

SOUTHWEST MICHIGAN
REGIONAL AIRPORT AUTHORITY

FINANCIAL STATEMENTS

June 30, 2015

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	I-VI
BOARD MEMBERS	1
INDEPENDENT AUDITOR'S REPORT	2-3
STATEMENTS OF NET POSITION	4
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-12
SUPPLEMENTARY INFORMATION:	
Schedule of Operating Expenses	13
Operating Budget and Actual - Cash Basis	14
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15-16
Schedule of Findings	17



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, 2015. 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, and suggestions from users, local businesses and tourism officials, as well as monitoring industry trends and identifying and completing projects.
3. Attain the highest level of financial performance through operational benchmarking to achieve the highest financial return and lowest operational expenditures compared to other like airports and other industry models.
4. Promote and market the use of air transportation facilities and services to assure community awareness and understanding and to maximize utilization.
5. Provide state of the art air transportation facilities.
6. Protect air transportation facilities from non-compatible development.

Overview of the Financial Statements

The Authority's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP). The Authority is structured as a single enterprise fund that reports as a business-type activity, with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and are depreciated (except land and construction in progress) over their useful lives. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

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

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

The **Statement of Revenues, Expenses, and Changes in Net position** presents information showing how the Authority's net position changed during the most recent year. All changes in net position 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

Because of delays with the Federal Aviation Administration the Runway Safety Area (RSA) improvements project forecasted for Runway 14/32 has been slipped into 2016 construction season.

The Next millage renewal is coming up in 2016.

The millage renewal took place in 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 each year. 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.

We started the preparation for Runway 14/32 RSA improvements which will require the removal of approximately 400 feet on the Northwest end. Land acquisition and avigation easements for approach requirements are being assessed as we move forward. Runway 14/32 will be the last identified safety issue needed to comply with FAA Safety Standards. We are also reducing the width from 100 feet wide to 60 feet wide to reduce our future maintenance requirements. When completed, Runway 14/32 will be 3,205 feet long and 60 feet wide with new Runway End Indicator Lights (REIL) and new LED medium intensity runway edge lighting.

The Airport Authority has made several new equipment purchases and equipment repairs this past year. We did some facility upgrades with a newer more energy efficient heating system for the EI LOBO hangar. A new sign for Chaddock Drive was installed to replace the one damaged in a storm. A new (used) vending machine was purchased to replace the aging and no longer properly functioning one. We purchased a new ramp blade for snow removal with our frontend loader. This new plow will increase efficiency and decrease man hours. The Woodland Gate opener was replaced with a new unit to match the others on the field after the original failed.

The airport personnel are making improvements to the facilities and the property. We have continued to make extensive property beautification to the terminal area grounds and entrance roads. T-Hangar repairs are ongoing by the staff as we continue to try to extend the life of these older facilities. The overgrown "forest" located on the corner of Chaddock Drive has been cut back. This provided both beautification and ease of maintenance. Trees on the North end of Runway 14/32 have been cut back to comply with MDOT approach clearance requirements.

Runway 10/28 was re-stripped and the Michigan Air Tour (MAT) came to KBEH on September 19, 2014. We hired a new maintenance supervisor (Patrick Corteville). Operation Good Cheer was held this past year on December 6, 2014. A plane arrived with gifts for foster children from three counties.

We have expanded our agricultural operations. This will cut down on our costs of maintaining grassy areas and increase our profits by renting the acreage to local farmers. This decision was made following extensive research into Ag Ops and their effects on local wildlife. The main concern being will a new potential hazard for aircraft be created. The research showed that soybeans seemed to deter wildlife.

We again hosted the Lest We Forget "Tribute to Veterans & Vietnam Re-Enactments June 19-21, 2015. Over the weekend there were military re-enactments of Vietnam Battles at the airport. This was all supported by Vietnam era helicopters, lots of displays, Medal of Honor recipient guest speakers, and a Bob Hope USO Show. Fiskars donated the use of their hangar for the event again.

Starting July 1, 2015, Vincent DesJardins took over as Airport Director following Lee Scherwitz's retirement.

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 in the planning process for Runway 14/32. This will complete our safety improvements for the airport. The project costs continue to increase and are updated annually in our eight 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.

Budget

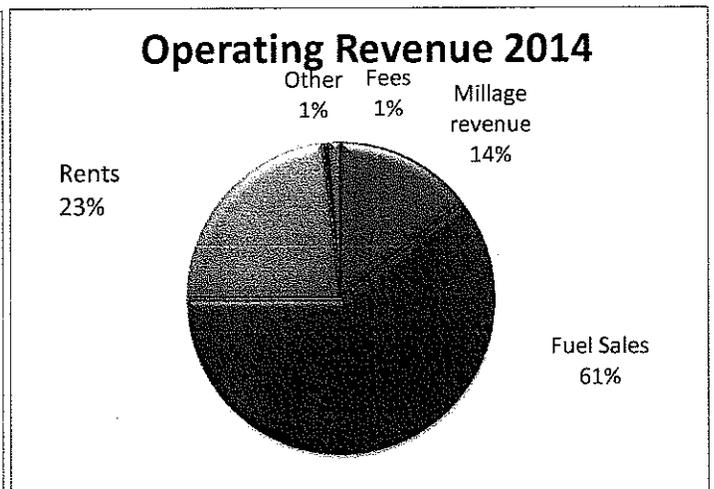
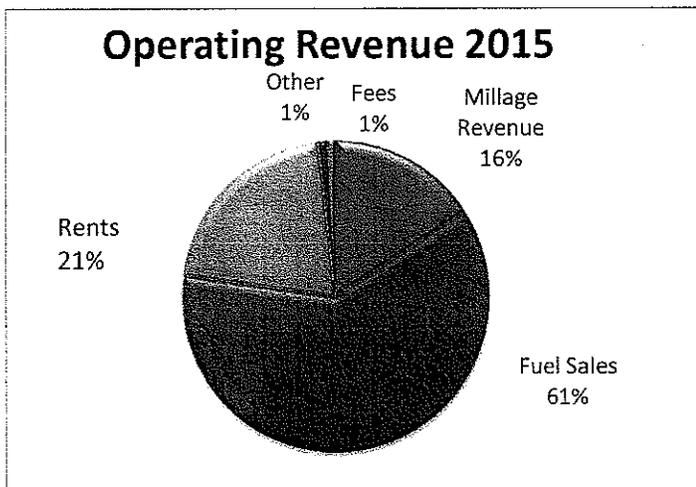
The Airport adopted an operating, capital, and investing budget. The budget is using the cash basis of accounting to better help management with the day to day operations. It is included in the supplementary information of the basic financial statements.

Financial Position

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

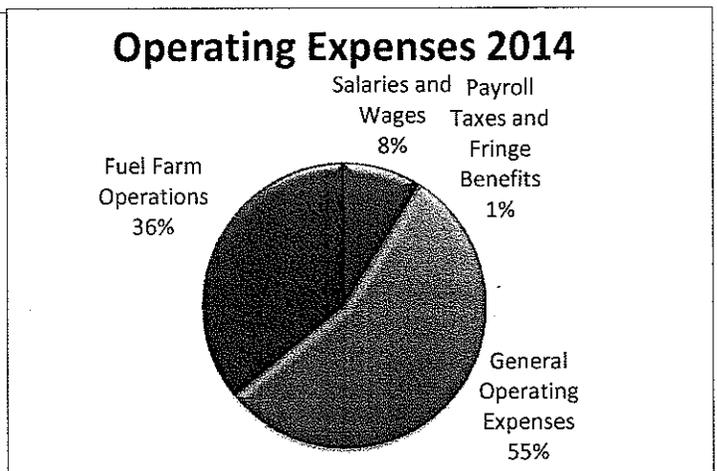
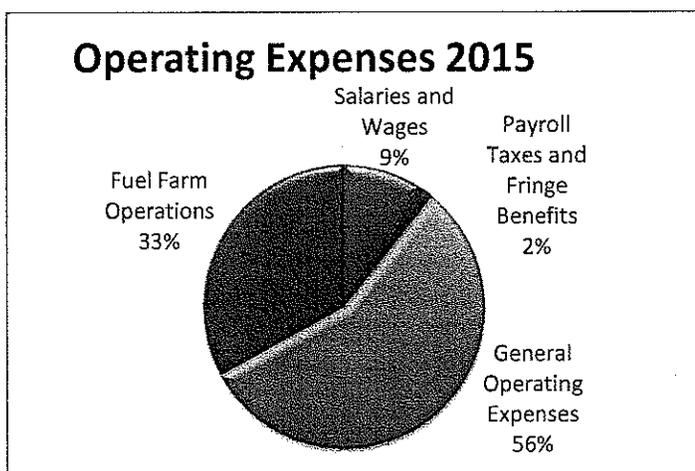
Operating Revenue:

	<u>2015</u>	<u>2014</u>
Millage Revenue	\$ 291,865	\$ 293,561
Fuel Sales	1,140,639	1,231,221
Rents	388,738	468,003
Fees	17,299	13,920
Other	16,333	25,200
	<u>\$ 1,854,874</u>	<u>\$ 2,031,905</u>



Operating Expenses:

	<u>2015</u>	<u>2014</u>
Salaries and Wages	\$ 276,549	\$ 258,967
Payroll Taxes and Fringe Benefits	51,957	16,422
General Operating Expenses	1,703,960	1,696,173
Fuel Farm Operations	999,789	1,101,784
	<u>\$ 3,032,255</u>	<u>\$ 3,073,346</u>



Assets, Liabilities, and Deferred Inflows of Resources

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets	\$ 1,202,745	\$ 1,043,189
Capital Assets	<u>35,085,741</u>	<u>36,554,113</u>
 TOTAL ASSETS	 <u>\$ 36,288,486</u>	 <u>\$ 37,597,302</u>
 Liabilities		
Current Liabilities	<u>\$ 12,138</u>	<u>\$ 23,129</u>
 Deferred Inflows of Resources	 <u>\$ 4,940,000</u>	 <u>\$ 5,070,000</u>

Net Position

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

	<u>2015</u>	<u>2014</u>
Net Position - Beginning of Year	\$ 32,504,173	\$ 33,355,773
Net Loss for the Year	<u>(1,167,825)</u>	<u>(851,600)</u>
 NET POSITION - END OF YEAR	 <u>\$ 31,336,348</u>	 <u>\$ 32,504,173</u>

The following represents the Authority's classification of Net Position at June 30:

	<u>2015</u>	<u>2014</u>
Net investment in capital assets	\$ 30,145,741	\$ 31,484,113
Restricted for capital assets	163,000	163,000
Unrestricted	<u>1,027,607</u>	<u>857,060</u>
 NET POSITION - END OF YEAR	 <u>\$ 31,336,348</u>	 <u>\$ 32,504,173</u>

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY

BOARD MEMBERS

Phil S. Manni St. Joseph Charter Township	Chairman
Brandon Cerecke Lincoln Charter Township	Vice Chairman
Gretchen Gilmore City of St. Joseph	Secretary
Debra Boothby Benton Charter Township	Treasurer
Ted Kalin Royalton Township	Board Member
Sharon Henderson City of Benton Harbor	Board Member



T: 269.983.0534 | Fifth Third Bank Building, Fourth Floor
F: 269.983.7050 | 830 Pleasant Street, P.O. Box 44
www.gerbels.com | St. Joseph, Michigan 49085

July 10, 2015

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Southwest Michigan Regional Airport Authority as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT - Continued

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 of the Southwest Michigan Regional Airport Authority, as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages I through VI be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Michigan Regional Airport Authority's basic financial statements. The budgetary comparison information and schedule of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information and schedule of operating expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2015, on our consideration of the Southwest Michigan Regional Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southwest Michigan Regional Airport Authority's internal control over financial reporting and compliance.

Beibel & Company, P.C.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Net Position

Assets	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash	\$ 944,063	\$ 780,032
Accounts receivable	131,400	153,430
Due from other governments	29,491	11,969
Inventory	76,368	73,775
Prepaid expenses	<u>21,423</u>	<u>23,983</u>
Total Current Assets	\$ 1,202,745	\$ 1,043,189
Capital Assets:		
Nondepreciable assets - NOTE 5	7,935,951	7,926,705
Depreciable assets - NOTE 5		
Including accumulated depreciation of \$5,888,864 for 2015 and \$4,392,441 for 2014	<u>27,149,790</u>	<u>28,627,408</u>
TOTAL ASSETS	<u>\$ 36,288,486</u>	<u>\$ 37,597,302</u>
Liabilities, Deferred Inflows, and Net Position		
Current Liabilities:		
Accrued payroll	\$ 4,697	\$ 6,506
Accounts payable	4,309	8,144
Compensated absences	<u>3,132</u>	<u>8,479</u>
Total Liabilities	<u>\$ 12,138</u>	<u>\$ 23,129</u>
Deferred Inflows <i>W/P</i>	<u>\$ 4,940,000</u>	<u>\$ 5,070,000</u>
Net Position		
Net investment in capital assets	\$ 30,145,741	\$ 31,484,113
Restricted for capital assets:		
Expendable	163,000	163,000
Unrestricted	<u>1,027,607</u>	<u>857,060</u>
Total Net Position	<u>\$ 31,336,348</u>	<u>\$ 32,504,173</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 36,288,486</u>	<u>\$ 37,597,302</u>

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

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

Statements of Revenues and Expenses	For the Year Ended	
	June 30,	
	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Millage revenue	\$ 291,865	\$ 293,561
Fuel sales	1,140,639	1,231,221
Rents	388,738	468,003
Fees	17,299	13,920
Other	<u>16,333</u>	<u>25,200</u>
Total Operating Revenues	<u>\$ 1,854,874</u>	<u>\$ 2,031,905</u>
Operating Expenses:		
Salaries and wages	\$ 276,549	\$ 258,967
Payroll taxes and fringe benefits	51,957	16,422
General operating expenses	1,703,960	1,696,173
Fuel farm operations	<u>999,789</u>	<u>1,101,784</u>
Total Operating Expenses	<u>\$ 3,032,255</u>	<u>\$ 3,073,346</u>
Net Operating Loss	<u>\$ (1,177,381)</u>	<u>\$ (1,041,441)</u>
Nonoperating Revenues (Expenses):		
Interest income	\$ 773	\$ 705
Federal grants	8,321	42,261
State grants	462	2,231
Contributions	-	163,000
Gain (Loss) on sale of fixed assets	<u>-</u>	<u>(18,356)</u>
Net Nonoperating Income	<u>\$ 9,556</u>	<u>\$ 189,841</u>
NET LOSS FOR THE YEAR	<u>\$ (1,167,825)</u>	<u>\$ (851,600)</u>
Statements of Changes in Net Position		
Net Position - Beginning of year	\$ 32,504,173	\$ 33,355,773
Net loss for the year	<u>(1,167,825)</u>	<u>(851,600)</u>
NET POSITION - END OF YEAR	<u>\$ 31,336,348</u>	<u>\$ 32,504,173</u>

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

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Statements of Cash Flows

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Received from user charges	\$ 1,455,039	\$ 1,578,133
Received from assessments	274,343	331,716
Payments to employees for services	(278,358)	(260,700)
Payments for payroll taxes and fringe benefits	(57,304)	(30,344)
Payments to suppliers for goods and services	<u>(1,190,094)</u>	<u>(1,365,920)</u>
 Net cash provided by operating activities	 <u>\$ 203,626</u>	 <u>\$ 252,885</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition of capital assets	\$ (40,368)	\$ (61,743)
Contributions for capital asset	-	163,000
Proceeds from sale of capital assets	<u>-</u>	<u>700</u>
 Net cash provided (used) by capital and related financing activities	 <u>\$ (40,368)</u>	 <u>\$ 101,957</u>
Cash Flows From Investing Activities:		
Interest on investments	<u>\$ 773</u>	<u>\$ 705</u>
 Net increase in cash and cash equivalents	 <u>\$ 164,031</u>	 <u>\$ 355,547</u>
Cash, cash equivalents, and temporary investments - July 1, 2014	<u>780,032</u>	<u>424,485</u>
 Cash, cash equivalents, and temporary investments - June 30, 2015	 <u>\$ 944,063</u>	 <u>\$ 780,032</u>
Reconciliation of Operating Income to Net Cash Used by Operating Activities:		
Operating loss	\$ (1,177,381)	\$ (1,041,441)
Adjustment to reconcile operating income to net cash used by operating activities:		
Depreciation	1,517,523	1,471,622
Advanced rent	(130,000)	(235,050)
(Increase) Decrease in assets:		
Accounts receivable	22,030	68,666
Due from other governments	(17,522)	38,155
Inventory	(2,593)	(11,566)
Prepaid expenses	2,560	84
Increase (Decrease) in liabilities:		
Accounts payable	(3,835)	(23,333)
Unearned revenue	-	(1,971)
Accrued payroll	(1,809)	1,641
Compensated absences	<u>(5,347)</u>	<u>(13,922)</u>
 Net Cash Provided by Operating Activities	 <u>\$ 203,626</u>	 <u>\$ 252,885</u>

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

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2015

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.

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, 2015 consists of the Cities of Benton Harbor and St. Joseph, and the Charter Townships of Lincoln, St. Joseph, and Benton, and Royalton Township, 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.

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	3-10 years
Computers	5 years
Vehicles	5 years
Building improvements	40 years
Land improvements	20 years

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Net Position

The Authority reports three categories of net position, as follows:

Net Investment in Capital Assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increase by balances of deferred outflows of resources to those assets.

Restricted Net Position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the Authority's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted Net Position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the Authority.

The Authority applies restricted resources first when expenses are incurred for purposes for which either restricted or unrestricted amounts are available. As of June 30, 2015, the Authority had a restricted net position of \$163,000 that will be used to rebuild several T-Hangars and a storage facility.

I. Estimates

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

J. Operating and Nonoperating Revenue

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

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K. Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item that qualifies for reporting in this category.

As of June 30, 2015, the \$4,940,000 balance of deferred inflow of resources resulted from deferring the recognition of revenue from the advanced rent payments for the new Whirlpool Corporation hangar. The balance will be recognized as revenue and increase net investment in capital assets over the remaining 39 years of the agreement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loans associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated one financial institution for the deposits of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investments with the state statutory authority as listed above.

The Authority's deposits and investments are subject to one type of risk, as listed below:

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2015 and 2014, the carrying amount of the Authority's deposits was \$944,063 and \$780,032, respectively, and the corresponding bank balances totaled \$1,058,393 and \$852,440, respectively. Of the total bank balance as of June 30, 2015 and 2014, \$808,393 and \$602,440 respectively were uninsured and uncollateralized.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2015

NOTE 3 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-Cash Transactions

During the year ended June 30, 2013, the Authority started a new project for runway 14/32 through grants from the Federal Aviation Administration and the State of Michigan. The State of Michigan is the administrator for the project; therefore, the Authority does not manage the cash transactions. For the years ending June 30, 2015 and 2014, the federal grant received by the State of Michigan was \$8,321 and \$42,261, respectively and the state grant applied towards the contract was \$462 and \$2,231, respectively. The total of this non-cash transaction is \$8,783 and \$44,492, respectively.

During the year ended June 30, 2014, the Authority added an additional hangar for the Whirlpool Corporation in the amount of \$5,200,000. For the year ended June 30, 2015, the remaining portion was \$4,940,000. The hangar was funded directly by the Whirlpool Corporation through advanced rent payments creating a deferred inflow of resources. As of June 30, 2015, the Authority reduced its deferred inflow of resources by \$130,000 by recognizing as operating revenue the advanced rent payment from Whirlpool Corporation.

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.

As of June 30, 2015, the Authority has two open projects involving the extension of its runways and improving airport safety. The Authority contributes 2.5%-5.0% of the total project costs. As of June 30, 2015, the Airport's estimated liability for the portion of the projects completed is \$62,756; however, the Authority has already made payments of \$62,893 towards project costs, leaving an overpayment by the Authority of \$137. This overpayment will be applied to future costs of completing the project, with any excess being refunded to the Authority.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2015

NOTE 5 - CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2015 were as follows:

	Beginning Balance July 1, 2014	Additions	Retirements	Ending Balance June 30, 2015
Government Activities				
Nondepreciable Capital Assets				
Land	\$ 7,873,195	\$ -	\$ -	\$ 7,873,195
Construction in progress	53,510	9,246	-	62,756
Total Nondepreciable Capital Assets	\$ 7,926,705	\$ 9,246	\$ -	\$ 7,935,951
Depreciable Capital Assets				
Equipment	\$ 584,572	\$ 39,905	\$ (21,100)	\$ 603,377
Vehicles	74,365	-	-	74,365
Computers	14,440	-	-	14,440
Building improvements	5,681,159	-	-	5,681,159
Land improvements	26,665,313	-	-	26,665,313
Total Depreciable Capital Assets	\$ 33,019,849	\$ 39,905	\$ (21,100)	\$ 33,038,654
Less Accumulated Depreciation for:				
Equipment	\$ (440,150)	\$ (35,031)	\$ 21,100	\$ (454,081)
Vehicles	(59,587)	(5,067)	-	(64,654)
Computers	(12,258)	(864)	-	(13,122)
Building improvements	(156,594)	(143,295)	-	(299,889)
Land improvements	(3,723,852)	(1,333,266)	-	(5,057,118)
Total Accumulated Depreciation	\$ (4,392,441)	\$ (1,517,523)	\$ 21,100	\$ (5,888,864)
Total Depreciable Capital Assets Net of Accumulated Depreciation	\$ 28,627,408	\$ (1,477,618)	\$ -	\$ 27,149,790
Governmental Activities Total Capital Assets Net of Accumulated Depreciation	\$ 36,554,113	\$ (1,468,372)	\$ -	\$ 35,085,741

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Notes to Financial Statements
June 30, 2015

NOTE 6 - COMPENSATED ABSENCES

The Southwest Michigan Regional Airport Authority adopted a personnel policy which allows employees to accrue and carry over ten days of paid sick leave per calendar year. Sick days may be carried over up to the maximum of thirty accrued sick days only for employees who were employed prior to March 18, 1999. Unused sick days are not paid out at the time of termination/separation.

In addition to sick leave, the Authority adopted a policy for vacation time based on hire date. Unused vacation days do not carry over except for employees who were employed prior to March 18, 1999 who can carry over a maximum of forty hours. As of June 30, 2015 and 2014, total compensated absences has accumulated in the amount of \$3,132 and \$8,479 respectively.

NOTE 7 - MILLAGE REVENUE

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

NOTE 8 - BUDGETS

The Authority adopts both an operating budget and a capital and investing budget on the cash basis of accounting in order to improve management of day to day operations and readability of financial information. The reconciliation between the cash basis actual figures shown on the budget comparison schedule and the accrual basis figures shown on the Statements of Revenues, Expenses, and Changes in Net Position is shown on the Statement of Cash Flows.

For the fiscal year ended June 30, 2015, no operating expenses were over budget.

NOTE 9 - ECONOMIC DEPENDENCY

One of the Authority's customers, Whirlpool Corporation, accounts for 60% of the total operating revenue.

NOTE 10 - SUBSEQUENT EVENT

Management has evaluated subsequent events through July 10, 2015, the date on which the financial statements were available to be issued. There were no material subsequent events.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Schedule of Operating Expenses
For the Year Ended June 30, 2015
With Comparative Totals for the Year Ended June 30, 2014

	<u>Year Ended</u>	
	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Operating Expenses:		
Salaries and Wages	\$ 276,549	\$ 258,967
Payroll Taxes and Fringe Benefits	\$ 51,957	\$ 16,422
General Operating Expenses:		
Auto and travel	\$ 884	\$ 1,334
Capital improvements	964	1,485
Communication	8,623	9,017
Depreciation	1,517,523	1,471,622
Fuel, oil, and lubricants	20,008	32,396
Insurance	35,244	37,334
Janitorial services	4,407	5,141
Meeting expense	1,858	309
Memberships and conferences	6,155	4,678
Office supplies	3,409	5,153
Professional services	17,826	15,102
Promotion and marketing	3,363	1,424
Repairs and maintenance	31,528	46,145
Supplies	2,933	10,045
Training	2,713	759
Uniforms	1,104	1,497
Utilities	36,539	41,630
Miscellaneous	8,879	11,102
Total General Operating Expenses	<u>\$ 1,703,960</u>	<u>\$ 1,696,173</u>
Fuel Farm Operations:		
Fuel purchases	\$ 998,507	\$ 1,096,091
Repairs and maintenance	1,282	2,319
Salaries	-	3,374
Total Fuel Farm Operations	<u>\$ 999,789</u>	<u>\$ 1,101,784</u>
TOTAL OPERATING EXPENSES	<u>\$ 3,032,255</u>	<u>\$ 3,073,346</u>

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Operating Budget and Actual - Cash Basis
For the Year Ended June 30, 2015
With Comparative Totals for the Year Ended June 30, 2014

	<u>Operating Budget</u>	<u>2015 Actual</u>	<u>Variance Positive (Negative)</u>	<u>2014 Actual</u>
Operating Revenues:				
Millage revenue	\$ 297,475	\$ 274,343	\$ (23,132)	\$ 331,716
Fuel sales	1,411,400	1,183,182	(228,218)	1,308,938
Rents	257,196	238,225	(18,971)	230,075
Fees	14,626	17,299	2,673	13,920
Other	<u>14,595</u>	<u>16,333</u>	<u>1,738</u>	<u>25,200</u>
Total Operating Revenues	<u>\$ 1,995,292</u>	<u>\$ 1,729,382</u>	<u>\$ (265,910)</u>	<u>\$ 1,909,849</u>
Operating Expenses:				
Salaries and wages	\$ 329,086	\$ 278,358	\$ 50,728	\$ 257,326
Payroll taxes and fringe benefits	68,733	57,304	11,429	30,344
General operating expenses	268,462	183,877	84,585	224,467
Fuel farm operations	<u>1,281,000</u>	<u>1,002,382</u>	<u>278,618</u>	<u>1,144,827</u>
Total Operating Expenses	<u>\$ 1,947,281</u>	<u>\$ 1,521,921</u>	<u>\$ 425,360</u>	<u>\$ 1,656,964</u>
NET OPERATING INCOME CASH BASIS	<u>\$ 48,011</u>	<u>\$ 207,461</u>	<u>\$ 159,450</u>	<u>\$ 252,885</u>
<u>CAPITAL AND INVESTING BUDGET</u>				
Acquisition of capital assets	\$ (48,811)	\$ (44,203)	\$ 4,608	\$ (61,743)
Proceeds from sale of capital assets	-	-	-	700
Contributions for capital assets	-	-	-	163,000
Interest on investments	<u>800</u>	<u>773</u>	<u>(27)</u>	<u>705</u>
NET INCREASE (DECREASE) - CASH BASIS	<u>\$ (48,011)</u>	<u>\$ (43,430)</u>	<u>\$ 4,581</u>	<u>\$ 102,662</u>
Cash - Beginning of year	<u>\$ 780,032</u>	<u>\$ 780,032</u>	<u>\$ -</u>	<u>\$ 424,485</u>
CASH - END OF YEAR	<u>\$ 780,032</u>	<u>\$ 944,063</u>	<u>\$ 164,031</u>	<u>\$ 780,032</u>



T: 269.983.0534
F: 269.983.7050
www.gerbel.com

Fifth Third Bank Building, Fourth Floor
830 Pleasant Street, P.O. Box 44
St. Joseph, Michigan 49085

July 10, 2015

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Southwest Michigan Regional Airport Authority, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Southwest Michigan Regional Airport Authority's basic financial statements, and have issued our report thereon dated July 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Michigan Regional Airport Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southwest Michigan Regional Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Michigan Regional Airport Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies. 2015-1.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - Continued**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Michigan Regional Airport Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses.

Southwest Michigan Regional Airport Authority's Response to Findings

Southwest Michigan Regional Airport Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Southwest Michigan Regional Airport Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seibel & Company, P.C.

SOUTHWEST MICHIGAN REGIONAL AIRPORT AUTHORITY
Schedule of Findings
Year Ended June 30, 2015

Current Year

Financial Statement Audit Findings

2015-1 Finding Type - Significant Deficiency on Internal Control

Criteria - The size of the staff in charge of financial reporting should be adequate to ensure that proper controls are in place to detect misstatements of the financial statements.

Condition - As is the case with many small entities, the Authority has a small staff who perform multiple job functions. Because of this, there cannot be complete segregation of duties to ensure effective internal controls.

Effect - The Authority's financial statements could potentially have significant undetected misstatements.

Recommendation - The Authority should evaluate its staff size and determine whether or not they feel that staff size is adequate for their needs.

Views of Responsible Officials and Planned Corrective Actions - At this time it is not cost effective for the Authority to hire additional staff members.