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, 2011 and 2010

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 the 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, 2011 and 2010, 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 audit.

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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion County Convention and Recreational Facilities Authority as of December 31, 2011 and 2010, 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 April 6, 2012, 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.

Accounting principles generally accepted in the United States of America require the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Receipts and Disbursements listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

April 6, 2012

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 December 31, 2011. 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). 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 operations; 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, 2011:

- The Authority experienced a decrease in total assets of approximately $56 million. This reduction was due to both the ongoing receipt of annual lease rentals and current year reductions to certain lease receivable balances that were the result of debt refundings.
- The Authority experienced a reduction in total liabilities of approximately $63.5 million. This reduction was a result of ongoing annual payments on bonded indebtedness, as well as reductions in deferred revenue from lease receivables resulting from debt refinancing transactions.
- Total net assets increased by approximately $7.5 million due to three debt refundings that occurred during 2011.

Overview of Financial Statements

This financial report of the Authority includes the following financial statements for the calendar years 2011 and 2010:

- 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. During 2011, this land was conveyed to the Capital Improvement Board of Managers (of Marion County) (the "CIB") due to the retirement of related debt, thus eliminating this category of net assets.

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.

<u>Net Assets</u>

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, 2011, 2010 and 2009 follows (in thousands):

	December 31		
	2011	2010	2009
Assets			
Restricted assets - current	$ 40,357	$ 50,365	$ 49,879
Unrestricted assets - noncurrent	3,105	3,892	4,216
Restricted assets - noncurrent	459,736	504,900	548,184
Total assets	$ 503,198	$ 559,157	$ 602,279
Liabilities			
Current liabilities payable from restricted assets	$ 5,844	$ 13,919	$ 13,124
Noncurrent liabilities payable from restricted assets	485,149	540,530	583,322
Total liabilities	490,993	554,449	596,446
Net Assets			
Invested in capital assets	-	1,300	1,300
Restricted	9,109	816	1,617
Unrestricted	3,096	2,592	2,916
Total net assets	12,205	4,708	5,833
Total liabilities and net assets	$ 503,198	$ 559,157	$ 602,279

The decrease in *total assets* and *total liabilities* (from 2010 to 2011 and from 2009 to 2010) is primarily attributable to the Authority's annual receipt of lease rentals and its application of such receipts to its bonded indebtedness. Additionally, the changes from 2010 to 2011 were impacted by the debt refundings in 2011.

The decrease in *restricted assets - current* of approximately $10.1 million in 2011 from 2010 and the decrease in *current liabilities* of approximately $8.1 million in 2011 from 2010 are primarily attributable to the current year reductions to certain lease receivable balances that were the result of debt refundings.

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 deferred bond issuance costs 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, 2011, 2010 and 2009 follows (in thousands):

	December 31		
	2011	**2010**	**2009**
Operating Revenues			
Interest on leases	$ 20,049	$ 20,355	$ 23,461
Gain from lease restructuring	7,829	-	-
Investment and other income, net of fees	-	-	2
Total revenues	27,878	20,355	23,463
Operating Expenses			
Interest expense	20,201	21,322	22,450
Administrative expenses	179	158	(232)
Total operating expenses	20,380	21,480	22,218
Increase (Decrease) in Net Assets	$ 7,498	$ (1,125)	$ 1,245

The increase in *operating revenues* of approximately $7.5 million in 2011 from 2010 is primarily attributable to the gain on lease restructuring that occurred during the year. The decrease of approximately $3.1 million in 2010 from 2009 is primarily attributable to a decrease in interest on leases primarily from lower lease rentals.

Operating interest expenses decreased $1.1 million in 2011 from 2010 and in 2010 from 2009 as a result of declining annual interest payments on debt. Administrative expenses increased approximately $0.02 million in 2011 from 2010 and increased approximately $0.4 million in 2010 from 2009. The increases in 2011 and 2010 were the result of the elimination of a liability for local government administrative fees made in 2009.

The changes in net assets reported for 2011primarily relate to three bond refundings that occurred during the year. The changes in net assets reported for 2010 and 2009 primarily relate to the receipt of an additional rental payment in 2009 to cash fund the 1995A Reserve Deposit and a fluctuation in administrative expenses due to writing off a liability to another government in that same year.

Capital Assets and Debt Administration

Capital Assets

The Authority presently leases a portion of the Indiana Convention Center, Victory Field and Bankers Life Fieldhouse (the "CIB Facilities") located in downtown Indianapolis to the CIB and 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 (the "Commission").

The CIB and the Commission have 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 and the Commission, and which are 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 Airport Authority is obligated to maintain and insure the Indianapolis Maintenance Center at its expense. United Air Lines, Inc. ("United") no longer occupies the Indianapolis Maintenance Facility and new tenants now lease a substantial portion of the facility.

The Authority has accounted for its interests in the CIB Facilities and the Indianapolis Maintenance Center (the "Facilities") as lease receivables (and not as capital assets) because the economic substance of the Authority's activity relates to its payment rights under the respective 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 the notes to the financial statements for more detailed information on capital asset activity.

Long-Term Debt

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.

In April 2011, the Authority issued $35,035,000 of Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2011A, with an average interest rate of 4.50% to redeem its then outstanding Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2001A.

In June 2011, the Authority issued $20,010,000 of Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2011B, with an average interest rate of 5.00% to redeem its then outstanding Excise Taxes Lease Rental Revenue Senior Bonds, Series 1997A.

In November 2011, the Authority issued $186,250,000 of Excise Taxes Lease Rental Revenue Refunding Subordinate Bonds, Series 2011A, with an average interest rate of 4.96% to redeem its then outstanding Excise Taxes Lease Rental Revenue Subordinate Bonds, Series 1997A.

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.

Prior to 2011, the Authority and the CIB entered into a Debt Service Reserve Fund Replenishment Agreement with the Indiana Finance Authority to address the debt service reserve fund requirements related to and securing the Authority's 1997A and 1997B Subordinate Bonds. Pursuant to this agreement, the IFA agreed to lend the necessary amounts for deposit into the Authority's debt service reserve funds related to and securing the Authority's 1997A and 1997B Subordinate Bonds in the event the bond insurer was unable to meet its surety obligations for these bonds. The Debt Service Reserve Fund Replenishment Agreement was terminated upon the issuance of the Authority's Excise Taxes Lease Rental Revenue Refunding Subordinate Bonds, Series 2011A.

More specific information concerning the financing and security for the Authority's Facilities can be found in the notes to the financial statements.

Economic Factors and Other

As a pass-through financing entity, the Authority's lease receivables are structured to match up with its bond obligations, as well as fund its annual administrative expenses. These fixed lease rental payments are anticipated to be sufficient to meet next year's budgeted expenditures.

While economic factors could impact the continuing operations of the CIB and the Commission, lease rental obligations are fixed and, in certain ways, are 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 Chief Financial Officer
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, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Restricted Assets		
Cash equivalents	$ 5,615,161	$ 8,072,174
Interest receivable	17	76
Current portion of leases receivable	34,741,296	42,292,610
Total restricted current assets	40,356,474	50,364,860
Total current assets	40,356,474	50,364,860
Noncurrent Assets		
Noncurrent portion of leases receivable, restricted	459,736,359	504,899,949
Deferred bond issuance costs	3,105,079	2,592,318
Nondepreciable land and improvements, at cost	-	1,300,000
Total noncurrent assets	462,841,438	508,792,267
Total assets	$ 503,197,912	$ 559,157,127
Liabilities		
Current Liabilities Payable From Restricted Assets		
Interest payable	$ 1,184,402	$ 1,279,131
Accounts payable	8,826	-
Current portion of bonds payable	4,650,000	12,640,000
Total current liabilities payable from restricted assets	5,843,228	13,919,131
Total current liabilities	5,843,228	13,919,131
Noncurrent Liabilities Payable From Restricted Assets		
Deferred revenue on leases receivable	125,943,979	171,553,111
Bonds payable	359,205,274	368,977,101
Total noncurrent liabilities payable from restricted assets	485,149,253	540,530,212
Total liabilities	490,992,481	554,449,343
Net Assets		
Invested in capital assets	-	1,300,000
Restricted for		
Debt service	9,109,178	815,466
Unrestricted	3,096,253	2,592,318
Total net assets	12,205,431	4,707,784
Total liabilities and net assets	$ 503,197,912	$ 559,157,127

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, 2011 and 2010

	2011	2010
Operating Revenues		
Interest on leases	$ 20,048,715	$ 20,355,031
Gain from lease restructuring	7,828,931	-
Investment and other income, net of fees	361	458
Total revenues	27,878,007	20,355,489
Operating Expenses		
Interest expense	20,200,862	21,322,412
Administrative expenses	179,498	158,361
Total expenses	20,380,360	21,480,773
Change in Net Assets	7,497,647	(1,125,284)
Net Assets, Beginning of Year	4,707,784	5,833,068
Net Assets, End of Year	$ 12,205,431	$ 4,707,784

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, 2011 and 2010

	2011	2010
Operating Activities		
Lease payments received	$ 36,283,002	$ 42,162,924
Interest received	838	1,007
Payments to trustees and other vendors	(170,672)	(158,361)
Net cash provided by operating activities	36,113,168	42,005,570
Noncapital and Related Financing Activities		
Principal payments on bonds	(275,887,855)	(21,560,000)
Interest payments on bonds	(19,761,723)	(20,088,918)
Proceeds from bonds issued	259,922,085	-
Payment of bond issuance costs	(2,842,688)	-
Net cash used in noncapital and related financing activities	(38,570,181)	(41,648,918)
Net Increase (Decrease) in Cash Equivalents	(2,457,013)	356,652
Cash Equivalents, Beginning of Year	8,072,174	7,715,522
Cash Equivalents, End of Year	$ 5,615,161	$ 8,072,174
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 7,497,647	$ (1,125,284)
Interest expense considered noncapital financing activity	20,200,862	21,322,412
Changes in assets and liabilities		
Leases receivable	52,714,904	43,155,350
Accounts payable	8,826	-
Deferred revenue on leases receivable	(45,609,132)	(21,346,832)
Transfer of land	1,300,000	-
Other	61	(76)
Net Cash Provided by Operating Activities	$ 36,113,168	$ 42,005,570

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 Bankers Life Fieldhouse, Victory Field and a portion of the Indiana Convention Center to the CIB and leasing, as a tenant-in-common, a 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.

During 2011, the Authority adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in Paragraph 7 of that Statement for business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. This Statement has been applied retrospectively and had no impact on the Authority's net assets, changes in net assets or financial reporting disclosures.

Cash Equivalents - Cash equivalents are reported at amortized cost. The Authority's cash equivalents at December 31, 2011 and 2010 consisted entirely of short-term government money market mutual funds.

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

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 Loss on Refundings - The Authority defers recognition of losses incurred on bond refundings. Such losses are amortized on the bonds-outstanding method over the lesser of the remaining life of the original bonds or the life of the new bonds.

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.

Note 2: Investments

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

At December 31, 2011 and 2010, the Authority had the following investments:

	2011	2010
U.S. Government money market mutual funds	$ 5,615,161	$ 8,072,174

***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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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 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

Investments included in the balance sheets are classified as follows:

	2011	2010
Cash equivalents		
Current - restricted	$ 5,615,161	$ 8,072,174

Investment Income

Investment income for the years ended December 31, 2011 and 2010, consisted of:

	2011	2010
Interest income	$ 361	$ 458

Investments are restricted as follows:

	2011	2010
Excise Taxes Bonds		
Sinking Funds	$ 3,976,195	$ 6,363,005
Expense Funds	320,920	313,888
Debt Service Reserve Fund	991,800	991,800
Economic Development Bonds		
Sinking Fund	42	57
Operation and Reserve Fund	326,204	403,424
	$ 5,615,161	$ 8,072,174

Note 3: Bonds Payable

2011 Excise Taxes Lease Rental Revenue Refunding Subordinate Bonds

In November 2011, the Authority issued $186,250,000 of Excise Taxes Lease Rental Revenue Refunding Subordinate Bonds, Series 2011A (the “2011A Subordinate Bonds”), with an average interest rate of 4.96% to redeem its then outstanding 1997A Subordinate Bonds. The refunding resulted in an accounting loss of $6,904,645, which has been deferred and is being amortized over the life of the 2011A Subordinate Bonds. As a result of the refunding, the Authority reduced its total debt service requirements by $11,641,251, which resulted in an economic gain (the difference between the present values of the debt service payments on the old and new debt) in the amount of $11,319,350.

2011 Excise Taxes Lease Rental Revenue Refunding Senior Bonds

In April 2011, the Authority issued $35,035,000 of Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2011A (the “2011A Senior Bonds”), with an average interest rate of 4.50% to redeem its then outstanding 2001A Senior Bonds. The refunding resulted in an accounting loss of $606,357, which has been deferred and is being amortized over the life of the 2011A Senior Bonds. As a result of the refunding, the Authority reduced its total debt service requirements by $3,198,079, which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $3,077,869.

In June 2011, the Authority also issued $20,010,000 of Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2011B (the "2011B Senior Bonds"), with an average interest rate of 5.00% to redeem its then outstanding 1997A Senior Bonds. The refunding resulted in an accounting loss of $998,294, which has been deferred and is being amortized over the life of the 2011B Senior Bonds. As a result of the refunding, the Authority reduced its total debt service requirements by $1,591,892, which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $1,050,947.

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 Senior 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 has been 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 issued $53,140,000 of Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2001A (the "2001A Senior Bonds"), with an average interest rate of 5.20% to redeem $51,260,000 of its then outstanding Excise Taxes Lease Rental Revenue Bonds, Series 1991A (the "1991A Bonds"). The refunding resulted in an accounting loss of $1,902,715, which has been deferred and is being amortized over the life of the 2001A Bonds. As noted above, these bonds were redeemed during 2011.

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. As noted above, these bonds were redeemed during 2011.

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 Bankers Life Fieldhouse, a professional sports arena, and an attached garage facility. As noted above, these bonds were redeemed or defeased during 2011.

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 Senior Bonds"), to fund a portion of the costs to construct Victory Field, a professional baseball facility located adjacent to the Indiana Convention Center.

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 through bankruptcy rejected its lease with the Indianapolis Airport Authority. Since this time, a number of companies have entered into leases with the Indianapolis Airport Authority to use a portion of the Indianapolis Maintenance Center facilities for both aviation and non-aviation related businesses.

Bonds payable consist of:

	2011	2010
Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2011A		
Serial bonds, maturing June 1, 2013 to June 1, 2021. Interest at 2.00% to 5.00% due semiannually on June 1 and December 1	$ 35,035,000	$ -
Deferred loss on refunding	(545,984)	-
Umamortized premiums	2,178,045	-
	36,667,061	-
Excise Taxes Lease Rental Revenue Refunding Subordinate Bonds, Series 2011A		
Serial bonds, maturing June 1, 2013 to June 1, 2027. Interest at 3.00% to 5.00% due semiannually on June 1 and December 1	186,250,000	-
Deferred loss on refunding	(6,739,260)	-
Umamortized premiums	14,510,339	-
	194,021,079	-
Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2011B		
Serial bonds, maturing June 1, 2022 to June 1, 2027. Interest at 5.00% due semiannually on June 1 and December 1	20,010,000	-
Deferred loss on refunding	(960,313)	-
Umamortized premiums	1,290,724	-
	20,340,411	-
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%, 5.00% due semiannually on June 1 and December 1	48,430,000	52,170,000
Deferred loss on refunding	(804,983)	(969,718)
Unamortized premiums	1,231,706	1,483,767
	48,856,723	52,684,049

Marion County Convention and Recreational Facilities Authority
(A Component Unit of the Consolidated City of Indianapolis-Marion County)
Notes to Financial Statements
December 31, 2011 and 2010

	2011	2010
Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2001A		
(Refinancing related to former domed stadium)		
Serial bonds, maturing June 1, 2005 to June 1, 2018. Interest at 3.75% to 5.50%, 5.50% due semiannually on June 1 and December 1	$ -	$ 26,445,000
Term bonds, maturing June 1, 2021. Interest at 5.00%, due semiannually on June 1 and December 1	-	13,150,000
	-	39,595,000
Deferred loss on refunding	-	(618,960)
Unamortized premiums	-	279,044
	-	39,255,084
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
Unamortized discounts	-	(816,188)
	-	20,103,812
Excise Taxes Lease Rental Revenue Subordinate Bonds, 1997A		
(Bankers Life Fieldhouse)		
Serial bonds, maturing June 1, 2003 to June 1, 2017. Interest at 4.35% to 5.00%, due semiannually on June 1 and December 1	-	31,965,000
Serial capital appreciation bonds, maturing June 1, 2010 to June 1, 2017. Interest at 5.10% to 5.42%, due at maturity	-	13,000,000
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
	-	200,930,000
Unamortized discounts	-	(6,310,844)
	-	194,619,156
Excise Taxes Lease Rental Revenue Senior Bonds, Series 1995A		
(Victory Field)		
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	3,310,000	3,995,000
Bonds payable - CIB financings	303,195,274	310,657,101
Economic Development Lease Rental Revenue Bonds, Series 1991		
(Indianapolis Maintenance Center)		
Serial bonds, maturing January 1, 1998 to January 1, 2017. Interest at 5.50%, due semiannually on January 1 and July 1	60,660,000	70,960,000
Bonds payable - Commission financings	60,660,000	70,960,000
Total bonds payable	$ 363,855,274	$ 381,617,101

Excise Taxes Lease Rental Revenue Bonds

The Authority's 1995A Senior Bonds, 2003A Senior Bonds, 2011A Senior Bonds, 2011B Senior Bonds and 2011A Subordinate Bonds ("Excise Taxes Bonds") include (a) bonds that mature serially ("Serial Bonds") and (b) bonds that are subject to redemption from mandatory sinking fund payments at various dates beginning in June 2012 ("Term Bonds"). Certain of the Authority's Excise Taxes Bonds are subject to redemption, at the option of the Authority, at various dates for certain of the series beginning in June 2013 at 100% of the principal amount.

Economic Development Lease Rental Revenue Bonds

The 1991 Economic Development Bonds (the "1991 Bonds") mature serially and, while subject to redemption at par any time, such redemption requires the consent of The Indianapolis Local Public Improvement Bond Bank (the "Bond Bank"), the owner of such bonds.

Aggregate debt service requirements for all Authority Bonds at December 31, 2011 are as follows:

	Principal	Interest	Total
2012	$ 4,650,000	$ 15,765,070	$ 20,415,070
2013	22,110,000	16,780,761	38,890,761
2014	25,905,000	15,612,749	41,517,749
2015	27,170,000	14,312,080	41,482,080
2016	28,505,000	12,952,163	41,457,163
2017-2021	104,110,000	47,194,400	151,304,400
2022-2026	114,750,000	21,479,500	136,229,500
2027	26,495,000	662,375	27,157,375
	353,695,000	$ 144,759,098	$ 498,454,098
Deduct:			
Unamortized bond premiums	19,210,814		
Deferred losses on refundings	(9,050,540)		
	$ 363,855,274		

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2011 and 2010:

2011	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	$ 388,570,000	$ 241,295,000	$ (276,170,000)	$ 353,695,000	$ 4,650,000
Bond discounts/premiums	(5,364,221)	18,627,085	5,947,950	19,210,814	-
Loss on refunding	(1,588,678)	(8,509,295)	1,047,433	(9,050,540)	-
Total bonds payable	$ 381,617,101	$ 251,412,790	$ (269,174,617)	$ 363,855,274	$ 4,650,000

2010	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	$ 410,130,000	$ -	$ (21,560,000)	$ 388,570,000	$ 12,640,000
Bond discounts/premiums	(6,034,695)	-	670,474	(5,364,221)	-
Loss on refunding	(1,878,185)	-	289,507	(1,588,678)	-
Total bonds payable	$ 402,217,120	$ -	$ (20,600,019)	$ 381,617,101	$ 12,640,000

Note 4: Financing Leases

Indiana Convention Center, Victory Field and Bankers Life Fieldhouse

Pursuant to a Master Lease Agreement dated May 1, 1991, as amended, the Authority has leased a portion of the Indiana Convention Center and Victory Field to the CIB. Also, pursuant to a Master Lease Agreement II, dated December 1, 1997, the Authority has leased Bankers Life Fieldhouse 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, 2011, together with amounts representing interest are as follows:

2012	$ 20,521,136
2013	26,666,042
2014	27,528,214
2015	27,519,695
2016	28,008,200
2017-2021	139,977,175
2022-2026	139,245,250
2027	13,925,250
	423,390,962
Current portion	(20,521,136)
Lease receivable - noncurrent	$ 402,869,826

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. In 2003, UAL, the parent of United, pursuant to a Chapter 11 bankruptcy, abandoned the Indianapolis Maintenance Center facilities. Since 2004, a portion of the Indianapolis Maintenance Center has since been leased to various other companies. United’s rejection of its lease in bankruptcy 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 a 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, 2011, together with the amount representing interest are as follows:

2012	$	14,220,160
2013		14,215,120
2014		14,219,913
2015		14,219,750
2016		14,211,750
		71,086,693
Current portion		(14,220,160)
Lease receivable - noncurrent	$	56,866,533

Note 5: Land and Improvements

The Authority owned the land upon which a parking facility for Bankers Life Fieldhouse was built. During 2011, title to the parking facility, land and improvements was conveyed to the CIB due to the retirement of the related debt.

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, 2011 and 2010

	Excise Taxes Lease Rental Revenue Bonds			
	Sinking Funds	Expense Funds	Debt Service Reserve Funds	Total Excise Taxes Lease Rental Revenue Bonds
Balances, December 31, 2009	$ 5,933,236	$ 302,887	$ 991,880	$ 7,228,003
Receipts				
Lease payments from Capital Improvement Board of Managers	27,944,615	-	-	27,944,615
Lease payments from Metropolitan Development Commission	-	-	-	-
Interest on cash equivalents and investments, net of fees	425	36	128	589
Total receipts	27,945,040	36	128	27,945,204
Transfer Between Accounts - net	(71,243)	81,951	(208)	10,500
Disbursements				
Interest paid on bonds	(15,649,028)	-	-	(15,649,028)
Bond principal payments	(11,795,000)	-	-	(11,795,000)
Payment of expenses, including issuance costs	-	(70,986)	-	(70,986)
Total disbursements	(27,444,028)	(70,986)	-	(27,515,014)
Balances, December 31, 2010	6,363,005	313,888	991,800	7,668,693
Receipts				
Lease payments from Capital Improvement Board of Managers	22,066,072	-	-	22,066,072
Lease payments from Metropolitan Development Commission	-	-	-	-
Interest on cash equivalents and investments, net of fees	328	34	106	468
Total receipts	22,066,400	34	106	22,066,540
Transfer Between Accounts - net	(85,829)	96,435	(106)	10,500
Disbursements				
Interest paid	(10,678,218)	-	-	(10,678,218)
Bond principal payments	(9,910,000)	-	-	(9,910,000)
Transfer to bond escrow for use in refunding	(3,779,163)	-		(3,779,163)
Payment of expenses, including issuance costs	-	(89,437)	-	(89,437)
Total disbursements	(24,367,381)	(89,437)	-	(24,456,818)
Balances, December 31, 2011	$ 3,976,195	$ 320,920	$ 991,800	$ 5,288,915

Economic Development Lease Rental Revenue Bods			
Sinking Fund	Operation and Reserve Fund	Total Economic Development Lease Rental Revenue Bonds	Totals
$ 119	$ 487,400	$ 487,519	$ 7,715,522
-	-	-	27,944,615
14,218,309	-	14,218,309	14,218,309
357	61	418	1,007
14,218,666	61	14,218,727	42,163,931
(13,838)	3,338	(10,500)	-
(4,439,890)	-	(4,439,890)	(20,088,918)
(9,765,000)	-	(9,765,000)	(21,560,000)
-	(87,375)	(87,375)	(158,361)
(14,204,890)	(87,375)	(14,292,265)	(41,807,279)
57	403,424	403,481	8,072,174
-	-	-	22,066,072
14,216,930	-	14,216,930	14,216,930
334	36	370	838
14,217,264	36	14,217,300	36,283,840
(14,479)	3,979	(10,500)	-
(3,902,800)	-	(3,902,800)	(14,581,018)
(10,300,000)	-	(10,300,000)	(20,210,000)
-	-	-	(3,779,163)
-	(81,235)	(81,235)	(170,672)
(14,202,800)	(81,235)	(14,284,035)	(38,740,853)
$ 42	$ 326,204	$ 326,246	$ 5,615,161

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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, 2011, and have issued our report thereon dated April 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis.

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

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 governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

April 6, 2012