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April 30, 2019

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, 2018 to December 31, 2018. 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, 2018, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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, 2018 and 2017

# Indianapolis Airport Authority

December 31, 2018 and 2017

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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 the Indianapolis Airport Authority (Authority) as of and for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 audits were 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 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal 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 Governmental Awards, the Schedule of Federal Expenditures and the Schedule of Passenger Facility Charge Revenues and Expenditures are the responsibility of management and were 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 Governmental Awards, the Schedule of Federal Expenditures and the Schedule of Passenger Facility Charge Revenues and Expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated April 5, 2019, 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 solely 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 effectiveness of Authority's 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 5, 2019

# MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018  
(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, 2018 and 2017. 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, 2018, 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. The Authority entered into negotiations for a new Airline Agreement in 2018 with intent to finalize negotiations in 2019. 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>2018</u>	<u>2017</u>	<u>Variance</u>
Enplaned passengers <sup>(1)</sup>	4,695,040	4,387,532	7.0%
Landed weight (1,000 lb. units)			
Passenger airlines	5,496,460	5,150,053	6.7%
Cargo airlines	<u>5,282,874</u>	<u>5,139,115</u>	<u>2.8%</u>
Total landed weights	<u><u>10,779,334</u></u>	<u><u>10,289,168</u></u>	<u><u>4.8%</u></u>
Aircraft operations	168,133	160,049	5.1%

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

### Airport Operations Activity

In 2018, the number of enplaned passengers was 7.0% higher than 2017. The increase from 2017 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 2017, 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, reinstated or started in 2018 at Indianapolis International Airport (IND) include:

- March 10, 2018 - Inaugural Southwest IND – CUN (Cancun, Mexico)
- April 6, 2018 - Inaugural Allegiant IND – CHS (Charleston, South Carolina)
- April 8, 2018 - Inaugural Southwest IND – AUS (Austin, Texas)
- April 9, 2018 - Reinstated Frontier IND – PHL (Philadelphia, Pennsylvania)
- April 10, 2018 - Inaugural Frontier IND – AUS (Austin, Texas)
- April 11, 2018 - Inaugural Allegiant IND – SRQ (Sarasota, Florida)
- May 24, 2018 - Inaugural Delta IND – CDG (Paris, France)
- June 18, 2018 - Inaugural Delta IND – SEA (Seattle, Washington)
- July 15, 2018 - Inaugural Southwest IND – OAK (Oakland, California)
- August 13, 2018 - Inaugural Frontier IND – SAN (San Diego, California)
- November 15, 2018 - Reinstated Frontier IND – RSW (Fort Myers, Florida)
- December 11, 2018 - Spirit announced IND – LAS (Las Vegas, Nevada)
- December 11, 2018 - Spirit announced IND – MCO (Orlando, Florida)
- December 11, 2018 - Spirit announced IND –MYR (Myrtle Beach, South Carolina)

Passenger airlines accounted for approximately 51% of total landed weight at Indianapolis International Airport (IND) in 2018, 50% in prior year; cargo airlines accounted for the other 49% during 2018 and 50% in 2017. Passenger airline landed weights increased by 6.7% in 2018 from prior year; cargo airline landed weight increased 2.8% 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 2018. The increase in cargo landed weights can be attributed to increased FedEx activity and larger aircraft.

Aircraft operations represent landings and takeoffs for air carrier (passenger and cargo), air taxi and commuter, general aviation and military operations. This activity increased 5.1% over the prior year due mainly to a year over year increase in passenger and cargo flights.

### **Financial Highlights**

- The Authority experienced a decrease in total assets and deferred outflows of resources of \$54.4 million during 2018. 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, a decrease in investments and a decrease in deferred outflows related to the fair value change of the Authority's derivative instruments.
- Total liabilities decreased \$25.6 million in 2018. This change is primarily attributable to the reduction of bonds payable and other debt.
- The 2018 decrease in net position was \$25.3 million compared to a decrease of \$0.9 million for 2017. This \$24.5 million decrease can be primarily attributed to the 2018 \$47.3 million loss on disposal of assets which increased the loss on disposal of assets by \$43.6 million due to the 2018 one-time strategic sale of heavily deed restricted land offset by increases in capital contributions and grants of \$17.8 million.

### **Overview of Financial Statements**

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

The Authority's financial report includes comparative 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, 2018, 2017 and 2016 follows:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(Table Amounts in Thousands)		
Current assets - unrestricted	\$ 32,580	\$ 27,006	\$ 34,760
Current assets - restricted	48,217	50,078	43,001
Noncurrent assets			
Capital assets, net	1,734,709	1,757,719	1,821,200
Other noncurrent assets	221,850	242,192	231,965
Total assets	<u>2,037,356</u>	<u>2,076,995</u>	<u>2,130,926</u>
Deferred outflows of resources	<u>31,435</u>	<u>46,196</u>	<u>56,270</u>
Total assets and deferred outflows of resources	<u>\$ 2,068,791</u>	<u>\$ 2,123,191</u>	<u>\$ 2,187,196</u>
Current liabilities - payable from unrestricted	\$ 14,090	\$ 12,043	\$ 10,028
Current liabilities - payable from restricted	66,518	91,155	75,384
Noncurrent liabilities - payable from restricted	943,648	946,707	1,027,055
Total liabilities	<u>1,024,256</u>	<u>1,049,905</u>	<u>1,112,467</u>
Deferred inflows of resources	<u>11,163</u>	<u>14,593</u>	<u>15,172</u>
Net position			
Net investment in capital assets	825,210	835,366	845,491
Restricted	140,516	160,085	143,563
Unrestricted	67,646	63,242	70,503
Total net position	<u>1,033,372</u>	<u>1,058,693</u>	<u>1,059,557</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,068,791</u>	<u>\$ 2,123,191</u>	<u>\$ 2,187,196</u>

## **2018 to 2017 Comparative Statements of Net Position**

Unrestricted current assets increased \$5.6 million, which is attributable to increases in cash and cash equivalents of \$5.2 million and grants receivable of \$2.2 million, offset by a decrease in unbilled revenues of \$1.1 million.

Total noncurrent assets decreased by \$43.4 million. This change is primarily attributable to a \$37.0 million decrease in depreciable capital assets, a \$13.9 million increase in non-depreciable capital assets and a \$20.3 million decrease in cash and cash equivalents, investment securities and derivative instruments.

Total deferred outflows of resources decreased by \$14.8 million, the result of a decrease in the amortization of deferred losses on the refunding of bonds of \$2.4 million and a decrease in the accumulated changes in fair values of hedging derivative instruments of \$12.4 million.

Total current liabilities decreased by \$22.6 million primarily driven by a decrease of \$35.6 million in the current portion of debt and an increase of \$11.4 million in accounts payable.

### **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.

### **2018 to 2017 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, 2018 and 2017 was a decrease of \$25.3 million and \$0.9 million, respectively. The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Position for 2018 and 2017.

	<b>2018</b>	<b>2017</b>	<b>\$ Variance</b>	<b>% Variance</b>
	(Table Amounts in Thousands)			
Total operating revenues	\$ 160,672	\$ 153,260	\$ 7,412	4.8%
Total nonoperating revenues	46,312	46,997	(685)	-1.5%
Total revenues	<u>206,984</u>	<u>200,257</u>	<u>6,727</u>	<u>3.4%</u>
Total operating expenses	173,206	167,609	5,597	3.3%
Net nonoperating expenses	85,205	41,838	43,367	103.7%
Total expenses	<u>258,411</u>	<u>209,447</u>	<u>48,964</u>	<u>23.4%</u>
Loss Before Capital Contributions and Grants	(51,427)	(9,190)	(42,237)	459.6%
Capital Contributions and Grants	<u>26,106</u>	<u>8,326</u>	<u>17,780</u>	<u>213.5%</u>
Increase (Decrease) in Net Position	(25,321)	(864)	(24,457)	2830.7%
Net Position, Beginning of Year	<u>1,058,693</u>	<u>1,059,557</u>	<u>(864)</u>	<u>-0.1%</u>
Net Position, End of Year	<u>\$ 1,033,372</u>	<u>\$ 1,058,693</u>	<u>\$ (25,321)</u>	<u>-2.4%</u>

*Operating revenue* in 2018 increased \$7.4 million, or 4.8% from prior year attributable to the following components:

- *Airfield revenue* in 2018 of \$24.3 million increased from prior year by \$2.5 million or 11.7%. Total landed weights increased 4.8% from prior year as passenger carriers increased 6.7% and cargo carriers increased 2.8%. The 2018 Signatory landing fee rate increased to \$1.85 from \$1.70 in 2017. The 2018 Non-signatory landing fee rate increased to \$2.78, as compared to the 2017 rate of \$2.55.
- *Terminal complex revenues* of \$54.1 million increased \$1.0 million or 1.8% from prior year. Airline terminal rental rates decreased in 2018 to \$92.78 per square foot compared to the prior year rate of \$98.22 per square foot. This is offset by an increase in Concessionaire revenues of \$0.3 million or 4.2% and an increase in Automobile rental commissions of \$0.5 million or 5.1% driven by an increase in enplaned passengers of 7.0%.
- *Parking revenues* increased from prior year by \$3.8 million or 7.4%, resulting in \$54.6 million in 2018 parking revenue. Current year includes incremental revenue of \$0.7 million relating to the new valet operator and recording gross revenue vs. the net revenue amount reported in the prior year. The enplaned passenger increases of 7.0% is the main contributor to the variance.
- *Revenues from Indianapolis Maintenance Center (IMC)* of \$8.2 million increased by \$0.2 million or 2.1%. This represents revenues due the Authority for reimbursement of eligible expenditures under the terms of the Settlement Agreement reached between the Authority and the trustee for the special facility revenue bonds the Authority had previously issued on behalf of United Airlines. The increase from prior year relates to higher hangar bay utilization.

*Nonoperating revenues* in 2018 of \$46.3 million decreased from prior year by \$0.7 million or 1.5% attributable to the following components:

- *State and local appropriations* of \$13.2 million decreased \$3.6 million or 21.4%. This relates to capital leases with the State of Indiana and the City of Indianapolis for the IMC and the remaining bonds matured in 2018.
- *Passenger facility charges (PFC) income* of \$19.0 million increased \$1.3 million or 7.1%. 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) income* of \$7.4 million increased \$0.2 million or 2.8%. This increase is due to an increase in passenger numbers and an increased number of transactions.
- *Investment income* of \$6.1 million increased \$1.4 million or 30.7%. 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, 2018 and 2017 totaled \$81.0 million and \$73.5 million, respectively, an increase of \$7.5 million or 10.2%. 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 9.2% or \$2.9 million to \$33.9 million attributable to annual merit increases, higher health insurance expense claims, increased full-time staff in the Tech Shop, Audit, Legal and Procurement departments and lower staff vacancies in Parking, Fire, Police and other Administrative departments. Total *contractual services expense* increased 2.1% or \$0.5 million to \$25.6 million primarily due to the new valet operator expense incurred vs. being recorded as an offset of revenue in the prior year. Total *utilities expense* of \$11.4 million increased by \$2.7 million or 31.3% primarily driven by higher sewer charges relating to glycol processing. Total *supplies expense* of \$5.2 million increased \$1.1 million or 26.2% relating to LED lighting replacement program in terminal and garage and increased snow/ice chemical due to severe winter weather in 2018. Total *materials expense* decreased by \$0.1 million or 4.5% to \$3.1 million reflecting lower communication equipment replacements and signage than in prior year. Total *general expense* of \$1.8 million increased from prior year by \$0.4 million or 31.3% primarily due to an increase in bad debt expense and higher insurance premium costs.
- *Airfield expenses* (before depreciation) of \$12.0 million increased \$2.9 million, or 32.3% from the prior year. Current year expenses include annual merit increases; increased health insurance and greater snow and ice chemical and sewage costs for glycol processing due to severe winter weather.
- *Terminal complex expenses* (before depreciation) of \$17.9 million increased \$0.6 million, or 3.6% from the prior year. Increase is attributable to annual merit increases; increased health insurance; increased full-time staff in the Tech Shop and LED lighting replacements in terminal.
- *Parking expenses* (before depreciation) of \$9.7 million increased \$1.3 million, or 15.7% from the prior year. Increase is due to annual merit increases; increased health insurance; lower staff vacancies; the new valet operator expense incurred vs. being recorded as an offset of revenue in the prior year; LED lighting replacement program in garage; drainage repairs in garage and ground transportation center and contracted snow removal fees.
- *Rented buildings and other expenses* (before depreciation) of \$2.7 increased \$0.6 million, or 26.0% from prior year. Current year reflects an increase in the environmental remediation accrual and greater on-call environmental professional fees related to compliance audits and tree removal and vegetation control.
- *Indianapolis Maintenance Center (IMC) expenses* (before depreciation) of \$7.6 million increased \$0.5 million, or 6.4%, primarily due to higher utilities; roof repairs; Central Energy Plant steam/boiler repairs; various other building repairs and greater contracted snow removal costs.
- *Reliever airports expenses* (before depreciation) of \$1.6 million decreased \$1.1 million, or 39.4% from prior year. Prior year expenses included pavement repairs; storm drain repairs; material storage building and fuel farm repairs that were not incurred in 2018.
- *Public safety expenses* (before depreciation) of \$12.0 million increased \$0.4 million, or 3.6% from prior year. Variance primarily attributable to annual merit increases; increased health insurance and lower staff vacancies in the Fire and Police departments.
- *Administration costs* (before depreciation) of \$17.5 million increased by \$2.2 million, or 14.6% from prior year. Variance the result of annual merit increases; increased health insurance; increased full-time staff in Audit, Legal and Procurement departments; lower staff vacancies in Information Technology, Communications/Marketing and Human Resource departments; an increase in professional fees related to staff augmentation in Planning and Development.

*Net Nonoperating expenses* for the years ended December 31, 2018 and 2017 totaled \$85.2 million and \$41.8 million, respectively, an increase of \$43.4 million or 103.7% attributable to the following components:

- *Interest expense* of \$37.9 million decreased \$0.2 million over the prior year, or 0.5%; a net effect of various increases and decreases of interest expense over the year and the amortization of principal outstanding and the corresponding reduction in interest expense.
- *Loss on disposals of capital assets and other* of \$47.3 million increased \$43.6 million over the prior year. The current year net loss is comprised of \$43.2 million loss on land sales; \$4.6 million for loss on fixed assets and offset by \$0.6 million for insurance claim reimbursements.

*Capital contributions and grants* of \$26.1 million increased \$17.8 million compared to prior year. Current year represents greater contributions from leased property tenant improvements and an increase in federal and state grant revenues due to timing of completion of projects and related funding received.

### **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.

	<b>2017</b>	<b>2016</b>	<b>\$ Variance</b>	<b>% Variance</b>
	(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	<u>8,326</u>	<u>15,235</u>	<u>(6,909)</u>	<u>-45.3%</u>
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.

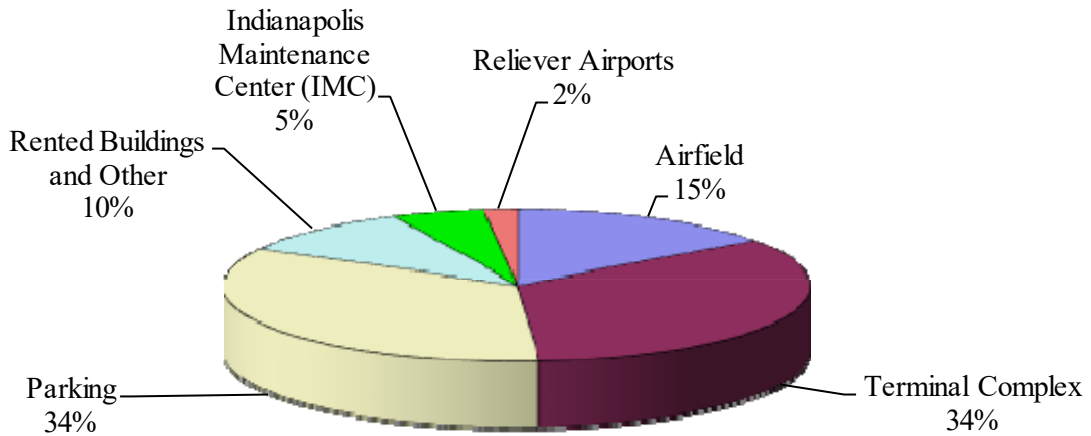
*Net Nonoperating expenses* for the years ended December 31, 2017 and 2016 totaled \$41.8 million and \$58.5 million, respectively, a decrease of \$16.7 million or 28.5%. The current year activity includes a decrease in interest expense and in loss on disposals of capital assets and other.

- *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.

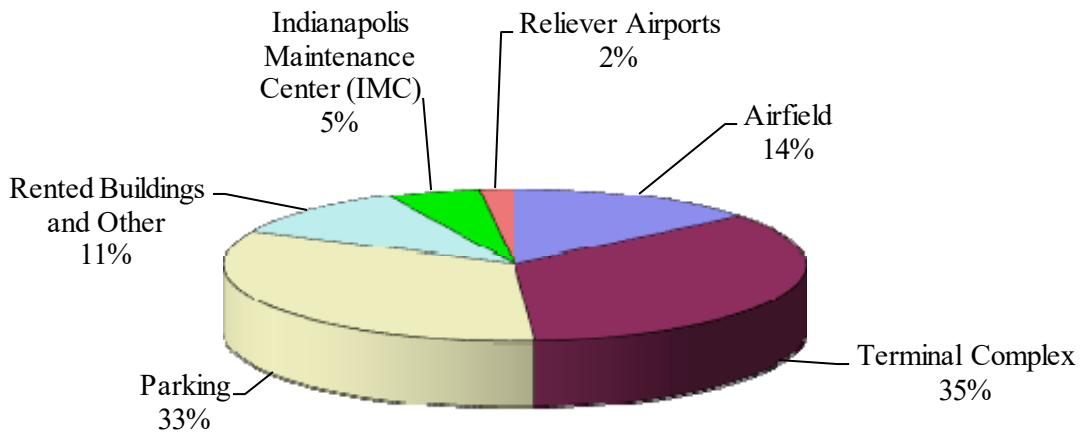
*Capital contributions and grants* of \$8.3 million decreased \$6.9 million compared to prior year. Current year represents lower contributions from leased property tenant improvements and a decrease in federal and state grant revenues due to timing of completion of projects and related funding received.

The following is a graphic illustration of operating revenues by source for the years ended December 31, 2018 and 2017:

### Operating Revenues - 2018

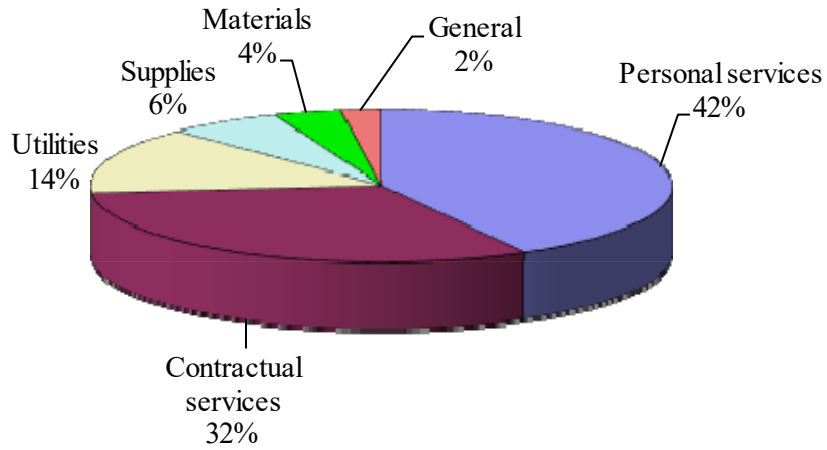


### Operating Revenues - 2017

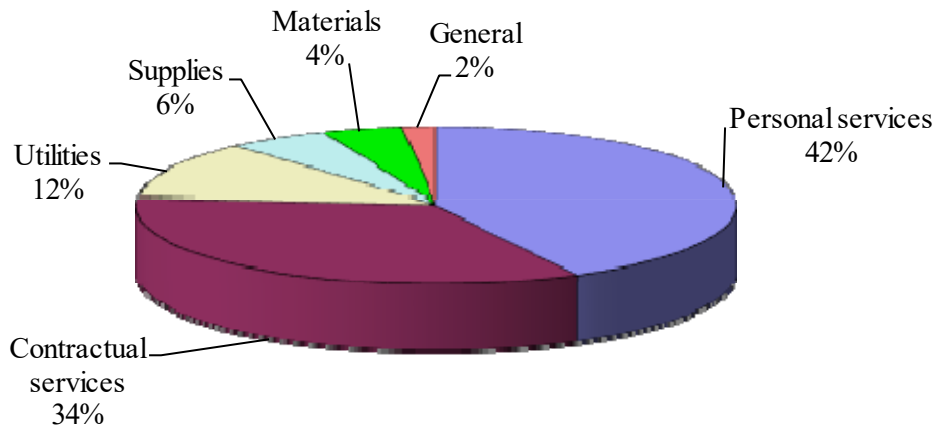


The following is a graphic illustration of the total operating expenses by source for the years ended December 31, 2018 and 2017 (excluding depreciation):

### Operating Expenses (Excluding Depreciation) - 2018



### Operating Expenses (Excluding Depreciation) - 2017



## Capital Asset and Debt Administration

### *Capital Assets*

During 2018, the Authority expended approximately \$103.7 million on capital assets. The capital expenditures related to multiple construction and equipment acquisition projects, the Seerley Creek Basin stormwater and deicing, parking garage maintenance, high speed exits, rehabilitate Taxiway C and LED lighting, and rehabilitate Taxiway H and lighting.

During 2018, completed projects totaling \$54.1 million were closed from construction-in-progress to their respective capital asset accounts. The more significant of these completed projects are as follows:

High Speed Exits, Taxiway C Rehabilitation & LEDs	\$15.2 million
Parking Garage Maintenance	\$11.4 million
Rehabilitation Taxiway H - H1 and H2 and Replace Lighting	\$5.2 million
Rehabilitation Airport Asphalt Lots and Roads	\$4.7 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 2017 and 2018.

As of December 31, 2018, the Authority had \$874.6 million in outstanding senior lien bonds and \$45.8 million in 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 2018 and 2017, respectively, the Authority's debt service coverage was 1.47 and 1.77 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 7.0% increase in the number of passenger enplanements over last year, resulting in total 2018 enplanements of 4,695,040. 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.

Because of this passenger growth and the strength of the Indianapolis economy, carriers continue to invest in Indianapolis. Overall, IND added over 300,000 seats to the market while airline seat miles (ASMs) increased over 14%, suggesting bigger aircrafts are flying to further destinations.

Additional capacity resulted from increased frequency on existing routes, bigger aircraft, and new routes. In total, IND launched, announced or reinstated 14 new flights in 2018. New flights were added by Allegiant, Southwest, Frontier, Spirit and Delta.

Spirit Airlines announced IND market entry at the end of 2018 and will begin operations in March 2019 with daily nonstop service to Orlando (MCO), Las Vegas (LAS) and seasonal service to Myrtle Beach (MYR) beginning in May 2019. Spirit is an Ultra Low-Cost Carrier (ULCC) with an expansive airline network. March will mark Spirit's first operations at IND and the third ULCC in the IND market.

IND is served by both major and national airlines operating at many 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 50 nonstop destinations including more international and West Coast access than ever before.

As a result of the strength of the Indianapolis passenger market, Allegiant Air opened the Indianapolis airplane and crew base in Q1 2018. The original two-plane base was increased to a three-plane base in the summer. As a result of the base, Allegiant added over 500 flights out of IND, an increase of more than 41% over 2017.

Additionally, on May 24, 2018, Delta launched Indiana's first scheduled transatlantic flight from IND airport to Paris - Charles De Gaulle (CDG). The new nonstop has an estimated \$50 million annual impact on Indiana's economy. Nonstop service to CDG is 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.

### ***Looking Forward***

At the end of 2018, the IAA staff completed the five-year Air Service Strategy. In Q4, the strategy was presented to and approved by the Air Service Task Force Executive Committee. The Committee includes representatives from IEDC, Visit Indy and the Indy Chamber. The strategy considers a myriad of factors including passenger demand, costs, airline strategy, industry trends, local and global economies amongst others.

The strategy identifies two-year and five-year targets including both domestic and international markets as well as domestic and international airlines. Short term market goals include Mexico, Canada, West Coast U.S. markets, short haul drive markets and domestic airlines. Long term markets include Asia, Europe and international airlines. The strategy outlines opportunities of implementation with emphasis on data collection and airline engagement. Action items include working with local partners to continue market research, visiting airline headquarters, hosting airlines in Indianapolis, and attending and hosting networking planning conferences.

The world's most prominent network planning conference, Routes Americas, recently selected Indianapolis as the host of the February 2020 conference after a highly competitive bid process. Routes Americas will bring 1,000+ airport and airline decision makers to Indianapolis, providing unparalleled exposure of Central Indiana to key airline decision makers. The successful bid for Routes Americas 2020 is one example of the elevated and focused approach by which IAA aims to execute the five-year strategy. In addition to bringing air service influencers to Indy in 2020 through Routes Americas, there are approximately 14 different major sporting events that will occur in Indiana over the next 5 years providing great opportunity to host airline decision makers in Indianapolis.

Despite planning efforts, future increases in passenger and cargo traffic at the Authority will be influenced by several key economic 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](mailto:INDir@indianapolisairport.com).

# Indianapolis Airport Authority

## Statements of Net Position December 31, 2018 and 2017

	2018	2017
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
<b>Unrestricted Assets</b>		
Cash and cash equivalents	\$ 21,102,629	\$ 15,879,279
Accounts receivable, net of allowance of \$152,000 and \$79,000, respectively	2,631,406	3,303,001
Unbilled revenues	3,047,016	4,129,580
Grants receivable	2,154,206	-
Supplies and materials inventories	2,152,097	1,734,328
Other	1,493,001	1,960,258
Total unrestricted current assets	32,580,355	27,006,446
<b>Restricted Assets</b>		
Cash and cash equivalents	43,020,128	42,577,741
Cash and cash equivalents - customer deposits	748,633	738,585
Receivable - passenger facility charges	1,113,813	1,949,993
Receivable - governments and other	174,085	3,745,292
Receivable - reimbursable IMC expenses	3,159,946	1,066,155
Total restricted current assets	48,216,605	50,077,766
Total current assets	80,796,960	77,084,212
<b>Noncurrent Assets</b>		
Cash and cash equivalents, restricted	73,783,357	74,482,934
Investment securities, unrestricted	48,335,166	47,357,550
Investment securities, restricted	87,747,811	104,837,509
Rent receivable	820,600	920,361
Derivative instruments - forward delivery purchase agreements	11,162,567	14,593,303
Nondepreciable capital assets	321,013,560	307,066,829
Depreciable capital assets, net	1,413,695,793	1,450,652,003
Total noncurrent assets	1,956,558,854	1,999,910,489
Total assets	2,037,355,814	2,076,994,701
<b>Deferred Outflows of Resources</b>		
Deferred loss on refunding of debt	24,787,991	27,186,832
Accumulated decrease in fair value of hedging derivatives	6,647,496	19,009,027
Total deferred outflows of resources	31,435,487	46,195,859
Total assets and deferred outflows of resources	\$ 2,068,791,301	\$ 2,123,190,560

	<b>2018</b>	<b>2017</b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
<b>Payable From Unrestricted Assets</b>		
Accounts payable	\$ 7,294,510	\$ 5,535,360
Accrued and withheld items (including compensated absences)	6,795,924	5,707,045
Grants payable	-	800,322
Total current liabilities payable from unrestricted assets	<u>14,090,434</u>	<u>12,042,727</u>
<b>Payable From Restricted Assets</b>		
Accounts payable	21,161,447	9,728,508
Customer deposits payable	749,633	739,585
Current portion of debt	31,045,000	66,623,442
Accrued interest on debt	13,561,596	14,063,395
Total current liabilities payable from restricted assets	<u>66,517,676</u>	<u>91,154,930</u>
Total current liabilities	<u>80,608,110</u>	<u>103,197,657</u>
<b>Noncurrent Liabilities</b>		
Derivative instruments - interest rate swap agreements	54,291,244	66,652,775
Bonds payable and other debt, payable from restricted assets	889,356,922	880,054,408
Total noncurrent liabilities	<u>943,648,166</u>	<u>946,707,183</u>
Total liabilities	<u>1,024,256,276</u>	<u>1,049,904,840</u>
<b>Deferred Inflows of Resources</b>		
Accumulated increase in fair value of hedging derivatives	<u>11,162,567</u>	<u>14,593,303</u>
<b>Net Position</b>		
Net investment in capital assets	<u>825,210,435</u>	<u>835,365,921</u>
Restricted for		
Capital projects	70,631,302	77,711,116
Debt service	66,769,075	81,222,279
Other	3,115,959	1,151,471
Total restricted net position	<u>140,516,336</u>	<u>160,084,866</u>
Unrestricted	<u>67,645,687</u>	<u>63,241,630</u>
Total net position	<u>1,033,372,458</u>	<u>1,058,692,417</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,068,791,301</u>	<u>\$ 2,123,190,560</u>

**Indianapolis Airport Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Airfield	\$ 24,287,898	\$ 21,745,673
Terminal complex	54,137,541	53,182,950
Parking	54,550,555	50,775,972
Rented buildings and other	16,522,830	16,567,445
Indianapolis Maintenance Center (IMC)	8,239,177	8,067,899
Reliever airports	2,934,461	2,919,794
Total operating revenues	160,672,462	153,259,733
<b>Operating Expenses</b>		
Personal services	33,910,211	31,055,972
Contractual services	25,620,353	25,086,231
Utilities	11,448,531	8,722,246
Supplies	5,180,710	4,104,131
Materials	3,052,886	3,196,458
General	1,797,054	1,369,000
Total operating expenses	81,009,745	73,534,038
<b>Income From Operations Before Depreciation</b>	79,662,717	79,725,695
Depreciation expense	92,196,205	94,074,607
<b>Loss From Operations</b>	(12,533,488)	(14,348,912)
<b>Nonoperating Revenues (Expenses)</b>		
State and local appropriations	13,162,521	16,751,310
Federal operating grants	598,580	595,315
Passenger facility charges	19,014,107	17,753,293
Customer facility charges (rental cars)	7,421,524	7,218,100
Investment income	6,115,216	4,678,810
Interest expense, net of \$0 and \$329,919 interest capitalized in 2018 and 2017, respectively	(37,949,911)	(38,137,899)
Loss on disposals of capital assets and other	(47,254,775)	(3,699,660)
	(38,892,738)	5,159,269
<b>Decrease in Net Position Before Capital Contributions and Grants</b>	(51,426,226)	(9,189,643)
<b>Capital Contributions and Grants</b>		
Federal, state and local grants	21,751,594	6,206,260
Contributions from lessees and other	4,354,673	2,120,100
	26,106,267	8,326,360
<b>Increase (Decrease) in Net Position</b>	(25,319,959)	(863,283)
<b>Net Position, Beginning of Year</b>	1,058,692,417	1,059,555,700
<b>Net Position, End of Year</b>	\$ 1,033,372,458	\$ 1,058,692,417

**Indianapolis Airport Authority**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers and users	\$ 161,457,455	\$ 155,793,971
Cash payments to vendors for goods and services	(45,412,063)	(42,184,498)
Cash payments for employees services	(33,836,007)	(30,518,728)
Net cash provided by operating activities	82,209,385	83,090,745
<b>Cash Flows From Noncapital Financing Activities</b>		
Operating grants received	525,098	592,785
Customer facility charges received	7,421,524	7,218,100
Insurance recoveries	590,406	224,537
Net cash provided by noncapital financing activities	8,537,028	8,035,422
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from issuance of subordinate note	45,840,000	-
Principal paid on bonds	(53,895,000)	(34,845,000)
Bond issue costs paid	(119,180)	(282,869)
Interest paid	(40,905,280)	(40,911,029)
Acquisition and construction of capital assets	(99,714,931)	(34,643,185)
Demolition costs related to capital assets	(540)	(364,634)
Proceeds from sale of capital assets	1,971,586	4,348,834
Passenger facility charges received	19,850,287	17,552,735
Capital grants received	18,870,548	10,136,361
Net cash used in capital and related financing activities	(108,102,510)	(79,008,787)
<b>Cash Flows From Investing Activities</b>		
Purchase of investment securities	(236,886,581)	(334,758,662)
Proceeds from sales and maturities of investment securities	255,939,500	321,318,000
Interest received on investments and cash equivalents	3,279,386	2,628,383
Net cash provided by (used in) investing activities	22,332,305	(10,812,279)
<b>Net Increase in Cash and Cash Equivalents</b>	4,976,208	1,305,101
<b>Cash and Cash Equivalents, Beginning of Year</b>	133,678,539	132,373,438
<b>Cash and Cash Equivalents, End of Year</b>	\$ 138,654,747	\$ 133,678,539

**Indianapolis Airport Authority**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Loss From Operations to Net Cash Provided by Operating Activities</b>		
Loss from operations	\$ (12,533,488)	\$ (14,348,912)
Item not requiring cash		
Depreciation of capital assets	92,196,205	94,074,607
Change in assets and liabilities		
Accounts receivable and unbilled revenues	784,993	2,534,238
Supplies and materials inventories	(417,769)	(218,270)
Other assets	467,257	(184,388)
Accounts payable	1,637,983	696,226
Accrued and withheld items	74,204	537,244
Net cash provided by operating activities	<b>\$ 82,209,385</b>	<b>\$ 83,090,745</b>
<b>Noncash Capital and Related Financing Activities</b>		
Capital assets included in accounts payable at end of year	\$ 20,887,937	\$ 4,852,511
Capital assets contributed by lessees and other governments	4,354,673	2,120,100
State and local appropriations used to fund capital lease obligations and interest	3,900,138	17,062,403

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2018 and 2017

### **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 eleven members, six of which are appointed by the Mayor of the Consolidated City of Indianapolis-Marion County (a unified form of government commonly referred to as Unigov), one by the majority leader of the City-Council, and one each by the Hendricks, Hamilton, Hancock and Morgan County Boards of Commissioners. Each member is appointed a four-year term.

#### ***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, 2018 and 2017

### **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, 2018 and 2017, 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, 2018 and 2017

### **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 prior to December 31, 2017, was capitalized and included in the cost of property and equipment. Effective January 1, 2018, the Authority implemented the provisions of GASB Statement No 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. In accordance with this Statement, the Authority recognized all interest costs incurred before the end of the construction period as an expense in the period in which the cost was incurred. GASB Statement No. 89 was implemented prospectively and had no effect on the prior period financial statements.

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.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2018 and 2017

### ***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.

### ***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.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2018 and 2017

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

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

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

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

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

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

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

PFC's, which are recognized as earned, are included in nonoperating revenues and amounted to \$19,014,107 and \$17,753,293 for 2018 and 2017, 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 \$7,421,524 and \$7,218,100 for 2018 and 2017, respectively.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2018 and 2017

### **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 \$820,600 and \$920,361 at December 31, 2018 and 2017, 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.

### **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.



# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2018 and 2017

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

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

**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, 2018 and 2017, 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:

	<u>2018</u>	<u>2017</u>
Federal National Mortgage Association	\$ -	\$ 5,475,398
Freddie Mac	-	1,348,839
	<u>\$ -</u>	<u>\$ 6,824,237</u>

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2018 and 2017

**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.

### **Summary of Carrying Values**

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

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents		
Current - unrestricted	\$ 21,102,629	\$ 15,879,279
Current - restricted	43,768,761	43,316,326
Noncurrent - restricted	73,783,357	74,482,934
Total cash and cash equivalents	<u>138,654,747</u>	<u>133,678,539</u>
Investment securities		
Noncurrent - unrestricted	48,335,166	47,357,550
Noncurrent - restricted	87,747,811	104,837,509
Total investment securities	<u>136,082,977</u>	<u>152,195,059</u>
	<u>\$ 274,737,724</u>	<u>\$ 285,873,598</u>

The carrying value of deposits and investments are as follows:

	<b>2018</b>	<b>2017</b>
Carrying value		
Deposits	\$ 17,648,135	\$ 12,335,341
Investments	257,089,589	273,538,257
	<u>\$ 274,737,724</u>	<u>\$ 285,873,598</u>

### **Investment Income**

Investment income for the years ended December 31, 2018 and 2017 consisted of:

	<b>2018</b>	<b>2017</b>
Interest and dividend income	<u>\$ 6,115,216</u>	<u>\$ 4,678,810</u>

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Revenue Bond Interest and Principal Fund	\$ 46,664,644	\$ 58,171,808
Revenue Bond Reserve Fund	54,646,698	54,145,329
Operation and Maintenance Reserve Fund	13,529,686	13,348,743
Renewal and Replacement Fund	2,724,513	2,840,566
Capital Improvement Fund	53,482,793	62,798,947
Passenger Facility Charge Fund	16,034,696	12,962,176
Debt Service Coverage Fund	17,211,818	17,179,265
Subordinate Securities Fund	25,925	-
Customer deposits	748,633	738,585
Air Service Task Force and other	230,523	451,350
	<u>\$ 205,299,929</u>	<u>\$ 222,636,769</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, 2018 and 2017

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, 2018 and 2017 consist of:

	<u>2018</u>	<u>2017</u>
State of Indiana	\$ 113,539	\$ 46,856
Federal Aviation Administration	1,868,305	(946,058)
U.S. Department of Homeland Security	<u>172,362</u>	<u>98,880</u>
	<u>\$ 2,154,206</u>	<u>\$ (800,322)</u>

The maximum amount of federal and state participation available for 2018 totaled \$59,507,846. At December 31, 2018, a cumulative total of \$35,102,941 has been received on these grant commitments.

**Indianapolis Airport Authority**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 4: Capital Assets**

A summary of changes in capital assets for the years ended December 31, 2018 and 2017 is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Disposals	Ending Balance
<b>December 31, 2018</b>				
Capital assets, not being depreciated:				
Land	\$ 281,413,319	\$ 6,044,334	\$ (44,604,987)	\$ 242,852,666
Construction in progress	25,653,510	111,389,390	(58,882,006)	78,160,894
Total capital assets, not being depreciated	<u>307,066,829</u>	<u>117,433,724</u>	<u>(103,486,993)</u>	<u>321,013,560</u>
Capital assets, being depreciated:				
Buildings	1,646,056,822	17,887,914	(4,529,819)	1,659,414,917
Runways and other airport infrastructure	1,018,402,081	33,453,452	(7,100,732)	1,044,754,801
Equipment, furniture and fixtures and other	248,475,869	9,707,102	(1,397,373)	256,785,598
Total capital assets, being depreciated	<u>2,912,934,772</u>	<u>61,048,468</u>	<u>(13,027,924)</u>	<u>2,960,955,316</u>
Less accumulated depreciation for:				
Buildings	(664,607,417)	(47,879,521)	2,626,979	(709,859,959)
Runways and other airport infrastructure	(609,314,240)	(34,378,567)	3,216,986	(640,475,821)
Equipment, furniture and fixtures and other	(188,361,112)	(9,938,117)	1,375,486	(196,923,743)
Total accumulated depreciation	<u>(1,462,282,769)</u>	<u>(92,196,205)</u>	<u>7,219,451</u>	<u>(1,547,259,523)</u>
Total capital assets, being depreciated, net	<u>1,450,652,003</u>	<u>(31,147,737)</u>	<u>(5,808,473)</u>	<u>1,413,695,793</u>
Capital assets, net	<u>\$ 1,757,718,832</u>	<u>\$ 86,285,987</u>	<u>\$ (109,295,466)</u>	<u>\$ 1,734,709,353</u>
<b>December 31, 2017</b>				
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, 2018 and 2017

### Note 5: Bonds Payable and Other Debt

Bonds and other debt outstanding at December 31, 2018 and 2017 consist of:

	<b>2018</b>	<b>2017</b>
Revenue Bonds, Series 2016A-1		
Serial bonds, maturing January 1, 2019 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	\$ 130,655,000	\$ 146,105,000
Unamortized premium	13,313,469	15,817,987
	143,968,469	161,922,987
Revenue Bonds, Series 2016A-2		
Serial bonds, maturing January 1, 2019 to January 1, 2023 in payments from \$2,260,000 to \$3,370,000. Interest at 1.651% to 2.561%, due semiannually on January 1 and July 1	15,325,000	18,450,000
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
	188,825,000	200,000,000
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	15,189,854	16,761,115
	193,879,854	195,451,115
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	163,850,000
Unamortized premium	13,334,746	14,772,570
	177,184,746	178,622,570
Revenue Bonds, Series 2013A		
Term bonds, maturing July 1, 2018. Interest is fixed at 1.800%, due semiannually on January 1 and July 1	-	11,240,000
	-	11,240,000
Revenue Bonds, Series 2013B		
Term bonds, maturing July 1, 2018. Interest is fixed at 1.610%, due semiannually on January 1 and July 1	-	9,825,000
	-	9,825,000

**Indianapolis Airport Authority**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

(Continued)

	<b>2018</b>	<b>2017</b>
Revenue Bonds, Series 2012A		
Term bonds, maturing July 1, 2019. Interest is fixed at 1.253%, due semiannually on January 1 and July 1	\$ 5,370,000	\$ 13,500,000
Unamortized discount	(770)	(9,753)
	5,369,230	13,490,247
Revenue Bonds, Series 2010C		
Term bonds, maturing January 1, 2033, 2036 and 2037. Interest is variable (75% of the one-month LIBOR plus 0.620% (2.497%) at December 31, 2018), due monthly on the first business day	314,600,000	320,030,000
Revenue Bonds, Series 2010A		
Serial bonds, maturing January 1, 2019 to January 1, 2027 in payments from \$725,000 to \$1,005,000. Interest at 4.00% to 4.50%, due semiannually on January 1 and July 1	7,710,000	8,405,000
Term bonds, maturing January 1, 2030 and 2037. Interest at 4.75% and 5.00%, respectively, due semiannually on January 1 and July 1	13,155,000	13,155,000
	20,865,000	21,560,000
Unamortized discount	(130,377)	(142,511)
	20,734,623	21,417,489
Total revenue bonds	874,561,922	933,949,408
Other debt		
Subordinate Securities, Series 2018A		
Principal due March 1, 2023 in an amount not to exceed \$175,000,000. Interest is variable at the highest of (a) the Prime Prime Rate in effect at such time plus 1.00%; (b) the Federal Funds Rate in effect at such time plus 2.00%; (c) and 7.00%, due monthly	45,840,000	-
Obligations under capital lease	-	12,728,442
	45,840,000	12,728,442
Total bonds payable and other debt	920,401,922	946,677,850
Current portion	(31,045,000)	(66,623,442)
	889,356,922	880,054,408
Long-term portion	\$ 889,356,922	\$ 880,054,408

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2018 and 2017

### **Revenue Bonds**

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 2019 to 2037.

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

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.

### **2018A Subordinate Securities**

In March 2018, the Authority issued the Indianapolis Airport Authority Subordinate Securities, Series 2018A (2018A Subordinate Securities) in an amount not to exceed \$175,000,000. The 2018A Subordinate Securities will be used to fund the Authority's stormwater enhancement and baggage system modification projects. In conjunction with the issuance of the 2018A Subordinate Securities, the Authority covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it may legally do so, revise the same as may be necessary or appropriate, in order that upon measurement in each year, the net revenues, together with moneys in the Coverage Fund, will at all times be at least sufficient to equal an amount not less than one hundred ten percent (110%) of the sum of the Debt Service Requirement plus the Subordinate Securities Debt Service Requirement for such year.

### **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 2018 and 2017 was approximately \$17.1 million and \$20.7 million, respectively. The customer facility charge revenue designation was \$6.0 million for 2018 and 2017.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2018 and 2017

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

### **Debt Service Requirements**

Debt service requirements to maturity for all debt of the Authority, excluding any unamortized discount or premium and its capital lease agreements, are as follows at December 31, 2018:

Years Ending December 31	Revenue Bonds		Subordinate Securities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 31,045,000	\$ 31,697,464	\$ -	\$ 1,492,183	\$ 64,234,647
2020	33,075,000	30,736,700	-	1,492,183	65,303,883
2021	34,645,000	29,729,743	-	1,492,183	65,866,926
2022	36,300,000	28,530,063	-	1,492,183	66,322,246
2023	37,520,000	27,332,885	45,840,000	241,201	110,934,086
2024 - 2028	252,880,000	107,491,091	-	-	360,371,091
2029 - 2033	319,340,000	48,453,774	-	-	367,793,774
2034 - 2037	88,050,000	3,882,186	-	-	91,932,186
	<u>\$ 832,855,000</u>	<u>\$ 307,853,906</u>	<u>\$ 45,840,000</u>	<u>\$ 6,209,933</u>	<u>\$ 1,192,758,839</u>

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2018 and 2017:

	Beginning Balance	2018		Ending Balance	Current Portion
		Additions	Deductions		
Long-term obligations					
Revenue bonds payable	\$ 886,750,000	\$ -	\$ (53,895,000)	\$ 832,855,000	\$ 31,045,000
Bond (discounts)/premium	47,199,408	-	(5,492,486)	41,706,922	-
Total revenue bonds payable	933,949,408	-	(59,387,486)	874,561,922	31,045,000
Subordinate securities	-	45,840,000	-	45,840,000	-
Obligations under capital lease	12,728,442	-	(12,728,442)	-	-
Total long-term obligations	<u>\$ 946,677,850</u>	<u>\$ 45,840,000</u>	<u>\$ (72,115,928)</u>	<u>\$ 920,401,922</u>	<u>\$ 31,045,000</u>

**Indianapolis Airport Authority**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

	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	\$ 1,003,219,796	\$ -	\$ (56,541,946)	\$ 946,677,850	\$ 66,623,442

On March 28, 2019, the Authority entered into a loan with the Indiana State Revolving Loan Fund (“SRF”), the source of which is a subsidized direct loan from the SRF Clean Water Program in the amount of \$30.0 million. The proceeds of this transaction are to fund specific components of the stormwater enhancement project. Of the \$45.8 million 2018A Subordinate Securities outstanding as of December 31, 2018, there was approximately \$10.8 million refunded by the SRF loan.

**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, 2018, 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.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2018 and 2017

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, 2018	Fair Value at December 31, 2017
Series 2014A	December 1, 2004	December 30, 2033	\$ 16,534,000	4.962%	\$ 2,851,440	\$ 4,498,712
Series 2015A	December 28, 2005	December 31, 2032	15,000,000	4.820%	4,820,915	3,822,394
Series 2016A	August 1, 2006	January 1, 2036	17,321,400	5.311%	3,490,212	6,272,197
					<u>\$ 11,162,567</u>	<u>\$ 14,593,303</u>

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

The 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, 2018 and 2017. As the Forward Delivery Agreements are effective hedging instruments, the changes in fair value of the Forward Delivery Agreements of \$(3,430,736) and \$(579,058) for the years ended December 31, 2018 and 2017, respectively, are shown as an adjustment to the carrying amount of the related deferred inflows of resources on the statements of net position.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2018 and 2017

**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 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 value of the instrument at the time of termination.

### **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 31, 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.

# Indianapolis Airport Authority

## Notes to Financial Statements

### December 31, 2018 and 2017

**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, 2018	Fair Value at December 31, 2017
\$ 103,900,000	October 14, 2004	July 1, 2008	January 1, 2036	4.0325%	75% One Month LIBOR	\$ (18,268,644)	\$ (22,491,720)
60,700,000	October 14, 2004	July 1, 2008	January 1, 2037	4.1500%	75% One Month LIBOR	(11,589,922)	(14,165,152)
50,000,000	October 7, 2005	July 1, 2008	January 1, 2033	3.7800%	75% One Month LIBOR	(8,158,933)	(9,928,761)
100,000,000	July 2, 2015 *	July 1, 2015 *	January 1, 2033	3.7775%	75% One Month LIBOR	(16,273,745)	(20,067,142)
<u>\$ 314,600,000</u>						<u>\$ (54,291,244)</u>	<u>\$ (66,652,775)</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, 2018 and 2017. As the Swap Agreements are effective hedging instruments, the changes in fair value of the Swap Agreements of \$12,361,531 and \$7,589,203 for the years ended December 31, 2018 and 2017, respectively, are shown as an adjustment to the carrying amount of the related deferred outflows of resources on the statements of net position.

**Credit Risk** - The fair value of each of the Swap Agreements represents the Authority's credit exposure to the counterparties as of December 31, 2018. 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, 2018, 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.

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2018 and 2017

The ratings of the various counterparties at December 31, 2018 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 \$103,900,000 and \$60,700,000	Aa2	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+

<sup>1</sup> – 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, 2018, the interest rate on the Authority's 2010C Revenue Bonds is 2.497%, (calculated at 75% of the one-month LIBOR plus 0.6200% times the margin rate factor for applicable series), while the Authority receives payments under the Swap Agreements equal to 75% of the one-month LIBOR, or 1.877%.

**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, 2018 and 2017

**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, 2018, 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.

	<b>Variable Rate Bonds</b>		<b>Interest Rate Swaps, Net</b>	<b>Total Interest</b>
	<b>Principal</b>	<b>Interest</b>		
2019	\$ 5,710,000	\$ 7,721,508	\$ 6,337,337	\$ 14,058,845
2020	6,000,000	7,869,009	6,206,733	14,075,742
2021	6,305,000	8,145,155	6,069,487	14,214,642
2022	6,630,000	8,298,892	5,925,174	14,224,066
2023	6,965,000	8,529,401	5,773,546	14,302,947
2024 - 2028	105,540,000	33,780,788	22,832,564	56,613,352
2029 - 2033	136,940,000	15,174,370	10,444,628	25,618,998
2034 - 2038	40,510,000	1,507,910	1,094,958	2,602,868
	<u>\$ 314,600,000</u>	<u>\$ 91,027,033</u>	<u>\$ 64,684,427</u>	<u>\$ 155,711,460</u>

### Note 8: Obligations Under Capital Leases

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

The State, the City and Hendricks County, Indiana provided the initial funding for the IMC. The State provided \$184.5 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. In 2017, the ATC lease expired as the related bonds were paid-off in advance of their 2018 maturity. The IMC lease expired in 2018. At December 31, 2017, the gross amounts of capital assets and related accumulated depreciation recorded under these capital leases was \$323,463,530 and (\$176,452,742), respectively.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2018 and 2017

The Authority's capital lease payments to the State were 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 could not be held liable, should an appropriation not be made, for the State's debt obligations relative to the IMC facility.

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, 2018 and 2017

### 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, 2018 and 2017:

	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)
<b>December 31, 2018</b>				
Investments				
U.S. Treasury Security Notes	\$ 141,578,174	\$ 141,578,174	\$ -	\$ -
U.S. Treasury Security Bills	3,669,227	3,669,227	-	-
Indiana municipal securities	3,102,941	-	3,102,941	-
External investment pools	52,173	-	52,173	-
Derivative Financial Instruments				
Forward delivery purchase agreements	11,162,567	-	-	11,162,567
Interest rate swap agreements	(54,291,244)	-	(54,291,244)	-
<b>December 31, 2017</b>				
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)	-

# Indianapolis Airport Authority

## Notes to Financial Statements December 31, 2018 and 2017

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, 2018.

### ***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 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, 2018. 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. Once all on-going expenses have been reimbursed to the Authority, revenue in excess of expenses are shared between the bondholders and the Authority on a percentage basis bound by the Settlement Agreement. 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, 2018 and 2017

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, 2018 and 2017, the Authority incurred approximately \$7.6 million and \$7.1 million of costs for the IMC, respectively. The Authority has received reimbursements for these costs under the Settlement Agreement aggregating approximately \$6.4 million and \$8.9 million for 2018 and 2017, respectively. In addition, as of December 31, 2018 and 2017, the Authority has accrued approximately \$3.2 million and \$1.1 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, 2018, the Authority has provided \$7.5 million in grants and \$9.6 million in rental credits to the lessees of the IMC.

# Indianapolis Airport Authority

## Notes to Financial Statements

December 31, 2018 and 2017

### 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 2018 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 \$6,046,106 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 \$947,417 for 2018 and \$796,930 for 2017.

### 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, 2018 and 2017

Minimum future rentals on noncancelable operating leases to be received in each of the next five years and thereafter as of December 31, 2018 are as follows:

2019	\$ 23,036,192
2020	19,839,923
2021	16,294,163
2022	16,028,215
2023	14,358,872
Thereafter	<u>73,665,506</u>
	<u>\$ 163,222,871</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 \$48.5 million in 2018 and \$45.1 million in 2017, 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, 2018, 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, 2018 and 2017

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, 2018, 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, 2018, 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, 2018 and applied to approximately 487 homes, of which 402 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, 2018, 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 2018, the Authority sold approximately 2,038 acres under this land use initiative for a total sales price of \$1,953,514. During 2017, the Authority sold approximately 49 acres under this land use initiative for a total sales price of \$3,853,464.

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, 2018 and 2017

### ***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. 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 continued to maintain and monitor bat habitats under this program pursuant to a permit with the U.S. Fish & Wildlife Service through the year 2017. In 2018, the Authority sold nearly 2,000 acres of this land for approximately \$1.5 million. The Authority retained permanently protected land in Hendricks and Marion Counties that no longer have monitoring requirements. Approximately \$22.9 million was 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, 2018, the Authority incurred \$3.3 million in costs.

The Authority is currently involved in three separate pollution remediation obligations that meet the requirements for accounting treatment under GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. These obligations are related primarily to the removal and/or treatment of petroleum impacted soil. 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, 2018 and 2017 was \$120,000 and \$40,000, 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, 2018, the Authority had outstanding commitments for certain airport improvements aggregating \$102,779,632.

### ***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, 2018, there were six 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 five worker's compensation claims pending as of December 31, 2018. 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, 2018

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	\$ 2,110	-	2,680	\$ 4,790
	20.106	3-18-0038-142		7,357,224	491,142	176,538	(314,604)	-
	20.106	3-18-0038-144		713,250	182,753	182,753	-	-
	20.106	3-18-0038-145		2,614,949	587,194	600,459	13,265	-
	20.106	3-18-0038-147		3,776,258	319,858	319,858	-	-
	20.106	3-18-0038-148		3,305,826	153,442	-	160,017	313,459
	20.106	3-18-0038-149		2,925,000	59,152	2,077,543	2,242,847	224,456
	20.106	3-18-0038-150		1,000,000	-	877,455	877,455	-
	20.106	3-18-0038-151		4,050,000	-	3,121,978	3,547,160	425,182
	20.106	3-18-0038-152		1,000,000	-	345,030	517,976	172,946
	20.106	3-18-0038-153		6,475,000	-	5,609,687	6,082,511	472,824
	20.106	3-18-0038-154		2,441,530	-	308,334	2,416,331	2,107,997
	20.106	3-18-0038-155		630,513	-	630,513	630,513	-
	20.106	3-18-0038-156		262,500	-	-	8,160	8,160
	20.106	3-18-0038-157		12,112,321	-	-	18,750	18,750
	21.106	Various		-	(3,170,306)	597,044	16,068	(3,751,282)
Indianapolis Regional Airport	20.106	3-18-0037-16		514,454	62,568	38,323	(24,245)	-
	20.106	3-18-0037-18		53,236	4,650	-	(4,650)	-
	20.106	3-18-0037-19		862,472	-	-	502,093	502,093
Eagle Creek Airpark	20.106	3-18-0039-21		282,600	18,000	-	-	18,000
	20.106	3-18-0039-22		237,000	52,200	37,690	8,514	23,024
	20.106	3-18-0039-23		855,000	-	511,482	588,944	77,462
	20.106	3-18-0039-24		480,532	-	-	50,175	50,175
Indianapolis Metropolitan Airport	20.106	3-18-0040-23		867,513	120,698	120,698	-	-
	20.106	3-18-0040-24		480,532	14,860	14,859	(1)	-
	20.106	3-18-0040-25		1,050,000	5,621	215,850	968,134	757,905
Hendricks County	20.106	3-18-0093-16		458,424	-	-	380,147	380,147
	20.106	3-18-0093-17		79,560	-	-	47,217	47,217
Indianapolis Downtown Heliport	20.106	3-18-0118-14		150,000	150,000	135,000	-	15,000
	20.106	3-18-0118-15		150,000	-	150,000	150,000	-
	20.106	3-18-0118-16		150,000	-	150,000	150,000	-

**Indianapolis Airport Authority**  
**Schedule of Governmental Awards (Continued)**  
**Year Ended December 31, 2018**

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
State of Indiana - Department of Transportation, Aeronautics Section								
Indianapolis Regional Airport			1437015	\$ 69,160	\$ 6,400	\$ 6,400	\$ -	\$ -
			1537016	28,581	3,151	3,151	-	-
			1737017	2,033	1,971	1,484	-	487
			1837018	2,958	2,665	2,407	(258)	-
			1837019	47,915	-	-	27,894	27,894
Eagle Creek Airpark			1539021	15,700	1,000	-	-	1,000
			1739022	10,533	2,320	1,675	378	1,023
			1839023	47,500	-	26,995	32,719	5,724
Indianapolis Metropolitan Airport			1440021	11,230	2,489	2,489	-	-
			1740023	38,556	6,878	6,878	-	-
			1744024	21,357	1,462	1,462	-	-
			1840025	58,333	4,549	11,042	53,785	47,292
Hendricks County			1593015	12,310	2,955	2,955	-	-
			1893016	25,468	4,349	4,349	21,119	21,119
Indianapolis Downtown Heliport			17118014	6,667	6,667	6,000	-	667
			18118015	8,334	-	8,333	8,333	-
			18118016	8,333	-	-	8,333	8,333
					\$ (899,202)	\$ 16,306,714	\$ 19,187,760	\$ 1,981,844

**Notes to Schedule:**

1. 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, 2018 and 2017 totaled \$597,045 and \$2,581,748, respectively.

**Indianapolis Airport Authority**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2018**

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	\$ -	\$ 2,680
	20.106	3-18-0038-145	-	13,265
	20.106	3-18-0038-148	-	160,017
	20.106	3-18-0038-149	-	2,242,847
	20.106	3-18-0038-150	-	877,455
	20.106	3-18-0038-151	-	3,547,160
	20.106	3-18-0038-142	-	(314,604)
	20.106	3-18-0038-152	-	517,976
	20.106	3-18-0038-153	-	6,082,511
	20.106	3-18-0038-154	-	2,416,331
	20.106	3-18-0038-155	-	630,513
	20.106	3-18-0038-156	-	8,160
	20.106	3-18-0038-157	-	18,750
	20.106	3-18-0037-16	-	(24,245)
	20.106	Various	-	16,068
	20.106	3-18-0037-18	-	(4,650)
Indianapolis Regional Airport	20.106	3-18-0037-19	-	502,093
Eagle Creek Airpark	20.106	3-18-0039-22	-	8,514
	20.106	3-18-0039-23	-	588,944
	20.106	3-18-0039-24	-	50,175
Indianapolis Metropolitan Airport	20.106	3-18-0040-25	-	968,134
	20.106	3-18-0040-24	-	(1)
	20.106	3-18-0093-16	-	380,147
Hendricks County	20.106	3-18-0093-17	-	47,217
Indianapolis Downtown Heliport	20.106	3-18-0118-15	-	150,000
	20.106	3-18-0118-16	-	150,000
Grand Total			\$ -	\$ 19,035,457

**Indianapolis Airport Authority**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2018**

**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, 2018. 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, 2018.
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 numbers. Land sales for the years ended December 31, 2018 and 2017 totaled \$597,045 and \$2,581,748, respectively.

# Indianapolis Airport Authority

## Schedule of Passenger Facility Charge Revenues and Expenditures

### Year Ended December 31, 2018

Revenues	Date Approved	Amount Approved For Use	Cumulative Total - December 31, 2017	Quarter Ended				Year Ended December 31, 2018	Cumulative Total - December 31, 2018
				March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018		
Passenger facility charge revenues received			\$ 340,918,680	\$ 4,224,980	\$ 5,060,414	\$ 4,841,022	\$ 5,723,871	\$ 19,850,287	\$ 360,768,967
Interest earned			5,445,585	11,650	102,131	31,205	132,245	277,231	5,722,816
Total passenger facility charge revenue received			<u>\$ 346,364,265</u>	<u>\$ 4,236,630</u>	<u>\$ 5,162,545</u>	<u>\$ 4,872,227</u>	<u>\$ 5,856,116</u>	<u>\$ 20,127,518</u>	<u>\$ 366,491,783</u>
<b>Expenditures</b>									
Application 93-01	June 28, 1993	\$ 68,562,881	\$ 68,562,881	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,562,881
Application 96-02	December 20, 1996	12,263,018	12,263,018	-	-	-	-	-	12,263,018
Application 01-03	March 28, 2001	152,707	-	-	-	-	-	-	-
Application 03-04	August 25, 2003	443,929,000	252,581,021	-	8,527,500	-	8,527,500	17,055,000	269,636,021
Total passenger facility charge revenue expended		<u>\$ 524,907,606</u>	<u>\$ 333,406,920</u>	<u>\$ -</u>	<u>\$ 8,527,500</u>	<u>\$ -</u>	<u>\$ 8,527,500</u>	<u>\$ 17,055,000</u>	<u>\$ 350,461,920</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, 2018, and the related statements of activities 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 5, 2019.

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

**BKD,LLP**

Indianapolis, Indiana  
April 5, 2019

## 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 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, 2018. 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 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 Each Major Federal Program***

In our opinion, Indianapolis Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

### **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 an 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 a 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 5, 2019

## **Report on Compliance for Each 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, 2018.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations 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 and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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, 2018.

## 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 an 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 the passenger facility charge on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge 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 5, 2019

**Indianapolis Airport Authority**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2018**

**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:

<b>Cluster/Program</b>	<b>CFDA Number</b>
Airport Improvement Program	20.106

**Indianapolis Airport Authority**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2018**

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, 2018**

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

**Indianapolis Airport Authority**  
**Passenger Facility Charge Audit Summary**  
**Year Ended December 31, 2018**

**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 |