

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
CLINTON COUNTY, INDIANA

January 1, 2013 to December 31, 2014



FILED
07/17/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cathy Hamilton	01-01-13 to 12-31-15
President of the Airport Authority Board	Alan Dunn	01-01-13 to 12-31-15



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE FRANKFORT CLINTON COUNTY
AIRPORT AUTHORITY, CLINTON COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Frankfort Clinton County Airport Authority (Airport Authority), which comprises the financial position and results of operations for the period of January 1, 2013 to December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the Airport Authority prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Airport Authority for the period of January 1, 2013 to December 31, 2014.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Airport Authority for the period of January 1, 2013 to December 31, 2014, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Airport Authority's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

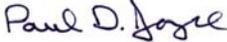
Other Information

Our audit was conducted for the purpose of forming an opinion on the Airport Authority's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis and Schedule of Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 18, 2015, on our consideration of the Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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

May 18, 2015



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

TO: THE OFFICIALS OF THE FRANKFORT CLINTON COUNTY
AIRPORT AUTHORITY, CLINTON COUNTY, INDIANA

We have audited, 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, the financial statement of the Frankfort Clinton County Airport Authority (Airport Authority), which comprises the financial position and results of operations for the period of January 1, 2013 to December 31, 2014, and the related notes to the financial statement, and have issued our report thereon dated May 18, 2015, wherein we noted the Airport Authority followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, 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 opinion on the financial statement, 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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be material weaknesses.

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

Compliance and Other Matters

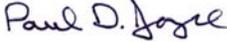
As part of obtaining reasonable assurance about whether the Airport Authority's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001.

Frankfort Clinton County Airport Authority's Response to Findings

The Airport Authority's response to the 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 the financial statement 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

May 18, 2015

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

The financial statement and accompanying notes were approved by management of the Airport Authority. The financial statement and notes are presented as intended by the Airport Authority.

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FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended December 31, 2013 and 2014

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13	Receipts	Disbursements	Cash and Investments 12-31-14
Rainy Day	\$ -	\$ 43,225	\$ -	\$ 43,225	\$ -	\$ 13,171	\$ 30,054
Levy Excess	-	-	-	-	15	-	15
Debt Service	-	221,083	123,387	97,696	103,460	178,610	22,546
Airport Authority	63,238	681,066	535,184	209,120	1,333,115	1,279,255	262,980
Cumulative Airport Building	-	40,659	-	40,659	53,583	6,500	87,742
2012 General Obligation Bond Fund	-	1,676,380	1,502,884	173,496	203,662	353,842	23,316
Real Estate Sale Proceeds	-	-	-	-	21,000	-	21,000
Totals	<u>\$ 63,238</u>	<u>\$ 2,662,413</u>	<u>\$ 2,161,455</u>	<u>\$ 564,196</u>	<u>\$ 1,714,835</u>	<u>\$ 1,831,378</u>	<u>\$ 447,653</u>

The notes to the financial statement are an integral part of this statement.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Airport Authority was established under the laws of the State of Indiana. The Airport Authority operates under an appointed governing board.

The accompanying financial statement presents the financial information for the Airport Authority.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, county adjusted gross income tax, and other taxes that are set by the Airport Authority.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, financial institution tax received from the state, auto excise surtax received from the state and commercial vehicle excise tax received from the state.

Charges for services which can include, but are not limited to the following: hanger rent and flight school fees.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution, or court order; internal service receipts; and fiduciary receipts.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Airport Authority. It includes all expenditures for the reduction of the principal and interest of the Airport Authority's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Airport Authority may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the Airport Authority. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Airport Authority. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Airport Authority in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Airport Authority submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Airport Authority in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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.

State statutes authorize the Airport Authority to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The Airport Authority may be 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; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Airport Authority to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 NOTES TO FINANCIAL STATEMENT
 (Continued)

Note 6. Restatement

For the year ended December 31, 2013, certain changes have been made to the beginning balance of the financial statement to more appropriately reflect financial activity of the Airport Authority. The following schedule presents a summary of the restated beginning balance.

Fund Name	Balance as of December 31, 2012	Prior Period Adjustment	Balance as of January 1, 2013
Airport Authority	\$ -	\$ 63,238	\$ 63,238

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OTHER INFORMATION - UNAUDITED

The Airport Authority's Annual Financial Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Financial Report of the Airport Authority which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The other information presented was approved by management of the Airport Authority. It is presented as intended by the Airport Authority.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013

	Rainy Day	Levy Excess	Debt Service	Airport Authority	Cumulative Airport Building	2012 General Obligation Bond Fund	Real Estate Sale Proceeds	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 63,238	\$ -	\$ -	\$ -	\$ 63,238
Receipts:								
Taxes	-	-	212,524	317,565	39,085	-	-	569,174
Intergovernmental	-	-	8,559	259,582	1,574	-	-	269,715
Charges for services	-	-	-	72,394	-	-	-	72,394
Other receipts	43,225	-	-	31,525	-	1,676,380	-	1,751,130
Total receipts	43,225	-	221,083	681,066	40,659	1,676,380	-	2,662,413
Disbursements:								
Supplies	-	-	-	6,556	-	-	-	6,556
Other services and charges	-	-	-	223,169	-	2,465	-	225,634
Debt service - principal and interest	-	-	123,387	37,307	-	-	-	160,694
Capital outlay	-	-	-	25,978	-	1,414,340	-	1,440,318
Other disbursements	-	-	-	242,174	-	86,079	-	328,253
Total disbursements	-	-	123,387	535,184	-	1,502,884	-	2,161,455
Excess of receipts over disbursements	43,225	-	97,696	145,882	40,659	173,496	-	500,958
Cash and investments - ending	\$ 43,225	\$ -	\$ 97,696	\$ 209,120	\$ 40,659	\$ 173,496	\$ -	\$ 564,196

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014

	Rainy Day	Levy Excess	Debt Service	Airport Authority	Cumulative Airport Building	2012 General Obligation Bond Fund	Real Estate Sale Proceeds	Totals
Cash and investments - beginning	\$ 43,225	\$ -	\$ 97,696	\$ 209,120	\$ 40,659	\$ 173,496	\$ -	\$ 564,196
Receipts:								
Taxes	-	-	77,507	339,242	48,429	-	-	465,178
Intergovernmental	-	-	12,782	879,906	5,154	-	-	897,842
Charges for services	-	-	-	95,253	-	-	-	95,253
Other receipts	-	15	13,171	18,714	-	203,662	21,000	256,562
Total receipts	-	15	103,460	1,333,115	53,583	203,662	21,000	1,714,835
Disbursements:								
Personal services	-	-	-	1,500	-	-	-	1,500
Supplies	-	-	-	6,172	-	-	-	6,172
Other services and charges	-	-	-	353,089	-	1,211	-	354,300
Debt service - principal and interest	-	-	178,610	37,307	-	-	-	215,917
Capital outlay	-	-	-	862,615	-	174,021	-	1,036,636
Other disbursements	13,171	-	-	18,572	6,500	178,610	-	216,853
Total disbursements	13,171	-	178,610	1,279,255	6,500	353,842	-	1,831,378
Excess (deficiency) of receipts over disbursements	(13,171)	15	(75,150)	53,860	47,083	(150,180)	21,000	(116,543)
Cash and investments - ending	\$ 30,054	\$ 15	\$ 22,546	\$ 262,980	\$ 87,742	\$ 23,316	\$ 21,000	\$ 447,653

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FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 SCHEDULE OF DEBT
 December 31, 2014

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	Property Purchase	\$ 1,380,000	\$ 177,111
Notes and loans payable	Restructured Debt - City of Frankfort	80,426	20,000
Notes and loans payable	Regions Bank - Land Purchase	<u>47,184</u>	<u>49,200</u>
Totals		<u>\$ 1,507,610</u>	<u>\$ 246,311</u>

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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 FRANKFORT CLINTON COUNTY
AIRPORT AUTHORITY, CLINTON COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Frankfort Clinton County Airport Authority's (Airport Authority) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2013 to December 31, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 its major federal program for the period of January 1, 2013 to December 31, 2014.

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 instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-003. Our opinion on the major federal program is not modified with respect to these matters.

The Airport Authority's response to the noncompliance 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.

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 our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

May 18, 2015

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

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

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FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended December 30, 2013 and 2014

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	Total Federal Awards Expended 12-30-13	Total Federal Awards Expended 12-30-14
<u>Department of Transportation</u>					
Airport Improvement Program	Direct	20.106			
Parallel Taxiway Phase 2			3-18-0026-015	\$ 150,281	\$ -
Rehabilitate and Expand Terminal Apron			3-18-0026-016	48,916	56,497
Rehabilitate Airfield Lighting			3-18-0026-017	<u>5,625</u>	<u>667,763</u>
Total federal awards expended				<u>\$ 204,822</u>	<u>\$ 724,260</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Airport Authority and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of authorities shall be conducted biennially. Such audits shall include both years within the biennial period.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2014-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the Airport Authority related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Airport Authority's audited financial statement and then determining how those identified risks should be managed. The Airport Authority has not identified risks to the preparation of the financial statement to prevent, or detect and correct, material misstatements. The following deficiencies are considered material weaknesses:

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Airport Authority to reduce risks to the achievement of financial reporting objectives. The Airport Authority has not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statement: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Airport Authority's audited financial statement and then determining how those identified risks should be managed. The Airport Authority has not identified risks to the preparation of a reliable financial statement and, as a result, has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements. The Airport Authority's Treasurer independently prepared the financial statement without an oversight, review, or approval process. The failure to establish and implement adequate controls resulted in a financial statement that contained material errors as noted below.

The Airport Authority omitted the 2012 General Obligation Bond Fund from their Annual Financial Report submitted through the Gateway system. The Annual Financial Report is used to compile the Airport Authority's financial statement. This omission resulted in the cash and investment balances and receipts and disbursements transactions to be materially understated. In addition, the Airport Authority Treasurer issued five checks totaling \$97,663.26 in December of 2013 which were not recorded in the Airport Authority's ledger until January 7, 2014. Audit adjustments were proposed, accepted by the Airport Authority, and made to the financial statement presented in this report.

3. Preparing the Schedule of Expenditures of Federal Awards: The Airport Authority did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Airport Authority should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. The Airport Authority's Treasurer independently prepared the SEFA without an oversight, review, or approval process.
4. Monitoring of Controls: Effective internal controls over financial reporting require the Airport Authority to monitor and assess the quality of the system of internal control. The Airport Authority Board has not performed either an ongoing or separate evaluation of their system of internal control. The failure to exercise their oversight responsibility places the Airport Authority at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the Airport Authority has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-002 - INTERNAL CONTROL OVER THE AIRPORT IMPROVEMENT PROGRAM

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number: 3-18-0026-015, 3-18-0026-016, 3-18-0026-017

Management of the Airport Authority has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and several of the compliance requirements that have a direct and material effect on the program. This includes the compliance requirements for Allowable Activities; Allowable Costs; Cash Management; Davis-Bacon Act; Matching, Level of Effort, Earmarking; Period of Availability; Procurement and Suspension and Debarment; Reporting; and Special Test and Provision - Revenue Diversion. The failure to establish an effective internal control system places the Airport Authority at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Activities Allowed, Allowable Costs, Period of Availability

The Airport Authority has not designed or implemented adequate policies and procedures to ensure that the Airport Authority expended funds for only Activities Allowed and Allowable Costs and within the period of availability. The Airport Authority commingled multiple grants within the Airport Authority fund and, was therefore, unable to verify that expenses were properly charged to each federal grant. The Airport Authority relied on a paid Grant Administrator to maintain details for each of its federal grants in order to properly charge expenditures to each grant. A monitoring or review process has not been established to ensure that expenditures are in compliance with Activities Allowed, Allowable Costs, and the Period of Availability compliance requirements.

Cash Management, Matching, Reporting

The Airport Authority has not designed or implemented adequate policies and procedures to ensure compliance with the Cash Management, Matching, and Reporting compliance requirements of the program. The Airport Authority relied on the Grant Administrator to prepare requests for federal funding from each grant. This included calculating matching amounts for state and local funds. The funding requests were signed by the Board President, but since the grants were not accounted for separately, the requests were not

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

properly verified to the Airport Authority's ledger. In addition, the Federal Aviation Administration directly deposited grant funds into the Airport Authority's bank account based on the requests. The Airport Authority had no controls in place to verify that payments were made to vendors within a reasonable amount of time after the deposits. A monitoring or review process has not been established to ensure that expenditures are in compliance with the Cash Management, Matching, and Reporting compliance requirements.

Davis-Bacon Act

The Airport Authority has not designed or implemented adequate policies and procedures to ensure compliance with the Davis-Bacon Act requirements of the program. The Airport Authority relied on the Grant Administrator to ensure that weekly payrolls were properly submitted. A monitoring or review process has not been established to ensure compliance with the Davis-Bacon Act compliance requirements.

Procurement and Suspension and Debarment

The Airport Authority has not designed or implemented adequate policies and procedures to ensure compliance with the Procurement and Suspension and Debarment compliance requirements of the program. The Airport Authority relied on the Grant Administrator to ensure that contractors submitted proper bid documents and that they were not suspended or debarred from participation in federal programs. A monitoring or review process has not been established to ensure compliance with the Procurement and Suspension and Debarment compliance requirements.

Special Tests and Provisions - Revenue Diversion

The Airport Authority has not designed or implemented adequate policies and procedures to ensure that revenue was used only for operating and capital activities. A monitoring or review process has not been established to ensure that revenues are in compliance with the Special Tests and Provisions compliance requirements regarding revenue diversion.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the Airport Authority.

We recommended that the Airport Authority establish controls, including segregation of duties, related to the grant agreement and compliance requirements that have a direct and material effect on the program.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2014-003 - CASH MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number: 3-18-0026-015, 3-18-0026-016, 3-18-0026-017

The Airport Authority was required to pay vendors within a reasonable amount of time after receipt of the grant funding from the federal agency. Six of the seventeen requests for grant funding were reviewed; payments from four of these were not made within a reasonable time. There was an average of 40 days between receipt of federal funding and payments to vendors.

49 CFR 18.21(b) states: "*Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205."

Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the Airport Authority.

We recommended that the Airport Authority comply with the Cash Management requirements that have a direct and material effect on the program.

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AUDITEE PREPARED DOCUMENTS

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

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING

FINDING 2012-002

Original Assigned SBA Audit Report Number: B42615
Report Period: January 1, 2011 to December 31, 2012
Pass-Through Entity or Federal Grantor Agency: U.S. Department of Transportation
Contact Person Responsible for Corrective Action: Cathy Hamilton, Secretary/Treasurer
Contact Phone Number: 765-659-6330

Status of Audit Finding:

The purpose of this communication is to provide an update regarding the ongoing corrective action plan for the Frankfort Clinton County Airport Authority's lack of segregation of duties. The Authority assesses their procedures and attempts to institute processes that would involve, at least on a sample basis, reviews of the duties being performed by the Treasurer, including, but not limited to preparing financial statements. The Authority will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place.

The Authority is a very small governmental unit and management has determined that the cost associated with the employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. Management acknowledges and assumes the risk inherent with the current design of the Treasurer's office.



(Signature)

Treasurer

(Title)

March 19, 2015

(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer
Contact Phone Number: 765-659-6330

The purpose of this communication is to provide an update regarding the ongoing corrective action plan for the Frankfort/Clinton County Airport Authority's lack of segregation of duties. The Authority assesses their procedures and attempts to institute processes that would involve reviews of the duties being performed by the Treasurer, including, but not limited to preparing financial statements and the Schedule of Expenditures of Federal Awards. The Authority will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place.

The Authority is a very small governmental unit and management has determined that the cost associated with the employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. Management acknowledges and assumes the risk inherent with the current design of the Treasurer's office.

Anticipated Completion Date: August 1, 2015



(Signature)

Treasurer

(Title)

May 18, 2015

(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer

Contact Phone Number: 765-659-6330

The Frankfort/Clinton County Airport Authority will assess our procedures and attempt to institute processes that would involve, at least on a sample basis, reviews of the duties being performed by the Treasurer, including, but not limited to the grant agreement and the compliance requirements that have a direct and material effect to the program the Authority will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place. A grant schedule will be prepared by the Treasurer and reported to the Authority at each regular meeting. A detailed revenue report will be presented to the Authority along with the bank reconciliation.

The Authority is a very small governmental unit and management has determined that the cost associated with the employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. Management acknowledges and assumes the risk inherent with the current design of the Treasurer's office.

Anticipated Completion Date: August 1, 2015



(Signature)

Treasurer

(Title)

May 18, 2015

(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer
Contact Phone Number: 765-659-6330

The purpose of this communication is to provide an update regarding the ongoing corrective action plan for the Frankfort/Clinton County Airport Authority's lack of segregation of duties. The Authority assesses their procedures and attempts to institute processes that would involve reviews of the duties being performed by the Treasurer, including, but not limited to grant receipt and vendor payments. The Authority will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place. The Treasurer will request the bank send an email notice when an EFT is received.

The Authority is a very small governmental unit and management has determined that the cost associated with the employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. Management acknowledges and assumes the risk inherent with the current design of the Treasurer's office.

Anticipated Completion Date: August 1, 2015



(Signature)

Treasurer

(Title)

May 18, 2015

(Date)

OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the Airport Authority. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.