

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, 2016 to December 31, 2016



FILED
10/24/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cathy Hamilton	01-01-16 to 12-31-18
President of the Airport Authority Board	Alan Dunn	01-01-16 to 12-31-18



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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 (Authority), which comprises the financial position and results of operations for the year ended December 31, 2016, and the related notes to the financial statement as listed in the Table of Contents.

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 from 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 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 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 to the financial statement, the 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 Authority for the year ended December 31, 2016.

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 Authority for the year ended December 31, 2016, 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 Authority's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 Authority's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, and 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.

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 September 12, 2018, on our consideration of the 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 solely 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 effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

September 12, 2018



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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 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 (Authority), which comprises the financial position and results of operations for the year ended December 31, 2016, and the related notes to the financial statement, and have issued our report thereon dated September 12, 2018, wherein we noted the 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 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 2016-001.

Frankfort Clinton County Airport Authority's Response to Findings

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


Paul D. Joyce, CPA
State Examiner

September 12, 2018

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2016

Fund	Cash and Investments 01-01-16	Receipts	Disbursements	Cash and Investments 12-31-16
Rainy Day	\$ 68,227	\$ 84,002	\$ 25,150	\$ 127,079
Levy Excess	15	-	-	15
DEBT SERVICE	86,682	226,451	174,110	139,023
AIRPORT AUTHORITY	415,200	559,582	492,449	482,333
CUMULATIVE AIRPORT BLDG	135,859	107,572	-	243,431
Real Estate Sale Proceeds	136,000	101,444	-	237,444
REHAB LIGHTING AIP 17	(79,931)	106,097	19,411	6,755
TERMINAL APRON AIP 16	(32,471)	30,035	69,989	(72,425)
TAXIWAY B REHA AIP 18	(24,138)	1,110,785	1,195,700	(109,053)
Totals	<u>\$ 705,443</u>	<u>\$ 2,325,968</u>	<u>\$ 1,976,809</u>	<u>\$ 1,054,602</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 Authority was established under the laws of the State of Indiana. The Authority operates under a governing board.

The accompanying financial statement presents the financial information for the 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. Amounts received from one or more of the following: property tax, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeeper's 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 Authority.

Intergovernmental receipts. Amounts received from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of intergovernmental receipts include, but are not limited to, the following: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distributions received from the state, local road and street distributions 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.

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

Charges for services. Amounts received for services including, but not limited to, the following: planning commission charges, building department charges, copies of public records, copy machines 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.

Other receipts. Amounts received from various sources, including, but 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:

Supplies. Amounts disbursed for 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, but are not limited to, the following: office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges. Amounts disbursed for services including, but not limited to, the following: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

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

Capital outlay. Amounts disbursed for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Other disbursements. Amounts disbursed for various other purposes including, but 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 Authority may, from time to time, make transfers 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.

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

G. Fund Accounting

Separate funds are established, maintained, and reported by the Authority. Each fund is used to account for amounts 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 Authority. The amounts 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 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.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the 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 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 lien date (March 1 in a year ending before January 1, 2016 and January 1 in a year beginning after December 31, 2015) 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 Authority to invest in securities including, but not limited to, the following: federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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

Note 5. Risk Management

The 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 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.

Note 6. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of funds being set up for reimbursable grants. The reimbursements for expenditures made by the Authority were not received by December 31, 2016.

Note 7. Subsequent Events

On August 4, 2017, the Authority was awarded \$104,400 by the Department of Transportation - Federal Aviation Administration (FAA) in Airport Improvement Program grant funds. The grant term, unless explicitly stated otherwise in an amendment from the FAA, is four years (1,460 calendar days) from the date of formal grant acceptance.

OTHER INFORMATION - UNAUDITED

The Authority's Annual Financial Report information can be found on the Indiana Gateway for Government Units 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 Authority's Annual Financial Report 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 Authority. It is presented as intended by the Authority.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	<u>Rainy Day</u>	<u>Levy Excess</u>	<u>DEBT SERVICE</u>	<u>AIRPORT AUTHORITY</u>	<u>CUMULATIVE AIRPORT BLDG</u>
Cash and investments - beginning	\$ 68,227	\$ 15	\$ 86,682	\$ 415,200	\$ 135,859
Receipts:					
Taxes	-	-	211,892	316,029	100,293
Intergovernmental receipts	29,909	-	14,559	130,510	7,279
Charges for services	-	-	-	102,431	-
Other receipts	54,093	-	-	10,612	-
Total receipts	<u>84,002</u>	<u>-</u>	<u>226,451</u>	<u>559,582</u>	<u>107,572</u>
Disbursements:					
Supplies	-	-	-	3,736	-
Other services and charges	-	-	-	284,257	-
Debt service - principal and interest	1,312	-	174,110	-	-
Capital outlay	23,838	-	-	141,576	-
Other disbursements	-	-	-	62,880	-
Total disbursements	<u>25,150</u>	<u>-</u>	<u>174,110</u>	<u>492,449</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>58,852</u>	<u>-</u>	<u>52,341</u>	<u>67,133</u>	<u>107,572</u>
Cash and investments - ending	<u>\$ 127,079</u>	<u>\$ 15</u>	<u>\$ 139,023</u>	<u>\$ 482,333</u>	<u>\$ 243,431</u>

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	Real Estate Sale Proceeds	REHAB LIGHTING AIP 17	TERMINAL APRON AIP 16	TAXIWAY B REHA AIP 18	Totals
Cash and investments - beginning	\$ 136,000	\$ (79,931)	\$ (32,471)	\$ (24,138)	\$ 705,443
Receipts:					
Taxes	-	-	-	-	628,214
Intergovernmental receipts	-	106,097	30,035	1,110,785	1,429,174
Charges for services	-	-	-	-	102,431
Other receipts	101,444	-	-	-	166,149
Total receipts	101,444	106,097	30,035	1,110,785	2,325,968
Disbursements:					
Supplies	-	-	-	-	3,736
Other services and charges	-	19,411	69,989	1,195,700	1,569,357
Debt service - principal and interest	-	-	-	-	175,422
Capital outlay	-	-	-	-	165,414
Other disbursements	-	-	-	-	62,880
Total disbursements	-	19,411	69,989	1,195,700	1,976,809
Excess (deficiency) of receipts over disbursements	101,444	86,686	(39,954)	(84,915)	349,159
Cash and investments - ending	\$ 237,444	\$ 6,755	\$ (72,425)	\$ (109,053)	\$ 1,054,602

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2016

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 249,090</u>	<u>\$ -</u>

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 SCHEDULE OF LEASES AND DEBT
 December 31, 2016

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
General obligation bonds	GENERAL OBLIGATION BONDS OF 2012	\$ 1,080,000	\$ 173,079
Notes and loans payable	RESTRUCTURED DEBT CITY OF FRANKOFRT	<u>80,426</u>	<u>80,426</u>
Totals		<u>\$ 1,160,426</u>	<u>\$ 253,505</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 (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2016. The Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on the Major Federal Program

In our opinion, the 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 year ended December 31, 2016.

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

Other Matters

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

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The 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 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 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The 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.

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

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

September 12, 2018

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2016

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Transportation</u>					
Airport Improvement Program	Direct Grant	20.106			
REHABILITATE AND EXPAND TERMINAL APRON			3-18-0026-016-2012	\$ -	\$ 29,223
REHABILITATE AIRFIELD LIGHTING			3-18-0026-017-2013	-	104,656
REHABILITATE MIDFIELD APRON/TAXIWAY B			3-18-0026-018-2015	-	1,046,262
Total - Department of Transportation				-	1,180,141
Total federal awards expended				\$ -	\$ 1,180,141

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

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

Note 1. Basis of Presentation

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

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received. The Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	yes

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

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

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

Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were several deficiencies in the internal control system of the Authority related to financial transactions and reporting. The Authority had not separated incompatible activities related to financial reporting, cash and investments, and the Schedule of Expenditures of Federal Awards (SEFA).

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

Financial Transactions and Reporting

The Treasurer entered the Authority's financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Annual Financial Report (AFR) and financial statement; however, the process was completed without a documented oversight, review or approval process, or other compensating control in place to ensure that information was submitted accurately.

Cash and Investments

The Authority had not established controls to ensure that reconciled cash and investment balances agreed to the financial statement. The Treasurer completed monthly bank reconciliations without any documented oversight or review procedures in place to ensure their accuracy. The ending cash and investment balance in the financial statement was understated by \$43,285 due to incorrect posting of receipts, which affected the ending cash balance, during the audit period.

Schedule of Expenditures of Federal Awards

The Authority did not have an adequate control system in place to ensure the accuracy of the SEFA. Federal grant information was prepared and submitted in the Gateway financial reporting system, which was the source for the SEFA, without a documented oversight, review or approval process, or other compensating control in place to ensure that information was submitted accurately.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

Criteria

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

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

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

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

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

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](#)."

Cause

Management had not established a proper system of internal control that segregated key functions to ensure proper reporting of the AFR and financial statement, cash and investments, and the SEFA.

Effect

The failure to establish controls enabled misstatements of the financial statement to remain undetected. The financial statement contained the errors identified in the *Context*.

Recommendation

We recommended that the Authority's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2016-002

Subject: Airport Improvement Program - Cash Management

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0026-016-2012,
3-18-0026-017-2013,
3-18-0026-018-2015

Compliance Requirement: Cash Management

Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the Authority in order to ensure compliance with requirements related to the grant agreement and the Cash Management compliance requirement.

Effective procedures were not implemented by the Authority that would minimize the time elapsing between the transfer of federal funds and subsequent disbursement by the Authority. Three of four disbursements tested had periods of 44, 56, and 85 days between the submission of a payment request and the subsequent disbursement by the Authority.

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

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 200.305(b) states in part:

"For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. See also § 200.302 Financial management paragraph (b)(6). Except as noted elsewhere in this part, Federal agencies must require recipients to use only OMB-approved standard government wide information collection requests to request payment. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Cash Management compliance requirement.

Effect

The failure to establish an effective internal control system placed the Authority in noncompliance with the grant agreement and the Cash Management compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Authority's management establish controls to ensure compliance with the grant agreement and the Cash Management compliance requirement.

Views of Responsible Officials

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

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

FINDING 2016-003

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

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0026-016-2012,
3-18-0026-017-2013,
3-18-0026-018-2015

Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

Condition

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

The Authority hired an engineer to oversee compliance with wage rate requirements; however, the Authority did not implement documented oversight or review procedures to ensure compliance with the wage rate requirements was being properly completed.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

Management had not developed a system of internal controls to ensure compliance with the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Effect

The failure to establish an effective internal control system, which would include segregation of duties, placed the Authority at risk of noncompliance with the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Authority's management establish controls related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Authority. The document is presented as intended by the Authority.

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

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

CORRECTIVE ACTION PLAN

FINDING 2016-001

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

Views of Responsible Official:

Due to the timing of the audit, the finding has yet to be corrected at the current date.

Description of Corrective Action Plan:

The Airport Authority Board will be presented the Annual Financial Report for review prior to submission in Gateway.

The monthly bank reconciliation along with the monthly financial statement will be presented to an Airport Authority Board member for review prior to monthly meeting.

An excel spreadsheet will be created by the Treasurer to compare to the reports from Butler, Fairman & Seufert for the federal grant information prior to submission in Gateway.

Anticipated Completion Date: January 2019



(Signature)

Treasurer

(Title)

September 9, 2018

(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

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

CORRECTIVE ACTION PLAN

FINDING 2016-002

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

Views of Responsible Official:

Contracted engineer, BFS, presents invoices to the Board and requests disbursement from the FAA.

Description of Corrective Action Plan:

Contracted engineer, BFS, has adjusted their timing on submission of disbursement requests to correct the elapsing time.

Anticipated Completion Date: January 1, 2017

Cathy G. Hamilton
(Signature)

Treasurer
(Title)

9-10-18
(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

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

CORRECTIVE ACTION PLAN

FINDING 2016-003

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

Views of Responsible Official:

Due to the timing of the audit, the finding has yet to be corrected at the current date.

Description of Corrective Action Plan:

Will request the wage rate documentation be presented the Airport Authority Board on a regular basis.

Anticipated Completion Date: December 31, 2018

Cathy E. Hamilton
(Signature)

Treasurer
(Title)

9-9-18
(Date)

OTHER REPORTS

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