

SOUTHWEST MICHIGAN
REGIONAL AIRPORT AUTHORITY

FINANCIAL STATEMENTS

June 30, 2009

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

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Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the Southwest Michigan Regional Airport Authority's (the Authority) financial performance provides an introduction to the financial statements for the year ending June 30 2009. The information contained in this MD&A should be considered in conjunction with the information contained in the Authority's financial statement.

Mission Statement

It is the mission of the Southwest Michigan Regional Airport Authority Board to provide safe, efficient, customer-friendly, environmentally sensitive and economically beneficial air transportation facilities responsive to the Southwest Michigan community's needs.

Goals

1. Assure compliance with federal, state and local laws regulating the environment, safety, security and operation of the airport
2. Assure the highest level of customer service through consultant evaluations, surveys, suggestions from users, local businesses and tourism officials, as well as monitoring industry trends and identifying and completing projects.
3. Attain the highest level of financial performance through operational benchmarking to achieve the highest financial return and lowest operational expenditures compared to other like airports and other industry models.
4. Promote and market the use of air transportation facilities and services to assure community awareness and understanding and to maximize utilization.
5. Provide state of the art air transportation facilities
6. Protect air transportation facilities from non-compatible development.

Overview of the Financial Statements

The Authority's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP). The Authority is structured as a single enterprise fund that reports as a business-type activity, 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. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Following this MD&A are the basic financial statements of the Authority together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide the readers with a broad overview of the Authority's finances.

The **Statement of Net Assets** presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Authority's financial position.

The **Statement of Revenues, Expenses, and Changes in Net Assets** presents information showing how the Authority's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The **Statement of Cash Flows** relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

Significant Events

The Millage renewal took place November 2006 the Authority grew from four members to six members; City of Benton Harbor, City of St. Joseph, Lincoln Charter Township, St Joseph Charter Township, with the new members being Benton Charter Township and Royalton Township.

The 1997 - 2006 previous millage was set at one quarter mill from each of the municipalities. The new structure for the millage is independent to each municipality. The City of Benton Harbor will make a General Fund Contribution of \$20,000. The City of St. Joseph passed and maintained their quarter mill Millage. Each of the remaining four townships passed a tenth of a mill millage.

The reduction of the millage amount and the additional two new members generate less revenue than the previous millage, however, we budgeted to operate in the black.

The Authority is currently involved in land acquisition for Runway Safety Area (RSA) Improvements which represent an increase in Authority assets. Area 1, 2

& 3 of the RSA consist of 251 parcels with 245 completed at this time. In Area 3 there are 63 parcels with 57 completed at this time, we are currently proceeding in final acquisition and demolition of these last 6 properties.

The total number of displacees relocated to date involved in area 1, 2 & 3 are 173 families with 2 remaining for relocation. The relocations were completed under federal guidelines, "The Uniform Acquisition & Relocation Act of 1970, as amended" to insure the families were moved into decent safe and sanitary homes. The communities in the area are benefiting in homes which were boarded up and are being renovated for the relocatees. The newly converted tenants to home owners are now adding to the tax base in these newly renovated homes. They have been given the opportunity for quality of life improvements which ultimately improves the overall community.

We continue to see the synergy of our Runway Safety Area Project spread throughout the area with people cleaning up their properties and making improvements to their homes. Property values are increasing in the area and providing economic benefits for the tax base of the local governments. The overall quality of life and renewed interest in the community are evident as we witness these improvements.

We have entered into Area 4 which involves aviation easements (safe airspace above the properties.) Currently 159 properties have been identified for easement potentials. A public meeting was held and a voluntary program was offered to all 159 properties. As of June 30th, we had 139 properties accept the voluntary program offer. We had 14 additional properties that want the program but have to work through title issues. We had 6 properties that refused the voluntary program and we will begin the individual property process to obtain aviation easements if needed.

One of our tenants "Flying Colors Aviation" who painted aircraft on the weekends has expanded and built a \$1.5 million dollar aircraft paint facility on land leased from the airport. He has turned venture into a full time business improving our business development on the airport.

The authority has made several new equipment purchases and equipment repairs this past year. We updated the office computer server with a backup system, purchased a new office computer, rebuilt the engine in Pickup truck #3, replaced 2 T-Hangar asphalt approaches, repaired a terminal heater, and replaced a valve in the fuel farm. The authority continues to maintain the airport and improve the infrastructure.

The authority made a large investment in the building of a new T-Hangar facility to hold 10 additional aircraft. This will give the airport the ability to attract new tenants and increase the number of aircraft on the airfield. This is the first new

hangars built by the airport since 1968. This will give the airport the ability to increase our revenue generation capabilities.

The airport personnel are making improvements to the facilities and the property. T-Hangar repairs are ongoing by the staff as we continue to try to extend the life of these older facilities.

Financial Highlights

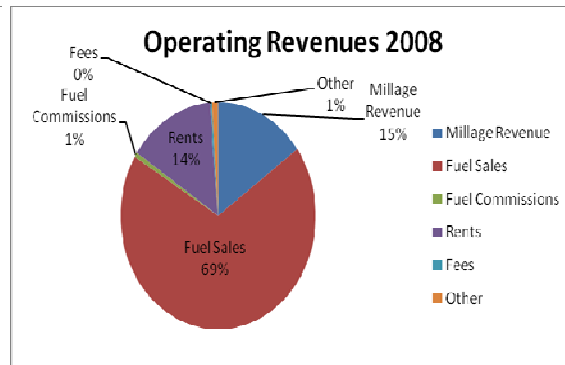
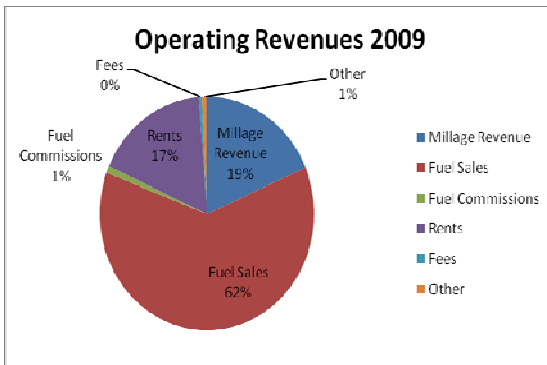
The Authority continues to operate in the black with the full understanding of future planned expenditures and the responsibilities of the Runway Safety Area (RSA) Improvement Projects which are starting to break ground and see dirt movement in this long awaited improvement for the airport. The project costs continue to increase and are updated annually in our 10 year plan. We continue to work with the Federal, State and Local Governments to ensure the timely flow of grant money to complete the required RSA Federally mandated requirements.

Financial Position

The following represents the Authority's financial position for the year ending June 30:

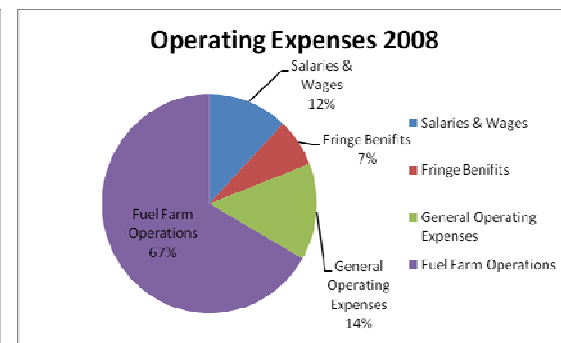
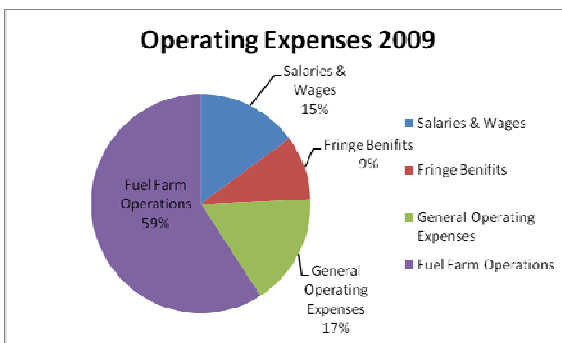
Operating Revenues

	2009	2008
Millage Revenue	\$ 272,639	\$ 269,814
Fuel Sales	908,479	1,233,095
Fuel Commissions	13,523	12,129
Rents	252,817	256,440
Fees	5,772	6,841
Other	11,135	17,458
Total Operating Revenues	\$ 1,464,365	\$ 1,795,777



Operating Expenses

	2009	2008
Salaries & Wages	\$ 206,083	\$ 199,873
Fringe Benefits	131,180	118,903
General Operating Expenses	229,081	237,693
Fuel Farm Operations	819,343	1,112,628
Total Operating Expenses	\$ 1,385,687	\$ 1,669,097



Assets and Liabilities

Assets	<u>2009</u>	<u>2008</u>
Capital Assets	\$2,080,667	\$1,490,031
Current Assets	<u>636,566</u>	<u>1,137,258</u>
Total Assets	\$2,717,233	\$2,627,289
Liabilities		
Current Liabilities	\$163,415	\$115,131
Long Term Liabilities	<u>262,623</u>	<u>315,148</u>
Total Liabilities	\$426,038	\$430,279

Net Assets

The following represents the Authority's Statements of Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Net Assets – Beginning of year	\$2,197,010	\$2,014,311
Net Income for the Year	<u>94,185</u>	<u>182,699</u>
Net Assets – End of Year	<u>\$ 2,291,195</u>	<u>\$2,197,010</u>

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

BOARD MEMBERS

Al Todd
Lincoln Township

Chairperson

Tim Zebell
City of St. Joseph

Vice-Chairperson

Debra Boothby
Benton Township

Secretary

Phil S. Manni
St. Joseph Charter Township

Treasurer

Ted Kalin
Royalton Township

Board Member

Richard Marsh
City of Benton Harbor

Board Member

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

July 22, 2009

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southwest Michigan Regional Airport Authority
Benton Harbor, Michigan

We have audited the accompanying financial statements of the business-type activities and the major fund of the Southwest Michigan Regional Airport Authority as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southwest Michigan Regional Airport Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Southwest Michigan Regional Airport Authority, as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages I through VI are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Michigan Regional Airport Authority's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Right. On time.

INDEPENDENT AUDITOR'S REPORT - Continued

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2009, on our consideration of the Southwest Michigan Regional Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

Seibel & Company, P.C.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Net Assets

Assets	June 30,	
	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash	\$ 436,881	\$ 823,157
Accounts receivable	144,737	219,751
Inventory	31,722	68,231
Prepaid expenses	<u>23,226</u>	<u>26,119</u>
Total Current Assets	\$ 636,566	\$ 1,137,258
 Property, Plant, and Equipment - NOTE 3		
Including accumulated depreciation of \$445,819 for 2009 and \$368,795 for 2008	<u>2,080,667</u>	<u>1,490,031</u>
TOTAL ASSETS	<u><u>\$ 2,717,233</u></u>	<u><u>\$ 2,627,289</u></u>
 Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 58,905	\$ -
Current portion of notes payable - NOTE 5	52,525	52,525
Accrued payroll	9,461	9,523
Other current liabilities	<u>42,524</u>	<u>53,083</u>
Total Current Liabilities	\$ 163,415	\$ 115,131
 Long-term Liabilities:		
Notes payable - NOTE 5	<u>262,623</u>	<u>315,148</u>
Total Liabilities	\$ 426,038	\$ 430,279
Net Assets - Unrestricted	<u>2,291,195</u>	<u>2,197,010</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,717,233</u></u>	<u><u>\$ 2,627,289</u></u>

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Revenues, Expenses and
Changes in Net Assets

	For the Year Ended	
	June 30,	
	<u>2009</u>	<u>2008</u>
Statements of Revenues and Expenses		
Operating Revenues:		
Millage revenue	\$ 272,639	\$ 269,814
Fuel sales	908,479	1,233,095
Fuel commissions	13,523	12,129
Rents	252,817	256,440
Fees	5,772	6,841
Other	<u>11,135</u>	<u>17,458</u>
Total Operating Revenues	<u>\$ 1,464,365</u>	<u>\$ 1,795,777</u>
Operating Expenses:		
Salaries and wages	\$ 206,083	\$ 199,873
Fringe benefits	131,180	118,903
General operating expenses	229,081	237,693
Fuel farm operations	<u>819,343</u>	<u>1,112,628</u>
Total Operating Expenses	<u>\$ 1,385,687</u>	<u>\$ 1,669,097</u>
Net Operating Income	<u>\$ 78,678</u>	<u>\$ 126,680</u>
Nonoperating Revenues (Expenses):		
Interest income	\$ 15,507	\$ 39,219
Gain on sale of assets	<u>-</u>	<u>16,800</u>
Net Nonoperating Income	<u>\$ 15,507</u>	<u>\$ 56,019</u>
NET INCOME FOR THE YEAR	<u>\$ 94,185</u>	<u>\$ 182,699</u>
Statements of Changes in Net Assets		
Net Assets - Beginning of year	\$ 2,197,010	\$ 2,014,311
Net income for the year	<u>94,185</u>	<u>182,699</u>
NET ASSETS - END OF YEAR	<u>\$ 2,291,195</u>	<u>\$ 2,197,010</u>

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Cash Flows

	<u>Year Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities:		
Received from user charges	\$ 1,266,740	\$ 1,541,721
Received from assessments	272,639	269,814
Payments to employees for services	(224,795)	(201,290)
Payments for workers' compensation and fringe benefits	(131,180)	(118,903)
Payments to suppliers for goods and services	<u>(885,880)</u>	<u>(1,320,323)</u>
Net cash provided by operating activities	<u>\$ 297,524</u>	<u>\$ 171,019</u>
Cash Flows From Capital and Related Financing Activities:		
Repayment of loan principal	\$ (52,525)	\$ (52,525)
Acquisition of capital assets	(646,782)	(31,400)
Sale of capital assets	<u>-</u>	<u>16,800</u>
Net cash used by capital and related financing activities	<u>\$ (699,307)</u>	<u>\$ (67,125)</u>
Cash Flows From Investing Activities:		
Interest on investments	<u>\$ 15,507</u>	<u>\$ 39,219</u>
Net increase in cash and cash equivalents	\$ (386,276)	\$ 143,113
Cash, cash equivalents, and temporary investments - July 1, 2008	<u>823,157</u>	<u>680,044</u>
Cash, cash equivalents, and temporary investments - June 30, 2009	<u>\$ 436,881</u>	<u>\$ 823,157</u>
Reconciliation of operating income to net cash used by operating activities:		
Operating income	\$ 78,678	\$ 126,680
Adjustment to reconcile operating income to net cash used by operating activities:		
Depreciation	56,146	55,485
(Increase) Decrease in assets:		
Accounts receivable	75,014	15,758
Inventory	36,509	(36,713)
Prepaid insurance	2,893	3,135
Increase (Decrease) in liabilities:		
Accounts payable	58,905	-
Accrued liabilities	<u>(10,621)</u>	<u>6,674</u>
Net cash used by operating activities	<u>\$ 297,524</u>	<u>\$ 171,019</u>

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Southwest Michigan Regional Airport Authority (the "Authority") conform to accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority has elected to implement the provisions of the Statement.

A. Reporting Entity

The Southwest Michigan Regional Airport Authority was authorized under Michigan Law by the Community Airports Act: Public Act 206 of 1957. The Authority was formed to operate, maintain, and improve the Southwest Michigan Regional Airport and it is governed by a Board consisting of one representative from each of the member municipalities. The membership as of June 30, 2009 consists of the Cities of Benton Harbor and St. Joseph, and the Townships of Lincoln, St. Joseph, Benton, and Royalton, all located in Berrien County, Michigan.

The Authority reports as a Business-Type Activity, which relies to a significant extent on fees and charges for support. This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges, or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

B. Basis of Accounting

The accrual basis of accounting is followed by the Southwest Michigan Regional Airport Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

C. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Inventory

Value of fuel inventory is calculated at cost using the first in, first out method.

E. Fixed Assets and Depreciation

Fixed assets are stated at cost. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments over \$500 are capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment	7-10 years
Computers	5 years
Vehicles	5 years
Building improvements	40 years
Land improvements	20 years

F. Property Tax Revenue

Property taxes attach as an enforceable lien on property as of December 31, and are levied on the following July 1 and December 1. Property taxes become available for expenditure and are thus recognized as revenue in the fiscal year they are levied.

G. Risk Management

The Authority carries commercial insurance for risks of loss, including torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

H. Fund Balance Reserves

A fund balance reserve arises from statutory requirements or actions already taken by the Authority. The reserved portion of the fund balance identifies those amounts segregated for future purposes or not available to finance expenditures in the subsequent fiscal year.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Operating and Nonoperating Revenue

Operating revenue is defined as revenue raised in operation of the airport. Nonoperating revenue includes other revenue, such as capital grants, that do not directly fund general operations of the Airport.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2009

NOTE 2 - CASH AND INVESTMENTS

Cash and Equivalents - Cash and equivalents are stated at cost. Investment policies are determined by the Board of Directors. The Authority is authorized to deposit in federally insured banks, credit unions and savings and loan associations. All deposits are held in the name of Southwest Michigan Regional Airport Authority. The Authority's cash and equivalents are in accordance with statutory authority.

Investments - The Authority is authorized to invest in bonds and other direct obligations of the United States, commercial paper rated at the time of purchase within the two highest classifications which matures not more than 270 days after the date of purchase, and various U.S. government, federal agency, and instrumentality obligations. The Authority's investments are in accordance with statutory authority.

Interest Rate Risk - The Authority minimizes interest rate risk by not allowing investments with maturities longer than two years. Designated reserve funds may be invested in securities exceeding two years provided the maturity of such investments coincides with the expected use of the funds.

Credit Risk - The Authority is limited to investments authorized by PA 20 of 1943. Certificates of deposit, savings accounts, deposit accounts, or depository receipts must be with a state or nationally chartered bank, a state or federally chartered savings and loan association, or a state or federally chartered savings bank. These institutions shall either be a member of the FDIC or a member of the Federal Savings and Loan Insurance Corporation. The Authority's funds were deposited in one financial institution that meets these requirements. As of June 30, 2009, the carrying amount of the Authority's deposits was \$436,881 and the respective bank balances totaled \$612,289. Of the total bank balance, the FDIC covered \$250,000.

Concentration of Credit Risk - The Authority's policy states that the investments may have varying maturities, avoid high credit risk, and should include the use of readily available funds.

Custodial Credit Risk - The Board of Directors has approved various banking institutions that meet the criteria set forth in the investment policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2009

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

A summary of changes in property, plant and equipment is as follows:

	Beginning Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Reimbursements</u>	Adjustments and <u>Retirements</u>	Ending Balance <u>June 30, 2009</u>
Equipment	\$ 421,426	\$ 7,155	\$ -	\$ (5,490)	\$ 423,091
Vehicles	49,031	2,450	-	26,368	77,849
Computers	26,259	3,365	-	-	29,624
Building improvements	47,583	907	-	-	48,490
T-Hangers	-	387,447	-	-	387,447
Construction in progress:					
RSA project - Land acquisition	278,531	123,469	(109,979)	-	292,021
RSA project - Other	336,648	189,575	-	-	526,223
Closed projects	436,538	52,756	(17,188)	-	472,106
Land improvements	149,275	6,825	-	-	156,100
Land	<u>113,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,535</u>
	\$ 1,858,826	\$ 773,949	\$ (127,167)	\$ 20,878	\$ 2,526,486
Less: accumulated depreciation	<u>(368,795)</u>	<u>(56,146)</u>	<u>-</u>	<u>(20,878)</u>	<u>(445,819)</u>
Net property, plant, and equipment	<u>\$ 1,490,031</u>	<u>\$ 717,803</u>	<u>\$ (127,167)</u>	<u>\$ -</u>	<u>\$ 2,080,667</u>

NOTE 4 - GRANT PROJECTS IN PROCESS

The Southwest Michigan Regional Airport Authority is involved in various grant projects with the Federal Aviation Administration and the State of Michigan.

The Authority has entered into a ten-year development plan to extend its runway and improve airport safety. At the completion of this project, it is estimated that the Authority's share of the project's cost will be \$524,625. As of June 30, 2009, the Airport's estimated liability for the portion of the project completed is \$112,586; however, the Authority has already made payments of \$226,561 towards project costs, leaving an overpayment by the Authority of \$113,975. This overpayment will be applied to future costs of completing the project, with any excess being refunded to the Authority.

The Michigan Department of Transportation (MDOT) requires that all Airport Authorities report all federal and state grants pertaining to their agency. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the Authority performs the work and would not be subject to single audit requirements if they expended \$500,000 or more. The Authority did not have any local force account projects.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2009

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions of the Authority for the year ended June 30, 2009:

	<u>Notes</u>
Balance - July 1, 2008	\$ 367,673
Additions	-
Retirements and payments	52,525
Balance - June 30, 2009	\$ 315,148
Less current portion	52,525
Long-term portion	\$ 262,623

Notes payable at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Whirlpool Corporation noninterest bearing note, payable \$4,377 monthly through July 2015.	\$ 315,148	\$ 367,673
Total Notes Payable	\$ 315,148	\$ 367,673

The annual requirements to amortize all applicable debt outstanding as of June 30, 2009, including interest payments of \$0 are as follows:

<u>June 30,</u>	<u>Debt</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 52,525	\$ -	\$ 52,525
2011	52,525	-	52,525
2012	52,525	-	52,525
2013	52,525	-	52,525
2014	52,525	-	52,525
2015	52,523	-	52,523
Total	\$ 315,148	\$ -	\$ 315,148

NOTE 6 - PENSION PLAN

The employees of the Southwest Michigan Regional Airport Authority are members of the Benton Harbor City Employees Pension System. Under this system, some of the employees are covered for retirement and Social Security. The pension plan calls for amortization of unfunded accrued liabilities over a period of forty years. Pension expense for the years ended June 30, 2009 and 2008 was \$8,598 and \$7,071 respectively.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2009

NOTE 7 - SICK LEAVE

The Southwest Michigan Regional Airport Authority adopted a personnel policy which allows employees to accrue ten days of paid sick leave per calendar year. Sick days may be carried over up to the maximum of thirty accrued sick days. Unused sick days are not paid out at the time of termination/separation except for employees who were employed prior to March 18, 1999 who will be paid for up to a maximum of sixty days. As of June 30, 2009 and 2008, total sick leave for both policies has accumulated in the amount of \$29,911 and \$28,374 respectively.

NOTE 8 - LEASE - WHIRLPOOL CORPORATION

The Southwest Michigan Regional Airport Authority assumed a lease agreement entered into by the Southwest Michigan Regional Airport Board and Whirlpool Corporation on November 18, 1985. This agreement amended the original lease dated November 15, 1973 covering certain premises at the Airport. The term of the lease is thirty years, ending June 14, 2015. Whirlpool Corporation has agreed to pay the Airport at least \$1,800 a month for 360 consecutive months in exchange for rental of the hangar. The amount increases annually based on the Consumer Price Index. In addition, the Airport was indebted to Whirlpool Corporation for the sum of \$1,575,740 as of June 15, 1985 which arose from certain sums of money advanced to the Airport for various improvements for the premises leased. The amount outstanding as of June 30, 2009 is \$315,148. Whirlpool Corporation has also agreed to reduce the Airport's indebtedness by \$4,377 for 360 consecutive months in exchange for the rental of the hangar. The following is a schedule of the future minimum rental payments required under the operating lease as of June 30, 2009:

<u>June 30,</u>	
2010	\$ 74,125
2011	74,125
2012	74,125
2013	74,125
2014	74,125
2015	<u>74,121</u>
	<u>\$ 444,746</u>

NOTE 9 - MILLAGE REVENUE

A ten year millage was passed by the City of St. Joseph and the Charter Townships of St. Joseph, Lincoln, Royalton, and Benton beginning July 1, 2007. The City of Benton Harbor will make a general fund contribution each year to the Authority.

NOTE 10 - EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2009, the Airport incurred expenditures in certain budgetary functions which were in excess of the amounts appropriated as follows:

	<u>Activity</u> <u>Appropriation</u>	<u>Activity</u> <u>Expenditures</u>	<u>Negative</u> <u>Budget Activity</u>
Fuel farm operations	\$ 806,006	\$ 819,343	\$ (13,337)

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Revenues and Expenses - Budget and Actual
For the Year Ended June 30, 2009
With Comparative Totals for the Year Ended June 30, 2008

	<u>Budget</u>	<u>2009 Actual</u>	<u>Variance Positive (Negative)</u>	<u>2008 Actual</u>
Operating Revenues:				
Millage revenue	\$ 264,046	\$ 272,639	\$ 8,593	\$ 269,814
Fuel sales	908,479	908,479	-	1,233,095
Fuel commissions	13,523	13,523	-	12,129
Rents	254,425	252,817	(1,608)	256,440
Fees	5,772	5,772	-	6,841
Other	<u>11,135</u>	<u>11,135</u>	<u>-</u>	<u>17,458</u>
Total Operating Revenues	<u>\$ 1,457,380</u>	<u>\$ 1,464,365</u>	<u>\$ 6,985</u>	<u>\$ 1,795,777</u>
Operating Expenses:				
Salaries and wages	\$ 241,564	\$ 206,083	\$ 35,481	\$ 199,873
Fringe benefits	139,354	131,180	8,174	118,903
General operating expenses	233,476	229,081	4,395	237,693
Fuel farm operations	<u>806,006</u>	<u>819,343</u>	<u>(13,337)</u>	<u>1,112,628</u>
Total Operating Expenses	<u>\$ 1,420,400</u>	<u>\$ 1,385,687</u>	<u>\$ 34,713</u>	<u>\$ 1,669,097</u>
Net Operating Income	<u>\$ 36,980</u>	<u>\$ 78,678</u>	<u>\$ 41,698</u>	<u>\$ 126,680</u>
Nonoperating Revenues (Expenses):				
Interest income	\$ 15,507	\$ 15,507	\$ -	\$ 39,219
Gain on sale of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,800</u>
Net Nonoperating Income	<u>\$ 15,507</u>	<u>\$ 15,507</u>	<u>\$ -</u>	<u>\$ 56,019</u>
NET INCOME FOR THE YEAR	<u>\$ 52,487</u>	<u>\$ 94,185</u>	<u>\$ 41,698</u>	<u>\$ 182,699</u>

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Schedule of Operating Expenses
For the Year Ended June 30, 2009
With Comparative Totals for the Year Ended June 30, 2008

	Year Ended June 30,	
	2009	2008
Operating Expenses:		
Salaries and wages	\$ 206,083	\$ 199,873
Fringe Benefits	\$ 131,180	\$ 118,903
General Operating Expenses:		
Auto and travel	\$ 1,072	\$ 1,071
Capital improvements	541	733
Communication	6,185	5,349
Depreciation	56,146	55,485
Fuel, oil, and lubricants	19,427	28,826
Insurance	39,495	43,858
Janitorial services	5,930	6,191
Meeting expense	459	478
Memberships and conferences	3,756	3,076
Office supplies	4,644	3,215
Professional services	16,249	11,351
Promotion and marketing	1,605	1,481
Repairs and maintenance	32,844	31,967
Supplies	4,168	8,530
Training	231	-
Uniforms	961	906
Utilities	35,324	34,600
Miscellaneous	44	576
Total General Operating Expenses	\$ 229,081	\$ 237,693
Fuel Farm Operations:		
Fuel purchases	\$ 808,941	\$ 1,102,209
Repairs and maintenance	2,311	2,328
Salaries	8,091	8,091
Total Fuel Farm Operations	\$ 819,343	\$ 1,112,628
TOTAL OPERATING EXPENSES	\$ 1,385,687	\$ 1,669,097

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

July 22, 2009

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

Board of Directors
Southwest Michigan Regional Airport Authority
Benton Harbor, Michigan

We have audited the financial statements of Southwest Michigan Regional Airport Authority as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated July 22, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southwest Michigan Regional Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Right. On time.

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 - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Michigan Regional Airport Authority's financial statements are free of 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*.

We noted certain other matters that we reported to management of Southwest Michigan Regional Airport Authority in a separate letter dated July 22, 2009.

This report is intended solely for the information and use of management, the finance committee, board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Seibel & Company, P.C.

Gerbel & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

July 22, 2009

Board of Directors
Southwest Michigan Regional Airport Authority
Benton Harbor, Michigan

In connection with our audit of the books and records of Southwest Michigan Regional Airport Authority for the year ended June 30, 2009, we offer the following recommendations:

1. The books and records were found to be balanced and well organized.
2. Supporting documentation was readily available for inspection.
3. The Authority's administration and accounting personnel displayed a high level of dedication and cooperation in performing their duties and assisting us in completing ours.

We appreciate the courtesy and cooperation extended to us by the officials and employees of the Southwest Michigan Regional Airport Authority and trust that these suggestions will be received in the spirit of cooperation in which they are offered.

If we can be of any assistance, or if you have any questions regarding these or any other matters, please feel free to contact us.

Very truly yours,


GERBEL & COMPANY, P.C.
Certified Public Accountants

Right. On time.

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