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August 17, 2018

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

We have reviewed the audit report prepared by BKD LLP, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Indianapolis Airport Authority as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

Indianapolis Airport Authority

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

Indianapolis Airport Authority

December 31, 2017 and 2016

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Indianapolis Airport Authority (Authority), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, including the Schedule of Expenditures of Federal Awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Schedule of Passenger Facility Charge Revenues and Expenditures and the Schedule of Governmental Awards, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and the Schedule of Governmental Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Schedule of Governmental Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Governmental Awards has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
April 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017
(Unaudited)

The following discussion and analysis of the financial performance and activity of the Indianapolis Airport Authority (Authority) is to provide an introduction and overview that users need to interpret the financial statements of the Authority as of and for the years ended December 31, 2017 and 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Authority Powers and Purposes

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

The operations of the Authority depend heavily on revenues received from airlines serving Indianapolis International Airport. Airlines are given the option to sign an Agreement and Lease of Premises (Airline Agreement), which sets forth rates and charges for use of Authority assets and which utilizes a residual rate-making methodology. The residual nature of the Airline Agreement essentially requires the airlines to assume certain financial risks to guarantee the Airport has sufficient revenue to cover all operating and capital borrowing costs. In return, the Authority has less autonomy over capital asset development decisions in that the airlines must approve certain proposed capital improvement projects at the Airport. As of December 31, 2017, six passenger carriers and two cargo carriers represent the Signatory Airlines.

The Authority and the Signatory Airlines negotiated a new Airline Agreement in 2015. This new Airline Agreement was approved by the Authority Board and is effective from January 1, 2016 through December 31, 2018. Subsequent to December 31, 2017, the Authority entered into negotiations for a new Airline Agreement. Airlines that sign the Airline Agreement are subject to favorable Signatory rates, as opposed to the Authority's Non-Signatory rates.

Airport Operations Activity and Financial Highlights

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Enplaned passengers ⁽¹⁾	4,376,432	4,239,828	3.2%
Landed weight (1,000 lb. units)			
Passenger airlines	5,134,085	5,088,062	0.9%
Cargo airlines	<u>5,139,115</u>	<u>5,334,670</u>	<u>-3.7%</u>
Total landed weights	<u><u>10,273,200</u></u>	<u><u>10,422,732</u></u>	<u><u>-1.4%</u></u>
Aircraft operations	160,049	162,211	-1.3%

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

Airport Operations Activity

In 2017, the number of enplaned passengers was 3.2% higher than 2016. The increase from 2016 is attributed to the continued strength of the local and domestic economy, low fuel prices, and increased capacity to new markets from both new and existing carriers. As in 2016, the robust job market and competitive airfares continued to increase air travel demand in both the business and leisure markets; meanwhile, fuel prices remained low allowing carriers to sustain low fares and consider new routes from medium sized airports.

New nonstop destinations that were announced or started in 2017 at Indianapolis International Airport (IND) include:

- Alaska Airlines to Seattle, Washington (SEA) annually beginning May 11, 2017
- Allegiant Air to Austin, Texas (AUS) annually beginning May 19, 2017
- Allegiant Air to Destin Fort-Walton (VSP) seasonal beginning on May 26, 2017 to July 28, 2017
- Southwest Airlines to San Diego, California (SAN) seasonal daily from June 4 to Sept 4, 2017
- Frontier Airlines to Las Vegas, Nevada (LAS) annually beginning July 16, 2017
- United Airlines added second San Francisco, California (SFO) daily on August 15, 2017
- Alaska Airlines added San Francisco, California (SFO) daily beginning September 26, 2017
- Frontier Airlines to Tampa, Florida (TPA) seasonal beginning November 12, 2017
- Allegiant Air to Phoenix, Arizona (AZA) seasonal beginning Nov 17, 2017 through winter season
- Southwest Airlines to Cancun, Mexico (CUN) seasonal beginning March 10, 2018
- Southwest to Austin, Texas (AUS) annually beginning April 8, 2018
- Delta Air Lines to Paris, France (CDG) annually beginning May 24, 2018
- Southwest Airlines to Oakland, California (OAK) annually beginning July 15, 2018
- In addition to the above service, Delta extended nonstop service to Salt Lake City, Utah (SLC) from seasonal to year-round service.

Passenger airlines accounted for approximately 50% of total landed weight at Indianapolis International Airport (IND) in 2017, 49% in prior year; cargo airlines accounted for the other 50% during 2017 and 51% in 2016. Passenger airline landed weights increased by 0.9% in 2017 from prior year; cargo airline landed weight decreased 3.7% from prior year. The increase in passenger landed weights is a result of the mentioned market factors and is explained further in the Economic Factors section. FedEx continued to represent the majority of the cargo landed weights in 2017. The decrease in cargo landed weights can be attributed to lower volumes with a 2.5% decrease in cargo tons, as well as a reduction in landed weights due to efficiencies implemented by FedEx as they continue to modernize their aircraft fleet and improve their global network.

Aircraft operations represent landings and takeoffs for air carrier (passenger and cargo), air taxi and commuter, general aviation and military operations. This activity decreased 1.3% over the prior year, however, seat capacity over 2016 increased. This is a result of passenger airlines replacing smaller aircraft used for more frequent operations with bigger aircraft on a less frequent basis.

Financial Highlights

- The Authority experienced a decrease in total assets and deferred outflows of resources of \$64.0 million during 2017. This decrease can be attributed to a number of changes in the statement of net position, including the normal decrease in capital assets due to depreciation and a decrease in the fair value of the Authority's derivative instruments.
- Total liabilities decreased \$62.6 million in 2017. This change is primarily attributable to the reduction of bonds payable and other debt.
- The 2017 decrease in net position was \$0.9 million compared to an increase of \$10.7 million for 2016. 2017 resulted in a loss from operations of \$14.3 million, which is an \$11.6 million increase in the loss from operations of \$2.8 million in 2016. 2017 net nonoperating revenues (expenses) of \$5.2 million increased \$6.9 million from prior year driven by decreases in loss on disposal of assets and interest expense, offset by a decrease in state and local appropriations. Capital contributions and grants decreased \$6.9 million to \$8.3 million in 2017 compared to \$15.2 million in the prior year, primarily due to a decrease in federal and state grants.

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

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

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

Statements of Net Position

The Statements of Net Position present the financial position of the Authority at the end of the fiscal year and include all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Authority. The net position of the Authority represents the difference between total assets plus deferred outflows of resources, and total liabilities plus deferred inflows of resources and is an indicator of the current net value of the Authority. A summarized comparison of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at December 31, 2017, 2016 and 2015 follows:

	2017	2016	2015
	(Table Amounts in Thousands)		
Current assets - unrestricted	\$ 27,006	\$ 34,760	\$ 28,660
Current assets - restricted	50,078	43,001	53,855
Noncurrent assets			
Capital assets, net	1,757,719	1,821,200	1,889,782
Other noncurrent assets	242,192	231,965	220,663
Total assets	<u>2,076,995</u>	<u>2,130,926</u>	<u>2,192,960</u>
Deferred outflows of resources	<u>46,196</u>	<u>56,270</u>	<u>71,988</u>
Total assets and deferred outflows of resources	<u>\$ 2,123,191</u>	<u>\$ 2,187,196</u>	<u>\$ 2,264,948</u>
Current liabilities - payable from unrestricted	\$ 12,043	\$ 10,028	\$ 11,319
Current liabilities - payable from restricted	91,155	75,384	82,086
Noncurrent liabilities - payable from restricted	946,707	1,027,055	1,105,607
Total liabilities	<u>1,049,905</u>	<u>1,112,467</u>	<u>1,199,012</u>
Deferred inflows of resources	<u>14,593</u>	<u>15,172</u>	<u>17,071</u>
Net position			
Net investment in capital assets	835,366	845,491	850,120
Restricted	160,085	143,563	121,423
Unrestricted	63,242	70,503	77,322
Total net position	<u>1,058,693</u>	<u>1,059,557</u>	<u>1,048,865</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,123,191</u>	<u>\$ 2,187,196</u>	<u>\$ 2,264,948</u>

2017 to 2016 Comparative Statements of Net Position

Unrestricted current assets decreased \$7.8 million, which is attributable to decreases in cash and cash equivalents of \$2.2 million and grants receivable of \$5.7 million. The increase in restricted current assets of \$7.1 million reflects a \$7.9 million increase in restricted cash and cash equivalents.

Total noncurrent assets decreased by \$53.3 million. This change is primarily attributable to a \$54.0 million decrease in depreciable capital assets, a \$9.5 million decrease in non-depreciable capital assets and a \$10.9 million increase in cash and cash equivalents and investment securities.

Total deferred outflows of resources decreased by \$10.1 million, the result of a decrease in the amortization of deferred losses on the refunding of bonds of \$2.5 million and a decrease in the accumulated changes in fair values of hedging derivative instruments of \$7.6 million.

Total current liabilities increased by \$17.8 million primarily driven by an increase of \$16.0 million in the current portion of debt. Total noncurrent liabilities decreased \$80.3 million, attributable to a \$72.6 million decrease in bonds payable and other debt.

2016 to 2015 Comparative Statements of Net Position

Unrestricted current assets increased \$6.1 million, which is primarily attributable to an increase in cash and cash equivalents of \$5.3 million. The decrease in restricted current assets of \$10.9 million reflects a \$9.8 million decrease in restricted cash and cash equivalents.

Total noncurrent assets decreased by \$57.5 million. This change is primarily attributable to a \$74.6 million decrease in depreciable capital assets, a \$6.0 million increase in non-depreciable capital assets and an \$8.9 million increase in investments.

Total deferred outflows of resources decreased by \$15.7 million, the result of a decrease in the amortization of deferred losses on the refunding of bonds of \$5.4 million and a decrease in the accumulated changes in fair values of hedging derivative instruments of \$10.3 million.

Total current liabilities decreased by \$8.0 million driven by a decrease of \$5.9 million in the current portion of debt and a \$3.2 million decrease in accounts payable. Total noncurrent liabilities decreased \$78.7 million, attributable to a decrease in bonds payable and other debt.

2017 to 2016 Comparative Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position reflect the operating activity of the Authority for the year using the accrual basis of accounting, similar to private sector companies. The change in net position for the years ended December 31, 2017 and 2016 was a decrease of \$.9 million and an increase \$10.7 million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Position for 2017 and 2016.

	2017	2016	\$ Variance	% Variance
	(Table Amounts in Thousands)			
Total operating revenues	\$ 153,260	\$ 158,248	\$ (4,988)	-3.2%
Total nonoperating revenues	46,997	56,787	(9,790)	-17.2%
Total revenues	<u>200,257</u>	<u>215,035</u>	<u>(14,778)</u>	<u>-6.9%</u>
Total operating expenses	167,609	161,037	6,572	4.1%
Net nonoperating expenses	41,838	58,541	(16,703)	-28.5%
Total expenses	<u>209,447</u>	<u>219,578</u>	<u>(10,131)</u>	<u>-4.6%</u>
Loss Before Capital Contributions and Grants	(9,190)	(4,543)	(4,647)	102.3%
Capital Contributions and Grants	8,326	15,235	(6,909)	-45.3%
Increase (Decrease) in Net Position	(864)	10,692	(11,556)	-108.1%
Net Position, Beginning of Year	<u>1,059,557</u>	<u>1,048,865</u>	<u>10,692</u>	<u>1.0%</u>
Net Position, End of Year	<u>\$ 1,058,693</u>	<u>\$ 1,059,557</u>	<u>\$ (864)</u>	<u>-0.1%</u>

Operating revenue in 2017 decreased \$5.0 million, or 3.2% from prior year attributable to the following components:

- *Airfield revenue* in 2017 of \$21.7 million decreased from prior year by \$2.0 million or 8.4%. Total landed weights decreased a net 1.4% from prior year as passenger carriers increased 0.9% and cargo carriers decreased 3.7%. The 2017 Signatory landing fee rate decreased to \$1.70 from \$1.95 in 2016. The 2017 Non-signatory landing fee rate decreased to \$2.55, as compared to the 2016 rate of \$2.93.
- *Terminal complex revenues* of \$53.2 million decreased \$4.3 million or 7.4% from prior year. Airline terminal rental rates decreased in 2017 to \$98.22 per square foot compared to the prior year rate of \$114.09 per square foot. Automobile rental commissions were higher than prior year by \$0.2 million or 1.9% driven by an increase in enplaned passengers of 3.2%.
- *Parking revenues* increased from prior year by \$0.2 million or 0.4%, resulting in \$50.8 million in 2017 parking revenue. Even though enplaned passengers increased 3.2%, this was offset by product mix differences and an increase in the transportation network company (TNC) market share.
- *Revenues from rented buildings and other* of \$16.6 million increased by \$0.2 million or 1.1%. The increase is attributable to various new and renegotiated building rentals.
- *Revenues from Indianapolis Maintenance Center (IMC)* of \$8.1 million increased by \$0.9 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 relates to higher hangar bay utilization.

Nonoperating revenues in 2017 of \$47.0 million decreased from prior year by \$9.8 million or 17.2% attributable to the following components:

- *State and local appropriations* of \$16.8 million decreased \$10.6 million or 38.8%. This relates to capital leases with the State of Indiana and the City of Indianapolis for the IMC and one of the related bonds matured on December 31, 2016.
- *Passenger facility charges (PFC) income* of \$17.7 million increased \$0.5 million or 3.0%. This increase is due to an increase in passenger numbers and ticket sales as PFC revenues are earned when tickets are sold.
- *Investment income* of \$4.7 million increased \$0.5 million or 11%. Increase was primarily attributable to higher earnings on securities in the Authority's investment portfolio.

Operating expenses (before depreciation) for the years ended December 31, 2017 and 2016 totaled \$73.5 million and \$67.2 million, respectively, an increase of \$6.3 million or 9.4%. The following analysis provides material operating expense changes by both operating expense class and operating expense business area.

- *Operating expenses by class* (before depreciation): Total *personal services expense* increased 10.0% or \$2.8 million to \$31.1 million attributable to annual merit increases, salary market rate adjustments and higher health insurance expense claims. Total *contractual services expense* increased 13.9% or \$3.1 million to \$25.1 million due to various strategic initiatives to maintain and preserve the Authority's assets including baggage system and pavement repairs; grounds maintenance/tree removal; LED lighting upgrades in terminal, garage and on airfields; material storage building and fuel farm repairs at reliever airports. Total *utilities expense* of \$8.7 million decreased by \$0.5 million or 5.6% primarily driven by lower sewer charges relating to glycol processing. Total *supplies expense* of \$4.1 million increased \$0.8 million or 22.8% relating to LED lighting replacement program in terminal and garage, airfield motor/garage supply parts and uniform safety upgrades. Total *materials expense* increased by \$0.4 million or 14.5% to \$3.2 million reflecting higher building materials, communication equipment replacements and signage. Total *general expense* of \$1.4 million decreased from prior year by \$0.2 million or 13.3% primarily due to the recovery of previously recognized bad debt expense in the prior year and lower insurance deductible costs.
- *Airfield expenses* (before depreciation) of \$9.1 million was flat with prior year. Current year expenses include annual merit and salary market rate adjustments and increased health insurance; higher pavement repairs, grounds maintenance, motor/garage supply parts, signage, and LED lighting replacements; offset by a decrease in professional fees related to environmental testing and audits, and lower snow & ice chemical and sewage costs for glycol processing due to milder weather.
- *Terminal complex expenses* (before depreciation) of \$17.2 million increased \$1.7 million, or 10.8% from the prior year. Increase is attributable to annual merit and salary market rate adjustments and increased health insurance; grounds maintenance; baggage system maintenance expenses; LED lighting replacements in terminal; tandem sling chairs in concourses; terminal door automatic operators; accessibility upgrades; uniform safety upgrades; and administrative office remodels.
- *Parking expenses* (before depreciation) of \$8.4 million increased \$0.5 million, or 6.1% from the prior year. Increase is due to annual merit and salary market rate adjustments and increased health insurance; grounds maintenance; LED lighting replacement program in garage; and motor/garage supply parts for buses; offset by a decrease in elevator/escalator repairs and contracted snow removal fees.

- *Rented buildings and other expenses* (before depreciation) of \$2.1 increased \$0.1 million, or 6.1% from prior year. Current year reflects an increase in grounds maintenance/tree removal costs and pavement repairs; offset by lower professional fees related to the implementation of a land use and sale program as well as insurance deductible costs for roof repairs in prior year.
- *Indianapolis Maintenance Center (IMC) expenses* (before depreciation) of \$7.1 million increased \$0.3 million, or 4.0%, primarily due to pavement repairs; grounds maintenance; Central Energy Plant chilled water system repairs; and an increase in software/hardware maintenance; offset by lower roof and door repairs than prior year.
- *Reliever airports expenses* (before depreciation) of \$2.7 million increased \$1.2 million, or 77.4% from prior year. Current year expenses included pavement repairs; storm drain repairs; LED lighting upgrades; material storage building and fuel farm repairs.
- *Public safety expenses* (before depreciation) of \$11.6 million increased \$1.0 million, or 9.0% from prior year. Variance includes annual merit and salary market rate adjustments and increased health insurance; LED lighting replacements, building and pavement repairs at both fire stations; fire and police uniform safety upgrades; and security communication equipment upgrades and replacements.
- *Administration costs* (before depreciation) of \$15.3 million increased by \$1.7 million, or 12.3% from prior year. Variance of the result of annual merit increases and increased health insurance, and an increase in professional fees related to staff augmentation.

Net Nonoperating expenses for the years ended December 31, 2017 and 2016 totaled \$41.8 million and \$58.5 million, respectively, a decrease of \$16.7 million or 28.5%. The current year activity includes a decrease in interest expense and in loss on disposals of capital assets and other.

- *Interest expense* of \$38.1 million decreased \$7.7 million over the prior year, or 16.9%; a net effect of various increases and decreases of interest expense over the year. There was interest expense savings of \$3.1 million from the 2016A-1 and A-2 Bonds refunding transaction savings of \$0.3 million on pass-through debt-related interest expense, savings of \$1.8 million from lower interest costs on the 2010C Bonds, and a reduction of \$1.3 million in bond-related costs. The remaining decline is due to the amortization of principal outstanding and the corresponding reduction in interest expense.
- *Loss on disposals of capital assets and other* of \$(3.7) million decreased \$9.0 million over the prior year. The current year net loss is comprised of \$(4.2) million loss on land sales, \$(1.4) million for demolition costs on various projects, \$1.5 million insurance claim reimbursements, \$0.2 million proceeds from public auction, and \$0.2 million proceeds from a municipal derivatives settlement payment.

Capital contributions and grants of \$8.3 million decreased \$6.9 million compared to prior year. Current year represents lower contributions from leased property tenant improvements and a decrease in federal and state grant revenues due to timing of completion of projects and related funding received.

2016 to 2015 Comparative Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position reflect the operating activity of the Authority for the year using the accrual basis of accounting, similar to private sector companies. The change in net position for the years ended December 31, 2016 and 2015 was \$10.7 million and \$4.7 million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Position for 2016 and 2015.

	2016	2015	\$ Variance	% Variance
(Table Amounts in Thousands)				
Total operating revenues	\$ 158,248	\$ 147,957	\$ 10,291	7.0%
Total nonoperating revenues	56,787	56,840	(53)	-0.1%
Total revenues	<u>215,035</u>	<u>204,797</u>	<u>10,238</u>	<u>5.0%</u>
Total operating expenses	161,037	156,492	4,545	2.9%
Net nonoperating expenses	58,541	62,469	(3,928)	-6.3%
Total expenses	<u>219,578</u>	<u>218,961</u>	<u>617</u>	<u>0.3%</u>
Loss Before Capital Contributions and Grants	(4,543)	(14,164)	9,621	-67.9%
Capital Contributions and Grants	<u>15,235</u>	<u>18,841</u>	<u>(3,606)</u>	<u>-19.1%</u>
Increase in Net Position	10,692	4,677	6,015	128.6%
Net Position, Beginning of Year	<u>1,048,865</u>	<u>1,044,188</u>	<u>4,677</u>	<u>0.4%</u>
Net Position, End of Year	<u>\$ 1,059,557</u>	<u>\$ 1,048,865</u>	<u>\$ 10,692</u>	<u>1.0%</u>

Operating revenue in 2016 increased \$10.3 million, or 7.0% from prior year. This represents increases in activity-based revenues along with applicable rental rate adjustments reflected in airfield, terminal complex, parking revenues, and rented buildings/other. This was offset by lower operating expense reimbursements related to the Indianapolis Maintenance Center.

- *Airfield revenue* in 2016 of \$23.7 million increased from prior year by \$1.2 million or 5.3%. Total landed weights increased a net 4.1% from prior year as passenger carriers increased 8.8% and cargo carriers remained flat. The 2016 Signatory landing fee rate increased 1.6% to \$1.95 from \$1.92 in 2015. The 2016 Non-signatory landing fee rate increased to \$2.93, as compared to the 2015 rate of \$2.88.
- *Terminal complex revenues* of \$57.5 million increased \$6.7 million or 13.2% from prior year. Airline terminal rental rates increased in 2016 to \$114.09 per square foot compared to the prior year rate of \$95.11 per square foot. Concessionaire revenues were greater than prior year by \$0.6 million or 7.4% and automobile rental commissions were higher than prior year by \$0.4 million or 4.3% driven by an increase in enplaned passengers of 5.8%.
- *Parking revenues* increased from prior year by \$3.5 million or 7.5%, resulting in \$50.6 million in 2016 parking revenue. Year-to-date enplaned passengers exceeded prior year by 5.8%, as well as product mix differences.
- *Revenues from rented buildings and other* of \$16.4 million increased by \$0.4 million or 2.3%. The increase is attributable to various new and renegotiated building rentals.
- *Revenues from Indianapolis Maintenance Center (IMC)* of \$7.2 million decreased by \$1.4 million or 16.6%. This represents revenues due the Authority for reimbursement of eligible expenditures under the terms of the Settlement Agreement reached between the Authority and the trustee for the special facility revenue bonds the Authority had previously issued on behalf of United Airlines. Decrease from prior year relates to lower hangar bay utilization.

Nonoperating revenues in 2016 of \$56.8 million was primarily flat with prior year. The current year activity includes an increase in passenger facility charges and customer facility charges offset by a decrease in investment income.

- *Passenger facility charges (PFC) income* of \$17.2 million increased \$1.3 million or 8.3%. This increase is due to an increase in passenger numbers and ticket sales as PFC revenues are earned when tickets are sold.
- *Customer facility charges (rental cars) (CFC) income* of \$7.3 million increased \$0.6 million or 8.7%. Increase is due to higher passenger enplanements and an increased number of transactions.
- *Investment income* of \$4.2 million decreased \$2.4 million. Decrease was primarily attributable to a decrease in the basis swap market valuation of \$1.9 million. Additionally, \$0.9 million was received as a partial termination payment of the 2016 debt service reserve investment forward delivery agreement triggered by the 2016 refunding revenue bond transaction. Whereas in 2015, \$1.5 million was received as a partial termination payment of the 2015 debt service reserve investment forward delivery agreement triggered by the 2015 refunding revenue bond transaction.

Operating expenses (before depreciation) for the years ended December 31, 2016 and 2015 totaled \$67.2 million and \$62.4 million, respectively, an increase of \$4.8 million or 7.8%. The following analysis explores material operating expense change by both operating expense classes and operating expenses business area.

- *Operating expenses by class* (before depreciation): Total *personal services expense* increased 2.9% or \$0.8 million to \$28.2 million primarily due to annual merit increases. Total *contractual services expense* increased 15.7% or \$3.0 million to \$22.0 million due to higher professional fees relating to implementation of a land use and sale program, as well as greater outsourced maintenance services relating to elevator/escalator, terminal roof cleaning, terminal electrical substation maintenance and parking garage and lot re-striping. Total *utilities expense* of \$9.2 million increased by \$0.4 million or 4.2% driven by higher electricity, water & sewer rates, offset by lower natural gas usage and rates. Total *supplies expense* of \$3.3 million remained level with prior year. Total *materials expense* increased by \$0.3 million to \$2.8 million, which includes two replacement ground power units. Total *general expense* of \$1.6 million exceeded prior year by \$0.4 million primarily due to the recovery of previously recognized bad debt expense in the prior year.
- *Airfield expenses* (before depreciation) of \$9.1 million increased \$1.2 million, or 14.9% from the prior year. Variance attributable to greater professional fees related to environmental testing and audits, apron pavement repairs, increased sewage costs for glycol processing due to higher rates, and an increase in snow and ice chemical.
- *Terminal complex expenses* (before depreciation) of \$15.6 million increased \$0.1 million, or 0.6% from the prior year. Current year expenses included terminal roof cleaning and electrical substation maintenance that are offset by lower baggage system maintenance expenses.
- *Parking expenses* (before depreciation) of \$7.9 million increased \$0.3 million, or 4.3% from the prior year. Increase due to elevator/escalator repairs, parking garage and lot re-striping, grounds maintenance and parking garage expenses related to the quick turnaround road access control project.
- *Rented buildings and other expenses* (before depreciation) of \$2.0 million increased \$0.6 million or 40.8% from prior year. Current year reflects increases in professional fees related to the implementation of a land use and sale program as well as insurance deductible costs for roof repairs due to wind damage for an outlying building.

- *Indianapolis Maintenance Center (IMC) expenses* (before depreciation) of \$6.9 million increased \$0.2 million, or 2.1%, primarily due to roof and door repairs, and higher Central Energy Plant utilities with increases in electricity, water and sewer rates, offset by lower natural gas usage and rates.
- *Reliever airports expenses* (before depreciation) of \$1.5 million increased \$0.1 million, or 6.3% from prior year. Variance primarily related to pavement and building repairs at the Heliport.
- *Public safety expenses* (before depreciation) of \$10.6 million increased \$0.4 million, or 3.9% from prior year. Variance includes an increase in Personal Services attributable to annual merit increases, as well as expenses related to the disaster drill not done in prior year, security camera replacements and active shooter training costs.
- *Administration costs* (before depreciation) of \$13.6 million increased by \$2.0 million, or 17.4% from prior year. Variance is the result of normal annual merit increases and an increase in professional fees related to Planning and Development, Communications/Marketing and Human Resource initiatives. Prior year included a significant recovery of bad debt expense, which is also contributing to the variance.

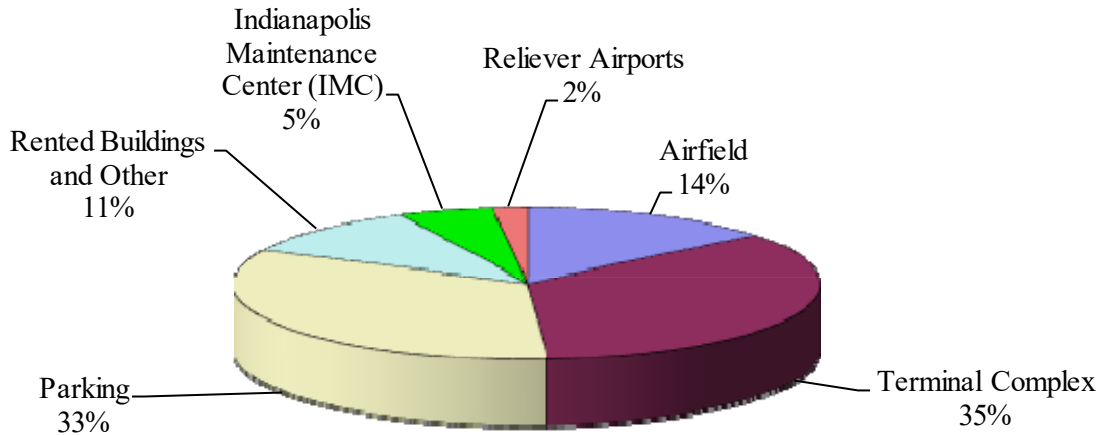
Net Nonoperating expenses for the years ended December 31, 2016 and 2015 totaled \$58.5 million and \$62.4 million, respectively, a decrease of \$3.9 million or 6.3%. The current year activity includes a decrease in interest expense and an increase in loss on disposals of capital assets and other.

- *Interest expense* of \$45.9 million decreased \$8.7 million over the prior year, or 15.9%; a net effect of various increases and decreases of interest expense over the year. The 2016 refunding transaction executed in late spring of 2016 had a net interest expense savings of \$3.3 million and lower costs of issuance of \$0.4 million. Additionally, there was interest expense savings of \$4.6 million from the 2015A Bonds refunding transaction executed in the fall of 2015, savings of \$0.5 million on pass-through debt related interest expense, and a reduction of \$0.9 million in bond related costs. These decreases were netted against higher interest costs on the 2010C Bonds of \$1.3 million from the partial swap termination payment in 2016. The remaining decline is due to the amortization of principal outstanding and the corresponding natural reduction in interest expense.
- *Gain (loss) on disposals of capital assets and other* of \$(12.6) million decreased \$4.8 million over the prior year. The current year loss is comprised of \$(4.2) million loss on land sales and \$(9.0) million for the demolition of the unit load structure at the Indianapolis Maintenance Center.

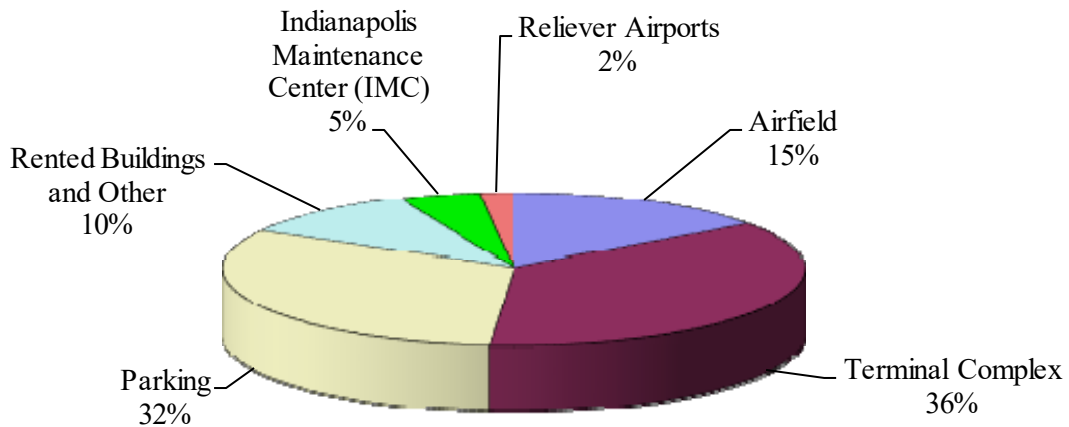
Capital contributions and grants of \$15.2 million decreased \$3.6 million compared to prior year. Current year represents higher contributions from leased property tenant improvements and a decrease in federal and state grant revenues due to timing of completion of projects and related funding received.

The following is a graphic illustration of operating revenues by source for the years ended December 31, 2017 and 2016:

Operating Revenues - 2017

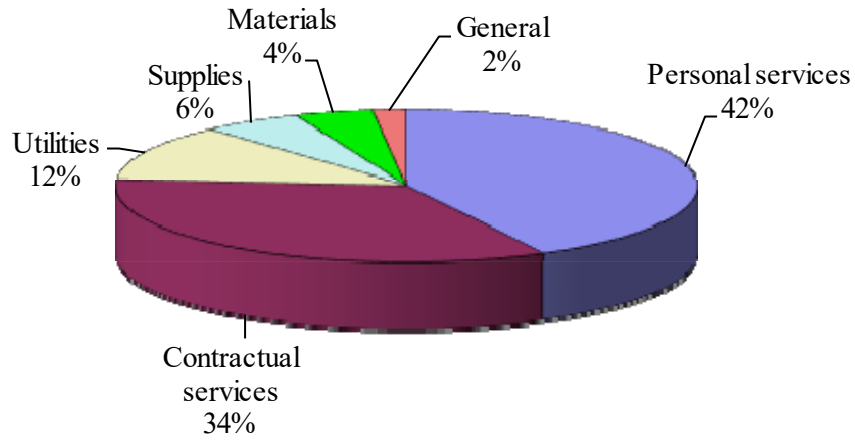


Operating Revenues - 2016

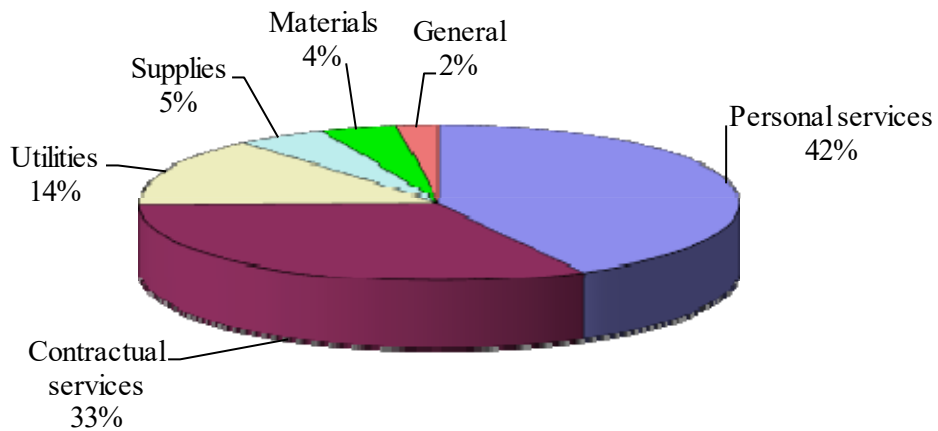


The following is a graphic illustration of the total operating expenses by source for the years ended December 31, 2017 and 2016 (excluding depreciation):

Operating Expenses (Excluding Depreciation) - 2017



Operating Expenses (Excluding Depreciation) - 2016



Capital Asset and Debt Administration

Capital Assets

During 2017, the Authority expended approximately \$34.6 million on capital assets. The capital expenditures related to multiple construction and equipment acquisition projects, the garage atrium canopy replacement, phase two of the rehabilitate Taxiway B, rehabilitate Taxiway H and lighting, and the purchase of four electric shuttle buses.

During 2017, completed projects totaling \$37.8 million were closed from construction-in-progress to their respective capital asset accounts. The more significant of these completed projects are as follows:

Garage Atrium Canopy Replacement	\$9.6 million
Rehabilitation Taxiway B - Phase 2	\$5.0 million
Rehabilitation Taxiway H - H1 and H2 and Replace Lighting	\$4.2 million
Shuttle Bus Replacement (Parking) - Electric Buses	\$3.9 million

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

Long-Term Debt

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

The Authority's Master Bond Ordinance enables it to adopt an ordinance or resolution irrevocably designating certain revenues as Dedicated Revenues (which may include, without limitation, PFC & CFC revenues, state and/or federal grants, or other identified revenues) to be used to pay debt service on Authority revenue bonds. Note 5 of the financial statements explains the details of ordinances adopted in 2014, 2015 and 2016.

As of December 31, 2017, the Authority had \$934 million in outstanding senior lien bonds and no outstanding subordinate securities. The Authority, through its Master Bond Ordinance, has a covenant to maintain a debt service coverage ratio of not less than 1.25 for senior lien debt. Debt service coverage is calculated based on a formula included in the Master Ordinance and the Airline Agreements. Historically, the Authority has maintained a coverage ratio higher than its requirement. During 2017 and 2016, respectively, the Authority's debt service coverage was 1.77 and 2.07 for senior lien debt.

Notes 5, 6, 7, 8 and 10 to the financial statements provide additional information regarding the Authority's debt activities.

Economic Factors

As noted earlier, IND experienced a 3.2% increase in the number of passenger enplanements over last year, resulting in total 2017 enplanements of 4,376,432. This is a record-breaking number that represents the most passenger enplanements in the history of IND. A strong economy, increased airline competition, low fuel prices, and competitive airfare pricing continue to support growth of IND's passenger traffic.

As a result of this passenger growth and the strength of the Indianapolis economy, carriers continue to invest in Indianapolis. Overall, IND added almost 40,000 seats to the market while airline seat miles (ASMs) increased over 4%, suggesting bigger aircraft are flying to further destinations.

Additional capacity resulted from increased frequency on existing routes, bigger aircraft, and new routes. In total, IND launched or announced 12 new flights in 2017. Five of the existing nine carriers added at least one new flight including Delta, Southwest, Frontier, Allegiant and United. In addition, IND welcomed Alaska Airlines with nonstop service to Seattle, WA. Just after entering the market in May 2017, Alaska Airlines started nonstop service to San Francisco International Airport as part of the Virgin America acquisition. American Airlines, One Jet, Vacation Express, and Air Canada all maintained connectivity levels or increased frequency to offer more seats in the IND market to select destinations.

IND is served by both major and national airlines operating at a majority of the domestic hubs. In addition, point-to-point service is provided to major business and leisure destinations, mainly in the Eastern and Central U.S., and improved coverage on the West coast. At year end, IND offered 49 nonstop destinations and over 500 one-stop destinations.

As a result of the strength of the Indianapolis passenger market, Allegiant Air has chosen Indianapolis for the newest airplane and crew base. Allegiant's thirteenth permanent base of operations opens with two Airbus aircraft and more than 80 locally based personnel. The Indianapolis base is expected to significantly boost Allegiant's economic impact in the state of Indiana. According to a recent study by Campbell-Hill Aviation, in 2016, Allegiant generated more than \$118 million in economic benefit to the state, bringing more than 68,000 new visitors and supporting more than 1,000 jobs.

Additionally, Delta announced in August 2018 that they will serve Indiana's first scheduled transatlantic flight from IND airport to Paris - Charles De Gaulle (CDG) airport beginning May 24, 2018. The new nonstop has an estimated \$50 million annual impact on Indiana's economy. Nonstop service to CDG will be year-round, with daily frequency in the summer and reduced frequency in the heavy winter months.

In addition to increased passenger activity, the IAA continues to benefit from sustained cargo operations, anchored by FedEx. IND's position as FedEx's second largest hub allows the airport to maintain high cargo landed weight levels. Landed weight fluctuations may continue at IND as FedEx continues to transition their equipment to a newer, lighter and more efficient fleet mix.

Looking Forward

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

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

As mentioned above, fuel costs and economic conditions have a significant effect on air travel and the transportation industry. The Authority cannot predict how future air travel, enplanements, or other variables relating to airport revenues may be impacted by various market factors.

Future passenger traffic may be impacted by the following:

- Load factors by carrier
- Average daily departures
- Scheduled seat capacity
- Average nonstop fares
- Average fares by market
- Airline communication
- Aircraft orders/retirements

Although it is not anticipated, the restructuring or liquidation of one or more of the large network airlines could also drastically affect airline service at many connecting hub airports. Additionally, present business opportunities for the remaining airlines, and evolving travel patterns throughout the U.S. aviation system will continue to play a role in how the industry performs.

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 Investor Relations, 7800 Col. H. Weir Cook Memorial Drive, Suite 100, Indianapolis, IN 46241-4941 or via email to INDir@indianapolisairport.com.

Indianapolis Airport Authority

Statements of Net Position December 31, 2017 and 2016

	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	\$ 15,879,279	\$ 18,084,676
Accounts receivable, net of allowance of \$79,000 and \$156,000, respectively	3,303,001	2,940,304
Unbilled revenues	4,129,580	4,734,031
Grants receivable	-	5,708,997
Supplies and materials inventories	1,734,328	1,516,058
Other	1,960,258	1,775,870
Total unrestricted current assets	27,006,446	34,759,936
Restricted Assets		
Cash and cash equivalents	42,577,741	34,638,339
Cash and cash equivalents - customer deposits	738,585	752,220
Receivable - passenger facility charges	1,949,993	1,749,435
Receivable - governments and other	3,745,292	4,093,283
Receivable - reimbursable IMC expenses	1,066,155	1,767,356
Total restricted current assets	50,077,766	43,000,633
Total current assets	77,084,212	77,760,569
Noncurrent Assets		
Cash and cash equivalents, restricted	74,482,934	78,898,203
Investment securities, unrestricted	47,357,550	44,741,552
Investment securities, restricted	104,837,509	92,122,788
Rent receivable	920,361	1,029,745
Derivative instruments - forward delivery purchase agreements	14,593,303	15,172,361
Nondepreciable capital assets	307,066,829	316,578,340
Depreciable capital assets, net	1,450,652,003	1,504,621,754
Total noncurrent assets	1,999,910,489	2,053,164,743
Total assets	2,076,994,701	2,130,925,312
Deferred Outflows of Resources		
Deferred loss on refunding of debt	27,186,832	29,671,973
Accumulated decrease in fair value of hedging derivatives	19,009,027	26,598,230
Total deferred outflows of resources	46,195,859	56,270,203
Total assets and deferred outflows of resources	\$ 2,123,190,560	\$ 2,187,195,515

	2017	2016
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Payable From Unrestricted Assets		
Accounts payable	\$ 5,535,360	\$ 4,879,632
Accrued and withheld items (including compensated absences)	5,707,045	5,148,615
Grants payable	800,322	-
Total current liabilities payable from unrestricted assets	<u>12,042,727</u>	<u>10,028,247</u>
Payable From Restricted Assets		
Accounts payable	9,728,508	9,188,649
Customer deposits payable	739,585	753,220
Current portion of debt	66,623,442	50,603,345
Accrued interest on debt	14,063,395	14,838,943
Total current liabilities payable from restricted assets	<u>91,154,930</u>	<u>75,384,157</u>
Total current liabilities	<u>103,197,657</u>	<u>85,412,404</u>
Noncurrent Liabilities		
Derivative instruments - interest rate swap agreements	66,652,775	74,241,978
Investment derivatives - basis swap agreements	-	196,621
Bonds payable and other debt, payable from restricted assets	880,054,408	952,616,451
Total noncurrent liabilities	<u>946,707,183</u>	<u>1,027,055,050</u>
Total liabilities	<u>1,049,904,840</u>	<u>1,112,467,454</u>
Deferred Inflows of Resources		
Accumulated increase in fair value of hedging derivatives	<u>14,593,303</u>	<u>15,172,361</u>
Net Position		
Net investment in capital assets	<u>835,365,921</u>	<u>845,490,019</u>
Restricted for		
Capital projects	77,711,116	75,676,933
Debt service	81,222,279	65,720,200
Other	1,151,471	2,165,562
Total restricted net position	<u>160,084,866</u>	<u>143,562,695</u>
Unrestricted	<u>63,241,630</u>	<u>70,502,986</u>
Total net position	<u>1,058,692,417</u>	<u>1,059,555,700</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,123,190,560</u>	<u>\$ 2,187,195,515</u>

Indianapolis Airport Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Airfield	\$ 21,745,673	\$ 23,749,133
Terminal complex	53,182,950	57,451,178
Parking	50,775,972	50,561,863
Rented buildings and other	16,567,445	16,382,134
Indianapolis Maintenance Center (IMC)	8,067,899	7,205,620
Reliever airports	2,919,794	2,896,773
Total operating revenues	<u>153,259,733</u>	<u>158,246,701</u>
Operating Expenses		
Personal services	31,055,972	28,244,122
Contractual services	25,086,231	22,018,423
Utilities	8,722,246	9,242,901
Supplies	4,104,131	3,343,328
Materials	3,196,458	2,792,128
General	1,369,000	1,578,871
Total operating expenses	<u>73,534,038</u>	<u>67,219,773</u>
Income From Operations Before Depreciation	79,725,695	91,026,928
Depreciation expense	<u>94,074,607</u>	<u>93,817,692</u>
Loss From Operations	<u>(14,348,912)</u>	<u>(2,790,764)</u>
Nonoperating Revenues (Expenses)		
State and local appropriations	16,751,310	27,376,059
Federal operating grants	595,315	674,745
Passenger facility charges	17,753,293	17,237,996
Customer facility charges (rental cars)	7,218,100	7,284,896
Investment income	4,678,810	4,213,687
Interest expense, net of \$329,919 and \$259,393 interest capitalized in 2017 and 2016, respectively	(38,137,899)	(45,883,264)
Loss on disposals of capital assets and other	<u>(3,699,660)</u>	<u>(12,657,346)</u>
	<u>5,159,269</u>	<u>(1,753,227)</u>
Decrease in Net Position Before Capital Contributions and Grants	<u>(9,189,643)</u>	<u>(4,543,991)</u>
Capital Contributions and Grants		
Federal, state and local grants	6,206,260	11,891,360
Contributions from lessees and other	2,120,100	3,344,081
	<u>8,326,360</u>	<u>15,235,441</u>
Increase (Decrease) in Net Position	(863,283)	10,691,450
Net Position, Beginning of Year	<u>1,059,555,700</u>	<u>1,048,864,250</u>
Net Position, End of Year	<u>\$ 1,058,692,417</u>	<u>\$ 1,059,555,700</u>

Indianapolis Airport Authority
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Cash receipts from customers and users	\$ 155,793,971	\$ 158,752,798
Cash payments to vendors for goods and services	(42,184,498)	(37,686,440)
Cash payments for employees services	(30,518,728)	(27,795,743)
Net cash provided by operating activities	83,090,745	93,270,615
Cash Flows From Noncapital Financing Activities		
Operating grants received	592,785	647,125
Customer facility charges received	7,218,100	7,284,896
Insurance recoveries	224,537	290,752
Net cash provided by noncapital financing activities	8,035,422	8,222,773
Cash Flows From Capital and Related Financing Activities		
Proceeds from issuance of revenue bonds	-	196,895,131
Principal paid on bonds	(34,845,000)	(237,700,000)
Bond issue costs paid	(282,869)	(1,202,239)
Interest paid	(40,911,029)	(44,637,190)
Acquisition and construction of capital assets	(34,643,185)	(40,119,452)
Demolition costs related to capital assets	(364,634)	(7,769)
Proceeds from sale of capital assets	4,348,834	796,363
Passenger facility charges received	17,552,735	17,103,518
Capital grants received	10,136,361	12,057,327
Net cash used in capital and related financing activities	(79,008,787)	(96,814,311)
Cash Flows From Investing Activities		
Purchase of investment securities	(334,758,662)	(294,555,905)
Proceeds from sales and maturities of investment securities	321,318,000	287,148,753
Interest received on investments and cash equivalents	2,628,383	3,602,633
Net cash used in investing activities	(10,812,279)	(3,804,519)
Net Increase in Cash and Cash Equivalents	1,305,101	874,558
Cash and Cash Equivalents, Beginning of Year	132,373,438	131,498,880
Cash and Cash Equivalents, End of Year	\$ 133,678,539	\$ 132,373,438

Indianapolis Airport Authority
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Loss From Operations to Net Cash Provided by Operating Activities		
Loss from operations	\$ (14,348,912)	\$ (2,790,764)
Item not requiring cash		
Depreciation of capital assets	94,074,607	93,817,692
Change in assets and liabilities		
Accounts receivable and unbilled revenues	2,534,238	506,097
Supplies and materials inventories	(218,270)	145,060
Other assets	(184,388)	2,003,707
Accounts payable	696,226	(859,556)
Accrued and withheld items	537,244	448,379
	\$ 83,090,745	\$ 93,270,615
Net cash provided by operating activities		
Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable at end of year	\$ 4,852,511	\$ 4,216,464
Capital assets contributed by lessees and other governments	2,120,100	1,392,748
State and local appropriations used to fund capital lease obligations and interest	17,062,403	27,252,477

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

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

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

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

Use of Estimates

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

Financial Reporting Entity

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

Basis of Accounting and Financial Reporting

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

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

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers.

Investment Securities

Investment securities are stated at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and repurchase agreements are carried at cost.

Investment income consists of interest and dividend income.

Unbilled Revenues

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

Inventories

Inventories consist of parts, supplies and materials. Inventories are stated cost, which is determined using the first-in, first-out (FIFO) method.

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, 2017 and 2016

Capital Assets

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

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

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

Donated capital assets are measured at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

Original Issue Premiums and Discount

Original issue premiums and 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.

Deferred Outflows of Resources

The Authority reports increases in net position that related to future periods as deferred outflows of resources in a separate section of its statements of net position.

Deferred Inflows of Resources

The Authority reports decreases in net position that related to future periods as deferred inflows of resources in a separate section of its statements of net position.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

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 when earned by the employee and the accrual is based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as grants, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state and local appropriations, facility charges and investment income.

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.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

Revenue and Expense and Net Position Recognition

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

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

Passenger Facility Charges

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

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

PFC's, which are recognized as earned, are included in nonoperating revenues and amounted to \$17,753,293 and \$17,237,996 for 2017 and 2016, respectively.

Customer Facility Charges (Rental Cars)

The Authority collects a customer facility charge (CFC) from all rental car concessionaires that operate facilities on the airport. The CFC, which started in 2007, was \$3.00 per rental car transaction per day, up to 14 days. The Authority increased this charge to \$4.00 per transaction in May 2010. Under the adopting ordinance, CFC's may be pledged or dedicated for the payment of airport bonds or other obligations, as defined by applicable bond documents, or other costs as agreed to by the Authority. CFC revenue totaled \$7,218,100 and \$7,284,896 for 2017 and 2016, respectively.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

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 \$920,361 and \$1,029,745 at December 31, 2017 and 2016, respectively. The current receivable will be recognized in full in 2034.

Income Taxes

As an instrumentality of the state, the income of the Authority is exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law.

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

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Investments

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

At December 31, 2017 and 2016, the Authority had the following investment securities and maturities:

	Rating	Total	December 31, 2017	
			Less Than 1 Year	1 - 5 Years
U.S. Treasury Security Notes	AA+/Aa1	\$ 130,797,979	\$ 49,445,583	\$ 81,352,396
U.S. Treasury Security Bills	A-1+/P-1	15,800,336	15,800,336	-
U.S. Government-sponsored enterprise securities				
Federal National Mortgage Association	AA+/Aa1	5,475,398	5,475,398	-
Federal Home Loan Mortgage Corporation	AA+/Aa1	1,348,839	1,348,839	-
Total U.S. Government- sponsored enterprise securities		6,824,237	6,824,237	-
Indiana municipal securities				
	AAA/Aaa	1,402,146	1,298,364	103,782
	AA+/Aa1	9,818,150	7,775,319	2,042,831
	AA/Aa2	1,893,382	1,168,292	725,090
	AA-/Aa3	559,382	251,240	308,142
	A+/A1	165,045	165,045	-
	A/A2	300,801	300,801	-
	BBB	511,586	511,586	-
Total Indiana municipal securities		14,650,492	11,470,647	3,179,845
Money market mutual funds				
	AAA/Aaa	84,240,286	84,240,286	-
	Not Rated	21,173,715	21,173,715	-
Total money market mutual funds		105,414,001	105,414,001	-
External investment pools	Not Rated	51,212	51,212	-
		\$ 273,538,257	\$ 189,006,016	\$ 84,532,241

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

	Rating	December 31, 2016		
		Total	Less Than 1 Year	1 - 5 Years
U.S. Treasury Security Notes	AA+/Aa1	\$ 105,841,689	\$ 62,515,413	\$ 43,326,276
U.S. Treasury Security Bills	A-1+/P-1	10,484,740	10,484,740	-
U.S. Government-sponsored enterprise securities				
Federal National Mortgage Association	AA+/Aa1	5,517,950	-	5,517,950
Federal Home Loan Mortgage Corporation	AA+/Aa1	4,456,965	3,108,720	1,348,245
Total U.S. Government- sponsored enterprise securities		<u>9,974,915</u>	<u>3,108,720</u>	<u>6,866,195</u>
Indiana municipal securities				
	AAA/Aaa	2,504,318	1,057,415	1,446,903
	AA+/Aa1	25,453,315	15,511,623	9,941,692
	AA/Aa2	2,348,136	403,966	1,944,170
	AA-/Aa3	777,190	204,708	572,482
	A+/A1	927,869	761,866	166,003
	A/A2	1,340,566	1,029,202	311,364
	A-/A3	608,683	608,683	-
	BBB+	999,816	999,816	-
	BBB	865,822	349,906	515,916
	Not Rated	2,088,312	2,088,312	-
Total Indiana municipal securities		<u>37,914,027</u>	<u>23,015,497</u>	<u>14,898,530</u>
Money market mutual funds				
	AAA/Aaa	66,778,855	66,778,855	-
	Not Rated	25,628,437	25,628,437	-
Total money market mutual funds		<u>92,407,292</u>	<u>92,407,292</u>	<u>-</u>
External investment pools	Not Rated	50,733	50,733	-
		<u>\$ 256,673,396</u>	<u>\$ 191,582,395</u>	<u>\$ 65,091,001</u>

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

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

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

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, 2017 and 2016, the Authority's investments were not exposed to custodial credit risk. The Authority's investments in Indiana municipal securities and U.S. agency obligations are held by the pledging financial institution's trust department or agent in the Authority's name. Likewise, investments in repurchase agreements (which are secured by U.S. Government and U.S. Government agency obligations) are not subject to custodial credit risk as the underlying collateral was held in the Authority's name. The existence of the Authority's investment in money market mutual funds and external investment pools is not evidenced by securities that exist in physical or book entry form. The Authority's investment policy does not address how investment securities and securities underlying repurchase agreements are to be held.

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

	2017	2016
Federal National Mortgage Association	\$ 5,475,398	\$ 5,517,950
Freddie Mac	1,348,839	-
Federal Home Loan Mortgage Corporation	-	4,456,965
	<u>\$ 6,824,237</u>	<u>\$ 9,974,915</u>

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

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Summary of Carrying Values

Cash, cash equivalents and investment securities included in the statements of net position are classified as follows:

	2017	2016
Cash and cash equivalents		
Current - unrestricted	\$ 15,879,279	\$ 18,084,676
Current - restricted	43,316,326	35,390,559
Noncurrent - restricted	74,482,934	78,898,203
Total cash and cash equivalents	<u>133,678,539</u>	<u>132,373,438</u>
Investment securities		
Noncurrent - unrestricted	47,357,550	44,741,552
Noncurrent - restricted	104,837,509	92,122,788
Total investment securities	<u>152,195,059</u>	<u>136,864,340</u>
	<u>\$ 285,873,598</u>	<u>\$ 269,237,778</u>

The carrying value of deposits and investments are as follows:

	2017	2016
Carrying value		
Deposits	\$ 12,335,341	\$ 12,564,382
Investments	<u>273,538,257</u>	<u>256,673,396</u>
	<u>\$ 285,873,598</u>	<u>\$ 269,237,778</u>

Investment Income

Investment income for the years ended December 31, 2017 and 2016 consisted of:

	2017	2016
Interest and dividend income	<u>\$ 4,678,810</u>	<u>\$ 4,213,687</u>

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

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

	<u>2017</u>	<u>2016</u>
Revenue Bond Interest and Principal Fund	\$ 58,171,808	\$ 44,906,697
Revenue Bond Reserve Fund	54,145,329	54,815,810
Operation and Maintenance Reserve Fund	13,348,743	11,398,298
Renewal and Replacement Fund	2,840,566	2,780,659
Capital Improvement Fund	62,798,947	58,004,320
Passenger Facility Charge Fund	12,962,176	15,923,178
Debt Service Coverage Fund	17,179,265	17,380,206
Customer deposits	738,585	752,220
Air Service Task Force and other	451,350	450,162
	<u>\$ 222,636,769</u>	<u>\$ 206,411,550</u>

The above funds and accounts have been established in accordance with the Authority's General Ordinance No. 5-2014, the Consolidated and Restated Master Bond Ordinance (consolidating and restating all previously adopted Bond Ordinances, as amended), and further amended by various supplemental ordinances (collectively, the Ordinance). The Ordinance provides, among other things, that certain accounting procedures be followed and certain funds be established to provide bond holders a degree of security against certain contingencies. Brief descriptions of these funds follow.

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

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

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

Funds not used for these purposes are transferred into a Prepaid Airline Revenue Fund. Balances included in the Airport System Fund and Prepaid Airline Revenue Fund are classified in current unrestricted assets in the accompanying statements of net position.

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

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 (principal and interest) issued for allowable capital projects, under a Record of Decision granted by the FAA.

Note 3: Grants Receivable (Payable)

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 (payable) at December 31, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
State of Indiana	\$ 46,856	\$ 44,373
Federal Aviation Administration	(946,058)	5,568,274
U.S. Department of Homeland Security	<u>98,880</u>	<u>96,350</u>
	<u>\$ (800,322)</u>	<u>\$ 5,708,997</u>

The maximum amount of federal and state participation available for 2017 totaled \$47,591,879. At December 31, 2017, a cumulative total of \$26,740,631 has been received on these grant commitments.

Indianapolis Airport Authority
Notes to Financial Statements
December 31, 2017 and 2016

Note 4: Capital Assets

A summary of changes in capital assets for the years ended December 31, 2017 and 2016 is as follows:

	Beginning Balance, January 1, 2017	2017		Ending Balance, December 31, 2017
		Transfers and Additions	Transfers and Disposals	
Capital assets, not being depreciated:				
Land	\$ 286,717,378	\$ 231,922	\$ (5,535,981)	\$ 281,413,319
Construction in progress	29,860,962	38,020,802	(42,228,254)	25,653,510
Total capital assets, not being depreciated	<u>316,578,340</u>	<u>38,252,724</u>	<u>(47,764,235)</u>	<u>307,066,829</u>
Capital assets, being depreciated:				
Buildings	1,632,425,477	13,853,035	(221,690)	1,646,056,822
Runways and other airport infrastructure	1,001,910,236	17,569,825	(1,077,980)	1,018,402,081
Equipment, furniture and fixtures and other	246,585,219	9,679,775	(7,789,125)	248,475,869
Total capital assets, being depreciated	<u>2,880,920,932</u>	<u>41,102,635</u>	<u>(9,088,795)</u>	<u>2,912,934,772</u>
Less accumulated depreciation for:				
Buildings	(614,836,285)	(49,925,693)	154,561	(664,607,417)
Runways and other airport infrastructure	(575,665,863)	(33,829,354)	180,977	(609,314,240)
Equipment, furniture and fixtures and other	(185,797,030)	(10,319,560)	7,755,478	(188,361,112)
Total accumulated depreciation	<u>(1,376,299,178)</u>	<u>(94,074,607)</u>	<u>8,091,016</u>	<u>(1,462,282,769)</u>
Total capital assets, being depreciated, net	<u>1,504,621,754</u>	<u>(52,971,972)</u>	<u>(997,779)</u>	<u>1,450,652,003</u>
Capital assets, net	<u>\$ 1,821,200,094</u>	<u>\$ (14,719,248)</u>	<u>\$ (48,762,014)</u>	<u>\$ 1,757,718,832</u>

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

	Beginning Balance, January 1, 2016	2016		Ending Balance, December 31, 2016
		Transfers and Additions	Transfers and Disposals	
Capital assets, not being depreciated:				
Land	\$ 290,980,218	\$ 90,705	\$ (4,353,545)	\$ 286,717,378
Construction in progress	19,604,133	10,597,118	(340,289)	29,860,962
Total capital assets, not being depreciated	<u>310,584,351</u>	<u>10,687,823</u>	<u>(4,693,834)</u>	<u>316,578,340</u>
Capital assets, being depreciated:				
Buildings	1,648,507,697	3,917,782	(20,000,002)	1,632,425,477
Runways and other airport infrastructure	990,994,978	10,915,258	-	1,001,910,236
Equipment, furniture and fixtures and other	234,246,194	13,455,166	(1,116,141)	246,585,219
Total capital assets, being depreciated	<u>2,873,748,869</u>	<u>28,288,206</u>	<u>(21,116,143)</u>	<u>2,880,920,932</u>
Less accumulated depreciation for:				
Buildings	(574,767,746)	(51,026,872)	10,958,333	(614,836,285)
Runways and other airport infrastructure	(542,153,123)	(33,512,740)	-	(575,665,863)
Equipment, furniture and fixtures and other	(177,630,070)	(9,278,080)	1,111,120	(185,797,030)
Total accumulated depreciation	<u>(1,294,550,939)</u>	<u>(93,817,692)</u>	<u>12,069,453</u>	<u>(1,376,299,178)</u>
Total capital assets, being depreciated, net	<u>1,579,197,930</u>	<u>(65,529,486)</u>	<u>(9,046,690)</u>	<u>1,504,621,754</u>
Capital assets, net	<u>\$ 1,889,782,281</u>	<u>\$ (54,841,663)</u>	<u>\$ (13,740,524)</u>	<u>\$ 1,821,200,094</u>

Note 5: Bonds Payable and Other Debt

Bonds and other debt outstanding at December 31, 2017 and 2016 consist of:

	2017	2016
Revenue Bonds, Series 2016A-1		
Serial bonds, maturing January 1, 2018 to January 1, 2035 in payments from \$2,145,000 to \$18,645,000. Interest at 4.00% to 5.00%, due semiannually on January 1 and July 1	\$ 146,105,000	\$ 153,395,000
Unamortized premium	15,817,987	18,569,498
	<u>161,922,987</u>	<u>171,964,498</u>
Revenue Bonds, Series 2016A-2		
Serial bonds, maturing January 1, 2018 to January 1, 2023 in payments from \$2,260,000 to \$3,370,000. Interest at 1.430% to 2.561%, due semiannually on January 1 and July 1	18,450,000	19,885,000
Term bonds, maturing January 1, 2024 to January 1, 2027 in payments from \$85,000 to \$95,000. Interest is fixed at 3.195%, due semiannually on January 1 and July 1	365,000	365,000
Term bonds, maturing January 1, 2035 and January 1, 2036 in payments of \$1,520,000 and \$1,615,000, respectively. Interest is fixed at 3.894%, due semiannually on January 1 and July 1	3,135,000	3,135,000
	<u>3,135,000</u>	<u>3,135,000</u>

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)	<u>2017</u>	<u>2016</u>
Revenue Bonds, Series 2015A		
Serial bonds, maturing January 1, 2023 to January 1, 2033 in payments from \$6,770,000 to \$19,875,000. Interest at 4.00% to 5.00%, due semiannually on January 1 and July 1	\$ 178,690,000	\$ 178,690,000
Unamortized premium	<u>16,761,115</u>	<u>18,332,377</u>
	<u>195,451,115</u>	<u>197,022,377</u>
Revenue Bonds, Series 2014A		
Serial bonds, maturing January 1, 2020 to January 1, 2034 in payments from \$6,205,000 to \$17,075,000. Interest at 4.00% to 5.00%, due semiannually on January 1 and July 1	163,850,000	165,340,000
Unamortized premium	<u>14,772,570</u>	<u>16,210,395</u>
	<u>178,622,570</u>	<u>181,550,395</u>
Revenue Bonds, Series 2013A		
Term bonds, maturing July 1, 2018. Interest is fixed at 1.800%, due semiannually on January 1 and July 1	<u>11,240,000</u>	<u>11,690,000</u>
Revenue Bonds, Series 2013B		
Term bonds, maturing July 1, 2018. Interest is fixed at 1.610%, due semiannually on January 1 and July 1	<u>9,825,000</u>	<u>20,135,000</u>
Revenue Bonds, Series 2012A		
Term bonds, maturing July 1, 2019. Interest is fixed at 1.253%, due semiannually on January 1 and July 1	13,500,000	21,530,000
Unamortized discount	<u>(9,753)</u>	<u>(28,566)</u>
	<u>13,490,247</u>	<u>21,501,434</u>
Revenue Bonds, Series 2010C		
Term bonds, maturing January 1, 2033, 2036 and 2037. Interest is variable (75% of the one-month LIBOR plus 0.438% (1.611%) at December 31, 2017), due monthly on the first business day	<u>320,030,000</u>	<u>325,200,000</u>
Revenue Bonds, Series 2010A		
Serial bonds, maturing January 1, 2018 to January 1, 2027 in payments from \$695,000 to \$1,005,000. Interest at 4.00% to 4.50%, due semiannually on January 1 and July 1	8,405,000	9,075,000
Term bonds, maturing January 1, 2030 and 2037. Interest at 4.75% and 5.00%, respectively, due semiannually on January 1 and July 1	<u>13,155,000</u>	<u>13,155,000</u>
	21,560,000	22,230,000
Unamortized discount	<u>(142,511)</u>	<u>(154,990)</u>
	<u>21,417,489</u>	<u>22,075,010</u>
Total revenue bonds	<u>933,949,408</u>	<u>974,523,714</u>
Other debt		
Obligations under capital lease	<u>12,728,442</u>	<u>28,696,082</u>
	<u>12,728,442</u>	<u>28,696,082</u>
Total bonds payable and other debt	946,677,850	1,003,219,796
Current portion	<u>(66,623,442)</u>	<u>(50,603,345)</u>
Long-term portion	<u>\$ 880,054,408</u>	<u>\$ 952,616,451</u>

Indianapolis Airport Authority

Notes to Financial Statements

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Revenue Bonds

2016A Refunding Revenue Bonds

In June 2016, the Authority issued the 2016A-1 (\$153,395,000; tax-exempt) and 2016A-2 (\$23,385,000; taxable) Refunding Revenue Bonds in the amount of \$176,780,000 with an original issue premium of \$20,115,131. The proceeds from the 2016A Revenue Bonds, in conjunction with transfers from the debt service reserve and principal and interest funds, were used to refund the outstanding balance of the 2006A Revenue Bonds of \$219,995,000. The net present value savings resulting from this refunding were \$38,211,902, and the aggregate difference in the required debt service between the 2006A Bonds and 2016A Bonds is \$62,914,339.

2015A Refunding Revenue Bonds

In October 2015, the Authority issued the 2015A Refunding Revenue Bonds in the amount of \$178,690,000 with an original issue premium of \$20,274,631. The proceeds from the 2015A Revenue Bonds, in conjunction with transfers from the debt service reserve and principal and interest funds, were used to refund the outstanding balance of the 2005A Revenue Bonds of \$197,385,000. The net present value savings resulting from this refunding were \$22,073,861, and the aggregate difference in the required debt service between the 2005A Bonds and 2015A Bonds is \$34,511,581.

2014A Refunding Revenue Bonds

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

Redemption Requirements

The Authority's Series 2010A, 2014A, 2015A, 2016A-1 and 2016A-2 Revenue Bonds are subject to optional redemption by the Authority at various dates in the future. The 2010C Revenue Bonds are subject to optional redemption by the Authority upon notification of the bondholders.

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

The Series 2010C Revenue Bonds, maturing January 1, 2033, 2036 and 2037 are subject to redemption from mandatory sinking fund payments during 2018 to 2037.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

The Series 2012A Refunding Revenue Bonds, maturing July 1, 2019, are subject to redemption from mandatory sinking fund payments during 2018 to 2019.

The Series 2013A and Series 2013B Refunding Revenue Bonds, maturing July 1, 2018, are subject to redemption from mandatory sinking fund payments during 2017 to 2018.

The Series 2016A-2 Refunding 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 2035 to 2036, respectively.

The Master Bond Ordinance

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

Pursuant to its Master Bond Ordinance, the Authority has adopted resolutions beginning in 2003 and 2006 irrevocably dedicating revenues from passenger facility charges and customer facility charges (the Dedicated Revenues), respectively, to be used exclusively to pay debt service on the Authority's Revenue Bonds. The irrevocable designation of passenger facility charges revenue in 2017 and 2016 was approximately \$20.7 million and \$12.8 million, respectively. The customer facility charge revenue designation was \$6.0 million for 2017 and 2016.

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, 2017 and 2016

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, 2017:

Years Ending December 31	Revenue Bonds		Total
	Principal	Interest	
2018	\$ 53,895,000	\$ 30,676,049	\$ 84,571,049
2019	31,045,000	29,352,812	60,397,812
2020	33,075,000	28,437,595	61,512,595
2021	34,645,000	27,478,498	62,123,498
2022	36,300,000	26,329,141	62,629,141
2023 - 2027	235,705,000	108,342,865	344,047,865
2028 - 2032	303,535,000	56,586,804	360,121,804
2033 - 2037	158,550,000	7,429,120	165,979,120
	<u>\$ 886,750,000</u>	<u>\$ 314,632,884</u>	<u>\$ 1,201,382,884</u>

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2017 and 2016:

	Beginning Balance	2017		Ending Balance	Current Portion
		Additions	Deductions		
Long-term obligations					
Revenue bonds payable	\$ 921,595,000	\$ -	\$ (34,845,000)	\$ 886,750,000	\$ 53,895,000
Bond (discounts)/premium	52,928,714	-	(5,729,306)	47,199,408	-
Total revenue bonds payable	974,523,714	-	(40,574,306)	933,949,408	53,895,000
Obligations under capital lease	28,696,082	-	(15,967,640)	12,728,442	12,728,442
Total long-term obligations	<u>\$ 1,003,219,796</u>	<u>\$ -</u>	<u>\$ (56,541,946)</u>	<u>\$ 946,677,850</u>	<u>\$ 66,623,442</u>

	Beginning Balance	2016		Ending Balance	Current Portion
		Additions	Deductions		
Long-term obligations					
Revenue bonds payable	\$ 982,515,000	\$ 176,780,000	\$ (237,700,000)	\$ 921,595,000	\$ 34,845,000
Bond (discounts)/premium	40,210,052	20,115,131	(7,396,469)	52,928,714	-
Total revenue bonds payable	1,022,725,052	196,895,131	(245,096,469)	974,523,714	34,845,000
Obligations under capital lease	54,878,039	-	(26,181,957)	28,696,082	15,758,345
Total long-term obligations	<u>\$ 1,077,603,091</u>	<u>\$ 196,895,131</u>	<u>\$ (271,278,426)</u>	<u>\$ 1,003,219,796</u>	<u>\$ 50,603,345</u>

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Note 6: Special Facility Revenue Bonds

To provide for the construction of the Indianapolis Maintenance Center (IMC) (formerly leased to United Air Lines, Inc.), the Authority issued 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, 2017, the Special Facility Revenue Bonds, Series 1995 (Indianapolis Maintenance Center), outstanding were \$165,988,327.

Note 7: Derivative Financial Instruments

Forward Delivery Purchase Agreements - Hedging Derivative Instruments

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

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

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

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

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

Debt Service Fund	Date of Agreement	Termination Date	Scheduled Reserve Amount	Guaranteed Rate	Fair Value at December 31, 2017	Fair Value at December 31, 2016
Series 2014A	December 1, 2004	December 30, 2033	\$ 16,534,000	4.962%	\$ 4,498,712	\$ 4,707,587
Series 2015A	December 28, 2005	December 31, 2032	15,000,000	4.820%	3,822,394	3,996,006
Series 2016A	August 1, 2006	January 1, 2036	17,321,400	5.311%	6,272,197	6,468,768
					\$ 14,593,303	\$ 15,172,361

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

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

The forward delivery agreement associated with the Series 2005A Debt Service Reserve Fund was amended when the 2005A Bonds were refunded by the 2015A Bonds. The amended agreement now provides for the delivery of the securities into debt service reserve fund of the 2015A Bonds. The notional amount associated with the Series 2005A Debt Service Fund Agreement was reduced by \$4,532,425 during 2015, the result of the refunding with the 2015A Bonds.

The forward delivery agreement associated with the Series 2006A Debt Service Reserve Fund was amended when the 2006A Bonds were refunded by the 2016A-1 and 2016A-2 Bonds. The amended agreement now provides for the delivery of the securities into the debt service reserve funds of the 2016A-1 and 2016A-2 Bonds.

Fair Value - The fair values of the Forward Delivery Agreements are based on the value of the future discounted cash flows expected to be received over the life of the agreement relative to an estimate of discounted cash flows that could be received over the same term based on current market conditions. The fair values of the Forward Delivery Agreements are classified as a noncurrent asset on the statements of net position as of December 31, 2017 and 2016. As the Forward Delivery Agreements are effective hedging instruments, the changes in fair value of the Forward Delivery Agreements of \$(579,058) and \$(1,898,298) for the years ended December 31, 2017 and 2016, respectively, are shown as an adjustment to the carrying amount of the related deferred inflows of resources on the statements of net position.

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

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

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

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Interest Rate Swap Agreements - Hedging Derivative Instruments

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

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

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

Notional Amount	Trade Date	Effective Date of Swap Agreement	Termination Date	Rate Authority Pays	Variable Rate Authority Receives	Fair Value at December 31, 2017	Fair Value at December 31, 2016
\$ 107,380,000	October 14, 2004	July 1, 2008	January 1, 2036	4.0325%	75% One Month LIBOR	\$ (22,491,720)	\$ (25,153,778)
62,650,000	October 14, 2004	July 1, 2008	January 1, 2037	4.1500%	75% One Month LIBOR	(14,165,152)	(15,762,386)
50,000,000	October 7, 2005	July 1, 2008	January 1, 2033	3.7800%	75% One Month LIBOR	(9,928,761)	(11,015,245)
100,000,000	July 2, 2015 *	July 1, 2015 *	January 1, 2033	3.7775%	75% One Month LIBOR	(20,067,142)	(22,310,569)
<u>\$ 320,030,000</u>						<u>\$ (66,652,775)</u>	<u>\$ (74,241,978)</u>

* During 2015, there was an exchange of counterparties from UBS to Wells Fargo. This was not considered as a terminating event.

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

Fair Value - The fair values of the Swap Agreements are based on estimated discounted future cash flows determined using the counterparties' proprietary models based upon financial principles and estimates about relevant future market conditions. The fair values of the Swap Agreements are classified as a noncurrent liability on the statements of net position as of December 31, 2017 and 2016. As the Swap Agreements are effective hedging instruments, the changes in fair value of the Swap Agreements of \$7,589,203 and \$10,309,311 for the years ended December 31, 2017 and 2016, respectively, are shown as an adjustment to the carrying amount of the related deferred outflows of resources on the statements of net position.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Credit Risk - The fair value of each of the Swap Agreements represents the Authority's credit exposure to the counterparties as of December 31, 2017. 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, 2017, the Authority was not exposed to credit risk because each of the swaps had a negative fair value. In order to mitigate the potential for credit risk, if any of the counterparties' credit quality rating falls below a rating threshold of Aa3 by Moody's Investors Service or AA- by Standard & Poor's, 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, 2017 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 \$107,380,000 and \$62,650,000	A3	A-
Merrill Lynch Capital Services, Inc., counterparty of the interest rate swap with the notional amount of \$50,000,000	A3	A-
Wells Fargo Bank, N.A., counterparty of the interest rate swap with the notional amount of \$100,000,000 and both basis swap agreements	Aa2	A+

¹ - The swaps are guaranteed by both Merrill Lynch & Company and Merrill Lynch Derivative Products AG. Merrill Lynch Derivative Products AG has ratings of Aa3 and AA.

Basis Risk - The Authority is not exposed to basis risk because the variable-rate payments received by the Authority under the Swap Agreements are based on an index that coincides with the interest rates the Authority pays on its 2010C Revenue Bonds. As of December 31, 2017, the interest rate on the Authority's 2010C Revenue Bonds is 1.611%, (calculated at 75% of the one-month LIBOR plus 0.438%), while the Authority receives payments under the Swap Agreements equal to 75% of the one-month LIBOR, or 1.173%.

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

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

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, 2017, 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 Swaps, Net	Total Interest
	Principal	Interest		
2018	\$ 5,430,000	\$ 5,457,765	\$ 10,079,227	\$ 15,536,992
2019	5,710,000	5,376,856	9,888,345	15,265,201
2020	6,000,000	5,569,904	10,014,175	15,584,079
2021	6,305,000	5,893,910	10,249,087	16,142,997
2022	6,630,000	6,097,970	10,288,922	16,386,892
2023 - 2027	89,140,000	27,630,755	44,899,513	72,530,268
2028 - 2032	129,990,000	14,455,400	23,617,406	38,072,806
2033 - 2037	70,825,000	2,105,167	3,553,782	5,658,949
	<u>\$ 320,030,000</u>	<u>\$ 72,587,727</u>	<u>\$ 122,590,457</u>	<u>\$ 195,178,184</u>

Basis Swap - Investment Derivative Instrument

The Authority also entered into a basis swap agreement associated with the \$100 million interest rate swap with a trade date of October 11, 2005. The basis swap was considered an investment derivative instrument. The general terms of the basis swap is 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, 2017	Fair Value at December 31, 2016
\$ 100,000,000	March 15, 2011	July 1, 2019	January 1, 2033	75% One Month LIBOR	75% ISDA Ten Year Swap Rate	\$ -	\$ (196,621)

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

On July 18, 2017, the Authority terminated the basis swap at no cost.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Note 8: Obligations Under Capital Leases

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

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

Concurrently with the execution of the MOC-II Agreement in 1991, the Authority entered into a tenancy in common agreement and various lease agreements, which created certain leasehold interests in the IMC site and facilities and provided the framework for financing the costs of its construction. Accordingly, the Authority's leases with the State and the City for the IMC and its lease with the State for a building and related equipment ancillary to IMC, the Aviation Technology Center (ATC), have been reflected as capital lease obligations in these financial statements. The IMC lease expires in 2018. In 2017, the ATC lease expired as the related bonds were paid-off in advance of their 2018 maturity. The gross amounts of capital assets and related accumulated depreciation recorded under these capital leases at December 31, 2017 and 2016 follow:

	<u>2017</u>	<u>2016</u>
Capital assets	\$ 323,463,530	\$ 323,463,530
Accumulated depreciation	<u>(176,452,742)</u>	<u>(159,997,880)</u>
	<u>\$ 147,010,788</u>	<u>\$ 163,465,650</u>

The present value of future minimum capital lease payments at December 31, 2017 follows:

2018	\$ 15,708,209
Amounts representing interest	<u>(2,979,767)</u>
Present value of future minimum capital lease payments	<u>\$ 12,728,442</u>

Indianapolis Airport Authority

Notes to Financial Statements

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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 facility. Assuming appropriations from the General Assembly continue, the Authority expects to receive \$20,801,713 in 2018 to fund its capital lease obligations with the State.

The Authority's capital lease payments to the City were secured by an irrevocable pledge of a distributive share of Marion County Option Income Taxes (the Pledged Revenues). The City-County Council covenanted not to repeal or rescind that tax as long as such rentals remained due. The Authority was not obligated for the debt incurred by the City with regard to the IMC facilities. The bonds related to the City's capital lease obligation were paid off during 2016 and therefore, there are no future pledged revenues.

Note 9: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investments				
U.S. Treasury Security Notes	\$ 130,797,979	\$ 130,797,979	\$ -	\$ -
U.S. Treasury Security Bills	15,800,336	15,800,336	-	-
U.S. Government-sponsored enterprise securities				
Federal National Mortgage Association	5,475,398	-	5,475,398	-
Federal Home Loan Mortgage Corporation	1,348,839	-	1,348,839	-
Indiana municipal securities	14,650,492	-	14,650,492	-
External investment pools	51,212	-	51,212	-
Derivative Financial Instruments				
Forward delivery purchase agreements	14,593,303	-	-	14,593,303
Interest rate swap agreements	(66,652,775)	-	(66,652,775)	-
December 31, 2016				
Investments				
U.S. Treasury Security Notes	\$ 105,841,689	\$ 105,841,689	\$ -	\$ -
U.S. Treasury Security Bills	10,484,740	10,484,740	-	-
U.S. Government-sponsored enterprise securities				
Federal National Mortgage Association	5,517,950	-	5,517,950	-
Federal Home Loan Mortgage Corporation	4,456,965	-	4,456,965	-
Indiana municipal securities	37,914,027	-	37,914,027	-
External investment pools	50,733	-	50,733	-
Derivative Financial Instruments				
Forward delivery purchase agreements	15,172,361	-	-	15,172,361
Interest rate swap agreements	(74,241,978)	-	(74,241,978)	-
Basis swaps	(196,621)	-	-	(196,621)

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of net position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Derivative Financial Instruments

Interest rate swaps classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates. The fair value of the forward delivery agreements and basis swaps are derived from proprietary models and are calculated on a mid-market basis, but do not include bid/offer spread and are therefore classified in Level 3.

Note 10: Indianapolis Maintenance Center

As discussed previously in these footnotes, the Authority, the State of Indiana, the City of Indianapolis and United Air Lines, Inc. (United) financed the construction and equipping of the IMC. As a part of the financing of these facilities, the Authority issued \$220,705,000 in special facility revenue bonds of which \$165,988,327 remains outstanding at December 31, 2017. The Authority had, and continues to have, no obligation to make interest and principal payments on these special facility bonds. Revenues from the IMC are reserved for expense reimbursement to the Authority for operational expenses incurred. Revenue in excess of expenses are provided back to the bondholders and the Authority on a percentage basis bound by the Settlement Agreement, but not until all of the Authority expenses have been reimbursed. Previously, the interest and principal payments for the Series 1995 Special Facility Revenue Bonds were funded by rentals paid by United under its lease agreement with the Authority. On December 9, 2002, United filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. On May 9, 2003, the Bankruptcy Court made effective United's rejection of its lease of the IMC and United abandoned the IMC facilities, whereby all of the IMC assets reverted to the Authority's control.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

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

Since 2004, the Authority has entered into various leases for certain portions of the IMC. These leases include hangar space, office areas and the backshops (which are being used primarily for the maintenance, repair and overhaul of commercial aircraft) and certain warehouse and office space for non-aviation related use. A new ten-year lease was entered into in December 2014 with the IMC's main tenant, AAR Aircraft Services (AAR), while a lease extension was granted to Shuttle America and Express Scripts. AAR and Shuttle America make up the leasing of all hangar space. As a part of the Settlement Agreement, rentals collected for the IMC are not considered revenue to the Authority, but instead are required to be deposited into a trust held on behalf of the United bondholders. The monies held in trust are to be used to pay ongoing operating and maintenance costs of the IMC and must be applied in a manner prescribed by the terms of the Settlement Agreement.

For the years ended December 31, 2017 and 2016, the Authority incurred approximately \$7.1 million and \$6.9 million of costs for the IMC, respectively. The Authority has received reimbursements for these costs under the Settlement Agreement aggregating approximately \$8.9 million and \$7.7 million for 2017 and 2016, respectively. In addition, as of December 31, 2017 and 2016, the Authority has accrued approximately \$1.1 million and \$1.8 million, respectively, in reimbursements from the Trustee for allowable costs incurred.

The aforementioned lease agreements historically contained 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 rental credits were designed to assist the tenants with start-up costs and the acquisition of certain capital assets, including leasehold improvements, and to encourage them to expand their operations and/or increase the amount of space they lease. Grants for start-up costs are recorded as unamortized lease costs by the Authority and amortized over the respective lease term, while grants for capital improvements result in new depreciable assets of the Authority. Success payments (for expanding operations) and other similar grants were expensed as they were earned by AAR. Currently, rental credits are being utilized in the AAR Agreement for leasehold improvements. 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, 2017, the Authority has provided \$7.5 million in grants and \$9.4 million in rental credits to the lessees of the IMC.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

Note 11: Risk Management

Risk management is the responsibility of the Authority. Operationally, the Authority is exposed to various risks of loss related to the theft of, damage to and destruction of assets, natural disasters as well as certain tort liabilities for which commercial insurance is carried. The commercial insurance policies carry deductibles ranging from \$0 to \$100,000. Insurance policies procured, including commercial general liability and commercial property damage, are inclusive of coverage for certain war casualty and acts of terrorism. Coverage terms, limits, and deductibles have each been benchmarked in comparison with those maintained at other mid-size airports and found to be within the range of our peers. Although coverage limits are significant, no assurance can be given that such coverage will continue to be available at such amounts and/or at a reasonable cost. 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, which has the potential of doing so for the 2017 calendar year.

The Authority has a self-insured arrangement for health care benefits provided to Authority employees and has established a self-insured liability for employee medical claims. The Authority utilizes a third-party company to provide individual stop loss coverage of \$100,000 on each covered individual's health claims and \$4,308,400 on overall health care program aggregate claims. The estimated self-insurance liability is based on claim trend and consultation with an actuary. There is no significant incremental claim adjustment expense, salvage or subrogation attributable to this liability.

Note 12: Benefit Plan

The Authority provides a 401(a) defined-contribution employee retirement plan for employer contributions and a 457(b) deferred compensation plan for employee contributions. The Authority is the administrator of these plans, which are available to substantially all of its employees. Employer contributions to the 401(a) plan can range from zero up to nine percent of eligible compensation. Contributions to the plan were \$796,930 for 2017 and \$727,873 for 2016.

Note 13: 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, 2017 and 2016

Minimum future rentals on noncancelable operating leases to be received in each of the next five years and thereafter as of December 31, 2017 are as follows:

2018	\$ 61,382,891
2019	17,296,749
2020	15,811,583
2021	13,558,732
2022	13,284,060
Thereafter	<u>86,816,257</u>
	<u>\$ 208,150,272</u>

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

Contingent rentals and fees aggregated approximately \$45.1 million in 2017 and \$46.8 million in 2016, and are accrued in arrears.

Note 14: Commitments and Contingencies

Land Acquisition and Disposal

In 1991, the Authority updated its FAA Part 150 Noise and Land Use Compatibility Study and final recommendations were adopted by the Authority Board in April 1992. The recommendations included expanding the existing Guaranteed Purchase Program (Phase I), which is now an inactive program, to add approximately 750 additional homes. As of December 31, 2017, the Authority has spent approximately \$102.6 million (including relocation costs) under this inactive program (Phase II), substantially all of which was eligible for 80% reimbursement from the FAA. The owners of an estimated 30 homes did not participate in Phase II when it was an active program.

A five-year review and update 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 included continuation of the Guaranteed Purchase Program with respect to approximately 132 additional homes, of which 127 were acquired by the Authority when the program was active.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

The Sound Insulation Program, which is now an inactive program, paid for a home within the impacted noise area to be sound insulated with respect to doors, window treatments, etc., with no further cash outlay required by the Authority. At December 31, 2017, 316 homes were sound insulated under this program. Under the Purchase Assurance Program, which is now an inactive program, the Authority purchased the property, sound insulated the home and then resold the property on the open market. At December 31, 2017, 118 homeowners participated in the Purchase Assurance Program. Participation in either the Sound Insulation or Purchase Assurance programs required the homeowner to grant an aviation easement in favor of the Authority.

The Sales Assistance program is the third and only active program at December 31, 2017 and applied to approximately 487 homes, of which 395 requests have been completed. Sales Assistance consists of a benefit payment to homeowners adjacent to the 65DNL noise contour. The benefit payment is equal to 10% of the contract sales price between the homeowner and third-party buyer, in exchange for the inclusion of a Noise Disclosure Statement in the deed of conveyance. The estimated cost of the Phase III programs approximate \$98.5 million. These programs, excluding Sales Assistance, were eligible for reimbursement from passenger facility charges and FAA noise grants (at 80% reimbursement).

The noise mitigation land use programs described above are voluntary on the part of the homeowner as there is no legal requirement that homeowners participate in any of these programs.

The Authority has also acquired land south of Interstate 70 (I-70). With the exception of one small parcel of land, all parcels have been acquired for the future development of a third parallel runway in this area. As of December 31, 2017, the Authority has expended approximately \$13.7 million for this project.

In November 2014, the Authority Board approved and adopted Resolution No. 12-2014, establishing certain land use policies and guidelines for the implementation of a new land use initiative. The Authority owns approximately 9,000 acres of land in and around the Indianapolis International Airport, with large holdings not only in Wayne and Decatur Townships of Marion County, but also in neighboring Hendricks County. After an extensive review of its land holdings in 2014, the Authority developed this land use initiative under which more than 30 parcels of land (approximately 743 acres) would be made available for sale, and an additional six large parcels of land (470 acres) would be made available for leasing opportunities. During 2017, the Authority sold approximately 49 acres under this land use initiative for a total sales price of \$3,853,464. During 2016, the Authority sold approximately 103 acres under this land use initiative for a total sales price of \$890,500.

With respect to the Authority's permanently protected bat and wetland habitat (containing approximately 2,000 acres), the Authority will pursue opportunities to divest itself of this land to a third party who has expertise in this area, such as a public or private conservation organization or governmental entity that has responsibility for environmental matters. As land is sold and proceeds received, the Authority will determine how those proceeds must be treated, including what amounts, if any, must be returned to the Federal Aviation Administration directly or reinvested in other AIP eligible projects pursuant to federal grant requirements.

Indianapolis Airport Authority

Notes to Financial Statements

December 31, 2017 and 2016

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, 2017, the Authority had acquired approximately 2,000 acres in order to replace wetland and bat habitat areas that were removed by construction of the Indianapolis Maintenance Center and runway 5L-23R and the Midfield Terminal. The Authority will continue to maintain and monitor interim bat habitats under this program pursuant to a permit with the U.S. Fish & Wildlife Service through the year 2017 and approximately 2,000 acres of wetlands and certain associated summer bat habitats in perpetuity, or until control over such areas is transferred to an entity that will assume the responsibility. Approximately \$22.9 million has been spent under this program, of which approximately 28% was eligible for reimbursement from the FAA. The Authority's share of the costs for this conservation plan was originally estimated to be \$2.4 million, and as of December 31, 2017, the Authority has incurred \$3.3 million in costs. Subsequent to year-end, the Authority sold nearly 2,000 acres for approximately \$1.5 million.

The Authority is currently involved in two 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, 2017 and 2016 was \$40,000 and \$80,000, respectively, which represents the approximate present value of the amounts the Authority expects to pay for future remediation activities. This estimate was generated using input and guidance from internal management and professional consultants, and represents a wide array of remediation activities ranging from one-time events to longer term sustained monitoring activity.

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

Capital Improvements

As of December 31, 2017, the Authority had outstanding commitments for certain airport improvements aggregating \$26,385,565.

Indianapolis Airport Authority

Notes to Financial Statements December 31, 2017 and 2016

Litigation and Claims

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

As of December 31, 2017, there were eight claims in litigation for alleged personal injury and/or other claims pending against the Authority. All of these claims were for personal injury and are fully insured. In addition, there were three worker's compensation claims pending as of December 31, 2017. The Authority was also aware of several claims for which legal action against the Authority might be threatened or possible in the future.

Supplementary Information

Indianapolis Airport Authority

Schedule of Governmental Awards

Year Ended December 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title/ Grant Name	Federal CFDA Number	Federal Grant Number	State Grant Number	Total Grant Amount	Grant Reimbursements Receivable at Beginning of Year	Receipts/ Credits	Disbursements/ Expenditures	Grant Reimbursements Receivable at End of Year
U.S. Department of Transportation - Federal								
Aviation Administrative (FAA)								
Airport Improvement Program (AIP)								
Indianapolis International Airport	20.106	3-18-0038-124		\$ 926,250	\$ -	\$ 24,339	\$ 26,449	\$ 2,110
	20.106	3-18-0038-126		3,500,000	(131,662)	-	131,662	-
	20.106	3-18-0038-127		615,094	(52,732)	-	52,732	-
	20.106	3-18-0038-129		3,620,633	(6,400)	-	6,400	-
	20.106	3-18-0038-132		3,447,760	(302,180)	-	302,180	-
	20.106	3-18-0038-138		4,632,511	583,590	439,048	(144,542)	-
	20.106	3-18-0038-142		7,357,224	491,504	362	-	491,142
	20.106	3-18-0038-143		187,500	149,762	149,762	-	-
	20.106	3-18-0038-144		713,250	302,128	530,497	411,122	182,753
	20.106	3-18-0038-145		2,614,949	16,015	1,902,311	2,473,490	587,194
	20.106	3-18-0038-147		3,776,258	2,322,148	2,246,842	244,552	319,858
	20.106	3-18-0038-148		3,305,826	2,232,978	2,344,075	264,539	153,442
	20.106	3-18-0038-149		2,925,000	-	498,605	557,757	59,152
	21.106	Various			(950,136)	2,581,748	361,578	(3,170,306)
Indianapolis Regional Airport	20.106	3-18-0037-13		252,985	(12,781)	(12,781)	-	-
	20.106	3-18-0037-14		693,609	(117,341)	(117,341)	-	-
	20.106	3-18-0037-16		514,454	96,627	34,059	-	62,568
	20.106	3-18-0037-17		360,000	53,571	313,201	259,630	-
	20.106	3-18-0037-18		53,236	-	43,315	47,965	4,650
Eagle Creek Airpark	20.106	3-18-0039-21		282,600	-	28,143	46,143	18,000
	20.106	3-18-0039-22		237,000	52,809	176,286	175,677	52,200
Indianapolis Metropolitan Airport	20.106	3-18-0040-22		2,655,000	131,562	131,562	-	-
	20.106	3-18-0040-23		867,513	536,815	746,815	330,698	120,698
	20.106	3-18-0040-24		480,532	21,997	426,671	419,534	14,860
	20.106	3-18-0040-25		1,050,000	-	76,245	81,866	5,621
Hendricks County	20.106	3-18-0093-16		458,424	-	78,277	78,277	-

Indianapolis Airport Authority
Schedule of Governmental Awards (Continued)
Year Ended December 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title/ Grant Name	Federal CFDA Number	Federal Grant Number	State Grant Number	Total Grant Amount	Grant Reimbursements Receivable at Beginning of Year	Receipts/ Credits	Disbursements/ Expenditures	Grant Reimbursements Receivable at End of Year
Indianapolis Downtown Heliport	20.106	3-18-0118-14		\$ 150,000	\$ 150,000	\$ -	\$ -	\$ 150,000
State of Indiana - Department of Transportation, Aeronautics Section								
Indianapolis Regional Airport			437013	3,329	(168)	(168)	-	-
			437014	19,267	(3,259)	(3,259)	-	-
			437015	69,160	6,400	-	-	6,400
			437016	28,581	870	870	3,151	3,151
			437017	2,033	2,381	11,949	11,539	1,971
			437018	2,958	-	-	2,665	2,665
Eagle Creek Airpark			439021	15,700	490	2,053	2,563	1,000
			439022	10,533	1,854	7,835	8,301	2,320
Indianapolis Metropolitan Airport			440021	11,230	2,489	-	-	2,489
			440022	147,500	7,309	7,309	-	-
			440023	38,556	15,767	31,677	22,788	6,878
			440024	21,357	978	18,162	18,646	1,462
			440025	58,333	-	-	4,549	4,549
			493015	12,310	2,955	-	-	2,955
Hendricks County			493016	25,468	-	-	4,349	4,349
Indianapolis Downtown Heliport			0811814	6,667	6,307	(360)	-	6,667
					<u>\$ 5,612,647</u>	<u>\$ 12,718,109</u>	<u>\$ 6,206,260</u>	<u>\$ (899,202)</u>

Notes to Schedule:

- The Authority has sold land which was originally acquired with federal funds. Accordingly, the Authority has recorded amounts due back to the Federal Aviation Administration in the financial statements and those amounts are reflected in the Schedule under the various federal grant number. Land sales for the years ended December 31, 2017 and 2016 totaled \$2,581,748 and \$660,671, respectively.

Indianapolis Airport Authority
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Transportation - Federal Aviation				
Administration (FAA)				
Airport Improvement Program (AIP)				
Indianapolis International Airport				
	20.106	3-18-0038-124	\$ -	\$ 26,449
	20.106	3-18-0038-126	-	131,662
	20.106	3-18-0038-127	-	52,732
	20.106	3-18-0038-129	-	6,400
	20.106	3-18-0038-132	-	302,180
	20.106	3-18-0038-138	-	(144,542)
	20.106	3-18-0038-144	-	411,122
	20.106	3-18-0038-145	-	2,473,490
	20.106	3-18-0038-147	-	244,552
	20.106	3-18-0038-148	-	264,539
	20.106	3-18-0038-149	-	557,757
	21.106	Various	-	361,578
Indianapolis Regional Airport	20.106	3-18-0037-17	-	259,630
	20.106	3-18-0037-18	-	47,965
Eagle Creek Airpark	20.106	3-18-0039-21	-	46,143
	20.106	3-18-0039-22	-	175,677
Indianapolis Metropolitan Airport	20.106	3-18-0040-23	-	330,698
	20.106	3-18-0040-24	-	419,534
	20.106	3-18-0040-25	-	81,866
Hendricks County	20.106	3-18-0093-16	-	78,277
			<u>-</u>	<u>-</u>
Grand Total			<u>\$ -</u>	<u>\$ 6,127,709</u>

The accompanying notes are an integral part of this schedule.

Indianapolis Airport Authority
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Notes to Schedule:

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the Indianapolis Airport Authority (Authority) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. The Authority administered no federal loans during the year ended December 31, 2017.
4. The Authority has sold land which was originally acquired with federal funds. Accordingly, the Authority has recorded amounts due back to the Federal Aviation Administration in the financial statements and those amounts are reflected in the Schedule under the various federal grant number. Land sales for the years ended December 31, 2017 and 2016 totaled \$2,581,748 and \$660,671, respectively.

Indianapolis Airport Authority

Schedule of Passenger Facility Charge Revenues and Expenditures

Year Ended December 31, 2017

Revenues	Date Approved	Amount Approved For Use	Cumulative Total - December 31, 2016	Quarter Ended				Year Ended December 31, 2017	Cumulative Total - December 31, 2017
				March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017		
Passenger facility charge revenues received			\$ 323,365,945	\$ 3,879,964	\$ 4,683,138	\$ 4,488,319	\$ 4,501,314	\$ 17,552,735	\$ 340,918,680
Interest earned			5,259,323	20,980	81,402	25,704	58,176	186,262	5,445,585
Total passenger facility charge revenue received			<u>\$ 328,625,268</u>	<u>\$ 3,900,944</u>	<u>\$ 4,764,540</u>	<u>\$ 4,514,023</u>	<u>\$ 4,559,490</u>	<u>\$ 17,738,997</u>	<u>\$ 346,364,265</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	231,881,021	-	10,350,000	-	10,350,000	20,700,000	252,581,021
Total passenger facility charge revenue expended		<u>\$ 524,907,606</u>	<u>\$ 312,706,920</u>	<u>\$ -</u>	<u>\$ 10,350,000</u>	<u>\$ -</u>	<u>\$ 10,350,000</u>	<u>\$ 20,700,000</u>	<u>\$ 333,406,920</u>

Notes to Schedule:

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

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Indianapolis Airport Authority (Authority), which comprise the statement of net position as of December 31, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

BKD, LLP

Indianapolis, Indiana
April 9, 2018

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited the Indianapolis Airport Authority's (Authority) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2017. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, Indianapolis Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

BKD, LLP

Indianapolis, Indiana
April 9, 2018

Report on Compliance for the Passenger Facility Charge Program and Report on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance for the Passenger Facility Charge Program

We have audited the Indianapolis Airport Authority's (Authority) compliance with the types of compliance requirements described in the *Passenger Facility Audit Guide for Public Agencies* (Guide) that could have a direct and material effect on the Authority's passenger facility charge program for the year ended December 31, 2017.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Guide. Those standards 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 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 on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Passenger Facility Charge Program

In our opinion, Indianapolis Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

BKD, LLP

Indianapolis, Indiana
April 9, 2018

Indianapolis Airport Authority
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
 Significant deficiency(ies)? Yes None reported
 Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
 Significant deficiency(ies)? Yes None reported
 Material weakness(es)? Yes No

5. The opinion(s) expressed in the independent auditor's report on compliance for the major federal award program was:
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

7. The Authority's major program was:

Cluster/Program	CFDA Number
Airport Improvement Program	20.106

Indianapolis Airport Authority
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2017

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Authority qualified as a low-risk auditee? Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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No matters are reportable.

Findings Required to be Reported by Uniform Guidance

Reference Number	Finding
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No matters are reportable.

Indianapolis Airport Authority
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

Reference Number	Summary of Finding	Status
2016-001	An audit adjustment was proposed and recorded by the Authority relative to the disposal of a piece of equipment. When the Authority initially recorded this disposal, only the net book value of the asset was taken into account versus removing the full cost basis, accumulated depreciation and related loss on disposal. This resulted in a material weakness in internal control over financial reporting in accordance with <i>Government Auditing Standards</i> .	Corrected

Indianapolis Airport Authority
Passenger Facility Charge Audit Summary
Year Ended December 31, 2017

Summary of Auditor's Results

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