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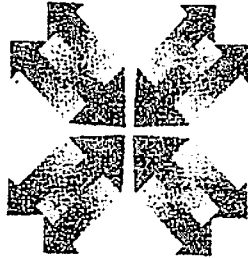
February 16, 2012

Board of Directors
Fort Harrison Reuse Authority
9120 Otis Avenue
Indianapolis, IN 46216

We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period January 1, 2007 through December 31, 2007. 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 Fort Harrison Reuse Authority, as of December 31, 2007 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



FORT HARRISON
Reuse Authority

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2007 and 2006

FORT HARRISON REUSE AUTHORITY

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Independent Auditors' Report

Board of Directors
Fort Harrison Reuse Authority

We have audited the accompanying balance sheet of Fort Harrison Reuse Authority (the Authority), as of December 31, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. 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. The financial statements of the Authority as of December 31, 2006, were audited by other auditors, whose report dated August 14, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in 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 2007 financial statements referred to above present fairly, in all material respects, the financial position of Fort Harrison Reuse Authority at December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

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

Kathy, Aggarwal & Miller, LLP

Indianapolis, Indiana
September 29, 2008

FORT HARRISON REUSE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The management of the Fort Harrison Reuse Authority (Authority), which is a governmental entity located in the City of Lawrence, Indiana and Marion County-Indianapolis, Indiana, offers the readers of the Authority's financial statements this narrative overview and analysis of financial activities for the Authority fiscal years ended December 31, 2007 and 2006. The Management's Discussion and Analysis is being presented to provide additional information regarding the activities of the Authority in connection with its financial statements and to meet the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statement—and Management's Discussion and Analysis – for State and Local Governments*.

The Authority is created to redevelop property that was formerly the Fort Benjamin Harrison United States Army Military Base (Fort Harrison). The goal in doing so is to replace jobs lost during base closure and to conduct activities that result in the generation of property tax through local investment. The activities of the Authority include the marketing of properties held for sale by the Authority, conducting planning and making physical improvements to property that add value to the Fort area, and promoting business development opportunities available at Fort Harrison.

Financial Highlights

Overview of Financial Statements

The financial statements of the Authority includes the following for the calendar years 2007 and 2006.

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

Basis of Accounting and Financial Reporting

The financial statements consist of a single-purpose business-type activity which is reported on the accrual basis of accounting using the economic resources measurement focus.

The Authority prepares its financial statements in conformity with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

- *Invested in capital assets, net of related debt* – represents the Authority's investments in capital assets (e.g. land, buildings, etc.) less any related debt used to acquire those assets that is still outstanding. The Authority uses these assets as its primary commodity to attract investment in the Fort Harrison jurisdiction. These investments add value to the overall Fort Harrison property and are recoverable through the liquidation of relevant assets.

- *Restricted for debt service* – represents annual obligations to outstanding debt issued for various improvements in the Authority’s jurisdiction.
- *Unrestricted* – represents resources that may be used to meet the Authority’s ongoing obligations to the public and creditors.

Balance Sheets

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 assessing the financial position of the Authority, one may additionally consider the ability of the Authority to implement its mission and take into consideration its accomplishments relevant to significant projects that impact the long-term goals of the community, more specifically the City of Lawrence, Indiana and the east side of Indianapolis.

Comparative Balance Sheets

The comparative analysis below is a summary of the balance sheets for the years ended December 31, 2007, 2006, and 2005.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets – unrestricted	\$ 5,695,572	\$ 2,771,547	\$ 3,213,668
Current assets – restricted	14,164,978	19,717,180	10,892,573
Noncurrent assets	<u>3,414,175</u>	<u>11,515,163</u>	<u>2,408,773</u>
Total Assets	<u>\$ 23,274,725</u>	<u>\$ 34,003,890</u>	<u>\$ 16,515,014</u>
Current liabilities – payable from unrestricted assets	\$ 29,394	\$ 3,479,109	\$ 3,451,596
Current liabilities – payable from restricted assets	10,350,287	12,449,109	11,790,000
Noncurrent liabilities – payable from restricted assets	<u>10,905,000</u>	<u>11,310,000</u>	<u>11,790,000</u>
Total Liabilities	<u>21,284,681</u>	<u>27,238,218</u>	<u>15,241,596</u>
Net assets			
Invested in capital assets, net of related debt	(5,089,015)	(5,004,850)	(7,467,485)
Restricted for debt service	6,577,059	11,298,130	7,952,305
Unrestricted	<u>502,000</u>	<u>472,392</u>	<u>788,598</u>
Total Net Assets	<u>1,990,044</u>	<u>6,765,672</u>	<u>1,273,418</u>
Total Liabilities and Net Assets	<u>\$ 23,274,725</u>	<u>\$ 34,003,890</u>	<u>\$ 16,515,014</u>

2007 to 2006 Comparative Balance Sheets

In 1991, BRAC announced the closing of Fort Benjamin Harrison. Around the time of the official closing of the base and the installation of the Fort Harrison Reuse Authority in 1995 - 1996, the Authority agreed to purchase the entire Fort property with the exception of the PX/Commissary. The PX/Commissary remained active for U.S. Army use. The purchase price was approximately \$6 million, and the Authority, having no money to pay this amount, agreed to pay through the proceeds of property sales.

Through a series of negotiations, the U.S. Government agreed to keep the PX/Commissary active at Fort Benjamin. By that time, the Authority's debt amount to the Army was \$3 million. The Army agreed to forgive this debt and give the Authority the land on which the old PX/Commissary was located. This land was valued at \$3.5 million. In return, the Authority would build the Army a new PX/Commissary. The Government provided a \$2 million appropriation to help build these buildings.

Many of the areas within the balance sheet that present an unusually large increase or decrease is a direct result of this transaction, which was ongoing for several years and was completed in 2007. The residual expenses from this transaction incurred as a result of the demolition of the old buildings and the preparation this property for sales opportunities. All other data remains consistent with normal operations.

Current Assets – Unrestricted increase of \$2,924,025 in 2007 is related to the Authority's receipt of the property deed by the U.S. Army for the old PX/Commissary property.

Current Assets – Restricted decrease of \$5,552,202 in 2007 is related to the Authority's receipt of the property deed by the U.S. Army for the old PX/Commissary property.

Noncurrent Assets decreased by \$8,100,988 and is mainly related to the Authority's completion of the new PX/Commissary. Asset was transferred to U.S. Army as part of land exchange.

Current Liabilities – Payable From Unrestricted Assets decreased from \$3,479,107 in 2006 to \$29,394 in 2007. This is related to the Authority's receipt of the property deed by the U.S. Army for the old PX/Commissary property in exchange for building the Army a new PX/Commissary on different land owned by the Authority.

Current Liabilities – Payable From Restricted Assets is the Authority's TIF Bonds issued in 2000 as well as accrued interest and construction obligations. The amount decreased from 2006 to 2007 by \$2,098,822, which is the result of paying the scheduled debt service and accrued amounts for construction obligations related to the new PX/Commissary.

2006 to 2005 Comparative Balance Sheets

Current Assets – Unrestricted decrease of 14% in 2006 is related to the Authority's ability to collect multiple outstanding notes.

Current Assets – Restricted overall increase in 2006 reflects the Authority's strong performance in levy collections in the Fort Harrison Tax Increment Finance (TIF) district, the receipt of a \$2,000,000 federal appropriation for a new PX/Commissary, and the proceeds from the issuance of fixed rate bonds in October 2006. Authority TIF property tax receivables increased by approximately 25% from 2005, and they continue to exceed the annual obligations to service outstanding debt, resulting in a surplus for the Authority. The Authority exercises prudence in its investment activities and the increase in cash equivalents reflect the accrual of surplus receivables.

Noncurrent Assets increased by \$9,106,000, as the Authority initiated significant investment activity in the last quarter of 2006. Specifically, the Authority began construction of a new PX/Commissary, which will greatly benefit the entire Fort Harrison area.

Current Liabilities – Payable From Unrestricted Assets increased in 2006 to \$3,479,000 from \$3,452,000 in 2005. The current portion of debt in the amount of \$2,360,000 represents the remaining portion of principal on the note payable to the United States Army for the Economic Development Conveyance for Fort Harrison circa 1996. The increase in accrued interest is related to the note payable to the Army. The principal and accrued interest on the Army note was forgiven with the successful completion of the new PX/Commissary at Historic Fort Harrison in June 2007.

Current Liabilities – Payable From Restricted Assets is the Authority's TIF Bonds issued in 2000 as well as the deferred revenue representing the \$2,000,000 federal appropriation. The amount increased from 2005 to 2006 by \$659,000, which is the result of paying the scheduled debt service, offset by accruing construction obligations related to the new PX/Commissary. As these are demand bonds, they are classified as current obligations of the Authority.

2007 to 2006 Comparative 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 years ended December 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Rental income	\$ 93,215	\$ 107,331
OPERATING EXPENSES		
Personnel	188,045	227,993
Office expenses and other	145,234	174,994
Professional fees	100,159	140,687
Interlocal agreement		150,000
Depreciation	29,843	30,384
Bad debt expense		24,000
Total Operating Expenses	<u>463,281</u>	<u>748,058</u>
OPERATING LOSS	<u>(370,066)</u>	<u>(640,727)</u>
NONOPERATING REVENUE (EXPENSE)		
TIF tax revenue	3,287,696	4,269,187
Interest income, net	396,919	248,540
Interest expense	(819,742)	(384,746)
Loss on land exchange transaction	(7,612,603)	
Gain on sale of land	342,168	
Total Nonoperating Revenue (Expense)	<u>(4,405,562)</u>	<u>4,132,981</u>
Increase (Decrease) in Net Assets Before Capital Contributions	(4,775,628)	3,492,254
Contributions from other Governments		<u>2,000,000</u>
INCREASE (DECREASE) IN NET ASSETS	(4,775,628)	5,492,254
NET ASSETS		
Beginning of Year	<u>6,765,672</u>	<u>1,273,418</u>
End of Year	<u>\$ 1,990,044</u>	<u>\$ 6,765,672</u>

Operating revenues decreased \$14,116 in 2007 due to a decrease in rental income.

Nonoperating revenue (expense) decreased significantly by \$8,538,543 largely as a result of the recorded net loss on land exchange transaction and interest expense related to the PX/Commissary. On September 14, 2005, the Authority and the U.S. Army signed an amendment to the original memorandum of agreement in which the U.S. Army agreed to forgive the outstanding balance and all accrued interest on the note payable in exchange for the Authority constructing a new PX/Commissary. In addition, the Authority was given title to the property on which the now demolished PX/Commissary was located.

Operating expenses decreased in 2007 by \$284,777 primarily because of lowered personnel expenses and no interlocal agreement and bad debt expenses.

2006 to 2005 Comparative 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 years ended December 31, 2006 and 2005.

	2006	2005
OPERATING REVENUES		
Rental income	\$ 107,331	\$ 155,436
OPERATING EXPENSES		
Personnel	227,993	158,692
Office expenses and other	174,994	228,972
Professional fees	140,687	153,772
Interlocal agreement	150,000	150,000
Depreciation	30,384	30,582
Bad debt expense	24,000	
Total Operating Expenses	<u>748,058</u>	<u>722,018</u>
OPERATING LOSS	<u>(640,727)</u>	<u>(566,582)</u>
NONOPERATING REVENUE (EXPENSE)		
TIF tax revenue	4,269,187	2,997,818
Interest income, net	248,540	(24,818)
Interest expense	(384,746)	(358,775)
Gain on sale of capital assets		335,804
Other		19,306
Total Nonoperating Revenue (Expense)	<u>4,132,981</u>	<u>2,969,335</u>
Increase (Decrease) in Net Assets Before Capital Contributions	3,492,254	2,402,753
Contributions from other Governments	<u>2,000,000</u>	
INCREASE (DECREASE) IN NET ASSETS	5,492,254	2,402,753
NET ASSETS		
Beginning of Year	<u>1,273,418</u>	<u>(1,129,335)</u>
End of Year	<u>\$ 6,765,672</u>	<u>\$ 1,273,418</u>

Operating revenues decreased \$48,000 in 2006. The primary reason is due to approximately a \$48,000 decrease in rental income. For 2006, the Authority did not close on the sale of any property.

Nonoperating revenue (expense) increased \$1,163,646, primarily related to an increase in TIF tax revenue of \$1,271,000. This increase can be attributed to many factors, which include an increase in the amount of taxable property and increases in assessments. The increase in nonoperating revenue is also due to an increase in investment income of \$228,000, the result of an increase in cash and cash equivalents of \$7,230,000.

Operating expenses increased \$26,000, marked by increased staff costs. For much of 2006, the Authority employed two full time employees (FTE) and four part-time employees (PTE), which included interns and a maintenance person. Towards the end of 2006, the FHRA reorganized and ended its intern program and reduced maintenance staff needs. The Authority now operates with two FTE and one PTE.

Other Potentially Significant Matters

The Authority has signed an agreement with Browning Investments to finalize construction documents for the Phase I Infrastructure project. This project will require the Authority to do another bond issue. Pending bidding, permitting, and a contract award, the Phase I Infrastructure project should break ground in March 2009. In the meantime, Browning and the Authority are working together to sell the remaining 50+/- acres within the Village.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Fort Harrison Reuse Authority, 9120 Otis Avenue, Indianapolis, IN 46216.

FORT HARRISON REUSE AUTHORITY

**BALANCE SHEETS
December 31, 2007 and 2006**

		ASSETS	
		2007	2006
CURRENT ASSETS			
Unrestricted Assets			
Cash and cash equivalents		\$ 517,884	\$ 348,859
Prepaid expenses and other assets		13,510	148,510
Real estate held for sale		<u>5,164,178</u>	<u>2,274,178</u>
Total Unrestricted Assets		<u>5,695,572</u>	<u>2,771,547</u>
Restricted Assets			
Cash equivalents		8,862,139	13,891,121
TIF property tax receivable		<u>5,302,839</u>	<u>5,826,059</u>
Total Restricted Assets		<u>14,164,978</u>	<u>19,717,180</u>
Total Current Assets		<u>19,860,550</u>	<u>22,488,727</u>
NONCURRENT ASSETS			
Bond issuance costs, net of accumulated amortization		256,145	270,377
Non-depreciable capital assets		2,444,828	10,500,741
Depreciable capital assets, net		<u>713,202</u>	<u>744,045</u>
Total Noncurrent Assets		<u>3,414,175</u>	<u>11,515,163</u>
TOTAL ASSETS		<u>\$ 23,274,725</u>	<u>\$ 34,003,890</u>
		LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES			
Payable from Unrestricted Assets			
Accounts payable and deferred revenue		\$ 29,394	\$ 24,977
Note payable to U.S. Army			2,360,436
Accrued interest on debt			<u>1,093,696</u>
Total Payable from Unrestricted Assets		<u>29,394</u>	<u>3,479,109</u>
Payable from Restricted Assets			
Accounts payable		256,848	2,122,755
Accrued interest on debt		703,439	441,354
Current portion of bonds payable		<u>9,390,000</u>	<u>9,885,000</u>
Total Payable from Restricted Assets		<u>10,350,287</u>	<u>12,449,109</u>
Total Current Liabilities		<u>10,379,681</u>	<u>15,928,218</u>
NONCURRENT LIABILITIES - Payable from Restricted Assets			
Bonds payable		<u>10,905,000</u>	<u>11,310,000</u>
Total Liabilities		<u>21,284,681</u>	<u>27,238,218</u>
NET ASSETS			
Invested in capital assets, net of related debt		(5,089,015)	(5,004,850)
Restricted for debt service		6,577,059	11,298,130
Unrestricted		<u>502,000</u>	<u>472,392</u>
Total Net Assets		<u>1,990,044</u>	<u>6,765,672</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 23,274,725</u>	<u>\$ 34,003,890</u>

See accompanying notes.

FORT HARRISON REUSE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Rental income	\$ 93,215	\$ 107,331
OPERATING EXPENSES		
Personnel	188,045	227,993
Office expenses and other	145,234	174,994
Professional fees	100,159	140,687
Interlocal agreement		150,000
Depreciation	29,843	30,384
Bad debt expense		24,000
Total Operating Expenses	<u>463,281</u>	<u>748,058</u>
OPERATING LOSS	<u>(370,066)</u>	<u>(640,727)</u>
NONOPERATING REVENUE (EXPENSE)		
TIF tax revenue	3,287,696	4,269,187
Interest income, net	396,919	248,540
Interest expense	(819,742)	(384,746)
Loss on land exchange	(7,612,603)	
Gain on sale of land	342,168	
Total Nonoperating Revenue (Expense)	<u>(4,405,562)</u>	<u>4,132,981</u>
Increase (Decrease) in Net Assets Before Capital Contributions	(4,775,628)	3,492,254
Contributions from other Governments		<u>2,000,000</u>
INCREASE (DECREASE) IN NET ASSETS	(4,775,628)	5,492,254
NET ASSETS		
Beginning of Year	<u>6,765,672</u>	<u>1,273,418</u>
End of Year	<u>\$ 1,990,044</u>	<u>\$ 6,765,672</u>

See accompanying notes.

FORT HARRISON REUSE AUTHORITY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING ACTIVITIES		
Receipts from customers and users	\$ 228,215	\$ 107,331
Payments to vendors for goods and services	(240,976)	(295,599)
Payments for employees services	(188,045)	(227,992)
Payments to local governments		(150,000)
Net Cash Used by Operating Activities	<u>(200,806)</u>	<u>(566,260)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on bonds	(900,000)	(390,000)
Interest paid	(557,657)	210,036
Property taxes received	3,810,916	3,092,906
Proceeds from sale of land	342,168	
Proceeds from issuance of bonds		11,795,000
Bond issue costs paid		(270,377)
Acquisition and construction of capital assets	(7,751,497)	(6,889,640)
Net Cash Provided (Used) by Capital and Related Financing	<u>(5,056,070)</u>	<u>7,547,925</u>
INVESTING ACTIVITIES		
Interest received on investments and cash equivalents	396,919	248,540
Net Cash Provided by Investing Activities	<u>396,919</u>	<u>248,540</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,859,957)	7,230,205
CASH AND CASH EQUIVALENTS		
Beginning of Year	<u>14,239,980</u>	<u>7,009,775</u>
End of Year	<u>\$ 9,380,023</u>	<u>\$ 14,239,980</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating loss	\$ (370,066)	\$ (640,727)
Depreciation	29,843	30,384
Changes in assets and liabilities:		
Prepaid expenses and other assets	135,000	
Rent receivable		24,000
Accounts payable and deferred revenue	4,417	20,083
Net Cash Used by Operating Activities	<u>\$ (200,806)</u>	<u>\$ (566,260)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital assets included in accounts payable at end of year	\$ 256,848	\$ 2,105,055
Forgiveness of debt and accrued interest	3,454,131	
Impairment loss recognized on land exchange	11,066,734	
Gain on sale of land	342,168	

See accompanying notes.

FORT HARRISON REUSE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fort Harrison Reuse Authority (Authority) was established on May 1, 1995 by Indiana Code, Section 36-7-30. The Authority's primary purpose is to promote and develop the former Fort Benjamin Harrison United States Army Military Base (Fort Harrison) located in Lawrence, Indiana. The Authority will remain in operation until it has completed the Reuse Plan for Fort Harrison. The principal goals of the Reuse Plan are the preservation of the natural and historical resources, job creation and economic development.

The Authority also serves as the governing body of the Fort Harrison Military Base Reuse District, a special taxing district, which provides for the planning, replanning, development, redevelopment and preparation for reuse of Fort Harrison

Financial Reporting Entity: The definition of the reporting entity under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended, is based primarily on the concept of financial accountability. Although the Consolidated City of Indianapolis - Marion County appoints a voting majority of the Authority's governing body, neither of the other two tests of financial accountability is met. The Consolidated City of Indianapolis - Marion County is unable to impose its will on the Authority. Also, the Authority does not impose a financial burden or provide a financial benefit to the Consolidated City of Indianapolis - Marion County.

Basis of Accounting and Financial Reporting: The financial statements consist of a single-purpose business-type activity which is reported on the accrual basis of accounting using the economic resources measurement focus.

The Authority prepares its financial statements in conformity with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to follow all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of one year or less to be cash equivalents.

Allowance for Losses on Real Estate: Valuation allowances are provided for real estate held for sale when the net realizable value of the property is less than its cost. Additions to the allowance are recorded as expense in the year the loss amounts are estimated. No significant losses are anticipated as of December 31, 2007 and 2006, and therefore, no allowance is provided.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes Receivable: A special property tax assessment is made on properties in the Fort Harrison Reuse Area for the purpose of retiring the Authority's TIF revenue bonds. Property taxes are collected and remitted to the Authority by Marion County and the City of Lawrence, Indiana. Taxes are levied annually on March 1 and are due on May 10 and November 10 one year later. Major tax payments are received in June and December and are accrued as revenue in the year they are levied. No allowance has been made for uncollectible taxes.

Capital Assets purchased by the Authority are stated at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of such assets. The estimated lives by general classification are as follows:

	Years
Buildings and improvements	15 to 39
Office equipment	5 to 7

Interest costs incurred on property held for sale are expensed in the period incurred. Maintenance and repairs are expensed as incurred. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

Interest incurred during construction, renovation and/or remediation periods is capitalized and included in the cost of property and equipment. The Authority capitalizes interest costs, based on the weighted-average rates paid for long-term borrowing. Total interest incurred in 2007 was:

Interest costs capitalized	\$ 201,808
Interest costs charged to expense	<u>819,742</u>
Total interest incurred	<u>\$1,021,550</u>

Environmental Remediation: The United States Department of Defense is responsible for environmental remediation of designated areas within Fort Harrison. Remediation is completed before property is deeded to the Authority. Therefore, no accrual is considered necessary for any environmental remediation issues.

Rental Income: All leases wherein the Authority is the lessor are accounted for as operating leases. Rental income is recognized as it becomes receivable over the respective lease terms.

Revenue and Expense and Net Assets Recognition: Revenues from tenants are reported as operating revenues. Operating expenses include the cost of administering the Authority, including depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Annual Budget: The Authority is not legally required to prepare and adopt an annual budget.

Reclassifications: Certain 2006 balances have been reclassified to conform to the 2007 financial statement presentation.

NOTE 2 - CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of Indiana statutes.

The Authority's cash deposits are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits in excess of the \$100,000 FDIC limits are insured by the Indiana Public Deposits Insurance Fund (Fund). The Fund is a multiple financial institution collateral pool as provided under Indiana Code, Section 5-13-12-1.

Indiana statutes authorize the Authority to invest in United States obligations and issues of federal agencies, repurchase agreements fully collateralized by U. S. Government or U. S. Government Agency securities, certificates of deposit, and open-end money market mutual funds.

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 Indiana statutes. The money market mutual funds are presented as cash equivalents with a maturity of less than one year because they are redeemable in full immediately.

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, 2007 and 2006, the Authority's money market mutual funds were rated AAA by Standard & Poor's.

Concentration of Credit Risk: The Authority places no limit on the amount that may be invested in any one issuer.

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

Restricted cash equivalents are as follows:

	2007	2006
Investment Surplus Fund - 2000 Bonds	\$ 460,580	\$ 984,353
Investment Revenue Fund - 2000 Bonds	5,580,010	3,820,890
Investment Main Reserve Fund - 2000 Bonds	955,119	914,499
Investment Secondary Reserve Fund - 2000 Bonds	318,339	304,799
AAFES Escrow Account		73,950
Investment Capital Fund - 2006 Bonds	587,327	6,884,480
Reserve Fund - 2006 Bonds	<u>960,764</u>	<u>908,150</u>
Total Restricted Cash Equivalents	<u>\$8,862,139</u>	<u>\$13,891,121</u>

Investment income includes dividends, interest, and other investment income. Investment income on the statement of revenues, expenses and changes in net assets is net of expenses of \$138,336 in 2007 and \$103,920 in 2006.

NOTE 3 - REAL ESTATE HELD FOR SALE

Property held for sale was purchased from the Department of the U.S. Army on June 26, 1996, and is stated at the lower of cost or market less costs to sell (i.e. net realizable value) using the specific-identification method. The Authority purchased both personal and real property of the military base known as Fort Harrison for \$6,135,971. Management of the Authority allocated the lump-sum purchase price between personal and real property based upon the relative sales value of the property at the date of acquisition. This allocation resulted in cost assignments of \$150,000 for personal property and \$5,985,971 for real estate as of June 30, 1996. As of December 31, 2007 and 2006, the balance of land held for sale plus development costs was \$5,164,178 and \$2,274,178, respectively.

Legal title to approximately five percent of the Authority's real property remains with the Department of the U.S. Army. The Authority has operational rights to this property through a lease agreement with the Department of the U.S. Army. Title for this property will transfer to the Authority when certain environmental remediation has occurred and military operational needs have been met.

NOTE 4 - NOTES RECEIVABLE

At December 31, 2006, the Authority held a note receivable from a developer with a principal amount of \$135,000 due March 25, 2008. This note receivable had no stated interest rate. This note was received in full prior to December 31, 2007.

NOTE 5 - CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2007 and 2006 is as follows:

2007	Beginning Balance January 1, 2007	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2007
Capital assets, not being depreciated:				
Land	\$ 125,000			\$ 125,000
Construction in progress	<u>10,375,741</u>	<u>\$5,900,821</u>	<u>\$(13,956,734)</u>	<u>2,319,828</u>
Total capital assets, not being depreciated	<u>\$10,500,741</u>	<u>\$5,900,821</u>	<u>\$(13,956,734)</u>	<u>\$2,444,828</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 875,318			\$ 875,318
Equipment, furniture and fixtures and other	<u>36,761</u>		<u>\$ (1,000)</u>	<u>35,761</u>
	912,079		(1,000)	911,079
Less: Accumulated depreciation	<u>(168,034)</u>	<u>\$ (29,843)</u>		<u>(197,877)</u>
Total capital assets being depreciated, net	<u>\$ 744,045</u>	<u>\$ (29,843)</u>	<u>\$ (1,000)</u>	<u>\$ 713,202</u>



NOTE 5 - CAPITAL ASSETS (CONTINUED)

2006	Beginning Balance January 1, 2006	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2006
Capital assets, not being depreciated:				
Land	\$ 125,000			\$ 125,000
Construction in progress	<u>1,509,344</u>	<u>\$8,866,397</u>		<u>10,375,741</u>
Total capital assets, not being depreciated	<u>\$1,634,344</u>	<u>\$8,866,397</u>		<u>\$10,500,741</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 875,318			\$ 875,318
Equipment, furniture and fixtures and other	<u>36,761</u>			<u>36,761</u>
	912,079			912,079
Less: Accumulated depreciation	<u>(137,650)</u>	<u>\$ (30,384)</u>		<u>(168,034)</u>
Total capital assets being depreciated, net	<u>\$ 774,429</u>	<u>\$ (30,384)</u>		<u>\$ 744,045</u>

NOTE 6 - BONDS PAYABLE AND OTHER DEBT

Bonds payable and other debt outstanding at December 31, 2007 and 2006, consisted of:

	2007	2006
Variable Rate Demand Tax Increment and Revenue Bonds, Series 2000 Serial bonds, maturing February 1, 2006 to 2021 in payments from \$390,000 to \$895,000. Interest at a variable rate, due monthly.	<u>\$ 8,985,000</u>	<u>\$ 9,400,000</u>
Fixed Rate District Tax Increment Bonds, Series 2006 Serial bonds, maturing February 1 and August 1, 2007 to 2019 in payments from \$195,000 to \$325,000. Interest at 4.00% to 5.00%, due semiannually on February 1 and August 1.	4,700,000	5,185,000
Term bonds, maturing August 1, 2017 to August 1, 2024 and February 1, 2026 in payments from \$600,000 to \$1,460,000. Interest at 4.00% to 5.00%, respectively, due semiannually on February 1 and August 1.	<u>6,610,000</u>	<u>6,610,000</u>
Note Payable, U.S. Army, due December 31, 2006, secured by real estate. Interest at 6.50%.	11,310,000	11,795,000
		<u>2,360,436</u>
Total Bonds Payable and Other Debt	<u>\$ 20,295,000</u>	<u>\$23,555,436</u>

NOTE 6 - BONDS PAYABLE AND OTHER DEBT (CONTINUED)

Variable Rate Demand Tax Increment and Revenue Bonds

On March 27, 2000, the Authority issued \$12,345,000 of Variable Rate Demand Tax Increment and Revenue Bonds, Series 2000 (the Series 2000 Bonds) to provide funds to (1) finance a portion of the costs of acquisition of property; (2) refinance \$10,698,125 of the Authority's City of Lawrence, Indiana Fort Harrison Military Base Reuse District Tax-Exempt Notes of 1999; (3) pay capitalized interest on the Series 2000 Bonds; and (4) pay bond issuance costs on the Series 2000 Bonds. The Series 2000 Bonds are secured by a Letter of Credit in the amount of \$11,505,116, which expires March 1, 2009. Payments under the Letter of Credit are governed by a separate Reimbursement Agreement between the Authority and the Letter of Credit issuer. The bonds are payable solely from incremental ad valorem real property tax revenues levied and collected on property within the designated tax increment Allocation Area. The bonds are subject to optional redemption by the Authority beginning in February 2001, at amounts equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.

Fixed Rate District Tax Increment Bonds

On October 10, 2006, the Authority issued \$11,795,000 of Fixed Rate District Tax Increment Bonds, Series 2006 (the 2006 Authority Bonds) to provide funds to (1) finance the demolition of the Hawley Hospital (Building 300) and the post exchange and commissary facility and related property development and improvements; (2) the construction of a new post exchange and commissary facility and related improvements (collectively, the "2006 Project"); and (3) repayment of interim advances and financing thereof, and incidental expenses incurred in connection therewith. The 2006 Authority Bonds are issued on parity with respect to the lien on the Revenues securing the Series 2000 Bonds issued on March 22, 2000. The provisions of the Letter of Credit are solely for the protection of the 2000 Authority Bonds and are not for the protection of the 2006 Authority Bonds. The bonds are payable solely from and secured exclusively by incremental ad valorem real property tax revenues levied and collected on property within the designated tax increment Allocation Area.

The Series 2006 Bonds, maturing August 1, in the years 2017, 2018, 2020, 2022, 2023, and 2024, and February 1, 2026 (the Term Bonds), are subject to optional redemption by the Authority beginning in February 2017, at amounts equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.

U.S. Army Note Payable

On September 14, 2005, the Authority and the U.S. Army signed an amendment to the original memorandum of agreement in which the U.S. Army agreed to forgive the outstanding balance and all accrued interest on the note payable in exchange for the Authority constructing a new PX/Commissary. This amendment also transferred title of the existing PX/Commissary to the Authority. The new PX/Commissary was completed in June 2007 and the U. S. Army note payable was forgiven. The loss on this transaction totaled \$7,612,603 and is recorded under nonoperating expense in the statements of revenues, expenses and changes in net assets. The loss resulted from the cost of construction of the new PX/Commissary exceeding the debt forgiven by the U.S. Army and fair market value of the old PX/Commissary property transferred to the Authority.

NOTE 6 - BONDS PAYABLE AND OTHER DEBT (CONTINUED)

Debt service requirements to maturity for all debt of the Authority, excluding any unamortized discount or premium are as follows at December 31, 2007. The debt service requirements for the Variable Rate Demand Tax Increment and Revenue Bonds is based on scheduled maturities, but could be called on demand.

Years Ending December 31	Principal	Interest	Total
2008	\$ 845,000	\$ 1,314,175	\$ 2,159,175
2009	885,000	1,263,053	2,148,053
2010	935,000	1,209,198	2,144,198
2011	980,000	1,153,314	2,133,314
2012	1,030,000	1,094,481	2,124,481
2013-2017	5,980,000	4,480,255	10,460,255
2018-2022	6,735,000	2,610,331	9,345,331
2023-2026	<u>2,905,000</u>	<u>537,300</u>	<u>3,442,300</u>
	<u>\$20,295,000</u>	<u>\$13,662,107</u>	<u>\$33,957,107</u>

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2007 and 2006:

2007	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term Obligations					
TIF bonds payable	\$ 9,400,000		\$ (415,000)	\$ 8,985,000	\$8,985,000
2006 bonds payable	11,795,000		(485,000)	11,310,000	405,000
U.S. Army note payable	<u>2,360,436</u>		<u>(2,360,436)</u>		
Total Long-term Obligations	<u>\$23,555,436</u>		<u>\$(3,260,436)</u>	<u>\$20,295,000</u>	<u>\$9,390,000</u>
2006	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term Obligations					
TIF bonds payable	\$ 9,790,000		\$ 390,000	\$ 9,400,000	\$ 9,400,000
2006 bonds payable		\$11,795,000		11,795,000	485,000
U.S. Army note payable	<u>2,360,436</u>			<u>2,360,436</u>	<u>2,360,436</u>
Total Long-term Obligations	<u>\$12,150,436</u>	<u>\$11,795,000</u>	<u>\$ 390,000</u>	<u>\$23,555,436</u>	<u>\$12,245,436</u>

NOTE 7 - BENEFIT PLAN

The Authority contributes to the Public Employees' Retirement Fund of Indiana (PERF), established in accordance with Indiana Code, Section 5-10.3-2-1. PERF is an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. All full-time employees of the Authority participate in PERF. The authority to establish or amend benefit provisions rests with the Indiana General Assembly. However, obligations to contribute to the plan are determined by the board of PERF in accordance with actuarial methods. PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan. This report may be obtained via the Internet at http://www.in.gov/perf/agency/annual_report.html.

The Authority has elected to make contributions of 4.5% of an eligible employee's gross wages to PERF. Retirement plan expenses totaled \$14,937 and \$13,790 for the years ended December 31, 2007 and 2006.

NOTE 8 - RENTAL INCOME FROM OPERATING LEASES

The Authority leases space in its buildings on a fixed fee as well as a contingent rental basis. Many of the leases provide for a periodic review and adjustment of the rental amounts. Substantially all capital assets are held by the Authority for the purpose of rental or related use.

Minimum future rentals on noncancellable operating leases to be received in each of the next five years and thereafter as of December 31, 2007 are as follows:

Receivable In

2008	\$ 50,545
2009	30,149
2010	24,001
2011	24,001
2012	24,001
Thereafter	<u>258,012</u>
	<u>\$410,709</u>

NOTE 9 - RISK MANAGEMENT

The Authority maintains commercial insurance policies for all risks of loss. Certain of these policies allow for deductibles, which range up to \$2,500 per occurrence. Settled claims have not exceeded this commercial coverage in any of the past three years.