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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

April 21, 2015

Board of Directors  
Indianapolis Airport Authority  
7800 Col. H. Weir Cook Memorial Drive, Suite 100  
Indianapolis, IN 46241

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2014 to December 31, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Indianapolis Airport Authority, as of December 31, 2014 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

# **Indianapolis Airport Authority**

Auditor's Report and Financial Statements

December 31, 2014 and 2013

# Indianapolis Airport Authority

December 31, 2014 and 2013

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## Independent Auditor's Report

To the Members of the Board  
Indianapolis Airport Authority  
Indianapolis, Indiana

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Indianapolis Airport Authority (Authority), which are comprised of balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity'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 statements.

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indianapolis Airport Authority as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2015, 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 and 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 Authority's internal control over financial reporting and compliance.

*BKD, LLP*

Indianapolis, Indiana  
April 6, 2015

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2014**  
**(Unaudited)**

The following discussion and analysis of the financial performance and activity of the Indianapolis Airport Authority (Authority) is to provide an introduction and overview that users need to interpret the financial statements of the Authority as of and for the years ended December 31, 2014 and 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

**Authority Powers and Purposes**

In 1962, the City Council of the City of Indianapolis (City), the Mayor of the City and the County Council of Marion County (County) created the Authority pursuant to the Authority Act as a municipal corporation, separate from the City and the County. The Authority Act authorizes the Authority to own and operate public airports. The Authority is empowered to do all things necessary or reasonably incident to carrying out the purposes of the Authority Act, including the power to: (i) acquire, establish, construct, improve, equip, maintain, control, lease and regulate municipal airports, landing fields and other air navigation facilities, either inside or outside the County; (ii) manage and operate airports, landing fields and other air navigation facilities acquired or maintained by the Authority; (iii) adopt a schedule of reasonable charges and collect them from all users of facilities and services within the County; (iv) lease all or any part of an airport, landing field or any buildings or other structures, and fix, charge and collect rentals, tolls, fees and charges to be paid for the use of the whole or a part of the airports, landing fields or other air navigation facilities by aircraft landing there and for the servicing of the aircraft; (v) make rules and regulations, consistent with laws regarding air commerce, for management and control of its airports, landing fields, air navigation facilities and other property under its control; and (vi) incur indebtedness in accordance with the Authority Act.

The operations of the Authority depend heavily on revenues received from airlines serving Indianapolis International Airport. Airlines are given the option to sign an Agreement and Lease of Premises (Airline Agreement), which sets forth rates and charges for use of Authority assets and which utilizes a residual rate-making methodology. The residual nature of the Airline Agreement essentially requires the airlines to assume certain financial risks to guarantee the Airport has sufficient revenue to cover all operating and capital borrowing costs. In return, the Authority has less autonomy over capital asset development decisions in that the airlines have the ability to delay and, in certain instances, veto certain proposed capital improvement projects at the Airport. As of December 31, 2014, seven passenger carriers and two cargo carriers represent the Signatory Airlines.

The Authority and the Signatory Airlines negotiated a new Airline Agreement in 2010. This new Airline Agreement was approved by the Authority Board on October 15, 2010 and is effective from January 1, 2011 through December 31, 2015. Airlines that sign the Airline Agreement are subject to favorable Signatory rates, as opposed to the Authority's Non-Signatory rates.

## Airport Operations Activity and Financial Highlights

	2014	2013	Variance
Enplaned passengers <sup>(1)</sup>	3,686,245	3,598,718	2.4%
Landed weight (1,000 lb. units)			
Passenger airlines	4,280,224	4,274,786	0.1%
Cargo airlines	5,356,686	5,275,642	1.5%
Total landed weights	9,636,910	9,550,428	0.9%
Aircraft operations	148,899	153,382	-2.9%

<sup>(1)</sup> Includes domestic air carriers, international air carriers and air taxi/commuter flights

### Airport Operations Activity

- In 2014, the number of enplaned passengers was 2.4% higher than 2013. The increase from 2013 is primarily attributed to a more robust local economy, including an improving job market and competitive airfares driven by increased air travel in both the business and leisure passenger markets. Improved airline profitability was influenced by decreasing fuel prices, which set the stage to keep airfares down and resulted in airlines adding additional seat capacity to meet increasing demand for air travel.
- Passenger airlines accounted for approximately 44% of total landed weight at the Authority in 2014, 45% in prior year; cargo airlines accounted for the other 56% during 2014 and 55% in 2013. Passenger airline landed weight increased by 0.1% in 2014 from prior year; cargo airline landed weight increased 1.5% from prior year. FedEx continued to impact the growth in 2014 cargo landed weights with a shift in operating a higher mix of wide-body cargo aircraft at the Indianapolis International Airport (IND).
- Aircraft operations represent landings and takeoffs for air carrier, air taxi and commuter, general aviation and military operations. This activity decreased 2.9% over the prior year. The largest decreases came from drops in military and general aviation aircraft activity.

### Authority Financial Highlights

- The Authority experienced a decrease in total assets of approximately \$52.6 million during 2014. This decrease can be attributed to a number of changes in the balance sheet including the normal decrease in capital assets due to depreciation and a decrease in cash and cash equivalents.
- Total liabilities decreased \$37.4 million in 2014. This change is primarily attributable to the reduction of bond debt.
- The 2014 decrease in net position was \$5.3 million compared to a decrease of \$2.0 million for 2013. 2014 resulted in a loss from operations of \$13.7 million, which is a \$2.7 million decrease in the loss from operations of \$16.4 million in 2013. Net nonoperating revenues (expenses) reflected an increase in net revenue from 2013 of \$1.4 million, driven by the reduction in interest expense and the gain on disposal of capital assets. Capital contributions, grants and charges decreased by \$7.3 million, primarily due to a decrease in contributions from lessees of \$9.4 million, and an increase in federal and state grants of \$2.0 million from 2013.

## Overview of Financial Statements

The Authority only engages in business-type activities. These are activities that are intended to recover all or a significant portion of their costs through user fee charges to external parties for goods or services. The Authority reports its business-type activities in a single enterprise fund, meaning that its activities are operated and reported like a private-sector business.

The Authority's financial report includes comparative Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. Also included are notes to the financial statements that provide more detailed data. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The net position of the Authority is comprised of these categories:

- *Net investment in capital assets* - reflects the Authority's investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to the public; consequently, these assets are not available for future spending.
- *Restricted* - represent resources that are subject to external restrictions on how they may be used.
- *Unrestricted* - represent resources that may be used to meet the Authority's ongoing obligations to the public and creditors.

## **Balance Sheets**

The Balance Sheets present the financial position of the Authority at the end of the fiscal year and include all assets and liabilities of the Authority. The net position of the Authority represents the difference between total assets and total liabilities and is an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net position at December 31, 2014, 2013 and 2012 follows:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
	(Table Amounts in Thousands)		
Current assets - unrestricted	\$ 34,045	\$ 31,260	\$ 30,562
Current assets - restricted	55,220	63,511	51,009
Noncurrent assets			
Capital assets, net	1,958,582	2,024,932	2,077,729
Other noncurrent assets	192,446	173,187	208,089
Total assets	<u>2,240,293</u>	<u>2,292,890</u>	<u>2,367,389</u>
Deferred outflows of resources	<u>57,452</u>	<u>47,476</u>	<u>80,795</u>
Total assets and deferred outflows of resources	<u>\$ 2,297,745</u>	<u>\$ 2,340,366</u>	<u>\$ 2,448,184</u>
Current liabilities - payable from unrestricted	\$ 8,169	\$ 7,956	\$ 8,130
Current liabilities - payable from restricted	80,670	86,434	78,986
Noncurrent liabilities - payable from restricted	1,164,718	1,196,537	1,309,616
Total liabilities	<u>1,253,557</u>	<u>1,290,927</u>	<u>1,396,732</u>
Net position			
Net investment in capital assets	868,463	883,951	884,122
Restricted	113,374	107,822	97,267
Unrestricted	62,351	57,666	70,063
Total net position	<u>1,044,188</u>	<u>1,049,439</u>	<u>1,051,452</u>
Total liabilities and net position	<u>\$ 2,297,745</u>	<u>\$ 2,340,366</u>	<u>\$ 2,448,184</u>

## **2014 to 2013 Comparative Balance Sheets**

Unrestricted current assets increased \$2.8 million, which is attributable to an increase of \$2.8 million in grants receivable. The decrease in restricted current assets of \$8.3 million primarily reflects a \$9.4 million decrease in restricted cash and cash equivalents.

Total noncurrent assets decreased by \$47.1 million. This change is primarily attributable to a \$23.7 million increase in restricted investments and a \$76.4 million decrease in depreciable capital assets.

Total deferred outflows of resources increased by \$10.0 million, the result of an increase in the accumulated changes in fair values of hedging derivative instruments of \$15.4 million and the amortization of deferred losses on the refunding of bonds of \$5.4 million.

Total current liabilities decreased by \$5.6 million. The current portion of debt and accrued interest on debt decreased by \$5.5 million. Total noncurrent liabilities decreased \$31.8 million, attributable to a decrease in the value of the interest rate swap agreements of \$30.2 million and a decrease in bonds payable and other debt in the amount of \$62.0 million.

#### **2013 to 2012 Comparative Balance Sheets**

Unrestricted current assets increased \$0.7 million, which is attributable to an increase of \$1.0 million in grants receivable and a decrease of \$0.3 million in various other receivables and deferred revenue. The increase in restricted current assets of \$12.5 million primarily reflects a \$13.3 million increase in restricted cash and cash equivalents.

Total noncurrent assets decreased by \$87.7 million. This change is primarily attributable to a \$12.6 million decrease in unrestricted investments and a \$52.4 million decrease in depreciable capital assets. In addition, there was a \$14.5 million decrease in the value of the forward delivery purchase agreements.

Total deferred outflows of resources decreased by \$33.3 million, the result of a decrease in the accumulated changes in fair values of hedging derivative instruments of \$29.9 million and the amortization of deferred losses on the refunding of bonds of \$3.4 million.

Total current liabilities increased by \$7.3 million. The current portion of debt and accrued interest on debt increased by \$8.8 million, accrued interest on debt decreased by \$1.1 million, and accounts payable from restricted assets decreased \$0.4 million. Total noncurrent liabilities decreased \$113.1 million, attributable to a decrease in the value of the interest rate swap agreements of \$44.5 million and a decrease in bonds payable and other debt in the amount of \$68.6 million.

## 2014 to 2013 Comparative Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position reflect the operating activity of the Authority for the year using the accrual basis of accounting, similar to private sector companies. The change in net position is an indicator of whether the overall fiscal condition of the Authority has improved or worsened during the year. The change in net position for the years ended December 31, 2014 and 2013 was (\$5.3) million and (\$2.0) million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Position for 2014 and 2013.

	2014	2013	\$ Variance	% Variance
(Table Amounts in Thousands)				
Total operating revenues	\$ 142,831	\$ 139,660	\$ 3,171	2.3%
Total nonoperating revenues	51,587	53,496	(1,909)	-3.6%
Total revenues	<u>194,418</u>	<u>193,156</u>	<u>1,262</u>	<u>0.7%</u>
Total operating expenses	156,503	156,023	480	0.3%
Net nonoperating expenses	57,314	60,639	(3,325)	-5.5%
Total expenses	<u>213,817</u>	<u>216,662</u>	<u>(2,845)</u>	<u>-1.3%</u>
Loss Before Capital Contributions and Grants	(19,399)	(23,506)	4,107	-17.5%
Capital Contributions and Grants	<u>14,148</u>	<u>21,493</u>	<u>(7,345)</u>	<u>-34.2%</u>
Decrease in Net Position	(5,251)	(2,013)	(3,238)	160.9%
Net Position, Beginning of Year	<u>1,049,439</u>	<u>1,051,452</u>	<u>(2,013)</u>	<u>-0.2%</u>
Net Position, End of Year	<u>\$ 1,044,188</u>	<u>\$ 1,049,439</u>	<u>\$ (5,251)</u>	<u>-0.5%</u>

*Operating revenue* in 2014 increased \$3.2 million, or 2.3% from prior year. This represents increases in activity-based revenues along with applicable rental rate adjustments reflected in airfield, increased automobile rental commissions, parking revenues, rented buildings/other and reliever revenues. This was offset by lower operating expense reimbursements related to the Indianapolis Maintenance Center.

*Airfield revenue* in 2014 of \$21.7 million increased from prior year by \$0.2 million or 1.0%. The 2014 Signatory landing fee rate of \$1.88 was maintained from prior year, as well as the 2014 Non-Signatory landing fee rate of \$2.82. Landing fee revenues from scheduled airlines decreased \$0.1 million or 1.4% attributable to the accrual of airline incentive plans, offset by a slight increase in passenger carrier landed weights of 0.9% from prior year. Current year cargo carrier landing fee revenues exceeded prior year by \$0.1 million attributable to an increase in cargo landed weights of 1.5%. Other airfield revenues increased \$0.2 million or 21.3% from prior year relating to higher ground handling commissions.

*Terminal complex revenues* of \$49.4 million were flat with prior year. Airline terminal rental rates were maintained at the prior year rate of \$91.68 per square foot, however, terminal space rental revenues decreased \$0.3 million or 1.2% due to the accrual of airline incentive plans. Automobile rental commissions were higher than prior year by \$0.3 million or 3.2% attributable to an increase in enplaned passengers of 2.4% and greater car rental usage from business travelers than prior year.

*Parking revenues* increased from prior year by \$2.8 million or 6.8%, resulting in \$43.5 million in 2014 parking revenue. Year-to-date enplaned passengers exceeded prior year by 2.4%, as well as product mix differences and yields higher than prior year.

*Rented buildings and other revenues* of \$15.9 million increased \$0.3 million or 1.8%. The increase is attributable to the new solar farm II agreement and various new and renegotiated ground lease agreements including the Airport Plaza.

*Revenues from Indianapolis Maintenance Center (IMC)* of \$9.2 million decreased by \$0.2 million or 2.1%. This represents revenues due the Authority for reimbursement of eligible expenditures under the terms of the Settlement Agreement reached between the Authority and the trustee for the special facility revenue bonds the Authority had previously issued on behalf of United Airlines. Decrease from prior year relates to percentage rent received in the prior year and not in 2014.

*Reliever airports revenue* of \$3.1 million increased \$0.1 million or 4.9% representing an increase in fuel sales and farm revenue.

*Federal operating grant income* of \$1.0 million increased \$0.2 million attributable to the 2014 reimbursement from Federal Emergency Management Agency (FEMA) for 75% of operating costs submitted for a 48-hour period related to a severe winter storm in January 2014.

*Passenger facility charges (PFC) income* of \$14.6 million increased \$0.2 million or 1.2%. This increase is due to an increase in passenger numbers and ticket sales as PFC revenues are earned when tickets are sold, and an increase in military charter activity, which are not subject to the PFC.

*Customer facility charges (rental cars) income* of \$6.4 million increased \$0.3 million or 5.6%. Increase is due to higher passenger enplanements and an increased number of transactions.

*Investment income* of \$2.7 million decreased \$2.6 million. This was attributable to the year-end GASB 53 adjustment of \$1.3 million on the basis swap market valuation. Additionally, due to partial terminations of forward delivery agreements in late 2013 and in 2014 due to lower debt service reserve requirements on two series of bonds, investment earnings were reduced.

*Operating expenses* for the years ended December 31, 2014 and 2013 totaled \$62.4 million and \$60.2 million, respectively. The following analysis explores material operating expense change by both operating expense classes and operating expenses business area.

*Operating expenses* before depreciation increased \$2.2 million or 3.6%. Total *personal services expense* decreased 1.0% or \$0.3 million to \$26.3 million primarily due to lower full-time staff equivalents than prior year and lower health insurance claims associated with the self-funded plan. Total *contractual services expense* increased 5.6% or \$1.0 million to \$18.2 million due to higher professional fees relating to Environmental, Parking Marketing, Air Service and Information Technology strategic initiatives, as well as greater outsourced contract services including snow removal, taxiway and runway repairs, and parking garage washing/restriping. Total *utilities expense* of \$9.4 million increased by \$1.0 million or 11.2% primarily driven by the severe weather in the first quarter of 2014 and increased usage of electricity, natural gas and sewer charges related to glycol processing. Total *supplies expense* of \$4.0 million increased slightly by \$0.1 million driven by increased usage of snow and ice chemical. Total *materials expense* increased by \$0.5 million to \$2.4 million reflecting higher airfield painting materials and light replacements as well as increased airfield vehicle and shuttle bus repairs than prior year. Total *general expense* of \$2.1 million was flat with the prior year.

*Airfield expenses* (before depreciation) of \$8.5 million increased \$0.7 million, or 9.1% from the prior year. Variance due to snow related operations during the severe winter weather in the first quarter of 2014 and resulting increases in sewage costs for glycol processing and snow equipment repairs and replacement parts. Current year also had an increase in outsourced contract services relating to taxiway B repairs, retexturing runway 23L & 5R touchdown area, and removal of numerous dead trees on airport property due to Ash Borer.

*Terminal complex expenses* (before depreciation) of \$14.6 million increased \$0.4 million, or 2.5% from the prior year. Variance attributable to higher utility costs, grease trap remediation in the retail concessionaire's area, and replacement of doors and trash receptacles in the terminal.

*Parking expenses* (before depreciation) of \$7.7 million increased \$0.7 million, or 10.1% from the prior year. Increase attributable to consulting, marketing and software/hardware maintenance costs in support of the parkIND Plus program, as well as shuttle bus repairs, outsourced contract services for snow removal and parking garage washing/restriping, and higher credit card fees associated with increased parking revenues.

*Rented buildings and other expenses* (before depreciation) of \$1.1 million remained flat with prior year. Current year reflects increases in professional fees related to property appraisals, utilities, and pavement repairs, offset by an accrual reduction for anticipated GASB 49 environmental remediation expenses as several projects closed requiring no further action.

*Indianapolis Maintenance Center (IMC) expenses* (before depreciation) of \$7.5 million decreased \$0.5 million, or 6.0%, primarily due to lower costs associated with management and operation of the Central Energy Plant, and expiration of the amortization of lease enticement costs during 2014.

*Reliever airports expenses* (before depreciation) of \$1.7 million increased \$0.2 million, or 15.7% from prior year. Variance due to snow-related operations during the severe winter weather in the first quarter of 2014 and resulting increases in outsourced contract snow removal services, utilities, snow and ice chemical, and snow equipment repairs and replacement parts, as well as garage repairs at the Indianapolis Heliport.

*Public safety expenses* (before depreciation) of \$9.8 million increased \$0.1 million, or 0.6% from prior year. Variance primarily related to an increase in vehicle repairs and communication equipment.

*Administration costs* (before depreciation) of \$11.5 million increased \$0.6 million, or 5.5% from prior year. Variance due to an increase in legal fees, professional fees relating to Air Service, Information Technology strategic initiatives, and Airline Use Agreement renewal negotiations, as well as greater Air Service print/advertising/marketing costs and bad debt expense.

*Depreciation expense* of \$94.1 million decreased \$1.7 million, or 1.8%, attributable to various information technology equipment associated with the new terminal now fully depreciated. This was offset by a full year of depreciation on the Comlux Hanger and various other assets that were placed into service at the end of 2013 and the first of 2014.

*Interest expense* of \$57.9 million decreased \$0.3 million over the prior year, or 0.4%; a net effect of various increases and decreases of interest expense over the year. The issuance of the 2014 refunding revenue bonds increased interest expense by \$1.8 million and added \$1.1 million in costs of issuance and bond related costs. These increases were netted against \$1.2 million in savings in interest due to the amortization of debt and natural reduction in interest expense, savings from a partial refunding of the 2006A Bonds in late 2013 of \$0.9 million and savings of \$1.1 million on non-cash interest expense related to pass-through debt.

*Gain (loss) on disposals of capital assets and other* of \$0.6 million increased \$3.1 million over the prior year. Prior year included expensing the cost of the old terminal demolition of \$5.3 million and only \$0.1 million was expensed in 2014. Insurance claim reimbursements were also lower than prior year.

*Capital contributions and grants* of \$14.1 million decreased \$7.3 million compared to prior year. Prior year included higher contributions from leased property tenant improvements. This decrease was offset by higher federal and state grant revenues in 2014 due to timing of completion of projects and related funding received.

### 2013 to 2012 Comparative Statements of Revenues, Expenses and Changes in Net Position

The change in net position for the years ended December 31, 2013 and 2012 was \$(2.0) million and \$9.2 million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Position for 2013 and 2012.

	2013	2012	\$ Variance	% Variance
(Table Amounts in Thousands)				
Total operating revenues	\$ 139,661	\$ 138,258	\$ 1,403	1.0%
Total nonoperating revenues	53,496	54,166	(670)	-1.2%
Total revenues	<u>193,157</u>	<u>192,424</u>	<u>733</u>	<u>0.4%</u>
Total operating expenses	156,022	156,022	-	0.0%
Net nonoperating expenses	60,641	60,754	(113)	-0.2%
Total expenses	<u>216,663</u>	<u>216,776</u>	<u>(113)</u>	<u>-0.1%</u>
Loss Before Capital Contributions and Grants	(23,506)	(24,352)	846	-3.5%
Capital Contributions and Grants	<u>21,493</u>	<u>33,571</u>	<u>(12,078)</u>	<u>-36.0%</u>
Increase (Decrease) in Net Position	(2,013)	9,219	(11,232)	-121.8%
Net Position, Beginning of Year	<u>1,051,452</u>	<u>1,042,233</u>	<u>9,219</u>	<u>0.9%</u>
Net Position, End of Year	<u>\$ 1,049,439</u>	<u>\$ 1,051,452</u>	<u>\$ (2,013)</u>	<u>-0.2%</u>

*Operating revenue* in 2013 increased \$1.4 million, or 1.0% from prior year. This represents increases in activity-based revenues consisting primarily of airfield and parking revenues as well as increased operating expense reimbursement revenue related to the Indianapolis Maintenance Center. This is offset by a decrease in terminal complex revenues and rented buildings and other revenues.

*Airfield revenue* in 2013 of \$21.5 million increased from prior year by \$0.4 million or 1.7%. Total landed weights increased a net 1.6% from prior year as passenger carriers decreased 3.9% and cargo carriers increased 6.6%. The 2013 Signatory landing fee rate decreased 1.1% to \$1.88 from \$1.90 in 2012. The 2013 Non-Signatory landing fee rate decreased to \$2.82, as compared to the 2012 rate of \$2.85. Apron rental revenue was lower than prior year by \$0.2 million, or 19.0%, as the 2013 rental rate was \$0.34 per square foot as compared to \$0.57 in 2012.

*Terminal complex revenues* of \$49.9 million were essentially flat with prior year with a slight decrease of 0.8%. Airline terminal rental rates decreased in 2013 to \$91.68 per square foot compared to the prior year rate of \$92.80 per square foot. Concessionaire revenues were greater than prior year by \$0.1 million, offsetting the decrease in airline terminal rental. This was primarily related to an increase in performance from Granite City, Champps, Starbucks and Harry & Izzy's.

*Parking revenues* increased from prior year by \$1.1 million or 2.9%, resulting in \$39.5 million in 2013 parking revenue. Year-to-date enplaned passengers were below prior year by 2.4% contributing to the decrease, offset significantly by a higher yield per passenger attributed to an increase in the average duration of stay and use of higher priced offerings.

*Rented buildings and other revenues* decreased by \$0.2 million or 1.5% attributable to the prior year including an initial contract payment of \$0.8 million for the solar farm lease. This was offset by new 2013 leases for the Airport Plaza, M&M Transport and Maxim Crane Works. In addition, the variance was due to promotional revenues, which related to the 2012 Super Bowl that were not earned in 2013.

*Revenues from Indianapolis Maintenance Center (IMC)* increased by \$0.6 million or 7.0%. This represents revenues due to the Authority for reimbursement of eligible expenditures under the terms of the Settlement Agreement reached between the Authority and the trustee for the special facility revenue bonds the Authority had previously issued on behalf of United Airlines. Additional hanger bay activation days have attributed to the increase over the prior year.

*Reliever airports revenues* decreased by \$0.06 million or 1.9%, attributable to decreased fuel sales and lower farm revenues.

*Passenger facility charges (PFC) income* decreased \$0.1 million. This decrease is due to lower passenger numbers and ticket sales as PFC revenues are earned when tickets are sold, and an increase in military charter activity, which is not subject to the PFC.

*Investment income* decreased \$0.4 million or 7.8%. This was attributable to the year-end GASB 53 adjustment of the basis swap market valuation, as well as interest received and discounts on purchased investments being lower.

*Operating expenses* for the years ended December 31, 2013 and 2012 totaled \$60.2 million and \$60.7 million, respectively. The following analysis explores material operating expense changes by both operating expense class and operating expense business area.

Operating expenses before depreciation decreased \$0.5 million and totaled \$60.2 million. Total *personal services* expense decreased 9.1% or \$2.7 million to \$26.5 million primarily due to the one-time costs associated with the 2012 Super Bowl in the prior year. Total *contractual services* expense increased 7.3% or \$1.2 million to \$17.2 million due to the \$1.4 million reduction in expected future GASB 49 environmental remediation expenses. Total *utilities* expense increased by \$0.5 million. Total *general* expense increased by \$0.3 million to \$2.1 million reflecting higher insurance and bad debt costs.

*Terminal complex expenses* (before depreciation) decreased \$0.1 million, or 0.7% from the prior year. The variance primarily relates to an increase in employee insurance and salaries of approximately \$0.3 million.

*Rented buildings and other expenses* (before depreciation) increased \$1.4 million, or 546.5% from prior year. This primarily represents an increase of \$1.5 million in other contractual services due to upgrades of several environmental and maintenance systems.

*Indianapolis Maintenance Center (IMC) expenses* (before depreciation) decreased \$0.2 million, or 2.4%, primarily due to lower maintenance and security expenses. Electricity volumes were also lower than the prior year at the Central Energy Plant as a result of seasonally shutting down the air handlers.

*Reliever airports expenses* (before depreciation) decreased \$0.2 million, or 13.9% from prior year. Variance attributable to decreased fuel costs along with decreased costs related to pavement and grounds materials.

*Administration costs* (before depreciation) decreased \$1.8 million, or 13.8% from prior year. In 2013, there was a significant decrease in personal services of approximately 20.3%. In addition, contractual services were also lower by approximately 13.3% as compared to prior year.

*Depreciation expense* increased \$1.9 million, or 0.5%, primarily attributable to the addition of several new assets in 2013.

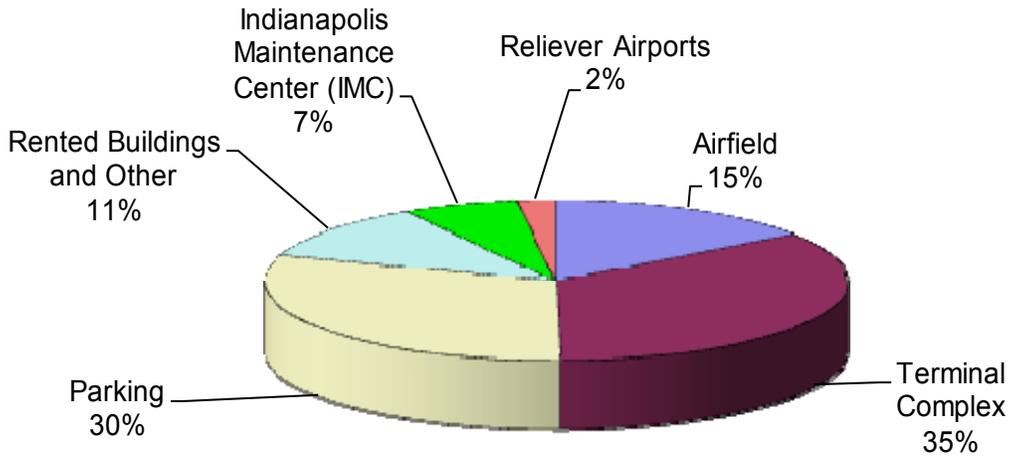
*Interest expense* decreased \$6.3 million compared to prior year, which is primarily attributable to the implementation of GASB 65, which requires entities to expense issuance costs related to bonds as incurred instead of amortize over the life of the bond as well as the payoff of the 2003 Revenue Bonds and partial paydown of the 2006 Revenue Bonds.

*Gain (loss) on disposals of capital assets and other* decreased \$6.2 million or 164.8% over the prior year. Prior year included lease settlement proceeds of \$1.8 million and insurance claim reimbursements of \$2.1 million related to the 2011 parking garage canopy collapse event and the 2010 Comlux hangar fire. There were no impairments during 2013.

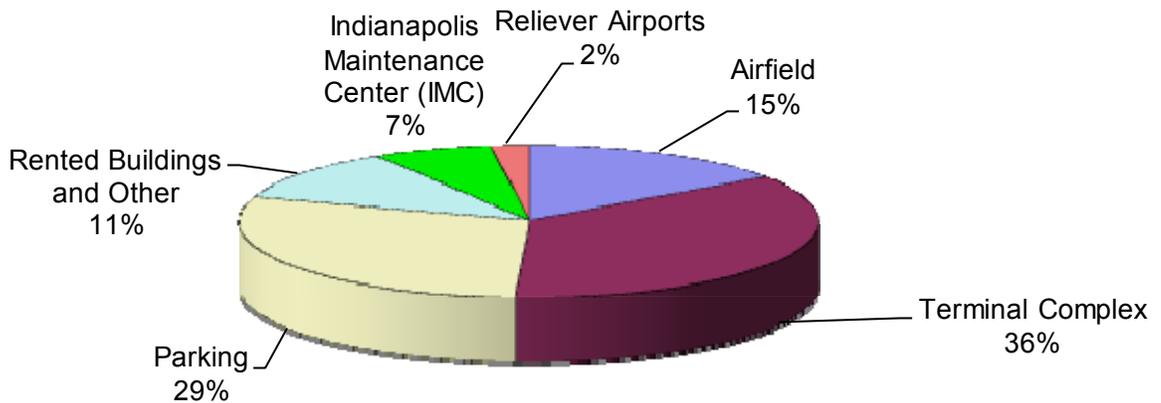
*Capital contribution and grants* of \$21.5 million decreased \$12.1 million compared to prior year. This is associated with contributions from lessees lower than prior year for leased property tenant improvements including Building #53 for \$15.0 million and the Comlux hangar for \$10.0 million.

The following is a graphic illustration of operating revenues by source for the years ended December 31, 2014 and 2013:

### Operating Revenues - 2014

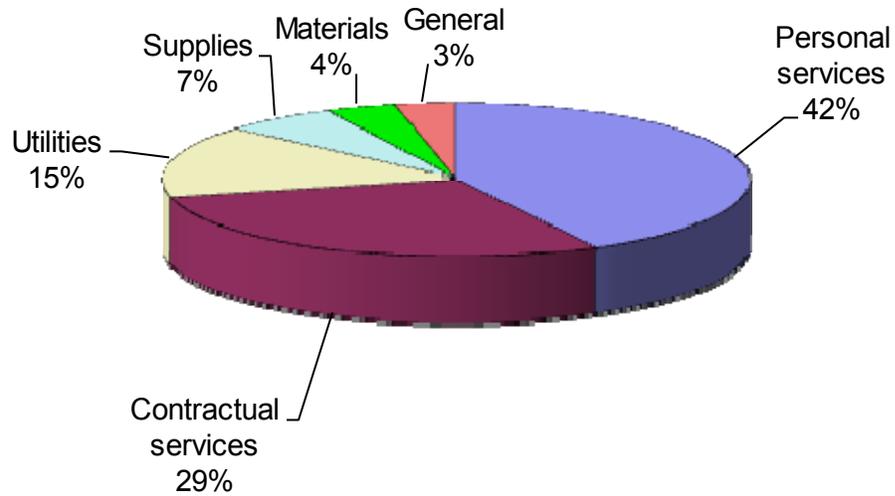


### Operating Revenues - 2013

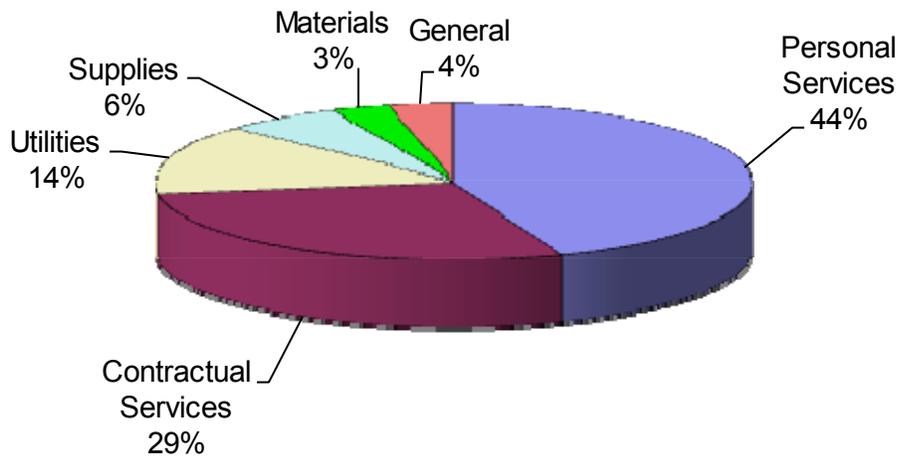


The following is a graphic illustration of the total operating expenses by source for the years ended December 31, 2014 and 2013 (excluding depreciation):

### Operating Expenses (Excluding Depreciation) - 2014



### Operating Expenses (Excluding Depreciation) - 2013



## **Capital Asset and Debt Administration**

### ***Capital Assets***

During 2014, the Authority expended approximately \$26.0 million on capital activities. This included \$0.6 million for land acquisition and sound insulation costs in conjunction with the Authority's approved Part 150 Noise Compatibility Program. The balance of capital expenditures related to multiple construction and equipment acquisition projects, including the rehabilitation of Taxiway D, expansion of the airport's stormwater system, replacement of shuttle busses, and completing the Runway7-25 and Taxiway Extension at Indianapolis Regional.

During 2014, completed projects totaling \$15.5 million were closed from construction-in-progress to their respective capital asset accounts. The more significant of these completed projects are as follows:

Rehabilitation of Taxiway D	\$4.7 million
Rehabilitation of T-Hangar Taxilanes at Indianapolis Regional	\$2.2 million
Building 7 Rehabilitations	\$0.9 million
Eagle Hub Apron Rehabilitation	\$0.8 million

Note 4 to the financial statements provides additional information on the Authority's capital asset activity.

### ***Long-Term Debt***

Capital acquisitions are funded using a variety of financing mechanisms, including federal and state grants, passenger facility charges, public debt issues and airport operating revenues.

The Authority's Master Bond Ordinance enables it to adopt an ordinance or resolution irrevocably designating certain revenues as Dedicated Revenues (which may include, without limitation, PFC & CFC revenues, state and/or federal grants, or other identified revenues) to be used to pay debt service on Authority revenue bonds. Note 5 of the financial statements explains the details of resolutions adopted in 2009 and 2014.

As of December 31, 2014, the Authority had \$1.05 billion in outstanding senior lien bonds and no outstanding subordinate securities. The Authority, through its Master Bond Ordinance, has a covenant to maintain a debt service coverage ratio of not less than 1.25 for senior lien debt. Debt service coverage is calculated based on a formula included in the Master Ordinance and the Airline Agreements. Historically, the Authority has maintained a coverage ratio higher than its requirement. During 2014 and 2013, respectively, the Authority's debt service coverage was 1.62 and 1.58 for senior lien debt.

Notes 5, 6, 7, 8 and 9 to the financial statements provide additional information regarding the Authority's debt activities.

### *Economic Factors and Next Year's Rates and Charges*

IND experienced a 2.4% increase in the number of passenger enplanements over last year, resulting in total 2014 enplanements of 3,686,245. Increased airline competition, a drop in fuel prices, and subsequent airfare deals led to stimulation in IND passenger traffic. The majority of the traffic increases occurred between March and August, indicating that the airlines offered additional capacity and fare deals to attract IND's leisure traveler during their peak travel season. Scheduled airline passenger capacity was up 0.6% over 2013 and passenger airline landed weights were up 0.3% over the previous year. Although passenger performance and airline capacity returned to near-2013 levels to finish the year, a flurry of new airline route announcements, including new airlines coming to IND, indicate that airline competition and stimulated passenger travel levels can be expected for 2015.

IND is served by most major and several national airlines operating at the majority of the domestic hubs. In addition, point-to-point service is provided to major business and leisure destinations, primarily in the Eastern and Central U.S., and improved limited coverage on the West coast. Two new IND market destinations launched in 2014 when United Airlines initiated service to San Francisco and Frontier began service into Trenton, NJ. An announcement was also made in 2014 that a new airline, Allegiant Air, would start operations from IND in 2015. In late 2014, Southwest Airlines also announced new service to Boston (BOS) and Los Angeles (LAX) from IND starting in 2015, after launching Washington Reagan (DCA) service in November 2014. The Authority remains significantly an Origination and Destination (O&D) airport, with approximately 96.2% of its traffic being generated by the population and economy of the region, rather than the schedule of service or hub operations of an airline.

In addition to passenger activity, the Authority continues to benefit from the sustained activity of cargo operations, which are significantly dominated by FedEx. IND's position as FedEx's second largest hub has helped the airport maintain high cargo landed weight levels, even during more challenging/recovering economic periods. Cargo volumes were up 0.8% and landed weight levels were up 1.2% as FedEx continued their transition at IND towards scheduling a larger cargo aircraft mix, including 777, 767, & MD11 aircraft.

Future increases in passenger and cargo traffic at the Authority will be influenced by several key factors, which include, but are not limited to, the following:

- Economic and political conditions
- Aviation security concerns
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- Availability and price of aviation fuel
- Capacity of the airport
- Airline consolidation and alliances
- Capacity of national air traffic control and airport systems

Fuel costs and economic conditions can have a significant effect on air travel and transportation industries. The Authority cannot predict how future air travel may be impacted by various economic or other factors or the extent of any adverse impact on net revenues (gross operating revenues, less operating and maintenance expenses), passenger facility charge collections, passenger enplanements, operations or the financial condition of the Authority.

The anticipated passenger traffic in 2014 is based on those trends seen during early 2013 and takes into account load factors by carrier, average daily departures and seat capacity, average nonstop fares, average fares by market, airline communication, aircraft orders/retirements and posted 2014 schedules via Innovata. The restructuring or liquidation of one or more of the large network airlines could drastically affect airline service at many connecting hub airports, present business opportunities for the remaining airlines, and change travel patterns throughout the U.S. aviation system.

**Request for Information:** This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Senior Finance Director, 7800 Col. H. Weir Cook Memorial Drive, Suite 100, Indianapolis, IN 46241-4941 or via the "Contact Us" area of the Authority's website [www.indianapolisairport.com](http://www.indianapolisairport.com).

# Indianapolis Airport Authority

## Balance Sheets

December 31, 2014 and 2013

	2014	2013
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
<b>Unrestricted Assets</b>		
Cash and cash equivalents	\$ 16,178,400	\$ 14,817,334
Accounts receivable, net of allowance of \$370,000 and \$98,000, respectively	2,210,182	3,141,814
Unbilled revenues	2,336,519	2,966,738
Grants receivable	10,064,914	7,261,642
Supplies and materials inventories	1,584,607	1,456,145
Other	1,670,439	1,615,888
Total unrestricted current assets	34,045,061	31,259,561
<b>Restricted Assets</b>		
Cash and cash equivalents	46,548,516	55,876,996
Cash and cash equivalents - customer deposits	684,200	784,428
Receivable - passenger facility charges	1,158,210	1,228,476
Receivable - governments and other	3,953,966	3,854,635
Receivable - reimbursable IMC expenses	2,875,098	1,767,048
Total restricted current assets	55,219,990	63,511,583
Total current assets	89,265,051	94,771,144
<b>Noncurrent Assets</b>		
Cash and cash equivalents, restricted	75,382,143	92,224,783
Investment securities, unrestricted	34,832,891	32,256,989
Investment securities, restricted	61,409,160	37,755,022
Investment derivatives - basis swap agreements	(365,256)	4,073,223
Rent receivable	1,642,454	1,988,198
Unamortized lease costs	-	116,603
Derivative instruments - forward delivery purchase agreements	19,545,054	4,771,947
Nondepreciable capital assets	314,776,441	304,679,637
Depreciable capital assets, net	1,643,805,298	1,720,252,407
Total noncurrent assets	2,151,028,185	2,198,118,809
Total assets	2,240,293,236	2,292,889,953
<b>Deferred Outflows of Resources</b>		
Deferred loss on refunding of debt	40,111,560	45,565,014
Accumulated decrease in fair value of hedging derivatives	17,340,139	1,911,064
Total deferred outflows of resources	57,451,699	47,476,078
Total assets and deferred outflows of resources	\$ 2,297,744,935	\$ 2,340,366,031

	<u>2014</u>	<u>2013</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
<b>Payable From Unrestricted Assets</b>		
Accounts payable	\$ 3,399,156	\$ 3,685,708
Accrued and withheld items (including compensated absences)	4,770,206	4,270,013
Total current liabilities payable from unrestricted assets	<u>8,169,362</u>	<u>7,955,721</u>
<b>Payable From Restricted Assets</b>		
Accounts payable	10,120,828	10,277,650
Customer deposits payable	685,200	785,428
Current portion of debt	54,309,282	56,302,096
Accrued interest on debt	15,554,329	19,069,096
Total current liabilities payable from restricted assets	<u>80,669,639</u>	<u>86,434,270</u>
Total current liabilities	<u>88,839,001</u>	<u>94,389,991</u>
<b>Noncurrent Liabilities</b>		
Derivative instruments - interest rate swap agreements	84,528,941	54,326,759
Bonds payable and other debt, payable from restricted assets	1,080,189,160	1,142,210,328
Total noncurrent liabilities	<u>1,164,718,101</u>	<u>1,196,537,087</u>
Total liabilities	<u>1,253,557,102</u>	<u>1,290,927,078</u>
<b>Net Position</b>		
Net investment in capital assets	<u>868,462,597</u>	<u>883,951,100</u>
Restricted for		
Capital projects	44,481,210	34,944,858
Debt service	65,294,250	69,382,285
Other	3,598,732	3,495,080
Total restricted net position	<u>113,374,192</u>	<u>107,822,223</u>
Unrestricted	<u>62,351,044</u>	<u>57,665,630</u>
Total net position	<u>1,044,187,833</u>	<u>1,049,438,953</u>
Total liabilities and net position	<u>\$ 2,297,744,935</u>	<u>\$ 2,340,366,031</u>

**Indianapolis Airport Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Airfield	\$ 21,673,724	\$ 21,468,743
Terminal complex	49,436,370	49,457,673
Parking	43,469,204	40,718,709
Rented buildings and other	15,947,294	15,659,448
Indianapolis Maintenance Center (IMC)	9,200,391	9,395,175
Reliever airports	3,104,534	2,960,507
Total operating revenues	<u>142,831,517</u>	<u>139,660,255</u>
<b>Operating Expenses</b>		
Personal services	26,261,096	26,533,176
Contractual services	18,185,285	17,228,486
Utilities	9,431,004	8,479,881
Supplies	3,986,625	3,903,816
Materials	2,423,047	1,932,201
General	2,089,473	2,124,562
Total operating expenses	<u>62,376,530</u>	<u>60,202,122</u>
<b>Income From Operations Before Depreciation</b>	80,454,987	79,458,133
Depreciation expense	<u>94,126,914</u>	<u>95,820,684</u>
<b>Loss From Operations</b>	<u>(13,671,927)</u>	<u>(16,362,551)</u>
<b>Nonoperating Revenues (Expenses)</b>		
State and local appropriations	26,785,041	26,818,065
Federal operating grants	1,036,085	868,966
Passenger facility charges	14,645,121	14,473,637
Customer facility charges (rental cars)	6,442,212	6,097,820
Investment income	2,678,463	5,237,098
Interest expense, net of \$185,169 and \$267,153 interest capitalized in 2014 and 2013, respectively	(57,935,260)	(58,191,635)
Gain (loss) on disposals of capital assets and other	621,023	(2,448,881)
	<u>(5,727,315)</u>	<u>(7,144,930)</u>
<b>Decrease in Net Position Before Capital Contributions and Grants</b>	<u>(19,399,242)</u>	<u>(23,507,481)</u>
<b>Capital Contributions and Grants</b>		
Federal, state and local grants	12,327,394	10,321,815
Contributions from lessees and other	1,820,728	11,171,313
	<u>14,148,122</u>	<u>21,493,128</u>
<b>Decrease in Net Position</b>	(5,251,120)	(2,014,353)
<b>Net Position, Beginning of Year</b>	<u>1,049,438,953</u>	<u>1,051,453,306</u>
<b>Net Position, End of Year</b>	<u>\$ 1,044,187,833</u>	<u>\$ 1,049,438,953</u>

**Indianapolis Airport Authority**  
**Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers and users	\$ 143,993,483	\$ 143,536,858
Cash payments to vendors for goods and services	(36,512,733)	(32,907,533)
Cash payments for employees services	(26,176,289)	(27,096,929)
Net cash provided by operating activities	81,304,461	83,532,396
<b>Cash Flows From Noncapital Financing Activities</b>		
Operating grants received	1,000,018	964,172
Customer facility charges received	6,442,212	6,097,820
Insurance recoveries	393,324	2,668,128
Net cash provided by noncapital financing activities	7,835,554	9,730,120
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from issuance of revenue bonds	184,775,413	37,845,000
Principal paid on bonds	(221,800,000)	(73,410,000)
Bond issue costs paid	(1,236,275)	(419,650)
Interest paid	(54,875,388)	(52,728,659)
Acquisition and construction of capital assets	(25,992,983)	(31,944,835)
Demolition costs related to capital assets	(135,179)	(5,314,735)
Proceeds from sale of capital assets	192,492	41,433
Passenger facility charges received	14,715,387	14,494,496
Capital grants received	9,560,189	9,203,520
Net cash used in capital and related financing activities	(94,796,344)	(102,233,430)
<b>Cash Flows From Investing Activities</b>		
Purchase of investment securities	(188,139,399)	(118,087,017)
Proceeds from sales and maturities of investment securities	163,552,770	129,377,080
Interest received on investments and cash equivalents	2,215,676	4,071,697
Cash received from monetization of investment derivative	3,117,000	-
Net cash provided by (used in) investing activities	(19,253,953)	15,361,760
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(24,910,282)	6,390,846
<b>Cash and Cash Equivalents, Beginning of Year</b>	163,703,541	157,312,695
<b>Cash and Cash Equivalents, End of Year</b>	\$ 138,793,259	\$ 163,703,541

**Indianapolis Airport Authority**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Reconciliation of Loss From Operations to Net Cash Provided by Operating Activities</b>		
Loss from operations	\$ (13,671,927)	\$ (16,362,551)
Item not requiring cash		
Depreciation of capital assets	94,126,914	95,820,684
Change in assets and liabilities		
Accounts receivable and unbilled revenues	1,161,966	3,876,603
Supplies and materials inventories	(128,462)	2,632
Other assets	62,052	451,908
Accounts payable	(330,889)	306,873
Accrued and withheld items	84,807	(563,753)
	\$ 81,304,461	\$ 83,532,396
<b>Noncash Capital and Related Financing Activities</b>		
Capital assets included in accounts payable at end of year	\$ 5,805,119	\$ 6,009,674
Capital assets contributed by lessees and other governments	1,820,728	11,171,313
State and local appropriations used to fund capital lease obligations and interest	26,779,302	26,812,442

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2014 and 2013

### Note 1: Nature of Organization and Summary of Significant Accounting Policies

The Indianapolis Airport Authority (Authority) is a municipal corporation established January 1, 1962, under authority granted by Indiana statute (1961 Acts, Chapter 283, I.C. 1979 19-6-2, superseded by I.C. 8-22-3). The Authority was established for the general purpose of acquiring, maintaining, operating and financing airports and landing fields in and bordering on Marion County, Indiana. In connection therewith, the Authority is authorized, among other things, to issue general obligation and revenue bonds and to levy taxes in accordance with the provisions of the statute. The Authority administers an airport system comprised of the Indianapolis International Airport, three general aviation reliever airports, one general aviation airport and one general aviation reliever heliport. The Authority has no stockholders or equity holders and all revenue and other receipts must be disbursed in accordance with such statute.

The Authority's Board consists of nine members, five of which are appointed by the Mayor of the Consolidated City of Indianapolis-Marion County (a unified form of government commonly referred to as Unigov), one by the majority leader of the City-Council, and one each by the Hendricks, Hamilton and Hancock County Boards of Commissioners. Each member is appointed a four-year term. Also, the Board has one nonvoting, advisory board member from Morgan County.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Financial Reporting Entity**

The definition of the reporting entity under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended, is based primarily on the concept of financial accountability. Although the Mayor appoints a voting majority of the Authority's governing body, neither of the other two tests of financial accountability are met. Unigov is unable to impose its will on the Authority. Also, the Authority does not impose a financial burden or provide a financial benefit to Unigov. Careful review of these criteria, therefore, has resulted in the conclusion that the Authority is a separate reporting entity and is not a component of Unigov or any other government.

#### **Basis of Accounting and Financial Reporting**

The financial statements consist of a single-purpose business-type activity, which is reported on the accrual basis of accounting using the economic resources measurement focus.

The Authority prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2014 and 2013

### ***Cash Equivalents***

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

### ***Investment Securities***

Investment securities are stated at fair value.

### ***Unbilled Revenues***

The Authority accrues revenue for rentals earned but not yet billed as of year-end.

### ***Inventories***

Inventories of supplies and materials are valued at average cost and consist primarily of building, vehicle and airfield maintenance parts and supplies.

### ***Lessee-Financed Improvements***

Certain leases include provisions whereby lessee-financed improvements become the property of the Authority. Prior to the adoption of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Authority recorded lessee-financed improvements only upon leasehold reversion or lease termination, at which time the improvements were capitalized at fair value and recorded as a capital contribution. Upon implementation of GASB Statement No. 33, the Authority began recognizing lessee-financed improvements at cost or estimated cost upon completion of construction, or upon the asset being placed in service, whichever occurs first. However, lessee-financed improvements placed in service prior to the adoption of GASB Statement No. 33 continue to be recognized only upon leasehold reversion or lease termination.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

### **Capital Assets**

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$2,500. Capital assets purchased by the Authority are stated at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of such assets. The estimated lives by general classification are as follows:

	<u>Years</u>
Buildings, including parking garage	20 to 50
Sewers	25 to 50
Runways, taxiways and aprons	15 to 25
Roads, ramps, parking areas, runway and apron lighting, etc.	15 to 20
Heavy equipment, furniture and fixtures and fencing	5 to 20
Vehicles, office equipment and other	3 to 10

Interest incurred during construction periods is capitalized and included in the cost of property and equipment. Maintenance and repairs are expensed as incurred. Environmental mitigation costs incurred to establish wetlands and habitats are capitalized, while costs related to maintaining wetlands and habitats are generally charged to expense as incurred. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

### **Original Issue Discount**

Original issue discounts on bonds are amortized using the interest method over the lives of the bonds to which they relate.

### **Employee Health Benefits**

The Authority offers health benefit plans which provide employees with a choice of coverage under a Health Savings Account plan or a plan provided by a Preferred Provider Organization.

### **Compensated Absences**

In accordance with the vesting method provided under GASB Statement No. 16, *Accounting for Compensated Absences*, accumulated vacation and personal time is accrued based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2014 and 2013

### ***Federal and State Grants***

Outlays for airport capital improvements and certain airport operating expenses, primarily those relating to airport security, are subject to reimbursement from federal grant programs. Funds are also received for airport development from the State of Indiana. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

From time to time, the Authority disposes of land or other assets which were originally purchased with federal assistance. In accordance with the Airport Improvement Program (AIP), the Authority must reinvest the federal government's proportionate share of the proceeds realized from the sale or exchange of such assets in approved AIP projects or return such amounts to the federal government.

### ***Revenue and Expense and Net Position Recognition***

Revenues from airlines, concessionaires, lessees, and parking are reported as operating revenues. Operating expenses include the cost of administering the airport system, including depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions, grants and charges.

When both restricted and unrestricted net position are available for use, it is the Authority's policy to use restricted net position first, and then unrestricted net position as they are needed.

### ***Passenger Facility Charges***

The Authority received approval from the Federal Aviation Administration (FAA) to impose and use a passenger facility charge (PFC) of \$3.00 per eligible enplaned passenger and has imposed the PFC since September 1993. PFC's are restricted for use in the acquisition of real estate and the construction of certain airport improvements and other costs, as approved by the FAA.

During 2001, the Authority received approval from the FAA to increase the collection level from \$3.00 to \$4.50 per enplaned passenger beginning April 2002. In addition, approvals received in March 2001 and August 2003 allow the Authority to impose and use \$524,907,606 in PFC's for various capital and debt related purposes. Included in the use approval is \$208,872,000 for principal payments on debt, \$178,668,000 for interest payments on debt and \$56,330,000 for the New Indianapolis Airport and associated program construction.

PFC's, which are recognized as earned, are included in nonoperating revenues and amounted to \$14,645,121 and \$14,473,637 for 2014 and 2013, respectively.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

### ***Customer Facility Charges (Rental Cars)***

The Authority collects a customer facility charge (CFC) from all rental car concessionaires that operate facilities on the airport. The CFC, which started in 2007, was \$3.00 per rental car transaction per day, up to 14 days. The Authority increased this charge to \$4.00 per transaction in May 2010. Under the adopting ordinance, CFC's may be pledged or dedicated for the payment of airport bonds or other obligations, as defined by applicable bond documents, or other costs as agreed to by the Authority. CFC revenue totaled \$6,442,212 and \$6,097,820 for 2014 and 2013, respectively.

### ***Rental Income***

All leases wherein the Authority is the lessor are accounted for as operating leases. Rental income is generally recognized as it becomes receivable over the respective lease terms. The Authority has some leases which provide for waived rent during the initial period of the lease term and/or rental escalations throughout the lease term. In accordance with GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, the related rental income for leases in which the rental income stream is not systematic, if significant, is reported using the straight-line method rather than using the terms of the lease agreements. Accordingly, the Authority has recorded a receivable of \$1,642,454 and \$1,988,198 at December 31, 2014 and 2013, respectively. The current receivable will be recognized in full in 2034.

### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net position.

## **Note 2: Cash, Cash Equivalents and Investment Securities**

### ***Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of Indiana statutes.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

The Authority's cash deposits are insured up to \$250,000 at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits in excess of the \$250,000 FDIC limits are partially or fully collateralized by the depository institution and insured by the Indiana Public Deposits Insurance Fund (Fund) via the pledged collateral from the institutions securing deposits of public funds. The Fund is a multiple financial institution collateral pool as provided under Indiana Code, Section 5-13-12-1.

### Investments

Indiana statutes generally authorize the Authority to invest in United States obligations and issues of federal agencies, Indiana municipal securities, secured repurchase agreements fully collateralized by U.S. Government or U.S. Government agency securities, certificates of deposit, and open end money market mutual funds.

At December 31, 2014 and 2013, the Authority had the following investment securities and maturities:

		December 31, 2014		
	Rating	Total	Less Than 1 Year	1 - 5 Years
U.S. Treasury notes	AA+/Aa1	\$ 12,533,268	\$ -	\$ 12,533,268
U.S. Government-sponsored enterprise securities				
Federal National Mortgage Association	AA+/Aaa	13,112,876	-	13,112,876
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	AA+/Aaa	27,912,746	21,615,410	6,297,336
Total U.S. Government- sponsored enterprise securities		<u>6,567,115</u>	<u>-</u>	<u>6,567,115</u>
		<u>47,592,737</u>	<u>21,615,410</u>	<u>25,977,327</u>
Indiana municipal securities				
	AAA/Aaa	1,231,375	-	1,231,375
	AA+/Aa1	34,786,265	2,519,536	32,266,729
	AA/Aa2	2,675,351	180,393	2,494,958
	AA-/Aa3	381,581	10,183	371,398
	A+/A1	5,062,581	180,955	4,881,626
	A/A2	4,682,388	1,042,862	3,639,526
	A-/A3	1,675,319	293,054	1,382,265
	BBB+	1,040,294	-	1,040,294
	BBB	1,728,087	386,095	1,341,992
	BBB-	30,863	30,863	-
	Not Rated	6,538,519	1,690,254	4,848,265
Total Indiana municipal securities		<u>59,832,623</u>	<u>6,334,195</u>	<u>53,498,428</u>
Money market mutual funds	AAA/Aaa	87,807,820	87,807,820	-
External investment pools	Not Rated	4,843,223	4,843,223	-
		<u>\$ 212,609,671</u>	<u>\$ 120,600,648</u>	<u>\$ 92,009,023</u>

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

	Rating	Total	December 31, 2013	
			Less Than 1 Year	1 - 5 Years
U.S. Government-sponsored enterprise securities				
Federal National Mortgage Association	AAA/Aaa	\$ 26,915,867	\$ 23,415,867	\$ 3,500,000
Federal Home Loan Mortgage Corporation	AAA/Aaa	1,000,000	-	1,000,000
Total U.S. Government- sponsored enterprise securities		<u>27,915,867</u>	<u>23,415,867</u>	<u>4,500,000</u>
Indiana municipal securities				
	AAA/Aaa	102,925	-	102,925
	AA+/Aa1	39,995,207	7,192,624	32,802,583
	AA/Aa2	2,849,430	787,399	2,062,031
	AA-/Aa3	2,346,016	10,289	2,335,727
	A+/A1	9,465,714	652,274	8,813,440
	A/A2	1,444,500	986,063	458,437
	A-/A3	1,124,546	105,000	1,019,546
	BBB	5,170,972	1,480,010	3,690,962
	Not Rated	3,012,702	845,811	2,166,891
Total Indiana municipal securities		<u>65,512,012</u>	<u>12,059,470</u>	<u>53,452,542</u>
Money market mutual funds	AAA/Aaa	103,971,967	103,971,967	-
External investment pools	Not Rated	4,826,738	4,826,738	-
		<u>\$ 202,226,584</u>	<u>\$ 144,274,042</u>	<u>\$ 57,952,542</u>

**Interest Rate Risk** - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority is limited to investing in municipal securities of Indiana issuers that have not defaulted within the previous 20 years and other securities with a stated maturity of not more than five years after the date of purchase or entry into a repurchase agreement, as defined by Indiana Code, Section 5-13-9-5.6. The Authority's investment policy for interest rate risk requires compliance with the provisions of Indiana statutes. The money market mutual funds and external investment pools are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy for credit risk requires compliance with the provisions of Indiana statutes, and Indiana Code Section 5-13-9-2.5 requires that the Authority only invest in money market mutual funds that are rated AAAM by Standard and Poor's or Aaa by Moody's Investors Service. Other securities, including municipal securities, may be rated lower than AAAM/Aaa or may be unrated. The Authority's investment policy restricts investments in unrated or below investment grade Indiana municipal securities to five percent of its total investment portfolio.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2014 and 2013

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2014 and 2013, the Authority's investments were not exposed to custodial credit risk. The Authority's investments in Indiana municipal securities and U.S. agency obligations are held by the pledging financial institution's trust department or agent in the Authority's name. Likewise, investments in repurchase agreements (which are secured by U.S. Government and U.S. Government agency obligations) are not subject to custodial credit risk as the underlying collateral was held in the Authority's name. The existence of the Authority's investment in money market mutual funds and external investment pools is not evidenced by securities that exist in physical or book entry form. The Authority's investment policy does not address how investment securities and securities underlying repurchase agreements are to be held.

**Concentration of Credit Risk** - The Authority places the following limits on the amount that may be invested in any one issuer: (1) no more than 50% of total investments with any one governmental agency; (2) no more than 25% in any one money market mutual fund, investment pool or certificate of deposit; and (3) no more than 15% with any one Indiana municipal issuer. No single issuer of the Indiana municipal securities in which the Authority has invested exceeded 5% of total investments. The following governmental agency investments held by the Authority are not explicitly guaranteed by the U.S. Government and are subject to concentration of credit risk:

	<b>2014</b>	<b>2013</b>
Federal National Mortgage Association	\$ 13,112,876	\$ 26,915,867
Federal Home Loan Bank	27,912,746	-
Federal Home Loan Mortgage Corporation	6,567,115	1,000,000
	<u>\$ 47,592,737</u>	<u>\$ 27,915,867</u>

**Foreign Currency Risk** - This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Authority's investment policy prohibits investments in foreign investments.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

### *Summary of Carrying Values*

Cash, cash equivalents and investment securities included in the balance sheets are classified as follows:

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents		
Current - unrestricted	\$ 16,178,400	\$ 14,817,334
Current - restricted	47,232,716	56,661,424
Noncurrent - restricted	75,382,143	92,224,783
Total cash and cash equivalents	138,793,259	163,703,541
Investment securities		
Noncurrent - unrestricted	34,832,891	32,256,989
Noncurrent - restricted	61,409,160	37,755,022
Total investment securities	96,242,051	70,012,011
	\$ 235,035,310	\$ 233,715,552

### *Investment Income*

Investment income for the years ended December 31, 2014 and 2013 consisted of:

	<b>2014</b>	<b>2013</b>
Interest and dividend income	\$ 2,678,463	\$ 5,237,098

Cash, cash equivalents and investment securities are restricted as follows:

	<b>2014</b>	<b>2013</b>
Revenue Bond Interest and Principal Fund	\$ 45,927,127	\$ 53,829,503
Revenue Bond Reserve Fund	62,269,199	65,264,642
Operation and Maintenance Reserve Fund	11,177,156	11,005,118
Renewal and Replacement Fund	2,619,316	2,589,386
Capital Improvement Fund	34,162,608	26,033,420
Passenger Facility Charge Fund	9,160,392	7,682,962
Debt Service Coverage Fund	17,171,014	17,172,739
Escrow for owner controlled insurance program	400,136	1,810,215
Customer deposits	684,200	784,428
Air Service Task Force and other	452,871	468,816
	\$ 184,024,019	\$ 186,641,229

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

The above funds and accounts have been established in accordance with the Authority's General Ordinance No. 6-1985, the Master Bond Ordinance, as amended and restated by a Revised Master Bond Ordinance No. 4-2002, and further amended by various supplemental ordinances (collectively, the Ordinance). The Ordinance provides, among other things, that certain accounting procedures be followed and certain funds be established to provide bond holders a degree of security against certain contingencies. Brief descriptions of these funds follow.

Deposits into the Airport System Fund are disbursed in accordance with the Authority's annual budget to provide for current operations and maintenance expenses. Such deposits are also used to replenish balances in other funds to their required levels under the Ordinance. Amounts in the Airport System Fund are pledged to secure the Authority Revenue Bonds, but all current operations and maintenance expenses of the Airport System are paid prior to debt service on the Authority Revenue Bonds.

Assets included in the Revenue Bond Interest and Principal Funds and Revenue Bond Reserve Funds are used for the payment of bond principal, interest and redemption premiums, as well as any amounts due under Qualified Derivative Agreements (as defined under the Ordinance) entered into with regard to any of the Authority's Revenue Bonds. The Operation and Maintenance Reserve Fund must be maintained at a balance at least equal to one-sixth of the Authority's current operating budget as a reserve for payment of operation and maintenance expenses. Assets of the Renewal and Replacement Fund are used to pay extraordinary costs of replacing depreciable property and equipment and/or making extraordinary repairs, replacements, or renovations to the airport system. The Capital Improvement Fund can be used for any lawful airport system purpose, including payment for capital improvements and land acquisition. Finally, amounts in the Debt Service Coverage Fund are used for the purposes of establishing future coverage on outstanding Revenue Bonds.

Funds not used for these purposes are transferred into a Prepaid Airline Revenue Fund and used as a credit against the rentals and fees to be paid by Signatory Airlines (as defined later in these notes) in subsequent years. Balances included in the Airport System Fund and Prepaid Airline Revenue Fund are classified in current unrestricted assets in the accompanying balance sheets.

The Authority has established a Customer Facility Charge Fund, which provides for a segregated account for receipt of CFC revenue. Such revenue is expended for reimbursement of capital and operating expenditures related to rental car operations on airport property, as well as to service debt associated with the financing of such capital projects. Balances in the CFC Fund are classified in current unrestricted assets in the accompanying balance sheets.

The Authority's Passenger Facility Charge Fund provides for the segregation of PFC receipts, as required by the FAA. Such revenues are to be expended only for allowable capital projects, or to repay debt issued for allowable capital projects, under a Record of Decision granted by the FAA.

During 2011, the Authority established an escrow account in relation to its owner controlled insurance program (OCIP). These funds were set aside from the Authority's airport system fund and are held in lieu of maintaining a separate letter of credit for that insurance program.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

### Note 3: Grants Receivable

Grants receivable from government agencies represent reimbursements due from the federal government and/or the State of Indiana for allowable costs incurred on federal and state award programs. Grants receivable at December 31, 2014 and 2013 consist of:

	2014	2013
State of Indiana	\$ 162,067	\$ 149,092
Federal Aviation Administration	9,864,972	7,110,742
U.S. Department of Homeland Security	37,875	1,808
	\$ 10,064,914	\$ 7,261,642

The maximum amount of federal and state participation available for 2014 totaled \$40,741,162. At December 31, 2014, a cumulative total of \$21,812,056 has been received on these grant commitments.

### Note 4: Capital Assets

A summary of changes in capital assets for the years ended December 31, 2014 and 2013 is as follows:

	2014			
	Beginning Balance, January 1, 2014	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2014
Capital assets, not being depreciated:				
Land	\$ 298,310,923	\$ 614,351	\$ (72,565)	\$ 298,852,709
Construction in progress	6,368,714	31,131,822	(21,576,804)	15,923,732
Total capital assets, not being depreciated	304,679,637	31,746,173	(21,649,369)	314,776,441
Capital assets, being depreciated:				
Buildings	1,734,111,385	4,041,883	(92,473,264)	1,645,680,004
Runways and other airport infrastructure	960,295,032	10,218,778	(567,866)	969,945,944
Equipment, furniture and fixtures and other	250,855,732	3,602,483	(18,399,325)	236,058,890
Total capital assets, being depreciated	2,945,262,149	17,863,144	(111,440,455)	2,851,684,838
Less accumulated depreciation for:				
Buildings	(566,488,496)	(51,201,564)	92,321,542	(525,368,518)
Runways and other airport infrastructure	(476,086,535)	(33,421,878)	546,459	(508,961,954)
Equipment, furniture and fixtures and other	(182,434,711)	(9,503,472)	18,389,115	(173,549,068)
Total accumulated depreciation	(1,225,009,742)	(94,126,914)	111,257,116	(1,207,879,540)
Total capital assets, being depreciated, net	1,720,252,407	(76,263,770)	(183,339)	1,643,805,298
Capital assets, net	\$ 2,024,932,044	\$ (44,517,597)	\$ (21,832,708)	\$ 1,958,581,739

**Indianapolis Airport Authority**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

	Beginning Balance, January 1, 2013	2013		Ending Balance, December 31, 2013
		Transfers and Additions	Transfers and Disposals	
Capital assets, not being depreciated:				
Land	\$ 295,741,712	\$ 2,631,373	\$ (62,162)	\$ 298,310,923
Construction in progress	9,349,431	33,525,074	(36,505,791)	6,368,714
Total capital assets, not being depreciated	<u>305,091,143</u>	<u>36,156,447</u>	<u>(36,567,953)</u>	<u>304,679,637</u>
Capital assets, being depreciated:				
Buildings	1,714,242,071	19,869,314	-	1,734,111,385
Runways and other airport infrastructure	945,900,045	14,394,987	-	960,295,032
Equipment, furniture and fixtures and other	242,948,079	9,188,552	(1,280,899)	250,855,732
Total capital assets, being depreciated	<u>2,903,090,195</u>	<u>43,452,853</u>	<u>(1,280,899)</u>	<u>2,945,262,149</u>
Less accumulated depreciation for:				
Buildings	(516,779,765)	(49,708,731)	-	(566,488,496)
Runways and other airport infrastructure	(443,145,423)	(32,941,112)	-	(476,086,535)
Equipment, furniture and fixtures and other	(170,527,083)	(13,170,841)	1,263,213	(182,434,711)
Total accumulated depreciation	<u>(1,130,452,271)</u>	<u>(95,820,684)</u>	<u>1,263,213</u>	<u>(1,225,009,742)</u>
Total capital assets, being depreciated, net	<u>1,772,637,924</u>	<u>(52,367,831)</u>	<u>(17,686)</u>	<u>1,720,252,407</u>
Capital assets, net	<u>\$ 2,077,729,067</u>	<u>\$ (16,211,384)</u>	<u>\$ (36,585,639)</u>	<u>\$ 2,024,932,044</u>

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

### Note 5: Bonds Payable and Other Debt

Bonds and other debt outstanding at December 31, 2014 and 2013 consist of:

	2014	2013
Revenue Bonds, Series 2014A		
Serial bonds, maturing January 1, 2017 to January 1, 2034 in payments from \$1,490,000 to \$17,075,000. Interest at 3.00% to 5.00%, due semiannually on January 1 and July 1	\$ 165,340,000	\$ -
Unamortized premium	19,102,067	-
	184,442,067	-
Revenue Bonds, Series 2013A		
Term bonds, maturing July 1, 2018. Interest is fixed at 1.800%, due semiannually on January 1 and July 1	12,570,000	13,000,000
Revenue Bonds, Series 2013B		
Term bonds, maturing July 1, 2018. Interest is fixed at 1.610%, due semiannually on January 1 and July 1	22,695,000	24,845,000
Revenue Bonds, Series 2012A		
Term bonds, maturing July 1, 2019. Interest is fixed at 1.253%, due semiannually on January 1 and July 1	37,285,000	44,025,000
Unamortized discount	(95,182)	(142,747)
	37,189,818	43,882,253
Revenue Bonds, Series 2010C		
Term bonds, maturing January 1, 2033, 2036 and 2037. Interest is variable (75% of the one-month LIBOR plus 0.815% (0.9426%) at December 31, 2013), due monthly on the first business day	337,280,000	341,735,000
Revenue Bonds, Series 2010A		
Serial bonds, maturing January 1, 2015 to January 1, 2027 in payments from \$620,000 to \$1,005,000. Interest at 4.00% to 4.50%, due semiannually on January 1 and July 1	10,340,000	10,940,000
Term bonds, maturing January 1, 2030 and 2037. Interest at 4.75% and 5.00%, respectively, due semiannually on January 1 and July 1	13,155,000	13,155,000
	23,495,000	24,095,000
Unamortized discount	(180,935)	(194,376)
	23,314,065	23,900,624

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

(Continued)	2014	2013
Revenue Bonds, Series 2006A		
Serial bonds, maturing January 1, 2015 to January 1, 2023 in payments from \$14,410,000 to \$20,390,000. Interest at 5.00%, due semiannually on January 1 and July 1	\$ 152,170,000	\$ 165,845,000
Term bonds, maturing January 1, 2027 and 2036. Interest at 4.75% and 5.00%, respectively, due semiannually on January 1 and July 1	<u>82,235,000</u>	<u>82,235,000</u>
	234,405,000	248,080,000
Unamortized premium	<u>3,182,661</u>	<u>3,517,212</u>
	<u>237,587,661</u>	<u>251,597,212</u>
Revenue Bonds, Series 2005A		
Serial bonds, maturing January 1, 2023 to January 1, 2030 in payments from \$7,735,000 to \$19,080,000. Interest at 5.125% to 5.25%, due semiannually on January 1 and July 1	133,970,000	133,970,000
Term bonds, maturing January 1, 2033. Interest at 4.75%, due semiannually on January 1 and July 1	<u>63,415,000</u>	<u>63,415,000</u>
	197,385,000	197,385,000
Unamortized premium	<u>2,092,509</u>	<u>2,247,947</u>
	<u>199,477,509</u>	<u>199,632,947</u>
Revenue Bonds, Series 2004A		
Serial bonds, maturing January 1, 2015 to January 1, 2024 in payments from \$4,580,000 to \$11,075,000. Interest at 5.00% to 5.25%, due semiannually on January 1 and July 1	-	68,420,000
Term bonds, maturing January 1, 2026 to January 1, 2034. Interest at 4.75% to 5.00%, due semiannually on January 1 and July 1	<u>-</u>	<u>125,330,000</u>
	-	193,750,000
Unamortized premium	<u>-</u>	<u>2,324,970</u>
	<u>-</u>	<u>196,074,970</u>
Total revenue bonds	<u>1,054,556,120</u>	<u>1,094,668,006</u>
Other debt		
Obligations under capital lease	<u>79,942,322</u>	<u>103,844,418</u>
	79,942,322	103,844,418
Total bonds payable and other debt	1,134,498,442	1,198,512,424
Current portion	<u>(54,309,282)</u>	<u>(56,302,096)</u>
Long-term portion	<u>\$ 1,080,189,160</u>	<u>\$ 1,142,210,328</u>

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

### **Revenue Bonds**

#### ***2014A Refunding Revenue Bonds***

In October 2014, the Authority issued the 2014A Refunding Revenue Bonds in the amount of \$165,340,000 with an original issue premium of \$19,435,412. The proceeds from the 2014A Revenue Bonds, in conjunction with transfers from the debt service reserve and principal and interest funds, were issued to refund the outstanding balance of the 2004A Revenue Bonds of \$189,400,000. The net present value savings resulting from this refunding were \$17,667,274, and the aggregate difference in the required debt service between the 2004A Bonds and 2014A Bonds is \$21,165,935.

#### ***2013 Refunding Revenue Bonds***

In June 2013, the Authority issued the 2013A and 2013B Refunding Revenue Bonds in the amounts of \$13,000,000 and \$24,845,000, respectively, which refunded \$37,485,000 of the Authority's then outstanding 2006A Revenue Bonds. The Authority retired an additional \$10,940,000 of the 2006A Revenue Bonds using other unencumbered funds.

#### ***Redemption Requirements***

The Authority's Series 2005A, 2006A, 2010A and 2014A Revenue Bonds are subject to optional redemption by the Authority at various dates in the future. The 2010C Revenue Bonds are subject to optional redemption by the Authority upon notification of the bondholders.

The Series 2005A Revenue Bonds, maturing January 1, 2033 (the 2033 Term Bonds), are subject to redemption from mandatory sinking fund payments during 2031 to 2033.

The Series 2006A Revenue Bonds, maturing January 1, 2027 (the 2027 Term Bonds) and January 1, 2036 (the 2036 Term Bonds) are subject to redemption from mandatory sinking fund payments during 2024 to 2027 and 2034 to 2036, respectively. On December 23, 2010, the Authority repurchased and retired \$39,295,000 of the 2036 Term Bonds through a secondary market purchase.

The Series 2010A Revenue Bonds, maturing January 1, 2030 (the 2030 Term Bonds) and January 1, 2037 (the 2037 Term Bonds) are subject to redemption from mandatory sinking fund payments during 2028 to 2030 and 2031 to 2037, respectively.

The Series 2010C Revenue Bonds, maturing January 1, 2033, 2036 and 2037 are subject to redemption from mandatory sinking fund payments during 2014 to 2037.

The Series 2012A Refunding Revenue Bonds, maturing July 1, 2019, are subject to redemption from mandatory sinking fund payments during 2014 to 2019.

The Series 2013A and Series 2013B Refunding Revenue Bonds, maturing July 1, 2018, are subject to redemption from mandatory sinking fund payments during 2014 to 2018.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

### *The Master Bond Ordinance*

The Authority's Revenue Bonds are secured under the Master Bond Ordinance (as referenced in a previous footnote) by a pledge of net revenues of the Airport System and on parity with each other, except with respect to their Revenue Bond Reserve Funds.

Pursuant to its Master Bond Ordinance, the Authority has adopted resolutions beginning in 2003 and 2006 irrevocably dedicating revenues from passenger facility charges and customer facility charges (the Dedicated Revenues), respectively, to be used exclusively to pay debt service on the Authority's Revenue Bonds. The irrevocable designation of passenger facility charges revenue in 2014 and 2013 was approximately \$13.2 million for both years and the customer facility charge revenue designation was \$6.4 and \$6.2 million for 2014 and 2013, respectively. In 2014, a resolution was adopted irrevocably designating \$13.2 million of passenger facility charge revenues and \$6.2 million of customer facility charge revenues for 2015.

In accordance with the Rate Covenant contained in the Master Bond Ordinance, rates and fees charged by the Authority for the use of its facilities must be sufficient to provide annual net revenues when combined with moneys in the coverage fund to equal the larger of: (a) all amounts required to be deposited to the credit of the Revenue Bond Interest and Principal Fund and the Revenue Bond Reserve Fund; or (b) an amount not less than 125% of the Debt Service Requirement for all Revenue Bonds. For the purpose of complying with the Rate Covenant, the Authority includes within net revenues in any fiscal year amounts transferred from the Prepaid Airline Fund and amounts on deposit in the Debt Service Coverage Fund pursuant to the Master Bond Ordinance and excludes from interest due on Authority Revenue Bonds any interest paid from bond proceeds. The Authority can also exclude debt service to be paid from dedicated revenues from its Rate Covenant calculation.

### *Debt Service Requirements*

Debt service requirements to maturity for all debt of the Authority, excluding any unamortized discount or premium and its capital lease agreements, are as follows at December 31, 2014:

Years Ending December 31	Revenue Bonds		Total
	Principal	Interest	
2015	\$ 29,245,000	\$ 31,526,242	\$ 60,771,242
2016	30,365,000	32,783,906	63,148,906
2017	42,035,000	31,804,168	73,839,168
2018	52,050,000	30,635,185	82,685,185
2019	29,375,000	29,265,781	58,640,781
2020 - 2024	181,390,000	126,536,445	307,926,445
2025 - 2029	262,550,000	87,342,994	349,892,994
2030 - 2034	290,845,000	41,005,719	331,850,719
2035 - 2037	112,600,000	4,446,871	117,046,871
	<u>\$ 1,030,455,000</u>	<u>\$ 415,347,311</u>	<u>\$ 1,445,802,311</u>



# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

### Note 7: Derivative Financial Instruments

#### **Forward Delivery Purchase Agreements - Hedging Derivative Instruments**

The Authority has entered into three forward delivery purchase agreements (the Forward Delivery Agreements). The Forward Delivery Agreements require the counterparties to deposit securities in the Authority's debt service reserve trust accounts and provides the Authority a guaranteed rate of return. The securities that are deposited into the debt service reserve trust accounts are required to mature prior to scheduled debt service payment dates on the bonds that are secured by the respective debt service reserve funds.

Eligible securities include (a) discount notes issued by a federal agency; and (b) securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America, and issued by any of the following:

- the United States Treasury
- a federal agency
- a federal instrumentality
- a federal government-sponsored enterprise

**Objective of the Forward Delivery Agreements** - The Forward Delivery Agreements allow the Authority to earn a guaranteed fixed rate of return over the life of the agreement. These Agreements are utilized by the Authority to earn a rate of return in excess of a rate that would otherwise be feasible by investing in securities with a shorter term.

**Terms** - The general terms of each agreement are set forth in the table below:

	Date of Agreement	Termination Date	Scheduled Reserve Amount	Guaranteed Rate	Fair Value at December 31, 2014	Fair Value at December 31, 2013
Series 2014A Debt Service Fund	December 1, 2004	December 30, 2033	\$ 16,534,000	4.962%	\$ 5,033,182	\$ 1,259,328
Series 2005A Debt Service Fund	December 28, 2005	December 31, 2032	19,532,425	4.820%	5,539,783	1,048,437
Series 2006A Debt Service Fund	August 1, 2006	January 1, 2036	21,090,099	5.311%	8,972,089	2,464,182
					<u>\$ 19,545,054</u>	<u>\$ 4,771,947</u>

The forward delivery agreement associated with the Series 2004A Debt Service Reserve Fund was amended when the 2004A Bonds were refunded by the 2014A Bonds. The amended agreement now provides for the delivery of the securities into debt service reserve fund of the 2014A Bonds.

The notional amount associated with the Series 2006A Debt Service Fund Agreement was reduced by \$810,000 during 2013, the result of refunding a portion of the related Series 2006A Bonds.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

**Fair Value** - The fair values of the Forward Delivery Agreements are based on the value of the future discounted cash flows expected to be received over the life of the agreement relative to an estimate of discounted cash flows that could be received over the same term based on current market conditions. The fair values of the Forward Delivery Agreements are classified as a noncurrent asset on the balance sheets as of December 31, 2014 and 2013. As the Forward Delivery Agreements are effective hedging instruments, the offsetting balance is reflected as a deferred outflow of resources on the Authority's balance sheets. The changes in fair value of the Forward Delivery Agreements of \$14,773,107 and \$(14,519,645) for the years ended December 31, 2014 and 2013, respectively, are shown as an adjustment to the carrying amount of the related deferred outflows of resources on the balance sheets.

**Credit Risk** - Credit risk is the risk that a counterparty will not fulfill its obligations. Under the terms of the Forward Delivery Agreements, the Authority is either holding cash or an approved security within the debt service reserve funds. None of the principal amount of an investment under the Forward Delivery Agreements is at risk to the credit of the counterparty. Should the counterparty default, the Authority's maximum exposure is the positive termination value, if any, related to these agreements.

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or cash flows. The fair market value of the Forward Delivery Agreements is expected to fluctuate over the life of the agreements in response to changes in interest rates. The Authority does not have a formally adopted policy related to interest rate risk on the Forward Delivery Agreements.

**Termination Risk** - The Authority or the counterparties may terminate the Forward Delivery Agreements if the other party fails to perform under the terms of the contract. In addition, the Authority has an unrestricted option to terminate the Forward Delivery Agreements. If the Forward Delivery Agreements have a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equivalent to the fair market value of the instrument at the time of termination.

### **Interest Rate Swap Agreements - Hedging Derivative Instruments**

The Authority is a party to four interest rate swap agreements (the Swap Agreements) that became effective on July 1, 2008, concurrent with the issuance of the 2008 Revenue Bonds. The Swap Agreements continued to hedge the 2008 Revenue Bonds until December 21, 2010, at which time the 2008 Revenue Bonds were refunded by the issuance of the 2010C Revenue Bonds. This refunding resulted in a terminating event and accordingly, the Authority included the balance of the deferred outflows associated with this hedge in its calculation of the deferred loss on refunding, which was \$47,643,748. At that same time, the Swap Agreements became a hedge of the 2010C Revenue Bonds with terms and conditions that are identical to the previous hedge of the refunded 2008 Revenue Bonds.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

**Objective of the Interest Rate Swaps** - The Swap Agreements are used as a strategy to maintain acceptable levels of exposure to the risk of future changes in interest rates related to the Authority's existing variable rate debt. The primary intention of the Swap Agreements is to effectively convert the Authority's variable interest rates on its long-term debt to synthetic fixed rates.

**Terms** - The general terms of each agreement are set forth in the table below:

Notional Amount	Trade Date	Effective Date of Swap Agreement	Termination Date	Rate Authority Pays	Variable Rate Authority Receives	Fair Value at December 31, 2014	Fair Value at December 31, 2013
\$ 116,845,000	October 14, 2004	July 1, 2008	January 1, 2036	4.0325%	75% One Month LIBOR	\$ (28,787,340)	\$ (19,279,931)
70,435,000	October 14, 2004	July 1, 2008	January 1, 2037	4.1500%	75% One Month LIBOR	(18,915,953)	(12,705,178)
50,000,000	October 7, 2005	July 1, 2008	January 1, 2033	3.7860%	75% One Month LIBOR	(12,336,159)	(7,512,425)
100,000,000	October 11, 2005	July 1, 2008	January 1, 2033	3.7775%	75% One Month LIBOR	(24,489,489)	(14,829,225)
<u>\$ 337,280,000</u>						<u>\$ (84,528,941)</u>	<u>\$ (54,326,759)</u>

Payments due under the Swap Agreements (excluding any termination payments) and payments on any repayment obligation will be payable from net revenues of the airport system on a parity with the Revenue Bonds. Under the Swap Agreements, the Authority pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The Swap Agreements resulted in no initial cash receipts or payments to be made by the Authority.

**Fair Value** - The fair values of the Swap Agreements are based on estimated discounted future cash flows determined using the counterparties' proprietary models based upon financial principles and estimates about relevant future market conditions. The fair values of the Swap Agreements are classified as a noncurrent liability on the balance sheets as of December 31, 2014 and 2013. As the Swap Agreements are effective hedging instruments, the offsetting balance is reflected as a deferred outflow of resources on the Authority's balance sheets. The changes in fair value of the Swap Agreements of \$(30,302,182) and \$44,463,942 for the years ended December 31, 2014 and 2013, respectively, are shown as an adjustment to the carrying amount of the related deferred outflows of resources on the balance sheets.

**Credit Risk** - The fair value of each of the Swap Agreements represents the Authority's credit exposure to the counterparties as of December 31, 2014. Should the counterparties to these transactions fail to perform according to the terms of the Swap Agreements, the Authority has a maximum possible loss equivalent to the fair value at that date. As of December 31, 2014, the Authority was not exposed to credit risk because each of the swaps had a negative fair value. In order to mitigate the potential for credit risk, if any of the counterparties' credit quality rating falls below a rating threshold of Aa3 by Moody's Investors Service or AA- by Standard & Poors, the fair value of that counterparty's swap or swaps is to be fully collateralized by the counterparty with eligible securities (as defined in the Schedule to the Master Agreement) to be held by a third-party custodian on behalf of the Authority.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

The ratings of the various counterparties at December 31, 2014 are as follows:

	Ratings of the Counterparty	
	Moody's Investors Service	Standard & Poor's
JPMorgan Chase Bank, N.A., counterparty of the interest rate swaps with notional amounts of \$116,845,000 and \$70,435,000	A3	A
Merrill Lynch Derivative Products, counterparty of the interest rate swap with the notional amount of \$50,000,000	Baa2 <sup>1</sup>	A-
UBS AG, counterparty of the interest rate swap with the notional amount of \$100,000,000 and both basis swap agreements	A2	A

<sup>1</sup> – The swaps are guaranteed by both Merrill Lynch Capital Services, Inc. and Merrill Lynch & Company, whose ratings are Aa3 and A+.

**Basis Risk** - The Authority is not exposed to basis risk because the variable-rate payments received by the Authority under the Swap Agreements are based on an index that coincides with the interest rates the Authority pays on its 2010C Revenue Bonds. As of December 31, 2014, the interest rate on the Authority's 2010C Revenue Bonds is 0.647%, (calculated at 75% of the one-month LIBOR plus 0.520%), while the Authority receives payments under the Swap Agreements equal to 75% of the one-month LIBOR, or 0.127%.

**Termination Risk** - The Authority or the counterparties may terminate the Swap Agreements if the other party fails to perform under the terms of the contract. In addition, the Authority has the unilateral option to terminate the Swap Agreements. If the Swap Agreements have a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the fair value of the respective swap.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

**Swap Payments and Associated Debt** - The variable rate bond interest payments and net swap payments will vary with changes in interest rates. Using rates as of December 31, 2014, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table below.

	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2015	\$ 4,680,000	\$ 2,153,676	\$ 12,707,210	\$ 14,860,886
2016	4,915,000	2,128,850	12,513,960	14,642,810
2017	5,170,000	2,102,739	12,310,711	14,413,450
2018	5,430,000	2,075,312	12,097,213	14,172,525
2019	5,710,000	2,046,474	11,872,729	13,919,203
2020 - 2024	44,865,000	9,658,437	55,185,179	64,843,616
2025 - 2029	111,185,000	6,718,807	38,808,550	45,527,357
2030 - 2034	124,365,000	2,330,118	15,040,309	17,370,427
2035 - 2037	30,960,000	131,371	1,030,480	1,161,851
	<u>\$ 337,280,000</u>	<u>\$ 29,345,784</u>	<u>\$ 171,566,341</u>	<u>\$ 200,912,125</u>

### **Basis Swaps - Investment Derivative Instruments**

The Authority also entered into basis swap agreements that are associated with the \$100 million interest rate swap with a trade date of October 11, 2005. These basis swaps are considered investment derivative instruments. The general terms of these basis swaps are set forth in the table below:

Notional Amount	Trade Date	Effective Date of Swap Agreement	Termination Date	Rate Authority Pays	Variable Rate Authority Receives	Fair Value at December 31, 2014	Fair Value at December 31, 2013
\$ 100,000,000	March 15, 2011	July 1, 2015	January 1, 2033	75% One Month LIBOR	75% ISDA Ten Year Swap Rate	\$ (365,256)	\$ 4,073,223

The fair value of the basis swaps is classified as a noncurrent asset on the balance sheets. Changes in the fair value of the basis swaps are classified as nonoperating revenues (investment income) on the statements of revenues, expenses, and changes in net position.

During 2014, the Authority monetized a portion of the fair value of the basis swaps, which resulted in the Authority receiving \$3,117,000 of cash.

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or cash flows. The fair value of the basis swaps are expected to fluctuate over the term of the agreements. The Authority does not have a policy related to interest rate risk on these basis swap agreements.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

**Credit Risk** - Credit risk is the risk that the counterparty to an investment derivative will not fulfill its obligations. Should the counterparties to these transactions fail to perform according to the terms of the basis swap agreements, the Authority has a maximum possible loss equivalent to the fair value at that date.

### Note 8: Obligations Under Capital Leases

In November 1991, the Authority entered into an agreement (the MOC-II Agreement) with the State of Indiana, the City of Indianapolis, and United Air Lines, Inc. (United) to provide a 300-acre site for United's Indianapolis Maintenance Center (IMC).

The State, the City and Hendricks County, Indiana provided the initial funding for the IMC. The State provided \$184.5 million from the proceeds of tax-exempt lease revenue bonds and a \$15.2 million grant. The City provided approximately \$111.0 million from the proceeds of tax-exempt current interest and capital appreciation bonds. Hendricks County provided \$8.0 million in the form of a grant, from the proceeds of an economic development income tax revenue bond issue.

Concurrently with the execution of the MOC-II Agreement in 1991, the Authority entered into a tenancy in common agreement and various lease agreements, which created certain leasehold interests in the IMC site and facilities and provided the framework for financing the costs of its construction. Accordingly, the Authority's leases with the State and the City for the IMC and its lease with the State for a building and related equipment ancillary to IMC, the Aviation Technology Center (ATC), have been reflected as capital lease obligations in these financial statements. The leases expire at various dates between 2016 and 2018. The gross amounts of capital assets and related accumulated depreciation recorded under these capital leases at December 31, 2014 and 2013 follow:

	<b>2014</b>	<b>2013</b>
Capital assets	\$ 352,111,077	\$ 352,111,077
Accumulated depreciation	(175,892,332)	(169,239,618)
	<u>\$ 176,218,745</u>	<u>\$ 182,871,459</u>

The present value of future minimum capital lease payments at December 31, 2014 follows:

2015	\$ 28,308,327
2016	28,271,916
2017	16,643,240
2018	16,115,198
Total minimum lease payments	<u>89,338,681</u>
Amounts representing interest	<u>(9,396,359)</u>
Present value of future minimum capital lease payments	<u>\$ 79,942,322</u>

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

The Authority's capital lease payments to the State are payable solely from monies to be appropriated by the Indiana General Assembly, the governing body for the State. There is no requirement that these amounts be appropriated. However, the Authority cannot be held liable, should an appropriation not be made, for the State's debt obligations relative to the IMC and ATC facilities. Assuming appropriations from the General Assembly continue, the Authority expects to receive the following future amounts to fund its capital lease obligations with the State:

2015	\$ 21,612,275
2016	21,623,920
2017	22,616,806
2018	20,801,713
	<hr/>
	\$ 86,654,714

The Authority's capital lease payments to the City are secured by an irrevocable pledge of a distributive share of Marion County Option Income Taxes (the Pledged Revenues). The City-County Council has covenanted not to repeal or rescind this tax as long as such rentals remain due. The Authority is not obligated for the debt incurred by the City with regard to the IMC facilities. Future pledged revenues to be received by the Authority to fund its capital lease obligation with the City follow:

2015	\$ 14,219,750
2016	14,211,750
	<hr/>
	\$ 28,431,500

### Note 9: Indianapolis Maintenance Center

As discussed previously in these footnotes, the Authority, the State of Indiana, the City of Indianapolis and United financed the construction and equipping of the IMC. As a part of the financing of these facilities, the Authority issued \$220,705,000 in special facility revenue bonds of which \$165,988,327 remains outstanding at December 31, 2014. The Authority had, and continues to have, no obligation to make interest and principal payments on these special facility bonds. Revenues from the IMC are reserved for expense reimbursement to the Authority for operational expenses incurred. Revenue in excess of expenses are provided back to the bondholders and the Authority on a percentage basis bound by the Settlement Agreement, but not until all of the Authority expenses have been reimbursed. Previously, the interest and principal payments for the Series 1995 Special Facility Revenue Bonds were funded by rentals paid by United under its lease agreement with the Authority. On December 9, 2002, United filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. On May 9, 2003, the Bankruptcy Court made effective United's rejection of its lease of the IMC and United abandoned the IMC facilities, whereby all of the IMC assets reverted to the Authority's control.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

In February 2004, the Authority and the Trustee of the bondholders entered into a Settlement Agreement which, among other things, provides for up to \$7.5 million in reimbursements for certain costs incurred after May 2003. The Settlement Agreement also provides for reimbursement for up to \$6.5 million of the Tenant Improvement Expenditure Reserve (TIER) fund for use of capital improvements, if certain conditions are met. On the ten year anniversary of the Settlement Agreement, all the funds accumulated in the TIER Fund are disbursed to the bondholders with the exception of \$1 million. On February 13, 2014, these funds were disbursed.

Since 2004, the Authority has entered into various leases for certain portions of the IMC. These leases include hangar space, office areas and the backshops (which are being used primarily for the maintenance, repair and overhaul of commercial aircraft) and certain warehouse space for non-aviation related use. As a part of the Settlement Agreement, rentals collected for the IMC are not considered revenue to the Authority, but instead are required to be deposited into a trust held on behalf of the United bondholders. The monies held in trust are to be used to pay ongoing operating and maintenance costs of the IMC and must be applied in a manner prescribed by the terms of the Settlement Agreement.

For the years ended December 31, 2014 and 2013, the Authority incurred approximately \$7.5 million and \$7.9 million of costs for the IMC, respectively. The Authority has received reimbursements for these costs under the Settlement Agreement aggregating approximately \$5.8 million and \$6.9 million for 2014 and 2013, respectively. In addition, as of December 31, 2014 and 2013, the Authority has accrued approximately \$2.9 million and \$1.8 million, respectively, in reimbursements from the Trustee for allowable costs incurred.

The aforementioned lease agreements contain a number of incentives to be provided by the Authority in the form of grants and rent credits over the terms of these leases, which currently range from six months to ten years. These grants and rent credits are designed to assist the tenants with start-up costs and the acquisition of certain capital assets, including leasehold improvements, and to encourage them to expand their operations and/or increase the amount of space they lease. Grants for start-up costs are recorded as unamortized lease costs by the Authority and amortized over the respective lease term, while grants for capital improvements result in new depreciable assets of the Authority. Success payments (for expanding operations) and other similar grants are expensed as they are earned by the tenants. All existing IMC capital assets, as well as those acquired by the tenants through Authority grants or otherwise, remain the property of the Authority, subject only to the tenants' rights to use such assets during their respective lease terms. As of December 31, 2014, the Authority has provided \$7.5 million in grants and \$8.0 million in rental credits to the lessees of the IMC.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2014 and 2013

### Note 10: Risk Management

Risk management is the responsibility of the Authority. Operationally, the Authority is exposed to various risks of loss related to the theft of, damage to and destruction of assets, natural disasters as well as certain tort liabilities for which commercial insurance is carried. The commercial insurance policies carry deductibles ranging from \$0 to \$100,000. Insurance policies procured, including commercial general liability and commercial property damage, are inclusive of coverage for certain war casualty and acts of terrorism. Coverage terms, limits, and deductibles have each been benchmarked in comparison with those maintained at other mid-size airports and found to be within the range of our peers. Although coverage limits are significant, no assurance can be given that such coverage will continue to be available at such amounts and/or at a reasonable cost.

The Authority has a self-insured arrangement for health care benefits provided to Authority employees and has established a self-insured liability for employee medical claims. The Authority utilizes a third-party company to provide individual stop loss coverage of \$100,000 on each covered individual's health claims and \$4,205,500 on overall health care program aggregate claims. The estimated self-insurance liability is based on claim trend and consultation with an actuary. There is no significant incremental claim adjustment expense, salvage or subrogation attributable to this liability.

### Note 11: Benefit Plan

The Authority provides a 401(a) defined-contribution employee retirement plan for employer contributions and a 457(b) deferred compensation plan for employee contributions. The Authority is the administrator of these plans, which are available to substantially all of its employees. Employer contributions to the 401(a) plan can range from zero up to nine percent of eligible compensation. Contributions to the plan were \$731,605 for 2014 and \$619,530 for 2013.

### Note 12: Rental Income From Operating Leases

The Authority leases space in the Indianapolis International Airport terminal along with other land and buildings on a fixed fee as well as a contingent rental basis. Many of the leases provide for a periodic review and adjustment of the rental amounts. Substantially all capital assets are held by the Authority for the purpose of rental or related use.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

Minimum future rentals on noncancelable operating leases to be received in each of the next five years and thereafter as of December 31, 2014 are as follows:

2015	\$ 64,900,987
2016	33,118,243
2017	32,477,724
2018	29,260,091
2019	14,653,614
Thereafter	<u>116,400,596</u>
	<u>\$ 290,811,255</u>

The Authority has entered into an Agreement and Lease of Premises (Airline Agreement) with certain passenger, charter and cargo airlines serving the airport (collectively, the Signatory Airlines). Other airlines operate under an airport use permit that generally has a term of no more than two years. The Airline Agreement's residual rate-making features are designed to ensure that the Authority's debt service and related coverage obligations, including the Rate Covenant, will be met. The Airline Agreement authorizes the Authority to implement new fees and charges as necessary. In the event of an airline bankruptcy, the Authority may adjust the rates and charges for all Signatory Airlines in the current rate period to recover the rates and charges due from the bankrupt carrier. However, there can be no assurance that such other airlines will be financially able to absorb the additional costs. Rental rates under these agreements are determined annually.

Contingent rentals and fees aggregated approximately \$42.4 million in 2014 and \$42.1 million in 2013, and are accrued in arrears.

### Note 13: Commitments and Contingencies

#### *Land Acquisition and Disposal*

In 1991, the Authority updated its FAA Part 150 Noise and Land Use Compatibility Study and final recommendations were adopted by the Authority Board in April 1992. The recommendations included expanding the Guaranteed Purchase Program to add approximately 750 more homes. As of December 31, 2014, the Authority has spent approximately \$102.6 million (including relocation costs) under this program (Phase II), substantially all of which was eligible for 80% reimbursement from the FAA. There are an estimated 30 homes remaining eligible for purchase under Phase II.

A second update and five-year review of the Authority's noise compatibility program (Phase III) began in 1996. Final recommendations were adopted by the Authority Board in February 1998, followed by FAA approval in October 1998. The recommendations include continuation of the Guaranteed Purchase Program with respect to approximately 132 additional homes, of which 127 have been acquired by the Authority. In addition, approximately 361 homes are eligible for the Sound Insulation and Purchase Assurance Programs.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2014 and 2013

The Sound Insulation Program pays for a home within the impacted noise area to be sound insulated with respect to doors, window treatments, etc., with no further cash outlay required by the Authority. At December 31, 2014, 316 homes have been sound insulated under this program. Under the Purchase Assurance Program, the Authority will purchase the property, sound insulate the home and then resell the property on the open market. At December 31, 2014, 118 homeowners have expressed an interest and successfully completed their participation in the Purchase Assurance Program. Participation in either the Sound Insulation or Purchase Assurance programs requires the homeowner to grant an aviation easement in favor of the Authority.

A third program, Sales Assistance, is available to approximately 487 homes, of which 382 requests have been completed. Sales Assistance consists of a benefit payment to homeowners adjacent to the 65DNL noise contour. The benefit payment is equal to 10% of the contract sales price between the homeowner and third-party buyer, in exchange for the inclusion of a Noise Disclosure Statement in the deed of conveyance. The estimated cost of the Phase III programs approximate \$98.5 million. These programs, excluding Sales Assistance, are eligible for reimbursement from passenger facility charges and FAA noise grants (at 80% reimbursement).

The noise mitigation land use programs described above are voluntary on the part of the homeowner as there is no legal requirement that homeowners participate in any of these programs, therefore, the foregoing comments regarding the number of homeowners eligible for participation in the various programs assumes 100% participation, which is unlikely.

The Authority has also acquired land south of Interstate 70 (I-70). With the exception of one small parcel of land, all parcels have been acquired for the future development of a third parallel runway in this area. As of December 31, 2014, the Authority has expended approximately \$13.7 million for this project.

In November 2014, the Authority Board approved and adopted Resolution No. 12-2014, establishing certain land use policies and guidelines for the implementation of a new land use initiative. The Authority owns approximately 9,000 acres of land in and around the Indianapolis International Airport, with large holdings not only in Wayne and Decatur Townships of Marion County, but also in neighboring Hendricks County. After an extensive review of its land holdings in 2014, the Authority developed this land use initiative under which more than 30 parcels of land (approximately 743 acres) will be available for sale, and an additional six large parcels of land (470 acres) will be available for leasing opportunities. With respect to the Authority's permanently protected bat and wetland habitat (containing approximately 2,000 acres), the Authority will pursue opportunities to divest itself of this land to a third party who has expertise in this area, such as a public or private conservation organization or governmental entity that has responsibility for environmental matters. As land is sold and proceeds received, the Authority will determine how those proceeds must be treated, including what amounts, if any, must be returned to the Federal Aviation Administration directly or reinvested in other AIP eligible projects pursuant to federal grant requirements.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2014 and 2013

### ***Environmental Mitigation and Remediation***

In order to comply with environmental laws, the Authority has implemented a natural resource mitigation program to create, monitor and maintain wetlands along with habitats for the endangered Indiana bat. As of December 31, 2014, the Authority had acquired approximately 1,993 acres in order to replace wetland and bat habitat areas that were removed by construction of the Indianapolis Maintenance Center and runway 5L-23R. The Authority will continue to maintain and monitor interim bat habitats under this program pursuant to a permit with the U.S. Fish & Wildlife Service through the year 2016 and approximately 2,000 acres of wetlands and certain associated summer bat habitats in perpetuity, or until control over such areas are transferred to an entity that will assume the responsibility. Approximately \$22.9 million has been spent under this program, of which approximately 28% was eligible for reimbursement from the FAA. The Authority's share of the costs for this conservation plan was originally estimated to be \$2.4 million, and as of December 31, 2014, the Authority has incurred \$2.8 million in costs.

The Authority is currently involved in three separate pollution remediation obligations that meet the requirements for accounting treatment under GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. These obligations are related primarily to the removal and/or treatment of contaminated soil associated with underground fuel tanks. The pronouncement dictates that for each obligating event, an estimate of the expected pollution remediation outlays is required to be accrued as a liability and expensed in the current period. Re-measurement of the liability is required when new information indicates increases or decreases in estimated outlays.

The amount of the estimated liability as of December 31, 2014 and 2013 was \$130,000 and \$329,000, respectively, which represents the approximate present value of the amounts the Authority expects to pay for future remediation activities. This estimate was generated using input and guidance from internal management and professional consultants, and represents a wide array of remediation activities ranging from one-time events to longer term sustained monitoring activity.

The Authority will continue to closely monitor each of these obligations, working toward the point of ultimate resolution, and will make any necessary adjustments to the potential liability as new information becomes available.

### ***Capital Improvements***

As of December 31, 2014, the Authority had outstanding commitments for certain airport improvements aggregating approximately \$18.3 million.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2014 and 2013

### ***Litigation and Claims***

The nature of the business of the Authority generates certain litigation against the Authority arising in the ordinary course of business.

As of December 31, 2014, there were ten claims in litigation for alleged personal injury, property damages, constructive eviction, unjust enrichment, and/or other claims pending against the Authority. Eight of these claims were for personal injury, one was for property damage from a hangar fire, and one was from a tenant alleging overpayment of rental to the Authority; the claims for personal injury and property damage are fully insured. In addition, there were two worker's compensation claims pending as of December 31, 2014. The Authority was also aware of several claims for which legal action against the Authority might be threatened or possible in the future.

In addition to the foregoing, as of December 31, 2014, there were two claims in litigation filed by the Authority against third parties for various reasons, including breach of contract and breach of duty of good faith and fair dealing. The Authority, in these matters, is seeking the enforcement of certain provisions of a lease and insurance policy, as well as judgment and damages. No amounts have been accrued as receivable in relation to these claims filed by the Authority.

## **Supplementary Information**

# Indianapolis Airport Authority

## Schedule of Governmental Awards

### Year Ended December 31, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title/ Grant Name	Federal CFDA Number	Federal Grant Number	State Grant Number	Total Grant Amount	Grant Reimbursements Receivable at Beginning of Year	Receipts/ Credits	Disbursements/ Expenditures	Grant Reimbursements Receivable at End of Year
U.S. Department of Transportation - Federal								
Aviation Administrative (FAA)								
Airport Improvement Program (AIP)								
Indianapolis International Airport								
	20.106	3-18-0038-112		\$ 6,947,140	\$ 1,087,673	\$ 1,257,695	\$ 138,594	\$ (31,428)
	20.106	3-18-0038-117		1,034,172	274	-	(274)	-
	20.106	3-18-0038-121		399,718	36,804	18,402	(18,402)	-
	20.106	3-18-0038-124		926,250	245,615	151,646	256,315	350,284
	20.106	3-18-0038-125		439,250	37,838	37,838	8,488	8,488
	20.106	3-18-0038-126		3,500,000	322,102	322,102	349,568	349,568
	20.106	3-18-0038-127		615,094	161,627	117,586	(44,041)	-
	20.106	3-18-0038-129		3,620,633	3,335,056	2,386,141	285,577	1,234,492
	20.106	3-18-0038-130		1,236,000	83,129	431,407	461,847	113,569
	20.106	3-18-0038-131		112,500	27,457	-	21,693	49,150
	20.106	3-18-0038-132		3,447,760	231,207	1,944,218	3,216,553	1,503,542
	20.106	3-18-0038-133		820,915	-	446,938	764,820	317,882
	20.106	3-18-0038-134		2,761,648	-	1,574,259	2,712,266	1,138,007
	20.106	3-18-0038-135		710,469	-	-	618,150	618,150
	20.106	3-18-0038-138		4,632,511	-	-	494,469	494,469
Indianapolis Regional Airport								
	20.106	3-18-0037-13		252,985	90,793	90,841	48	-
	20.106	3-18-0037-14		693,609	41,656	60,753	253,323	234,226
	20.106	3-18-0037-15		2,628,066	-	-	2,254,518	2,254,518
Eagle Creek Airpark								
	20.106	3-18-0039-17		154,499	(6,572)	1	6,573	-
	20.106	3-18-0039-18		497,724	9,751	9,751	-	-
	20.106	3-18-0039-19		739,179	492,438	383,341	-	109,097
	20.106	3-18-0039-20		543,924	50,463	(383,341)	110,120	543,924
	20.106	3-18-0039-21		282,600	-	-	108,067	108,067
Indianapolis Metropolitan Airport								
	20.106	3-18-0040-19		518,856	51,803	51,803	8,988	8,988
	20.106	3-18-0040-20		150,000	261,253	220,819	(40,434)	-
Hendricks County								
	20.106	3-18-0093-10		172,463	(41)	(41)	-	-
	20.106	3-18-0093-13		194,412	380,456	194,412	(186,044)	-
	20.106	3-18-0093-14		150,000	169,960	169,960	16,668	16,668
Indianapolis Downtown Heliport								
	20.106	3-18-0118-11		187,352	-	-	143,311	143,311
	20.106	3-18-0118-12		300,000	-	-	300,000	300,000

**Indianapolis Airport Authority**  
**Schedule of Governmental Awards (Continued)**  
**Year Ended December 31, 2014**

Federal Grantor/ Pass-Through Grantor/ Program Title/ Grant Name	Federal CFDA Number	Federal Grant Number	State Grant Number	Total Grant Amount	Grant Reimbursements Receivable at Beginning of Year	Receipts/ Credits	Disbursements/ Expenditures	Grant Reimbursements Receivable at End of Year
U.S. Department of Homeland Security								
Transportation Security Administration								
FAA Explosives Detection Canine Team Program	97.072	HSTS0208HCAN425		\$ 181,500	\$ 1,808	\$ 183,308	\$ 219,375	\$ 37,875
Law Enforcement Officer Reimbursement Agreement Program	97.090	HST30208HSLR112		682,524	-	584,000	584,000	-
Federal Emergency Management Agency								
Disaster Grants	97.036	PA-05-IN-4173-PW-00289		232,710	-	232,710	232,710	-
State of Indiana - Department of Transportation,								
Aeronautics Section								
Indianapolis Regional Airport								
			437012	18,809	17,297	17,297	-	-
			437013	3,329	6,216	-	-	6,216
			437014	19,267	16,651	11,073	2,616	8,194
			437015	8,333	-	-	65,386	65,386
Eagle Creek Airpark								
			439016	750	750	750	-	-
			439017	2,033	1,565	-	-	1,565
			439018	6,549	5,066	-	-	5,066
			439019	24,699	35,349	10,650	-	24,699
			439020	15,109	1,402	(10,649)	3,038	15,089
			439021	7,065	-	-	3,002	3,002
Indianapolis Metropolitan Airport								
			440017	7,516	5,833	5,765	(68)	-
			440018	2,501	2,502	2,502	-	-
			440019	14,413	21,400	13,187	-	8,213
			440020	6,903	7,257	-	-	7,257
Hendricks County								
			493010	4,539	41	41	-	-
			493011	4,342	4,342	4,342	-	-
			493012	5,139	5,139	5,139	-	-
			493013	5,400	5,400	5,400	-	-
			493014	5,184	4,721	-	468	5,189
Indianapolis Downtown Heliport								
			0811808	3,616	3,596	3,596	-	-
			0811809	2,304	2,305	2,305	-	-
			0811810	1,482	1,482	1,482	-	-
			0811811	5,204	778	778	3,858	3,858
			0811812	8,333	-	-	8,333	8,333
					<u>\$ 7,261,642</u>	<u>\$ 10,560,207</u>	<u>\$ 13,363,479</u>	<u>\$ 10,064,914</u>

**Indianapolis Airport Authority**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2014**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Grant Number	Amount Expended
U.S. Department of Transportation - Federal Aviation			
Administration (FAA)			
Airport Improvement Program (AIP)			
Indianapolis International Airport	20.106	3-18-0038-112	\$ 138,594
	20.106	3-18-0038-117	(274)
	20.106	3-18-0038-121	(18,402)
	20.106	3-18-0038-124	256,315
	20.106	3-18-0038-125	8,488
	20.106	3-18-0038-126	349,568
	20.106	3-18-0038-127	(44,041)
	20.106	3-18-0038-129	285,577
	20.106	3-18-0038-130	461,847
	20.106	3-18-0038-131	21,693
	20.106	3-18-0038-132	3,216,553
	20.106	3-18-0038-133	764,820
	20.106	3-18-0038-134	2,712,266
	20.106	3-18-0038-135	618,150
	20.106	3-18-0038-138	494,469
Indianapolis Regional Airport	20.106	3-18-0037-13	48
	20.106	3-18-0037-14	253,323
	20.106	3-18-0037-15	2,254,518
Eagle Creek Airpark	20.106	3-18-0039-17	6,573
	20.106	3-18-0039-20	110,120
	20.106	3-18-0039-21	108,067
Indianapolis Metropolitan Airport	20.106	3-18-0040-19	8,988
	20.106	3-18-0040-20	(40,434)
Hendricks County	20.106	3-18-0093-13	(186,044)
	20.106	3-18-0093-14	16,668
Indianapolis Downtown Heliport	20.106	3-18-0118-11	143,311
	20.106	3-18-0118-12	300,000
Subtotal			<u>12,240,761</u>
U.S. Department of Homeland Security			
FAA Explosives Detection Canine Team Program	97.072	HSTS0208HCAN425	219,375
Law Enforcement Officer Reimbursement			
Agreement Program	97.090	HST30208HSLR112	584,000
Disaster Grants	97.036	PA-05-IN-4173-PW-00289	232,710
Grand Total			<u><u>\$ 13,276,846</u></u>

**Indianapolis Airport Authority**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2014**

***Notes to Schedule:***

1. This schedule includes the federal awards activity of Indianapolis Airport Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Indianapolis Airport Authority provided no federal awards to subrecipients.

# Indianapolis Airport Authority

## Schedule of Passenger Facility Charge Revenues and Expenditures

### Year Ended December 31, 2014

Revenues	Date Approved	Amount Approved For Use	Cumulative Total - December 31, 2013	Quarter Ended				Year Ended December 31, 2014	Cumulative Total - December 31, 2014
				March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014		
Passenger facility charge revenues received			\$ 276,089,101	\$ 3,345,397	\$ 3,941,852	\$ 3,484,677	\$ 3,940,475	\$ 14,712,401	\$ 290,801,502
Interest earned			5,101,695	17,680	23,098	(29,261)	(2,232)	9,285	5,110,980
Total passenger facility charge revenue received			<u>\$ 281,190,796</u>	<u>\$ 3,363,077</u>	<u>\$ 3,964,950</u>	<u>\$ 3,455,416</u>	<u>\$ 3,938,243</u>	<u>\$ 14,721,686</u>	<u>\$ 295,912,482</u>
<b>Expenditures</b>									
Application 93-01	June 28, 1993	\$ 68,562,881	\$ 68,562,881	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,562,881
Application 96-02	December 20, 1996	12,263,018	12,263,018	-	-	-	-	-	12,263,018
Application 01-03	March 28, 2001	152,707	-	-	-	-	-	-	-
Application 03-04	August 25, 2003	443,929,000	192,683,778	-	6,623,622	-	6,623,621	13,247,243	205,931,021
Total passenger facility charge revenue expended		<u>\$ 524,907,606</u>	<u>\$ 273,509,677</u>	<u>\$ -</u>	<u>\$ 6,623,622</u>	<u>\$ -</u>	<u>\$ 6,623,621</u>	<u>\$ 13,247,243</u>	<u>\$ 286,756,920</u>

**Notes to Schedule:**

1. Revenues and expenditures on approved projects in the schedule above agree to the Passenger Facility Charge Quarterly Status Reports (PFC Reports) submitted by the Authority to the FAA.
2. Effective August 25, 2003, a total of \$524,513,829 has been approved to be imposed and collected on behalf of the Authority and used by the Authority. On June 18, 2007, the Authority received an additional Use Approval of \$393,777 on Application 96-02.
3. Applications 93-01 and 96-02 have been closed out.

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Members of the Board  
Indianapolis Airport Authority  
Indianapolis, 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 basic financial statements of Indianapolis Airport Authority (Authority), which comprise the balance sheets as of December 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 6, 2015.

### **Internal Control Over Financial Reporting**

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Indianapolis, Indiana  
April 6, 2015

## Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

### Independent Auditor's Report

To the Members of the Board  
Indianapolis Airport Authority  
Indianapolis, Indiana

#### Report on Compliance for the Major Federal Program

We have audited the compliance of Indianapolis Airport Authority (Authority) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The Authority's major federal program are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 Each Major Federal Program***

In our opinion, Indianapolis Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

### **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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**BKD, LLP**

Indianapolis, Indiana  
April 6, 2015

## Independent Auditor's Report on Compliance for the Passenger Facility Charge Program and on Internal Control Over Compliance

To the Members of the Board  
Indianapolis Airport Authority  
Indianapolis, Indiana

### Report on Compliance for Each Major Federal Program

We have audited the compliance of Indianapolis Airport Authority (Authority) with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration that could have a direct and material effect on the passenger facility charge program for the year ended December 31, 2014.

#### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its passenger facility charge program.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs 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 Guide. Those standards and the Guide 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 the passenger facility charge 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. However, our audit does not provide a legal determination of the Authority's compliance.

#### *Opinion*

In our opinion, Indianapolis Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2014.

## 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 its passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Guide, 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 the passenger facility charge program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge 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 the passenger facility charge 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 passenger facility charge program. Accordingly, this report is not suitable for any other purpose.

*BKD, LLP*

Indianapolis, Indiana

April 6, 2015

**Indianapolis Airport Authority**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2014**

**Summary of Auditor's Results**

1. The opinion expressed in the independent auditor's report was:

Unmodified       Qualified       Adverse       Disclaimed

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?       Yes       None Reported

Material weakness(es)?       Yes       No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes       No

4. The independent auditor's report on internal control over compliance for major federal award programs disclosed:

Significant deficiency(ies)?       Yes       None Reported

Material weakness(es)?       Yes       No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

Unmodified       Qualified       Adverse       Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133?

Yes       No

7. The Authority's major program was:

Cluster/Program	CFDA Number
Airport Improvement Program	20.106

**Indianapolis Airport Authority**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2014**

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$398,305.
9. The Authority qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  Yes  No

**Indianapolis Airport Authority**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2014**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Indianapolis Airport Authority**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2014**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
No matters are reportable.		

**Indianapolis Airport Authority**  
**Passenger Facility Charge Audit Summary**  
**Year Ended December 31, 2014**

**Summary of Auditor's Results**

- |                                                                                                                                                      |                                                |                                    |                                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|------------------------------------|-----------------------------------------|
| 1. Type of report issued on PFC financial statements.                                                                                                | <input checked="" type="checkbox"/> Unmodified | <input type="checkbox"/> Qualified |                                         |
| 2. Type of report on PFC compliance.                                                                                                                 | <input checked="" type="checkbox"/> Unmodified | <input type="checkbox"/> Qualified |                                         |
| 3. Quarterly revenue and disbursements reconciled with submitted quarterly reports and reported un-liquidated revenue matches actual amounts.        | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 4. PFC revenue and interest is accurately reported on FAA Form 5100-127.                                                                             | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 5. The Public Agency maintains a separate financial accounting record for each application.                                                          | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 6. Funds disbursed were for PFC eligible items as identified in the FAA decision to pay only for the allowable costs of the project.                 | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 7. Monthly carrier receipts were reconciled with quarterly carrier reports.                                                                          | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 8. PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds. | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 9. Serving carriers were notified of PFC program actions/changes approved by the FAA.                                                                | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 10. Quarterly reports were transmitted (or available via website) to remitting carriers.                                                             | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 11. The Public Agency is in compliance with Assurances 5, 6, 7 and 8.                                                                                | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 12. Project design and implementation is carried out in accordance with Assurance 9.                                                                 | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 13. Program administration is carried out in accordance with Assurance 10.                                                                           | <input checked="" type="checkbox"/> Yes        | <input type="checkbox"/> No        |                                         |
| 14. For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.      | <input type="checkbox"/> Yes                   | <input type="checkbox"/> No        | <input checked="" type="checkbox"/> N/A |