SOUTHWEST MICHIGAN
REGIONAL AIRPORT AUTHORITY

FINANCIAL STATEMENTS

June 30, 2008

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	SW MICHIGAN REGIONAL AIRPORT	BERRIEN

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
JUNE 30, 2008	JULY 15, 2008	August 22, 2008

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below.** (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	X	
The letter of Comments and Recommendations	X	
Other (Describe)	X	COMMUNICATION OF SIGNIFICANT DEFICIENCIES

Certified Public Accountant (Firm Name)	Telephone Number
GERBEL & COMPANY, P.C., CPA'S	269-983-0534

Street Address	City	State	Zip
830 PLEASANT STREET, P.O. BOX 44	ST. JOSEPH	MI	49085

Authorizing CPA Signature	Printed Name	License Number
Robert L. Gerbel CPA	ROBERT L. GERBEL	3953

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	I-VI
BOARD MEMBERS	1
INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF NET ASSETS	3
STATEMENTS OF REVENUES AND EXPENSES	4
STATEMENTS OF CHANGES IN NET ASSETS	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-12
SUPPLEMENTARY INFORMATION:	
Schedule of Operating Expenses	13

Southwest Michigan Regional Airport

WE ARE HERE TO SERVE YOU!

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 2008. 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

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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.

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

of the RSA consist of 188 parcels with 188 completed at this time. In Area 3 there are 53 parcels with 50 completed at this time, we are currently proceeding in acquisition of these properties.

The total number of displacees relocated to date involved in area 1 & 2 are 122 families. From that 49 home owners moved into new homes, 3 home owners moved into Senior Facilities, 1 home owner moved into a rental facility. There were 28 tenant families that became new home owners; there were 39 tenants that moved into other rental facilities, 1 tenant moved into a Habitat for Humanity new home, and 1 tenant moved in with family.

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.

With a Michigan Economic Development Grant a new airport entrance road is now complete and in use which makes 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 has helped in attracting new business opportunities here at the airport. We have added a new Corporate Hangar and rented out a hangar to a Aircraft Heater Manufacturer who now is installing their product into aircraft that fly in here for that service.

The authority has made several new & used 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. We updated the office computer server, purchased a new laptop computer, new urea spreader attachment for a tractor, a pre-owned replacement for Pickup truck #2, Copier, Turf tiger mower and a flammable storage locker.

We reconditioned the roofs on the C&D hangar and AVSAT hangar extending their usefulness another 20 years. 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.

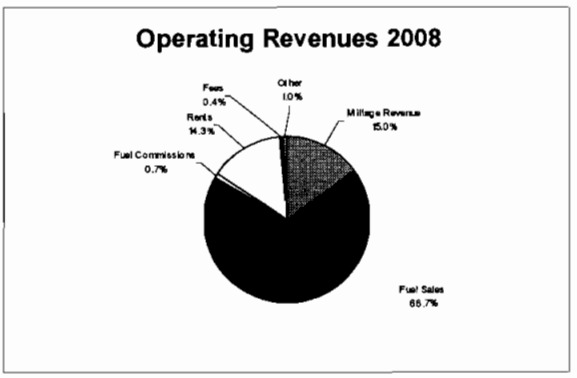
Financial Highlights

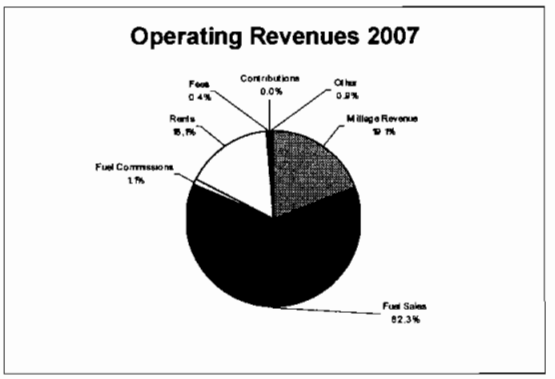
The Authority continues to operate in the black with the full understanding of future planned expenditures and the responsibilities of the Runway Safety Area (RSA) Improvement Projects which are still in the planning stages and project details that need to be finalized. The project costs continue to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

Financial Position

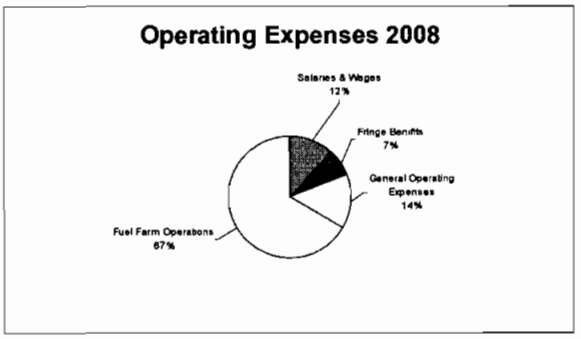
The following represents the Authority's financial position for the year ending June 30:

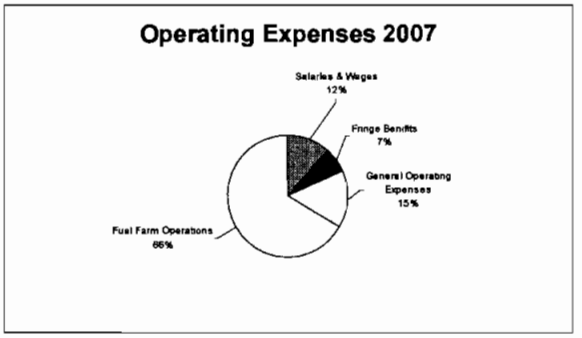
Operating Revenues	2008	2007
Millage Revenue	$ 269,814	$ 332,528
Fuel Sales	1,233,095	1,186,709
Fuel Commissions	12,129	12,661
Rents	256,440	238,791
Fees	6,841	6,193
Other	17,458	20,837
Total Operating Revenues	$ 1,795,777	$ 1,797,719





Operating Expenses	2008	2007
Salaries & Wages	$ 199,873	$ 186,427
Fringe Benefits	118,903	111,158
General Operating Expenses	237,693	236,192
Fuel Farm Operations	1,112,628	1,061,148
Total Operating Expenses	$ 1,669,097	$ 1,594,925





Assets and Liabilities

Assets	2008	2007
Capital Assets	$1,490,031	$1,514,116
Current Assets	1,137,258	976,325
Total Assets	$2,627,289	$2,490,441
Liabilities		
Current Liabilities	$115,131	$108,457
Long Term Liabilities	315,148	367,673
Total Liabilities	$430,279	$476,130

Net Assets

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

	2008	2007
Net Assets – Beginning of year	$2,014,311	$1,574,025
Net Income for the Year	182,699	440,286
Net Assets – End of Year	$ 2,197,010	$2,014,311

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

BOARD MEMBERS

Kevin Luhrs City of St. Joseph	Chairperson
Ted Kalin Royalton Township	Vice-Chairperson
Al Todd Lincoln Township	Secretary
Phil S. Manni St. Joseph Charter Township	Treasurer
Debra Boothby Benton Charter 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 15, 2008

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, 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. 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, 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.

Gerbel & Company, P.C.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Net Assets

	June 30, 2008	June 30, 2007
Assets		
Current Assets:		
Cash	$ 823,157	$ 263,865
Investments	-	416,179
Accounts receivable	219,751	235,509
Inventory	68,231	31,518
Prepaid expenses	26,119	29,254
Total Current Assets	$ 1,137,258	$ 976,325
Property, Plant, and Equipment - NOTE 3		
Including accumulated depreciation of $343,562 for 2008 and $368,795 for 2007	1,490,031	1,514,116
TOTAL ASSETS	$ 2,627,289	$ 2,490,441
Liabilities and Net Assets		
Current Liabilities:		
Current portion of notes payable - NOTE 5	$ 52,525	$ 52,525
Accrued payroll	9,523	6,039
Other current liabilities	53,083	49,893
Total Current Liabilities	$ 115,131	$ 108,457
Long-term Liabilities:		
Notes payable - NOTE 5	315,148	367,673
Total Liabilities	$ 430,279	$ 476,130
Net Assets - Unrestricted	2,197,010	2,014,311
TOTAL LIABILITIES AND NET ASSETS	$ 2,627,289	$ 2,490,441

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, 2008
With Comparative Totals for the Year Ended June 30, 2007

	Budget	2008 Actual	Variance Positive (Negative)	2007 Actual
Operating Revenues:				
Millage revenue	$ 249,889	$ 269,814	$ 19,925	$ 332,528
Fuel sales	1,100,400	1,233,095	132,695	1,186,709
Fuel commissions	15,000	12,129	(2,871)	12,661
Rents	187,919	256,440	68,521	238,791
Fees	6,726	6,841	115	6,193
Other	7,500	17,458	9,958	20,837
Total Operating Revenues	$ 1,567,434	$ 1,795,777	$ 228,343	$ 1,797,719
Operating Expenses:				
Salaries and wages	$ 218,264	$ 199,873	$ 18,391	$ 186,427
Fringe benefits	118,649	118,903	(254)	111,158
General operating expenses	252,721	237,693	15,028	236,192
Fuel farm operations	997,800	1,112,628	(114,828)	1,061,148
Total Operating Expenses	$ 1,587,434	$ 1,669,097	$ (81,663)	$ 1,594,925
Net Operating Income (Loss)	$ (20,000)	$ 126,680	$ 146,680	$ 202,794
Nonoperating Revenues (Expenses):				
Interest income	$ 20,000	$ 39,219	$ 19,219	$ 35,805
Berrien County grant - capital expenditures	-	-	-	195,500
State grant - capital expenditures	-	-	-	312
Gain on sale of assets	-	16,800	16,800	5,875
Net Nonoperating Income	$ 20,000	$ 56,019	$ 36,019	$ 237,492
NET INCOME (LOSS) FOR THE YEAR	$ -	$ 182,699	$ 182,699	$ 440,286

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, 2008
With Comparative Totals for the Year Ended June 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Net Assets - Beginning of year	$ 2,014,311	$ 1,574,025
Net income for the year	182,699	440,286
NET ASSETS - END OF YEAR	$ 2,197,010	$ 2,014,311

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, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008	2007
Cash Flows From Operating Activities:		
Received from user charges	$ 1,541,721	$ 1,517,228
Received from assessments	269,814	332,528
Payments to employees for services	(201,290)	(194,518)
Payments for workers' compensation and fringe benefits	(118,903)	(111,158)
Payments to suppliers for goods and services	(1,320,323)	(1,229,447)
Net cash provided by operating activities	$ 171,019	$ 314,633
Cash Flows From Capital and Related Financing Activities:		
Repayment of loan principal	$ (52,525)	$ (52,525)
Nonoperating grants received	-	195,812
Acquisition of capital assets	(31,400)	(397,538)
Sale of capital assets	16,800	5,875
Net cash used by capital and related financing activities	$ (67,125)	$ (248,376)
Cash Flows From Investing:		
Interest on investments	$ 39,219	$ 35,805
Net increase in cash and cash equivalents	$ 143,113	$ 102,062
Cash, cash equivalents, and temporary investments - Beginning of year	680,044	577,982
Cash, cash equivalents, and temporary investments - End of year	$ 823,157	$ 680,044
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	$ 126,680	$ 202,794
Adjustment to reconcile operating income (loss) to net cash used by operating activity:		
Depreciation	55,485	54,682
(Increase) Decrease in assets:		
Accounts receivable	15,758	52,037
Inventory	(36,713)	-
Prepaid insurance	3,135	6,183
Increase (Decrease) in liabilities:		
Accounts payable	-	(1,063)
Accrued liabilities	6,674	-
Net cash used by operating activities	$ 171,019	$ 314,633

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

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2008

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, 2008 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.

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.

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, 2008, the carrying amount of the Authority's deposits was $823,057 and the respective bank balances totaled $953,290. Of the total bank balance, the FDIC covered $200,000.

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.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

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

	Ending Balance June 30, 2007	Additions	Reimbursements	Adjustments and Retirements	Ending Balance June 30, 2008
Equipment	$ 412,516	$ 8,910	$ -	$ -	$ 421,426
Vehicles	60,783	18,500	-	(30,252)	49,031
Computers	16,956	9,303	-	-	26,259
Building improvements	25,740	21,843	-	-	47,583
Construction in progress:					
RSA project - Land acquisition	412,766	109,979	(244,214)	-	278,531
RSA project - Other	239,581	97,067	-	-	336,648
Closed projects	470,612	34,070	(68,144)	-	436,538
Land improvements	149,275	-	-	-	149,275
Land	69,449	44,086	-	-	113,535
	$ 1,857,678	$ 343,758	$ (312,358)	$ (30,252)	$ 1,858,826
Less: accumulated depreciation	(343,562)	(55,485)	-	30,252	(368,795)
Net property, plant, and equipment	$ 1,514,116	$ 288,273	$ (312,358)	$ -	$ 1,490,031

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 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 $526,375. As of June 30, 2008, the Airport's estimated liability for the portion of the project completed is $258,525; however, the Authority has already made payments of $422,402 towards project costs, leaving an overpayment by the Authority of $163,877. This overpayment will be applied to future costs of completing the project, with any excess being refunded to the Authority.

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions of the Authority for the year ended June 30, 2008:

		Notes
Balance - July 1, 2007	$	420,198
Additions		-
Retirements and payments		52,525
Balance - June 30, 2008	$	367,673
Less current portion		52,525
Long-term portion	$	315,148

Notes payable at June 30, 2008 and 2007 consist of the following:

	2007	2007
Whirlpool Corporation noninterest bearing note, payable $4,377 monthly through July 2015.	$ 367,673	$ 420,198
Total Notes Payable	$ 367,673	$ 420,198

The annual requirements to amortize all applicable debt outstanding as of June 30, 2008, including interest payments of $0 are as follows:

June 30,	Debt	Interest	Total
2009	$ 52,525	$ -	$ 52,525
2010	52,525	-	52,525
2011	52,525	-	52,525
2012	52,525	-	52,525
2013	52,525	-	52,525
2014-2015	105,048	-	105,048
Total	$ 367,673	$ -	$ 367,673

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, 2008 and 2007 was $7,071 and $7,278 respectively.

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, 2008 and 2007, total sick leave for both policies has accumulated in the amount of $26,279 for each year.

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, 2008 is $367,673. 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, 2008:

June 30,	
2009	$ 74,125
2010	74,125
2011	74,125
2012	74,125
2013	74,125
2014-2015	148,246
	$ 518,871

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, 2008, the Airport incurred expenditures in certain budgetary functions which were in excess of the amounts appropriated as follows:

	Activity Appropriation	Activity Expenditures	Negative Budget Activity
Fuel farm operations	$ 997,800	$ 1,112,628	$ (114,828)
Fringe benefits	118,649	118,903	(254)

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Schedule of Operating Expenses

	Year Ended June 30, 2008	Year Ended June 30, 2007
Operating Expenses:		
Salaries and wages	$ 199,873	$ 186,427
Fringe Benefits	$ 118,903	$ 111,158
General Operating Expenses:		
Auto and travel	$ 1,071	$ 1,164
Capital improvements	733	1,126
Communication	5,349	4,877
Depreciation	55,485	54,682
Equipment rental	-	361
Fuel, oil, and lubricants	28,826	18,174
Insurance	43,858	51,086
Janitorial services	6,191	6,325
Meeting expense	478	829
Memberships and conferences	3,076	3,028
Office supplies	3,215	4,044
Professional services	11,351	14,084
Promotion and marketing	1,481	1,894
Repairs and maintenance	31,967	35,656
Supplies	8,530	6,476
Training	-	692
Uniforms	906	576
Utilities	34,600	30,331
Miscellaneous	576	787
Total General Operating Expenses	$ 237,693	$ 236,192
Fuel Farm Operations:		
Fuel purchases	$ 1,102,209	$ 1,046,922
Repairs and maintenance	2,328	5,988
Salaries	8,091	8,091
Miscellaneous	-	147
Total Fuel Farm Operations	$ 1,112,628	$ 1,061,148
TOTAL OPERATING EXPENSES	$ 1,669,097	$ 1,594,925

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, 2008

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, 2008, we offer the following recommendations:

1. During the audit there was one instance in which an invoice could not be located. The Airport was able to obtain a copy from the vendor, but care should be taken to ensure all invoices are available on site.

2. Bank reconciliations should be reviewed for accuracy.

3. Adjusting journal entries should be reviewed prior to being posted to the general ledger.

4. Certificates of deposit should be adjusted at year end to reflect accrued interest.

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

6. Supporting documentation was readily available for inspection.

7. 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.

GERBEL & COMPANY, P.C.
Certified Public Accountants

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July 15, 2008

Communication of Significant Deficiencies That Indicates No Material Weaknesses in Internal Control

To the Board of Directors and Management of the
Southwest Michigan Regional Airport Authority

In planning and performing our audit of the financial statements of the business-type activities and the major fund of Southwest Michigan Regional Airport Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Southwest Michigan Regional Airport Authority's internal control over financial reporting (internal control) 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 Southwest Michigan Regional Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Southwest Michigan Regional Airport Authority's internal control.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined above. However, we identified the following deficiency in internal control that we consider to be a significant deficiency:

1. As of June 30, 2008, millage revenues were not being reconciled with the taxable values and the millage rates. Millage revenues should be reconciled to ensure collection of all tax dollars due to the Airport. This was corrected prior to completion of the audit.

During our audit we noted other matters involving the internal control and its operation that we have reported to management of the Southwest Michigan Regional Airport Authority in a separate letter dated July 15, 2008.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Gerbel & Company, P.C.

GERBEL & COMPANY, P.C.
Certified Public Accountants