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March 27, 2019


Board of Directors
Terre Haute International Airport
581 S Airport St
Terre Haute, IN 47803

As authorized under Indiana Code 5-11-1, we engaged private examiners under our review to perform the audit of Terre Haute International Airport. We have reviewed the audit report prepared by Katz, Sapper & Miller, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. Per the *Independent Accountant's Report*, due to inadequacy of accounting records for the period January 1, 2016 to December 31, 2016, Katz, Sapper & Miller was unable to obtain sufficient appropriate audit evidence regarding cash receipts and cash disbursements and was unable to express an opinion on the financial statements included in the report.

In our opinion, Katz, Sapper & Miller prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Report for Terre Haute International Airport was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

TERRE HAUTE REGIONAL AIRPORT AUTHORITY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES – REGULATORY BASIS
AND
INDEPENDENT AUDITORS' REPORT WITH OTHER INFORMATION

December 31, 2016

TERRE HAUTE REGIONAL AIRPORT AUTHORITY

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SCHEDULE OF OFFICIALS

Office	Official	Term
Executive Director	Jeffrey Hauser	01-01-16 to 12-31-18
Finance/Office Manager	Karen Burger	01-01-15 to 12-31-16
President of the Board	Darryl Huyett	07-01-15 to 12-31-18

Independent Accountants' Report

Board of Directors
Terre Haute Regional Airport Authority

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Terre Haute Regional Airport Authority (the Airport Authority), which comprises the statement of cash receipts, disbursements, and cash and investment balances – regulatory basis, as of and for the year ended December 31, 2016, 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 permitted 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.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on conducting the audit 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 *Uniform Compliance Guidelines for Audit of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we are not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Because of the inadequacy of accounting records for the year ended December 31, 2016, we were unable to obtain sufficient appropriate audit evidence regarding cash receipts and cash disbursements for the year ended December 31, 2016.

As described in Note 1, the financial statement is prepared by the Airport Authority on the financial reporting provisions of the Indiana State Board of Accounts as permitted 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.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement referred to in the first paragraph.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2019 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.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
March 8, 2019

FINANCIAL STATEMENT

TERRE HAUTE REGIONAL AIRPORT AUTHORITY

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS**

For the Year Ended December 31, 2016

	<u>Cash and Investments January 1, 2016</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments December 31, 2016</u>
General Fund	\$ 1,558,182	\$ 3,420,006	\$ 3,360,403	\$ 1,617,785
Holding for FAA	548,088	935		549,023
AIP Funds	57,015	253,538	259,318	51,235
Cumulative	286,941	97,936	188,977	195,900
TIF	<u>757,744</u>	<u>790,658</u>	<u>935,298</u>	<u>613,104</u>
Totals	<u><u>\$ 3,207,970</u></u>	<u><u>\$ 4,563,073</u></u>	<u><u>\$ 4,743,996</u></u>	<u><u>\$ 3,027,047</u></u>

See accompanying notes.

TERRE HAUTE REGIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENT December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Terre Haute Regional Airport Authority (the Airport Authority) was established under the laws of the State of Indiana. The Airport Authority changed its name from Terre Haute International Airport Authority to Terre Haute Regional Airport Authority in 2016. The Airport Authority operates under an appointed governing board. The Airport Authority provides aviation services in Terre Haute, Indiana.

Basis of Accounting: The accompanying financial statement is reported on a regulatory basis of accounting in accordance with the financial reporting provisions of the Indiana State Board of Accounts as permitted 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 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. In addition, certain disclosures required by accounting principles generally accepted in the United States of America are not required to be presented in accordance with the regulatory basis.

Estimates: The Airport Authority uses estimates and assumptions in preparing financial statements in accordance with the regulatory basis of accounting. These estimates and assumptions affect the reported amounts of cash and investments and cash receipts and disbursements. Actual results could vary from these estimates.

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

Receipts are presented in the aggregate on 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: rental of property and airport operating receipts received from the City of Terre Haute and Vigo County.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disbursements are presented in the aggregate on 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.

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.

Interfund Transfers: The Airport 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.

Fund Accounting: Separate funds are established, maintained, and reported by the Airport 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 Airport 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 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.

Income Taxes: The Airport Authority is exempt from federal income taxes under Internal Revenue Code Section 115.

Subsequent Events: The Airport Authority has evaluated the financial statement for subsequent events occurring through March 8, 2019, the date the financial statement was available to be issued.

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 the 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.

NOTE 6 - PENSION PLAN

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Airport Authority the authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
One North Capitol, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

OTHER INFORMATION

*Independent Auditors' 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*

Board of Directors
Terre Haute Regional Airport Authority

We were engaged to 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, the financial statement of the Terre Haute Regional Airport Authority (the Airport Authority), which comprises the statement of cash receipts, disbursements, and cash and investment balances – regulatory basis as of December 31, 2016, and for the year then ended and the related notes to the financial statement, and have issued our report thereon dated March 8, 2019, wherein we noted the financial statement is prepared by the Airport Authority on the financial reporting provisions of the Indiana State Board of Accounts as permitted 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. Our report disclaims an opinion on such financial statement because of the Airport Authority's inadequacy of accounting records for the year ended December 31, 2016.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statement of the Airport Authority, 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 have not been identified. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Airport Authority's Response to Finding

The Airport Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. The Airport Authority's response was not subjected to the auditing procedures applied in the engagement to audit the financial statement and, accordingly, we express no opinion on it.

Compliance and Other Matters

In connection with our engagement to audit the financial statement of the Airport Authority, we would have 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, based on the matter discussed in the first paragraph of this report, we did not complete such testing.

Purpose of This Report

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

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
March 8, 2019

TERRE HAUTE REGIONAL AIRPORT AUTHORITY

SCHEDULE OF FINDINGS Year Ended December 31, 2016

Material Weakness in Internal Control Over Financial Reporting

Criteria: Adequate internal controls should be in place to mitigate the risk of material misstatements.

Condition and Context: An effective internal control system was not in place at the Airport Authority over the financial close and reporting process. The Airport Authority was unable to reconcile the financial information generated by its financial software and the financial information reported on a regulatory basis.

Cause and Effect: Management of the Airport Authority had not established a proper system of internal control. The failure to establish controls could have enabled material misstatements to remain undetected and did result in additional time being required to complete the audit.

Recommendation: We recommend that the Airport Authority's management establish controls to ensure accounting records are properly closed and the financial activity in the records are accurately reflected in the financial statements. We also recommend that a more appropriate accounting system be implemented to assist the Airport Authority's staff in maintaining an accurate record of receipts and disbursements.

Views of Responsible Officials: Management agrees with the finding and recommendation.