georgian) | 4,003 | 3,940 | 3,764 | 4,502 | 3,033 | - |
| AirTran | - | 76,644 | 134,606 | 123,465 | 81,096 | 402 |
| Allegiant Air | 59,372 | 117,609 | 87,193 | 76,759 | 76,409 | 79,810 |
| American Airlines Inc. | - | - | - | - | - | - |
| American Connection (Chautauqua) | - | 21,626 | 45,874 | 55,309 | 55,789 | 12,378 |
| American Eagle (Air Wisconsin) | - | - | - | - | - | - |
| American Eagle (Envoy) | 104,240 | 81,540 | 68,948 | 68,008 | 67,708 | 125,534 |
| American Eagle (Piedmont) | - | - | - | - | - | - |
| American Eagle (Republic) | - | - | - | - | - | - |
| American Eagle (SkyWest) | - | - | - | - | - | - |
| American Eagle (Trans States) | - | - | - | 3,678 | - | - |
| Chicago Express (ATA Connection) | - | - | - | - | - | - |
| Continental Connection | 2,381 | 6,341 | 12,368 | - | - | - |
| Continental Express (Express Jet) | 87,601 | 86,571 | 79,578 | 11,245 | 24,390 | - |
| Delta Airlines Inc. | 204,988 | 236,343 | 207,147 | 223,783 | 248,038 | 304,962 |
| Delta Connection (Atlantic Southeast) | 61,335 | 27,436 | 41,171 | 25,838 | - | - |
| Delta Connection (Chautauqua) | 12,256 | 23,993 | 13,776 | 26,165 | 43,827 | 14,734 |
| Delta Connection (Comair) | 22,524 | 52,317 | 81,236 | 35,909 | - | - |
| Delta Connection (Compass) | 43,137 | 27,481 | 22,287 | 11,789 | 6,063 | 18,727 |
| Delta Connection (Endeavor) | - | - | - | - | 80,374 | 66,410 |
| Delta Connection (Express Jet) | - | - | - | - | 48,550 | 37,860 |
| Delta Connection (Freedom) | 15,227 | 11,831 | - | - | - | - |
| Delta Connection (GoJet) | - | - | - | - | 3,938 | 8,943 |
| Delta Connection (Mesaba) | 21,902 | 31,978 | 20,429 | 125 | - | - |
| Delta Connection (Pinnacle) | 70,472 | 77,584 | 69,247 | 102,544 | - | - |
| Delta Connection (Republic) | - | - | - | - | - | - |
| Delta Connection (Shuttle America) | - | 1,599 | 5,616 | 451 | 9,010 | 6,645 |
| Delta Connection (Skywest) | 459 | 2,305 | 12,547 | 18,961 | 30,919 | 29,335 |
| Frontier Airlines | - | - | - | - | - | - |
| Frontier Airlines (Chautauqua) | 9,260 | 32,842 | 35,929 | 6,575 | - | - |
| Frontier Airlines (Republic) | - | 23,432 | 42,148 | 46,614 | 31,052 | - |
| Midwest Connect (Skyway) | - | - | - | - | - | - |
| Midwest Connect (SkyWest) | 25,118 | - | - | - | - | - |
| Southwest | - | - | - | - | 72,603 | 201,816 |
| United Airlines Inc. | 33,715 | 39,270 | 44,916 | 44,842 | 45,170 | 53,525 |
| United Express (Air Wisconsin) | - | - | - | - | - | - |
| United Express (Chautauqua) | - | - | - | 11,556 | - | 7,455 |
| United Express (Commutair) | - | - | - | - | 2,332 | 1,926 |
| United Express (Express Jet) | - | 15,330 | 41,901 | 99,911 | 89,588 | 60,931 |
| United Express (Go Jet) | 20,314 | 34,087 | 16,370 | 36,684 | 37,199 | 42,122 |
| United Express (Mesa) | 40,700 | 10,360 | 837 | 11,055 | - | - |
| United Express (Republic) | - | - | - | - | - | - |
| United Express (Shuttle America) | 37,810 | 30,374 | 29,817 | 18,939 | 12,499 | 17,960 |
| United Express (SkyWest) | 9,467 | 23,044 | 19,033 | 3,965 | 9,224 | 13,752 |
| United Express (Trans States) | - | - | - | - | 44,453 | 47,197 |
| US Airways Express (Air Wisconsin) | - | - | - | - | - | 17,852 |
| US Airways Express (Mesa) | - | - | - | - | - | - |
| Charters | 1,524 | 1,783 | 1,710 | 1,123 | 1,705 | 1,519 |
| **Total** | **887,805** | **1,097,660** | **1,138,448** | **1,069,795** | **1,124,969** | **1,171,795** |

| December 31, | | | | |
|---|---|---|---|---|
| 2015 | 2016 | 2017 | 2018 | **Total 2018** |
| - | - | - | - | 0.00% |
| - | - | - | - | 0.00% |
| 98,367 | 115,409 | 128,130 | 161,101 | 9.82% |
| - | - | 149 | 47,017 | 2.87% |
| - | - | - | - | 0.00% |
| - | - | 16,525 | - | 0.00% |
| 130,401 | 106,093 | 112,343 | 103,457 | 6.31% |
| - | - | 8,699 | 21,146 | 1.29% |
| - | - | - | 18,568 | 1.13% |
| - | 1,058 | 42,409 | 22,413 | 1.37% |
| - | - | 18,028 | 14,924 | 0.91% |
| 6,483 | 44,082 | 45,122 | 53,850 | 3.28% |
| - | - | - | - | 0.00% |
| - | - | - | - | 0.00% |
| 360,390 | 376,802 | 434,084 | 411,039 | 25.06% |
| - | - | - | - | 0.00% |
| - | - | - | - | 0.00% |
| - | - | - | - | 0.00% |
| 22,075 | 7,019 | 1,398 | - | 0.00% |
| 39,573 | 42,750 | 22,904 | 60,286 | 3.68% |
| 35,728 | 26,463 | 27,971 | 10,823 | 0.66% |
| - | - | - | - | 0.00% |
| 16,255 | 22,499 | 11,294 | 27,850 | 1.70% |
| - | - | - | - | 0.00% |
| - | - | - | - | 0.00% |
| - | - | 7,151 | 10,912 | 0.67% |
| 7,611 | 4,232 | - | - | 0.00% |
| 35,293 | 42,521 | 28,665 | 65,105 | 3.97% |
| - | - | 4,048 | 71,777 | 4.38% |
| - | - | - | - | 0.00% |
| - | - | - | - | 0.00% |
| - | - | - | - | 0.00% |
| - | - | - | - | 0.00% |
| 211,118 | 245,711 | 247,128 | 237,766 | 14.50% |
| 74,678 | 42,580 | 91,641 | 99,421 | 6.06% |
| - | - | 1,586 | 32,213 | 1.96% |
| - | - | - | - | 0.00% |
| - | - | 16,439 | 20,471 | 1.25% |
| 45,936 | 66,898 | 48,176 | 38,227 | 2.33% |
| 20,005 | 34,998 | 12,103 | 16,537 | 1.01% |
| - | - | - | - | 0.00% |
| - | 4,924 | 14,214 | 49,960 | 3.05% |
| 29,504 | 10,963 | - | - | 0.00% |
| 30,004 | 24,971 | 40,949 | 37,378 | 2.28% |
| 31,312 | 38,196 | 30,891 | 6,710 | 0.41% |
| 53,812 | 27,708 | - | - | 0.00% |
| 31,493 | 46,728 | - | - | 0.00% |
| 1,200 | 1,351 | 1,263 | 1,017 | 0.06% |
| **1,281,238** | **1,333,956** | **1,413,310** | **1,639,968** | **100%** |

## Gerald R. Ford International Airport Authority

# Schedule D

# Principal Revenue Sources and Revenues per Enplaned Passenger

**Last Ten Fiscal Years**
**(dollars in thousands, except amounts per enplaned passenger)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Airline revenues** | | | | | |
| Landing fees | $ 2,998 | $ 3,198 | $ 3,586 | $ 3,335 | $ 3,135 |
| Apron fees | 1,823 | 2,220 | 2,409 | 2,252 | 1,863 |
| Terminal rents | 5,433 | 5,908 | 4,302 | 5,313 | 5,270 |
| **Total airline revenues** | 10,254 | 11,326 | 10,297 | 10,900 | 10,268 |
| Percentage of total revenues | 32.9% | 29.8% | 27.1% | 28.8% | 25.9% |
| **Nonairline revenues** | | | | | |
| Parking | 7,437 | 11,492 | 12,301 | 11,766 | 13,275 |
| Rental car | 2,683 | 3,521 | 3,512 | 3,413 | 3,821 |
| Other | 5,649 | 5,643 | 5,520 | 5,794 | 5,826 |
| **Total nonairline revenues** | 15,769 | 20,656 | 21,333 | 20,973 | 22,922 |
| Percentage of total revenues | 50.6% | 54.3% | 56.1% | 55.4% | 57.8% |
| **Nonoperating revenues** | | | | | |
| Passenger facility charges | 3,466 | 4,505 | 4,636 | 4,339 | 4,599 |
| Interest | 429 | 148 | 154 | 159 | 122 |
| Other | 1,254 | 1,396 | 1,593 | 1,495 | 1,750 |
| **Total nonoperating revenues** | 5,149 | 6,049 | 6,383 | 5,993 | 6,471 |
| Percentage of total revenues | 16.5% | 15.9% | 16.8% | 15.8% | 16.3% |
| **Total revenues** | **$ 31,172** | **$ 38,031** | **$ 38,013** | **$ 37,866** | **$ 39,661** |
| Enplaned passengers | 887,805 | 1,097,660 | 1,138,448 | 1,069,795 | 1,124,969 |
| Total revenue per enplaned passenger | $ 35.11 | $ 34.65 | $ 33.39 | $ 35.40 | $ 35.26 |
| Airline revenue per enplaned passenger | $ 11.55 | $ 10.32 | $ 9.04 | $ 10.19 | $ 9.13 |
| **Revenue rates** | | | | | |
| Landing fee (per 1,000 lbs MGLW) | $ 2.66 | $ 2.85 | $ 2.42 | $ 2.61 | $ 2.64 |
| Apron fee (per 1,000 lbs MGLW) | $ 1.62 | $ 1.83 | $ 1.43 | $ 1.46 | $ 1.57 |
| Annual terminal rental rate (per sq. ft.) | $ 50.00 | $ 48.98 | $ 51.34 | $ 52.19 | $ 50.95 |

Notes: The Authority uses a compensatory (cost of services) methodology to calculate rates and charges. The revenue bases to which these rates are applied and their principal payers can be found in Schedule C. Operating agreements with signatory airlines are cancellable within thirty days.

MGLW = maximum gross landed weight.

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | $ 3,495 | $ 4,106 | $ 4,288 | $ 4,595 | $ 5,538 |
| | 1,956 | 2,503 | 2,573 | 2,924 | 3,164 |
| | 6,025 | 5,512 | 5,340 | 5,488 | 6,040 |
| | 11,476 | 12,121 | 12,201 | 13,007 | 14,742 |
| | 26.9% | 26.6% | 25.7% | 26.1% | 25.1% |
| | 14,245 | 15,437 | 16,690 | 17,553 | 21,712 |
| | 3,892 | 4,170 | 4,219 | 4,348 | 4,799 |
| | 6,229 | 6,491 | 6,608 | 6,923 | 7,922 |
| | 24,366 | 26,098 | 27,517 | 28,824 | 34,433 |
| | 57.1% | 57.2% | 58.0% | 57.8% | 58.7% |
| | 4,788 | 5,242 | 5,424 | 5,786 | 6,886 |
| | 136 | 178 | 233 | 126 | 241 |
| | 1,879 | 2,012 | 2,074 | 2,153 | 2,384 |
| | 6,803 | 7,432 | 7,731 | 8,065 | 9,511 |
| | 16.0% | 16.3% | 16.3% | 16.2% | 16.2% |
| | **$ 42,645** | **$ 45,651** | **$ 47,449** | **$ 49,896** | **$ 58,686** |
| | 1,171,795 | 1,281,238 | 1,333,956 | 1,413,310 | 1,639,968 |
| | $ 36.39 | $ 35.63 | $ 35.57 | $ 35.30 | $ 35.78 |
| | $ 9.79 | $ 9.46 | $ 9.15 | $ 9.20 | $ 8.99 |
| | $ 2.84 | $ 2.94 | $ 2.98 | $ 2.84 | $ 2.98 |
| | $ 1.73 | $ 1.86 | $ 1.79 | $ 1.81 | $ 1.70 |
| | $ 52.62 | $ 47.93 | $ 48.25 | $ 48.26 | $ 49.87 |

## Gerald R. Ford International Airport Authority

# Schedule E
# Ratios of Outstanding Debt, Debt Service, Debt Limits &

### Last Ten Fiscal Years

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| **Outstanding debt per enplaned passenger** | | | |
| Outstanding debt by type (in thousands): | | | |
| Revenue bonds (all airport net operating revenues pledged) | $ 197,434 | $ 193,780 | $ 192,224 |
| Outstanding debt per enplaned passenger | $ 180 | $ 170 | $ 180 |
| Outstanding debt ratio for service area (total outstanding debt/(per capita income*trade area population)) | 0.46% | 0.44% | 0.40% |
| Outstanding debt ratio for Kent County (total outstanding debt/(per capita income*county population)) | 0.89% | 0.83% | 0.75% |
| **Net revenues** | | | |
| Revenues, net of capital contributions | $ 31,172 | $ 38,031 | $ 38,013 |
| Less: operating expenses, less depreciation | 17,638 | 18,073 | 18,056 |
| **Net revenues** | $ 13,534 | $ 19,958 | $ 19,957 |
| **Debt service** | | | |
| Principal paid on revenue bonds | $ 2,740 | $ 3,595 | $ 4,180 |
| Interest expense on revenue bonds | 3,684 | 9,147 | 9,059 |
| Principal paid on notes payable | - | - | - |
| Interest expense on notes payable | - | - | - |
| **Total debt service** | $ 6,424 | $ 12,742 | $ 13,239 |
| **Revenue bonds debt service coverage** | 2.11 | 1.57 | 1.51 |
| **Debt service per enplaned passenger** | $ 7.24 | $ 11.61 | $ 11.63 |

**Debt limit information**

For years prior to 2016, the airport was a component unit of the County of Kent, Michigan. No debt limit information is available for the airport individually because debt limits apply to the County as a whole. See the County of Kent, Michigan Comprehensive Annual Financial Report for more information.

GASBs 63 and 65 were implemented for the year ended December 31, 2012. This resulted in reclassing deferred charges on refunding from revenue bonds to deferred outflows of resources. Comparative information for the year ended December 31, 2011 was restated. Data for years 2010 and prior were not restated retroactively.

# Pledged Revenue Coverage

| December 31, | | | | | | |
|---|---|---|---|---|---|---|
| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| $ 187,207 | $ 181,614 | $ 175,527 | $ 190,201 | $ 182,076 | $ 173,491 | $ 164,463 |
| $ 166 | $ 161 | $ 150 | $ 148 | $ 136 | $ 123 | $ 100 |
| 0.35% | 0.33% | 0.30% | 0.31% | 0.31% | 0.27% | 0.25% |
| 0.68% | 0.65% | 0.60% | 0.62% | 0.62% | 0.54% | 0.50% |
| $ 37,866 | $ 39,661 | $ 42,645 | $ 45,651 | $ 47,449 | $ 49,896 | $ 58,686 |
| 17,101 | 18,126 | 18,505 | 21,393 | 19,124 | 23,035 | 25,351 |
| $ 20,765 | $ 21,535 | $ 24,140 | $ 24,258 | $ 28,325 | $ 26,861 | $ 33,335 |
| $ 4,645 | $ 5,220 | $ 5,715 | $ 6,290 | $ 6,870 | $ 7,255 | $ 8,835 |
| 7,987 | 8,382 | 8,206 | 8,004 | 7,768 | 7,478 | 6,236 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| $ 12,632 | $ 13,602 | $ 13,921 | $ 14,294 | $ 14,638 | $ 14,733 | $ 15,071 |
| 1.64 | 1.58 | 1.73 | 1.70 | 1.94 | 1.82 | 2.21 |
| $ 11.81 | $ 12.09 | $ 11.88 | $ 11.16 | $ 10.97 | $ 10.42 | $ 9.19 |

## Gerald R. Ford International Airport Authority

# Schedule F
# Principal Employers in the Primary Trade Area

**Calendar Years 2018 and 2009**

| Employer | County | Product or Service |
|---|---|---|
| Spectrum Health | Kent | Healthcare |
| Meijer Inc. | Kent | Retail food and merchandise |
| Lacks Enterprises Inc. | Kent | Manufacturing - auto parts |
| Mercy General Health Partners | Muskegon/Kent | Healthcare |
| Amway Corporation | Kent | Personal and household products |
| Gentex Corporation | Ottawa | Manufacturing - auto parts |
| Herman Miller Inc. | Ottawa | Office furniture |
| Perrigo Company | Allegan | Manufacturing - pharmaceuticals |
| Steelcase Inc. | Kent | Office furniture |
| Ventra | Kent | Manufacturing - auto parts |
| Grand Valley State University | Ottawa | Education |
| Grand Rapids Public Schools | Kent | Education |
| Farmers Insurance Group | Kent | Insurance |
| Acrisure, LLC | Kent | Insurance |
| Gordon Food Services | Kent | Food services wholesaler |
| Arconic Inc | Muskegon | Manufacturing - aerospace |
| Hope Network Industries | Kent | Packaging |
| Metro Health Hospital | Kent | Healthcare |
| Holland Community Hospital | Ottawa | Healthcare |
| SpartanNash | Kent | Retail food |
| Haworth Inc. | Ottawa | Manufacturing - furniture |
| Pine Rest Christian Hospital | Kent | Healthcare |
| Roskam Baking | Kent | Food Processing |
| Challenge Manufacturing | Kent/Ottawa | Manufacturing - metal stamping |
| Shape Corporation | Ottawa | Manufacturing - fabricated metal |
| Kent County | Kent | Government |
| Bradford White | Barry | Manufacturing - water heaters |
| Wolverine World Wide | Kent | Manufacturing - footwear |
| Kellogg's | Kent | Food Processing |
| City of Grand Rapids | Kent | Government |
| GE Aviation Systems | Kent | Manufacturing - avionics systems |
| Hearthside Food Solutions | Kent | Food Processing |
| **Total employment** | | |

Source: The Right Place Inc.
(1) Data as of April 2019, most current information available

| Number of Employees 2018 (1) | Percentage of Total Employment | Number of Employees 2009 | Percentage of Total Employment |
|---|---|---|---|
| 25,000 | 3.61% | 13,155 | 2.27% |
| 10,340 | 1.49% | 10,840 | 1.87% |
| 9,500 | 1.37% | 1,800 | 0.31% |
| 8,500 | 1.23% | 4,297 | 0.74% |
| 4,000 | 0.58% | 4,000 | 0.69% |
| 3,700 | 0.53% | 2,640 | 0.46% |
| 3,621 | 0.52% | 4,000 | 0.69% |
| 3,500 | 0.51% | 2,700 | 0.47% |
| 3,500 | 0.51% | 4,300 | 0.74% |
| 3,417 | 0.49% | | 0.00% |
| 3,306 | 0.48% | 1,899 | 0.33% |
| 2,800 | 0.40% | 3,478 | 0.60% |
| 2,700 | 0.39% | | 0.00% |
| 2,700 | 0.39% | | 0.00% |
| 2,500 | 0.36% | | 0.00% |
| 2,350 | 0.34% | | 0.00% |
| 2,162 | 0.31% | 2,100 | 0.36% |
| 2,100 | 0.30% | 2,059 | 0.36% |
| 2,100 | 0.30% | | 0.00% |
| 2,000 | 0.29% | 4,440 | 0.77% |
| 2,000 | 0.29% | 2,194 | 0.38% |
| 2,000 | 0.29% | | 0.00% |
| 2,000 | 0.29% | | 0.00% |
| 1,700 | 0.25% | | 0.00% |
| 1,700 | 0.25% | | 0.00% |
| 1,580 | 0.23% | 1,849 | 0.32% |
| 1,500 | 0.22% | | 0.00% |
| 1,500 | 0.22% | | 0.00% |
| 1,395 | 0.20% | | 0.00% |
| 1,335 | 0.19% | | 0.00% |
| 1,175 | 0.17% | | 0.00% |
| 1,143 | 0.17% | | 0.00% |
| 691,961 | | 579,485 | |

## Gerald R. Ford International Airport Authority

# Schedule G
# Population in the Primary Trade Area

**Last Ten Fiscal Years**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Allegan County | 112,975 | 111,408 | 111,845 | 111,895 |
| Barry County | 58,890 | 59,173 | 58,937 | 59,004 |
| Ionia County | 63,833 | 63,905 | 64,156 | 63,903 |
| Kent County | 608,315 | 602,622 | 608,077 | 614,079 |
| Mecosta County | - | - | - | 43,229 |
| Montcalm County | - | - | - | 63,081 |
| Muskegon County | 174,344 | 172,188 | 172,864 | 170,112 |
| Newaygo County | 48,897 | 48,460 | 48,650 | - |
| Ottawa County | 260,364 | 263,801 | 266,171 | 269,329 |
| | 1,327,618 | 1,321,557 | 1,330,700 | 1,394,632 |
| Per capita income | $ 32,039 | $ 33,613 | $ 36,321 | $ 38,622 |
| Total personal income (dollars in thousands) | $ 42,535,781 | $ 44,421,150 | $ 48,331,808 | $ 53,863,932 |

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Employment information: | | | | |
| Civilian labor force | 657,164 | 645,390 | 644,039 | 684,253 |
| Employed | 579,485 | 573,505 | 589,045 | 631,033 |
| Unemployed | 77,679 | 71,885 | 54,994 | 53,220 |
| Unemployment rate | 11.8% | 11.1% | 8.5% | 7.8% |

(1) Effective 2013, the Office of Management and Budget changed the combined statistical area to include Mecosta and Montcalm and exclude Newaygo counties.

Source: The Right Place Inc.

| 2013 [1] | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| 112,531 | 113,847 | 113,847 | 111,408 | 116,447 | 114,145 |
| 59,907 | 59,281 | 59,107 | 59,173 | 60,586 | 59,607 |
| 64,073 | 64,294 | 63,976 | 63,905 | 64,291 | 64,147 |
| 621,700 | 629,237 | 629,237 | 602,622 | 648,594 | 636,376 |
| 43,108 | 43,186 | 43,226 | 42,798 | 43,391 | 43,181 |
| 63,105 | 62,893 | 63,046 | 63,342 | 63,550 | 62,956 |
| 171,008 | 172,344 | 172,344 | 172,188 | 173,693 | 172,707 |
| - | - | - | - | - | - |
| 272,701 | 276,292 | 276,292 | 263,801 | 286,383 | 280,243 |
| 1,408,133 | 1,421,374 | 1,421,075 | 1,379,237 | 1,456,935 | 1,433,362 |
| $ 38,981 | $ 40,715 | $ 42,495 | $ 42,386 | $ 43,586 | $ 45,589 |
| $ 54,890,528 | $ 57,871,576 | $ 60,387,903 | $ 58,460,339 | $ 63,501,969 | $ 65,345,540 |

| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| 693,742 | 727,023 | 806,984 | 755,219 | 760,020 | 733,509 |
| 650,465 | 687,736 | 773,497 | 727,147 | 730,625 | 691,961 |
| 43,277 | 39,287 | 33,487 | 28,072 | 29,395 | 41,548 |
| 6.2% | 5.4% | 4.1% | 3.7% | 3.9% | 5.7% |

## Gerald R. Ford International Airport Authority

# Schedule H
# Full-time Equivalent Employees

**Last Ten Fiscal Years**

| | December 31, | | | |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| Administration | 20 | 20 | 20 | 20 |
| Maintenance | 31 | 31 | 31 | 31 |
| Parking | 24 | 24 | 1 | 1 |
| Firefighting | 16 | 16 | 16 | 16 |
| Public safety | 33 | 33 | 33 | 33 |
| Total | 124 | 124 | 101 | 101 |
| Enplaned passengers per employee | 7,160 | 8,852 | 11,272 | 10,592 |
| Operating revenues (in thousands) | $ 26,023 | $ 31,982 | $ 31,630 | $ 31,873 |
| Operating expenses (in thousands) | $ 29,193 | $ 34,082 | $ 34,331 | $ 33,624 |
| Salaries and fringes (in thousands) | $ 8,588 | $ 8,925 | $ 8,263 | $ 7,918 |
| Payroll percentage of operating revenues | 33.0% | 27.9% | 26.1% | 24.8% |
| Payroll percentage of operating expenses | 29.4% | 26.2% | 24.1% | 23.5% |

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | 17 | 18 | 18 | 20 | 23 | 24 |
| | 31 | 32 | 32 | 32 | 30 | 27 |
| | 1 | 1 | 1 | 1 | 1 | 1 |
| | 16 | 16 | 16 | 17 | 16 | 17 |
| | 33 | 33 | 33 | 32 | 34 | 34 |
| | 98 | 100 | 100 | 102 | 104 | 103 |
| | 11,479 | 11,718 | 12,812 | 13,078 | 13,590 | 15,922 |
| | $ 33,190 | $ 35,842 | $ 38,219 | $ 39,718 | $ 41,831 | $ 49,175 |
| | $ 34,666 | $ 34,951 | $ 38,078 | $ 37,412 | $ 41,941 | $ 44,959 |
| | $ 7,825 | $ 8,094 | $ 8,918 | $ 5,729 | $ 9,590 | $ 9,656 |
| | 23.6% | 22.6% | 23.3% | 14.4% | 22.9% | 19.6% |
| | 22.6% | 23.2% | 23.4% | 15.3% | 22.9% | 21.5% |

## Gerald R.Ford International Airport Authority

# Schedule I
# Capital Asset Information

**Last Ten Fiscal Years**

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| Runways | | | |
| 8R/26L - East/West - 10,000 x 150 ft. | | | |
| 8L/26R - East/West - 5,000 x 100 ft. | | | |
| 17/35 - North/South - 8,500 x 150 ft. | | | |
| Total aircraft movements | 87,883 | 87,073 | 87,545 |
| Annual capacity | 277,500 | 277,500 | 277,500 |
| Runway utilization percentage | 31.67% | 31.38% | 31.55% |
| Terminal building | | | |
| Exclusive area leased (sq. ft) | 61,338 | 65,064 | 65,260 |
| Exclusive area available (sq. ft) | 95,365 | 100,666 | 100,666 |
| Terminal occupancy percentage | 64.32% | 64.63% | 64.83% |
| Enplanements | 887,805 | 1,097,660 | 1,138,448 |
| Planned capacity | 1,800,000 | 1,800,000 | 1,800,000 |
| Terminal utilization percentage | 49.32% | 60.98% | 63.25% |
| Parking areas | | | |
| Number of annual long-term exits (a) | 200,106 | 241,858 | 257,110 |
| Average long-term stay (days) (b) | 4.0 | 3.8 | 4.0 |
| Average annual long-term occupancy ((a*b)/365) | 2,193 | 2,518 | 2,818 |
| Number of long-term spaces available | 4,708 | 6,509 | 6,509 |
| Average annual long-term occupancy rate | 46.58% | 38.68% | 43.29% |

| | December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | 85,306 | 75,998 | 75,128 | 76,256 | 81,558 | 82,432 | 84,023 |
| | 277,500 | 277,500 | 277,500 | 277,500 | 277,500 | 277,500 | 277,500 |
| | 30.74% | 27.39% | 27.07% | 27.48% | 29.39% | 29.71% | 30.28% |
| | 65,260 | 60,832 | 72,089 | 74,782 | 65,718 | 85,531 | 89,766 |
| | 100,666 | 97,796 | 97,944 | 97,944 | 106,786 | 105,104 | 105,104 |
| | 64.83% | 62.20% | 73.60% | 76.35% | 61.54% | 81.38% | 85.41% |
| | 1,069,795 | 1,124,969 | 1,171,795 | 1,281,238 | 1,333,956 | 1,413,310 | 1,639,968 |
| | 1,800,000 | 1,800,000 | 1,800,000 | 1,800,000 | 1,800,000 | 1,800,000 | 1,800,000 |
| | 59.43% | 62.50% | 65.10% | 71.18% | 74.11% | 78.52% | 91.11% |
| | 240,871 | 258,745 | 274,552 | 304,575 | 318,451 | 289,527 | 331,119 |
| | 4.4 | 4.3 | 4.5 | 3.9 | 4.0 | 4.6 | 4.2 |
| | 2,877 | 3,048 | 3,385 | 3,254 | 3,490 | 3,649 | 3,810 |
| | 6,509 | 6,918 | 6,918 | 6,918 | 7,071 | 7,071 | 7,124 |
| | 44.20% | 44.06% | 48.93% | 47.04% | 49.35% | 51.60% | 53.48% |

# Compliance Section

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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*

## Independent Auditor's Report

To Management and the Board of Directors
Gerald R. Ford International Airport Authority

We have audited, 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, the financial statements of Gerald R. Ford International Airport Authority (the "Authority") as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 21, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2018-001, that we consider to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

### The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

To Management and the Board of Directors
Gerald R. Ford International Airport Authority

**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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

May 21, 2019

plante moran

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance; Report on Compliance for the Passenger Facility Charge Program

## Independent Auditor's Report

To the Board of Directors
Gerald R. Ford International Airport Authority

### Report on Compliance for Each Major Federal Program and Passenger Facility Charge Program

We have audited Gerald R. Ford International Airport Authority's (the "Authority") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2018. In addition, we audited compliance with the applicable requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the "Guide"), for the year ended December 31, 2018 The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The passenger facility charge program is identified in the accompanying schedule of passenger facility charges.

***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 program and the passenger facility charge program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program and the passenger facility charge program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Guide; 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* (the "Uniform Guidance"). Those standards, the Guide, and the Uniform Guidance 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 and passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the 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 passenger facility charge program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major Federal Program and Passenger Facility Charge Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program and its passenger facility charge program for the year ended December 31, 2018.

To the Board of Directors
Gerald R. Ford International Airport Authority

**Report on Internal Control Over Compliance**

Management of the 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 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 the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and the passenger facility charge program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the 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 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 the passenger facility charge program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 the passenger facility charge 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 the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Plante & Moran, PLLC

May 21, 2019

# Schedule of Expenditures of Federal Awards

**Year Ended December 31, 2018**

| Federal Agency/Pass-through Agency/Program Title | CFDA Number | Grant Number | Provided to Subrecipients | Federal Expenditures |
|---|---|---|---|---|
| U.S. Department of Transportation - Airport Improvement Program: | | | | |
| Consolidated Checkpoint Project | 20.106 | 3-26-0039-052-2015 | $ - | $ 8,286 |
| Master Plan Update | 20.106 | 3-26-0039-053-2016 | - | 675,734 |
| Security Improvements | 20.106 | 3-26-0039-055-2017 | - | 103,925 |
| Terminal Apron Reconstruction | 20.106 | 3-26-0039-056-2018 | - | 16,962,474 |
| Total | | | **$ -** | **$ 17,750,419** |

See notes to schedule of expenditures of federal awards.

# Notes to Schedule of Expenditures of Federal Awards

**Year Ended December 31, 2018**

## Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Gerald R. Ford International Airport Authority (the "Authority") under programs of the federal government for the year ended December 31, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

## Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local Governments, and Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The Authority has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

# Schedule of Findings and Questioned Costs

**Year Ended December 31, 2018**

## Section I - Summary of Auditor's Results

### Financial Statements

| | | | | |
|---|---|---|---|---|
| Type of auditor's report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weakness(es) identified? | X | Yes | | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | | Yes | X | None reported |
| Noncompliance material to financial statements noted? | | Yes | X | None reported |

### Federal Awards

| | | | | |
|---|---|---|---|---|
| Internal control over major programs: | | | | |
| • Material weakness(es) identified? | | Yes | X | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | | Yes | X | None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified | | | |
| Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? | | Yes | X | No |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 20.106 | Airport Improvement Program |

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 | | | |
| Auditee qualified as low-risk auditee? | | Yes | X | No |

## Section II - Financial Statement Audit Findings

| Reference Number | Finding |
|---|---|
| 2018-001 | **Finding Type** - Material weakness |

**Criteria** - Gerald R. Ford International Airport Authority (the "Authority") should maintain adequate segregation of duties, including preventive and detective controls, to safeguard financial assets.

**Condition** - During the financial statement audit, the following deficiencies were identified related to activities that lacked adequate segregation of duties:

(a) Cash account reconciliation functions were performed by one individual who was not restricted from accessing cash receipts, cash disbursements, and journal entry functions.

(b) Through August 2018, there was no secondary, independent review performed over bank reconciliations once prepared. After that date, a different person began preparing bank reconciliations with a secondary review performed by an independent person; however, there was no documentation nor other audit evidence to observe this review.

(c) Changes to vendor properties in the accounting software do not require dual authorization. In addition, the upload of vendor payment information from the accounting software to the online bank portal is done using an unsecured manual file.

(d) Two individuals were administrators over the online bank portal and could independently add, delete, and edit users without a required secondary approval. In addition, the Authority was in possession of spare authentication tokens, which could be assigned and utilized in the online bank portal to process transactions.

(e) The one individual who had access to input and change pay rates is the same person who served as a final review and approval before payroll was processed.

**Context** - No audit adjustments were identified and no unsupported disbursements or journal entries were detected as a result of our sampling procedures. However, the lack of adequate segregation of duties in these areas could result in a material misappropriation of assets that could be concealed in the financial records, making the likelihood of detection remote.

**Cause** - While we do understand the staffing constraints the Authority is under due to the minimal amount of individuals knowledgeable to perform all of these tasks, the Authority still did not implement adequate segregation of duties related to cash access (including online banking), disbursement functions, and reconciliation procedures by reviewing access/functionality controls.

**Effect** - Based on inquiry with the current administration and review of current control environment, there were no instances identified of fraudulent activity or unauthorized transactions. The lack of adequate segregation of duties could result in a misappropriation of assets that may not be detected timely.

**Recommendation** - The Authority should implement adequate segregation of duties (including preventive and detective controls) to eliminate or restrict the ability of a single individual to make changes to electronic banking or payroll information, initiate disbursements without secondary approval, and handle all functions including reconciliations, receipts, disbursements, and journal entry functions.

## Section II - Financial Statement Audit Findings (Continued)

| Reference Number | Finding |
|---|---|
| 2018-001 (Continued) | **Views of Responsible Officials and Planned Corrective Actions** - The Authority understands the audit findings listed, and agrees that a better segregation of duties needs to be implemented in our workforce in order to mitigate the risk of mishandling the Authority's financial assets. While we have limited personnel in order to completely segregate duties, we will implement the following actions to address the weaknesses found in our procedures.<br>(a) Cash account reconciliation will be performed by an individual who does not have unrestricted access to the recording of the movement of cash.<br>(b) The bank reconciliation will be performed by an individual who does not have unrestricted access to the bank records and will be audited and signed off by a supervisor for documentation evidence.<br>(c) Changes to vendor properties in the accounting software will be initiated by the accounting clerk and approved by the controller. Regarding the vendor payment file being an unsecured manual file uploaded to the bank portal, we are using the tools available to us. However, we feel that the implementation of corrective actions (a) and (b) will mitigate the risk posed by having a manual file used for this purpose.<br>(d) The bank portal security will be changed to dual authorization for all activity. Spare authentication tokens will be returned to the bank upon termination of employees in possession of said token.<br>(e) A report with all employee changes will be run at each payroll to be reviewed by someone outside of the payroll processing cycle. |

## Section III - Federal Program Audit Findings

| Reference Number | Finding |
|---|---|
| **Current Year** | None |

# Schedule of Passenger Facility Charges

For the Year Ended December 31, 2018

| | | |
|---|---|---|
| **Cumulative Balance** - December 31, 2017 | $ | 7,325,088 |
| Receipts | | |
| Passenger facility charges | | 6,685,521 |
| Interest income | | 76,183 |
| **Total receipts** | | 6,761,704 |
| Disbursements | | |
| Application No. 95-02-U-00-GRR | | 2,445,741 |
| **Total disbursements** | | 2,445,741 |
| Increase in cash balances | | 4,315,963 |
| **Cumulative Balance** - December 31, 2018 | $ | 11,641,051 |

See accompanying independent auditors' report and the notes to schedule of passenger facility charges.

# Notes to Schedule of Passenger Facility Charges

**Year Ended December 31, 2018**

## Note 1 - General

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. PFCs may be used for airport projects that meet at least one of the following criteria:

- Preserve or enhance safety, security, or capacity of the national air transportation system.
- Reduce noise or mitigate noise impacts resulting from an airport.
- Furnish opportunities for enhanced competition between or among carriers.

Since 1995, the Federal Aviation Administration (FAA) has approved nine PFC applications and amendments submitted by the Gerald R. Ford International Airport Authority (the "Authority"). The Authority is currently authorized to collect PFCs in the amount of $4.50 per enplaned passenger up to a total for approved collections of $120.2 million. Project expenditures may include amounts for the payment of principal, interest, and other financing costs on bonds for which the proceeds are used to pay PFC-eligible costs on approved projects.

As of December 31, 2018, the Authority had received approximately $92.3 million of PFC revenue and $2.7 of interest earnings. The Authority had expended approximately 83.3 million on approved projects.

## Note 2 - Basis of Presentation

The accompanying schedule of passenger facility charges collected and expended has been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP).