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LOCAL AUDIT & FINANCE DIV.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

11-7508

FINANCIAL STATEMENTS

June 30, 2004

Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☒ Other	SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY	BERRIEN

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
JUNE 30, 2004	JULY 23, 2004	September 28, 2004

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

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We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)			
GERBEL & COMPANY, P.C.			
Street Address	City	State	ZIP
830 PLEASANT STREET	ST. JOSEPH	MI	49085
Accountant Signature Robert L. Gerbel CPA			

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

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Southwest Michigan Regional Airport

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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 2004. The information contained in this MD&A should be considered in conjunction with the information contained in the Authority's financial statement.

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 summery 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 and Expenses*** and the ***Statement of Changes in Net Assets*** present 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 Authority is currently involved in land acquisition for Runway Safety Area (RSA) improvements, which represent an increase in Authority assets. Processing the 51 parcels of Area 1 of the RSA project is almost completed. The Authority relocated 14 homeowners to new

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homes. There were 31 tenants of whom we were able to assist in converting 15 of them into new homeowners and relocated 16 tenants into new rental properties. All of the relocations were completed under federal guidelines to insure the families were moved into decent safe and sanitary homes. The communities in the area are benefiting from homes which were once boarded up are now being renovated for the relocatees. The newly converted tenants to homeowners are now adding to the tax base of the community of these newly renovated homes. They have been given the opportunity for quality of life improvements, which ultimately improves the overall community.

We have seen the synergy of our Runway Safety Area Project spread throughout the area in 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.

The Authority has made several equipment purchases this past year in order to give the airport the capability to perform additional maintenance tasks in-house and not have to contract out or rent equipment. Some of the major purchases include: A trailer mounted 300gal spray tank provides the capability to spray herbicides on weeds on the runways and along the fence lines; Two tow behind high speed brooms improved our snow removal capabilities and provided safer runways; A heavy duty trailer to move our bulldozer around the airfield; A Rake moldboard for the bulldozer blade to clear roots and rough soils; Forklift arms that mount on our front-end loader to provide lifting capabilities; A 20Ft. Snow plow to improve our snow removal operations.

The airport personnel are making improvements to the facilities and the property. We have removed trees on our approach to runway 32, which improves the safety for arriving and departing aircraft and the residents in the local area. Storm damage this year is still being cleaned up by airport personnel with the equipment the Authority has provided. Hangar repairs are ongoing and we continue to try to extend the life of these older facilities.

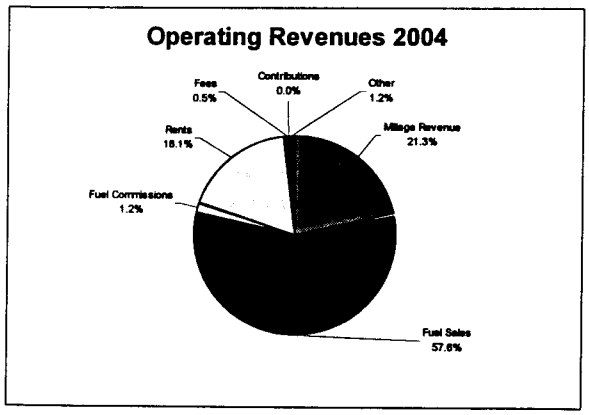
Financial Highlights

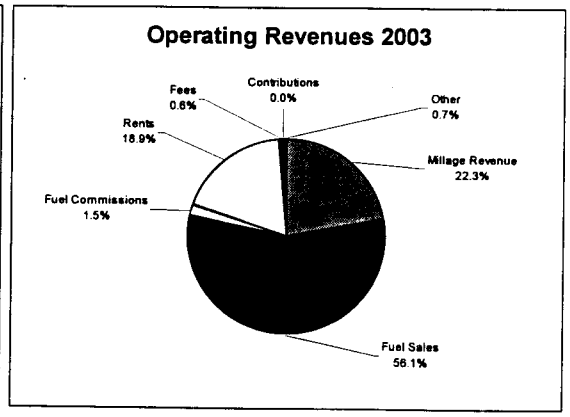
The Authority continues to operate in the black with the full understanding of the responsibilities of the Runway Safety Area Improvements Projects that are still in the planning stages of project details that need to be finalized. We continue to work with the Federal and State Governments to ensure the timely flow of grant money the meet our federally mandated 2007 completion schedule.

Financial Position

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

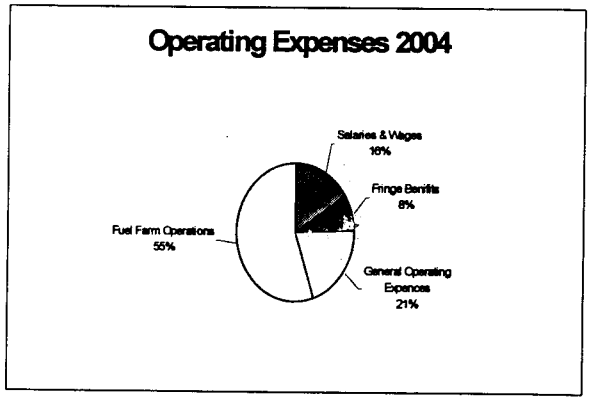
Operating Revenues	**2004**	**2003**
Millage Revenue	$ 275,910	$ 267,479
Fuel Sales	747,843	672,040
Fuel Commissions	16,137	18,164
Rents	235,465	226,113
Fees	6,564	6,643
Contributions	-	-
Other	15,719	8,450
Total Operating Revenues	$ 1,297,638	$ 1,198,889

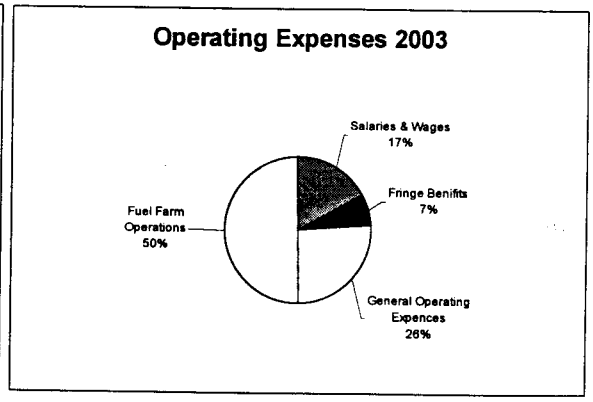




Operating Expenses

	2004	2003
Salaries & Wages	$ 168,948	$ 172,339
Fringe Benefits	85,882	71,295
General Operating Expenses	217,170	264,581
Fuel Farm Operations	569,745	513,339
Total Operating Expenses	$ 1,041,745	$ 1,021,554





Net Assets

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

	2004	2003
Net Assets – Beginning of year	$ 309,286	$ (3,877)
Prior period adjustment – See Note 12	30,000	0
Adjusted Net Assets – Beginning of the Year	$ 339,286	$ (3,877)
Net Income for the Year	530,041	313,163
Net Assets – End of Year	$ 869,327	$ 309,286

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

BOARD MEMBERS

Constance Sanders Charter Township of Lincoln	Chairperson
Phil Manni Charter Township of St. Joseph	Vice-Chairperson
Dwight Pete Mitchell City of Benton Harbor	Secretary
Kevin Luhrs City of St. Joseph	Treasurer

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 23, 2004

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 year ended June 30, 2004, 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. 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, 2004, 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.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information 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.

Gerbel & Company, P.C.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statement of Net Assets

	June 30, 2004	June 30, 2003
ASSETS		
Current Assets:		
Cash	$ 362,895	$ 70,950
Investments	396,425	592,948
Accounts receivable	100,178	84,426
Inventory	20,331	10,451
Prepaid expenses	39,397	27,962
Total Current Assets	$ 919,226	$ 786,737
Property, Plant, and Equipment - NOTE 3 Including accumulated depreciation of $202,478 for 2004 and $159,774 for 2003	648,847	311,788
TOTAL ASSETS	$ 1,568,073	$ 1,098,525
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of notes payable - NOTE 5	$ 129,044	$ 62,961
Accounts payable	14,218	44,243
Accrued payroll	5,503	4,105
Other current liabilities	24,733	23,637
Total Current Liabilities	$ 173,498	$ 134,946
Long-term Liabilities:		
Notes payable - NOTE 5	525,248	654,293
Total Liabilities	$ 698,746	$ 789,239
Net Assets - Unrestricted - NOTE 6	869,327	309,286
TOTAL LIABILITIES AND NET ASSETS	$ 1,568,073	$ 1,098,525

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Revenues and Expenses
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	Budget	2004 Actual	Variance Positive (Negative)	2003 Actual
Operating Revenues:				
Millage revenue	$ 245,000	$ 275,910	$ 30,910	$ 267,479
Fuel sales	720,100	747,843	27,743	672,040
Fuel commissions	18,000	16,137	(1,863)	18,164
Rents	184,985	235,465	50,480	226,113
Fees	7,426	6,564	(862)	6,643
Contributions	5,270	-	(5,270)	-
Other	15,282	15,719	437	8,450
Total Operating Revenues	$ 1,196,063	$ 1,297,638	$ 101,575	$ 1,198,889
Operating Expenses:				
Salaries and wages	$ 195,589	$ 168,948	$ 26,641	$ 172,339
Fringe benefits	89,753	85,882	3,871	71,295
General operating expenses	779,264	217,170	562,094	264,581
Fuel farm operations	611,762	569,745	42,017	513,339
Total Operating Expenses	$ 1,676,368	$ 1,041,745	$ 634,623	$ 1,021,554
Net Operating Income (Loss)	$ (480,305)	$ 255,893	$ 736,198	$ 177,335
Nonoperating Revenues (Expenses):				
Interest income	$ 3,500	$ 3,889	$ 389	$ 6,982
Interest expense	(15,403)	(5,062)	10,341	(4,539)
Berrien County grant - capital expenditures	275,000	275,000	-	130,000
State grant - capital expenditures	321	321	-	3,385
Net Nonoperating Income	$ 263,418	$ 274,148	$ 10,730	$ 135,828
NET INCOME (LOSS) FOR THE YEAR	$ (216,887)	$ 530,041	$ 746,928	$ 313,163

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Changes in Net Assets
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	Year Ended June 30, 2004	Year Ended June 30, 2003
Net Assets - Beginning of year	$ 309,286	$ (3,877)
Prior period adjustment - NOTE 12	30,000	-
Adjusted Net Assets - Beginning of year	$ 339,286	$ (3,877)
Net income for the year	530,041	313,163
NET ASSETS - END OF YEAR	$ 869,327	$ 309,286

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Cash Flows
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004	2003
Cash Flows From Operating Activities:		
Received from user charges	$ 1,005,976	$ 911,649
Received from assessments	275,910	267,479
Payments to employees for services	(174,767)	(178,319)
Payments for workers' compensation and fringe benefits	(84,786)	(66,430)
Payments to suppliers for goods and services	(788,334)	(681,266)
Net cash provided by operating activities	$ 233,999	$ 253,113
Cash Flows From Capital and Related Financing Activities:		
Repayment of loan principal	$ (62,962)	$ (65,642)
Interest expense	(5,062)	(4,539)
Nonoperating grants received	275,321	133,385
Acquisition of capital assets	(349,763)	(200,428)
Net cash used by capital and related financing activities	$ (142,466)	$ (137,224)
Cash Flows From Investing:		
Interest on investments	$ 3,889	$ 6,982
Net increase in cash and cash equivalents	$ 95,422	$ 122,871
Cash, cash equivalents, and temporary investments - July 1, 2003	663,898	541,027
Cash, cash equivalents, and temporary investments - June 30, 2004	$ 759,320	$ 663,898
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	$ 255,893	$ 177,335
Adjustment to reconcile operating income (loss) to net cash used by operating activity:		
Depreciation	42,704	44,660
(Increase) Decrease in assets:		
Accounts receivable	(15,752)	(19,761)
Inventory	(9,880)	5,469
Prepaid insurance	(11,435)	(4,841)
Increase (Decrease) in liabilities:		
Accounts payable	(30,025)	44,243
Accrued liabilities	2,494	6,008
Net cash used by operating activities	$ 233,999	$ 253,113

The accompanying notes are an integral part of these financial statements.

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, 2004 consists of the Cities of Benton Harbor and St. Joseph, and the Charter Townships of Lincoln and St. Joseph, 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.

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, when significant in amount, 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

The carrying amount of the deposits held in the Authority's name at financial institutions at June 30, 2004 was $362,895 and the bank balance was $413,694. The bank balance at each financial institution is insured by the FDIC up to $100,000.

Amount insured by the FDIC	$ 100,000
Amount in excess of FDIC insurance limit	313,694
Total Bank Balance	$ 413,694

The investments are held in accounts bearing the Authority's name at an investment brokerage and consist of monies invested in governmental and nongovernmental money funds (a Category 2 type of credit risk). The carrying value and fair market value of the investments is $396,425 as of June 30, 2004.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

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

	Ending Balance June 30, 2003	Additions	Adjustments and Retirements	Ending Balance June 30, 2004
Equipment	$ 258,721	$ 26,440	$ -	$ 285,161
Vehicles	30,252	-	-	30,252
Computers	11,101	1,007	-	12,108
Building improvements	-	3,428	-	3,428
Construction in progress:				
RSA project - AEP line	-	138,050	-	138,050
RSA project - Land acquisition	-	163,085	-	163,085
Closed projects	-	37,963	-	37,963
Land improvements	-	127,174	-	127,174
Land	171,488	2,422	(119,806)	54,104
	$ 471,562	$ 499,569	$ (119,806)	$ 851,325
Less: accumulated depreciation	159,774	42,704	-	202,478
Net property, plant, and equipment	$ 311,788	$ 456,865	$ (119,806)	$ 648,847

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.

There are grants accepted by the Authority in which projects are in progress or not yet started. The local share of these approved grants in progress amounts to an estimate of $13,356. The dates upon which these funds will be due to the State is undeterminable, as billing does not occur until after the project is completed and paperwork is finalized by the State.

NOTE 4 - GRANT PROJECTS IN PROCESS - Continued

In addition to the above grants, the Authority has also entered into a five-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 $660,000. As of June 30, 2004, the Airport's estimated liability for the portion of the project completed is $102,710; however, the Authority has already made payments of $301,135 towards project costs, leaving an overpayment by the Authority of $198,425. This overpayment will be applied to future costs of the project.

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions of the Authority for the year ended June 30, 2004:

		Notes
Balance - July 1, 2003	$	717,254
Additions		-
Retirements and payments		(62,962)
Balance - June 30, 2004	$	654,292
Less current portion		129,044
Long-term portion	$	525,248

Notes payable at June 30, 2004 and 2003 consist of the following:

	2004	2003
Whirlpool Corporation noninterest bearing note, payable $4,377 monthly through July 2015.	$ 577,773	$ 630,297
Chemical Bank 6.02% interest bearing note, payable $824 monthly through November 2004 and a balloon payment for remaining amount due. Secured by hangar #15, rent assignment, and a financing statement on all Airport property.	76,519	81,535
State of Michigan unsecured 5.7% interest bearing note, payable $370 monthly through February 2004.	-	4,377
State of Michigan unsecured 5.7% interest bearing note, payable $88 monthly through February 2004.	-	1,045
Total Notes Payable	$ 654,292	$ 717,254

NOTE 5 - LONG-TERM DEBT- Continued

The annual requirements to amortize all applicable debt outstanding as of June 30, 2004, including interest payments of $2,309 are as follows:

June 30,	Debt	Interest	Total
2005	$ 129,044	$ 2,309	$ 131,353
2006	52,525	-	52,525
2007	52,525	-	52,525
2008	52,525	-	52,525
2009	52,525	-	52,525
2010-2014	262,623	-	262,623
2015	52,525	-	52,525
Total	$ 654,292	$ 2,309	$ 656,601

NOTE 6 - ACCUMULATED DEFICIT

The Southwest Michigan Regional Airport Authority had an accumulated deficit as of June 30, 2002 in the amount of $3,877. The deficit was caused by the transfer of certain assets, remaining outstanding loan balances, and other liabilities from the Southwest Michigan Regional Airport Board to the current Authority when the Authority gained control of the Airport. The amount of the original deficit assumed by the Authority was $1,060,538. As of June 30, 2003, the deficit has been eliminated.

NOTE 7 - 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, 2004 and 2003 was $6,701 and $6,615 respectively.

NOTE 8 - SICK LEAVE

The Southwest Michigan Regional Airport Authority adopted a personnel policy which allows certain employees to be paid for sick leave accumulated as of the adoption of the policy. Upon retirement, an employee will be entitled to payment for the sick leave up to a maximum of 60 days at the employee's straight hourly wage. As of June 30, 2004 and 2003, sick leave has accumulated in the amount of $10,546 and $10,310 respectively.

NOTE 9 - 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, 2004 is $577,773. 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, 2004:

June 30,		
2005	$	74,125
2006		74,124
2007		74,125
2008		74,124
2009		74,125
2010-2014		370,623
2015		74,125
	$	815,371

NOTE 10 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2003, $30,000 was expensed as capital improvements. During the year ended June 30, 2004, it was determined that the $30,000 should have been capitalized as part of the RSA Project - AEP line costs. A prior period adjustment as of June 30, 2004 to correct the recording of this cost was made.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Schedule of Operating Expenses

	Year Ended June 30, 2004	Year Ended June 30, 2003
Operating Expenses:		
Salaries and wages	$ 168,948	$ 172,339
Fringe Benefits	$ 85,882	$ 71,295
General Operating Expenses:		
Auto and travel	$ 933	$ 1,110
Capital improvements	710	56,233
Communication	6,572	8,111
Depreciation	42,704	44,660
Equipment rental	142	3,429
Fuel, oil, and lubricants	9,532	10,432
Insurance	50,252	41,430
Janitorial services	6,126	5,363
Meeting expense	324	383
Memberships and conferences	2,614	3,712
Office supplies	4,281	4,621
Professional services	20,154	11,728
Promotion and marketing	3,046	2,016
Repairs and maintenance	31,385	33,304
Supplies	5,648	7,608
Training	850	1,158
Uniforms	1,488	543
Utilities	29,725	28,136
Miscellaneous	684	604
Total General Operating Expenses	$ 217,170	$ 264,581
Fuel Farm Operations:		
Fuel purchases	$ 561,860	$ 503,255
Repairs and maintenance	658	2,961
Salaries	7,217	7,123
Miscellaneous	10	-
Total Fuel Farm Operations	$ 569,745	$ 513,339
TOTAL OPERATING EXPENSES	$ 1,041,745	$ 1,021,554

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 23, 2004

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OCT - 1 2004
LOCAL AUDIT & FINANCE DIV.

To the Airport Authority Board Members
Southwest Michigan Regional Airport Authority
Benton Harbor, Michigan

In connection with our examination of the books and records of the Southwest Michigan Regional Airport Authority for the year ended June 30, 2004, we offer the following recommendations.

GENERAL

1. The books and records were found to be balanced and well organized.

2. Supporting documentation was readily available for inspection.

3. The Organization'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.
GERBEL & COMPANY, P.C.
Certified Public Accountants