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April 28, 2009

Board of Directors  
River Ridge Development Authority  
6200 East Highway 62, Suite 600  
Jeffersonville, Indiana 47130

We have reviewed the audit report prepared by McCauley, Nicolas & Company, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the River Ridge Development Authority, as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**RIVER RIDGE DEVELOPMENT AUTHORITY**  
**REPORT ON AUDITS OF FINANCIAL STATEMENTS**  
**for the years ended**  
**December 31, 2008 and 2007**

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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
River Ridge Development Authority  
Jeffersonville, Indiana

We have audited the accompanying financial statements of River Ridge Development Authority (the Authority) as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2008 and 2007, and the changes in operations 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 March 16, 2009, 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 important for assessing the results of our audit.

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MEMBER

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The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*McCauley, Nicolas & Company, LLC*

McCauley, Nicolas & Company, LLC  
Certified Public Accountants

Jeffersonville, Indiana  
March 16, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the River Ridge Development Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2008 and 2007.

### **NATURE OF ORGANIZATION AND REPORTING ENTITY**

The Authority was established in 1998 under the laws of the State of Indiana and an interlocal agreement between Clark County, the City of Charlestown, the City of Jeffersonville, the Town of Utica, and the Indiana Port Commission. The Authority was established for the purpose of accepting conveyance of the Indiana Army Ammunition Plant from the United States Army, managing and leasing the real estate and improvements of the Ammunition Plant, removing conditions of blight, and developing the Ammunition Plant into a commerce and industrial park.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of both the Management's Discussion and audited Financial Statements. The Financial Statements include notes that provide additional information relating to the Authority's financial condition. Readers are encouraged to read the notes to better understand the financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

#### **THE STATEMENTS OF NET ASSETS**

The Statements of Net Assets include all of the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The Statements of Net Assets also provide the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the organization.

#### **THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

The Statements of Revenues, Expenses and Changes in Net Assets identify the revenues generated and the expenses incurred during the fiscal year.

#### **THE STATEMENTS OF CASH FLOWS**

The Statements of Cash Flows provide information relating to the Authority's cash receipts and cash expenditures during the fiscal year. The statements report cash receipts, cash payments and net changes in cash resulting from operations, and provide answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Table 1  
Condensed Statement of Net Assets**

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>	Increase <u>(Decrease)</u>
Current assets	\$ 3,246,058	4,410,267	\$ (1,164,209)
Restricted assets	149,911	251,078	(101,167)
Capital assets, net	3,291,240	1,879,696	1,411,544
Real estate available for sale	<u>2,990,094</u>	<u>3,020,477</u>	<u>(30,383)</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 9,677,303</b></u>	<u><b>\$ 9,561,518</b></u>	<u><b>\$ 115,785</b></u>
<u>LIABILITIES</u>			
Current liabilities	\$ 927,769	\$ 878,164	\$ 49,605
Other liabilities	149,911	251,078	(101,167)
Payable to United States Army	<u>2,990,094</u>	<u>3,020,477</u>	<u>(30,383)</u>
<b>TOTAL LIABILITIES</b>	<u><b>4,067,774</b></u>	<u><b>4,149,719</b></u>	<u><b>(81,945)</b></u>
<u>NET ASSETS</u>			
Investment in capital assets	3,291,240	1,879,696	1,411,544
Unrestricted net assets	<u>2,318,289</u>	<u>3,532,103</u>	<u>(1,213,814)</u>
<b>TOTAL NET ASSETS</b>	<u><b>5,609,529</b></u>	<u><b>5,411,799</b></u>	<u><b>197,730</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 9,677,303</b></u>	<u><b>\$ 9,561,518</b></u>	<u><b>\$ 115,785</b></u>

The primary increase in capital assets relates to improvements to property held for sale by the Authority. The increase in net assets relates primarily to the increase in the improvements spent on investments in capital assets maintained by the Authority, as well as the sale of certain pieces of property held by the Authority.

In 2007, the Authority entered into agreements to sell approximately 148.5 acres contained in six parcels. Three parcels totaling 123.9 acres closed during 2007 for a total of \$3,837,691 after conveyance considerations were paid to the United States Army. The Authority's net assets increased during 2007 by approximately \$2,360,000; primarily due to net proceeds from these land sales. There was a significant increase in the Authority's cash during this period as a result of these transactions.

The remaining three parcels under contract from 2007 were sold in 2008 for a total of \$887,461 after the conveyance payments. Net assets increased by another \$198,000 in 2008. Certain infrastructure improvements required under the conditions of sales on parcels closed in 2007 and 2008 were completed in 2008. The cost of these improvements (roads, water lines, sewer lines and storm water control facilities) was the main factor in the \$1,163,000 decrease in cash at the end of 2008, and a corresponding increase in Investment in Capital Assets of approximately \$1,411,000.

See Table 2 for additional discussion.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Table 2  
Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	<u>2008</u>	<u>2007</u>	Increase (Decrease)
TOTAL REVENUES, including nonoperating revenues	\$ 2,088,079	\$ 4,835,707	\$ (2,747,628)
TOTAL EXPENSES	<u>1,890,349</u>	<u>2,473,561</u>	<u>(583,212)</u>
 INCREASE IN NET ASSETS	 <u>\$ 197,730</u>	 <u>\$ 2,362,146</u>	 <u>\$ (2,164,416)</u>

- During 2008, there was a severe economic downturn throughout the United States, including the southern Indiana region. This resulted in a significant negative impact on industrial prospect activity. The Authority recognized a decrease in sales activities from \$3,980,000 in 2007 to \$918,000 in 2008.
- The Authority's rent revenues also declined by approximately \$145,000 from 2007 to 2008 due to the expiration and changes in terms of certain leases.
- Interest income in 2008 decreased significantly from 2007 due to the Authority having to invest in new infrastructure and capital related costs.
- The Authority's decrease in expenses was due primarily to the repayment totaling \$469,500 in 2007 to various Appointing authorities. The Authority also had a decrease in development and maintenance costs.
- All other revenues and expense amounts were comparable.

**FUTURE OPERATIONS**

The Authority expects a decrease in rental income during 2009, primarily due to adjustments in terms associated with certain lease extensions. Although management continues to work toward developing property for sale, land sales are expected to be soft in 2009 as a result of overall economic conditions. The primary change in operations will be due to increased efforts to "fully" develop sites owned by the Authority and subsequently to implement an aggressive marketing plan.

**REQUESTS FOR ADDITIONAL INFORMATION**

This report is intended to provide readers with a general overview of the Authority's finances and to provide information regarding the receipts and uses of funds. If you need clarification regarding a statement(s) made in the report or need additional information, please contact the office of River Ridge Development Authority.

**RIVER RIDGE DEVELOPMENT AUTHORITY**

**STATEMENTS OF NET ASSETS**

December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 3,194,237	\$ 4,362,988
Accounts receivable	3,700	-
Prepaid expenses	<u>48,121</u>	<u>47,279</u>
<b>TOTAL CURRENT ASSETS</b>	<u>3,246,058</u>	<u>4,410,267</u>
<b>RESTRICTED ASSETS</b>		
Cash - security deposits	59,911	68,252
Cash - escrow deposit	<u>90,000</u>	<u>182,826</u>
<b>TOTAL RESTRICTED ASSETS</b>	<u>149,911</u>	<u>251,078</u>
<b>CAPITAL ASSETS</b>		
Office equipment	79,993	82,208
Vehicles	69,885	37,972
Infrastructure	<u>3,335,217</u>	<u>1,879,181</u>
	3,485,095	1,999,361
Less accumulated depreciation	<u>(193,855)</u>	<u>(119,665)</u>
<b>CAPITAL ASSETS, NET</b>	<u>3,291,240</u>	<u>1,879,696</u>
<b>OTHER ASSETS</b>		
Real estate available for sale	<u>2,990,094</u>	<u>3,020,477</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,677,303</u>	<u>\$ 9,561,518</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accruals	\$ 804,423	\$ 788,798
Advanced rental payments	96,585	42,002
Accrued compensated absences	<u>26,763</u>	<u>47,366</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>927,771</u>	<u>878,166</u>
<b>OTHER LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</b>		
Security deposits	59,911	68,252
Escrow deposit	<u>90,000</u>	<u>182,826</u>
<b>TOTAL OTHER LIABILITIES</b>	<u>149,911</u>	<u>251,078</u>
<b>LONG-TERM DEBT</b>		
Payable to United States Army	<u>2,990,094</u>	<u>3,020,477</u>
<b>TOTAL LIABILITIES</b>	4,067,776	4,149,721
<b>NET ASSETS</b>		
Investment in capital assets	3,291,240	1,879,696
Unrestricted net assets	<u>2,318,287</u>	<u>3,532,101</u>
<b>TOTAL NET ASSETS</b>	<u>5,609,527</u>	<u>5,411,797</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 9,677,303</u>	<u>\$ 9,561,518</u>

See notes to financial statements.

**RIVER RIDGE DEVELOPMENT AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

for the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>		
Rental income	\$ 1,273,678	\$ 1,308,638
Rental income River Ridge property	296,530	405,276
Equipment rental	16,343	17,763
Land proceeds, net	<u>349,450</u>	<u>2,842,105</u>
<b>TOTAL OPERATING REVENUES</b>	<u>1,936,001</u>	<u>4,573,782</u>
<b>OPERATING EXPENSES</b>		
Payroll	313,519	310,575
Employee benefits	103,128	108,916
Payroll taxes	30,232	23,629
Temporary labor	4,315	1,930
Development expenses	176,087	459,106
Repayments to Appointing authorities	-	469,500
Road and ground maintenance	168,305	320,501
Depreciation expense	86,209	24,722
Legal fees	147,728	145,471
Insurance	90,695	84,644
Marketing	38,803	25,146
Office equipment and supplies	30,533	23,627
Professional fees	114,921	63,288
Rental expense	56,232	54,867
Security	249,236	276,013
Telephone repair and service	108,356	39,679
Master planning services	60,645	-
Lease management	60,257	-
Training expense	4,753	3,209
Travel	17,104	14,672
Utilities	<u>29,291</u>	<u>24,066</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,890,349</u>	<u>2,473,561</u>
<b>OPERATING INCOME</b>	<u>45,652</u>	<u>2,100,221</u>
<b>NONOPERATING REVENUES</b>		
Interest income	149,200	222,050
Grant income	1,500	10,000
Other income	<u>1,761</u>	<u>29,875</u>
<b>TOTAL NONOPERATING REVENUES</b>	<u>152,078</u>	<u>261,925</u>
<b>CHANGES IN NET ASSETS</b>	197,730	2,362,146
<b>NET ASSETS, beginning of year</b>	<u>5,411,797</u>	<u>3,049,651</u>
<b>NET ASSETS, end of year</b>	<u>\$ 5,609,527</u>	<u>\$ 5,411,797</u>

See notes to financial statements.

## RIVER RIDGE DEVELOPMENT AUTHORITY

### STATEMENTS OF CASH FLOWS

for the years ended December 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and others	\$ 2,019,028	\$ 4,746,863
Cash paid to suppliers, employees, and others	(1,809,960)	(1,960,764)
Interest received	149,200	222,050
Grant received	1,500	10,000
	<u>359,768</u>	<u>3,018,149</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of capital assets	(1,498,136)	(1,528,300)
	<u>(1,498,136)</u>	<u>(1,528,300)</u>
Cash used by investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment to United States Army	(30,383)	(143,173)
	<u>(30,383)</u>	<u>(143,173)</u>
Cash used by financing activities		
<b>NET INCREASE (DECREASE) IN CASH</b>	(1,168,751)	1,346,676
<b>CASH, beginning of year</b>	<u>4,362,988</u>	<u>3,016,312</u>
<b>CASH, end of year</b>	<u>\$ 3,194,237</u>	<u>\$ 4,362,988</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ 197,730	\$ 2,362,146
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	86,209	24,722
Loss on disposal of capital asset	383	-
(Increase) decrease in:		
Accounts receivable	(3,700)	33,196
Prepaid expenses	(842)	8,312
Real estate available for sale	30,383	143,173
Increase (decrease) in:		
Accounts payable	15,625	480,464
Advanced rental payments	54,583	(33,163)
Compensated absences	(20,603)	(701)
	<u>\$ 359,768</u>	<u>\$ 3,018,149</u>
Net cash provided by operating activities		

See notes to financial statements.

# RIVER RIDGE DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of River Ridge Development Authority (the Authority) is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

The more significant accounting policies of the Authority are as follows:

#### Nature of Operations

The Authority was established in 1998 under the laws of the State of Indiana and an interlocal agreement between Clark County, the City of Charlestown, the City of Jeffersonville, the Town of Utica and the Indiana Port Commission. The Authority was established for the purpose of accepting conveyance of the Indiana Army Ammunition Plant from the United States Army, managing and leasing the real estate and improvements of the Ammunition Plant, removing conditions of blight, and developing the Ammunition Plant into a commerce and industrial park.

#### Reporting Entity

These financial statements present River Ridge Development Authority (primary government), and there are no other component units which require inclusion.

#### Basis of Presentation

All of the Authority's programs are accounted for as one business-type activity for financial reporting purposes. This financial statement presentation provides an indication of the financial performance of the Authority as a whole. Enterprise designations are used to account for activities if any of the following criteria applies: (a) The activity is financed with debt that is solely secured by pledge of the net revenues from fees and charges of the activity; (b) laws or regulations that require that the activity's costs of providing services be recovered with fees and charges rather than taxes or similar revenues; or (c) the pricing policies of the activity establish fees and charges designated to recover its costs.

In accordance with Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with or contradict a GASB pronouncement.

The accompanying financial statements are prepared on the basis of accounting principles generally accepted in the United States of America.

## RIVER RIDGE DEVELOPMENT AUTHORITY

### NOTES TO FINANCIAL STATEMENTS—Continued

#### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

##### Use of Estimates

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

##### Cash Equivalents

The Authority considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2008 and 2007.

##### Accounts Receivable

Accounts receivable consists of amounts due from tenants for monthly lease income. The Authority uses the allowance for bad debts method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables. Management has determined no allowance was required at December 31, 2008 and 2007.

##### Capital Assets

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred; major renewals or betterments are capitalized. Gain or loss on retirements or dispositions of assets is charged to operations, and respective costs and accumulated depreciation are eliminated from the accounts.

Depreciation is provided on the estimated useful lives of the assets using the straight-line method. The estimated useful lives are 5 to 7 years for office equipment, 7 to 10 years for furniture and fixtures, 5 years for vehicles, and 20 to 50 years for infrastructure. See Note 3 for additional information.

Public domain (infrastructure) capital assets consisting of the development of roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems on land that has not been deeded to the Authority are not capitalized, as these assets are included as documented costs per the master lease agreement (See Note 9). Documented costs are used to offset the rental income received by the Authority and due to the United States Army.

##### Revenue Recognition

The Authority recognizes revenue when earned and not when received. Advanced and unearned rentals arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period.

**RIVER RIDGE DEVELOPMENT AUTHORITY**

NOTES TO FINANCIAL STATEMENTS—Continued

**NOTE 2—RESTRICTED ASSETS**

Restricted Assets represent deposits made by tenants for the property leased from the Authority and earnest money (see Note 4) received from land sales contracts. Cash related to security deposits and earnest money has been included on the Statements of Net Assets as "Restricted Assets." Additionally, the related liability for these security deposits and earnest money has been included in the Statements of Net Assets as "Other liabilities (payable from Restricted Assets)."

**NOTE 3—CAPITAL ASSETS**

The following is a summary of capital assets during the years ended December 31, 2008 and 2007:

	<u>Balance at</u> <u>12/31/07</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance at</u> <u>12/31/08</u>
Office equipment	\$ 82,208	\$ 10,187	\$ (12,402)	\$ 79,993
Vehicles	37,972	31,913	-	69,885
Infrastructure	<u>1,879,181</u>	<u>1,456,036</u>	-	<u>3,335,217</u>
	1,999,361	1,498,136	(12,402)	3,485,095
Accumulated depreciation	<u>(119,665)</u>	<u>(86,209)</u>	<u>12,019</u>	<u>(193,855)</u>
Total, net	<u>\$ 1,879,696</u>	<u>\$ 1,411,927</u>	<u>\$ (383)</u>	<u>\$ 3,291,240</u>

  

	<u>Balance at</u> <u>12/31/06</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance at</u> <u>12/31/07</u>
Office equipment	\$ 82,208	\$ -	\$ -	\$ 82,208
Vehicles	37,972	-	-	37,972
Infrastructure	<u>350,880</u>	<u>1,696,627</u>	<u>(168,326)</u>	<u>1,879,181</u>
	471,060	1,696,627	(168,326)	1,999,361
Accumulated depreciation	<u>(94,942)</u>	<u>(24,723)</u>	<u>168,326</u>	<u>(119,665)</u>
Total, net	<u>\$ 376,118</u>	<u>\$ 1,671,904</u>	<u>\$ -</u>	<u>\$ 1,879,696</u>

Total depreciation expense was \$86,209 and \$24,723 for the years ended December 31, 2008 and 2007, respectively.

**NOTE 4—REAL ESTATE AVAILABLE FOR SALE AND PAYABLE TO UNITED STATES ARMY**

On June 6, 2005 and August 24, 2006, through quitclaim deeds, the United States of America, acting by and through the Deputy Assistant Secretary of the Army, entered into an agreement with the Authority to deed land to the Authority. The agreement states that in accordance with the Federal Act, the Authority shall pay to the Army a monetary consideration for conveyance of the property to the Authority (the "Conveyance Consideration") as agreed upon in the deed agreements.

**RIVER RIDGE DEVELOPMENT AUTHORITY**

NOTES TO FINANCIAL STATEMENTS—Continued

**NOTE 4—REAL ESTATE AVAILABLE FOR SALE AND PAYABLE TO UNITED STATES ARMY—Continued**

According to the agreements, the Conveyance Consideration shall be paid to the United States of America no later than ten years after the date of conveyance of the property. The Authority is currently making improvements to the land and holding it available for sale to the extent the property is not subject to prior lease by the Authority. A breakdown of real estate conveyed and available for sale is as follows:

<u>Year Conveyed</u>	<u>Number of Acres</u>	<u>Acquisition Price Per Acre</u>	<u>Original Purchase Price</u>	<u>Year Sold</u>	<u>Acres Sold</u>	<u>Cost Repaid</u>	<u>Acres Remaining</u>	<u>Cost Remaining</u>
2005	2,325.62	\$1,122	\$ 2,608,650	2006	105.30	\$ 119,095	2,220.32	
				2007	31.95	35,861	2,188.37	
				2008	26.15	30,383	2,162.22	\$ 2,423,311
2006	577.63	\$1,167	<u>674,094</u>	2007	91.96	<u>107,311</u>	485.67	<u>566,783</u>
			<u>\$ 3,282,744</u>			<u>\$ 292,650</u>		<u>\$ 2,990,094</u>

During 2007, the Authority entered into agreements to sell approximately 28 acres of the property to a party. The sale is contingent upon the purchaser and the Authority performing certain activities. The Authority is required to make certain improvements to the property being sold. As of December 31, 2008, all of the activities required for the consummation of the agreements had not been finalized. As part of this agreement, earnest money in the amount of \$90,000 was paid by the purchaser. This money will be held in escrow pending closing or termination of the agreements.

**NOTE 5—BANK BORROWINGS**

The Authority has a \$1,500,000 line of credit agreement with J P Morgan / Chase Bank. The line of credit bears interest at prime (3.25% at December 31, 2008) and is collateralized by all inventory and equipment of the Authority. The real estate available for sale is not part of the collateral. The line of credit is available to finance the Authority's working capital needs. There were no borrowings outstanding at December 31, 2008 and 2007. The line of credit expires in May 2009.

**RIVER RIDGE DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS—Continued**

**NOTE 6—ADVANCED RENTAL PAYMENTS**

The Authority recognizes rent received by tenants for future periods as “Advanced rental payments” on the Statements of Net Assets. The liability for “Advanced rental payments” at December 31, 2008 and 2007 was \$96,585 and \$42,002, respectively.

**NOTE 7—COMPENSATED ABSENCES**

The Authority employees earn paid time off (sick/vacation) at a rate of 18 to 22 days per year based upon the number of years of service. Employees may carry unused time until the accumulated paid time off balance equals two times the annual paid time off. At December 31, 2008 and 2007, accrued compensated absences were \$26,763 and \$47,366, respectively.

**NOTE 8—RENTAL INCOME UNDER OPERATING LEASES**

The Authority leases land, buildings, and equipment of the Ammunition Plant to various entities (See Note 9). The leases vary in amounts and maturity dates. Certain lease agreements are structured to include scheduled and specified rent increases over the lease term. Future minimum rental payments to be received are as follows:

2009	\$1,180,459
2010	\$1,000,278
2011	\$ 911,644
2012	\$ 886,247
2013	\$ 527,493
Thereafter	\$2,001,900

**NOTE 9—OPERATING LEASES**

In May 2003, the Authority and United States Department of the Army executed a master lease agreement for a term of twenty-five years ending in April 2028, with an option to renew for one twenty-five year period pending certain provisions. The lease consists of approximately 5,904 acres located in Clark County, Indiana.

Consideration for the lease is based on the fair market rental value. The parties originally agreed the total value of the lease was \$1,723,998 at the date the master lease was signed. The consideration for the leased premises will be reappraised or evaluated every five years. The Army has agreed that all documented costs, which are directly related to improvement, operation, maintenance, protection, and repair of the Ammunition Plant will offset rents due the Army under the lease. In the event that documented costs exceed rent, the costs will be carried over to future years. In the event that rent exceeds documented costs, the Army may request excess rent to be paid to the Army based upon the terms of the master lease agreement. As of December 31, 2008, the Authority had incurred cumulative documented costs greater than the rent obligation and therefore no payments for rent were recognized in the financial statements at this time.

## **RIVER RIDGE DEVELOPMENT AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS—Continued**

#### **NOTE 9—OPERATING LEASES—Continued**

Additionally, the Authority leases office space from an unrelated party. The lease expires in November 2009. Lease expense under this lease was \$56,232 and \$54,867 for the years ended December 31, 2008 and 2007, respectively. Future minimum lease payments under this operating lease are expected to be approximately \$56,000 for the year ended December 31, 2009.

#### **NOTE 10—DEFINED CONTRIBUTION PLAN**

The Authority has established a 401(a) retirement plan for all eligible employees. All employees are eligible upon the beginning of their employment. Employer contributions to the Plan are based upon 6% of each eligible employee's compensation. Contributions to the Plan totaled \$17,282 and \$18,676 for the years ended December 31, 2008 and 2007, respectively.

#### **NOTE 11—CASH AND CASH HELD FOR RESTRICTED DEPOSITS**

Cash deposits made in accordance with IC 5-13 with financial institutions in the State of Indiana were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Therefore, all cash values are considered secured.

The carrying value of cash and restricted deposits at December 31, 2008 and 2007 was \$3,344,148 and \$4,614,066, respectively. The bank balance of cash at December 31, 2008 and 2007 was \$3,406,282 and \$4,631,816, respectively.

#### **NOTE 12—MAJOR CUSTOMER**

Approximately \$879,000 (54%) and \$733,000 (43%) of the Authority's rental income for 2008 and 2007, respectively, was generated from two customers.

#### **NOTE 13—RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters. These risks are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage. There were no significant reductions in insurance coverage by major category of risk.

## **RIVER RIDGE DEVELOPMENT AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS—Continued**

#### **NOTE 13—RISK MANAGEMENT—Continued**

In January 2005, the Board Members of the Authority voted to purchase an environmental liability insurance policy for approximately \$1,000,000. This policy was purchased in May 2005 and provides coverage for the lesser of the earliest of ten years or \$25,000,000 in payouts. The policy premiums are non-refundable. This policy will protect the Authority from claims of property damage or personal injury and provide funds for the Authority's defense in case of a lawsuit. The Authority determined the insurance was necessary after a review of its master lease with the Department of Defense by environmental attorneys.

Although the Department of Defense is required to clean up environmental contamination and hazardous substances at the site (see Note 15), the timing of the clean up is based upon available funds. In addition, the Department of Defense does not cover property damage or personal injury claims which could arise due to environmental contamination.

#### **NOTE 14—COMMITMENTS FOR AWARDED CONTRACTS**

As of December 31, 2008, the Authority had entered into various contractual agreements for services to be completed in 2009. The total amount of the contracts was approximately \$757,000 of which \$605,000 had been expensed during 2008. No liability was recorded for the remaining outstanding commitments since the remaining work had not been performed as of December 31, 2008.

#### **NOTE 15—ENVIRONMENTAL REMEDIATION**

The Department of Defense is responsible for any environmental remediation of designated areas as defined in the master lease agreement (see Note 9) with River Ridge Development Authority. Therefore, no accrual is necessary for environmental issues. See Note 13 for additional information.

#### **NOTE 16—LITIGATION**

Subsequent to year-end, the Authority was named in a lawsuit seeking unspecified damages for breach of the Facilities Use Agreement. The Authority has engaged legal counsel and intends to vigorously defend against the claim. Management believes that the lawsuit is completely without merit and no liability has been recorded by the Authority as a result.

#### **NOTE 17—RECLASSIFICATION**

Certain items have been reclassified for 2007 to conform to the classifications in 2008. Such reclassifications had no effect on net income or equity as previously reported.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors  
River Ridge Development Authority  
Jeffersonville, Indiana

We have audited the financial statements of River Ridge Development Authority (the Authority) as of and for the years ended December 31, 2008, and have issued our report thereon dated March 16, 2009. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*McCauley, Nicolas & Company, LLC*

McCauley, Nicolas & Company, LLC  
Certified Public Accountants

Jeffersonville, Indiana  
March 16, 2009

April 20, 2009

RECEIVED  
APR 22 2009  
STATE BOARD OF ACCOUNTS

State Board of Accounts  
302 West Washington  
Fourth Floor Room E418  
Indianapolis, Indiana 46204

We are enclosing one copy of the audited financial statements of River Ridge Development Authority for the year ended December 31, 2008. If you have any questions regarding the report, please contact our office.

Sincerely,

McCAULEY, NICOLAS & COMPANY, LLC

*John C. Pieper, CPA*

John C. Pieper, CPA, Member