

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

COMPLIANCE REVIEW

OF

CAPITAL IMPROVEMENT BOARD OF MANAGERS

MARION COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
06/24/2014

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CAPITAL IMPROVEMENT BOARD OF MANAGERS - 2013

<u>Board Member</u>	<u>Position</u>	<u>Appointed by</u>	<u>Term Ending</u>
Ann Lathrop, CPA.	President	Mayor	01-14-14
Jim Dora, Jr.	Vice President	Mayor	01-14-14
Douglas R. Brown, Esq.	Secretary	Marion County Commissioners	01-14-14
David N. Shane	Treasurer	Mayor	01-14-14
Jay K. Potesta	Member	Mayor	01-14-14
Carolene Mays	Member	Mayor	01-14-14
Brenda Myers	Member	County Commissioners **	01-14-14
Milton O. Thompson	Member	Mayor	01-14-14
Maggie A. Lewis	Member	City-County Council	01-14-14

**Member appointed by the majority vote of a body consisting of one member of the Board of County Commissioners of each county in which a food and beverage tax is in effect under IC 6-9-35.

CAPITAL IMPROVEMENT BOARD FINANCIAL MANAGEMENT

<u>Manager</u>	<u>Title</u>	<u>Term</u>
Augustus L. "Barney" Levensgood	Executive Director	01-07-91 to present
Dan Huges	Chief Financial Officer	03-08-10 to 08-25-13
Megan Ornellas	Chief Financial Officer	08-26-13 to present
Patti Dean	Controller	09-16-09 to present



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CAPITAL IMPROVEMENT
BOARD OF MANAGERS, MARION COUNTY, INDIANA

We have audited the financial statements of the Capital Improvement Board of Managers of Marion County, Indiana (CIB), a component unit of the consolidated City of Indianapolis-Marion County, as of and for the year ended December 31, 2013, and have issued our opinion thereon dated May 15, 2014. The primary purpose of the audit was to report our opinion on the financial statements. We have included an unqualified opinion on these financial statements which, along with the audited financial transactions of the CIB, is available in the CIB's Comprehensive Annual Financial Report.

Although it is not explicitly stated, an unqualified audit report indicates that we did gather adequate audit evidence to support the assertions in the financial statements and related notes, that we are satisfied that the books and records are in agreement with the financial statements, and that we received all the information and explanations we considered necessary for the audit. Our audit procedures are designed to give us reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. It is the responsibility of management to ensure that accurate and reliable accounting records are maintained and that adequate internal controls are established and maintained.

We utilized risk assessment procedures, tests of controls, and substantive procedures during the course of the audit in order to develop our opinion. During the planning stages of the audit, we gained an in-depth understanding of the processes and controls in place, determined which audit areas were significant, and identified those areas with higher risk. We tested controls for significant areas to ensure that the controls which had been implemented were effective. Based on this assessment, we developed substantive audit procedures to support our opinion on the financial statements. This approach allowed us to perform an effective and efficient audit and to receive sufficient audit evidence to support our opinion.

In planning and performing our audit, we considered the internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, we express no opinion on the internal control over financial reporting. Material issues of noncompliance with statutes, board policies, and other regulations would be included in this report; however, we noted no such issues.

Indiana State Board of Accounts
STATE BOARD OF ACCOUNTS

May 15, 2014

CAPITAL IMPROVEMENT BOARD OF MANAGERS
MARION COUNTY, INDIANA
GENERAL INFORMATION

I. INTRODUCTION

Purpose of this Compliance Review

A compliance review is designed to review specific activities in order to determine whether performance of a particular transaction or activity conforms to a predetermined contractual, regulatory, or statutory requirement. These requirements are established by the State of Indiana, the City-County Council, and the Capital Improvement Board of Managers of Marion County (CIB). This audit was not intended to be an audit of performance or efficiency of the CIB. Accordingly, no audit procedures were performed and no opinion or comments will be issued on performance or efficiency of the CIB.

IC 36-10-9-9(f) states, "The controller shall submit to the board at least annually a report of the board's accounts exhibiting the revenues, receipts, and disbursements and the sources from which the revenues and receipts were derived and the purpose and manner in which they were disbursed. The board may require that the report be prepared by an independent certified public accountant designated by the board. The state board of accounts shall audit annually the accounts, books, and records of the board and prepare a financial report and a compliance audit report. The board shall submit to the city-county legislative body financial and compliance reports of the state board of accounts. The board shall post the reports of the state board of accounts on the board's Internet web site. The city-county legislative body shall discuss the financial and compliance reports of the state board of accounts in a public hearing. The handling and expenditure of funds is subject to supervision by the state board of accounts."

Background of the Capital Improvement Board of Managers of Marion County, Indiana

The CIB is a municipal body of Marion County created in 1965 pursuant to the provisions of Indiana Code (IC) 36-10-9. As amended in 2009, six (6) of the nine (9) board members, who serve two year terms, are appointed by the Mayor of the City of Indianapolis, one (1) is appointed by the Marion County Board of Commissioners, one (1) is appointed by the City-County Council (Marion County-Indianapolis), and one (1) is appointed jointly by majority vote of a body consisting of one (1) member of the board of county commissioners of each county in which a food and beverage tax is in effect under IC 6-9-35 on January 1 of the year of the appointment.

In general, the organization is to acquire, construct, finance, lease, operate, promote and publicize capital improvements and thereby serve the convention and visitor industry and the commercial, industrial and cultural interests of the State of Indiana and its citizens. This presently occurs principally through its operation of the Indiana Convention Center and Lucas Oil Stadium, and its use arrangements related to Victory Field and Conseco Fieldhouse.

The powers and duties of the CIB are as follows in accordance with IC 36-10-9-6:

"The board may, acting under the title "capital improvement board of managers of _____ County", do the following:

- (1) Acquire by grant, purchase, gift, devise, lease, condemnation, or otherwise, and hold, use, sell, lease, or dispose of, real and personal property and all property rights and interests necessary or convenient for the exercise of its powers under this chapter.
- (2) Construct, reconstruct, repair, remodel, enlarge, extend, or add to any capital improvement built or acquired by the Board under this chapter.

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- (3) Control and operate a capital improvement, including letting concessions and leasing all or part of the capital improvement.
- (4) Fix charges and establish rules governing the use of a capital improvement.
- (5) Accept gifts or contributions from individuals, corporations, limited liability companies, partnerships, associations, trusts, or political subdivisions, foundations, and funds, loans, or advances on the terms that the board considers necessary or desirable from the United States, the State, and any political subdivision or department of either, including entering into and carrying out contracts and agreements in connection with this subdivision.
- (6) Exercise within and in the name of the county the power of eminent domain under general statutes governing the exercise of the power for a public purpose.
- (7) Receive and collect money due for the use or leasing of a capital improvement and from concessions and other contracts, and expend the money for proper purposes.
- (8) Receive excise taxes, income taxes, and ad valorem property taxes and expend the money for operating expenses, payments of principal or interest of bonds or notes issued under this chapter, and for all or part of the cost of a capital improvement.
- (9) Retain the services of architects, engineers, accountants, attorneys, and consultants and hire employees upon terms and conditions established by the Board, so long as any employees or members of the Board authorized to receive, collect, and expend money are covered by a fidelity bond, the amount of which shall be fixed by the Board. Funds may not be disbursed by an employee or member of the Board without prior specific approval by the Board.
- (10) Provide coverage for its employees under IC 22-3 and IC 22-4.
- (11) Purchase public liability and other insurance considered desirable.
- (12) Make and enter into all contracts and agreements necessary or incidental to the performance of its duties and the execution of its powers under this chapter, including the enforcement of them.
- (13) Sue and be sued in the name and style of "capital improvement board of managers of _____ County" (including the name of the county), service of process being had by leaving a copy at the Board's office.
- (14) Prepare and publish descriptive material and literature relating to the facilities and advantages of a capital improvement and do all other acts that the board considers necessary to promote and publicize the capital improvement, including the convention and visitor industry, and serve the commercial, industrial, and cultural interests of Indiana and its citizens. The Board may assist, cooperate, and fund governmental, public, and private agencies and groups for these purposes.
- (15) Enter into leases of capital improvements and sell or lease property under IC 5-1-17 or IC 36-10-9.1."

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II. RELATED PARTIES OF THE CIB

A. Asset Related Debt - Pre-2005

In 1985, IC 36-10-9.1 created the Marion County Convention and Recreational Facilities Authority (MCCRFA) for the purpose of "financing, constructing, and leasing capital improvements (including future additions to such properties) to the capital improvement board." This was to be accomplished by means of various lease-purchase agreements with the CIB. MCCRFA issued various debt instruments and supervised to completion construction of the Indiana Convention Center Expansion & RCA Dome in 1984, Victory Field in 1996, and Conseco Fieldhouse in 1999. Debt from the demolished RCA Dome remains as a portion of various outstanding debt issues. Lease agreements between MCCRFA and the CIB secure the related bonds, along with certain state and local taxes which are committed by the CIB to pay lease rentals. At the termination of each lease, ownership of the various properties reverts to the lessee (CIB). A complete detail of all outstanding debt issues is available in the CIB's Comprehensive Annual Financial Report.

B. Asset Related Debt - 2005 to Present

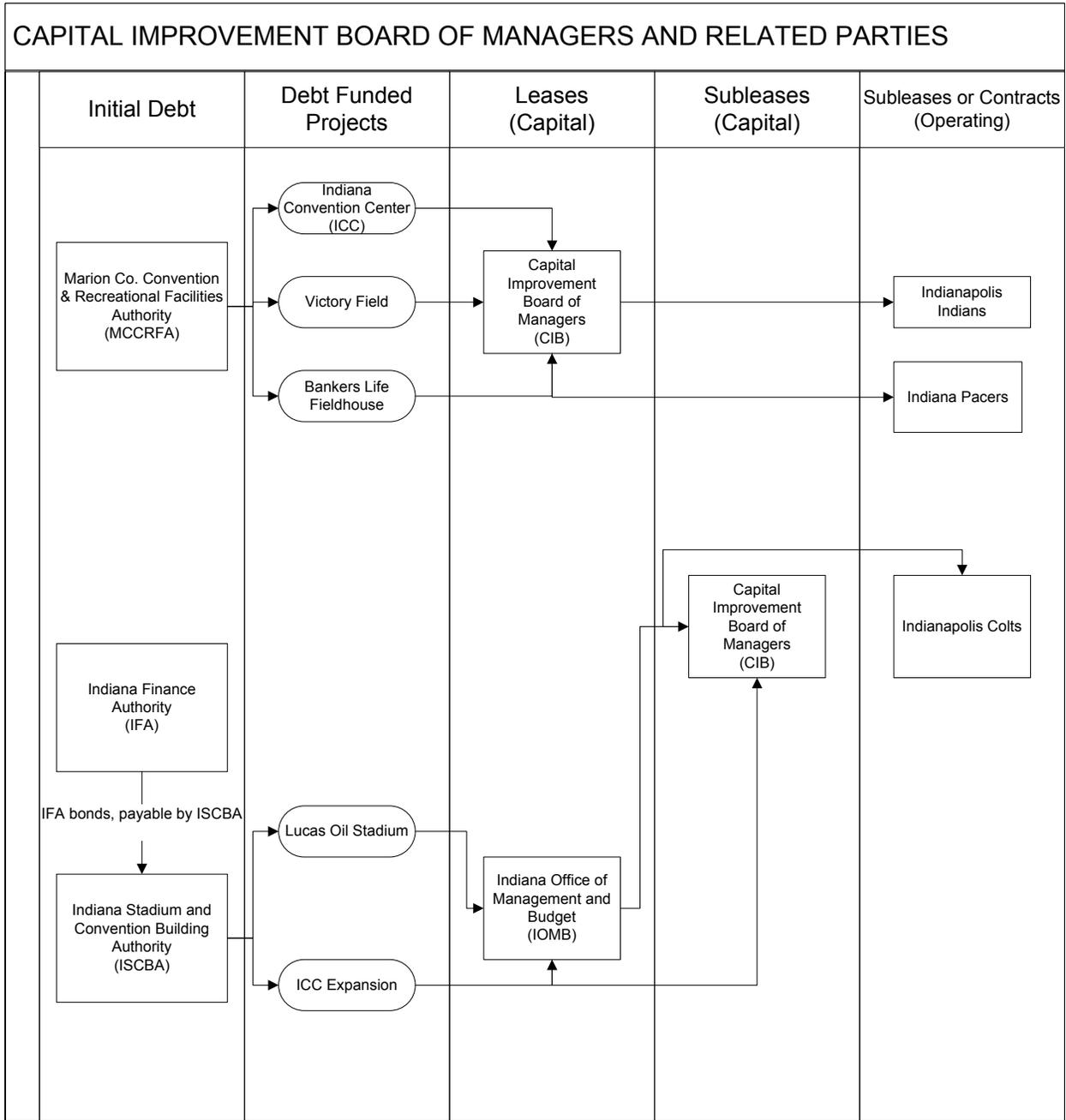
In 2005, IC 5-1-17 created the Indiana Stadium and Convention Building Authority (ISCBA) to assume the responsibilities for future debt and construction of Lucas Oil Stadium and the Indiana Convention Center Expansion (including future additions to these properties). Construction of Lucas Oil Stadium and the additions to the Indiana Convention Center have been contracted and supervised by the ISCBA. Bonds for these projects were issued by the Indiana Finance Authority (IFA). Construction expenses are approved by the ISCBA and paid through the IFA. At the completion of each project, the properties are leased by ISCBA, through the Indiana Office of Management and Budget (OMB), to the CIB, which is then committed to pay the debt through the lease. At the termination of each lease, ownership of the various properties reverts to the lessee (CIB). Complete detail of all outstanding debt issues is available in the CIB's Comprehensive Annual Financial Report.

C. Lease Agreements

A complete picture of the various lease arrangements is illustrated by the flowchart following this section. To discern between leases noted as "Capital" and "Operating," a capital lease indicates that, in accordance with Financial Accounting Standards Board Statement #13, the lessee (CIB) qualifies as the "true owner" of the property and reports such as a capital asset on their financial statements. An operating lease indicates a "rental" contract not signifying ownership by the lessee and reported as rental expense on financial statements.

A general description of the terms of each lease follows the chart. Details of leases are available in the CIB's Comprehensive Annual Financial Report and on the CIB's website, www.capitalimprovementboard.org.

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D. Visit Indy (formerly Indiana Convention and Visitors' Association)

Visit Indy (VI), although not directly involved in the construction, operation or maintenance of entertainment facilities, is critical to the success of these facilities as this association is responsible for their promotion and marketing to organizations throughout the country. The success and solvency of many of the facilities and, in turn, the sales and related tax revenues of the state, is dependent on the success of this organization. Since 1967, VI has had a written agreement with the CIB to promote conventions, meetings, exhibitions, and other events facilities operated by the CIB, specifically the Indiana Convention Center and Lucas Oil Stadium. To assist in the expenses of VI, the CIB pays to VI a fee as noted in the contract, the source of which is hotel-motel tax received by the CIB. The CIB payments represent approximately 70% of the VI total revenue. Restrictions for the use of these funds are noted in this contract to prevent the use of "public funds" for inappropriate purposes. The CIB has the authority to audit VI expenditures if desired. In lieu of auditing VI's expenditures, the CIB receives and relies on the audited financial statements of VI. Additionally, the Executive Director and the Board President of the CIB sit on the board of VI and, as board members, receive information related to expenditures.

E. Indianapolis Indians - Victory Field

Victory Field is home to the Indianapolis Indians, a AAA minor league baseball franchise affiliated with the Pittsburgh Pirates organization. Remaining debt related to Victory Field is an obligation of the CIB; certain state and local taxes are committed to payment of this debt. Expenses of the operation, maintenance and insurance for the facility are assumed by the Indians' organization.

F. Indiana Pacers – Bankers Life Fieldhouse (formerly Conseco)

Bankers Life Fieldhouse is home to the Indiana Pacers, a National Basketball Association (NBA) franchise, and is used for a variety of events, including Indiana Fever games (a Women's National Basketball Association franchise), other sporting events and concerts. Remaining debt related to Bankers Life Fieldhouse is an obligation of the CIB; certain state and local taxes are committed to payment of this debt. Except for certain on-going capital maintenance and repair items, expenses of the operation and maintenance for the facility are assumed by the Pacers' organization. During 2010 the CIB and the Pacers' organization reached an agreement regarding further assumption of the operating and maintenance costs of the facility by the CIB. Details of this agreement can be found in the CIB's Comprehensive Annual Financial Report and on the CIB's website, www.capitalimprovementboard.org.

G. Indiana Convention Center (ICC)

The ICC is financed in part through pre-2005 debt issued by the MCCRFA. The original structure was built and opened in 1972 and additions were completed in 1984, 1993, 2000 and 2011, increasing the total square footage of exhibit floor space to 554,000. The ICC is connected to Lucas Oil Stadium through a tunnel, making it possible to utilize both facilities for large conventions/conferences. Revenues and expenses of the ICC are the responsibility of the CIB.

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H. Indianapolis Colts - Lucas Oil Stadium (LOS)

Lucas Oil Stadium is home to the Indianapolis Colts, a National Football League (NFL) franchise, and is used for a variety of other events, including the 2010 National Collegiate Athletic Association (NCAA) Men's basketball championship finals. Debt related to LOS is an obligation of the CIB; certain state and local taxes are committed to payment of this debt. The CIB is responsible for capital and operating expenses, maintenance and insurance of the facility. The CIB coordinates all events held at LOS, many of which are in conjunction with events scheduled at the adjoining ICC. Stadium revenues from all events other than Colts' games and Colts' sponsored events are retained by the CIB.

I. Capitol Commons - Parking Garage

In 1986, the CIB and the City of Indianapolis, along with developers, constructed and operated the Capitol Commons parking facility, the construction of which was partially funded with \$6,300,000 from private grants. Since 1988, the CIB has been the lessor of the garage facility. Under an amendment to the agreement in 2004, the CIB relinquished certain ownership rights of half the parking to the Indianapolis-Marion County Department of Metropolitan Development (DMD). The CIB is currently responsible for one-third of all operating costs and necessary capital improvements to the Capitol Commons site and the DMD half of the garage, as described in an operating agreement and lease agreement. In return, the CIB continues to receive a portion of all rental payments and/or monthly parking allowance payments, as defined in the agreements.

III. REVENUE SOURCES OF THE CIB

In addition to lease rental payments and operating income from the Capitol Commons, ICC and LOS, the following sources of tax revenues are received by the CIB:

Marion County Innkeeper's Tax

- In 1997, this tax was established at 6% with 1/6th of this tax dedicated to fund lease rental payments or obligations of the convention center expansion of 1997.
- In 2005, this tax was increased by 3% with the additional tax dedicated to the debt service obligations related to LOS and the ICC expansion of 2005.
- In 2009, this tax was increased by 1% with the additional tax dedicated to the operating expenses of the CIB.

Marion County Food and Beverage Tax

- In 1981, this tax was established at 1%.
- In 2005, this tax was increased by 1% with the additional tax dedicated to the debt service obligations related to LOS and the ICC expansion of 2005.

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Marion County Admissions Tax

- In 1997, this tax was established at 5%.
- In 2005, this tax was increased by 1% with the additional tax dedicated to the debt service obligations related to LOS and the ICC expansion of 2005.

Marion County Supplemental Auto Rental Excise Tax

- In 1997, this tax was established at 2%.
- In 2005, this tax was increased by 2% with the additional tax dedicated to the debt service obligations related to LOS and the ICC expansion of 2005.

Regional County Food and Beverage Tax

- In 2005, this tax was established at 1% with ½ of the tax dedicated to the debt service obligations related to LOS and the ICC expansion of 2005. If the ½ amount collected is over \$5 million, the remaining balance is remitted to the participating counties which include Boone, Johnson, Hamilton, Hancock, Hendricks, and Shelby.

Indiana Cigarette Tax

- A total of \$350,000 is received from this tax annually.

Specialty License Plate Fee

- The CIB receives \$20 for each Indianapolis Colts vanity license plate sold. The amount collected is dedicated to the debt service obligations related to LOS and the ICC expansion of 2005.

Professional Sports Development Area (PSDA) Revenues

- In 1997, the PSDA was established and includes Conseco Fieldhouse, the former domed stadium, ICC, Victory Field, and the Indianapolis Colts practice facility. For the 1997 PSDA, up to a maximum of \$5 million per year is collected from state use, sales, and income taxes related to these facilities. The PSDA also includes local income and food and beverage taxes related to these facilities. The tax collected is dedicated to pay debt obligations relating to Conseco (now Bankers Life) Fieldhouse.
- In 2005, the PSDA was changed to include LOS as of July 1, 2007. An additional \$11 million per year was allocated from the State related PSDA taxes for a total maximum amount of \$16 million per year. The additional \$11 million is dedicated to debt service obligations related to LOS and the ICC expansion of 2005. After June 2017, the entire \$16 million will be dedicated to debt service obligations related to LOS and the ICC expansion; however, the local related PSDA taxes will continue to be dedicated to pay debt obligations relating to Bankers Life Fieldhouse.
- In 2009, the PSDA was expanded to include hotel sites in the area bounded on the east by Illinois Street, on the south by Maryland Street, and on the west and north by Washington Street. The expansion includes state income, sales and use taxes and COIT taxes related to activities at the hotel sites. These taxes must be used to pay usual and customary operating expenses at CIB facilities.

CAPITAL IMPROVEMENT BOARD OF MANAGERS
MARION COUNTY, INDIANA
EXIT CONFERENCE

The contents of this report were discussed on May 20, 2014, with Ann Lathrop, CPA, Board President; Augustus (Barney) Levensgood, Executive Director; Megan Ornellas, Chief Financial Officer; and Patti Dean, Controller. Our report disclosed no material items that warrant comment at this time.