

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016



ST. JOSEPH COUNTY AIRPORT AUTHORITY

A COMPONENT UNIT OF ST. JOSEPH COUNTY, INDIANA

Prepared by the Department of Administration and Finance

FILED
09/21/2017

ST. JOSEPH COUNTY AIRPORT AUTHORITY
South Bend, Indiana

FINANCIAL STATEMENT

For the fiscal year ended December 31, 2016

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ST. JOSEPH COUNTY AIRPORT AUTHORITY

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August 31, 2017

To the Members of the Board:

The Annual Financial Report of the St. Joseph County Airport Authority for the fiscal year ended December 31, 2016, is submitted herewith. This report was prepared by the Department of Administration and Finance of the St. Joseph County Airport Authority in conjunction with Crowe Horwath LLP, the Auditor's Office of St. Joseph County, Indiana, and the Indiana State Board of Accounts.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Airport Authority. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Airport Authority; and that all disclosures necessary to enable the reader to gain the maximum understanding of the Airport Authority's financial affairs have been included.

The guidelines recommended by the Government Finance Officers Association of the United States and Canada have been followed in the preparation of this report. One should read this letter of transmittal in conjunction with the Management Discussion and Analysis (MD&A) that is located immediately following the report of the independent auditor in the Financial Section of this report.

THE REPORTING ENTITY

The St. Joseph County Airport Authority (the "Airport Authority") is a municipal corporation established January 1, 1974, by the St. Joseph County, Indiana, Council, under authority granted by Indiana Statute (I.C. 1971 19-6-2 as amended by Chapter 3.5, commonly known as Public Law 304 and superseded by I.C. 8-22-3). The Authority, a component unit of St. Joseph County, has jurisdiction over a special district and was established for the general purpose of acquiring, maintaining, operating, and financing airports and landing fields in St. Joseph County, Indiana; and in connection therewith is authorized, among other things, to issue general obligation and revenue bonds and to levy taxes in accordance with the provisions of the statute. The Airport Authority administers The South Bend International Airport in South Bend, Indiana. The Airport Authority has no stockholders or equity holders and all revenues and other receipts must be disbursed in accordance with such statute. The Authority has no component units. The Airport Authority's bi-partisan Board consists of four members who are appointed by the St. Joseph County Commissioners.

FINANCIAL INFORMATION

Internal Control Structure and Budgetary Controls

In developing and implementing the Airport Authority's accounting system, consideration has been given to the adequacy of internal accounting controls, designing them to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments by management.

We believe that operating within this framework; the Airport Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The accounts of the Airport Authority are maintained in six (6) main funds (Aviation, Cumulative Building, Restricted, PFC, Debt Service and Section 125) as required by state statute for budgetary purposes. Annual budgets are adopted and monthly budget reports are prepared on a cash basis. Appropriations lapse with the expiration of the budgetary period unless encumbered by a purchase order or contract. Encumbered appropriations for purchase orders or contracts are carried over and added to the subsequent year's budget. For external financial reporting purposes, the Airport Authority consolidates its financial activity into an enterprise fund which recognizes expenses when incurred. Thus, this component unit financial report has been prepared using the accrual method of accounting.

The annual operating budget of the Airport Authority is prepared by the staff and reviewed and approved by the Airport Authority Board via resolution. It is then adopted by ordinance by the St. Joseph County Council. The budget is then reviewed by the State Department of Local Government Finance. Prior to adoption by the County Council, the budget is advertised and public hearings are conducted to obtain taxpayer comments.

Audit Function

The records of the St. Joseph County Airport Authority are audited annually at the close of each calendar year by the Indiana State Board of Accounts which also audits federal projects annually. The State Board of Accounts reports its findings regarding federal projects to the Federal Aviation Administration. All financial data is available to the public.

Respectfully submitted,



Executive Director
Mr. Michael A. Daigle, A.A.E



Director of Administration and Finance
Mr. Aaron M. Kobb

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SOUTH BEND INTERNATIONAL AIRPORT
2016 OFFICIALS

Office	Official	Year Appointed	Term Expires
President	Mr. David R. Sage	1991	12/31/2020
Vice President	Dr. Jay Asdell	1913	12/31/2019
Treasurer/Asst. Secretary	Mr. Thomas S. Botkin	2007	12/31/2018
Secretary	Mr. Abraham Marcus	2010	12/31/2017
Executive Director	Mr. Michael A Daigle, A.A.E.		



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE ST. JOSEPH COUNTY AIRPORT
AUTHORITY, ST. JOSEPH COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the St. Joseph County Airport Authority (Airport Authority), a component unit of St. Joseph County, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Airport 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 Airport Authority'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 Airport Authority'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)

Unmodified 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 Airport Authority, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and for the year 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, Schedule of Proportionate Share of Net Pension Liability, Schedule of Contributions, and Schedule of Funding Progress, as listed in the Table of Contents, 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 Airport Authority's basic financial statements. The accompanying Budgetary Comparison Schedule, Budget/GAAP Reconciliation, Schedule of Expenditures of Passenger Facility Charges, Introductory and Trend Sections, and the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.


The Budgetary Comparison Schedule, Budget/GAAP Reconciliation, Schedule of Expenditures of Passenger Facility Charges, and Schedule of Expenditures of Federal Awards 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 been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule, Budget/GAAP Reconciliation, Schedule of Expenditures of Passenger Facility Charges, and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Trend Sections have 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 it.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017, on our consideration of the 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 the Airport Authority's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

August 31, 2017



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*

TO: THE OFFICIALS OF THE ST. JOSEPH COUNTY AIRPORT
AUTHORITY, ST. JOSEPH COUNTY, INDIANA

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 the St. Joseph County Airport Authority (Airport Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Airport Authority's basic financial statements and have issued our report thereon dated August 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Airport Authority'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. We did identify certain deficiencies in internal control, described in item 2016-001 of the accompanying Schedule of Findings and Questioned Costs, that we consider to be a material weakness.

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 the 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

St. Joseph County Airport Authority's Response to Findings

The Airport Authority's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. The 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 Airport Authority'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 Airport Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

August 31, 2017

ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

This Management Discussion and Analysis (MD&A) provides an introduction to the major activities affecting the operations of the South Bend International Airport (Airport) and an introduction and overview of the financial performance and statements of the St. Joseph County Airport Authority (Airport Authority) for the fiscal year ended December 31, 2016. The information contained in this MD&A should be considered in conjunction with the information contained in the Letter of Transmittal included in the Introduction Section and various historical summaries of activities and financial performance included in the Statistical and Compliance Sections of this report.

Following this MD&A are the basic financial statements of the Airport Authority together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. In addition to the basic financial statements and accompanying notes, this section also presents certain **Required Supplementary Information (R.S.I.)**. The R.S.I. is followed by **Supplemental Financial Information**, which includes budgetary comparison schedules, a reconciliation of our budget to Generally Accepted Accounting Principles (G.A.A.P.), and a schedule of expenditures of Passenger Facilities Charges.

AIRPORT ACTIVITIES & HIGHLIGHTS

As of December 31, 2016, the Airport provided non-stop flights to 10 cities: Atlanta, Chicago, Detroit, Las Vegas, Minneapolis, New York City/Newark, Orlando/Sanford, Phoenix/Mesa, Punta Gorda, and Tampa /St. Petersburg with connections world-wide. The Airport's multi-modal terminal serves approximately one million air, rail, and bus passengers each year. Three (3) major passenger carriers (Allegiant, Delta, and United) were all represented either by the carrier itself or through a regional partner. In some cases, more than one company contracted with the national carrier for this purpose.

The Airport offers a lower than average rate structure to the airlines, thus making the Airport an attractive choice from a cost standpoint. From a passenger standpoint, the convenience of using the less congested security check point, plus competitive fares, while saving on time, gas, parking, and tolls compared to larger neighboring airports, places South Bend International Airport in an increasingly favorable position in the national airport system.

In addition, thanks to the multi-modal nature of the Airport, the facility continues to house the South Shore inter-urban electric rail service (NICTD), which provides travel between South Bend and downtown Chicago (Millennium Station). The airport also provides several interstate and intrastate-commercial bus line options, including Greyhound, with the Airport serving as an originating or terminating station. Additionally Coach USA provides alternative transportation connections to other communities in Indiana and Illinois, as well as Chicago's Midway and O'Hare International Airports.

In 2016, South Bend International (SBN) continued to expand its impact and importance to the regional economy. SBN added a second daily flight to the New York Metro market via Newark, NJ which will continue seasonally again in the Fall of 2017. 2016 also saw the substantial completion of a new Federal Inspection Station (FIS) / General Aviation Facility (GAF). The addition of the FIS/GAF brings Custom and Board Protection (CBP) staff on site, which allows SBN to develop new service opportunities such as; international leisure and business air service and expanded cargo capabilities. Recently, the local market has boomed with the construction of distribution facilities. SBN continues to explore opportunities to capture additional revenue by offering services which will attract domestic and international cargo operations located nearby.

Looking forward, NICTD has applied to the federal government and received commitments from regional municipalities for funding to double track portions of the route between downtown Chicago (Millennium Station) and SBN. In addition to the double tracking, the City of South Bend has committed to support the relocation of the train station to the west side of the airport terminal. Together, these

ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

projects would reduce the commute times to 90 minutes each way. NICTD projects this development to increase ridership volume and revenues. The double track project has growth potential for the Airport Authority and surrounding region.

Below outlines the Airport Authority 2016 Annual statistical report. The report is a comparative analysis of 3 years of numbers, which calculates increase and decrease percentages by comparing the current year versus the previous year.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

2016 COMPOSITE STATISTIC CHART



	Airline Enplanements					Aircraft Landed Weight					Air Cargo					Aircraft Operations				
	2014	2015	2016	Diff.	%	2014	2015	2016	Diff.	%	2014	2015	2016	Diff.	%	2014	2015	2016	Diff.	%
Jan.	19,364	20,950	21,784	834	3.98%	34,638,633	34,772,652	36,687,174	1,914,522	5.51%	2,284,129	2,098,521	2,139,612	41,091	1.96%	1,531	2,118	2,299	181	8.55%
Feb.	21,409	23,619	24,248	629	2.66%	32,919,243	35,752,757	36,711,899	959,142	2.68%	2,186,479	1,982,029	2,235,693	253,664	12.80%	2,039	2,076	2,507	431	20.76%
March	31,285	32,671	31,107	-1,564	-4.79%	43,353,768	46,639,832	45,555,432	-1,084,400	-2.33%	2,237,109	2,091,126	2,174,484	83,358	3.99%	2,681	2,916	3,235	319	10.94%
April	26,621	26,834	27,055	221	0.82%	40,950,483	38,818,535	39,182,485	363,950	0.94%	2,242,416	2,246,031	1,989,256	-256,775	-11.43%	2,929	3,062	3,466	404	13.19%
May	26,402	24,791	27,050	2,259	9.11%	40,339,561	39,040,896	39,298,291	257,395	0.66%	2,369,326	2,225,111	1,797,724	-427,387	-19.21%	2,844	3,252	3,175	-77	-2.37%
June	27,605	26,927	28,744	1,817	6.75%	39,385,268	39,879,119	41,271,198	1,392,079	3.49%	2,127,922	2,429,641	1,949,166	-480,475	-19.78%	2,942	3,009	3,644	635	21.10%
July	27,893	28,250	28,722	472	1.67%	39,315,789	40,743,981	39,543,471	-1,200,510	-2.95%	2,252,896	2,570,119	1,840,510	-729,609	-28.39%	3,497	3,279	3,751	472	14.39%
Aug.	25,398	26,057	27,247	1,190	4.57%	39,140,946	38,374,476	38,801,916	427,440	1.11%	2,367,542	2,315,735	1,991,475	-324,260	-14.00%	3,441	2,844	3,190	346	12.17%
Sept.	22,339	25,214	28,658	3,444	13.66%	34,922,720	38,678,848	41,009,502	2,330,654	6.03%	2,226,491	2,547,048	2,125,743	-421,305	-16.54%	3,504	3,610	3,834	224	6.20%
Oct.	25,210	28,379	31,299	2,920	10.29%	38,014,270	41,834,156	44,396,260	2,562,104	6.12%	2,475,675	2,562,100	2,093,620	-468,480	-18.29%	3,502	3,403	4,073	670	19.69%
Nov.	24,669	24,861	26,492	1,631	6.56%	38,491,632	37,528,439	39,867,829	2,339,390	6.23%	2,007,529	2,065,886	2,027,636	-38,250	-1.85%	2,520	3,054	2,999	-55	-1.80%
Dec.	23,683	25,747	26,491	744	2.89%	35,513,998	39,574,693	39,635,692	60,999	0.15%	2,136,072	2,583,764	2,291,585	-292,179	-11.31%	2,073	2,290	2,082	-208	-9.08%
Ann. Totals	301,878	314,300				456,986,311	471,638,384				26,913,586	27,717,111				33,503	34,913			
YTD	301,878	314,300	328,897	14,597	4.64%	456,986,311	471,638,384	481,961,149	10,322,765	2.19%	26,913,586	27,717,111	24,656,504	-3,060,607	-11.04%	33,503	34,913	38,255	3,342	9.57%

Comments:

South Bend Chocolate (Restaurant/Gift Shop) - New Concessionaire 6/1/2014
 September 2014 - 50 flight cancellations due to fire at Aurora ATC.
 United - first daily direct flight to EWR 10/27/2014
 CSA cargo operations for January - May of 2015 were not reported until May, affecting the numbers for Landed Weight, Air Cargo, and Aircraft Operations.
 April & May 2016 - Estimates were originally used for FedEx due to program problems, correct numbers were received in June for April, May & June

(Continued)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

2016 COMPOSITE STATISTIC CHART



	Aviation Fuel Flowage - Gallons					Car Rental - Gross Sales					Restaurant/Gift Shop - Gross Sales					Republic Parking - Gross Sales				
	2014	2015	2016	Diff.	%	2014	2015	2016	Diff.	%	2014	2015	2016	Diff.	%	2014	2015	2016	Diff.	%
Jan.	334,419	390,967	396,160	5,193	1.33%	\$531,518	\$594,979	\$548,027	-\$46,952	-7.89%	\$86,630	\$110,917	\$116,368	\$5,451	4.91%	\$234,124	\$251,739	\$262,707	\$10,968	4.36%
Feb.	375,172	392,688	379,402	-13,286	-3.38%	\$611,767	\$585,933	\$595,703	9,770	1.67%	\$99,411	\$131,990	\$136,196	\$4,206	3.19%	\$245,499	\$262,170	\$274,779	\$12,609	4.81%
March	502,409	571,238	519,204	-52,034	-9.11%	\$723,392	\$693,886	\$675,809	-18,077	-2.61%	\$126,483	\$162,702	\$163,064	\$362	0.22%	\$342,752	\$363,277	\$342,057	-\$21,220	-5.84%
April	472,717	472,442	434,773	-37,669	-7.97%	\$744,063	\$788,384	\$902,408	114,024	14.46%	\$99,794	\$138,356	\$151,133	\$12,777	9.23%	\$291,535	\$310,230	\$308,515	-\$1,715	-0.55%
May	425,069	443,737	451,570	7,833	1.77%	\$871,256	\$824,157	\$938,885	114,728	13.92%	\$113,437	\$135,973	\$141,593	\$5,620	4.13%	\$265,652	\$254,118	\$272,120	\$18,002	7.08%
June	447,594	456,312	481,037	24,725	5.42%	\$861,318	\$934,993	\$1,074,405	139,412	14.91%	\$115,927	\$140,681	\$144,623	\$3,942	2.80%	\$256,051	\$247,260	\$261,442	\$14,182	5.74%
July	442,595	509,142	486,341	-22,801	-4.48%	\$1,033,283	\$1,112,974	\$1,142,352	29,378	2.64%	\$131,351	\$155,599	\$153,130	-\$2,469	-1.59%	\$236,193	\$242,779	\$250,821	\$8,042	3.31%
Aug.	455,883	488,694	461,631	-27,063	-5.54%	\$1,067,461	\$1,128,760	\$1,146,767	18,007	1.60%	\$134,971	\$150,923	\$154,113	\$3,190	2.11%	\$229,085	\$240,787	\$259,745	\$18,958	7.87%
Sept.	479,938	567,797	614,632	46,835	8.25%	\$925,866	\$1,062,665	\$1,099,364	\$36,699	3.45%	\$114,907	\$154,291	\$158,866	\$4,575	2.97%	\$221,443	\$221,272	\$257,237	\$35,965	16.25%
Oct.	534,390	572,831	598,280	25,449	4.44%	\$951,955	\$1,004,687	\$1,037,609	\$32,922	3.28%	\$137,014	\$162,941	\$172,221	\$9,280	5.70%	\$249,313	\$278,829	\$303,379	\$24,550	8.80%
Nov.	436,487	470,471	441,634	-28,837	-6.13%	\$727,795	\$679,332	\$724,608	\$45,276	6.66%	\$134,663	\$140,234	\$144,617	\$4,383	3.13%	\$244,091	\$264,016	\$266,759	\$2,743	1.04%
Dec.	382,780	442,969	450,296	7,327	1.65%	\$621,483	\$638,042	\$722,569	\$84,527	13.25%	\$128,853	\$146,090	\$150,272	\$4,182	2.86%	\$226,411	\$234,565	\$252,605	\$18,040	7.69%
Ann. Totals	5,289,453	5,779,288				\$9,671,157	\$10,048,792				\$1,423,442	\$1,730,697				\$3,042,150	\$3,171,043			
YTD	5,289,453	5,779,288	5,714,960	-64,328	-1.11%	\$9,671,157	\$10,048,792	\$10,608,506	\$559,714	5.57%	\$1,423,442	\$1,730,697	\$1,786,196	\$55,499	3.21%	\$3,042,150	\$3,171,043	\$3,312,165	\$141,122	4.45%

Comments:

South Bend Chocolate (Restaurant/Gift Shop) - New Concessionaire 6/1/2014
 September 2014 - 50 flight cancellations due to fire at Aurora ATC.
 United - first daily direct flight to EWR 10/27/2014
 CSA cargo operations for January - May of 2015 were not reported until May, affecting the numbers for Landed Weight, Air Cargo, and Aircraft Operations.

(Continued)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

2016 COMPOSITE STATISTIC CHART



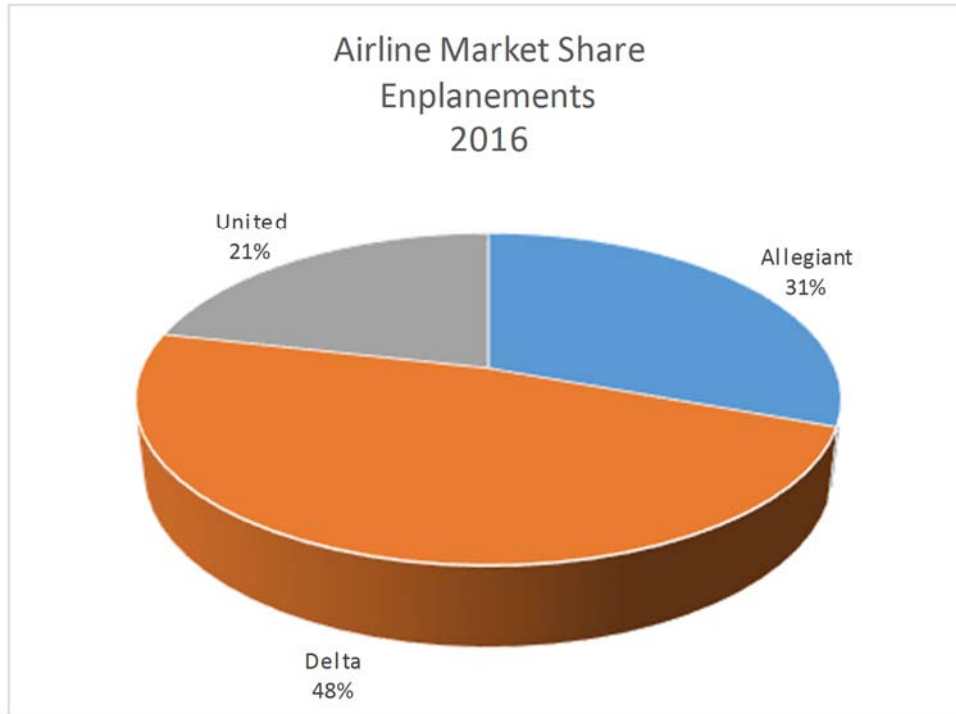
	South Shore Passengers					South Shore Ops.					Bus Passengers				
	2014	2015	2016	Diff.	%	2014	2015	2016	Diff.	%	2014	2015	2016	Diff.	%
Jan.	13,973	14,522	14,935	413	2.84%	199	207	206	-1	-0.48%	3,498	2,665	2,724	59	2.21%
Feb.	15,664	15,750	15,708	-42	-0.27%	188	188	188	0	0.00%	2,281	2,085	2,295	210	10.07%
March	19,725	19,077	19,040	-37	-0.19%	207	208	203	-5	-2.40%	2,669	2,460	2,683	223	9.07%
April	23,667	22,950	20,090	-2,860	-12.46%	202	202	201	-1	-0.50%	2,712	2,524	2,639	115	4.56%
May	21,254	20,356	19,598	-758	-3.72%	207	206	206	0	0.00%	3,129	2,904	2,841	-63	-2.17%
June	21,453	20,161	20,209	48	0.24%	201	202	202	0	0.00%	3,430	3,063	3,057	-6	-0.20%
July	26,685	26,640	26,787	147	0.55%	208	209	206	-3	-1.44%	3,411	3,580	3,386	-194	-5.42%
Aug.	24,712	22,234	21,219	-1,015	-4.57%	207	207	209	2	0.97%	3,343	3,371	3,145	-226	-6.70%
Sept.	17,620	21,946	20,001	-1,945	-8.86%	201	201	201	0	0.00%	2,458	2,679	2,692	13	0.49%
Oct.	20,627	22,901	21,618	-1,283	-5.60%	209	208	207	-1	-0.48%	2,538	3,044	2,585	-459	-15.08%
Nov.	22,344	19,742	21,861	2,119	10.73%	199	200	201	1	0.50%	4,762	2,796	2,714	-82	-2.93%
Dec.	23,702	22,227	22,854	627	2.82%	208	208	207	-1	-0.48%	3,084	3,223	3,384	161	5.00%
Ann. Totals	251,426	248,506				2,436	2,446				37,315	34,394			
YTD	251,426	248,506	243,920	-4,586	-1.85%	2,436	2,446	2,437	-9	-0.37%	37,315	34,394	34,145	-249	-0.72%

Comments:

South Bend Chocolate (Restaurant/Gift Shop) - New Concessionaire 6/1/2014
 September 2014 - 50 flight cancellations due to fire at Aurora ATC.
 United - first daily direct flight to EWR 10/27/2014
 CSA cargo operations for January - May of 2015 were not reported until May, affecting the numbers for Landed Weight, Air Cargo, and Aircraft Operations.

(Continued)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2016



Airline Market Share Comparison

	<u>2016</u>	<u>2015</u>	<u>Difference</u>	<u>Change %</u>
Allegiant	98,652	97,663	989	1.01%
Delta	154,672	142,483	12,189	8.55%
United	<u>69,313</u>	<u>67,197</u>	<u>2,116</u>	<u>3.15%</u>
Totals	<u><u>322,637</u></u>	<u><u>307,343</u></u>	<u><u>15,294</u></u>	<u><u>4.98%</u></u>

(Continued)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

FINANCIAL HIGHLIGHTS

Net Position

	<u>2016</u>	<u>2015</u>	<u>Increase/Decrease</u>	
			<u>Amount</u>	<u>Percent</u>
Assets and Deferred Outflows of Resources				
Current and Other Assets	\$ 13,224,944	\$ 13,796,538	\$ (571,594)	-4.14%
Capital Assets	89,855,328	82,553,445	7,301,883	8.85%
Deferred Outflows of Resources	1,358,426	1,093,798	264,628	24.19%
Total Assets and Deferred Outflows of Resources	<u>104,438,698</u>	<u>97,443,781</u>	<u>6,994,917</u>	<u>7.18%</u>
Liabilities and Deferred Inflows of Resources				
Current and Other Liabilities	2,464,564	2,569,884	(105,320)	-4.10%
Long-Term Liabilities Outstanding	14,019,236	14,740,221	(720,985)	-4.89%
Deferred Inflows of Resources	308,886	393,034	(84,148)	-21.41%
Total Liabilities and Deferred Inflows of Resources	<u>16,792,686</u>	<u>17,703,139</u>	<u>(910,453)</u>	<u>-5.14%</u>
Net Position				
Net Investment in Capital Assets	78,537,444	71,311,416	7,226,028	10.13%
Restricted	3,350,238	2,829,135	521,103	18.42%
Unrestricted	5,758,330	5,600,091	158,239	2.83%
Total Net Position	<u>\$ 87,646,012</u>	<u>\$ 79,740,642</u>	<u>\$ 7,905,370</u>	<u>9.91%</u>

Total assets and deferred outflows of resources increased by \$7.0 million due to the Authority placing significant capital construction costs incurred during the fiscal year into construction in progress. Total liabilities and deferred inflows of resources decreased by \$0.9 million due to the Authority paying down its bonds as scheduled. The resulting increase in net position of \$7.9 million is the net result of these two major items.

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

Changes in Net Position

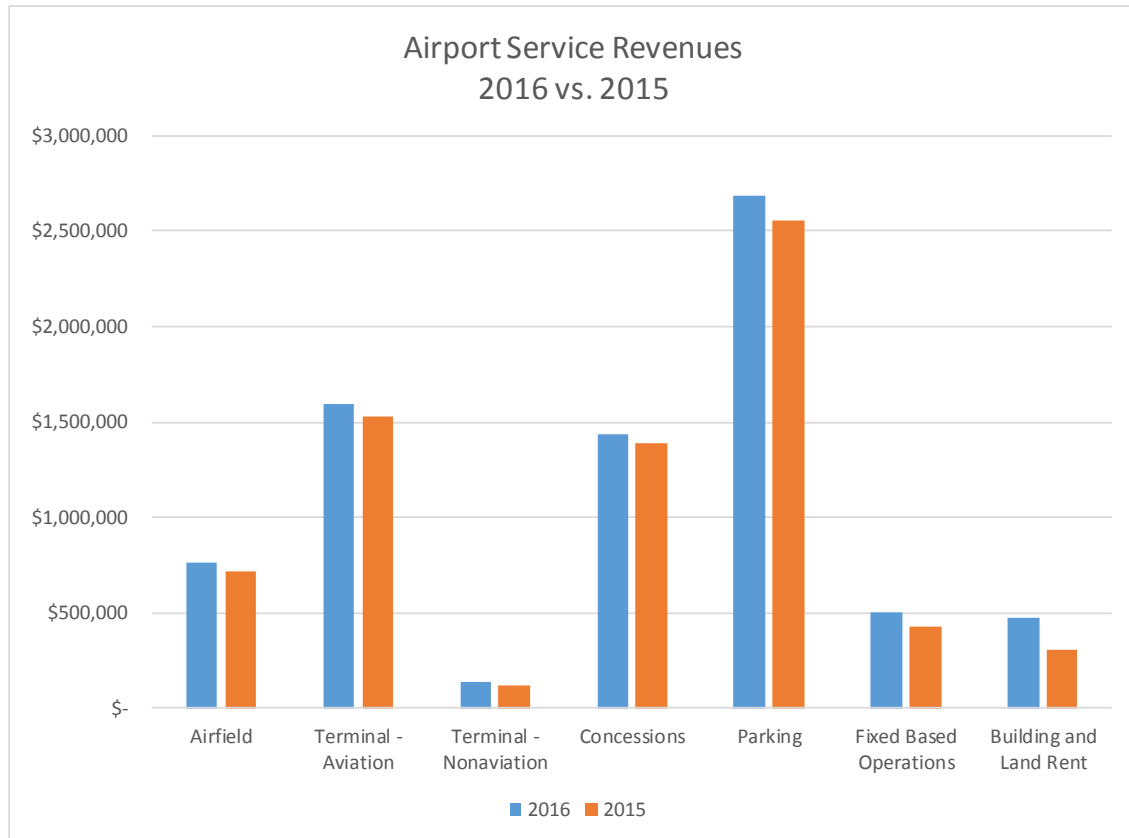
	2016	2015	Increase/Decrease	
			Amount	Percent
Operating Revenues				
Airport Service Revenues				
Airfield	\$ 765,204	\$ 716,108	\$ 49,096	6.86%
Terminal - Aviation	1,597,758	1,525,343	72,415	4.75%
Terminal - Nonaviation	142,353	115,954	26,399	22.77%
Concessions	1,436,479	1,390,394	46,085	3.31%
Parking	2,680,569	2,551,298	129,271	5.07%
Fixed Based Operations	502,448	425,101	77,347	18.19%
Building and Land Rent	477,983	311,083	166,900	53.65%
Total Airport Service Revenues	7,602,794	7,035,281	567,513	8.07%
Other	13,000	3,000	10,000	333.33%
Total Operating Revenues	7,615,794	7,038,281	577,513	8.21%
Operating Expenses				
Personal Services	4,777,184	4,929,934	(152,750)	-3.10%
Supplies	665,317	736,469	(71,152)	-9.66%
Other Services and Charges	2,660,041	3,290,097	(630,056)	-19.15%
Depreciation	3,405,519	3,208,875	196,644	6.13%
Total Operating Expenses	11,508,061	12,165,375	(657,314)	-5.40%
Operating Loss	(3,892,267)	(5,127,094)	1,234,827	-24.08%
Nonoperating Revenues				
Property Taxes	2,527,146	2,256,861	270,285	11.98%
Other Tax Distributions	710,580	509,765	200,815	39.39%
Interest and Investment Revenue	19,554	9,963	9,591	96.27%
Property Management Revenue	526,419	281,952	244,467	86.71%
Federal Operating Grant	112,226	12,098	100,128	827.64%
Other Revenue	49,614	310,005	(260,391)	-84.00%
Total Nonoperating Revenues	3,945,539	3,380,644	564,895	16.71%
Nonoperating Expenses				
Interest Expense	465,836	444,183	21,653	4.87%
Property Management Expense	-	150,541	(150,541)	-100.00%
Loss on Disposal of Capital Assets	-	1,055,552	(1,055,552)	-100.00%
Bond Issuance Costs	-	79,399	(79,399)	-100.00%
Amortization Expense	17,728	23,456	(5,728)	-24.42%
Total Nonoperating Expenses	483,564	1,753,131	(1,269,567)	-72.42%
Loss Before Contributions	(430,292)	(3,499,581)	3,069,289	-87.70%
Capital Contributions	6,939,705	4,499,206	2,440,499	54.24%
Passenger Facility Charge Revenue	1,395,957	1,291,355	104,602	8.10%
Change in Net Position	7,905,370	2,290,980	5,614,390	245.06%
Total Net Position - Beginning	79,740,642	79,036,257	704,385	0.89%
Prior Period Restatement	-	(1,586,595)	1,586,595	-100.00%
Total Net Position - Ending	\$ 87,646,012	\$ 79,740,642	\$ 7,905,370	9.91%

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

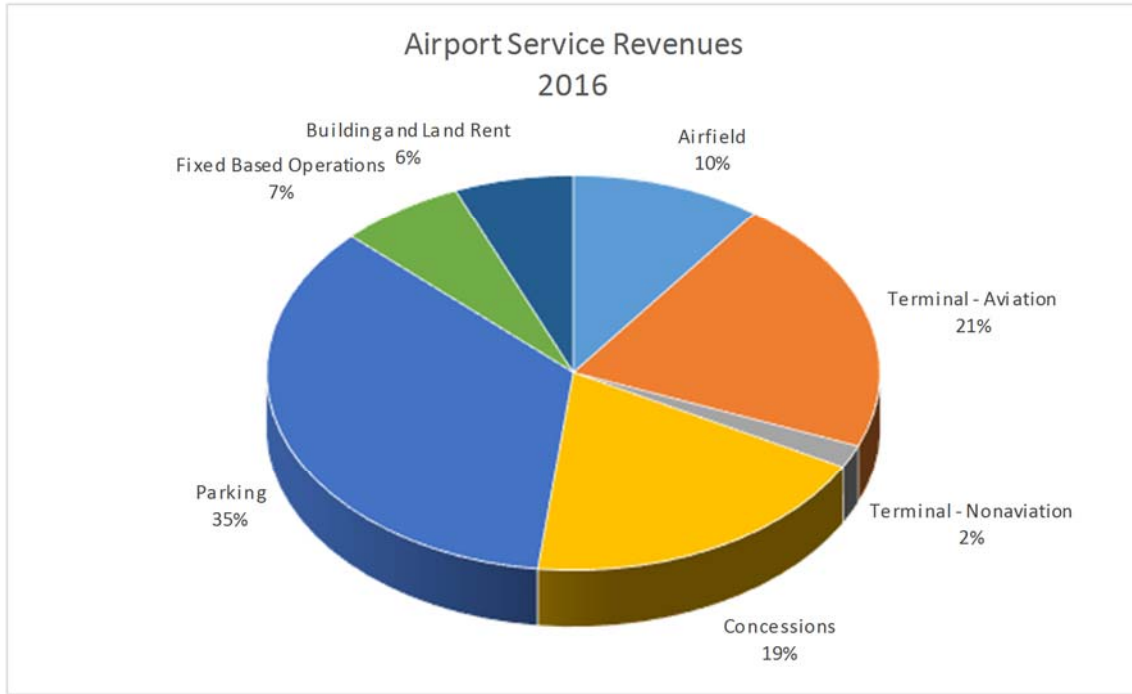
Revenue

Total operating and non-operating revenues increased by 10.96% over 2015 revenues. These increases do not include changes in Capital Contributions and Passenger Facility Charge (P.F.C.) Revenue. Total Operating Revenue increased by 8.21% compared to 2015 levels. Airport Service Revenue increased by 8.07% and consisted of Airfield, Terminal, Concessions, Parking, Fixed Base Operations, and Building and Land Rental Revenues. The Airfield category, which was composed primarily of landing fees (\$1.17 per thousand pounds of aircraft landed weight) and fuel flowage fees, increased by 6.86%. Terminal Rental Revenue received from the airlines increased by 4.75% in 2016. Terminal Non-Aviation Rental Revenue increased by 22.77% in 2016. Concession Revenue increased by 3.31% and Parking Revenue increased by 5.07%. Fixed Base Operations Revenue, a component of General Aviation activity, increased 18.19%. Other Building and Land Rental on the airfield increased by 53.65%. Non-Operating Revenues increased by 16.71% due primarily to an increase in Property Management Revenue. Property Management Revenue increased by 86.71%. Passenger Facility Charge (P.F.C.) Revenues increased in 2016 by 8.10%, as a result of an increase in passenger traffic.



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ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

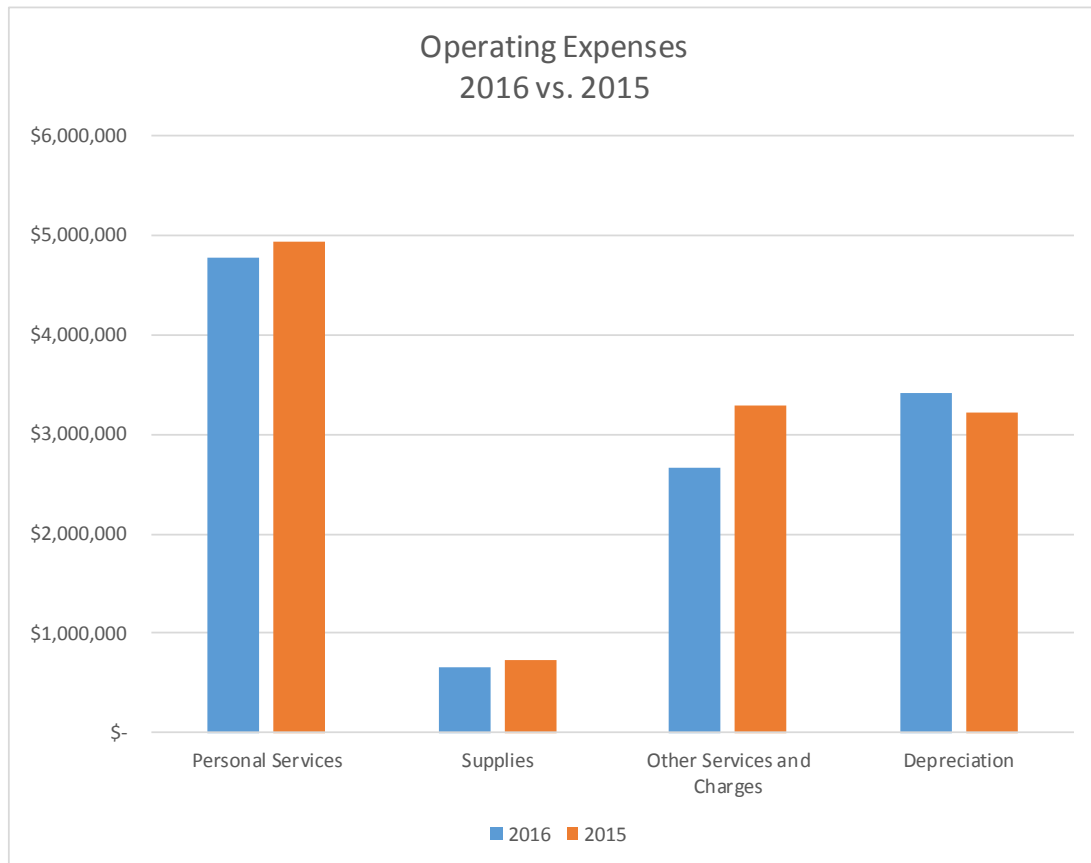


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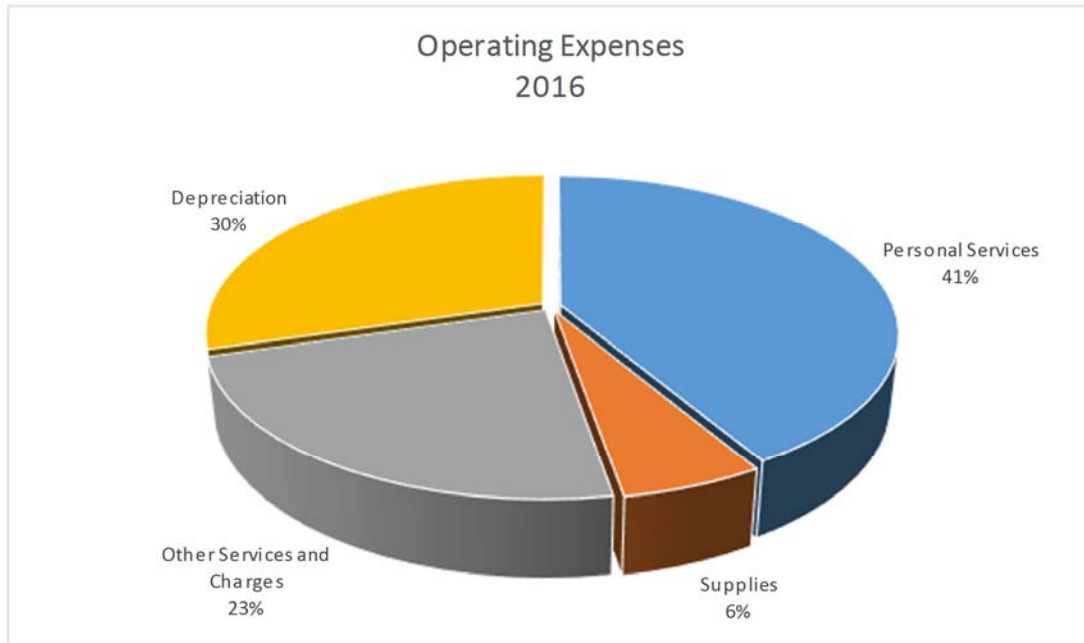
ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

Expenses

Total Operating and Non-Operating Expenses decreased in 2016 by 13.84% compared to 2015. A large component of this decrease is attributable to a decrease in Other Services and Charges and a Loss on Disposal of Capital Assets. Personal Services decreased by 3.10% primarily due to a decrease in payroll expenses resulting from an additional pay period in 2015 that was not repeated in 2016. Other Services and Charges decreased by 19.15%. This decrease can be primarily attributed to an incentive package to United Airlines to develop air service in 2015. Non-Operating Expenses decreased in 2016 by 72.42%. 2015 expenses included disposal of capital assets resulting in a \$1,055,552 loss that was not repeated in 2016. Property Management Expenses decreased by 100% in 2016 due to the Authority assuming total control over property management operations and not being required to make payments to operators.



ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016



SUMMARY OF CASH FLOW ACTIVITIES

The following is a summary of the major sources and uses of Cash and Cash Equivalents for the past two years.

	<u>2016</u>	<u>2015</u>
Cash Flows		
Operating Activities	\$ (508,008)	\$ (628,116)
Noncapital Financing Activities	4,244,978	2,877,866
Capital and Related Financing Activities	(4,317,745)	(1,862,342)
Investing Activities	19,554	9,963
Net Increase (Decrease)	<u>(561,221)</u>	<u>397,371</u>
Cash and Cash Equivalents - Beginning	<u>11,978,233</u>	<u>11,580,862</u>
Cash and Cash Equivalents - Ending	<u>\$ 11,417,012</u>	<u>\$ 11,978,233</u>

The Authority's available Cash and Cash Equivalents decreased from \$11.98 million at the end of 2015 to \$11.42 million at the end of 2016.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

CAPITAL ASSETS

The St. Joseph County Airport Authority's investment in Capital Assets as of December 31, 2016, was \$89.9 million (net of Accumulated Depreciation). This investment in Capital Assets includes land, buildings, roadways, airfield and equipment. In total, this represents a \$7.3 million increase from 2015. Major Capital Asset events during the current fiscal year included the following:

During 2016, the Airport Authority District disbursed \$10.7 million for major capital activities. The majority of the expenditure went into the construction of the Geothermal Project for the Terminal building. Capital Asset acquisitions are capitalized at cost. Acquisitions are funded using a variety of financing mechanisms, including federal grants with matching state grants and Airport funds, property taxes, debt issuances, and Airport revenues. Additional information on the Authority's Capital Assets and commitments can be found in the Notes to the Financial Statements in Section III.

PASSENGER FACILITY CHARGE (P.F.C.)

Effective July 1, 2011, \$1.50 was added to the existing Passenger Facility Charge (P.F.C.) of \$3.00 per enplaned passenger with the approval of the Federal Aviation Administration (FAA) and the St. Joseph County Airport Authority Board. The P.F.C. receipts are intended to be used to repay the debt service on the 2011 and 2012 Bond issues and for any other purposes allowed by the FAA and the Airport Authority Board. The St. Joseph County Airport Authority is authorized to receive a maximum of \$40,172,802. As of December 31, 2016, the Airport Authority had received a total of \$25,691,322.

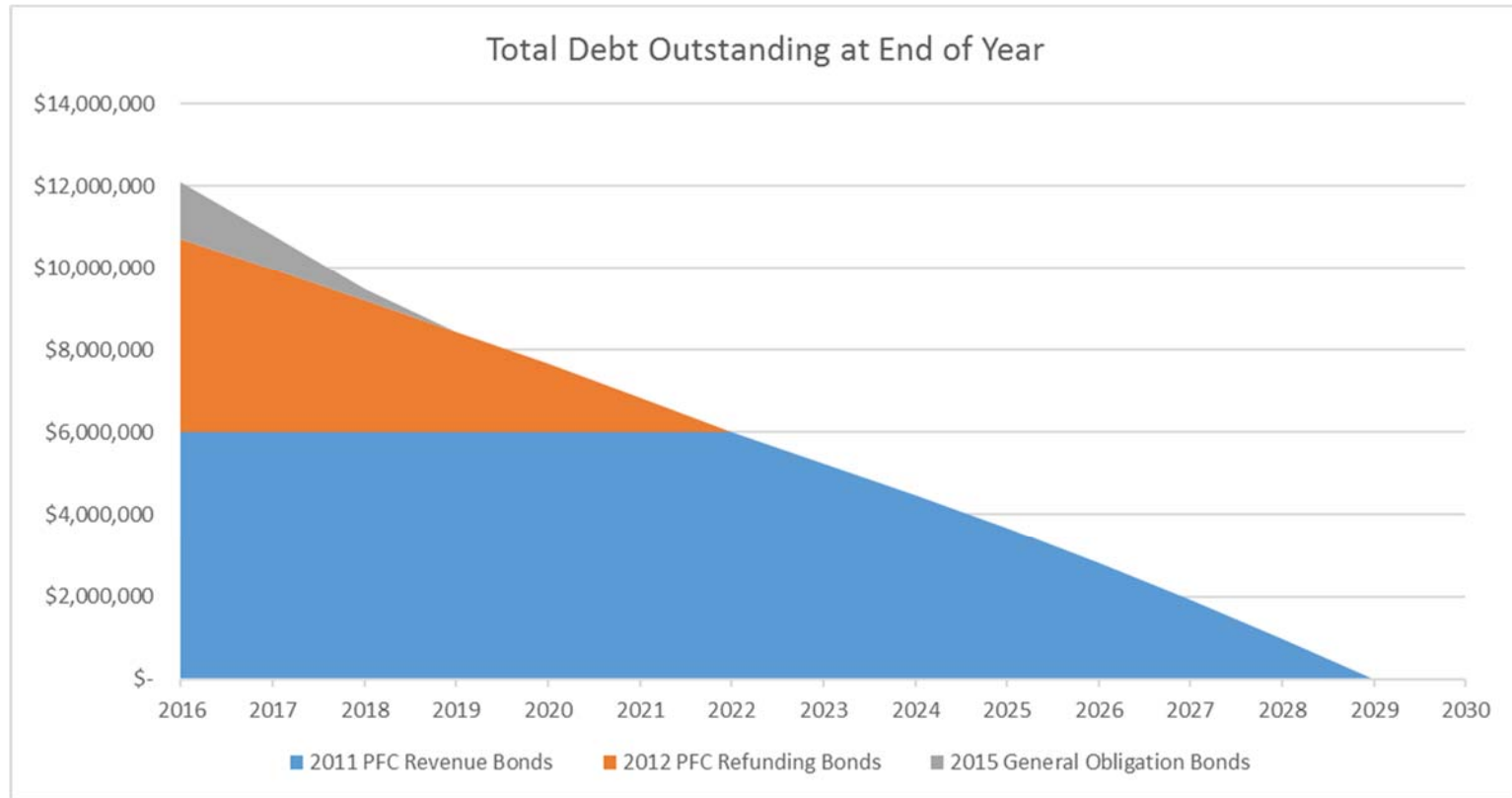
LONG TERM DEBT AND CREDIT RATINGS

The Airport Authority has \$10.8 million in Outstanding Long-Term Debt plus \$1.3 million in Outstanding Short-Term Debt as of December 31, 2016. Long-Term and Short-Term Debt consisted of 2011 General Obligation Bonds, 2012 General Obligation Refunding Revenue Bonds and 2015 General Obligation Bonds. The 2011 Bonds (\$6 million) mature in 2030 and interest rates range from 4.3% to 5.0%. The 2012 Bonds (\$4.7 million) mature on January 1, 2023 at interest rates ranging from 2.0% to 3.5%. Both principal and interest are payable from the revenues derived from the proceeds of an approved Passenger Facility Charge (P.F.C.) on each enplanement at South Bend Airport. The 2015 Bond (\$1.4 million) matures in 2019 and interest rate is 2%. Both principal and interest are payable from the revenues derived from property taxes levies.

The General Obligation Debt limit for the Airport Authority is 2% of the adjusted value of taxable property in St. Joseph County. Per Indiana Statute, the adjusted value is defined as being equal to one third (1/3) of the actual valuation of property in the County. The current adjusted value is \$2,754,212,123. The debt limit is \$53,495,782 and the total outstanding General Obligation Debt is \$12,099,802.

The Authority's General Obligation Debt is rated A+ by Standard and Poors (for both the 2011 and 2012 Bonds). The rating for South Bend reflects the General Obligation Security for these Bonds. The 2015 Bond is privately placed and is not rated. Also noted is the fact that the Authority benefits from a relatively diverse revenue stream including: parking, terminal revenues, concessions, and general property taxes. Details regarding Long-Term Debt are included in the Notes to the Financial Statements in Section III.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016



ST. JOSEPH COUNTY AIRPORT AUTHORITY
STATEMENT OF NET POSITION
December 31, 2016

Assets	
Current assets:	
Unrestricted:	
Cash and cash equivalents	\$ 6,002,493
Accounts receivable (net of allowance)	979,779
Taxes receivable	24,723
Intergovernmental receivable	469,873
Prepaid items	<u>155,189</u>
Total unrestricted current assets	<u>7,632,057</u>
Restricted:	
Cash and cash equivalents:	
Construction fund	637,275
Passenger facility charge fund	1,086,084
Customer facility charge fund	512,330
Bond and interest fund	85,403
Debt Service Reserve fund	1,146,022
Cumulative building fund	854,361
Rainy day fund	416,461
Excess levy fund	215
Other funds	676,368
Accounts receivable - passenger facility charge	170,050
Taxes receivable	<u>8,318</u>
Total restricted current assets	<u>5,592,887</u>
Total current assets	<u>13,224,944</u>
Noncurrent assets:	
Capital assets:	
Capital assets not being depreciated	46,828,402
Capital assets, net of accumulated depreciation	<u>43,026,926</u>
Total capital assets	<u>89,855,328</u>
Total assets	<u>103,080,272</u>
Deferred outflows of resources	
Deferred amount on refunding	144,643
Deferred pension outflows	<u>1,213,783</u>
Total deferred outflows of resources	<u>1,358,426</u>
Total assets and deferred outflows of resources	<u>\$ 104,438,698</u>

Liabilities	
Current liabilities:	
Unrestricted:	
Accounts payable	\$ 127,025
Accrued payroll payable	66,801
Unearned revenue	145,730
Compensated absences	223,697
Retainage payable	484,925
Other current liabilities	<u>6,954</u>
Total unrestricted current liabilities	<u>1,055,132</u>
Restricted:	
General obligation bonds payable	1,280,000
Customer deposits payable	18,369
Contracts payable	<u>111,063</u>
Total restricted current liabilities	<u>1,409,432</u>
Total current liabilities	<u>2,464,564</u>
Noncurrent liabilities:	
Unrestricted:	
Compensated absences	120,930
Net pension liability	2,911,412
Other postemployment benefits payable	<u>167,092</u>
Total noncurrent unrestricted liabilities	<u>3,199,434</u>
Restricted:	
General obligation bonds payable (net of unamortized premiums)	<u>10,819,802</u>
Total noncurrent restricted liabilities	<u>10,819,802</u>
Total noncurrent liabilities	<u>14,019,236</u>
Total liabilities	<u>16,483,800</u>
Deferred inflow of resources	
Deferred pension inflow	<u>308,886</u>
Total liabilities and deferred inflow of resources	<u>16,792,686</u>
Net Position:	
Net investment in capital assets	78,537,444
Restricted for debt service	2,487,559
Restricted for capital assets	862,679
Unrestricted	<u>5,758,330</u>
Total net position	<u>\$ 87,646,012</u>

ST. JOSEPH COUNTY AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2016

Operating revenues:	
Airfield	\$ 765,204
Terminal - aviation	1,597,758
Terminal - nonaviation	142,353
Concessions	1,436,479
Parking	2,680,569
Fixed based operations	502,448
Building and land rent	477,983
Other	<u>13,000</u>
Total operating revenues	<u>7,615,794</u>
Operating expenses:	
Personal services	4,777,184
Supplies	665,317
Other services and charges	2,660,041
Depreciation	<u>3,405,519</u>
Total operating expenses	<u>11,508,061</u>
Operating loss	<u>(3,892,267)</u>
Nonoperating revenues:	
Property taxes	2,527,146
Other tax distributions	710,580
Interest and investment revenue	19,554
Property management revenue	526,419
Federal operating grant	112,226
Other revenue	<u>49,614</u>
Total nonoperating revenues	<u>3,945,539</u>
Nonoperating expenses:	
Interest expense	465,836
Amortization expense	<u>17,728</u>
Total nonoperating expenses	<u>483,564</u>
Loss before contributions	<u>(430,292)</u>
Capital contributions	6,939,705
Passenger facility charge revenue	<u>1,395,957</u>
Total contributions	<u>8,335,662</u>
Change in net position	<u>7,905,370</u>
Total net position - beginning	<u>79,740,642</u>
Total net position - ending	<u><u>\$ 87,646,012</u></u>

ST. JOSEPH COUNTY AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2016

Cash flows from operating activities:	
Receipts from customers and users	\$ 7,446,283
Payments to suppliers and contractors	(4,964,342)
Payments to employees	<u>(2,989,949)</u>
Net cash provided (used) by operating activities	<u>(508,008)</u>
Cash flows from noncapital financing activities:	
Property management activity	526,419
Other nonoperating revenue	49,614
Operating grant received	101,031
Property and county income taxes	<u>3,567,914</u>
Net cash provided (used) by noncapital financing activities	<u>4,244,978</u>
Cash flows from capital and related financing activities:	
Passenger facility charges	1,357,175
Capital contributions	6,939,705
Acquisition and construction of capital assets	(10,898,789)
Interest paid on capital debt	(465,836)
Principal paid on capital bonds	<u>(1,250,000)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,317,745)</u>
Cash flows from investing activities:	
Interest received	<u>19,554</u>
Net cash provided (used) by investing financing activities	<u>19,554</u>
Net increase in cash and cash equivalents	<u>(561,221)</u>
Cash and cash equivalents, January 1	<u>11,978,233</u>
Cash and cash equivalents, December 31	<u>\$ 11,417,012</u>

Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (3,892,267)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	3,405,519
Pension expense	187,894
(Increase) decrease in assets:	
Accounts receivable	(302,026)
Prepaid items	(22,100)
Other current assets	54,288
Increase (decrease) in liabilities:	
Accounts payable	(49,874)
Accrued payroll payable	30,029
Unearned revenue	118,046
Compensated absence payable	5,580
Other current liabilities	(57,566)
Customer deposits payable	14,469
Total adjustments	<u>3,384,259</u>
Net cash provided by operating activities	<u>\$ (508,008)</u>
Noncash investing, capital and financing activities:	
Capital assets purchased on account	\$ 595,988

ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

I. Summary of Significant Accounting Policies

A. Reporting Entity

The St. Joseph County Airport Authority (Airport Authority) was established August 1, 1973, by the St. Joseph County Council under the provisions of Indiana Code 19-6-3.5, which has been recodified as Indiana Code 8-22-3. The Airport Authority operates under the direction of a four member board which is appointed by the Board of County Commissioners of St. Joseph County, an elected board.

Accounting principles generally accepted in the United States of America require that these basic financial statements present the Airport Authority and its significant component units. There are no significant component units which require inclusion. The Airport Authority is a component unit of St. Joseph County. A financial benefit/burden relationship exists between the County and the Airport Authority.

B. Fund Financial Statements

Enterprise fund financial statements (i.e., the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position) report information on all of the Airport Authority's activities. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Airport Authority only has business-type activities.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Airport Authority is reported as an enterprise fund. The fund is accounted for using the capital maintenance (economic resources) measurement focus and the accrual basis of accounting. All assets and liabilities (whether current or noncurrent) associated with its activity are included on the Airport Authority's Statement of Net Position. The operating statement represents increases (revenue) and decreases (expenses) in total net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise funds distinguish operating revenues and expenses from nonoperating items and other items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or other items and separately stated on the Statement of Revenues, Expenses and Changes in Net Position.

When both restricted and unrestricted resources are available for use, the Airport Authority's policy is to use restricted resources first, then unrestricted resources as they are needed.

(Continued)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Airport Authority in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Airport Authority on or prior to December 31 of the year collected. Delinquent property taxes outstanding at year end, net of allowance for uncollectible accounts, are recorded as a receivable.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond indentures, state or federal law, or governing body action.

The financial statements report \$3,350,238 of restricted net position, all of which is restricted by enabling legislation.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., runways, taxiways, tarmac, and similar items), are reported in the applicable financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 20,000	Straight-line	5 – 40 years
Airfield	20,000	Straight-line	10 – 20 years
Equipment	20,000	Straight-line	3 – 15 years
Intangible assets	20,000	Straight-line	5 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

6. Compensated Absences

- a. Sick Leave - Airport Authority employees working 8-hour shifts earn sick leave at the rate of 48 hours per year. Employees working 24-hour shifts have the same benefits as employees working 8-hour shifts but earn 72 hours per year. Employees working 8-hour shifts may accumulate a maximum of 720 hours of sick leave. Employees working 24-hour shifts may accumulate a maximum of 1080 hours of sick leave. Employees have the opportunity at the beginning of each calendar year to roll that year's earned sick leave (accrued during the previous year) into their accumulated balance, to get paid for those earned hours in advance at their current rate of pay, or to split their earned sick leave time between the two options. At the termination of employment, employees are paid at their current rate of pay for a percentage of their accumulated sick leave.
- b. Vacation Leave - Airport Authority employees working 8-hour shifts earn vacation leave at rates from 80 to 160 hours per year based upon their number of years of service. Employees working 24-hour shifts have the same benefits as employees working 8-hour shifts but earn from 112 to 288 hours vacation leave per year. Vacation leave does not accumulate from year to year.

Vacation and sick leave is accrued when incurred.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

8. Equity Classification

Equity is classified as net position and displayed in three components:

- a. Restricted net position - Consists of net position with constraints placed on it either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net position - All other net position amounts that do not meet the definition of "restricted".
- c. Net Investment in Capital Assets - Consists of investments in capital assets net of related debt.

It is the Airport Authority's policy to first use restricted net position prior to the use of unrestricted net position when a disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

E. Revenues and Expenses

Operating revenues and expenses for the Airport Authority result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

The Executive Director of the Airport Authority submits to the County Council a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the Airport Authority to obtain taxpayer comments. In October of each year, the Airport Authority, through the passage of an ordinance, approves the budget for the next year. Copies of the budget ordinance and the advertisement for funds for which property taxes are levied are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the Executive Director of the Airport Authority receives approval from the Indiana Department of Local Government Finance.

The Airport Authority's management cannot transfer budget appropriations between object classifications of a budget without approval of the Airport Authority board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the Airport Authority. The legal level of budgetary control is by object and department within the fund for the Airport Authority.

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

III. Detailed Notes on All Funds

A. 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. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Airport Authority does not have a deposit policy for custodial credit risk. At December 31, 2016, the Airport Authority had deposit balances in the amount of \$12,159,478. This entire balance was not exposed to custodial credit risk. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Receivables

The Airport Authority recognizes \$24,410 in an allowance account for the expected uncollectibility of payments due from airlines.

C. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 35,204,014	\$ 52,293	\$ -	\$ 35,256,307
Construction in progress	<u>2,624,802</u>	<u>8,947,293</u>	<u>-</u>	<u>11,572,095</u>
Total capital assets, not being depreciated	37,828,816	8,999,586	-	46,828,402
Capital assets, being depreciated:				
Buildings	62,680,899	114,913	-	62,795,812
Airfield	35,904,326	1,415,903	-	37,320,229
Equipment	<u>7,746,601</u>	<u>177,000</u>	<u>30,921</u>	<u>7,892,680</u>
Totals	106,331,826	1,707,816	30,921	108,008,721
Less accumulated depreciation for:				
Buildings	26,850,025	1,886,476	-	28,736,501
Airfield	28,761,879	1,151,353	-	29,913,232
Equipment	<u>5,995,293</u>	<u>367,690</u>	<u>30,921</u>	<u>6,332,062</u>
Totals	<u>61,607,197</u>	<u>3,405,519</u>	<u>30,921</u>	<u>64,981,795</u>
Total capital assets, being depreciated	<u>44,724,629</u>	<u>(1,697,703)</u>	<u>-</u>	<u>43,026,926</u>
Total capital assets, net	<u>\$ 82,553,445</u>	<u>\$ 7,301,883</u>	<u>\$ -</u>	<u>\$ 89,855,328</u>

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

D. Construction Commitments to Contractors

Construction work in progress is composed of the following:

Project	<u>Total Expended to December 31</u>	<u>Remaining Committed</u>
FIS	\$ 10,339,624	\$ 1,673,856
Anti-pass back passenger exit	325,067	40,813
Other	<u>907,404</u>	<u>163,577</u>
Totals	<u>\$ 11,572,095</u>	<u>\$ 1,878,246</u>

E. Long-Term Liabilities

1. General Obligation Bonds

The Airport Authority issues general obligation bonds to be paid by income derived from a passenger facility charge (Note IV.D.) and a tax levy to pay debt service.

These general obligation bonds are to provide funds for the acquisition and construction of major capital facilities or assets.

General obligation bonds are direct obligations and pledge the full faith and credit of the Airport Authority. General obligation bonds currently outstanding at year end are as follows:

<u>Purpose/Original Issue</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>	<u>Unamortized Bond Premium</u>	<u>Amount</u>
2011 General Obligation Bonds				
\$6,000,000	4.3% to 5.0%	\$ 6,000,000	\$ -	\$ 6,000,000
2012 Refunding Bonds				
\$8,030,000	2.125% to 3.25%	4,700,000	9,202	4,709,202
2015 General Obligation Bonds				
\$1,915,000	2.0%	<u>1,380,000</u>	<u>10,600</u>	<u>1,390,600</u>
Totals		<u>\$ 12,080,000</u>	<u>\$ 19,802</u>	<u>\$ 12,099,802</u>

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

Annual debt service requirements to maturity for general obligation bonds are as follows:

	2011 GO Bond		2012 Refunding		2015 GO Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ -	\$ 281,875	\$ 735,000	\$ 128,447	\$ 545,000	\$ 24,900
2018	-	281,875	750,000	111,328	555,000	13,950
2019	-	281,875	765,000	91,338	280,000	280
2020	-	281,875	795,000	68,638	-	-
2021	-	281,875	815,000	44,638	-	-
2022-2026	2,755,000	1,230,715	840,000	20,038	-	-
2027-2030	3,245,000	327,450	-	-	-	-
Totals	<u>\$ 6,000,000</u>	<u>\$ 2,967,540</u>	<u>\$ 4,700,000</u>	<u>\$ 464,425</u>	<u>\$ 1,380,000</u>	<u>\$ 39,130</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Business-type activities:					
General obligation	\$13,330,000	\$ -	\$1,250,000	\$12,080,000	\$1,280,000
Compensated absences	339,047	5,580	-	344,627	223,697
Net pension obligation	2,351,286	560,126	-	2,911,412	-
Other post-employment benefits	167,092	-	-	167,092	-
Total non-current liabilities	<u>\$ 16,187,425</u>	<u>\$ 565,706</u>	<u>\$ 1,250,000</u>	<u>\$ 15,503,131</u>	<u>\$ 1,503,697</u>

Compensated absences for the Airport Authority typically have been liquidated from the Aviation Fund.

IV. Other Information

A. Risk Management

The Airport Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

B. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

St Joseph County Airport Authority Healthcare Plan is a single-employer defined benefit healthcare plan administered by St. Joseph County. The plan provides medical insurance benefits to eligible retirees and their spouses/dependents. IC 5-10-8 assigns the authority to establish and amend benefit provisions to the Airport Authority.

The St. Joseph County Airport Authority Healthcare Plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of plan members for the St. Joseph County Airport Authority Healthcare Plan are established by the Airport Authority Board. Currently retirees are required to pay 100% of the monthly premium for medical insurance. Retiree health coverage is implicitly more expensive than active health coverage. This higher cost of coverage creates a liability that the Airport pays in higher premiums for current employees' coverage. Calculated required contributions are based on projected pay-as-you-go financing requirements. For the year ended December 31, 2016, the Airport contributed \$0 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The Airport Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Airport Authority's annual OPEB cost for the year 2014, the most recent actuarial study the Airport has determined, the amount actually contributed to the plan for 2016, and changes in the Airport Authority's net OPEB obligation to the plan:

Annual required contribution	\$	-
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost		-
Contributions made		-
Increase (decrease) in net OPEB obligation		-
Net OPEB obligation, beginning of year		167,092
Net OPEB obligation, end of year		\$ 167,092

The Airport Authority's 2016 OPEB cost, the percentage of the 2016 OPEB cost contributed to the plan, and the net OPEB obligation for 2016, are as follows:

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

The Airport Authority's 2016 OPEB cost, the percentage of the 2016 OPEB cost contributed to the plan, and the net OPEB obligation for 2016, are as follows:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/14	\$ 18,512	0%	\$ 148,580
12/31/15	-	0%	167,092
12/31/16	-	0%	167,092

Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$167,092, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$167,092. The covered payroll (annual payroll of active employees covered by the plan) was \$2,672,100, and the ratio of the UAAL to covered payroll was 5.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

In the December 31, 2014, actuarial valuation, the projected unit credit with linear proration to decrement cost method was used. The UAAL is being amortized as a level percent of pay over thirty years based on an open group. Other actuarial assumptions used in the actuarial valuation are as follows:

Inflation rate	3.0%
Investment return	4.5%
Projected salary increases	3.0%
Post-retirement benefit increases	4.5% to 9.0%
Healthcare cost trend rate	5.0 to 9.0%

C. Pension Plan

Cost-Sharing Multiple-Employer Deferred Plans

Public Employees Retirement Fund

Plan Description

The Public Employees' Retirement Fund (PERF) provides pensions for all full-time employees. The plan is a cost-sharing, multiple-employer defined benefit plan administered by the Indiana Public Retirement System (INPRS). The pension system issues a publicly available financial report that can be obtained at <http://www.inprs.in.gov>.

Retirement Benefits - Defined Benefit Pension

The plan provides retirement, disability and survivor benefits. The Indiana Code, Title 5, Articles 10.2 and 10.3, amended only by the Indiana General Assembly, identifies the benefit provisions and establishes the authority under which members and employers are obligated to contribute to the plan.

Retirement benefits for employees are calculated as years of credible service times the average highest 20 quarters of salary times 11% plus the employee's Annuity Savings Account. Normal retirement age is 60 with early retirement at 50-59 with 15 years of service. Vesting period is 10 years. An employee who leaves service may withdraw his or her Annuity Savings Account contributions, plus any accumulated interest.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are granted by the Indiana General Assembly on an ad hoc basis.

Contributions

Per Indiana Code, Title 5, Articles 10.2 and 10.3, contributions requirements of the active employees and the participating employers are established and may be amended by the INPRS Board based on recommendations by the INPRS actuary. The primary government is required to contribute at an actuarially determined rate; the current rate for calendar year 2016 is 11.20% percent of annual covered payroll. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member. The actuarial amount, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

year, with an additional amount to finance any unfunded accrued liability. Contributions to the PERF plan from the Airport were \$441,714 for the calendar year ended December 31, 2016.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Indiana Public Retirement System (INPRS) and additions to/deductions from INPRS's fiduciary net position have been determined on the same basis as they are reported by INPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

At December 31, 2016, the Airport reported a liability of \$2,911,412 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Airport's proportion of the net pension liability was based on a projection of the Airport's long-term share of contributions to the pension plan relative to the projected contributions of all participating units, actuarially determined. At June 30, 2016, the Airport's proportion was .0006415 percent, which was an increase of .0000642 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2015, the Airport recognized pension expense of \$534,844. At December 31, 2016, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 65,227	\$ 5,374
Net difference between projected and actual investment earnings on pension plan investments	640,353	163,814
Change of assumptions	128,454	-
Changes in proportion and difference between employer contributions and proportionate share contributions	154,174	139,698
Authority contributions subsequent to the measurement date	<u>225,575</u>	<u>-</u>
Totals	<u>\$ 1,213,783</u>	<u>\$ 308,886</u>

(Continued)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

\$225,575 reported as deferred outflows of resources related to pensions resulting from Airport contribution subsequent to the measurement date will be recognized as a deferred outflow in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Year Ended</u> <u>December 31,</u>
2017	\$ 226,526
2018	180,843
2019	194,467
2020	77,486
Thereafter	6
Total	<u>\$ 679,316</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	2.50% to 4.25%
Investment rate of return rates	6.75% net of pension plan investment expense, Mortality RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2016
Cost of living increases (COLA) or "Ad Hoc"	1.00%

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four years ended June 30, 2014. The Study was performed in April 2015. There were no assumption changes for the measurement period ending June 30, 2016.

The long-term return expectation for the INPRS defined benefit retirement plans has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated geometric asset classes.

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

<u>Global Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	22.0%	5.7%
Private Equity	10.0%	6.2%
Fixed income - Ex inflation	24.0%	2.7%
Fixed income - inflation linked	7.0%	0.7%
Commodities	8.0%	2.0%
Real estate	7.0%	2.7%
Absolute return	10.0%	4.0%
Risk parity	12.0%	5.0%

Discount Rate

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from units will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Airport's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Airport's proportional share of the net pension liability calculated using the discount rate of 6.75 percent, as well as what the Airport's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage point higher (7.75 percent) than the current rate:

	<u>5.75% 1% Decrease</u>	<u>6.75% Current Rate</u>	<u>7.75% 1% Increase</u>
Net Pension Liability	<u>\$ 4,181,477</u>	<u>\$ 2,911,412</u>	<u>\$ 1,855,796</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued INPRS Comprehensive Annual Financial Report (CAFR) and Actuarial Valuations. These reports can be found at:

<http://www.in.gov/inprs/files/2016INPRSCAFRBook.pdf> _
<http://www.in.gov/inprs/files/2016PERFActuarialValuationReport.pdf>

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ST. JOSEPH COUNTY AIRPORT AUTHORITY
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D. Passenger Facility Charge

Effective November 1, 1994, a Passenger Facility Charge (PFC) of \$3.00 per ticket was implemented by the approval of the Federal Aviation Administration (FAA) and the Airport Authority. Effective July 1, 2011, the Passenger Facility Charge was increased to \$4.50 per ticket. The revenues are to be used to repay the debt service on the 2011 and 2012 bond issues, and for any other purposes allowed by the FAA and the Airport Authority Board. During 2016 the Airport Authority earned \$1,395,957 from 32 separate airlines. The Airport Authority is authorized to receive a maximum of \$40,172,802. In 2012 an error was made in calculating the PFC revenues when the airport changed its reporting from cash to accrual in the Notes to the Financial Statements. The result of this error caused the total PFC revenues to be understated by \$136,412. As of December 31, 2016, the Airport Authority has earned a total of \$25,691,322.

**ST. JOSEPH COUNTY AIRPORT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Public Employees' Retirement Fund
Last 10 Measurement Periods**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Proportion of the net pension liability	0.06415%	0.05773%	0.06523%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate share of the net pension liability	\$ 2,911,412	\$ 2,351,286	\$ 1,714,202	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered-employee payroll	3,074,236	2,765,233	3,184,649	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	94.7%	85.0%	53.8%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of total pension liability	75.3%	77.3%	84.3%	78.8%	N/A	N/A	N/A	N/A	N/A	N/A

N/A - information not available

Note: Each year's information is reported as of the plan year end of June 30, which is used to report for the Authority's fiscal year end of December 31.

**ST. JOSEPH COUNTY AIRPORT AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 Public Employees' Retirement Fund
 Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contributions	\$ 344,314	\$ 309,706	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	<u>(441,714)</u>	<u>(422,505)</u>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	<u>\$ (97,400)</u>	<u>\$ (112,799)</u>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered-employee payroll	\$ 3,074,236	\$ 2,765,233	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	14.37%	15.28%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

N/A - information not available

**ST. JOSEPH COUNTY AIRPORT AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 Healthcare Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/2016	\$ -	N/A	N/A	N/A	N/A	N/A
12/31/2015	-	N/A	N/A	N/A	N/A	N/A
12/31/2014	-	\$ 167,092	\$ 167,092	0%	\$ 2,672,100	5.70%
12/31/2013	-	152,929	152,929	0%	2,944,632	6.40%

N/A - information not available

ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2016

A. Plan Amendments

There were no plan amendments during the fiscal year.

B. Assumption Changes

There were no assumption changes in the fiscal year.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2016

	Budgeted Amounts - Original & Final	Actual Budgetary Basis Amounts	Variance With Final Budget
Revenues:			
Airfield	\$ 712,070	\$ 949,184	\$ 237,114
Terminal - aviation	1,457,985	1,597,758	139,773
Terminal - non-aviation	170,789	142,353	(28,436)
Concessionaire	1,300,468	1,436,479	136,011
Parking	2,580,000	2,680,569	100,569
Fixed based operations	437,306	502,448	65,142
Building and land rent	268,196	477,983	209,787
Other	456,000	13,000	(443,000)
Total revenues	<u>7,382,814</u>	<u>7,799,774</u>	<u>416,960</u>
Expenses:			
Personal services	6,382,713	5,000,687	1,382,026
Supplies	1,031,469	604,534	426,935
Other services and charges	5,055,318	2,660,041	2,395,277
Total operating expenses	<u>12,469,500</u>	<u>8,265,262</u>	<u>4,204,238</u>
Debt service:			
Other services and charges	<u>1,744,179</u>	<u>1,715,836</u>	<u>28,343</u>
Total expenses	<u>14,213,679</u>	<u>9,981,098</u>	<u>4,232,581</u>
Other financing sources (uses):			
Property taxes	1,988,487	2,857,334	868,847
Other tax distributions	474,956	710,580	235,624
Interest income	5,000	19,554	14,554
Federal and state grants	9,068,243	101,031	(8,967,212)
Capital outlay	(6,970,000)	(10,898,789)	(3,928,789)
Total other financing sources (uses)	<u>4,566,686</u>	<u>(7,210,290)</u>	<u>(11,776,976)</u>
Deficiency of revenues and other financing sources under expenses and other financing uses			
	<u>\$ (2,264,179)</u>	<u>\$ (9,391,614)</u>	<u>\$ (7,127,435)</u>

ST. JOSEPH COUNTY AIRPORT AUTHORITY
BUDGET/GAAP RECONCILIATION
Year Ended December 31, 2016

The major differences between budgetary (non-GAAP) basis and GAAP basis are:

- a. Revenues are recorded when received in cash (budgetary) as opposed to when earned (GAAP).
- b. Expenses are recorded when paid in cash (budgetary) as opposed to when incurred (GAAP).
- c. Encumbrances outstanding at year-end are recorded as expenses for budgetary purposes.
- d. Capital outlays are recorded as expenses when paid (budgetary) as opposed to additions to capital assets when costs are incurred (GAAP).
- e. Depreciation and amortization expense is not recognized in budgetary basis.
- f. Principal paid on bonds is recorded as expenses when paid (budgetary) as opposed to a reduction of liabilities (GAAP).

Adjustments necessary to convert the results of operations at the end of the year on a budgetary basis to a GAAP basis are as follows:

Deficiency of revenues and other financing sources under expenses and other financing uses (budgetary basis)	\$ (9,391,614)
Adjustments:	
Capital expenses	10,898,789
Depreciation	(3,405,519)
Amortization of Deferred Amount on Refunding and Bond Premium	(17,728)
Debt payments	1,250,000
Capital Contributions	6,939,705
Passenger Facility Charge Revenue	1,395,957
Other Non-Operating Revenue	49,614
Property management activity (net revenue)	526,419
Change in operating revenues receivable and unearned revenues	(183,980)
Change in intergovernmental receivable	11,195
Change in taxes receivable	(330,188)
Change in wages and benefits payable	35,609
Changes in payables and prepaid items	(60,783)
Net pension adjustment	<u>187,894</u>
Change in net position (GAAP basis)	<u>\$ 7,905,370</u>

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES
Year Ended December 31, 2016

Cash balance, January 1	\$ 858,807
Receipts:	
Passenger facility charge collections	1,371,160
Interest	<u>2,139</u>
Total receipts	<u>1,373,299</u>
Disbursements:	
Transfer to bond and interest fund	<u>1,146,022</u>
Cash balance, December 31	<u>\$ 1,086,084</u>

**ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF REVENUES
LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues:										
Airport service revenues:										
Airfield	\$ 765,204	\$ 716,108	\$ 669,881	\$ 665,933	\$ 605,636	\$ 606,890	\$ 605,210	\$ 601,768	\$ 688,895	\$ 644,949
Terminal - aviation	1,597,758	1,525,343	1,466,228	1,276,000	1,277,222	1,250,254	1,225,171	1,219,103	1,272,818	1,168,619
Terminal - nonaviation	142,353	115,954	128,179	105,434	108,390	128,043	111,226	129,513	146,078	142,275
Concessions	1,436,479	1,390,394	1,288,817	1,211,590	1,097,687	1,093,471	1,069,131	1,056,991	1,087,047	1,234,600
Parking	2,680,569	2,551,298	2,435,889	2,463,750	2,198,722	2,191,557	2,207,040	2,037,467	2,547,340	2,474,598
Fixed based operations	502,448	425,101	386,809	381,546	358,468	347,090	408,748	407,000	383,730	494,342
Building and land rent	477,983	311,083	409,037	308,721	247,731	134,509	243,613	321,511	226,897	241,895
Airport service revenues - total	7,602,794	7,035,281	6,784,840	6,412,974	5,893,856	5,751,814	5,870,139	5,773,353	6,352,805	6,401,278
Other	13,000	3,000	4,000	3,000	12,367	12,625	12,039	10,619	116,289	14,620
Total operating revenues	<u>7,615,794</u>	<u>7,038,281</u>	<u>6,788,840</u>	<u>6,415,974</u>	<u>5,906,223</u>	<u>5,764,439</u>	<u>5,882,178</u>	<u>5,783,972</u>	<u>6,469,094</u>	<u>6,415,898</u>
Nonoperating revenues:										
Property taxes	2,527,146	2,256,861	2,208,451	2,242,282	2,320,303	1,765,272	2,997,689	2,702,107	2,909,741	2,681,849
Other tax distributions	710,580	509,765	493,925	461,683	446,283	535,170	620,426	836,637	618,671	495,964
Interest and investment revenue	19,554	9,963	12,203	15,634	18,986	16,139	15,517	61,882	277,387	733,312
Property management revenue	526,419	281,952	242,757	244,898	227,126	257,154	273,942	328,987	295,774	242,955
Federal operating grant	112,226	12,098	238,490	692,138	101,303	144,568	148,565	-	-	-
Gain on disposal of assets	-	-	56,402	-	-	-	-	-	65,717	-
Other revenue	49,614	310,005	84,670	50,545	32,921	41,072	101,332	122,378	405,017	190,112
Total nonoperating revenues	<u>3,945,539</u>	<u>3,380,644</u>	<u>3,336,898</u>	<u>3,707,180</u>	<u>3,146,922</u>	<u>2,759,375</u>	<u>4,157,471</u>	<u>4,051,991</u>	<u>4,572,307</u>	<u>4,344,192</u>
Total revenue	<u>\$ 11,561,333</u>	<u>\$ 10,418,925</u>	<u>\$ 10,125,738</u>	<u>\$ 10,123,154</u>	<u>\$ 9,053,145</u>	<u>\$ 8,523,814</u>	<u>\$ 10,039,649</u>	<u>\$ 9,835,963</u>	<u>\$ 11,041,401</u>	<u>\$ 10,760,090</u>

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENSES AND CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating expenses:										
Personal services	\$ 4,777,184	\$ 4,929,934	\$ 4,554,567	\$ 4,983,555	\$ 5,050,210	\$ 4,871,475	\$ 4,884,509	\$ 4,810,162	\$ 4,884,616	\$ 4,698,058
Supplies	665,317	736,469	702,877	756,976	623,858	642,682	586,715	808,565	732,590	706,584
Other services and charges	2,660,041	3,290,097	2,243,370	3,189,233	2,454,909	2,880,312	2,116,199	3,134,908	3,074,743	2,602,485
Depreciation	3,405,519	3,208,875	3,198,452	3,398,840	3,347,686	3,611,684	3,667,220	3,630,659	3,090,620	2,957,397
Total operating expenses	<u>11,508,061</u>	<u>12,165,375</u>	<u>10,699,266</u>	<u>12,328,604</u>	<u>11,476,663</u>	<u>12,006,153</u>	<u>11,254,643</u>	<u>12,384,294</u>	<u>11,782,569</u>	<u>10,964,524</u>
Nonoperating expenses:										
Interest expense	465,836	467,639	487,856	503,345	631,215	607,514	614,347	675,362	727,662	774,487
Property management expense	-	150,541	199,801	186,036	192,996	200,666	222,493	257,044	209,198	285,856
Loss on change in capital asset policy	-	-	-	-	-	-	590,321	-	-	-
Loss on disposal of capital assets	-	1,055,552	69,948	-	152,751	-	392,349	-	-	-
Bond issuance costs	-	-	-	-	158,849	-	-	-	-	-
Amortization expense	17,728	79,399	575	-	1,277	9,083	14,628	14,628	14,628	14,628
Total nonoperating expenses	<u>483,564</u>	<u>1,753,131</u>	<u>758,180</u>	<u>689,381</u>	<u>1,137,088</u>	<u>817,263</u>	<u>1,834,138</u>	<u>947,034</u>	<u>951,488</u>	<u>1,074,971</u>
Total expenses	<u>11,991,625</u>	<u>13,918,506</u>	<u>11,457,446</u>	<u>13,017,985</u>	<u>12,613,751</u>	<u>12,823,416</u>	<u>13,088,781</u>	<u>13,331,328</u>	<u>12,734,057</u>	<u>12,039,495</u>
Income before contributions	<u>(430,292)</u>	<u>(3,499,581)</u>	<u>(1,331,708)</u>	<u>(2,894,831)</u>	<u>(3,560,606)</u>	<u>(4,299,602)</u>	<u>(3,049,132)</u>	<u>(3,495,365)</u>	<u>(1,692,656)</u>	<u>(1,279,405)</u>
Capital contributions	6,939,705	4,499,206	1,752,133	35,157	3,274,595	3,909,443	7,313,647	834,428	4,036,643	3,125,639
Passenger facility charge revenue	1,395,957	1,291,355	1,287,426	1,341,898	1,227,862	1,007,280	835,884	820,664	960,513	1,083,989
Capital assets donated to County government	-	-	(1,552,241)	(5,004,377)	-	-	(8,999,393)	-	-	-
Total contributions	<u>8,335,662</u>	<u>5,790,561</u>	<u>1,487,318</u>	<u>(3,627,322)</u>	<u>4,502,457</u>	<u>4,916,723</u>	<u>(849,862)</u>	<u>1,655,092</u>	<u>4,997,156</u>	<u>4,209,628</u>
Change in net position	<u>7,905,370</u>	<u>2,290,980</u>	<u>155,610</u>	<u>(6,522,153)</u>	<u>941,851</u>	<u>617,121</u>	<u>(3,898,994)</u>	<u>(1,840,273)</u>	<u>3,304,500</u>	<u>2,930,223</u>
Total net position - beginning	79,740,642	79,036,256	78,713,318	85,235,471	84,872,581	84,255,461	88,154,455	89,994,728	86,690,228	83,760,005
Total net position - adjustments	-	(1,586,595)	167,329	-	(578,961)	-	-	-	-	-
Total net position - ending	<u>\$ 87,646,012</u>	<u>\$ 79,740,641</u>	<u>\$ 79,036,257</u>	<u>\$ 78,713,318</u>	<u>\$ 85,235,471</u>	<u>\$ 84,872,582</u>	<u>\$ 84,255,461</u>	<u>\$ 88,154,455</u>	<u>\$ 89,994,728</u>	<u>\$ 86,690,228</u>

**ST. JOSEPH COUNTY AIRPORT AUTHORITY
 ASSESSED VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS**

Year	Real Property Assessed Value	Personal Property Assessed Value	Total Direct Tax Rate	Total Assessed Value
2016	\$ 6,964,917,748	\$ 1,297,718,622	0.0423	\$ 8,262,636,370
2015	8,024,367,267	1,252,802,776	0.0338	9,277,170,043
2014	6,344,717,735	1,169,480,507	0.0345	7,514,198,242
2013	6,533,399,996	1,137,751,791	0.0330	7,671,151,787
2012	6,882,357,309	1,117,519,859	0.0309	7,999,877,168
2011	7,291,197,519	846,299,712	0.0297	8,137,497,231
2010	7,255,034,884	1,161,736,880	0.0342	8,416,771,764
2009	7,407,382,632	998,084,354	0.0353	8,405,466,986
2008	8,914,568,570	1,050,299,685	0.0292	9,964,868,255
2007	8,866,005,036	1,099,718,445	0.0277	9,965,723,481

Source: Indiana State Department of Local Government Finance and the St. Joseph County Auditor

**ST. JOSEPH COUNTY AIRPORT AUTHORITY
PROPERTY TAX RATES - DIRECT - PER \$100 OF ASSESSED VALUE
LAST TEN FISCAL YEARS**

Year	Airport General	Airport Cumulative Building	Airport Debt Service	Total Assessed Value
2016	\$ 0.0312	\$ 0.0032	\$ 0.0079	\$ 0.0423
2015	0.0306	0.0032	-	0.0338
2014	0.0312	0.0033	-	0.0345
2013	0.0297	0.0033	-	0.0330
2012	0.0277	0.0032	-	0.0309
2011	0.0264	0.0033	-	0.0297
2010	0.0249	0.0020	0.0073	0.0342
2009	0.0241	0.0092	0.0020	0.0353
2008	0.0195	0.0020	0.0077	0.0292
2007	0.0185	0.0020	0.0072	0.0277

Source: St. Joseph County Auditor

**ST. JOSEPH COUNTY AIRPORT AUTHORITY
PROPERTY TAX LEVIES AND COLLECTIONS
LAST SIX FISCAL YEARS**

Year	Certified Levy (1)	Collections During the Year	
		Amount	Percentage of Levy
2016	\$ 2,719,925	\$ 2,527,146	92.91%
2015	2,658,035	2,256,861	84.91%
2014	2,592,399	2,208,451	85.19%
2013	2,531,480	2,151,294	84.98%
2012	2,471,962	2,198,324	88.93%
2011	2,416,836	2,126,937	88.01%

(1) Source: Budget Order Approved by Indiana Department of Local Government Finance

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE ST. JOSEPH COUNTY AIRPORT
AUTHORITY, ST. JOSEPH COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the St. Joseph County Airport Authority's (Airport Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2016. The Airport Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Airport Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Airport Authority complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2016.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002. Our opinion on the major federal program is not modified with respect to these matters.

The Airport Authority's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. The Airport Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance


Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003, that we consider to be material weaknesses.

The Airport Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Airport Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

August 31, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the Airport Authority. The schedule and notes are presented as intended by the Airport Authority.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
<u>Department of Transportation</u>					
Airport Improvement Program	Direct grant				
Geothermal		20.106	AIP 03-18-0079-046-2014	\$ -	\$ 283,090
Federal Inspection Station		20.106	AIP 03-18-0079-047-2014	-	49,482
Federal Inspection Station		20.106	AIP 03-18-0079-048-2014	-	2,836,272
Federal Inspection Station		20.106	AIP 03-18-0079-049-2014	-	2,119,684
Total - Airport Improvement Program				-	5,288,528
Total - Department of Transportation				-	5,288,528
<u>Department of Homeland Security</u>					
Law Enforcement Officer Reimbursement Agreement Program	Direct grant				
Law Enforcement Officer Reimbursement		97.090	HSTS0213HSLR312	-	101,048
Total - Department of Homeland Security				-	101,048
Total federal awards expended				\$ -	\$ 5,389,576

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Airport Authority under programs of the federal government for the year ended December 31, 2016. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the Airport Authority, it is not intended to and does not present the financial position of the Airport Authority.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-133, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received. The Airport Authority has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

CFDA Number	Name of Federal Program or Cluster	Opinion Issued
20.106	Airport Improvement Program	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2016-001

Subject: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the Airport Authority over the financial close and reporting process. There were no controls to ensure that the accounting records were properly closed and that the financial activity in the records was accurately reflected in the financial statements prepared by a consultant.

Context

The Airport Authority's financial statements were prepared by a consultant before the accounting records were closed for the year. The ending accrual balances reported in the Airport Authority's financial records were the same as the balances reported in the prior audited financial statements. After the accounting records were closed, updated financial statements were provided. The financial statements still included some immaterial variances; however, were materially correct.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the Airport Authority had not established a proper system of internal control.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the Airport Authority's management establish controls to ensure that accounting records were properly closed and that the financial activity in the records are accurately reflected in the financial statements.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Section III - Federal Award Findings and Questioned Costs

FINDING 2016-002

Subject: Airport Improvement Program - Procurement and Suspension and Debarment

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): AIP 03-18-0079-048-2014

AIP 03-18-0079-049-2014

Compliance Requirement: Procurement and Suspension and Debarment

Audit Finding: Material Weakness, Other Matters

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition

An effective internal control system was not in place at the Airport Authority in order to ensure compliance with requirements related to the grant agreement and the Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement. There were no controls in place to ensure that procedures to ensure that all vendors were not suspended or debarred or otherwise excluded from participation in federal assistance programs were performed timely.

Procedures to ensure that contractors were not suspended and debarred from participation in federal assistance programs were not performed timely. The construction contract agreements for AIP 03-18-0079-048-2014 and AIP 03-18-0079-049-2014 were signed October 1, 2015; however, the contractor certification that they were not suspended or debarred was dated July 14, 2016.

Context

The lack of controls and the noncompliance applied to the only contract awarded during the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

The Airport Authority had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the Airport Authority.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Airport Authority's management establish controls to ensure compliance and to comply with the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-003

Subject: Airport Improvement Program - Special Tests and Provisions - Wage Rate Requirements

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): AIP 03-18-0079-046-2014,
AIP 03-18-0079-047-2014,
AIP 03-18-0079-048-2014,
AIP 03-18-0079-049-2014

Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the Airport Authority in order to ensure compliance with the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

The Airport Authority hired a consultant to administer all of its grants. The consultant received certified payrolls from the contractors/subcontractors and forwarded them to an Airport Authority employee who was on military leave. The Airport Authority was not able to provide copies of the certified payroll reports for audit. Certified payrolls were provided by the consultant; however, there was no evidence to indicate that the Airport Authority had implemented procedures to ensure that the consultant had adequately verified compliance.

Context

The lack of controls was a systemic issue, occurring throughout the audit period.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The Airport Authority had not established an effective internal control structure to ensure compliance with the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Effect

The failure to establish an effective internal control system could have enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the Airport Authority.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Airport Authority's management establish controls to ensure compliance with the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

AUDITEE-PREPARED SCHEDULES

The subsequent schedules were provided by management of the Airport Authority. The schedules are presented as intended by the Airport Authority.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-001


Fiscal year in which the finding initially occurred: 2015
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Direct
Contact Person Responsible for Corrective Action: Aaron Kobb
Contact Phone Number: 574-282-4590 ext. 223

Status of Audit Finding:

The Corrective Action Plan set forth last year read as follows:

This finding is connected to the conversion from the cash method to accrual for the Annual Financial Report that is due by March 1st of each year. The Airport Authority books and records are maintained on a cash basis throughout the year and converted back to an accrual basis in order to complete the Annual Financial Report by the prescribed deadline. The cash records proved to be sound. In coordination with our consultant, H.J. Umbaugh and Associates, the Authority made the decision in the conversion and reporting of the financials in an accrual method that resulted in the reported inaccuracies. The Annual Financial Report has been updated to accurately reflect the accrual basis changes suggested by the State Board of Accounts. To prevent future inconsistencies, the Airport Authority Staff and our consultant (H.J. Umbaugh & Associates) will complete the accrual basis Annual Financial Report by mid-February of every year to ensure additional time to reconcile the conversion. In addition, basic financial statements will be prepared each year by April 20th in order to allow for a second level of review of the accrual basis Annual Financial Report. Inconsistencies will be addressed by reopening the accrual basis Annual Financial Report and resubmitting after corrections have been made. In addition to an earlier completion of the AFR, the Authority and consultant will hold an extra meeting to ensure the decisions made in the conversion have been well thought out and discussed thoroughly.

In March 2017, a change in personnel, Director of Administration and Finance, prohibited the full realization of the above mentioned plan. The Airport Authority remains fully committed to this plan's full implementation by the end of 2017 to help ensure a timely and accurate representation of it's financial standing.



(Signature)

Director of Admin & Finance

(Title)

8/7/17

(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)

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St. Joseph County Airport Authority Board Members: Jay Asdell | Thomas S. Botkin | Abraham Marcus | David R. Sage

CORRECTIVE ACTION PLAN

Section II - Financial Statement Findings

FINDING 2016– 001

Contact person responsible for corrective action:

Aaron Kobb

Contact email and phone number:

akobb@sbnair.com

574-282-4590 x223

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

The Authority currently has an internal controls guide. In order to improve this process, an evaluation of the Airport Authority's system of internal control has been conducted related to the year-end accounting process. An additional step has been created which establishes a year end checklist for the Airport Authority's accounting staff. This checklist will incorporate an already existing annual reporting requirements listing. In addition, both reports will be reviewed monthly during routine staff meetings to ensure all necessary actions are being taken and deadlines are being met. This additional step has been communicated to the applicable parties and will be fully implemented by year end 2017.

Anticipated Completion date: 12/31/17

CORRECTIVE ACTION PLAN

Section III – Federal Award Findings and Questioned Costs

FINDING 2016- 002

Contact person responsible for corrective action:

Aaron Kobb

Contact email and phone number:

akobb@sbnair.com

574-282-4590 x223

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

The Authority currently has an internal controls guide. In order to improve this process, an evaluation of the Airport Authority's system of internal control has been conducted related to the execution of construction contract agreements. While potential contractors acknowledge the issue of suspension and disbarment at the time of bid, an additional step has been created which establishes the execution of a separate certificate and verification at the time of contract execution. This additional step has been communicated to the applicable parties and will be fully implemented by year end 2017.

Anticipated Completion date: 12/31/17

CORRECTIVE ACTION PLAN

Section III – Federal Award Findings and Questioned Costs

FINDING 2016 - 003

Contact person responsible for corrective action:

Aaron Kobb

Contact email and phone number:

akobb@sbnair.com

574-282-4590 x223

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

The Authority currently has an internal controls guide. In order to improve this process, an evaluation of the Airport Authority's system of internal control has been conducted related to wage rate compliance. Certified payroll reports will now be sent to the Airport Authority with a cover letter and signature page acknowledging the review and verification of the presented payroll reports by Airport Authority personnel. This additional step has been communicated to the applicable parties and will be fully implemented by year end 2017.

Anticipated Completion date: 12/31/17

ST. JOSEPH COUNTY AIRPORT AUTHORITY
OTHER REPORTS
December 31, 2016

In addition to this report, other reports may have been issued for the Airport Authority. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.