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

ANNUAL FINANCIAL REPORT
2005

TERRE HAUTE INTERNATIONAL
AIRPORT AUTHORITY

VIGO COUNTY, INDIANA



FILED
12/29/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Comptroller	Deborah Kearschner	01-01-05 to 12-31-06
Director	Dennis Dunbar	01-01-05 to 12-31-06
Treasurer	Mose Kassis	07-01-04 to 06-30-07
President of the Authority Board of Directors	John Van Etten	07-01-04 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TERRE HAUTE INTERNATIONAL
AIRPORT AUTHORITY, VIGO COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Terre Haute International Airport Authority (Authority), as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Authority has not presented Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

November 16, 2006

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 118,872
Accounts receivable (net of allowance)	<u>66,602</u>
 Total current assets	 <u>185,474</u>
Noncurrent assets:	
Restricted cash and cash equivalents:	
Cumulative building cash and cash equivalents	334,876
Debt service cash and cash equivalents	6,554
FBO cash and cash equivalents	414,105
Tax increment financing cash and cash equivalents	430,399
Airport improvement program #27 cash and cash equivalents	489
Restricted accounts receivable	<u>292,298</u>
 Total restricted assets	 1,478,721
 Capital assets, net of depreciation	 <u>30,374,350</u>
 Total noncurrent assets	 <u>31,853,071</u>
 Total assets	 <u>32,038,545</u>

Liabilities

Current liabilities:	
Accounts payable	2,340
Hangar deposits payable	13,870
Payroll withholdings payable	16,313
Capital leases payable	189,123
Notes and loans payable	87,240
Current liabilities payable from restricted assets:	
Sales tax payable	<u>4,234</u>
 Total current liabilities	 <u>313,120</u>
Noncurrent liabilities:	
Capital leases payable	2,484,447
Notes and loans payable	<u>656,716</u>
 Total noncurrent liabilities	 <u>3,141,163</u>
 Total liabilities	 <u>3,454,283</u>

Net Assets

Invested in capital assets, net of related debt	26,956,824
Restricted for debt service	6,554
Restricted for improvements	335,365
Restricted for flight school operation	702,169
Restricted for tax increment financing projects	430,399
Unrestricted	<u>152,951</u>
 Total net assets	 <u>\$ 28,584,262</u>

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

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

Operating revenues:	
Leasing and rentals	\$ 516,491
Sale of fuel	1,403,691
Flight school	1,185,910
Air show	329,657
Landing fees	2,948
Other	<u>109,209</u>
Total operating revenues	<u>3,547,906</u>
Operating expenses:	
Employee compensation and benefits	1,448,114
Contractual services	271,978
Liability insurance	305,069
Air show	366,279
Flight school	605,095
Purchase of fuel	903,727
Supplies, utilities and other	178,821
Depreciation	<u>2,933,217</u>
Total operating expenses	<u>7,012,300</u>
Operating loss	<u>(3,464,394)</u>
Nonoperating revenues (expenses):	
Taxes	2,102,310
Interest and investment revenue	3,677
Interest expense	<u>(205,495)</u>
Total nonoperating revenues	<u>1,900,492</u>
Loss before contributions	(1,563,902)
Capital contributions	<u>77,429</u>
Change in net assets	(1,486,473)
Total net assets - beginning	<u>30,070,735</u>
Total net assets - ending	<u>\$ 28,584,262</u>

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

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2005

Cash flows from operating activities:	
Receipts from general operations	\$ 2,638,819
Receipts from flight school	2,443,336
Receipts from air show	329,657
Payments for general operations	(3,344,415)
Payments for flight school	(2,424,000)
Payments for air show	<u>(366,279)</u>
Net cash used by operating activities	<u>(722,882)</u>
Cash flows from noncapital financing activities:	
Property taxes	<u>2,102,310</u>
Cash flows from capital and related financing activities:	
Capital contributions	77,429
Acquisition and construction of capital assets	(283,300)
Principal paid on capital debt	(933,618)
Interest paid on capital debt	<u>(205,495)</u>
Net cash used by capital and related financing activities	<u>(1,344,984)</u>
Cash flows from investing activities:	
Interest received	<u>3,677</u>
Net increase in cash and cash equivalents	38,121
Cash and cash equivalents, January 1	<u>1,267,174</u>
Cash and cash equivalents, December 31	<u>\$ 1,305,295</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (3,464,394)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	2,933,217
Increase in assets:	
Accounts receivable	(180,484)
Increase (decrease) in liabilities:	
Accounts payable	(45,638)
Hangar deposits payable	13,870
Payroll withholdings payable	16,313
Sales tax payable	<u>4,234</u>
Total adjustments	<u>2,741,512</u>
Net cash used by operating activities	<u>\$ (722,882)</u>
Noncash investing, capital and financing activities:	
Borrowing under capital lease	\$ 119,649

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

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Authority (primary government) was established under the laws of the State of Indiana. The Authority operates under an appointed board of directors' form of government and provides aviation services.

The accompanying financial statements present the activities of the Authority. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Authority to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the primary government in June and in December. State statutes (IC 6-1.1-17-16) require the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments that become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the primary government prior to December 31 of the year collected. Delinquent property taxes outstanding at year end for governmental and/or proprietary funds, net of allowances for uncollectible accounts, are recorded as a receivable with an offset to deferred revenue since the amounts are not considered available.

3. Restricted Assets

Certain assets of the Authority are classified as restricted assets on the statement of net assets balance sheet because their use is restricted by state statute.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

The Authority capitalized any assets with an estimated useful life exceeding one year. Depreciation methods and estimated useful lives of capital assets are as follows:

	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land, runways and aprons	Straight-line	20 years
Buildings and improvements	Straight-line	40 years
Equipment and other	Straight-line	10 years
Intangibles	Straight-line	40 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

5. Compensated Absences

- a. Sick Leave – Authority employees earn sick leave at the rate of 3.3 hours per month. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – Authority employees earn vacation leave at rates from 80 hours to 120 hours per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 160 hours. Accumulated vacation leave is paid to employees through cash payments upon termination.

No liability is reported for vacation leave as it is currently an immaterial amount.

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Runways and aprons	\$ 46,803,198	\$ -	\$ -	\$ 46,803,198
Buildings and improvements	28,834,628	-	-	28,834,628
Equipment and other	5,484,493	402,949	-	5,887,442
Intangibles	<u>611,066</u>	<u>-</u>	<u>-</u>	<u>611,066</u>
Totals	<u>81,733,385</u>	<u>402,949</u>	<u>-</u>	<u>82,136,334</u>
Less accumulated depreciation for:				
Runways and aprons	28,400,957	2,068,124	-	30,469,081
Buildings and improvements	15,986,983	658,182	-	16,645,165
Equipment and other	4,171,929	191,634	-	4,363,563
Intangibles	<u>268,898</u>	<u>15,277</u>	<u>-</u>	<u>284,175</u>
Totals	<u>48,828,767</u>	<u>2,933,217</u>	<u>-</u>	<u>51,761,984</u>
Total capital assets, net	<u>\$ 32,904,618</u>	<u>\$ (2,530,268)</u>	<u>\$ -</u>	<u>\$ 30,374,350</u>

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Leases

1. Operating Leases

The Authority has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for a copy machine. Rental expenditures for this lease were \$2,940. The following is a schedule by years of future minimum rental payments as of December 31, 2005:

2006	\$ 2,940
2007	2,940
2008	<u>2,940</u>
Total	<u>\$ 8,820</u>

2. Capital Leases

The Authority has entered into various capital leases for mowers, airplanes, fuel tanks, fuel trucks, buildings and vehicles. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2005, are as follows:

2006	\$ 320,358
2007	300,410
2008	294,569
2009	255,158
2010	633,453
2011-2015	948,845
2016-2020	549,205
2021-2025	247,910
2026-2027	<u>61,378</u>
Total minimum lease payments	3,611,286
Less amount representing interest	<u>937,716</u>
Present value of net minimum lease payments	<u>\$ 2,673,570</u>

Assets acquired through capital leases still in effect are as follows:

Buildings	\$ 2,330,000
Machinery and equipment	72,256
Transportation equipment	<u>1,159,953</u>
Totals	<u>\$ 3,562,209</u>

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Long-Term Liabilities

1. Notes and Loans Payable

The Authority has entered into various notes/loans. Annual debt service requirements to maturity for the notes/loans, including interest of \$80,074, are as follows:

2006	\$ 113,257
2007	113,257
2008	377,008
2009	45,622
2010	45,622
2011-2015	<u>129,264</u>
 Total	 <u>\$ 824,030</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 590,000	\$ -	\$ 590,000	\$ -	\$ -
Capital leases	2,718,714	119,649	164,793	2,673,570	189,123
Notes and loans	<u>922,781</u>	<u>-</u>	<u>178,825</u>	<u>743,956</u>	<u>87,240</u>
 Total long-term liabilities	 <u>\$ 4,231,495</u>	 <u>\$ 119,649</u>	 <u>\$ 933,618</u>	 <u>\$ 3,417,526</u>	 <u>\$ 276,363</u>

E. Restricted Assets

The balances of restricted asset accounts are as follows:

Cumulative building account	\$ 334,876
Debt service account	6,554
FBO account	706,403
Tax increment financing account	430,399
Airport improvement program 27 account	<u>489</u>
 Total restricted assets	 <u>\$ 1,478,721</u>

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Other Information

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Subsequent Events

On May 1, 2006, Brown Flying School, Inc., filed a Complaint for Declaratory Judgment and Permanent Injunction against the Authority. The complaint seeks to require the Authority to sell its current fleet of aircraft and to stop running its flight school in competition with Brown Flying School. In short, the Complaint alleges that the Authority's activities related to aviation training violated Indiana Code 8-22-3-11. In addition, the Complaint seeks to permanently enjoin (prohibit) the Authority from conducting an annual air show.

The Authority strongly and actively disputes the allegations contained in Brown Flying School's Complaint for Declaratory Judgment and Permanent Injunction. The parties to the litigation are currently conducting discovery. The Authority's attorney estimates that Motions for Summary Judgment will be filed by both parties in the first half of 2007. The Authority's attorney declined to provide an evaluation of the likelihood of an unfavorable outcome and an estimate, if one could be made, of the amount or range of potential loss, citing the attorney-client privilege.

C. Conduit Debt Obligation

The Authority has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority, the State, and any political subdivision thereof are not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2005, there was one series of revenue bonds outstanding with an aggregate principal amount payable of \$753,024.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the District authority to contribute to the plan.

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The District's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 24,183
Interest on net pension obligation	(2,792)
Adjustment to annual required contribution	3,182
Annual pension cost	24,573
Contributions made	31,851
Decrease in net pension obligation	(7,278)
Net pension obligation, beginning of year	(38,512)
Net pension obligation, end of year	\$ (45,790)
Contribution rates:	
Authority	3.25%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-03	\$ 21,827	110%	\$ (30,647)
06-30-04	21,592	136%	(38,512)
06-30-05	24,573	148%	(45,790)

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-01	\$ 611,281	\$ 470,347	\$ 140,934	130%	\$ 613,715	23%
07-01-02	605,334	530,967	74,367	114%	556,746	13%
07-01-03	605,939	492,567	113,372	123%	691,983	16%
07-01-04	613,578	504,818	108,760	122%	751,235	14%
07-01-05	638,673	633,214	5,459	101%	935,727	1%

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCE

The Air Show Fund had an overdrawn cash balance as of December 31, 2005.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

TERRE HAUTE INTERNATIONAL AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on November 16, 2006, with Dennis Dunbar, Director; and Deborah Kearschner, Comptroller. The officials concurred with our audit finding.