Marion County Convention and Recreational Facilities Authority

(A Component Unit of the Consolidated City of Indianapolis-Marion County)

Accountants' Reports and Financial Statements

December 31, 2005 and 2004

Marion County Convention and Recreational Facilities Authority

(A Component Unit of the Consolidated City of Indianapolis-Marion County)

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Contents

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Independent Accountants' Report on Financial Statements and Supplementary Information

To the Board of Directors
Marion County Convention and
Recreational Facilities Authority
Indianapolis, Indiana

We have audited the accompanying basic financial statements of Marion County Convention and Recreational Facilities Authority (Authority), a component unit of the Consolidated City of Indianapolis-Marion County, as of and for the years ended December 31, 2005 and 2004 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion County Convention and Recreational Facilities Authority as of December 31, 2005 and 2004, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2006, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

February 7, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS
(Unaudited)

Introduction

The Marion County Convention and Recreational Facilities Authority (the "Authority"), which is a component unit of the Consolidated City of Indianapolis-Marion County (the "City") and conducts its business in the City, offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended on December 31, 2005. This Management's Discussion and Analysis is being presented to provide additional information regarding the activities of the Authority in connection with its financial statements.

The Authority is organized and operated to finance, acquire, construct and lease capital improvements (principally by means of lease arrangements, whereby the Authority operates as the lessor and other political units of the City operate as the lessee, paying rent to the Authority for their use). As such, the Authority's principal assets are lease receivables and its principal liabilities are bonded indebtedness issued to finance such leased capital improvements. The Authority relies on its lease arrangements as the security for, and a source of payment of, its continuing operation; it has no taxing power or other sources of revenue generation except for nominal investment earnings, which are periodically credited against lease rental payments otherwise due.

Financial Highlights

The following are some highlights from the Authority's financial statements for the fiscal year ended December 31, 2005:

- The Authority experienced a decrease in total assets of approximately $43 million. This is principally due to its receipt of annual lease rentals and its application of such receipts to its bonded indebtedness. Accordingly, the Authority also experienced a corresponding reduction in total liabilities of approximately $48 million as a result of such annual payments on its bonded indebtedness.
- Operating expenses exceeded operating revenue for the fiscal year ended December 31, 2005 by approximately $12,000. This essentially reflects the matching of lease payments in the fiscal year with debt service and related costs.
- Net nonoperating revenue for the fiscal year ended December 31, 2005 of approximately $5 million resulted from entering into a swaption associated with a synthetic refunding. The up front savings associated with the swaption will be used, in part, to fund operating subsidies to Pacers Basketball Corporation.

Overview of Financial Statements

This financial report of the Authority includes the following financial statements for the calendar years 2005 and 2004:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- 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 promulgated by the Governmental Accounting Standards Board (GASB).

The net assets of the Authority are comprised of three categories:

Invested in capital assets - this reflects the Authority's investment in capital assets, and relates solely to certain land donated to the Authority upon which one leased facility was constructed.

Restricted net assets - this represents resources that are subject to external restrictions on how they may be used (which principally relate to the Authority's trust agreements under which its bonded indebtedness was issued).

Unrestricted net assets - this represents resources that may be used to meet the Authority's ongoing obligations to creditors and for its other public purposes.

Net Assets

The Balance Sheets reflect the assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The Authority's net assets - the difference between total assets and total liabilities - represent one way to measure the Authority's financial health. In a general way, changes in net assets that occur over time may also serve as an indicator of whether the financial position of the Authority is strengthening or weakening.

Balance Sheets

A summarized comparison of the Authority's assets, liabilities and net assets at December 31, 2005, 2004 and 2003 follows:

	December 31		
	2005	2004	2003
Assets			
Unrestricted assets - current	$ 1,200	$ —	$ —
Restricted assets - current	46,753	54,113	38,999
Unrestricted assets - noncurrent	10,250	6,055	6,458
Restricted assets - noncurrent	715,085	756,205	795,820
Total assets	$ 773,288	$ 816,373	$ 841,277
Liabilities			
Current liabilities payable from unrestricted assets	$ 600	$ —	$ —
Current liabilities payable from restricted assets	10,499	17,902	4,192
Noncurrent liabilities payable from restricted assets	751,901	793,414	832,078
Total liabilities	763,000	811,316	836,270
Net assets			
Invested in capital assets	1,300	1,300	1,300
Restricted	3,726	9,296	619
Unrestricted	5,262	(5,539)	3,088
Total net assets	10,288	5,057	5,007
Total liabilities and net assets	$ 773,288	$ 816,373	$ 841,277

Note: Dollars are in thousands.

The decrease in *total assets and total liabilities* (from 2004 to 2005 and from 2003 to 2004) is primarily attributable to the Authority's annual receipt of lease rentals and its application of such receipts to its bonded indebtedness. More specifically, the decrease in *Restricted assets - noncurrent* of approximately $41.1 million from 2004 to 2005 and $39.6 million from 2003 to 2004 and the decrease in *Noncurrent liabilities* of approximately $41.5 million from 2004 to 2005 and $38.7 million from 2003 to 2004 reflects debt payments including a restructuring of the Authority's lease with the Capital Improvement Board of Managers upon the refinancing of the 1993A Bonds in 2003. Also, *Restricted assets - current* increased by approximately $15.1 million from 2003 to 2004 and decreased by approximately $7.4 million from 2004 to 2005 due to the fact that portions of certain lease payments were still being held in Authority sinking fund accounts at December 31, 2004, awaiting transfer by the trustee for application against the Authority's outstanding debt which occurred in 2005. The increase in *Current liabilities payable from restricted assets* of approximately $13.7 million from 2003 to 2004 represents the additional accrued interest due at December 31, 2004 as a result of the monies still being held in Authority accounts and the decrease of approximately $7.4 million from 2004 to 2005 reflects no such buildup in 2005.

Restricted net assets have increased by about $8.7 million in 2004 from 2003 while they decreased by about $5.6 million in 2005 from 2004. As discussed previously, this is primarily due to the excess monies that were still being held in the Authority's sinking fund accounts at December 31, 2004 (which did not occur in 2005), with the additional partial offset at December 31, 2004 resulting from larger accrued interest payable balances.

Unrestricted net assets primarily reflect the differences in timing between the pay down of the leases receivable and the pay down of the corresponding bond debt of the Authority, as well as the amortization of certain intangible items that are not recouped through lease payments.

Statements of Revenues, Expenses and Changes in Net Assets

The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Assets for the fiscal years ended December 31, 2005, 2004 and 2003 follows:

	December 31		
	2005	2004	2003
Operating Revenues			
Interest on leases	$ 26,112	$ 26,945	$ 28,518
Investment and other income, net of fees	107	34	156
Gain on restructuring of lease	—	—	1,010
Total operating revenues	26,219	26,979	29,684
Nonoperating Revenues			
Premium on swaption	9,443	—	—
Total revenues	35,662	26,979	29,684
Operating Expenses			
Interest expense	26,140	26,699	27,606
Administrative expenses	91	230	377
Total operating expenses	26,231	26,929	27,983
Nonoperating Expenses			
Subsidy paid to Pacers Basketball Corporation	4,200	—	—
Total expenses	30,431	26,929	27,983
Increase in Net Assets	$ 5,231	$ 50	$ 1,701

Note: Dollars are in thousands.

The changes in *operating revenues* each year primarily reflects the incremental annual changes in revenue related to lease rentals. In 2005, the decrease (as compared to 2004) resulted primarily from lower lease rentals related to interest, which was partly offset by higher 2005 investment earnings. In 2004, the decrease (as compared to 2003) resulted from (a) prior period refinancings (since the recognition of deferred revenue on leases receivable is primarily tied to the amount of interest paid on the Authority's debt); (b) a recognition of a gain in 2003 on the restructuring of the Authority's lease with the Capital Improvement Board of Managers (as a result of the refunding of the Authority's 1993A bonds) and (c) greater investment and other income in 2003.

Operating expenses were less than each of the prior periods primarily as a result of declining annual interest payments on debt (partially due to a refunding transaction which occurred in 2003).

Capital Assets and Debt Administration

<u>Capital Assets</u>

As discussed, the Authority is organized and operated to finance, acquire, construct and lease capital improvements. Each is subject to a lease arrangement, whereby the Authority operates as the lessor and other political units of the City operate as the lessee, paying rent to the Authority for their use.

The Authority presently leases (a) the Indiana Convention Center & RCA Dome, Victory Field and Conseco Fieldhouse (the "CIB Facilities") located in downtown Indianapolis to the Capital Improvement Board of Managers (of Marion County) (the "CIB") created pursuant to Indiana Code 36-10-9 and (b) a major aircraft maintenance and overhaul center at Indianapolis International Airport that was constructed and initially operated by United Air Lines, Inc. (the "Indianapolis Maintenance Center") to the Metropolitan Development Commission of Marion County, acting in its capacity as a Redevelopment Commission of the City of Indianapolis, Indiana pursuant to Indiana Code 36-7-15.1, -15.3 and -25 (the "Commission"). The CIB and the Commission have respectively entered into separate lease and other agreements (between the Authority, as lessor, and the CIB or the Commission, as lessee) and certain state and local taxes (as made available respectively to the CIB or the Commission, and used to pay lease rent) secure these bonds. The CIB is obligated to operate, maintain and insure the CIB Facilities at its expense. The Indianapolis Maintenance Center is now maintained and insured by the Indianapolis Airport Authority. United Air Lines, Inc. ("United"), the original tenant of the Indianapolis Maintenance Center, no longer occupies it and new tenants now lease a portion of the facility.

The Authority has accounted for its interests in these Facilities as lease receivables (and not as capital assets) because the economic substance of the Authority's activity relates to its payment rights under its leases. Further, under applicable agreements, the Authority is obligated to transfer full ownership of such Facilities to the CIB or the Commission, as the case may be, upon liquidation of the related bonded indebtedness. Readers are referred to Notes 5 and 6 in the financial statements for more detailed information on capital asset activity.

<u>Long-Term Debt</u>

The Authority's long-term debt is primarily comprised of bonded indebtedness issued under several separate trust indentures, whereby revenue bonds are payable solely from their respective trust estates and rely upon receipt of lease rentals for the respective Facilities.

United, the original end user of the Indianapolis Maintenance Center, rejected its related lease and filed for bankruptcy. While United Air Lines, Inc. no longer occupies the Indianapolis Maintenance Center, this occurrence has not affected the continuing obligation of the Commission (including its payment of rent used to pay the Authority's bonds) under its lease agreement with the Authority.

More specific information concerning the financing and security for the Authority's Facilities can be found in the footnotes to the financial statements (see Notes 4 and 5).

Because the Authority is a special public entity, it is not subject to any debt limitations under Indiana law; however, the Authority does have certain contractually agreed to limitations applicable to its issuance of additional debt. The Authority's revenue bonds are presently insured as to their payment pursuant to municipal bond insurance policies and it is these policies that form the basis by which they are rated by certain national credit rating agencies. There were no changes in the credit ratings of the Authority's bonds during 2005 or 2004.

Economic Factors and Other

As a pass-through financing entity, the Authority operations are not, in a direct way, dependent on the general economic environment. Rather, the Authority's principal assets are (or are related to) lease receivables and its principal liabilities are (or are related to) bonded indebtedness issued to finance such leased capital improvements. Lease receivables are structured to match up with bonded indebtedness obligations, as well as provide resources to fund annual administrative expenses. These fixed lease rental payments are anticipated to be sufficient to meet next year's budgeted expenditures.

Further, while economic factors could impact continuing operations of the CIB and the Commission, and, thus, indirectly, could affect the performance of their respective obligations under the lease agreements, lease rental obligations are fixed and have been, in certain ways, secured by pledges or other agreements made by the CIB and the Commission of certain generally applicable state and/or local tax revenues.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, your inquiries should be directed to:

Board of Directors
Marion County Convention and Recreational Facilities Authority
c/o Controller, Capital Improvement Board of Managers (of Marion County, Indiana)
100 South Capitol Avenue
Indianapolis, Indiana 46225-1071

Marion County Convention and Recreational Facilities Authority

(A Component Unit of the Consolidated City of Indianapolis-Marion County)

Balance Sheets

December 31, 2005 and 2004

	2005	2004
Assets		
Current Assets		
Unrestricted Assets		
Receivable from swaption	$ 1,200,000	$ —
Restricted Assets		
Cash and cash equivalents	5,608,736	14,363,722
Interest receivable	24,208	9,313
Current portion of leases receivable	41,120,663	39,739,745
Total restricted current assets	46,753,607	54,112,780
Total current assets	47,953,607	54,112,780
Noncurrent Assets		
Noncurrent portion of leases receivable, restricted	715,084,692	756,205,357
Receivable from swaption	3,650,000	—
Deferred bond issuance costs	5,300,057	4,755,087
Non-depreciable land and improvements, at cost	1,300,000	1,300,000
Total noncurrent assets	725,334,749	762,260,444
Total assets	$ 773,288,356	$ 816,373,224
Liabilities		
Current Liabilities Payable From Unrestricted Assets		
Payable to Pacers Basketball Corporation	$ 600,000	$ —
Current Liabilities Payable From Restricted Assets		
Accounts payable	89,668	—
Due to local government	241,900	—
Interest payable	1,497,415	5,082,146
Current portion of bonds payable	8,670,000	12,820,000
Total current liabilities payable from restricted assets	10,498,983	17,902,146
Total current liabilities	11,098,983	17,902,146
Noncurrent Liabilities Payable From Restricted Assets		
Deferred revenue on leases receivable	288,778,150	315,014,603
Bonds payable	463,123,609	478,399,378
Total noncurrent liabilities payable from restricted assets	751,901,759	793,413,981
Total liabilities	763,000,742	811,316,127
Net Assets		
Invested in capital assets	1,300,000	1,300,000
Restricted for		
Debt service	3,230,163	8,813,991
Construction	495,736	481,938
Unrestricted	5,261,715	(5,538,832)
Total net assets	10,287,614	5,057,097
Total liabilities and net assets	$ 773,288,356	$ 816,373,224

Marion County Convention and Recreational Facilities Authority

(A Component Unit of the Consolidated City of Indianapolis-Marion County)

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2005 and 2004

	2005	2004
Operating Revenues		
Interest on leases	$ 26,111,453	$ 26,945,213
Investment and other income, net of fees	107,333	33,715
Total revenues	26,218,786	26,978,928
Operating Expenses		
Interest expense	26,140,102	26,698,710
Administrative expenses	91,167	229,798
Total expenses	26,231,269	26,928,508
Operating Income (Loss)	(12,483)	50,420
Nonoperating Revenues (Expenses)		
Premium on swaption	9,443,000	—
Subsidy to Pacers Basketball Corporation	(4,200,000)	—
	5,243,000	—
Change in Net Assets	5,230,517	50,420
Net Assets, Beginning of Year	5,057,097	5,006,677
Net Assets, End of Year	$ 10,287,614	$ 5,057,097

See Notes to Financial Statements

Marion County Convention and Recreational Facilities Authority

(A Component Unit of the Consolidated City of Indianapolis-Marion County)
Statements of Cash Flows
Years Ended December 31, 2005 and 2004

	2005	2004
Cash Flows From Operating Activities		
Lease payments received	$ 39,856,645	$ 36,970,636
Interest received	92,438	26,831
Payments to trustees and other vendors	(91,167)	(229,798)
Net cash provided by operating activities	39,857,916	36,767,669
Cash Flows From Noncapital and Related Financing Activities		
Principal payments on bonds	(20,300,000)	(2,655,000)
Interest payments on bonds	(28,402,570)	(21,891,814)
Premium on swaption	4,593,000	—
Purchase of property and equipment for the Capital Improvement Board of Managers	—	(11,967)
Payment of issuance costs on swaption	(903,332)	—
Subsidy to Pacers Basketball Corporation	(3,600,000)	—
Net cash used in noncapital financing activities	(48,612,902)	(24,558,781)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,754,986)	12,208,888
Cash and Cash Equivalents, Beginning of Year	14,363,722	2,154,834
Cash and Cash Equivalents, End of Year	$ 5,608,736	$ 14,363,722
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (12,483)	$ 50,420
Interest expense considered noncapital financing activity	26,140,102	26,698,710
Changes in assets and liabilities		
Leases receivable	39,614,745	36,841,747
Deferred revenue on leases receivable	(26,236,453)	(26,700,378)
Other	352,005	(122,830)
Net Cash Provided by Operating Activities	$ 39,857,916	$ 36,767,669
Noncash Noncapital and Related Financing Activity		
Accrual of premium on swaption	$ 4,850,000	$ —

Marion County Convention and Recreational Facilities Authority

(A Component Unit of the Consolidated City of Indianapolis-Marion County)
Notes to Financial Statements
December 31, 2005 and 2004

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

Nature of Operations - The Marion County Convention and Recreational Facilities Authority (the "Authority") is a separate body corporate and politic created in 1985 as an instrumentality of Marion County pursuant to Indiana Code 36-10-9.1. The Authority is generally organized to acquire, finance, construct and lease capital improvements to the Capital Improvement Board of Managers of Marion County, Indiana (the "CIB") and, when necessary, to refund indebtedness incurred on account of such capital improvements to enable the CIB to make a savings in its debt service obligations. Additionally, the Authority has financed local public improvements for lease to the Metropolitan Development Commission of Marion County (the "Commission"), acting as the Redevelopment Commission of the City of Indianapolis.

Reporting Entity - The Authority is considered a component unit of the Consolidated City of Indianapolis-Marion County, a unified government commonly referred to as Unigov (the governments of the City of Indianapolis and Marion County, Indiana, have been consolidated and operate under one elected City-County Council) under criteria established by the Governmental Accounting Standards Board (GASB). The Authority's Board of Directors consists of three members appointed by the Mayor of the City, and the Authority has the potential to provide specific financial benefits to the Consolidated City of Indianapolis-Marion County.

The Authority's activities are currently comprised of leasing the Indiana Convention Center & RCA Dome, Conseco Fieldhouse and Victory Field to the CIB and leasing, as a tenant-in-common, an aircraft maintenance, repair and overhaul facility at the Indianapolis International Airport to the Commission.

Measurement Focus and Basis of Accounting - The Authority prepares its financial statements as a business-type activity using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar voluntary non-exchange transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. In addition, the Authority follows all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash Equivalents - Cash equivalents are reported at amortized cost. The Authority's cash equivalents at December 31, 2005 and 2004 consisted entirely of short-term government money market mutual funds.

Original Issue Discounts and Premiums - Original issue discounts and premiums on bonds are accreted or amortized using the bonds-outstanding method over the life of the bonds to which each relates.

Deferred Bond Issuance Costs - Deferred bond issuance costs are being amortized over the life of the bonds using the bonds-outstanding method.

Revenue and Expense Recognition - The Authority records all revenues and expenses generated from its financing activities as operating, since such revenues and expenses result from the Authority's daily operations needed to carry out its statutory purpose.

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

Change in Accounting Principle - In 2005, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, by retroactively restating prior year's financial statements. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements of disclosures regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Adoption of GASB Statement No. 40 had no effect on net assets and changes in net assets in the prior or current year.

Note 2: Investments

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

At December 31, 2005 and 2004, the Authority had the following investments:

	2005	2004
U. S. Government money market mutual funds	$ 5,608,736	$ 14,363,722

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy for credit risk requires compliance with the provisions of Indiana statutes, and Indiana Code Section 5-13-9-2.5 requires that the Authority only invest in securities that are rated AAA by Standard and Poor's or Aaa by Moody's Investor's Service. At December 31, 2005 and 2004, the Authority's investments in money market mutual funds were rated AAA by Standard & Poor's.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2005 and 2004, all of the Authority's investments were in money market mutual funds. As such, the Authority was not exposed to custodial credit risk as the existence of the money market mutual funds are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk - The Authority places no limit on the amount that may be invested in any one issuer. At December 31, 2005 and 2004, the Authority's investments consisted solely of money market mutual funds which are excluded from concentration of credit risk disclosure requirements.

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

Summary of Carrying Values

Investments included in the balance sheets are classified as follows:

	2005	2004
Cash and cash equivalents		
Current - restricted	$ 5,608,736	$ 14,363,722

Investment Income

Investment income for the years ended December 31, 2005 and 2004, consisted of:

	2005	2004
Interest income	$ 107,333	$ 33,715

Investments are restricted as follows:

	2005	2004
Excise Taxes Bonds		
Sinking Fund	$ 4,375,707	$ 2,904,226
Expense Fund	295,871	162,889
Project Fund - Construction Account	494,123	481,371
Economic Development Bonds		
Sinking Fund	—	10,656,524
Operation and Reserve Fund	443,035	158,712
	$ 5,608,736	$ 14,363,722

Note 3: Bonds Payable

2003 Excise Taxes Lease Rental Revenue Refunding Senior Bonds

In May 2003, the Authority issued $69,620,000 of Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2003A (the "2003A Bonds"), with an average interest rate of 4.81% to redeem its then outstanding Excise Taxes Lease Rental Revenue Refunding Bonds, Series 1993A. The refunding resulted in an accounting loss of $2,581,680, which was deferred and is being amortized over the life of the 2003A Bonds.

2001 Excise Taxes Lease Rental Revenue Refunding Senior Bonds

In August 2001, the Authority and the CIB entered into a refinancing transaction funded by $53,140,000 of Marion County Convention and Recreational Facilities Authority Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2001A (the "2001A Bonds"). The Authority used the proceeds of the 2001A Bonds to refund the Authority's then outstanding Excise Taxes Lease Rental Revenue Refunding Bonds, Series 1991A (the "1991A Bonds"), and to pay the costs of issuance of the 2001A Bonds.

1997 Excise Taxes Lease Rental Revenue Subordinate Bonds

In January 1998, the Authority issued $230,705,000 of Excise Taxes Lease Rental Revenue Subordinate Bonds, Series 1997A and 1997B (Taxable) (the "1997A and 1997B Subordinate Bonds"), to fund the construction of the Conseco Fieldhouse, a professional sports arena, and an attached garage facility. During 2005, the Authority entered into a swaption with respect to the 1997A term bonds maturing June 1, 2022 and June 1, 2027. See Note 4 for a detailed description of this transaction.

1997 Excise Taxes Lease Rental Revenue Senior Bonds

In November 1997, the Authority issued $20,920,000 of Excise Taxes Lease Rental Revenue Senior Bonds, Series 1997A (the "1997A Senior Bonds"), for the purpose of providing funds to construct and equip an expansion to the Indiana Convention Center.

1995 Excise Taxes Lease Rental Revenue Senior Bonds

In June 1995, the Authority issued $10,000,000 of Excise Taxes Lease Rental Revenue Bonds, Series 1995A (Taxable) (the "1995A Bonds") to fund a portion of the costs to construct Victory Field, a professional baseball facility located adjacent to the Indiana Convention Center & RCA Dome.

1991 Economic Development Lease Rental Revenue Bonds

In December 1991, the Authority issued $139,460,043 of Economic Development Lease Rental Revenue Bonds (the "1991 Economic Development Bonds"). The 1991 Economic Development Bonds were issued to acquire an undivided leasehold interest as a tenant-in-common in a large aircraft maintenance and overhaul center at Indianapolis International Airport (the "Indianapolis Maintenance Center"). The Authority entered into a tenancy-in-common agreement and related lease agreements relative to the site which created its leasehold interest in the site and facilities and which provided the framework for financing the construction of the facilities. The Indianapolis Maintenance Center was operated by United Air Lines, Inc. ("United") until May 2003, when United vacated the facilities and rejected its lease with the Indianapolis Airport Authority. Several companies have entered into leases with the Indianapolis Airport Authority to use a portion of the Indianapolis Maintenance Center facilities for commercial aviation related businesses, which primarily relate to the maintenance, repair and overhaul of commercial aircraft.

Bonds payable consist of:

	2005	2004
Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2003A (Indiana Convention Center Refinancing)		
Serial bonds, maturing June 1, 2005 to June 1, 2021. Interest at 2.00% to 5.00%, due semiannually on June 1 and December 1	$ 68,595,000	$ 69,620,000
Deferred loss on refunding	(1,973,400)	(2,206,726)
Unamortized premiums	3,019,502	3,376,515
	69,641,102	70,789,789
Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2001A (RCA Dome Refinancing)		
Serial bonds, maturing June 1, 2005 to June 1, 2018. Interest at 3.75% to 5.50%, due semiannually on June 1 and December 1	38,330,000	39,990,000
Term bonds, maturing June 1, 2021. Interest at 5.00%, due semi-annually on June 1 and December 1	13,150,000	13,150,000
	51,480,000	53,140,000
Deferred loss on refunding	(1,249,493)	(1,395,177)
Unamortized premiums	563,304	628,982
	50,793,811	52,373,805
Excise Taxes Lease Rental Revenue Senior Bonds, Series 1997A (Indiana Convention Center Expansion)		
Term bonds, maturing June 1, 2027. Interest at 5.00%, due semiannually on June 1 and December 1	20,920,000	20,920,000
Unamortized discounts	(1,115,332)	(1,175,161)
	19,804,668	19,744,839
Excise Taxes Lease Rental Revenue Subordinate Bonds, 1997A (Conseco Fieldhouse)		
Serial bonds, maturing June 1, 2005 to June 1, 2017. Interest at 4.50% to 5.00%, due semiannually on June 1 and December 1	39,200,000	39,200,000
Serial capital appreciation bonds, maturing June 1, 2010 to June 1, 2017. Interest at 5.10% to 5.42%, due at maturity	14,000,000	14,000,000
Term bonds, $52,595,000 maturing June 1, 2022 and $103,370,000 maturing June 1, 2027. Interest at 5.00%, due semiannually at June 1 and December 1	155,965,000	155,965,000
Excise Taxes Lease Rental Revenue Subordinate Bonds, 1997B (Conseco Fieldhouse Garage Facility)		
Serial bonds, maturing June 1, 2005 to June 1, 2008. Interest at 6.50% to 6.60%, due semiannually at June 1 and December 1	6,070,000	8,655,000
Term bonds, maturing June 1, 2010. Interest at 6.60%, due semiannually at June 1 and December 1	5,465,000	5,465,000
	220,700,000	223,285,000
Unamortized discounts	(10,870,972)	(11,729,055)
	209,829,028	211,555,945
Excise Taxes Lease Rental Revenue Senior Bonds, Series 1995A (Victory Field)		
Serial bonds, maturing June 1, 2005 to June 1, 2007. Interest at 6.90% to 7.10%, due semiannually on June 1 and December 1	1,005,000	1,460,000
Term bonds, $1,790,000 maturing June 1, 2010 and $3,995,000 maturing June 1, 2015. Interest at 7.375% and 7.55%, respectively, due semiannually on June 1 and December 1	5,785,000	5,785,000
	6,790,000	7,245,000
Bonds payable - CIB financings	356,858,609	361,709,378
Economic Development Lease Rental Revenue Bonds, Series 1991 (Indianapolis Maintenance Center)		
Serial bonds, maturing July 1, 2005 to January 1, 2017. Interest at 5.50%, due semiannually on January 1 and July 1	114,935,000	129,510,000
Bonds payable - Commission financings	114,935,000	129,510,000
Total bonds payable	$ 471,793,609	$ 491,219,378

Excise Taxes Lease Rental Revenue Bonds

The Authority's 1995A Bonds, 1997A Senior Bonds, 1997A and 1997B Subordinate Bonds, 2001A Bonds and 2003A Bonds ("Excise Taxes Bonds") include (a) bonds that mature serially ("Serial Bonds"), (b) bonds that are subject to redemption from mandatory sinking fund payments at various dates beginning in June 2008 ("Term Bonds") and (c) bonds that accrete from an original issue amount to their scheduled maturity amounts ("Capital Appreciation Bonds"). Certain of the Authority's Excise Taxes Bonds are subject to redemption, at the option of the Authority, at various dates for each series beginning in June 2005, at amounts up to 102% of the principal amount and declining to par at various dates.

Information as to the original issued amounts, amortized amounts and scheduled maturities for the Authority's Capital Appreciation Bonds follows:

Maturing in Year Ending December 31	Issued Amount	Current Amortized Amount	Maturity Amount	Yield
2010	$ 535,610	$ 797,220	$ 1,000,000	5.10%
2011	502,700	754,010	1,000,000	5.20%
2012	711,315	1,071,015	1,500,000	5.25%
2013	672,345	1,014,705	1,500,000	5.28%
2014	633,135	959,190	1,500,000	5.33%
2015	994,375	1,511,125	2,500,000	5.37%
2016	938,000	1,428,750	2,500,000	5.40%
2017	885,975	1,351,575	2,500,000	5.42%
	$ 5,873,455	$ 8,887,590	$ 14,000,000	

Economic Development Lease Rental Revenue Bonds

The 1991 Economic Development Bonds mature serially and are subject to redemption, at the option of the Authority and upon written consent of The Indianapolis Local Public Improvement Bond Bank (the "Bond Bank"), on or after January 2004, at par. In 2004, the Bond Bank refinanced its obligations used to purchase the Authority's 1991 Economic Development Bonds. As of December 31, 2005, the 1991 Economic Development Bonds have not been restructured as a result of the Bond Bank's refinancing.

Aggregate debt service requirements for all Authority Bonds at December 31, 2005 are as follows:

	Principal	Interest	Total
2006	$ 8,670,000	$ 24,267,835	$ 32,937,835
2007	17,325,000	23,376,882	40,701,882
2008	18,390,000	22,448,202	40,838,202
2009	19,610,000	21,438,043	41,048,043
2010	21,090,000	20,344,515	41,434,515
2011-2015	123,735,000	84,185,374	207,920,374
2016-2020	112,600,000	52,991,563	165,591,563
2021-2025	109,940,000	27,293,750	137,233,750
2026-2028	52,060,000	2,634,750	54,694,750
	483,420,000	$ 278,980,914	$ 762,400,914
Deduct:			
Net unamortized bond discounts/premium	(8,403,498)		
Deferred loss on refunding	(3,222,893)		
	$ 471,793,609		

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2005 and 2004:

2005	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	$ 503,720,000	$ —	$ (20,300,000)	$ 483,420,000	$ 8,670,000
Bond discounts/premiums	(8,898,719)	—	495,221	(8,403,498)	—
Loss on refunding	(3,601,903)	—	379,010	(3,222,893)	—
Total bonds payable	$ 491,219,378	$ —	$ (19,425,769)	$ 471,793,609	$ 8,670,000

2004	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	$ 506,375,000	$ —	$ (2,655,000)	$ 503,720,000	$ 12,820,000
Bond discounts/premiums	(9,368,089)	—	469,370	(8,898,719)	—
Loss on refunding	(3,989,098)	—	387,195	(3,601,903)	—
Total bonds payable	$ 493,017,813	$ —	$ (1,798,435)	$ 491,219,378	$ 12,820,000

Note 4: Swaption

Objective of the Swaption

The Authority entered into a swap option (swaption) that provided the Authority with an up-front payment of $3.6 million (net of costs) and will provide the Authority with four additional annual payments of $1.2 million and a final annual payment of $50,000. As a synthetic refunding of certain of its outstanding 1997A Subordinate Bonds, these payments represent the estimated present value, as of April 2005, of the economic gain to be realized from a refunding on or about the first call date (June 1, 2008) for such bonds. The swaption gives KeyBank National Association the option to enter into an interest rate swap to receive fixed amounts from the Authority, and pay variable amounts to the Authority, based on the swap's notional amount. If the swaption is exercised, the Authority would then expect to issue variable-rate refunding bonds and KeyBank National Association will pay the remaining premium to the Authority's municipal bond insurer, the call premium and certain other expected issuance costs.

In connection with entering into the swaption, the Authority has amended its Master Lease Agreement Number II, to provide for, among other things, the payment of additional rentals from the CIB to the Authority in the event a termination payment becomes due under the swaption. An additional amendment to Master Lease Agreement II is contemplated when, and if, the swaption is exercised and the Authority enters into an interest rate swap agreement, which will also provide for the payment of additional rentals by the CIB to the Authority. Such rentals will be used to satisfy regularly scheduled swap payments and any termination payment under the interest rate swap agreement.

A portion of the savings realized from the execution of the swaption are to be used by the Authority to make payments under an agreement entered into with Pacers Basketball Corporation and the CIB in April 2005, which provides for the cablecast of a significant amount of Pacers' home games. During 2005, the Authority made a $3.6 million payment to the Pacers. According to the agreement, the Authority is obligated to make additional payments to the Pacers Basketball Corporation of $1,200,000 each in 2006 and 2007. For every game less than the required minimum number of games to be televised each year under the agreement, Pacers Basketball Corporation must pay $16,667 back to the Authority.

Terms

The swaption was entered into in April 2005. The $8,450,000 in total payments under the swaption was based on a notional amount of $155,965,000. KeyBank National Association has the option to exercise the agreement between April 1, 2005 and March 3, 2008. If the swap is exercised, the swap will commence on June 1, 2008. The agreement provides for the Authority to receive interest from KeyBank National Association at 75% of the London Interbank Offering Rate (LIBOR) and to pay interest to KeyBank National Association at a fixed rate of 4.75% on the notional amount outstanding.

Fair Value

As of December 31, 2005, the swap had a negative fair value of $(12,735,527). The fair value is based on estimated discounted future cash flows determined using KeyBank National Association's proprietary models based upon financial principles and estimates about relevant future market conditions. The fair value of the agreement is not recognized in the Authority's financial statements.

Market-Access Risk

If the option is exercised and refunding bonds are not issued, the 1997A Subordinate Bonds would not be refunded and the Authority would be required to make a termination payment as defined by the swap agreement. If the option is exercised and the variable-rate bonds issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payment on the swap (75% of LIBOR).

Note 5: Financing Leases

Indiana Convention Center & RCA Dome, Victory Field and Conseco Fieldhouse

Pursuant to a Master Lease Agreement dated May 1, 1991, and as amended March 15, 1993, June 1, 1995, November 1, 1997, August 1, 2001 and May 1, 2003, the Authority has leased the Indiana Convention Center & RCA Dome and Victory Field to the CIB. Also, pursuant to a Master Lease Agreement II, dated December 1, 1997, the Authority has leased the Conseco Fieldhouse and related parking facility to the CIB.

Under both lease agreements, the CIB has the option to purchase the leased facilities at a price equal to the amount required to provide for payment or redemption of all related outstanding bonds of the Authority. Also, the CIB is obligated to pay the expenses of the Authority and to insure and maintain the leased facilities. The leases provide for fixed annual rentals, payable in semiannual installments. The CIB's lease payment obligations are payable from and secured by a pledge of certain state and local taxes to be received annually by the CIB. Certain Authority bonds have specific or senior liens on some state and local taxes. Future minimum lease payments due from the CIB at December 31, 2005, together with amounts representing interest are as follows:

2006	$ 26,844,705
2007	27,103,643
2008	27,382,531
2009	27,672,240
2010	27,945,240
2011-2015	140,368,035
2016-2020	140,307,950
2021-2025	140,161,250
2026-2028	42,043,500
	599,829,094
Current portion	(26,844,705)
Lease receivable - noncurrent	$ 572,984,389

Indianapolis Maintenance Center

Pursuant to its standing as a tenant-in-common, the Authority leased its interest in the Indianapolis Maintenance Center facility to the Commission, which is acting on behalf of the City of Indianapolis. Concurrently, the Commission subleased its interest to the Indianapolis Airport Authority, which thereupon leased the interests of the tenants-in-common in the site and facilities to United. During 2002, UAL, the parent of United, filed for Chapter 11 bankruptcy protection, and continued operations at Indianapolis International Airport until May 2003, when it abandoned the Indianapolis Maintenance Center facilities. A portion of the Indianapolis Maintenance Center has been leased to three other companies in 2004. United's rejection of its lease and the subsequent re-letting of the facilities does not affect the continuing obligation of the Commission under its lease agreement with the Authority.

Fixed rentals under these lease agreements, which will ultimately be used to service the debt on the 1991 Economic Development Bonds, are payable from the City's and Marion County's collective distributive share of the Marion County Option Income Tax and the general obligation tax levy of the City's Redevelopment Tax District, or other legally available monies. Future minimum lease payments due from the Commission at December 31, 2005, together with the amount representing interest are as follows:

2006	$ 14,275,958
2007	14,162,458
2008	14,154,468
2009	14,261,446
2010	14,218,310
2011-2015	71,091,873
2016	14,211,750
	156,376,263
Current portion	(14,275,958)
Lease receivable - noncurrent	$ 142,100,305

Note 6: Land and Improvements

The Authority owns land upon which a parking facility for Conseco Fieldhouse has been built. The Authority holds title to the land and constructed improvements.

Supplementary Information

Marion County Convention and Recreational Facilities Authority

(A Component Unit of the Consolidated City of Indianapolis-Marion County)
Schedule of Receipts and Disbursements
Years Ended December 31, 2005 and 2004

	Excise Taxes Lease Rental Revenue Bonds			
	Sinking Funds	Expense Funds	Cost of Issuance Funds	Debt Service Reserve Funds
Balances, December 31, 2003	$ 1,360,776	$ 131,680	$ 3,063	$ —
Receipts				
Lease payments from Capital Improvement Board of Managers	22,604,715	—	—	—
Lease payments from Metropolitan Development Commission	—	—	—	—
Interest on cash equivalents and investments, net of fees	6,232	1,362	5	—
Total receipts	22,610,947	1,362	5	—
Transfer Between Accounts - net	(559,849)	95,777	(3,068)	—
Disbursements				
Interest paid on bonds	(17,852,648)	—	—	—
Bond principal payments	(2,655,000)	—	—	—
Construction costs	—	—	—	—
Payment of expenses, including issuance costs	—	(65,930)	—	—
Total disbursements	(20,507,648)	(65,930)	—	—
Balances, December 31, 2004	2,904,226	162,889	—	—
Receipts				
Lease payments from Capital Improvement Board of Managers	25,354,657	—	—	—
Lease payments from Metropolitan Development Commission	—	—	—	—
Interest on cash equivalents and investments, net of fees	32,449	8,818	—	—
Premium on swaption	—	3,888,000	—	—
Total receipts	25,387,106	3,896,818	—	—
Transfer Between Accounts - net	(82,407)	92,907	—	—
Disbursements				
Interest paid on bonds	(18,108,218)	—	—	—
Bond principal payments	(5,725,000)	—	—	—
Payment of expenses, including issuance costs	—	(256,743)	—	—
Payment to Pacers Basketball Corporation	—	(3,600,000)	—	—
Total disbursements	(23,833,218)	(3,856,743)	—	—
Balances, December 31, 2005	$ 4,375,707	$ 295,871	$ —	$ —

Project Fund— Construction Accounts	Total Excise Taxes Lease Rental Revenue Bonds	Economic Development Lease Rental Revenue Bonds: Sinking Fund	Economic Development Lease Rental Revenue Bonds: Operation and Reserve Fund	Economic Development Lease Rental Revenue Bonds: Total Economic Development Lease Rental Revenue Bonds	Totals
$ 488,843	$ 1,984,362	$ —	$ 170,472	$ 170,472	$ 2,154,834
—	22,604,715	—	—	—	22,604,715
—	—	14,230,072	116,900	14,346,972	14,346,972
4,495	12,094	20,772	922	21,694	33,788
4,495	22,616,809	14,250,844	117,822	14,368,666	36,985,475
477,640	10,500	(32,795)	22,295	(10,500)	—
(477,640)	(18,330,288)	(3,561,525)	—	(3,561,525)	(21,891,813)
—	(2,655,000)	—	—	—	(2,655,000)
(11,967)	(11,967)	—	—	—	(11,967)
—	(65,930)	—	(151,877)	(151,877)	(217,807)
(489,607)	(21,063,185)	(3,561,525)	(151,877)	(3,713,402)	(24,776,587)
481,371	3,548,486	10,656,524	158,712	10,815,236	14,363,722
—	25,354,657	—	—	—	25,354,657
—	—	14,470,395	—	14,470,395	14,470,395
12,752	54,019	66,923	3,089	70,012	124,031
—	3,888,000	—	—	—	3,888,000
12,752	29,296,676	14,537,318	3,089	14,540,407	43,837,083
—	10,500	(324,490)	313,990	(10,500)	—
—	(18,108,218)	(10,294,352)	—	(10,294,352)	(28,402,570)
—	(5,725,000)	(14,575,000)	—	(14,575,000)	(20,300,000)
—	(256,743)	—	(32,756)	(32,756)	(289,499)
—	(3,600,000)	—	—	—	(3,600,000)
—	(27,689,961)	(24,869,352)	(32,756)	(24,902,108)	(52,592,069)
$ 494,123	$ 5,165,701	$ —	$ 443,035	$ 443,035	$ 5,608,736

LLP

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

To the Board of Directors
Marion County Convention and
Recreational Facilities Authority
Indianapolis, Indiana

We have audited the financial statements of Marion County Convention and Recreational Facilities Authority (Authority) as of and for the year ended December 31, 2005, and have issued our report thereon dated February 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors and the Indiana State Board of Accounts and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 7, 2006