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LOCAL AUDIT & FINANCE DIV.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

FINANCIAL STATEMENTS

June 30, 2005

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, 2005	JULY 15, 2005	October 21, 2005

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.

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 SRTEET	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 2005. 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, 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.

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Significant Events

The Authority is currently involved in land acquisition for Runway Safety Area (RSA) Improvements which represent an increase in Authority assets. The 51 parcels of Area 1 of the RSA is completed. In Area 2 there are 98 parcels which we are currently acquiring, 38 are owner occupied homes and 39 are tenant occupied homes, 15 Vacant Homes and 6 vacant lots. To date 16 home owners relocated to new homes, one owner to senior living facility and one owner to a rental property. Tenant moves to date are 18 tenants to rental properties and 10 to home ownership.

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 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.

With a Michigan Economic Development Grant a new airport entrance road is currently under construction which will make it easier for airport users to access the airport directly off of Business Loop 94 onto Urbandale and drive directly into the airport. This feature will help in attracting new business opportunities here at the airport.

The authority has made several equipment purchases this past year, to give the airport the capability to perform additional maintenance tasks in-house and not have to contract out or rent equipment: With all of the land acquisitions a new farm tractor was purchased to assist in grass cutting and snow removal operations.

The airport personnel are making improvements to the facilities and the property. We have replaced the Terminal roof with a grant from MDOT. We also received a grant from MDOT for Runway Crack & Seal maintenance which helped us preserve runway 9 / 27 and 13 / 31 for a longer life. The Dredge placement site for the St Joseph River Harbor was completed, awaiting dredge material. T-Hangar repairs are ongoing and we continue to try to extend the life of these older facilities.

Financial Highlights

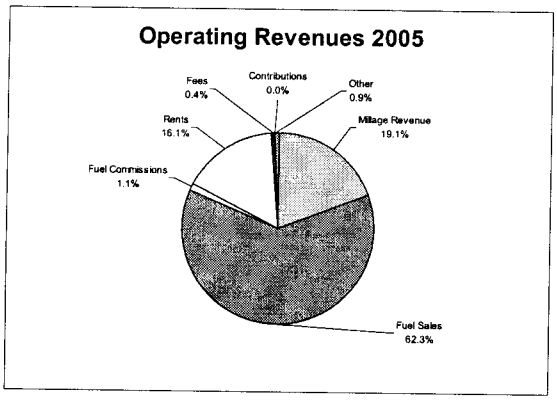
The Authority continues to operate in the black with the full understanding of future planned expenditures and the responsibilities of the Runway Safety Area (RSA) Improvement Projects which are still in the planning stages and project details that need to be finalized. The project costs continue to increase and are updated annually in our 5 year plan. We continue to work with the Federal and State Governments to ensure the timely flow of grant money to complete the required RSA federally mandated requirements.

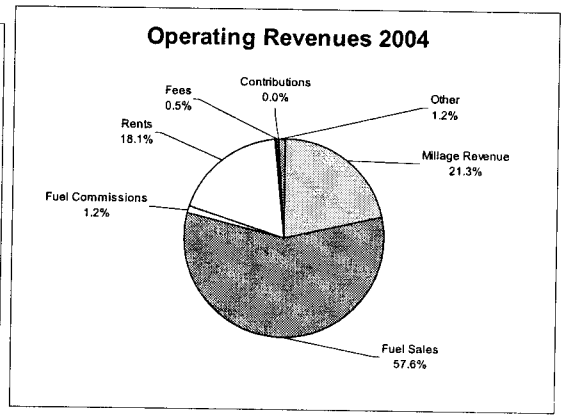
Financial Position

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

REVENUES

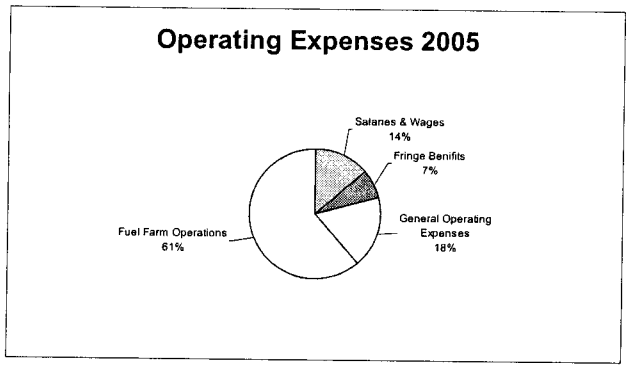
Operating Revenues	2005	2004
Millage Revenue	$ 293,079	$ 275,910
Fuel Sales	957,321	747,843
Fuel Commissions	17,550	16,137
Rents	248,110	235,465
Fees	6,584	6,564
Contributions	-	-
Other	14,243	15,719
Total Operating Revenues	$ 1,536,887	$ 1,297,638

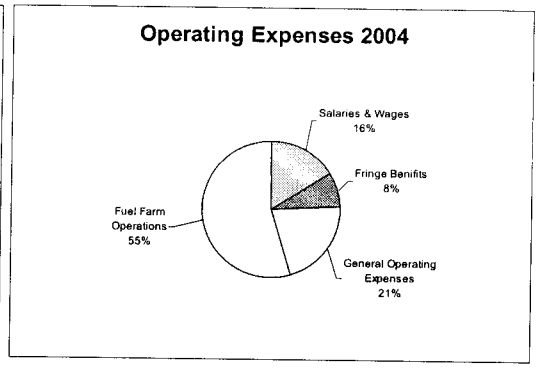




Operating Expenses

	2005	2004
Salaries & Wages	$ 181,863	$ 168,948
Fringe Benefits	92,072	85,882
General Operating Expenses	231,309	217,170
Fuel Farm Operations	804,276	569,745
Total Operating Expenses	$ 1,309,520	$ 1,041,745





Net Assets

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

	2005	2004
Net Assets – Beginning of year	$ 869,327	$ 309,286
Prior period adjustment – NOTE 12		30,000
Adjusted Net Assets – Beginning of the Year	$ 869,327	$ 339,286
Net Income for the Year	231,977	530,041
NET ASSETS – END OF YEAR	$1,101,304	$ 309,286

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

BOARD MEMBERS

Phil Manni St. Joseph Charter Township	Chairperson
Al Todd Lincoln Charter Township	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 15, 2005

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, 2005, 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, 2005, 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 IV 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
Statements of Net Assets

	June 30, 2005	June 30, 2004
ASSETS		
Current Assets:		
Cash	$ 299,665	$ 362,895
Investments	345,579	396,425
Accounts receivable	153,658	100,178
Inventory	31,518	20,331
Prepaid expenses	35,437	39,397
Total Current Assets	$ 865,857	$ 919,226
Property, Plant, and Equipment - NOTE 3 Including accumulated depreciation of $238,865 for 2005 and $202,478 for 2004	887,171	648,847
TOTAL ASSETS	$ 1,753,028	$ 1,568,073
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of notes payable - NOTE 5	$ 52,525	$ 129,044
Accounts payable	97,214	14,218
Accrued payroll	6,039	5,503
Other current liabilities	23,223	24,733
Total Current Liabilities	$ 179,001	$ 173,498
Long-term Liabilities:		
Notes payable - NOTE 5	472,723	525,248
Total Liabilities	$ 651,724	$ 698,746
Net Assets - Unrestricted	1,101,304	869,327
TOTAL LIABILITIES AND NET ASSETS	$ 1,753,028	$ 1,568,073

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, 2005
With Comparative Totals for the Year Ended June 30, 2004

	Budget	2005 Actual	Variance Positive (Negative)	2004 Actual
Operating Revenues:				
Millage revenue	$ 274,000	$ 293,079	$ 19,079	$ 275,910
Fuel sales	820,125	957,321	137,196	747,843
Fuel commissions	18,000	17,550	(450)	16,137
Rents	192,794	248,110	55,316	235,465
Fees	6,626	6,584	(42)	6,564
Contributions	4,970	-	(4,970)	-
Other	17,732	14,243	(3,489)	15,719
Total Operating Revenues	$ 1,334,247	$ 1,536,887	$ 202,640	$ 1,297,638
Operating Expenses:				
Salaries and wages	$ 204,862	$ 181,863	$ 22,999	$ 168,948
Fringe benefits	96,054	92,072	3,982	85,882
General operating expenses	383,087	231,309	151,778	217,170
Fuel farm operations	712,698	804,276	(91,578)	569,745
Total Operating Expenses	$ 1,396,701	$ 1,309,520	$ 87,181	$ 1,041,745
Net Operating Income (Loss)	$ (62,454)	$ 227,367	$ 289,821	$ 255,893
Nonoperating Revenues (Expenses):				
Interest income	$ 2,500	$ 6,741	$ 4,241	$ 3,889
Interest expense	(2,488)	(2,306)	182	(5,062)
Berrien County grant - capital expenditures	-	-	-	275,000
State grant - capital expenditures	-	527	527	321
Loss on sale of assets	2,000	(352)	(2,352)	-
Net Nonoperating Income	$ 2,012	$ 4,610	$ 2,598	$ 274,148
NET INCOME (LOSS) FOR THE YEAR	$ (60,442)	$ 231,977	$ 292,419	$ 530,041

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, 2005
With Comparative Totals for the Year Ended June 30, 2004

	Year Ended June 30, 2005	Year Ended June 30, 2004
Net Assets - Beginning of year	$ 869,327	$ 309,286
Prior period adjustment - NOTE 9	-	30,000
Adjusted Net Assets - Beginning of year	$ 869,327	$ 339,286
Net income for the year	231,977	530,041
NET ASSETS - END OF YEAR	$ 1,101,304	$ 869,327

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, 2005
With Comparative Totals for the Year Ended June 30, 2004

	2005	2004
Cash Flows From Operating Activities:		
Received from user charges	$ 1,190,328	$ 1,005,976
Received from assessments	293,079	275,910
Payments to employees for services	(188,709)	(174,767)
Payments for workers' compensation and fringe benefits	(93,582)	(84,786)
Payments to suppliers for goods and services	(909,613)	(788,334)
Net cash provided by operating activities	$ 291,503	$ 233,999
Cash Flows From Capital and Related Financing Activities:		
Repayment of loan principal	$ (129,044)	$ (62,962)
Interest expense	(2,306)	(5,062)
Nonoperating grants received	527	275,321
Acquisition of capital assets	(283,497)	(349,763)
Sale of capital assets	2,000	-
Net cash used by capital and related financing activities	$ (412,320)	$ (142,463)
Cash Flows From Investing:		
Interest on investments	$ 6,741	$ 3,883
Net increase in cash and cash equivalents	$ (114,076)	$ 95,422
Cash, cash equivalents, and temporary investments - July 1, 2004	759,320	663,898
Cash, cash equivalents, and temporary investments - June 30, 2005	$ 645,244	$ 759,320
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	$ 227,367	$ 255,893
Adjustment to reconcile operating income (loss) to net cash used by operating activity:		
Depreciation	42,821	42,704
(Increase) Decrease in assets:		
Accounts receivable	(53,480)	(15,752)
Inventory	(11,187)	(9,880)
Prepaid insurance	3,960	(11,435)
Increase (Decrease) in liabilities:		
Accounts payable	82,996	(30,025)
Accrued liabilities	(974)	2,494
Net cash used by operating activities	$ 291,503	$ 233,999

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, 2005 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

Deposits and investments are stated at cost. Various state laws authorize the Authority to deposit in federally insured banks, credit unions and savings and loan associations, and to invest in various U.S. government, federal agency, and instrumentality obligations. All deposits are held in the name of Southwest Michigan Regional Airport Authority. The Authority's deposits and investments are in accordance with statutory authority.

Custodial Credit Risk - 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. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2005, the carrying amount of the Authority's deposits was $299,665 and the respective bank balances totaled $387,761. The exposure to custodial credit risk is as follows:

Insured by the FDIC	$	100,000
Uninsured and uncollateralized		287,761

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

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

	Ending Balance June 30, 2004	Additions	Adjustments and Retirements	Ending Balance June 30, 2005
Equipment	$ 285,161	$ 64,816	$ (8,786)	$ 341,191
Vehicles	30,252	-	-	30,252
Computers	12,108	1,948	-	14,056
Building improvements	3,428	13,778	-	17,206
Construction in progress:				
RSA project - AEP line	138,050	-	-	138,050
RSA project - Land acquisition	163,085	142,709	-	305,794
Closed projects	37,963	32,161	-	70,124
Land improvements	127,174	14,678	-	141,852
Land	54,104	13,407	-	67,511
	$ 851,325	$ 283,497	$ (8,786)	$ 1,126,036
Less: accumulated depreciation	202,478	42,821	(6,434)	238,865
Net property, plant, and equipment	$ 648,847	$ 240,676	$ (2,352)	$ 887,171

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 $1,022. 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 $451,803. As of June 30, 2005, the Airport's estimated liability for the portion of the project completed is $244,357; however, the Authority has already made payments of $443,844 towards project costs, leaving an overpayment by the Authority of $199,487. 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, 2005:

		Notes
Balance - July 1, 2004	$	654,292
Additions		-
Retirements and payments		129,044
Balance - June 30, 2005	$	525,248
Less current portion		52,525
Long-term portion	$	472,723

Notes payable at June 30, 2005 and 2004 consist of the following:

	2005	2004
Whirlpool Corporation noninterest bearing note, payable $4,377 monthly through July 2015.	$ 525,248	$ 577,773
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
Total Notes Payable	$ 525,248	$ 654,292

NOTE 5 - LONG-TERM DEBT- Continued

The annual requirements to amortize all applicable debt outstanding as of June 30, 2005, including interest payments of $0 are as follows:

June 30,	Debt	Interest	Total
2006	$ 52,525	$ -	$ 52,525
2007	52,525	-	52,525
2008	52,525	-	52,525
2009	52,525	-	52,525
2010	52,525	-	52,525
2011-2015	262,623	-	262,623
Total	$ 525,248	$ -	$ 525,248

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, 2005 and 2004 was $6,855 and $6,701 respectively.

NOTE 7 - 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, 2005 and 2004, sick leave has accumulated in the amount of $10,819 and $10,546 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, 2005 is $525,248. 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, 2005:

June 30,		
2006	$	74,125
2007		74,125
2008		74,125
2009		74,125
2010		74,125
2011-2015		370,621
	$	741,246

NOTE 9 - 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, 2005	Year Ended June 30, 2004
Operating Expenses:		
Salaries and wages	$ 181,863	$ 168,948
Fringe Benefits	$ 92,072	$ 85,882
General Operating Expenses:		
Auto and travel	$ 707	$ 933
Capital improvements	972	710
Communication	6,601	6,572
Depreciation	42,821	42,704
Equipment rental	193	142
Fuel, oil, and lubricants	13,317	9,532
Insurance	58,676	50,252
Janitorial services	5,974	6,126
Meeting expense	781	324
Memberships and conferences	2,869	2,614
Office supplies	3,898	4,281
Professional services	15,568	20,154
Promotion and marketing	2,152	3,046
Repairs and maintenance	38,735	31,385
Supplies	2,542	5,648
Training	230	850
Uniforms	382	1,488
Utilities	28,360	29,725
Miscellaneous	6,531	684
Total General Operating Expenses	$ 231,309	$ 217,170
Fuel Farm Operations:		
Fuel purchases	$ 794,693	$ 561,860
Repairs and maintenance	2,191	658
Salaries	7,382	7,217
Miscellaneous	10	10
Total Fuel Farm Operations	$ 804,276	$ 569,745
TOTAL OPERATING EXPENSES	$ 1,309,520	$ 1,041,745

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 15, 2005

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, 2005, 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