

**Marion County Convention and Recreational
Facilities Authority**

Independent Auditor's Reports and Financial Statements

December 31, 2016 and 2015

Marion County Convention and Recreational Facilities Authority
December 31, 2016 and 2015

Contents

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Financial Statements	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Position.....	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10
Supplementary Information	
Schedule of Receipts and Disbursements	19
Independent Auditor's 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 <i>Government Auditing Standards</i>	21

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Marion County Convention and Recreational Facilities Authority (Authority), which are comprised of the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows and the related notes to the basic financial statements for the years then ended, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion County Convention and Recreational Facilities Authority as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2017, 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* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
March 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Introduction

The Marion County Convention and Recreational Facilities Authority (the "Authority"), which conducts its business in the City of Indianapolis (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, 2016. 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, 2016:

- The Authority experienced a decrease in total assets of approximately \$42 million. This reduction was the result of the ongoing receipt of annual lease rentals used to fund principal and interest payments on the Authority's outstanding bonds.
- Deferred outflows of resources decreased by approximately \$1.1 million due to the continued amortization of deferred losses on debt refundings.
- The Authority experienced a reduction in total liabilities of approximately \$42.2 million. This reduction was a result of ongoing debt service payments on bond debt.
- The total net position of the Authority decreased by approximately \$800,000.

Overview of Financial Statements

This financial report of the Authority includes the following financial statements for the calendar years 2016 and 2015:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Position
- 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).

Net Position

The Balance Sheets reflect the assets, deferred outflows of resources 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 position - the difference of total assets and deferred outflows of resources to total liabilities - represent one way to measure the Authority's financial health. In a general way, changes in net position 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, deferred outflows of resources, liabilities and net position at December 31, 2016, 2015 and 2014 follows (in thousands):

	<u>December 31</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Restricted assets - current	\$ 37,069	\$ 51,023	\$ 50,682
Restricted assets - noncurrent	<u>265,132</u>	<u>293,138</u>	<u>335,355</u>
Total assets	302,201	344,161	386,037
Deferred Outflows of Resources	<u>5,040</u>	<u>6,113</u>	<u>7,290</u>
Total assets and deferred outflows of resources	<u>\$ 307,241</u>	<u>\$ 350,274</u>	<u>\$ 393,327</u>
Liabilities			
Current liabilities payable from restricted assets	\$ 17,950	\$ 17,453	\$ 16,878
Noncurrent liabilities payable from restricted assets	<u>283,544</u>	<u>326,239</u>	<u>369,156</u>
Total liabilities	301,494	343,692	386,034
Net Position			
Restricted for debt service	<u>5,747</u>	<u>6,582</u>	<u>7,293</u>
Total liabilities and net position	<u>\$ 307,241</u>	<u>\$ 350,274</u>	<u>\$ 393,327</u>

The decrease in *total assets* and *total liabilities* (from 2014 to 2016) is primarily attributable to the Authority's annual receipt of lease rentals and its application of such receipts to its bonded indebtedness.

The reductions in *deferred outflows of resources* (from 2014 to 2016) reflect the continued pay down of debt, whereby deferred losses on refundings are being amortized to interest expense.

Net position 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.

Statements of Revenues, Expenses and Changes in Net Position

The comparative analysis below is a summary of the Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended December 31, 2016, 2015 and 2014 follows (in thousands):

	December 31		
	2016	2015	2014
Operating Revenues - interest on leases	\$ 10,599	\$ 11,950	\$ 13,261
Operating Expenses			
Interest expense	11,337	12,566	13,747
Administrative expenses	98	94	126
Total operating expenses	<u>11,435</u>	<u>12,660</u>	<u>13,873</u>
Decrease in Net Position	<u>\$ (836)</u>	<u>\$ (710)</u>	<u>\$ (612)</u>

The decrease in *operating revenues* and *operating expenses* (from 2014 to 2016) is due to scheduled rent and debt service payments. As the lease receivable and bond payable amounts continue to decrease, the interest on leases and interest expense will decrease.

Capital Assets and Debt Administration

Capital Assets

The Authority presently leases a portion of the Indiana Convention Center and Bankers Life Fieldhouse (the "CIB Facilities") located in downtown Indianapolis to the CIB. Additionally, through December 2016, the Authority leased 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.

Long-Term Debt

The Authority's long-term debt is comprised entirely of revenue bond debt. Such debt was 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. During 2016, one of the Authority's bond issuances matured in full.

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.

More specific information concerning the financing and security for the Authority's Facilities can be found in Notes 3 and 4 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
Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Restricted Assets		
Cash equivalents	\$ 9,059,268	\$ 8,805,408
Interest receivable	3,419	131
Current portion of leases receivable	28,006,645	42,217,116
Total restricted current assets	37,069,332	51,022,655
Total current assets	37,069,332	51,022,655
Noncurrent Assets		
Noncurrent portion of leases receivable, restricted	265,131,459	293,138,105
Total noncurrent assets	265,131,459	293,138,105
Total assets	302,200,791	344,160,760
Deferred Outflows of Resources		
Deferred losses on refundings of debt	5,040,539	6,113,300
Total assets and deferred outflows of resources	\$ 307,241,330	\$ 350,274,060
Liabilities		
Current Liabilities Payable From Restricted Assets		
Interest payable	\$ 908,706	\$ 953,042
Accounts payable	1,733	77
Current portion of bonds payable	17,040,000	16,500,000
Total current liabilities payable from restricted assets	17,950,439	17,453,119
Total current liabilities	17,950,439	17,453,119
Noncurrent Liabilities Payable From Restricted Assets		
Unearned revenue on leases receivable	57,848,295	68,440,036
Bonds payable	225,695,936	257,798,453
Total noncurrent liabilities payable from restricted assets	283,544,231	326,238,489
Total liabilities	301,494,670	343,691,608
Net Position		
Restricted for debt service	5,746,660	6,582,452
Total liabilities and net position	\$ 307,241,330	\$ 350,274,060

Marion County Convention and Recreational Facilities Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Interest on leases	\$ 10,591,737	\$ 11,949,807
Investment and other income, net of fees	6,941	412
Total revenues	10,598,678	11,950,219
Operating Expenses		
Interest expense	11,336,700	12,566,521
Administrative expenses	97,770	94,146
Total expenses	11,434,470	12,660,667
Change in Net Position and Operating Loss	(835,792)	(710,448)
Net Position, Beginning of Year	6,582,452	7,292,900
Net Position, End of Year	\$ 5,746,660	\$ 6,582,452

Marion County Convention and Recreational Facilities Authority

Statements of Cash Flows Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Lease payments received	\$ 42,213,690	\$ 41,668,090
Interest received	8,732	877
Payments to trustees and other service providers	(97,770)	(106,166)
Net cash provided by operating activities	42,124,652	41,562,801
Noncapital and Related Financing Activities		
Principal payments on bonds	(29,960,000)	(28,635,000)
Interest payments on bonds	(11,910,792)	(13,135,594)
Net cash used in noncapital and related financing activities	(41,870,792)	(41,770,594)
Net Increase (Decrease) in Cash Equivalents	253,860	(207,793)
Cash Equivalents, Beginning of Year	8,805,408	9,013,201
Cash Equivalents, End of Year	\$ 9,059,268	\$ 8,805,408
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (835,792)	\$ (710,448)
Interest expense considered noncapital financing activity	11,336,700	12,566,521
Changes in assets and liabilities		
Leases receivable	42,217,117	41,668,610
Accounts payable	1,656	(12,098)
Deferred revenue on leases receivable	(10,591,741)	(11,949,807)
Other	(3,288)	23
Net Cash Provided by Operating Activities	\$ 42,124,652	\$ 41,562,801

Marion County Convention and Recreational Facilities Authority

Notes to Financial Statements December 31, 2016 and 2015

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, Indiana ("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. In accordance with Indiana Code 36-7-15.3, the Authority, acting as the Redevelopment Commission of Marion County, is also organized for the purpose of financing, constructing and leasing local public improvements to the Metropolitan Development Commission of Marion County (the "Commission").

The Authority's Board of Directors consists of three members appointed by the Executive of Marion County, the Mayor of the City of Indianapolis (the "Mayor"). Before a lease may be entered into between the Authority and the CIB, the CIB and the Mayor must find that the lease rental provided for is fair and reasonable. Similarly, before a lease may be entered into between the Authority and the Commission, the Commission must find that the lease rental provided for is fair and reasonable. Any lease of a capital improvement from the Authority to the CIB must ultimately be approved by the Mayor. Notwithstanding these facts, the Authority is not financially accountable to these or any other entities and is therefore considered a stand-alone government.

The Authority's activities are currently comprised of leasing Bankers Life Fieldhouse 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. During 2016, the Authority retired all of its outstanding bond debt associated with the facility at the Indianapolis International Airport. Upon retirement of these bonds and termination of the lease for this property, it is contemplated that the Authority's interests in this property will be transferred to the Indianapolis Airport Authority, which is expected to occur during 2017. During 2015, the Authority retired all of its outstanding bond debt associated with the construction of Victory Field, which the Authority had leased to the CIB through 2015. According to the Authority's related lease with the CIB, title to the facility therefore reverted to the CIB during 2016.

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.

Cash Equivalents - Cash equivalents are reported at amortized cost. The Authority's cash equivalents at December 31, 2016 and 2015 consisted entirely of short-term government money market mutual funds. The Authority's money market mutual funds do not have significant limitations or restrictions on withdrawals. The funds' Board of Directors does have discretion to suspend redemptions should the funds' weekly liquid assets fall below 10%.

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.

Marion County Convention and Recreational Facilities Authority

Notes to Financial Statements December 31, 2016 and 2015

Deferred Loss on Refundings - The Authority defers recognition of losses incurred on bond refundings and reports such losses as deferred outflows of resources. Deferred losses on refundings are amortized using 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, municipal securities of Indiana issuers that have not defaulted during the previous 20 years, certificates of deposit and open-ended money market mutual funds.

At December 31, 2016 and 2015, the Authority had the following investments:

	<u>2016</u>	<u>2015</u>
U.S. Government money market mutual funds	\$ 9,059,268	\$ 8,805,408

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority is generally limited to investing in securities with a stated maturity of more than two years but not more than five years after the date of purchase or entry into a repurchase agreement. 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, which requires that the Authority only invest in securities that are rated AAAM by Standard and Poor's or Aaa by Moody's Investor's Service. At December 31, 2016 and 2015, the Authority's investments in money market mutual funds were rated AAAM by Standard & Poor's.

Marion County Convention and Recreational Facilities Authority

Notes to Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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:

	<u>2016</u>	<u>2015</u>
Cash equivalents		
Current - restricted	\$ 9,059,268	\$ 8,805,408

Investment Income

Investment income for the years ended December 31, 2016 and 2015, consisted of:

	<u>2016</u>	<u>2015</u>
Interest income	\$ 6,941	\$ 412

Investments are restricted as follows:

	<u>2016</u>	<u>2015</u>
Excise Taxes Bonds		
Sinking Funds	\$ 8,551,617	\$ 8,283,379
Expense Funds	371,468	376,833
Economic Development Bonds		
Operation and Reserve Fund	<u>136,183</u>	<u>145,196</u>
	<u>\$ 9,059,268</u>	<u>\$ 8,805,408</u>

Marion County Convention and Recreational Facilities Authority

Notes to Financial Statements December 31, 2016 and 2015

Note 3: Bonds Payable

2012 Excise Taxes Lease Rental Revenue Refunding Senior Bonds

In May 2012, the Authority issued \$43,970,000 of Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2012A (the "2012A Senior Bonds"), with an average interest rate of 2.386% to partially redeem its then outstanding Series 2003A Excise Taxes Lease Rental Revenue Refunding Senior Bonds (the "2003A Senior Bonds"). The remaining portion of the 2003A Senior Bonds matured in 2013. The 2003A Senior Bonds were originally issued to refund the Authority's then outstanding Series 1993A Excise Taxes Lease Rental Revenue Refunding Bonds. The 2012 refunding resulted in an accounting loss of \$2,830,140, which is included in deferred outflows of resources and is being amortized over the life of the 2012A Senior Bonds. As a result of the refunding, the Authority reduced its total debt service requirements by \$3,000,063, 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 \$2,954,000.

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 Series 1997A Excise Taxes Lease Rental Revenue Subordinate Bonds (the "1997A Subordinate Bonds"). The 1997A Subordinate Bonds were originally issued to fund the construction of Bankers Life Fieldhouse, a professional sports arena, and an attached parking garage. The refunding resulted in an accounting loss of \$6,904,645, which is included in deferred outflows of resources 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 Series 2001A Excise Taxes Lease Rental Revenue Refunding Senior Bonds (the "2001A Senior Bonds"). The refunding resulted in an accounting loss of \$606,357, which is included in deferred outflows of resources 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.

Marion County Convention and Recreational Facilities Authority

Notes to Financial Statements

December 31, 2016 and 2015

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 Series 1997A Excise Taxes Lease Rental Revenue Senior Bonds (the "1997A Senior Bonds"). The refunding resulted in an accounting loss of \$998,294, which is included in deferred outflows of resources 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.

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. During December 2016, these bonds were fully redeemed.

Marion County Convention and Recreational Facilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

Bonds payable at December 31, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Excise Taxes Lease Rental Revenue Refunding Senior Bonds, Series 2012A		
Serial bonds, maturing June 1, 2014 to June 1, 2021. Interest at 0.866% to 3.056% due semiannually on June 1 and December 1	\$ 28,835,000	\$ 34,260,000
	<u>28,835,000</u>	<u>34,260,000</u>
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	21,020,000	24,730,000
Unamortized premiums	518,159	765,866
	<u>21,538,159</u>	<u>25,495,866</u>
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	163,805,000	171,170,000
Unamortized premiums	7,767,538	9,020,251
	<u>171,572,538</u>	<u>180,190,251</u>
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	20,010,000
Unamortized premiums	780,239	882,336
	<u>20,790,239</u>	<u>20,892,336</u>
Economic Development Lease Rental Revenue Bonds, Series 1991		
Serial bonds with interest at 5.50%. Fully redeemed in December 2016	-	13,460,000
Bonds payable - Commission financings	-	13,460,000
	<u>-</u>	<u>13,460,000</u>
Total bonds payable	<u>\$ 242,735,936</u>	<u>\$ 274,298,453</u>

Marion County Convention and Recreational Facilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

Aggregate debt service requirements for all Authority Bonds at December 31, 2016 are as follows:

	Principal	Interest	Total
2017	\$ 17,040,000	\$ 10,563,021	\$ 27,603,021
2018	17,715,000	9,855,659	27,570,659
2019	18,450,000	9,119,903	27,569,903
2020	19,190,000	8,333,499	27,523,499
2021	20,030,000	7,475,097	27,505,097
2022-2026	114,750,000	21,479,500	136,229,500
2027	26,495,000	662,375	27,157,375
	233,670,000	\$ 67,489,054	\$ 301,159,054
Deduct:			
Unamortized bond premiums	9,065,936		
	\$ 242,735,936		

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2016 and 2015:

	Beginning Balance	Additions	2016		Ending Balance	Current Portion
			Reductions			
Revenue bonds payable	\$ 263,630,000	\$ -	\$ (29,960,000)		\$ 233,670,000	\$ 17,040,000
Bond premiums	10,668,453	-	(1,602,517)		9,065,936	-
Total bonds payable	\$ 274,298,453	\$ -	\$ (31,562,517)		\$ 242,735,936	\$ 17,040,000
			2015			
	Beginning Balance	Additions	Reductions		Ending Balance	Current Portion
Revenue bonds payable	\$ 292,265,000	\$ -	\$ (28,635,000)		\$ 263,630,000	\$ 16,500,000
Bond premiums	12,371,014	-	(1,702,561)		10,668,453	-
Total bonds payable	\$ 304,636,014	\$ -	\$ (30,337,561)		\$ 274,298,453	\$ 16,500,000

Marion County Convention and Recreational Facilities Authority

Notes to Financial Statements December 31, 2016 and 2015

Note 4: Financing Leases

Indiana Convention Center 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 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, 2016, together with amounts representing interest are as follows:

2017	\$ 28,006,645
2018	28,008,909
2019	28,010,604
2020	28,011,274
2021	27,930,172
2022-2026	139,245,250
2027	13,925,250
	<hr/>
	293,138,104
Current portion	<hr/>
	(28,006,645)
	<hr/>
Lease receivable - noncurrent	\$ 265,131,459
	<hr/>

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.

Marion County Convention and Recreational Facilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

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.

The final lease payment due from the Commission was received by the Authority during 2016 and no additional lease payments are due under this agreement. The Authority's interest in the Indianapolis Maintenance Center facilities are expected to be transferred to the Indianapolis Airport Authority during 2017.

Supplementary Information

Economic Development Lease Rental Revenue Bonds			
Sinking Fund	Operation and Reserve Fund	Total Economic Development Lease Rental Revenue Bonds	Totals
\$ -	\$ 170,422	\$ 170,422	\$ 9,013,201
-	-	-	27,448,340
14,219,750	-	14,219,750	14,219,750
384	15	399	877
14,220,134	15	14,220,149	41,668,967
(12,759)	2,259	(10,500)	-
(1,442,375)	-	(1,442,375)	(13,135,594)
(12,765,000)	-	(12,765,000)	(28,635,000)
-	(27,500)	(27,500)	(106,166)
(14,207,375)	(27,500)	(14,234,875)	(41,876,760)
-	145,196	145,196	8,805,408
-	-	-	28,001,940
14,211,750	-	14,211,750	14,211,750
4,630	143	4,773	8,732
14,216,380	143	14,216,523	42,222,422
(16,080)	5,580	(10,500)	-
(740,300)	-	(740,300)	(11,910,792)
(13,460,000)	-	(13,460,000)	(29,960,000)
-	(14,736)	(14,736)	(97,770)
(14,200,300)	(14,736)	(14,215,036)	(41,968,562)
\$ -	\$ 136,183	\$ 136,183	\$ 9,059,268

Independent Auditor's 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Marion County Convention and Recreational Facilities Authority (Authority), which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 22, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BKD, LLP

Indianapolis, Indiana
March 22, 2017