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October 13, 2010

Board of Directors
Indianapolis Airport Authority
7800 Col. H. Weir Cook Memorial Drive, Suite 100
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We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. 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, 2008, 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.

STATE BOARD OF ACCOUNTS

Indianapolis Airport Authority

Accountants' Report and Financial Statements

December 31, 2008 and 2007

Indianapolis Airport Authority

December 31, 2008 and 2007

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Independent Accountants' Report on Financial Statements and Supplementary Information

To Members of the Board of
Indianapolis Airport Authority

We have audited the accompanying basic financial statements of Indianapolis Airport Authority (Authority) as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. 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 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 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 audits provide 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 Indianapolis Airport Authority as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2009, 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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

April 6, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008
(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 for the years ended December 31, 2008 and 2007. 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 (the 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. The current Airline Agreements were entered into as of March 15, 2001, and expire December 31, 2010. Airlines that sign the Airline Agreement are subject to favorable Signatory rates, as opposed to the Authority's Non-Signatory rates. As of December 31, 2008, eleven passenger carriers and two cargo carriers represent the Signatory Airlines.

Prior to 2007, the Authority Board had contracted with BAA Indianapolis LLC (BAA) for the management of primarily all of the Authority's assets. This contract ended on December 31, 2007, following an amendment signed in June 2007, and the subsequent transition of employees to the Authority in July 2007. Further information regarding the BAA Management Contract and early termination of the contract is included in Note 1 to the financial statements.

Airport Operations Activity and Financial Highlights

	2008	2007	Variance
Enplaned passengers ⁽¹⁾	4,088,526	4,142,657	-1.3%
Landed weight (1,000 lb. units)			
Passenger airlines	5,192,567	5,244,914	-1.0%
Cargo airlines	5,250,166	5,325,616	-1.4%
Total landed weights	10,442,733	10,570,530	-1.2%
Aircraft operations	197,202	203,136	-2.9%

⁽¹⁾ - Includes domestic air carriers, international air carriers and air taxi/commuter flights

Airport Operations Activity

- In 2008, the number of enplaned passengers was 1.3% lower than in 2007. The decrease reflects passenger trends throughout the country attributable to the slowdown in the national economy.
- Passenger airlines accounted for approximately 50% of total landed weight at the Airport in 2008, consistent with prior year; cargo airlines accounted for the other 50% during 2008 and 2007. Passenger airline landed weight decreased by 1.0% in 2008 from prior year; cargo airline landed weight decreased 1.4% from prior year.
- 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.

Authority Financial Highlights

- The Authority experienced an increase in total assets of approximately \$206.4 million during 2008. This increase is primarily due to an additional \$338.1 million in capital assets, offset by a \$137.5 million decrease in the balances of restricted investment securities and cash and cash equivalents. These fluctuations are principally due to the construction of the New Indianapolis Airport (formerly referred to as the new Midfield Terminal), which is discussed later in the management's discussion and analysis.
- Total liabilities increased \$158.6 million in 2008. This change is primarily attributable to an additional \$350.0 million in revenue bonds issued to support capital development at the Airport and to refinance \$170.0 million in outstanding commercial paper.
- The increase in net assets for 2008 was \$47.8 million compared to \$94.1 million for 2007. 2008 resulted in a loss from operations of \$21.3 million, which is a \$25.0 million decrease from the income from operations in 2007 of \$3.7 million. Net non-operating revenue (expense) reflected decreased net revenue of \$16.6 million, primarily due to a decrease in investment income of \$14.9 million and an increase in interest expense of \$2.3 million. Capital contributions, grants and charges decreased by \$4.6 million, a 7.1% decrease, primarily due to decreases in federal and state grants of \$9.2 million, offset by an increase in capital contributions from lessees of \$4.5 million over 2007.

New Indianapolis Airport Program

The Authority's multi-year Capital Improvement Program which included approximately \$1.1 billion in capital improvements relating to the acquisition, development, construction and implementation of a New Indianapolis Airport and related infrastructure projects (the "New Indianapolis Airport Program"), was significantly completed in late 2008. Passenger airline operations transitioned to the new Col. H. Weir Cook Terminal building effective November 12, 2008. During 2008, approximately \$281.3 million was expended on capital activities for the New Indianapolis Airport Program. A significant portion of the 2008 costs related to apron and terminal construction, installation of the baggage handling system and construction of parking facilities and roadways.

The Authority incurred certain non-recurring operating expenses related to the opening of the New Indianapolis Airport. These expenses were related to supplemental parking and shuttle operations, enhanced airport security and IT services in support of opening activities, along with advertising and marketing programs and various opening events. The total expense incurred in 2008 for these non-recurring operating costs to commission the New Indianapolis Airport was approximately \$2.9 million.

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 Assets 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 assets of the Authority are comprised of these categories:

- *Invested in capital assets, net of related debt* - 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 net assets* - represent resources that are subject to external restrictions on how they may be used.
- *Unrestricted net assets* - 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 assets of the Authority represent the difference between total assets and total liabilities and are an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net assets at December 31, 2008, 2007 and 2006 follows:

	2008	2007	2006
	(Table Amounts in Thousands)		
Current assets - unrestricted	\$ 77,189	\$ 70,050	\$ 45,976
Current assets - restricted	40,018	41,359	38,009
Noncurrent assets			
Capital assets, net	2,182,892	1,844,781	1,174,325
Other noncurrent assets	257,112	394,576	417,999
Total assets	<u>\$ 2,557,211</u>	<u>\$ 2,350,766</u>	<u>\$ 1,676,309</u>
Current liabilities	\$ 11,782	\$ 8,784	\$ 5,118
Current liabilities - payable from restricted	132,191	278,690	76,891
Noncurrent liabilities	2,213	-	-
Noncurrent liabilities - payable from restricted	1,440,444	1,140,558	823,410
Total liabilities	<u>1,586,630</u>	<u>1,428,032</u>	<u>905,419</u>
Net assets			
Invested in capital assets, net of related debt	810,960	711,132	612,581
Restricted	92,120	144,681	111,310
Unrestricted	67,501	66,921	46,999
Total net assets	<u>970,581</u>	<u>922,734</u>	<u>770,890</u>
Total liabilities and net assets	<u>\$ 2,557,211</u>	<u>\$ 2,350,766</u>	<u>\$ 1,676,309</u>

2008 to 2007 Comparative Balance Sheets

The increase in unrestricted current assets of \$7.1 million primarily reflects an increase in cash and cash equivalents of \$6.9 million from airport operations.

Restricted current assets have decreased \$1.3 million, which is primarily a \$2.1 million decrease in restricted cash and cash equivalents, offset by a \$.7 million increase in reimbursement receivables for IMC expenses.

Total noncurrent assets increased by \$200.5 million. Restricted cash and cash equivalents, investment securities and bond issue costs decreased by \$133.2 million, primarily due to payments made to construct the New Indianapolis Airport. Total depreciable and non-depreciable capital assets increased \$343.6 million. Construction in progress relating to the New Indianapolis Airport Program, along with other construction in progress activity and land acquisitions by the Authority increased net capital assets \$378.5 million. Depreciation and land dispositions decreased net capital assets \$40.4 million.

Total current liabilities decreased by \$143.6 million. Current liabilities payable from restricted assets decreased \$146.6 million due to the long-term refinancing of \$170.0 million in commercial paper. The current portion of debt and accrued interest on debt decreased \$167.8 million while noncurrent liabilities payable from restricted assets for bonds and other debt increased \$299.9 million.

2007 to 2006 Comparative Balance Sheets

The increase in *unrestricted current assets* of \$24.8 million primarily reflects an increase in cash and cash equivalents of \$15.4 million from airport operations, and an \$11.4 million increase in grants receivable.

Restricted current assets have decreased \$5.7 million, which is primarily a \$4.5 million decrease in restricted cash and cash equivalents, and a \$1.2 million decrease in various receivables.

Total *noncurrent assets* increased by \$156.5 million. Restricted cash and cash equivalents, investment securities and bond issue costs decreased by \$243.1 million primarily due to payments made to construct the New Indianapolis Airport. Total depreciable and non-depreciable capital assets increased \$400.8 million. Construction in progress relating to the New Indianapolis Airport Program, along with other construction in progress activity and land acquisitions by the Authority increased net capital assets \$452.9 million. Depreciation and land dispositions decreased net capital assets \$54.7 million.

Total *current liabilities* increased by \$118.6 million. Current liabilities payable from unrestricted assets increased \$1.8 million due to a \$1.9 million increase in accrued and withheld items. The current portion of debt and accrued interest on debt increased \$137.8 million while accounts payable from restricted assets decreased \$21.0 million.

2008 to 2007 Comparative Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets 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 assets is an indicator of whether the overall fiscal condition of the Authority has improved or worsened during the year. The change in net assets for the years ended December 31, 2008 and 2007 was \$47.7 million and \$94.1 million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Assets for 2008 and 2007.

	2008	2007	\$ Variance	% Variance
	(Table Amounts in Thousands)			
Operating Revenues				
Airfield	\$ 23,889	\$ 24,750	\$ (861)	-3.5%
Terminal complex	36,529	31,785	4,744	14.9%
Parking	29,437	28,581	856	3.0%
Rented buildings and other	12,406	10,922	1,484	13.6%
Indianapolis Maintenance Center (IMC)	7,253	6,478	775	12.0%
Reliever airports	2,402	2,205	197	8.9%
Total operating revenues	<u>111,916</u>	<u>104,721</u>	<u>7,195</u>	<u>6.9%</u>
Nonoperating Revenues				
State and local appropriations	26,927	26,821	106	0.4%
Federal operating grants	1,111	1,138	(27)	-2.4%
Customer facility charges (rental cars)	5,115	5,137	(22)	-0.4%
Investment income	12,726	27,622	(14,896)	-53.9%
Total nonoperating revenues	<u>45,879</u>	<u>60,718</u>	<u>(14,839)</u>	<u>-24.4%</u>
Total revenues	<u>157,795</u>	<u>165,439</u>	<u>(7,644)</u>	<u>-4.6%</u>
Operating Expenses (includes depreciation)				
Airfield	28,731	19,241	9,490	49.3%
Terminal complex	33,646	13,435	20,211	150.4%
Parking	8,574	7,233	1,341	18.5%
Rented buildings and other	10,134	10,339	(205)	-2.0%
Indianapolis Maintenance Center (IMC)	26,792	25,091	1,701	6.8%
Reliever airports	3,698	3,565	133	3.7%
Public safety	10,051	9,436	615	6.5%
Administration	11,564	12,661	(1,097)	-8.7%
Total operating expenses	<u>133,190</u>	<u>101,001</u>	<u>32,189</u>	<u>31.9%</u>
Nonoperating Expenses				
Interest expense, net of interest capitalized	36,265	33,954	2,311	6.8%
Loss on disposals of capital assets and other	1,426	1,947	(521)	-26.8%
Net nonoperating expenses	<u>37,691</u>	<u>35,901</u>	<u>1,790</u>	<u>5.0%</u>
Total expenses	<u>170,881</u>	<u>136,902</u>	<u>33,979</u>	<u>24.8%</u>
Income (Loss) Before Capital Contributions, Grants and Charges	(13,086)	28,537	(41,623)	-145.9%
Capital Contributions, Grants and Charges	<u>60,931</u>	<u>65,573</u>	<u>(4,642)</u>	<u>-7.1%</u>
Increase in Net Assets	47,845	94,110	(46,265)	-49.2%
Net Assets, Beginning of Year	<u>922,735</u>	<u>828,625</u>	<u>94,110</u>	<u>11.4%</u>
Net Assets, End of Year	<u>\$ 970,580</u>	<u>\$ 922,735</u>	<u>\$ 47,845</u>	<u>5.2%</u>

Operating revenue in 2008 increased \$7.2 million, or 6.9% from prior year. This represents increases in activity-based revenues consisting primarily of terminal complex revenues, along with applicable rental rate adjustments, increased parking revenues, rented buildings and other and increased operating expense reimbursements related to the IMC. This is offset by a decrease in airfield revenue.

Airfield revenue in 2008 of \$23.9 million was lower than 2007 by \$.9 million or 3.5%. Total landed weights decreased 1.2% from prior year as passenger carriers decreased 1.0% and cargo carriers decreased 1.4%. The 2008 landing fee signatory rate of \$1.95 was maintained from prior year. The 2008 Non-Signatory landing fee rate increased to \$2.86, as compared to the 2007 rate of \$2.78. Apron rental revenue was lower than prior year as the 2008 rental rate was \$2.05 per square foot as compared to \$2.56 in 2007.

Terminal complex revenues exceeded prior year by \$4.7 million, or 14.9%. Airline terminal rental rates increased in 2008 as the basic average rental rate in 2008 was \$74.69 per square foot compared to an average rental rate in 2007 of \$63.57 per square foot. Automobile rental revenues exceeded prior year by \$.9 million as most of the operators exceeded their Minimum Annual Guarantee (MAG) rents. Other commissions, fees, etc. increased \$.7 million from prior year which includes new 2008 revenues for a fuel farm and additional rent for car rental agency space in the Ground Transportation Center, Ready/Return area in the parking garage and the Quick Turn Around area.

Parking revenues increased from prior year by \$.9 million or 3.0%, resulting in \$29.4 million in 2008 Parking revenue. A rate increase was implemented in January 2008 for the parking garage (maximum \$22.00/day from maximum \$20.00/day) contributing to the increased revenues.

Revenues from Rented Buildings and Other increased by \$1.5 million or 13.6%, primarily attributable to special facility rental revenues received following substantial completion of Phase 1 and 2 cargo apron expansion in December 2006 and November 2007, respectively.

Revenues from Indianapolis Maintenance Center (IMC) increased by \$.8 million or 12.0%. 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. The increase from prior year is due to increased hangar bay activation and reimbursements for capital costs.

Investment income decreased \$14.9 million. This was primarily due to lower interest rates received on a portion of the Authority's investment portfolio, as well as lower investment balances resulting from the use of bond construction funds to complete construction of the New Indianapolis Airport.

Operating expense for the years ended December 31, 2008 and 2007 totaled \$133.2 million and \$101.0 million, respectively.

Airfield expenses increased \$9.5 million, or 49.3%, primarily due to an increase in depreciation expense resulting from the capitalization of ancillary assets relating to the new terminal, including the new firehouse, the new Emergency Operations Center (EOC), Taxiway R/H, and South Perimeter Road. Additionally, higher costs were incurred in 2008 for snow/ice chemicals. This was due to a significant price increase for potassium acetate, as well as the occurrence of significant ice storms in February and December 2008.

Terminal complex expenses increased \$20.2 million, or 150.4% from the prior year. This increase is attributable to an increase in operating costs due to the opening of the new terminal in November, 2008. Depreciation expense represents \$16.3 million of the increase. The remaining increase includes additional staffing of maintenance technicians, janitorial and guest services positions, opening event communications/marketing costs, utilities and the dockmaster and baggage claim maintenance contracts.

Parking expenses increased \$1.3 million, or 18.5% from prior year. The increase is related to higher costs incurred for snow/ice chemicals, shuttle bus repairs, and an increase in operating costs due to the opening of the new terminal for outsourced shuttle bus services and depreciation expense.

Indianapolis Maintenance Center (IMC) expenses increased \$1.7 million or 6.8%, primarily due to an increase in depreciation expense related to the capitalization of lessee-financed improvements.

Administration costs decreased \$1.1 million, or 8.7% from prior year. The decrease is primarily attributable to the termination of the management contract agreement between the Authority and BAA Indianapolis LLC (BAA) as of December 31, 2007.

Interest expense increased \$2.3 million over the prior year, which was attributable to the issuance of \$350 million of additional revenue bonds in 2008.

Capital contributions, grants and charges of \$60.9 million decreased \$4.6 million compared to prior year. Federal and State grants were lower than prior year by \$9.1 million as 2007 included grants received relating to the construction of the new firehouse and the Airport Command and Control Center. Contributions from lessees of \$26.4 million were \$4.5 million greater than prior year for leased property tenant improvements.

2007 to 2006 Comparative Statements of Revenues, Expenses and Changes in Net Assets

The change in net assets for the years ended December 31, 2007 and 2006 was \$94.1 million and \$57.7 million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Assets for 2007 and 2006.

	2007	2006	\$ Variance	% Variance
	(Table Amounts in Thousands)			
Operating Revenues				
Airfield	\$ 24,750	\$ 21,075	\$ 3,675	17.4%
Terminal complex	31,786	30,461	1,325	4.3%
Parking	28,581	27,128	1,453	5.4%
Rented buildings and other	10,922	9,124	1,798	19.7%
Indianapolis Maintenance Center (IMC)	6,478	4,049	2,429	60.0%
Reliever airports	2,205	2,119	86	4.1%
Total operating revenues	<u>104,722</u>	<u>93,956</u>	<u>10,766</u>	<u>11.5%</u>
Nonoperating Revenues				
State and local appropriations	26,821	21,492	5,329	24.8%
Federal operating grants	1,138	1,147	(9)	-0.8%
Customer facility charges (rental cars)	5,137	3,527	1,610	45.6%
Investment income	27,622	25,468	2,154	8.5%
Total nonoperating revenues	<u>60,718</u>	<u>51,634</u>	<u>9,084</u>	<u>17.6%</u>
Total revenues	<u>165,440</u>	<u>145,590</u>	<u>19,850</u>	<u>13.6%</u>
Operating Expenses (includes depreciation)				
Airfield	19,241	14,773	4,468	30.2%
Terminal complex	13,435	14,525	(1,090)	-7.5%
Parking	7,233	7,077	156	2.2%
Rented buildings and other	10,339	8,108	2,231	27.5%
Indianapolis Maintenance Center (IMC)	25,091	24,605	486	2.0%
Reliever airports	3,565	3,604	(39)	-1.1%
Public safety	9,436	8,984	452	5.0%
Administration	12,661	12,908	(247)	-1.9%
Total operating expenses	<u>101,001</u>	<u>94,584</u>	<u>6,417</u>	<u>6.8%</u>
Nonoperating Expenses				
Interest expense, net of interest capitalized	33,954	40,390	(6,436)	-15.9%
Loss on disposals of capital assets and other	1,947	3,373	(1,426)	-42.3%
Net nonoperating expenses	<u>35,901</u>	<u>43,763</u>	<u>(7,862)</u>	<u>-18.0%</u>
Total expenses	<u>136,902</u>	<u>138,347</u>	<u>(1,445)</u>	<u>-1.0%</u>
Income Before Capital Contributions, Grants and Charges	28,538	7,243	21,295	294.0%
Capital Contributions, Grants and Charges	<u>65,573</u>	<u>50,492</u>	<u>15,081</u>	<u>29.9%</u>
Increase in Net Assets	94,111	57,735	36,376	63.0%
Net Assets, Beginning of Year	<u>828,625</u>	<u>770,890</u>	<u>57,735</u>	<u>7.5%</u>
Net Assets, End of Year	<u>\$ 922,736</u>	<u>\$ 828,625</u>	<u>\$ 94,111</u>	<u>11.4%</u>

Operating revenue in 2007 increased \$10.8 million, or 11.5% from prior year. Increases in activity-based revenues consisting primarily of airfield revenues and terminal complex revenues, along with applicable rental rate adjustments, increased parking revenues, rented buildings and other, and increased operating expense reimbursements related to the IMC.

Airfield revenue in 2007 of \$24.7 million was higher than 2006 by \$3.7 million or 17.4%. Total landed weights were primarily flat with prior year as passenger carriers decreased 1.8% and cargo carriers increased 1.0%. The 2007 landing fee signatory rate was \$1.95, as compared to the 2006 rate of \$1.74. The 2007 Non-Signatory landing fee rate decreased to \$2.78, as compared to the 2006 rate of \$2.90. Apron rental revenue was higher than prior year as the 2007 rental rate was \$2.56 per square foot as compared to \$.72 in 2006.

Terminal complex revenues exceeded prior year by \$1.3 million, or 4.3%. Airline terminal rental rates increased slightly in 2007 as the basic average rental rate in 2007 was \$63.57 per square foot compared to an average rental rate in 2006 of \$62.67 per square foot. Concession revenues within the terminal also increased by \$.4 million, while car rental revenues exceeded prior year by \$.5 million related to new operator contracts that went into effect in 2007 with increased Minimum Annual Guarantee rents.

Parking revenues increased from prior year by \$1.5 million or 5.4%. An increase in enplaned passengers from 2007 to 2006 of 2.4% contributed to the increase. Additionally, a rate increase was implemented in January 2007 for the Tiger long-term lot (\$8.00/day from \$7.50/day) resulting in increased revenues, along with higher yields in various Airport parking products.

Revenues from Rented Buildings and Other increased by \$1.8 million or 19.7% primarily attributable to special facility rental revenues received following substantial completion of Phase 1 and 2 cargo apron expansion in December 2006 and November 2007, respectively. Current year increases were also experienced related to favorable lease negotiations and increased percentage rental revenues.

Revenues from Indianapolis Maintenance Center (IMC) increased by \$2.5 million or 60.0%. This represents revenues due the Authority as 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 issued on behalf of United Airlines. Increase from prior year due to increased occupancy and a reduction in rental credits issued.

State and local appropriations increased \$5.3 million or 24.8% related to the 2004 refunding of the Indiana Transportation Finance Authority (ITFA) 1992/1996 and 1995 bonds issued in connection with the construction of the IMC. The principal payments on the 2004 ITFA bonds increased by \$7.0 million from 2006 to 2007. Customer Facility Charges (CFC) on car rental transactions increased \$1.6 million or 45.6%.

Operating expense for the years ended December 31, 2007 and 2006 totaled \$101.0 million and \$94.6 million, respectively.

Airfield expenses increased \$4.5 million, or 30.2%, primarily due to an increase in depreciation expense related to capitalization of the new FAA Air Traffic Control Tower. Additionally, higher costs were incurred related to snow operations resulting from significant snowfall in early 2007.

Terminal complex expenses decreased \$1.1 million, or 7.5% from prior year. This decrease is primarily attributable to a decrease in depreciation expense related to the Midfield Terminal Project Definition that was fully depreciated at the end of 2006.

Rented buildings and other expenses increased \$2.2 million, or 27.5% from prior year. The increase is related to environmental remediation costs associated with the implementation of GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Additional disclosure describing the nature of these costs is included in Note 13.

Investment income increased \$2.1 million due to higher rates, greater bond proceeds and commercial paper balances.

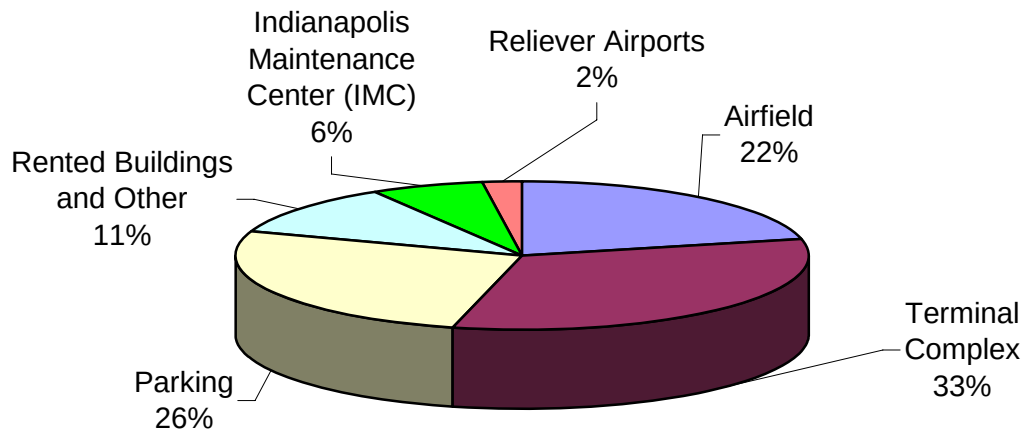
Interest expense decreased \$6.4 million over the prior year attributable to an increase in capitalized interest of \$16.7 million relating to the construction of the New Indianapolis Airport program, offset by an increase in interest expense related to the 2006 Revenue bonds of \$9.2 million, and increased interest expense on commercial paper of \$1.9 million due to higher commercial paper balances.

Loss on disposals of capital assets and other increased \$1.4 million related to current year land sale transactions and the disposal of other various assets.

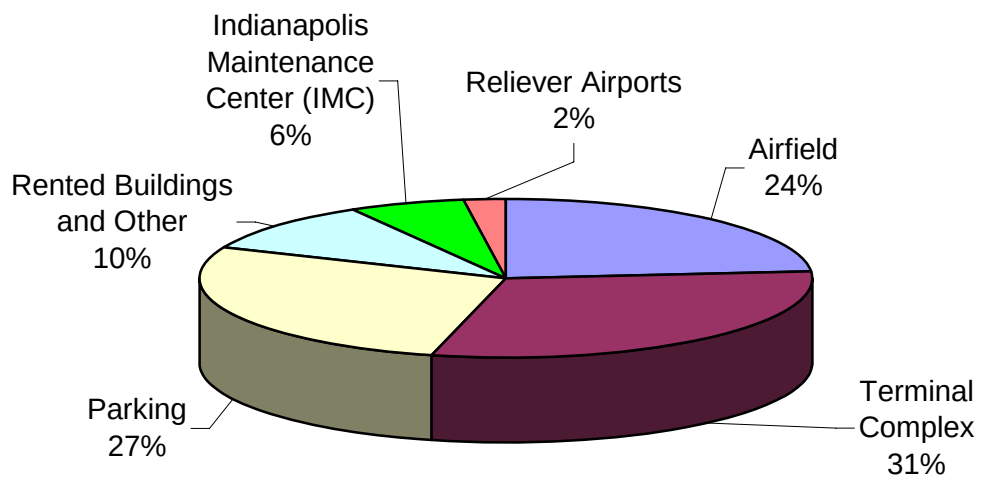
Capital contributions, grants and charges of \$65.6 million increased \$15.1 million compared to the prior year primarily due to a 2007 increase in contributions from lessees of \$13.2 million for leased property tenant improvements. In addition, Federal and State grants were higher than prior year by \$2.5 million related to the construction of the New Firehouse and the Airport Command and Control Center.

The following is a graphic illustration of operating revenues by source for the years ended December 31, 2008 and 2007:

Operating Revenues - 2008

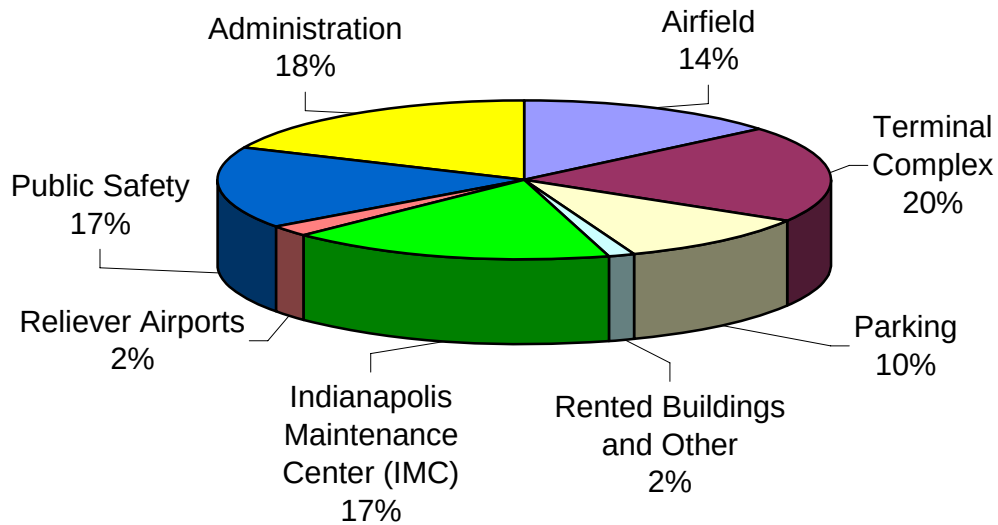


Operating Revenues - 2007

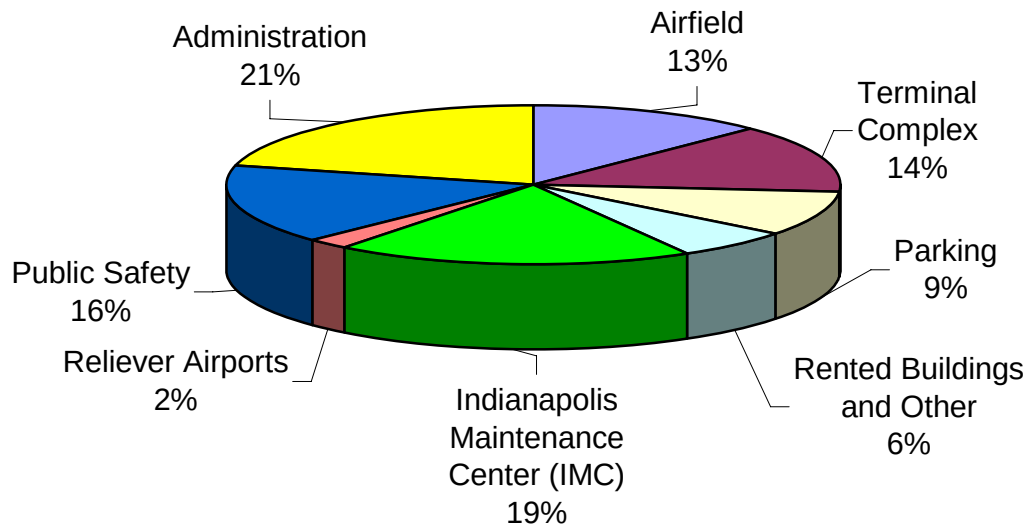


The following is a graphic illustration of the total operating expenses by source for the years ended December 31, 2008 and 2007 (excluding depreciation):

Operating Expenses (Excluding Depreciation) - 2008



Operating Expenses (Excluding Depreciation) - 2007



Capital Asset and Debt Administration

Capital Assets

During 2008, the Authority expended approximately \$347.1 million on capital activities. This included \$13.7 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 acquisition projects, including the Authority's New Indianapolis Airport Program, Extend Taxiway "R" / Reconstruct Taxiway "H", Rental Car Facilities, New Airport Command and Control Center, and continued development of cargo apron construction and various other projects.

During 2008, completed projects totaling \$1.2 billion were closed from construction-in-progress to their respective capital asset accounts. These major completed projects included:

New Indianapolis Airport	\$1.1 billion
Extend Taxiway "R" / Reconstruct Taxiway	\$13.5 million
New Airport Command and Control Center	\$11.3 million
Rental Car Facilities	\$20.1 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.

On June 17, 2008, the Authority issued a total of \$350.0 million of revenue bonds (the Series 2008A Revenue Bonds) as part of its financing program related to the New Indianapolis Airport, as well as other capital projects. In conjunction with the 2008 bond issuance, insured ratings were provided: "Aaa" by Moody's, "AAA" by S&P, and "AAA" by Fitch. In addition, the Authority received the following underlying ratings: "A1" by Moody's, "A" by S&P, and "A+" by Fitch. As of December 31, 2008, all of the proceeds of the 2008 Revenue Bonds had been utilized to fund capital project expenditures.

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 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 2003, 2004, 2006 and 2008.

As of December 31, 2008, the Authority had \$1.26 billion in outstanding senior lien bonds and no outstanding subordinate securities. The Authority, through its Master Bond Ordinance, has covenanted 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 2008 and 2007, respectively, the Authority's debt service coverage was 3.70 and 3.77 for senior lien debt.

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

Economic Factors and Next Year's Rates and Charges

The Authority experienced a 1.3% decrease in passenger enplanements over last year, resulting in total 2008 enplanements of 4,088,526. Passenger traffic was able to sustain positive growth in Indianapolis during the first eight months of 2008. However, the dramatic slowdown in the national economy and subsequent pullback by airlines throughout their whole network led to an accelerated decline in air travel. Although Indianapolis experienced negative growth, this decline in passenger traffic was relatively better than the national average of the U.S.' top airports. In 2008, the Airport benefited from a 24% increase in flight service from Southwest Airlines, and a less severe pullback in all services at IND by airlines during the last four months of the year when compared to similar actions at other top U.S. airports. For 2008, IND experienced a .4% decrease in seat capacity by airlines while the average seat capacity change of the top 75 U.S. airports showed a 3.9% decrease.

Indianapolis International Airport is served by most major and several national airlines operating to the majority of domestic hubs. In addition, point-to-point service is provided to major business and leisure destinations on the East and West coasts. The Authority remains significantly an Origination and Destination (O&D) airport, with approximately 94% of its traffic being generated by the population and economy of the region, rather than the schedule of service or hub operations by an airline. The Authority's passenger profile has not significantly changed during 2008 with a profile balanced almost equally between leisure (52%) and business (48%) travel. Passenger airlines represent 50% of total landed weight at the airport, which approximated 5.2 billion pounds in 2008, a 1.0% decrease from 2007.

In addition to passenger activity, the Airport continues to benefit from the sustained activity of cargo operations, which are significantly dominated by FedEx. In 2008, cargo carriers represented 50% of the landed weight at the Airport, and experienced a 1.5% decrease in cargo landed weight compared to 2007, for a total of approximately 5.3 billion pounds.

Future increases in passenger and cargo traffic at the Airport 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 national air traffic control and airport systems
- Capacity of the airport

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 2009 is based on those trends seen during late 2008, 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 2009 schedules via APGDat. 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 Director of Finance, 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.

Indianapolis Airport Authority

Balance Sheets December 31, 2008 and 2007

Assets

	2008	2007
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	\$ 50,607,883	\$ 43,744,912
Accounts receivable, net of allowance of \$235,000 and \$51,000, respectively	2,075,647	2,107,936
Unbilled revenues	3,210,662	3,463,696
Grants receivable	17,539,045	17,074,218
Receivable - other governments	1,020,603	1,025,664
Supplies and materials inventories	1,819,886	1,569,521
Other	915,231	1,064,073
Total unrestricted current assets	<u>77,188,957</u>	<u>70,050,020</u>
Restricted Assets		
Cash and cash equivalents	33,058,552	35,163,905
Cash and cash equivalents - customer deposits	378,182	361,970
Receivable - passenger facility charges	1,438,181	1,333,567
Receivable - other governments	3,768,003	3,837,542
Receivable - reimbursable IMC expenses	1,374,631	662,371
Total restricted current assets	<u>40,017,549</u>	<u>41,359,355</u>
Total current assets	<u>117,206,506</u>	<u>111,409,375</u>
Noncurrent Assets		
Cash and cash equivalents, restricted	230,246,068	363,451,293
Investment securities, restricted	-	9,920,173
Rent receivable	2,797,272	2,945,290
Receivable - other governments	-	971,668
Deferred lease costs	1,509,334	1,789,181
Bond issue and loan administration costs, net	22,559,560	15,498,050
Non-depreciable capital assets	328,008,228	1,100,732,503
Depreciable capital assets, net	1,854,883,235	744,048,733
Total noncurrent assets	<u>2,440,003,697</u>	<u>2,239,356,891</u>
Total assets	<u>\$ 2,557,210,203</u>	<u>\$ 2,350,766,266</u>

Liabilities and Net Assets

	2008	2007
Current Liabilities		
Payable From Unrestricted Assets		
Accounts payable	\$ 4,742,490	\$ 2,921,494
Accrued and withheld items (including compensated absences)	6,154,837	5,862,118
Deferred revenue - interest rate swap	885,000	-
Total current liabilities payable from unrestricted assets	<u>11,782,327</u>	<u>8,783,612</u>
Payable From Restricted Assets		
Accounts payable	76,312,013	51,250,429
Customer deposits payable	378,182	361,970
Current portion of debt	29,949,992	201,989,887
Accrued interest on debt	25,550,627	25,087,924
Total current liabilities payable from restricted assets	<u>132,190,814</u>	<u>278,690,210</u>
Total current liabilities	<u>143,973,141</u>	<u>287,473,822</u>
Noncurrent Liabilities		
Deferred revenue - interest rate swap	2,212,500	-
Bonds payable and other debt, payable from restricted assets	<u>1,440,444,004</u>	<u>1,140,557,779</u>
Total liabilities	<u>1,586,629,645</u>	<u>1,428,031,601</u>
Net Assets		
Invested in capital assets, net of related debt	<u>810,959,611</u>	<u>711,131,725</u>
Restricted for		
Capital projects	33,689,024	64,387,595
Debt service	57,111,138	80,057,548
Other	1,320,049	236,325
Total restricted net assets	<u>92,120,211</u>	<u>144,681,468</u>
Unrestricted	<u>67,500,736</u>	<u>66,921,472</u>
Total net assets	<u>970,580,558</u>	<u>922,734,665</u>
 Total liabilities and net assets	 <u>\$ 2,557,210,203</u>	 <u>\$ 2,350,766,266</u>

Indianapolis Airport Authority

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2008 and 2007

	2008	2007
Operating Revenues		
Airfield	\$ 23,889,270	\$ 24,749,685
Terminal complex	36,528,432	31,785,560
Parking	29,437,187	28,580,692
Rented buildings and other	12,406,054	10,922,239
Indianapolis Maintenance Center (IMC)	7,253,302	6,478,363
Reliever airports	2,402,110	2,204,779
Total operating revenues	<u>111,916,355</u>	<u>104,721,318</u>
Operating Expenses (includes depreciation of \$73,550,562 and \$44,089,619 in 2008 and 2007, respectively)		
Airfield	28,731,397	19,241,100
Terminal complex	33,646,151	13,434,667
Parking	8,573,596	7,232,770
Rented buildings and other	10,133,664	10,339,335
Indianapolis Maintenance Center (IMC)	26,792,019	25,091,033
Reliever airports	3,697,927	3,565,141
Public safety	10,051,414	9,435,519
Administration	11,564,114	12,661,162
Total operating expenses	<u>133,190,282</u>	<u>101,000,727</u>
Income (Loss) From Operations	<u>(21,273,927)</u>	<u>3,720,591</u>
Nonoperating Revenues (Expenses)		
State and local appropriations	26,927,491	26,820,632
Federal operating grants	1,110,925	1,137,976
Customer facility charges (rental cars)	5,115,044	5,136,987
Investment income	12,726,364	27,621,747
Interest expense, net of \$37,963,261 and \$28,807,982 interest capitalized in 2008 and 2007, respectively	(36,264,684)	(33,954,139)
Loss on disposals of capital assets and other	(1,426,443)	(1,947,063)
	<u>8,188,697</u>	<u>24,816,140</u>
Increase (Decrease) in Net Assets Before Capital Contributions, Grants and Charges	<u>(13,085,230)</u>	<u>28,536,731</u>
Capital Contributions, Grants and Charges		
Passenger facility charges	16,852,737	16,774,356
Federal, state and local grants	17,606,125	26,730,086
Contributions from lessees and other	26,447,287	21,940,009
Contributions from other governments	24,974	128,264
	<u>60,931,123</u>	<u>65,572,715</u>
Increase in Net Assets	47,845,893	94,109,446
Net Assets, Beginning of Year	<u>922,734,665</u>	<u>828,625,219</u>
Net Assets, End of Year	<u>\$ 970,580,558</u>	<u>\$ 922,734,665</u>

Indianapolis Airport Authority

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Cash receipts from customers and users	\$ 111,055,351	\$ 107,469,850
Cash payments to vendors for goods and services	(31,349,141)	(32,131,513)
Cash payments for employees services	(24,920,169)	(23,550,634)
Net cash provided by operating activities	<u>54,786,041</u>	<u>51,787,703</u>
Cash Flows From Noncapital Financing Activities		
Operating grants received	1,121,737	1,155,976
Customer facility charges received	5,115,044	5,136,987
Insurance recoveries	111,324	2,502,640
Net cash provided by noncapital financing activities	<u>6,348,105</u>	<u>8,795,603</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from issuance of commercial paper	597,665,000	525,335,000
Proceeds from issuance of revenue bonds	350,000,000	-
Principal paid on bonds and commercial paper	(803,480,000)	(407,085,000)
Bond issue and commercial paper costs paid	(9,344,714)	(566,372)
Interest paid	(22,860,849)	(23,297,191)
Advance payment on interest rate swap agreement	3,540,000	-
Acquisition and construction of capital assets	(363,430,609)	(453,714,278)
Proceeds from sale of capital assets	1,234,927	5,543,239
Passenger facility charges received	16,748,123	17,370,089
Capital grants received	17,130,486	13,163,917
Contributions from other governments	1,001,703	3,710,612
Net cash used in capital and related financing activities	<u>(211,795,933)</u>	<u>(319,539,984)</u>
Cash Flows From Investing Activities		
Purchase of investment securities	(139,819,901)	(171,495,362)
Proceeds from sales and maturities of investment securities	152,710,000	253,652,000
Interest received on investments and cash equivalents	9,340,293	23,018,214
Net cash provided by investing activities	<u>22,230,392</u>	<u>105,174,852</u>
Net Decrease in Cash and Cash Equivalents	(128,431,395)	(153,781,826)
Cash and Cash Equivalents, Beginning of Year	<u>442,722,080</u>	<u>596,503,906</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 314,290,685</u></u>	<u><u>\$ 442,722,080</u></u>

Indianapolis Airport Authority

Statements of Cash Flows (continued)

Years Ended December 31, 2008 and 2007

	2008	2007
Reconciliation of Income (Loss) From Operations to Net Cash Provided by		
Operating Activities		
Income (loss) from operations	\$ (21,273,927)	\$ 3,720,591
Item not requiring cash		
Depreciation of capital assets	73,550,562	44,089,619
Change in assets and liabilities		
Accounts receivable and unbilled revenues	(861,004)	2,748,532
Supplies and materials inventories	(250,365)	58,837
Other assets	428,689	76,704
Accounts payable	2,257,370	(370,671)
Accrued and withheld items	934,716	1,464,091
	<u>934,716</u>	<u>1,464,091</u>
Net cash provided by operating activities	<u>\$ 54,786,041</u>	<u>\$ 51,787,703</u>
Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable at end of year	\$ 72,026,557	\$ 47,547,856
Capital assets contributed by lessees and other governments	26,447,287	21,940,009
State and local appropriations used to fund capital lease obligations	26,926,976	26,817,377

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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 eight members, six 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 Marion County Board of Commissioners and one by the Hendricks County Board of Commissioners. Each member is appointed to a four-year term. Also, the Board has three non-voting, advisory board members.

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.

Management Contract

On October 1, 1995, the Authority entered into an Agreement for the Operation and Maintenance of the Indianapolis International Airport Facilities (BAA Management Contract) with BAA Indianapolis, LLC and BAA USA Holdings, Inc. (collectively, BAA). Pursuant to an amendment signed by the Authority and BAA on June 14, 2007, both parties mutually agreed to conclude the BAA Management Contract with termination scheduled to occur no later than December 31, 2007 and provide for an early transition (the Transition) of personnel and operations back to the Authority effective July 16, 2007. The BAA Management Contract expired December 31, 2007 and all personnel and operations transferred to the Authority's responsibility effective July 16, 2007. No significant change in the operation and management of the airport facilities occurred in connection with the Transition.

BAA was paid a performance fee, monthly fixed fee and transition incentive fee under the terms of the June 14, 2007 amendment. As of December 31, 2007, there were no additional receivables or liabilities relating to the BAA Management Contract.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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 is 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.

The following criteria were considered:

I. Imposition of will criteria

A. Remove appointed members of Authority Board at will

The appointed members of the Authority Board cannot be removed by the Mayor without cause, and removal must be through an impeachment procedure.

B. Modify or approve the Authority's budget

The Authority Board is responsible for reviewing, approving, and modifying its budget. The City-County Council (the governing body for Unigov) holds public budget hearings, and may review and modify the budget. Since a tax levy is not currently required to finance the budget of the Authority, the Council's review is considered a routine administrative approval.

C. Modify or approve changes in fees and charges

The Authority establishes all fees and charges and negotiates contracts with commercial enterprises.

D. Veto, overrule or modify decisions of the Authority Board

Decisions of the Board are not subject to change by Unigov.

E. Appoint, hire, reassign or dismiss management of the Authority

Unigov has no control over the employment of Authority personnel.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

II. Financial benefit/burden criteria

A. Legally entitled to or can otherwise access the Authority's resources

The Authority's resources cannot be accessed by Unigov. Legislation was enacted in 1992, which authorized the City-County Council to impose a payment in lieu of taxes (PILOT) from various municipal corporations, including the Authority, to recover the cost of providing governmental services to public entities that operate as private enterprises and are exempt from property taxes. However, under the Airport and Airway Improvement Act of 1982, as amended, PILOTs may not be imposed without the risk of loss of all federal funding, unless there exists adequate documentation of services actually provided. Purchases of services are considered exchange transactions, which are not manifestations of a financial benefit relationship.

B. Legally obligated to finance the deficits of, or provide financial support to, the Authority

The Authority is solely responsible for financing its deficits. The Authority may levy taxes on property within Marion County. It does not currently, and has no future plans to, levy such taxes.

C. Obligated in some manner for the debt of the Authority

The Authority is empowered to issue revenue bonds payable solely from revenue derived from the operation of the airport system and special facility revenue bonds payable exclusively from lease-rental payments. The Authority is also empowered to issue general obligation bonds. These bonds are not general obligations of Unigov, and neither the faith and credit nor the taxing power of Unigov is pledged to their payment.

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. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority follows all applicable GASB pronouncements. In addition, the Authority follows all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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 in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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, 2008 and 2007

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:

	Years
Buildings, including parking garage	20 to 40
Sewers	25 to 40
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	10 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 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.

Issue Costs

Bond issue costs are deferred and amortized over the life of the respective bond issue using the interest method. Commercial paper issuance costs are being amortized on a straight-line basis over the original term of the respective letter of credit that secures each debt issuance.

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. During 2007, the Authority also offered coverage under a self-insured plan.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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.

Through the effective date of the Transition of BAA employees to the Authority on July 16, 2007, employees received compensation for vacations, holidays, illness and certain other qualifying absences. Accumulated unused sick leave benefits for BAA employees were nonvesting until retirement. At retirement, any accumulated sick leave in excess of 160 hours (224 hours for fire department personnel) was to be paid to the employee at a rate of one hour for every two excess hours. The maximum number of sick leave hours that could be paid to any BAA employee was 96. In conjunction with the Transition of BAA employees back to the Authority in 2007, accrued sick time was paid out to any employee who met the eligibility requirements for pay-out of sick leave in accordance with BAA's policy, although retirement was not required in order for the pay-out to occur. The Authority did not adopt this unused sick leave benefit policy following the Transition of BAA employees to the Authority and, as such, no further accruals have been recorded relating to unused sick leave pay at December 31, 2007 or 2008. BAA employees were also paid for any accrued and unused vacation and personal time at the effective date of the Transition back to the Authority in 2007.

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

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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 capital contributions, grants and charges and amounted to \$16,852,737 and \$16,774,356 for 2008 and 2007, respectively.

Customer Facility Charges (Rental Cars)

The Authority collects a customer facility charge (CFC) of \$3 per rental car transaction per day, up to 14 days, on all rental car concessionaires that operate facilities on the airport. 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 \$5,115,044 and \$5,136,987 for 2008 and 2007, 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 \$2,797,272 and \$2,945,290 at December 31, 2008 and 2007, respectively. The current receivable will be recognized in full in 2034.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

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.

The financial institutions holding the Authority's deposit accounts are participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under that program, all noninterest-bearing accounts are fully guaranteed by the FDIC for the entire amount in the accounts. Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000 for all interest-bearing accounts. These increases in federally insured limits are currently set to expire December 31, 2009.

Any cash deposits in excess of the FDIC limits described above are insured by the Indiana Public Deposits Insurance Fund (Fund). The Indiana Public Deposits Insurance 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, 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, 2008 and 2007, the Authority had the following investment securities, all of which mature within one year:

	2008	2007
Repurchase agreements	\$ 86,246,745	\$ 91,388,245
U. S. agency obligations	27,569,365	61,843,276
Money market mutual funds	63,841,285	67,321,715
	<u>\$ 177,657,395</u>	<u>\$ 220,553,236</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 securities with a stated maturity of not more than two 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 are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

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 securities that are rated AAA by Standard and Poor's or Aaa by Moody's Investor's Service. At December 31, 2008 and 2007, the Authority's investments in money market mutual funds and U. S. agency obligations not directly guaranteed by the U. S. Government were rated AAA by Standard & Poor's.

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, 2008 and 2007, all of the Authority's investments in repurchase agreements (which are secured by U. S. Government and U. S. Government agency obligations), as well as its investments in U. S. agency obligations, were exposed to custodial credit risk. These investments were uninsured and the collateral was held by the pledging financial institution's trust department or agent in other than the Authority's name. The Authority's investment in money market mutual funds was not subject to custodial credit risk at December 31, 2008 and 2007, as their existence 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 no limit on the amount that may be invested in any one issuer. The following investments held by the Authority are not explicitly guaranteed by the U. S. Government and are subject to concentration of credit risk:

	2008	2007
Federal National Mortgage Association discount notes	\$ -	\$ 40,499,000
Federal Home Loan Mortgage Corporation discount notes	-	9,920,173
Federal Home Loan Bank discount notes	27,569,365	11,424,103
	<u>\$ 27,569,365</u>	<u>\$ 61,843,276</u>

Foreign Currency Risk - This risk relates to adverse affects 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, 2008 and 2007

Summary of Carrying Values

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

	2008	2007
Cash and cash equivalents		
Current - unrestricted	\$ 50,607,883	\$ 43,744,912
Current - restricted	33,436,734	35,525,875
Noncurrent - restricted	<u>230,246,068</u>	<u>363,451,293</u>
	314,290,685	442,722,080
Investment securities - restricted	<u>-</u>	<u>9,920,173</u>
	<u><u>\$ 314,290,685</u></u>	<u><u>\$ 452,642,253</u></u>

Investment Income

Investment income for the years ended December 31, 2008 and 2007 consisted of:

	2008	2007
Interest and dividend income	\$ 12,726,364	\$ 27,621,747

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

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

	2008	2007
Revenue Bond Interest and Principal Fund	\$ 33,058,552	\$ 35,163,905
Revenue Bond Reserve Fund	106,861,375	85,521,395
Operation and Maintenance Reserve Fund	11,964,857	11,676,001
Renewal and Replacement Fund	2,540,939	2,479,596
Capital Improvement Fund	7,212,582	31,298,655
Passenger Facility Charge Fund	25,038,261	31,755,373
Debt Service Coverage Fund	13,648,599	7,464,618
Construction Fund - 2004A Revenue Bonds	44,491,545	67,370,610
Capitalized Interest Account 2005A Revenue Bonds	6,159,633	15,898,685
Construction Fund - 2005A Revenue Bonds	114,370	838,012
Capitalized Interest Account - 2006 Revenue Bonds	11,518,318	28,625,125
Construction Fund - 2006 Revenue Bonds	21,959	33,447,533
Capitalized Interest Account - 2008 Revenue Bonds	2,864	-
Construction Fund - 2008 Revenue Bonds	430,047	-
Construction Fund - Commercial Paper Issuance	-	56,759,538
Customer deposits	378,182	361,970
Air Service Task Force and other	240,719	236,325
	<u>\$ 263,682,802</u>	<u>\$ 408,897,341</u>

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 operation 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 operation and maintenance expenses of the Airport System are paid prior to debt service on the Authority Revenue Bonds.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

Assets included in the Revenue Bond Interest and Principal Funds, Revenue Bond Reserve Funds and Capitalized Interest Accounts 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 Subordinate Securities Interest and Principal Fund and Subordinate Securities Reserve Fund are used to pay principal, interest and redemption premiums on any securities secured in whole or in part by liens on the Net Revenues of the Authority that are junior and subordinate to the lien on Net Revenues securing payment of the Revenue Bonds and to pay amounts due under certain derivative agreements. 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. The Construction Funds are used to pay the project costs for each respective debt issuance. 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'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.

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, 2008 and 2007 consist of:

	2008	2007
State of Indiana	\$ 36,721	\$ 6,700
Federal Aviation Administration	16,422,894	16,017,774
U. S. Department of Homeland Security	1,079,430	1,049,744
	<u>\$ 17,539,045</u>	<u>\$ 17,074,218</u>

The maximum amount of federal and state participation available for eligible continuing projects during 2008 totaled \$63,315,989. At December 31, 2008, a cumulative total of \$37,139,568 has been earned against these grant commitments.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

Note 4: Capital Assets

A summary of changes in capital assets for the years ended December 31, 2008 and 2007 is as follows:

	2008			
	Beginning Balance, January 1, 2008	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2008
Capital assets, not being depreciated:				
Land	\$ 271,427,016	\$ 13,749,969	\$ (3,952,053)	\$ 281,224,932
Construction in progress	829,305,487	374,666,006	(1,172,275,777)	31,695,716
Idle capital assets	-	15,087,580	-	15,087,580
Total capital assets, not being depreciated	<u>1,100,732,503</u>	<u>403,503,555</u>	<u>(1,176,227,830)</u>	<u>328,008,228</u>
Capital assets, being depreciated:				
Buildings	811,394,899	745,076,806	(15,863,477)	1,540,608,228
Runways and other airport infrastructure	490,907,097	359,008,467	(23,176,057)	826,739,507
Equipment, furniture and fixtures and other	121,695,647	95,387,371	(13,130,238)	203,952,780
Total capital assets, being depreciated	<u>1,423,997,643</u>	<u>1,199,472,644</u>	<u>(52,169,772)</u>	<u>2,571,300,515</u>
Less accumulated depreciation for:				
Buildings	(295,231,213)	(42,187,689)	12,060,992	(325,357,910)
Runways and other airport infrastructure	(291,708,687)	(19,491,085)	13,191,167	(298,008,605)
Equipment, furniture and fixtures and other	(93,009,010)	(11,871,788)	11,830,033	(93,050,765)
Total accumulated depreciation	<u>(679,948,910)</u>	<u>(73,550,562)</u>	<u>37,082,192</u>	<u>(716,417,280)</u>
Total capital assets, being depreciated, net	<u>744,048,733</u>	<u>1,125,922,082</u>	<u>(15,087,580)</u>	<u>1,854,883,235</u>
Capital assets, net	<u>\$ 1,844,781,236</u>	<u>\$ 1,529,425,637</u>	<u>\$ (1,191,315,410)</u>	<u>\$ 2,182,891,463</u>

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

	2007			
	Beginning Balance, January 1, 2007	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2007
Capital assets, not being depreciated:				
Land	\$ 267,463,434	\$ 14,619,483	\$ (10,655,901)	\$ 271,427,016
Construction in progress	535,465,776	483,488,018	(189,648,307)	829,305,487
Total capital assets, not being depreciated	<u>802,929,210</u>	<u>498,107,501</u>	<u>(200,304,208)</u>	<u>1,100,732,503</u>
Capital assets, being depreciated:				
Buildings	744,682,521	66,762,378	(50,000)	811,394,899
Runways and other airport infrastructure	421,939,213	68,967,884	-	490,907,097
Equipment, furniture and fixtures and other	112,258,950	11,368,090	(1,931,393)	121,695,647
Total capital assets, being depreciated	<u>1,278,880,684</u>	<u>147,098,352</u>	<u>(1,981,393)</u>	<u>1,423,997,643</u>
Less accumulated depreciation for:				
Buildings	(270,923,018)	(24,321,862)	13,667	(295,231,213)
Runways and other airport infrastructure	(277,646,126)	(14,062,561)	-	(291,708,687)
Equipment, furniture and fixtures and other	(89,228,163)	(5,705,196)	1,924,349	(93,009,010)
Total accumulated depreciation	<u>(637,797,307)</u>	<u>(44,089,619)</u>	<u>1,938,016</u>	<u>(679,948,910)</u>
Total capital assets, being depreciated, net	<u>641,083,377</u>	<u>103,008,733</u>	<u>(43,377)</u>	<u>744,048,733</u>
Capital assets, net	<u>\$ 1,444,012,587</u>	<u>\$ 601,116,234</u>	<u>\$ (200,347,585)</u>	<u>\$ 1,844,781,236</u>

The new terminal at the Indianapolis International Airport was placed in service in November 2008. Accordingly, the Authority reevaluated the service utility of the assets associated with the terminal that is no longer in service. This resulted in the Authority accelerating the depreciation on certain assets and ceasing depreciation on other assets that are currently idle. The Authority recorded approximately \$14.7 million of additional depreciation as a result of this reevaluation. As presented in the table above, the net book value of the Authority's idle capital assets was approximately \$15.1 million at December 31, 2008.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

Note 5: Bonds Payable and Other Debt

Bonds and other debt outstanding at December 31, 2008 and 2007 consist of:

	2008	2007
Revenue Bonds, Series 2008		
Term bonds, maturing January 1, 2033, 2036 and 2037. Interest is variable (ranging from 1.75% to 5.00% at December 31, 2008), due semiannually on January 1 and July 1	\$ 350,000,000	\$ -
Revenue Bonds, Series 2006		
Serial bonds, maturing January 1, 2009 to January 1, 2037 in payments from \$4,460,000 to \$48,785,000. Interest at 4.00% to 5.59%, due semiannually on January 1 and July 1	264,010,000	268,255,000
Term bonds, maturing January 1, 2027 and 2036. Interest at 4.75% and 5.00%, respectively, due semiannually on January 1 and July 1	121,530,000	121,530,000
	385,540,000	389,785,000
Unamortized premium	6,774,141	7,159,583
	392,314,141	396,944,583
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	63,415,000	63,415,000
	197,385,000	197,385,000
Unamortized premium	3,025,131	3,180,568
	200,410,131	200,565,568
Revenue Bonds, Series 2004A		
Serial bonds, maturing January 1, 2009 to January 1, 2024 in payments from \$3,375,000 to \$11,075,000. Interest at 5.00% to 5.25%, due semiannually on January 1 and July 1	87,130,000	90,345,000
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	125,330,000	125,330,000
	212,460,000	215,675,000
Unamortized premium	3,413,699	3,647,107
	215,873,699	219,322,107

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

	2008	2007
(Continued)		
Revenue Bonds, Series 2003A		
Serial bonds, maturing January 1, 2009 to January 1, 2023		
in payments from \$2,995,000 to \$6,135,000. Interest at 4.625% to		
5.625%, due semiannually on January 1 and July 1	\$ 66,320,000	\$ 69,175,000
Term bonds, maturing January 1, 2027 and January 1, 2033.		
Interest at 5.00%, due semiannually on January 1 and July 1	36,660,000	36,660,000
	102,980,000	105,835,000
Deferred loss on refunding	(1,368,934)	(1,483,032)
Unamortized premium	2,229,376	2,415,191
	103,840,442	106,767,159
Refunding Revenue Bonds, Series 1996A		
Serial bonds, paid in full during 2008	-	7,475,000
Term bonds, paid in full during 2008	-	18,025,000
	-	25,500,000
Deferred loss on refunding	-	(2,374,752)
Unamortized discount	-	(167,468)
	-	22,957,780
Total revenue bonds	1,262,438,413	946,557,197
Other Debt		
Obligations under capital lease	207,955,583	225,990,469
Commercial paper	-	170,000,000
	207,955,583	395,990,469
Total bonds payable and other debt	1,470,393,996	1,342,547,666
Current portion	(29,949,992)	(201,989,887)
Long-term portion	\$ 1,440,444,004	\$ 1,140,557,779

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

Revenue Bonds

In June 2008, the Authority issued \$350,000,000 of tax-exempt variable rate demand revenue bonds (the 2008 Revenue Bonds). The 2008 Revenue Bonds represent the Authority's fifth long-term financing package used to fund the costs of the 2001-2010 Capital Improvement Program, including the construction of the New Indianapolis Airport. The 2008 Revenue Bonds bear interest at daily and weekly rates and are subject to mandatory redemption upon conversion of the interest rate to a different rate type or rate period.

The 2008 Revenue Bonds are secured by a Standby Bond Purchase Agreement with available principal and interest commitments totaling \$353,912,329, which includes accrued interest. The Standby Bond Purchase Agreement expires June 25, 2011. In the event any of the 2008 Revenue Bonds are tendered for purchase and the Authority is required to draw on the Standby Bond Purchase Agreement, the Authority would be required to pay interest on the unpaid principal of the amount drawn for the first 60 days following the draw at a rate equal to the greater of twelve percent or the Prime Rate or the Federal Funds Rate plus .50%. If the bonds are not remarketed within 60 days of a draw on the Standby Bond Purchase Agreement, the Authority would be required to pay interest on the unpaid principal of the amount drawn for the subsequent 120 days at a rate equal to the greater of the Prime Rate plus 1% or the Federal Funds Rate plus 1.50%. If the bonds are not remarketed within 180 days of a draw on the Standby Bond Purchase Agreement, the Authority would be required to pay interest on the unpaid principal of the amount drawn at a rate equal to the greater of the Prime Rate plus 2% or the Federal Funds Rate plus 2.50%. As of December 31, 2008, there were no amounts drawn on the Standby Bond Purchase Agreement.

The Authority's Series 2003A, 2004A, 2005A, and 2006 Revenue Bonds are subject to optional redemption by the Authority at various dates in the future. The 2008 Revenue Bonds are currently subject to optional redemption by the Authority upon notification to the bondholders.

The Series 2003A Revenue Bonds, maturing on January 1, 2027 (the 2027 Term Bonds) and January 1, 2033 (the 2033 Term Bonds) are subject to redemption from mandatory sinking fund payments during 2024 to 2027 and 2028 to 2033, respectively.

The Series 2004A Revenue Bonds, maturing January 1, 2026 (the 2026 Term Bonds), January 1, 2028 (the 2028 Term Bonds), January 1, 2031 (the 2031 Term Bonds), and January 2034 (the 2034 Term Bonds) are subject to redemption from mandatory sinking fund payments during 2025 to 2026, 2027 to 2028, 2029 to 2031, and 2032 to 2034, respectively.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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 2006 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.

The Series 2008 Revenue Bonds, maturing January 1, 2033, 2036 and 2037 are subject to redemption from mandatory sinking fund payments during 2012 to 2037.

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 adopted a resolution in 2003 irrevocably dedicating \$1.1 million per year, from 2003 through 2010, of passenger facility charges (the Dedicated Revenues) to be used exclusively to pay debt service on the Authority's Revenue Bonds. The Authority adopted a similar resolution in 2004 irrevocably dedicating approximately \$1,150,000 in 2004 and \$12,160,000 per year, from 2005 through 2010, in additional passenger facility charges. In 2006, another resolution was adopted, which dedicates substantially all customer facility charges to be received in the years 2006 through 2010, for the purpose of paying debt service on the Authority's Revenue Bonds.

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.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

Commercial Paper

From time to time, the Authority issues commercial paper, the proceeds of which are used to finance various capital projects included in the Authority's Capital Improvement Program. The commercial paper is a short-term promissory note that is sold in tranches with maturities ranging from 1 to 180 days. At maturity, interest is paid to the investor and the commercial paper is resold. During 2007, the Authority increased its commercial paper capacity to \$245,000,000. To mitigate the risk of an unsuccessful remarketing, the commercial paper is backed by a commitment for a letter of credit in the amount of \$257,283,563. The commercial paper is payable from and secured by a lien on net revenues of the airport system. This lien is junior and subordinate to the lien of the Revenue Bonds, and therefore, the commercial paper is considered to be a Subordinate Security as defined in the Master Bond Ordinance. The Authority had no commercial paper outstanding at December 31, 2008, as the previous borrowings were repaid using the proceeds from the 2008 Revenue Bonds. At December 31, 2007, the Authority had \$170,000,000 in commercial paper outstanding with interest rates which ranged from 3.56% to 3.68%.

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, 2008:

Years Ending December 31	Revenue Bonds		Total
	Principal	Interest	
2009	\$ 10,830,000	\$ 56,665,825	\$ 67,495,825
2010	11,390,000	56,080,348	67,470,348
2011	21,340,000	55,205,425	76,545,425
2012	24,540,000	54,001,406	78,541,406
2013	24,900,000	52,734,427	77,634,427
2014 - 2018	146,960,000	243,044,261	390,004,261
2019 - 2023	189,900,000	202,527,991	392,427,991
2024 - 2028	262,005,000	151,464,904	413,469,904
2029 - 2033	331,505,000	88,480,082	419,985,082
2034 - 2038	224,995,000	19,980,797	244,975,797
	<u>\$ 1,248,365,000</u>	<u>\$ 980,185,466</u>	<u>\$ 2,228,550,466</u>

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

The following is a summary of long-term obligation transactions (excluding capital leases) for the Authority for the years ended December 31, 2008 and 2007:

	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term obligations					
Revenue bonds payable	\$ 934,180,000	\$ 350,000,000	\$ (35,815,000)	\$ 1,248,365,000	\$ 10,830,000
Bond discounts/premium	16,234,981	-	(792,634)	15,442,347	-
Loss on refunding	(3,857,784)	2,488,850	-	(1,368,934)	-
Total revenue bonds payable	946,557,197	352,488,850	(36,607,634)	1,262,438,413	10,830,000
Commercial paper	170,000,000	597,665,000	(767,665,000)	-	-
Obligations under capital lease	225,990,469	-	(18,034,886)	207,955,583	19,119,992
Total long-term obligations	\$ 1,342,547,666	\$ 950,153,850	\$ (822,307,520)	\$ 1,470,393,996	\$ 29,949,992

	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term obligations					
Revenue bonds payable	\$ 965,930,000	\$ -	\$ (31,750,000)	\$ 934,180,000	\$ 13,955,000
Bond discounts/premium	17,116,715	-	(881,734)	16,234,981	-
Loss on refunding	(5,241,832)	1,384,048	-	(3,857,784)	-
Total revenue bonds payable	977,804,883	1,384,048	(32,631,734)	946,557,197	13,955,000
Commercial paper	20,000,000	525,335,000	(375,335,000)	170,000,000	170,000,000
Obligations under capital lease	243,085,450	-	(17,094,981)	225,990,469	18,034,887
Total long-term obligations	\$ 1,240,890,333	\$ 526,719,048	\$ (425,061,715)	\$ 1,342,547,666	\$ 201,989,887

Note 6: Special Facility Revenue Bonds

To provide for the construction of the FedEx Corporation Sort Facility, Indianapolis Maintenance Center (IMC) (formerly leased to United Air Lines, Inc.) and the FedEx Corporation Hangar Facility at the airport, the Authority issued three series of Special Facility Revenue Bonds (conduit debt obligations). These bonds are special limited obligations of the Authority, payable solely from and secured by a pledge of lease rentals to be received by the Authority. The bonds do not constitute a debt or pledge of the faith and credit of the Authority, the County, the City or the State and are therefore not reported in the accompanying financial statements.

At December 31, 2008, the Special Facility Revenue Bonds outstanding were as follows:

Special Facility Revenue Bonds, Series 2004 (FedEx Corporation Sort Facility)	\$ 237,755,000
Special Facility Revenue Bonds, Series 1998 (FedEx Corporation Hangar Facility)	23,425,000
Special Facility Revenue Bonds, Series 1995 (Indianapolis Maintenance Center)	172,112,018
	<u>\$ 433,292,018</u>

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

Note 7: Interest Rate Swap Agreements

Objective of the Interest Rate Swaps

The Authority has entered into four interest rate swap agreements and two basis rate swap agreements (collectively, the Swap Agreements) since 2004 to provide a hedge against future interest rate risk. The primary intention of the Swap Agreements is to effectively convert the Authority's variable interest rates on its 2008 Revenue Bonds to synthetic fixed rates. The Swap Agreements were forward swaps and became effective on July 1, 2008.

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, 2008
Interest Rate Swaps						
\$ 125,000,000	October 14, 2004	July 1, 2008	January 1, 2036	4.033%	75% LIBOR	\$ (33,595,525)
75,000,000	October 14, 2004	July 1, 2008	January 1, 2037	4.150%	75% LIBOR	(21,954,877)
50,000,000	October 7, 2005	July 1, 2008	January 1, 2033	3.786%	75% LIBOR	(9,116,012)
<u>100,000,000</u>	<u>October 11, 2005</u>	<u>July 1, 2008</u>	<u>January 1, 2033</u>	<u>3.778%</u>	<u>75% LIBOR</u>	<u>(26,336,052)</u>
<u>\$ 350,000,000</u>						<u>(91,002,466)</u>
Basis Swaps						
100,000,000	April 23, 2007	July 1, 2008	January 1, 2033	75% LIBOR	75% ISDA Swap Rate	(1,000,762)
(A) 100,000,000	February 14, 2008	July 1, 2008	July 2, 2012	75% ISDA Swap Rate	75% LIBOR	<u>(1,878,698)</u>
						<u>\$ (93,881,926)</u>

(A) This agreement resulted in an up front payment of \$3,540,000 to the Authority, which is being amortized into income over the period July 1, 2008 through July 2, 2012.

Payments due under these interest rate 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 interest rate swap agreements, the Authority pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. With the exception of the one basis rate agreement noted above, the Swap Agreements resulted in no initial cash receipts or payments to be made by the Authority.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

Fair Value

The fair values of the Swap Agreements are based on estimated discounted future cash flows determined using the counterparty's proprietary models based upon financial principles and estimates about relevant future market conditions. The fair values of the Swap Agreements are not recognized in the Authority's financial statements.

Credit Risk

The fair value of each of the Swap Agreements represents the Authority's credit exposure to the counterparties as of December 31, 2008. 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, 2008, 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 Aa3 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. The ratings of the various counterparties at December 31, 2008 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 \$125,000,000 and \$75,000,000	Aaa	AA-
SBS Financial Products, LLC, Counterparty of the interest rate swap with the notional amount of \$50,000,000	A2	A
UBS AG, Counterparty of the interest rate swap with the notional amount of \$100,000,000 and both basis swap agreements	Aa2	A+

Basis Risk

The swaps expose the Authority to basis risk should the relationship between LIBOR and the prime rates set by the Authority's lenders change in a manner adverse to the Authority. If an adverse change occurs in the relationship between these rates, the expected cost savings may not be realized.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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.

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, 2008, 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	
	Principal	Interest	Swaps, Net	Total
2009	\$ -	\$ 11,675,000	\$ 12,678,969	\$ 24,353,969
2010	-	11,675,000	12,678,969	24,353,969
2011	-	11,675,000	12,678,969	24,353,969
2012	4,030,000	11,599,304	12,603,458	24,202,762
2013	4,235,000	11,443,998	12,448,594	23,892,592
2014 - 2018	24,650,000	54,598,427	59,628,246	114,226,673
2019 - 2023	31,610,000	49,339,644	54,383,617	103,723,261
2024 - 2028	105,540,000	38,214,368	42,286,422	80,500,790
2029 - 2033	136,940,000	19,065,662	20,787,399	39,853,061
2034 - 2037	42,995,000	2,618,039	5,008,454	7,626,493
	<u>\$ 350,000,000</u>	<u>\$ 221,904,442</u>	<u>\$ 245,183,097</u>	<u>\$ 467,087,539</u>

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 \$184,500,000 from the proceeds of tax-exempt lease revenue bonds and a \$15,200,000 grant. The City provided approximately \$111,000,000 from the proceeds of tax-exempt current interest and capital appreciation bonds. Hendricks County provided \$8,000,000, in the form of a grant, from the proceeds of an economic development income tax revenue bond issue.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

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, 2008 and 2007 follow:

	2008	2007
Capital assets	\$ 352,111,077	\$ 352,111,077
Accumulated depreciation	<u>(125,974,086)</u>	<u>(120,656,580)</u>
	<u><u>\$ 226,136,991</u></u>	<u><u>\$ 231,454,497</u></u>

The present value of future minimum capital lease payments at December 31, 2008 follows:

2009	\$ 28,133,410
2010	27,855,798
2011	27,991,961
2012	28,118,454
2013	28,169,993
2014 - 2018	<u>117,571,691</u>
Total minimum lease payments	257,841,307
Amounts representing interest	<u>(49,885,724)</u>
Present value of future minimum capital lease payments	<u><u>\$ 207,955,583</u></u>

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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:

2009	\$ 21,538,335
2010	21,567,495
2011	21,524,609
2012	21,553,598
2013	21,558,152
2014 - 2018	<u>108,238,188</u>
	<u>\$ 215,980,377</u>

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:

2009	\$ 14,261,446
2010	14,218,310
2011	14,216,930
2012	14,220,160
2013	14,215,120
2014 - 2016	<u>42,651,413</u>
	<u>\$ 113,783,379</u>

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2008 and 2007

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 (\$172,112,018 remains outstanding at December 31, 2008) in special facility revenue bonds. The Authority had, and continues to have, no obligation to make interest and principal payments on these special facility bonds other than from revenues derived from leasing the IMC facilities. 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.

In 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 capital improvements, if certain conditions are met.

For the years ended December 31, 2008 and 2007, the Authority incurred approximately \$13.0 million and \$10.6 million of costs for the IMC, respectively. Some of these costs are not reimbursable. However, the majority of these costs may be recovered in future years, along with any costs incurred in excess of the aforementioned amounts from future revenues of the IMC. The Authority has received reimbursements under the Settlement Agreement aggregating approximately \$6.1 million and \$6.6 million in 2008 and 2007, respectively. Also, as of December 31, 2008 and 2007, the Authority has accrued approximately \$1.3 million and \$.6 million, respectively, in reimbursements for allowable costs incurred.

United emerged from bankruptcy effective February 1, 2006, however, the Settlement Agreement remains in effect for the life of the original special facility revenue bonds. During 2007, the Indianapolis Airport Authority received over \$487,000 in United Airlines' bankruptcy distributions. These distributions paid off all remaining pre-petition bankruptcy invoices and awarded the Authority over \$420,000 in damages related to unearned rental revenues resulting from United Airlines' bankruptcy.

The Authority has entered into various leases for certain portions of the IMC. Those portions, which include hangar space, office areas and the backshops, are being used primarily for the maintenance, repair and overhaul of commercial aircraft. During 2006, the Authority entered into additional leases for the remaining office areas 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, including reimbursement of past capital and operating costs, payment of ground rent and payment of debt service on the bonds.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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 deferred 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, 2008, the Authority has provided \$6.0 million in grants and \$3.9 million in rental credits to the lessees of the IMC.

Note 10: Risk Management

Risk management is the responsibility of the Authority. Operationally, the Authority is exposed to various risks of loss related to 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.

Termination of the management contract with BAA created a reduction in "excess" coverage on certain exposures; however, in critical areas, local, specific coverage limits were increased in response. Claim settlements have not exceeded insurance coverage for the previous three years and no situation exists presently, to the best of the Authority's knowledge that has the potential of doing so for the 2008 calendar year.

Effective June 1, 2005, the Authority secured separate insurance coverage that it maintained in conjunction with the construction of the New Indianapolis Airport. Insurance coverage included worker's compensation, commercial general liability and excess liability. The worker's compensation and general liability both utilized an Owner Controlled Insurance Program (OCIP) concept, typical with large construction projects. This type of program was selected for its cost efficacy as well as increased supervision of construction firms performing work under contract. Enrolled contractors in the OCIP each paid a proportionate share of premium. Self-insured retention amounts under this program are \$500,000 per occurrence for worker's compensation and \$500,000 per occurrence for general liability. An aggregate deductible of \$8,750,000 over the term of the project also applies. A letter of credit in the amount of \$5,000,000 was a requirement of the OCIP insurer in support of the deductible amounts and loss payments contained therein.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

With the opening of the new airport facility in the fall of 2008, the OCIP program was terminated, however, losses insured under the program will continue to be discovered, reported and settled, and the letter of credit security will remain a requirement of the insurer until such time as all losses mature and claims have been closed.

Casualty loss involving damage to or destruction of physical property in the course of construction is covered by a separate Builders Risk policy. This policy contains a deductible of \$100,000 per occurrence applicable to all covered causes of loss, including flood and earth movement. The Authority recognized \$2,000,000 in insurance recoveries as non-operating revenue in 2007 under the builders risk policy associated with the New Indianapolis Airport.

Lastly, an owner's protective professional indemnity policy is in place insuring the Authority from financial loss or damages assessed in relation to claims involving contracted professional services, such as architects or engineers. This policy contains a per claim self-insured retention amount of \$1 million; however, contracted professional service firms participating in this project are required to provide evidence of coverage, naming the Authority as an additional insured, in amounts equal to or exceeding this retention, leaving the Authority minimally exposed.

Note 11: Benefit Plan

Through the effective date of the transition of BAA employees back to the Authority, BAA maintained a 401(k) defined-contribution pension plan for the benefit of substantially all of its employees which allowed for both employee and employer contributions. Under this plan, employer contributions could range up to eight and one half percent of eligible compensation. In accordance with the BAA Management Contract, these expenses were paid by the Authority. Contributions to the plan were approximately \$862,870 for 2007.

Effective July 15, 2007, 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 up to eight and one half percent of eligible compensation. Contributions to the plan were approximately \$749,616 for 2008 and \$539,902 for 2007.

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, 2008 and 2007

Minimum future rentals on noncancelable operating leases to be received in each of the next five years and thereafter as of December 31, 2008 are as follows:

2009	\$ 60,970,360
2010	58,976,528
2011	28,159,680
2012	27,718,158
2013	26,562,462
Thereafter	162,987,545
	<u>\$ 365,374,733</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. All of the Airline Agreements expire on December 31, 2010. Rental rates under these agreements are determined annually.

Contingent rentals and fees aggregated approximately \$37,700,000 in 2008 and \$36,600,000 in 2007, and are accrued in arrears.

Note 13: Commitments and Contingencies

Land Acquisition

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 at an estimated cost of \$101.0 million. As of December 31, 2008, the Authority has spent approximately \$101.7 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 32 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. In addition, approximately 367 homes are eligible for the Sound Insulation and Purchase Assurance Programs.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

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. Under the Purchase Assurance Program, the Authority will purchase the property, sound insulate the home and then resell the property on the open market. 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 963 homes. 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 \$96.7 million. These programs, excluding Sales Assistance, are eligible for reimbursement from passenger facility charges and FAA noise grants (at 80% reimbursement). As of December 31, 2008, the Authority has spent approximately \$81.6 million in conjunction with these programs. As of December 31, 2008, approximately 120 homeowners have participated in Purchase Assurance, approximately 21 homes remain to be sound insulated, and approximately 380 homeowners have requested participation in Sales Assistance, while 321 of those Sales Assistance requests have closed.

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.

In 2001, the Authority began development south of Interstate 70 (I-70). This land contains at least two parcels needed to facilitate additional airside development space and development of an Airport interchange off of I-70. Some of the parcels will protect land needed for the future development of a third parallel runway. As of December 31, 2008, the Authority has expended approximately \$6.6 million for this project.

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, 2008, the Authority has acquired approximately 1,645 acres in order to replace those 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 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 can be transferred to an appropriate conservation organization. Approximately \$22.3 million has been spent under this program, of which 28% is eligible for reimbursement from the FAA. The Authority's share of the costs for this conservation plan is estimated to be \$2.4 million, of which \$1.4 million has been incurred through December 31, 2008.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

The Authority is currently involved in six 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, 2008 and 2007 is \$2,350,000, 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, 2008, the Authority had outstanding commitments for certain airport improvements aggregating approximately \$75.1 million.

Litigation and Claims

The nature of the business of the airport generates certain litigation against the Authority arising in the ordinary course of business. However, the Authority believes that the ultimate outcome of these matters, in the aggregate or individually, should not have a materially adverse effect on its financial position or changes in financial position.

As of December 31, 2008, there exists a dispute with one contractor concerning services performed during the construction of the Phase Two Cargo Apron. The dispute relates to a potential pay deduction the Authority would owe the contractor should the contractor meet specific measurement criteria related to the apron construction. Independent third-party testing, using defined industry standards, showed that the contractor did not meet specific measurement criteria, and the contractor is disputing that finding. The amount accrued at December 31, 2008 was \$1.3 million, which represents the entire amount of the pay deduction in question. A suit was filed in this matter on December 1, 2008 in the U.S. District Court for the Southern District of Indiana.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2008 and 2007

Current Economic Conditions

The current economic environment presents the Authority and similar entities with circumstances and challenges that in some cases have resulted in large declines in the fair value of investments and other assets, declines in passengers and related revenue, declines in the shipment of freight, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Authority.

The Authority's operations are heavily dependent on passenger-related revenue, in addition to non-passenger-related revenue sources. A significant decline in such revenues or the inability of the Authority to collect these revenues from business partners could have an adverse impact on the Authority's future operating results, including increasing allowances for uncollectible receivables.

In addition, the Authority's debt service and plan of finance is dependent on nominal and relative interest rates. Given the volatility of current economic conditions, the Authority's debt service requirements may become greater than the requirements shown in the financial statements, which could negatively impact the Authority's ability to meet debt covenants or maintain sufficient liquidity, should other revenue sources not be sufficient to mitigate these effects.

Supplementary Information

Indianapolis Airport Authority

Schedule of Governmental Awards

Year Ended December 31, 2008

Federal Grantor/ Pass-through Grantor/ Program Title/ Grant Name	Federal CFDA Number	Federal Grant Number	State Grant Number	Total Grant Amount
U. S. Department of Transportation - Federal				
Aviation Administrative (FAA)				
Airport Improvement Program (AIP)				
Indianapolis International Airport	20.106	3-18-0038-96	\$	15,613,333
	20.106	3-18-0038-97		1,435,132
	20.106	3-18-0038-101		6,422,275
	20.106	3-18-0038-102		13,000,000
	20.106	3-18-0038-103		400,000
	20.106	3-18-0038-104		1,543,618
	20.106	3-18-0038-105		12,500,000
	20.106	3-18-0038-106		1,842,637
Mount Comfort	20.106	3-18-0037-08		1,986,721
	20.106	3-18-0037-10		131,689
Eagle Creek Airpark	20.106	3-18-0039-13		450,000
	20.106	3-18-0039-14		472,918
	20.106	3-18-0039-15		140,226
Hendricks County	20.106	3-18-0093-10		172,463
Indianapolis Downtown Heliport	20.106	3-18-0118-07		476,168
FAA Explosives Detection Canine Team Program	20.XXX	DTSA20-03-H-01016		200,500
U. S. Department of Homeland Security				
Transportation Security Administration	97.090	DTSA20-03-P-01503		1,799,408
	97.XXX	OTA-HSTS04-07-ACTO074		-
	97.XXX	HSTS04-08-H-CT-7024		2,428,638
State of Indiana - Department of Transportation,				
Aeronautics Section				
Mt. Comfort			437008	7,895
			437009	8,158
Eagle Creek Airpark			439013	25,000
			439014	12,445
			439015	3,690
			493010	4,539
			118-07	12,531
Habitat Conservation Plan				520,290
City of Indianapolis				
IMC				

Grant Reimbursements		Grant Reimbursements	
Receivable at	Receipts/	Disbursements/	Receivable at
Beginning of Year	Credits	Expenditures	End of Year
\$ 2,150,342	\$ 1,272,535	\$ 2,324,805	\$ 3,202,612
181,251	76,927	-	104,324
3,242,553	884,891	175,773	2,533,435
8,491,818	8,491,818	-	-
119,967	244,373	157,994	33,588
645,362	643,629	4,858	6,591
-	3,378,903	12,500,000	9,121,097
-	-	1,302,616	1,302,616
20,335	20,335	-	-
17,311	17,310	1,352	1,353
-	-	-	-
438,234	472,918	34,684	-
124,113	140,226	16,113	-
90,085	118,588	53,309	24,806
432,112	437,176	44,056	38,992
64,291	200,500	189,689	53,480
236,398	858,188	858,188	236,398
813,346	849,834	36,488	-
-	-	843,032	843,032
3,704	-	-	3,704
2,390	2,390	-	-
606	-	-	606
-	-	12,445	12,445
-	-	3,690	3,690
-	-	3,745	3,745
-	-	12,531	12,531
-	77,080	77,080	-
-	63,048	63,048	-
-	1,554	1,554	-
\$ 17,074,218	\$ 18,252,223	\$ 18,717,050	\$ 17,539,045

Indianapolis Airport Authority
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2008

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	3-18-0038-96	\$ 2,324,805
	20.106	3-18-0038-101	175,773
	20.106	3-18-0038-102	-
	20.106	3-18-0038-103	157,994
	20.106	3-18-0038-104	4,858
	20.106	3-18-0038-105	12,500,000
	20.106	3-18-0038-106	1,302,616
Mount Comfort	20.106	3-18-0037-10	1,352
Eagle Creek Airpark	20.106	3-18-0039-14	34,684
	20.106	3-18-0039-15	16,113
Hendricks County	20.106	3-18-0093-10	53,309
Indianapolis Downtown Heliport	20.106	3-18-0118-07	44,056
Subtotal - AIP			<u>16,615,560</u>
FAA Explosives Detection Canine Team Program	20.XXX	DTSA20-03-H-01016	189,689
U. S. Department of Homeland Security Law Enforcement Officer Reimbursement Agreement Program	97.090	DTSA20-03-P-01503	858,188
Perimeter Security Program	97.XXX	OTA-HSTS04-07-ACTO074	36,488
Closed-Circuit Television Camera Program	97.XXX	HSTS04-08-H-CT-7024	843,032
Grand Total			<u><u>\$ 18,542,957</u></u>

Indianapolis Airport Authority
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2008

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, 2008

Revenues	Date Approved	Amount Approved For Use	Cumulative Total - December 31, 2007	Quarter Ended				Year Ended December 31, 2008	Cumulative Total - December 31, 2008
				March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008		
Passenger facility charge revenues received			\$ 183,550,306	\$ 4,069,237	\$ 4,697,503	\$ 4,220,056	\$ 3,761,328	\$ 16,748,124	\$ 200,298,430
Interest earned			4,370,610	250,886	169,977	161,055	79,549	661,467	5,032,077
Total passenger facility charge revenue received			<u>\$ 187,920,916</u>	<u>\$ 4,320,123</u>	<u>\$ 4,867,480</u>	<u>\$ 4,381,111</u>	<u>\$ 3,840,877</u>	<u>\$ 17,409,591</u>	<u>\$ 205,330,507</u>
Expenditures									
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	75,341,421	-	6,622,194	-	17,504,511	24,126,705	99,468,126
Total passenger facility charge revenue expended		<u>\$ 524,907,606</u>	<u>\$ 156,167,320</u>	<u>\$ -</u>	<u>\$ 6,622,194</u>	<u>\$ -</u>	<u>\$ 17,504,511</u>	<u>\$ 24,126,705</u>	<u>\$ 180,294,025</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 Accountants' 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 Members of the Board of
Indianapolis Airport Authority

We have audited the financial statements of Indianapolis Airport Authority (Authority) as of and for the year ended December 31, 2008, and have issued our report thereon dated April 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we have reported to the Organization's management in a separate letter dated April 6, 2009.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board, management and others within the Authority, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Indianapolis, Indiana
April 6, 2009

Independent Accountants' Report on Compliance and Internal Control Over Compliance With Requirements Applicable to Major Federal Awards Programs

To Members of the Board of
Indianapolis Airport Authority

Compliance

We have audited the compliance of Indianapolis Airport Authority (Authority) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the compliance of the Authority based on our audit.

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. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, Indianapolis Airport Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Indianapolis Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Indianapolis, Indiana
April 6, 2009

Independent Accountants' Report on Compliance With Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance

To Members of the Board of
Indianapolis Airport Authority

Compliance

We have audited the compliance of Indianapolis Airport Authority (Authority) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended December 31, 2008. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Indianapolis Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a compliance requirement of the passenger facility charge program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer the passenger facility charge program such that there is more than a remote likelihood that noncompliance with a compliance requirement of the passenger facility charge program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a compliance requirement of the passenger facility charge program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

BKO, LLP

Indianapolis, Indiana
April 6, 2009

Indianapolis Airport Authority

Schedule of Findings and Questioned Costs

Year Ended December 31, 2008

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report on the basic financial statements was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
 Significant deficiency(ies) noted considered material weakness(es)?

☐ Yes ☒ No

 Significant deficiency(ies) noted that are not considered to be a material weakness?

☒ Yes ☐ No

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

☐ Yes ☒ No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiency(ies) noted considered material weakness(es)?

☐ Yes ☒ No

 Significant deficiency(ies) noted that are not considered to be a material weakness?

☐ Yes ☒ No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

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

☐ Yes ☒ No

7. The Authority's major programs were:

Cluster/Program	CFDA Number
Airport Improvement Program	20.106
Department of Homeland Security - Closed-Circuit Television Camera Program	97.XXX

Indianapolis Airport Authority
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2008

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$556,289.
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, 2008

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
08-1	Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition: Over the course of the audit, we encountered the need to propose audit adjustments affecting the prior year that resulted in deficiencies in internal control relative to the following financial statement line items: • Capital assets, as they pertain to lessee-financed improvements • Bond issue and loan administration costs • Grants receivable Context: Timely and accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties. Cause: The errors appear to be primarily attributable to a breakdown in the secondary review process for year-end journal entries and account reconciliations relating to prior period financial statements. Effect: Potential misstatements in the financial statements could occur and not be detected and/or corrected in a timely manner. Recommendation: We recommend continued diligence in the secondary review of year-end journal entries and account reconciliations to ensure the propriety of year-end account balances. Views of Responsible Officials and Planned Corrective Action: Turnover in key Finance personnel occurred in late 2007 and resulted in re-allocation of work among staff and hiring/training of new staff. As a result, significant processes and controls have been documented and training implemented. Controls and review processes in place in 2008 enabled Finance staff to discover and correct these prior year errors. Finance staff will continue their diligence in the review of year-end journal entries and account reconciliations to ensure the propriety of year-end account balances.

Indianapolis Airport Authority
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2008

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Indianapolis Airport Authority
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2008

Reference Number	Summary of Finding	Status
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No matters are reportable.

Indianapolis Airport Authority

Passenger Facility Charge Audit Summary

Year Ended December 31, 2008

Summary of Auditor's Results

- | | | |
|--|---|---|
| 1. Type of report issued on PFC financial statements. | ☒ Unqualified | ☐ Qualified |
| 2. Type of report on PFC compliance. | ☒ Unqualified | ☐ Qualified |
| 3. Quarterly Revenue and Disbursements reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts. | ☒ Yes | ☐ No |
| 4. PFC Revenue and Interest is accurately reported on FAA Form 5100-127. | ☒ Yes | ☐ No |
| 5. The Public Agency maintains a separate financial accounting record for each application. | ☒ Yes | ☐ 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. | ☒ Yes | ☐ No |
| 7. Monthly carrier receipts were reconciled with quarterly carrier reports. | ☒ Yes | ☐ No |
| 8. PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds. | ☒ Yes | ☐ No |
| 9. Serving carriers were notified of PFC program actions/changes approved by the FAA. | ☒ Yes | ☐ No |
| 10. Quarterly Reports were transmitted (or available via website) to remitting carriers. | ☒ Yes | ☐ No |
| 11. The Public Agency is in compliance with Assurances 5, 6, 7 and 8. | ☒ Yes | ☐ No |
| 12. Project design and implementation is carried out in accordance with Assurance 9. | ☒ Yes | ☐ No |
| 13. Program administration is carried out in accordance with Assurance 10. | ☒ Yes | ☐ 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. | ☐ Yes | ☐ No ☒ N/A |