

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

FRANKFORT AIRPORT AUTHORITY
CLINTON COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
09/17/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Marilyn Chittick Cathy Hamilton	01-01-11 to 12-31-12 01-01-13 to 12-31-13
President of the Board	Mike Nichols Tom Brandt Mel Betts Alan Dunn	01-01-11 to 03-17-11 03-18-11 to 12-31-11 01-01-12 to 12-31-12 01-01-13 to 12-31-13



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the Frankfort Airport Authority (Airport Authority), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, 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. The basis of accounting noted above is a different basis than that used in the prior period.

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, 2011 to December 31, 2012.

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, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated July 29, 2013, 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.

Accompanying Information

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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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 the Schedule of Leases and 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.

Other Information

The Airport Authority's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Airport Authority's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

July 29, 2013



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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 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 Airport Authority (Airport Authority), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated July 29, 2013, 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 2012-1 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Frankfort Airport Authority's Response to Findings

The Airport Authority's response to the findings identified in our audit is described in the accompanying Official Response and 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.



Bruce Hartman
State Examiner

July 29, 2013

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FINANCIAL STATEMENT

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 AIRPORT AUTHORITY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
General Fund	\$ 85,306	\$ 519,890	\$ 425,581	\$ 179,615	\$ 2,042,827	\$ 2,222,442	\$ -
Rainy Day	2,696	-	2,696	-	-	-	-
Excess Levy	309	-	309	-	-	-	-
Totals	<u>\$ 88,311</u>	<u>\$ 519,890</u>	<u>\$ 428,586</u>	<u>\$ 179,615</u>	<u>\$ 2,042,827</u>	<u>\$ 2,222,442</u>	<u>\$ -</u>

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

FRANKFORT 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 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. Receipts are recorded when received and disbursements are recorded when paid.

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, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise 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, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

FRANKFORT AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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 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 AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 6. Subsequent Event – Name Change

As of January 1, 2013, the Frankfort Airport Authority converted from a City Airport to a City/County Airport. The assets have been transferred to the new unit and it will conduct business under the name "Frankfort/Clinton County Airport Authority."

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Airport Authority's Annual 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 Reports of the Airport Authority which are 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 supplementary information presented was approved by management of the Airport Authority. It is presented as intended by the Airport Authority.

FRANKFORT AIRPORT AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	General Fund	Rainy Day	Excess Levy	Totals
Cash and investments - beginning	\$ 85,306	\$ 2,696	\$ 309	\$ 88,311
Receipts:				
Taxes	94,610	-	-	94,610
Intergovernmental	245,707	-	-	245,707
Charges for services	179,422	-	-	179,422
Other receipts	151	-	-	151
Total receipts	519,890	-	-	519,890
Disbursements:				
Personal services	1,722	-	-	1,722
Supplies	10,471	-	309	10,780
Other services and charges	112,142	2,696	-	114,838
Debt service - principal and interest	94,615	-	-	94,615
Capital outlay	203,282	-	-	203,282
Other disbursements	3,349	-	-	3,349
Total disbursements	425,581	2,696	309	428,586
Excess (deficiency) of receipts over disbursements	94,309	(2,696)	(309)	91,304
Cash and investments - ending	\$ 179,615	\$ -	\$ -	\$ 179,615

FRANKFORT AIRPORT AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General Fund	Rainy Day	Excess Levy	Totals
Cash and investments - beginning	\$ 179,615	\$ -	\$ -	\$ 179,615
Receipts:				
Taxes	90,652	-	-	90,652
Intergovernmental	1,884,958	-	-	1,884,958
Charges for services	63,211	-	-	63,211
Other receipts	4,006	-	-	4,006
Total receipts	2,042,827	-	-	2,042,827
Disbursements:				
Personal services	1,600	-	-	1,600
Supplies	7,889	-	-	7,889
Other services and charges	150,064	-	-	150,064
Debt service - principal and interest	74,615	-	-	74,615
Capital outlay	1,987,182	-	-	1,987,182
Other disbursements	1,092	-	-	1,092
Total disbursements	2,222,442	-	-	2,222,442
Excess (deficiency) of receipts over disbursements	(179,615)	-	-	(179,615)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -

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FRANKFORT AIRPORT AUTHORITY
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Notes and loans payable	Regions Bank - land purchase	\$ 138,427	\$ 74,615
Notes and loans payable	City of Frankfort	<u>100,426</u>	<u>20,000</u>
Total governmental activities		<u>238,853</u>	<u>94,615</u>
Totals		<u><u>\$ 238,853</u></u>	<u><u>\$ 94,615</u></u>

FRANKFORT AIRPORT AUTHORITY AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Airport Authority related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the Airport Authority to reduce risks to achievement of financial reporting objectives. The Airport Authority has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. **Preparing Financial statements:** 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 material misstatements, including notes to the financial statement.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Airport Authority Board to monitor and assess the quality of the Airport Authority's system of internal control. The Airport Authority Board has not performed either an ongoing or separate evaluation of their system of internal controls. 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 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.

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)

LOAN REPAYMENT

As of December 31, 2010, the Airport Authority was indebted to the City of Frankfort in the amount of \$120,425.84 for loan and vendor payments paid by the City on behalf of the Airport Authority. The Airport Authority Board and the Frankfort City Council agreed to a repayment schedule for these payments with yearly payments ranging from \$10,000 to \$20,425.84 with the final payment toward this debt being made in 2015. A \$20,000.00 payment due to the City in 2012 was not made by the Airport Authority.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

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

Report on Compliance for Each Major Federal Program

We have audited the Frankfort 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, 2011 to December 31, 2012. 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 Each 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, 2011 to December 31, 2012.

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

Other Matters

The Airport Authority's response to our audit is described in the accompanying Official Response. 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 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 type 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 each 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 2012-2 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 Official Response and 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.



Bruce Hartman
State Examiner

July 29, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

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FRANKFORT AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2011 and 2012

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 12-31-11	Total Federal Awards Expended 12-31-12
<u>Department of Transportation Federal Aviation Administration (FAA)</u>					
Airport Improvement Program	Direct Grant	20.106			
Parallel Taxiway A			3-18-0026-11	\$ 7,637	\$ -
			3-18-0026-14	18,245	-
			3-18-0026-15	<u>298,340</u>	<u>1,817,442</u>
				<u>\$ 324,222</u>	<u>\$ 1,817,442</u>

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

FRANKFORT 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 Frankfort 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 et seq.), audits of airport authorities shall be conducted biennially. Such audits shall include both years within the biennial period.

FRANKFORT 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 2012-1 - INTERNAL CONTROLS OVER
FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the Airport Authority related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Airport Authority to reduce risks to achievement of financial reporting objectives. The Airport Authority has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.

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

2. Preparing Financial statements: 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 material misstatements, including notes to the financial statement and the Schedule of Expenditures of Federal Awards.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Airport Authority Board to monitor and assess the quality of the Airport Authority's system of internal control. The Airport Authority Board has not performed either an ongoing or separate evaluation of their system of internal controls. 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 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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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)

FINDING 2012-2 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE AIRPORT IMPROVEMENT PROGRAM

Federal Agency: U.S. Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year: 3-18-0026-11, 3-18-0026-14, 3-18-0026-15

Direct Grant

Management of the Frankfort Airport Authority has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: activities allowed or unallowed; allowable costs; cash management; Davis-Bacon Act; matching, level of effort, earmarking; period of availability; procurement and suspension and debarment; reporting; and special tests and provisions. 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 grant.

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

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 type of compliance requirement of a federal program will be prevented, 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 of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2010-2, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Auditee Contact Person: Marilyn Chittick
Contact Person Title: Prior Treasurer, Frankfort Airport Authority
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 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.



Marilyn Chittick
Former Treasurer
Frankfort Airport Authority

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

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

CORRECTIVE ACTION PLAN

FINDING 2012-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

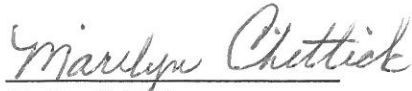
Auditee Contact Person: Cathy Hamilton
Contact Person Title: Treasurer, Frankfort Airport Authority
Contact Phone Number: (765) 659-6330

The Frankfort Airport Authority will assess their 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 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.

The Treasurer presents all claims and income monthly to the Authority. The entire board reviews and approves, by signature, all claims monthly.


Cathy Hamilton
Treasurer
Frankfort/Clinton County Airport Authority


Marilyn Chittick
Treasurer
Frankfort Airport Authority



Clinton County Auditor

Cathy J. Hamilton
225 Courthouse Square
Frankfort, Indiana 46041-1995
765-659-6330
765-659-6391 fax
auditor@clintonco.com

CORRECTIVE ACTION PLAN

FINDING 2012-2, INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE AIRPORT IMPROVEMENT PROGRAM

Federal Agency: U.S. Department of Transportation Federal Aviation Administration (FAA)

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): 3-18-0026-011, 3-18-0026-014, 3-18-0026-015

Direct Grant

The Frankfort 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.

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 of the federal programs 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.


Cathy Hamilton
Treasurer
Frankfort Airport Authority

FRANKFORT AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on July 29, 2013, with Cathy Hamilton, Treasurer; Alan Dunn, President of the Board; and Mel Betts, former President of the Board. The Official Response has been made a part of this report and may be found on page 38.

FRANKFORT/CLINTON COUNTY AIRPORT AUTHORITY

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

Resolution 2012-02, A Resolution to Restructure Indebtedness of Frankfort/Clinton County Airport Authority, was approved on August 7, 2012. This Resolution states the Frankfort Airport Authority will not have sufficient funds to make the 2012 loan repayment to the City of Frankfort and the loan was restructured to begin in 2013. The Common Council also approved a Resolution agreeing to restructure the loan.


Cathy Hamilton
Treasurer
Frankfort/Clinton County Airport Authority

FRANKFORT/CLINTON COUNTY AIRPORT AUTHORITY

RESOLUTION NO. 2012-02

A RESOLUTION TO RESTRUCTURE INDEBTEDNESS OF FRANKFORT/CLINTON COUNTY AIRPORT AUTHORITY

WHEREAS, the former Frankfort Airport Authority, by its Resolution No. 08-02 dated November 5, 2008, entitled a Resolution to Set Repayment Schedule, established a nine (9) year repayment plan for the repayment of \$150,425.84 to the City of Frankfort, a copy of which resolution is attached hereto as Exhibit A; and

WHEREAS, Resolution No. 11-06 was adopted by the Common Council of the City of Frankfort on June 13, 2011, which resolution together with a similar resolution passed by the Clinton County Council, established the Frankfort/Clinton County Airport Authority (the "Airport Authority") as the successor to the former Frankfort Airport Authority; and

WHEREAS, according to the schedule of the attached Resolution No. 08-02, the Airport Authority was to have repaid the City of Frankfort the sum of \$70,000.00 through 2011, but only \$40,000.00 of said sum has been repaid thereby leaving a balance owing of \$80,425.84; and

WHEREAS, the Airport Authority has determined that it does not and will not have funds available to pay the scheduled annual amount of \$20,000.00 due in 2012, but will be able to resume scheduled payments in 2013; and

WHEREAS, the Frankfort/Clinton County Airport is an important economic development asset for the Frankfort Community and the Common Council has found by resolution that it would be in the best interests of the City and its residents to restructure the repayment of the said indebtedness owed by the Airport Authority to the City of Frankfort:

NOW, THEREFORE, BE IT RESOLVED, that the balance of \$80,425.84 owing on the indebtedness from the Airport Authority to the City of Frankfort shall be repaid as follows:

2013 - \$20,000.00 to be paid after receipt of 2013 tax draws.
2014 - \$20,000.00 to be paid after receipt of 2014 tax draws.
2015 - \$20,000.00 to be paid after receipt of 2015 tax draws.
2016 - \$20,425.84 to be paid after receipt of 2016 tax draws.

ADOPTED this 7 day of August, 2012.

FRANKFORT/CLINTON COUNTY
AIRPORT AUTHORITY

BY: 
Alan Dunn, President
Printed Name

ATTEST:

BY: 
Cathy Hamilton, Secretary