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STATE OF INDIANA

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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 BKD, LLP, Independent Public Accountants, for the period January 1, 2008 through 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 Fort Harrison Reuse 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

Fort Harrison Reuse Authority

Accountants' Report and Financial Statements

December 31, 2008 and 2007

Fort Harrison Reuse Authority

December 31, 2008 and 2007

Contents

BKD LLP
CPAs & Advisors

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Independent Accountants' Report

Board of Directors
Fort Harrison Reuse Authority
Indianapolis, Indiana

We have audited the accompanying basic financial statements of Fort Harrison Reuse Authority (Authority) as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of and for the year ended December 31, 2007, were audited by other accountants whose report dated September 29, 2008, expressed an unqualified opinion on those statements.

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. 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 2008 financial statements referred to above present fairly, in all material respects, the financial position of Fort Harrison Reuse Authority as of December 31, 2008, and the changes in its financial position and its cash flows for the year 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 September 4, 2009, on our consideration of Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis information as listed in the table of contents are not a required part of the basic financial statements but are 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.

BKD LLP

September 4, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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 year ended December 31, 2008. 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 Army Base. 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 report of the Authority includes the following financial statements for the calendar year 2008.

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

Basis of Accounting and Financial Reporting

The Authority prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The 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 - this reflects 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 - this represents annual obligations to outstanding debt issued for various improvements in the Authority's jurisdiction.
- Unrestricted - this 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 fiscal years ended December 2008, 2007 and 2006.

	2008	2007	2006
Current assets - unrestricted	$ 5,339,519	$ 5,695,572	$ 2,771,547
Current assets - restricted	14,060,300	14,164,978	19,717,180
Noncurrent assets	4,750,200	3,414,175	11,515,163
Total assets	$ 24,150,019	$ 23,274,725	$ 34,003,890
Current liabilities - payable from unrestricted assets	$ 13,377	$ 29,394	$ 3,479,109
Current liabilities - payable from restricted assets	9,505,168	10,350,287	12,449,109
Noncurrent liabilities - payable from restricted assets	10,480,000	10,905,000	11,310,000
Total liabilities	19,998,545	21,284,681	27,238,218
Net assets			
Invested in capital assets, net of related debt	(9,252,589)	(11,386,168)	(5,004,850)
Restricted for debt service	13,242,099	12,874,212	11,298,130
Unrestricted	161,964	502,000	472,392
Total net assets	4,151,474	1,990,044	6,765,672
Total liabilities and net assets	$ 24,150,019	$ 23,274,725	$ 34,003,890

2008 to 2007 Comparative Balance Sheets

Current assets - unrestricted decreased approximately $356,000 as a result of a decrease in the Authority's cash and cash equivalents due to the timing of the payment of operating expenses.

Current assets - restricted decreased approximately $105,000 due to a decrease in the Authority's restricted cash and cash equivalents of $245,000, offset by an increase in the TIF property tax receivable of approximately $140,000 related to adjustments in the tax base.

Noncurrent assets increased approximately $1.3 million, the result of continued construction efforts on the Lawrence Village at the Fort, which provides a park-like setting for a variety of uses.

Current liabilities - payable from unrestricted assets decreased approximately $16,000 as a result of the timing of the payment of operating expenses.

Current liabilities - payable from restricted assets decreased approximately $845,000 due to the decrease in accrued interest of approximately $481,000 related to changes in the calculation of this figure, as well as a decrease in the current portion of debt of approximately $420,000 related to paying the Authority's debt service. These decreases were offset by an increase in accounts payable of approximately $56,000 related to the accrual of additional construction invoices for the Lawrence Village at the Fort.

Noncurrent liabilities - payable from restricted assets decreased approximately $425,000 resulting from paying the Authority's debt service.

2007 to 2006 Comparative Balance Sheets

In 1991, Base Realignment and Closure (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.) The purchase price was $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 sat. 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 this building.

Many of the areas within this audit 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 increased approximately $2.9 million as a result of the Authority's receipt of the property deed by the U.S. Army for the old PX/Commissary property.

Current assets - restricted overall decreased approximately $5.6 million due to the Authority's receipt of the property deed by the U.S. Army for the old PX/Commissary property.

Noncurrent assets decrease of approximately $8.1 million is the result of the Authority's receipt of the property deed by the U.S. Army for the old PX/Commissary property.

Current liabilities - payable from unrestricted assets decreased approximately $3.5 million as a result of 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 related to the Authority's TIF Bonds issued in 2000, as well as accrued interest and construction obligations. The amount decreased approximately $2.1 million which is the result of paying the scheduled debt service and accrued amounts for construction obligations related to the new PX/Commissary

2008 to 2007 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 fiscal years ended December 31, 2008 and 2007.

	2008	2007	$ Variance
Operating Revenues			
Rental income	$ 80,000	$ 93,215	$ (13,215)
Total operating revenues	80,000	93,215	(13,215)
Nonoperating Revenues			
TIF tax revenue	2,599,727	3,287,696	(687,969)
Interest income, net	150,339	396,919	(246,580)
Gain on sale of capital assets	10,000	342,168	(332,168)
Other	55,001	-	55,001
Total nonoperating revenues	2,815,067	4,026,783	(1,211,716)
Total revenues	2,895,067	4,119,998	(1,224,931)
Operating Expenses			
Personnel	168,073	188,045	(19,972)
Utilities	38,695	26,563	12,132
Office supplies and other expenses	56,113	83,473	(27,360)
Professional fees	100,668	100,159	509
Repairs and maintenance	81,506	23,200	58,306
Engineering services	6,128	8,500	(2,372)
Insurance	23,186	3,498	19,688
Depreciation	29,183	29,843	(660)
Total operating expenses	503,552	463,281	40,271
Nonoperating Expenses			
Interest expense	230,085	819,742	(589,657)
Loss on land exchange transaction	-	7,612,603	(7,612,603)
Total nonoperating expenses	230,085	8,432,345	(8,202,260)
Total expenses	733,637	8,895,626	(8,161,989)
Increase (Decrease) in Net Assets	2,161,430	(4,775,628)	6,937,058
Net Assets, Beginning of Year	1,990,044	6,765,672	(4,775,628)
Net Assets, End of Year	$ 4,151,474	$ 1,990,044	$ 2,161,430

Operating Revenues decreased approximately $13,000 in 2008 due to a comparable decrease in rental income.

Nonoperating Revenues decreased approximately $1.2 million due to a significant change in the nature of the TIF tax revenue calculation resulting in a decrease of approximately $688,000. Likewise, interest income decreased approximately $247,000 related to declines in investment balances generating this stream of income. Finally, the gain on sale of capital assets decreased approximately $332,000 due to the lack of significant sales of properties during 2008.

Operating expenses increased by approximately $40,000 primarily because of necessary repairs and maintenance to property and buildings owned by the FHRA.

Nonoperating expenses decreased by approximately $8.2 million because 2007 figures reflect the PX/Commissary land transaction and debt forgiveness discussed elsewhere in these financial statements.

2007 to 2006 Comparative Statements of Revenues, Expenses and Changes in Net Assets

	2007	2006	$ Variance
Operating Revenues			
Rental income	$ 93,215	$ 107,331	$ (14,116)
Total operating revenues	93,215	107,331	(14,116)
Nonoperating Revenues			
TIF tax revenue	3,287,696	4,269,187	(981,491)
Interest income, net	396,919	248,540	148,379
Gain on sale of capital assets	342,168	-	342,168
Total nonoperating revenues	4,026,783	4,517,727	(490,944)
Total revenues	4,119,998	4,625,058	(505,060)
Operating Expenses			
Personnel	188,045	227,993	(39,948)
Utilities	26,563	56,862	(30,299)
Office supplies and other expenses	83,473	25,774	57,699
Professional fees	100,159	140,687	(40,528)
Repairs and maintenance	23,200	30,497	(7,297)
Engineering services	8,500	28,999	(20,499)
Insurance	3,498	32,862	(29,364)
Interlocal agreement	-	150,000	(150,000)
Depreciation	29,843	30,384	(541)
Bad debt expense	-	24,000	(24,000)
Total operating expenses	463,281	748,058	(284,777)
Nonoperating Expenses			
Interest expense	819,742	384,746	434,996
Loss on land exchange transaction	7,612,603	-	7,612,603
Total nonoperating expenses	8,432,345	384,746	8,047,599
Total expenses	8,895,626	1,132,804	7,762,822
Increase (Decrease) in Net Assets Before Capital Contributions	(4,775,628)	3,492,254	(8,267,882)
Contributions From Other Governments	-	2,000,000	(2,000,000)
Increase (Decrease) in Net Assets	(4,775,628)	5,492,254	(10,267,882)
Net Assets, Beginning of Year	6,765,672	1,273,418	5,492,254
Net Assets, End of Year	$ 1,990,044	$ 6,765,672	$ (4,775,628)

Operating revenues decreased approximately $14,000 in 2007 due to a decrease in rental income.

Nonoperating revenues decreased approximately $491,000 due to a change in the nature of the TIF tax revenue calculation resulting in a decrease of approximately $981,000. This decrease was offset by increases in interest income (approximately $148,000) and gains on sale of capital assets (approximately $342,000) due to the sales of Authority land parcels during 2007.

Operating expenses decreased approximately $285,000 primarily because of reduced personnel expenses, the elimination of payments required by an interlocal agreement and no bad debt expenses.

Nonoperating expenses decreased approximately $8.0 million largely as a result of the recorded net loss on the 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.

Other Potentially Significant Matters

Fort Harrison has been recognized for its decommissioning process and, in 2000 and 2001, was honored with awards for redevelopment and leadership in redevelopment. Today, the Office of Economic Adjustment continues to direct communities facing closure to Fort Harrison in order to glean best practice information in base reuse. In 1996, the 650 acre Fort Harrison area lost 1,100 direct jobs, appraised at a negative $10 million and provided no tax revenue. In May 2005, the remaining 115 acres still owned by the Authority appraised at over $11 million. To date, more than 1,900 jobs have been created in the Authority jurisdiction since decommissioning in 1995, and in 2008, more than $3,768,000 of property tax was generated in the Reuse Area.

In 2008 and 2009, much of the work accomplished was to set the stage for the development of Lawrence Village at the Fort in compliance with the Master Plan. In 2008, following the demolition of the old PX/Commissary, the Authority worked with Cripe Engineers and Browning Day Mullins Dierdorf on the development of a comprehensive infrastructure improvement plan including a drainage plan.

Today, a $9 million infrastructure construction project is in progress to support Lawrence Village at the Fort - a 100 acre parcel within Fort Benjamin Harrison that will be a walkable community for residents and visitors to eat, shop, live and work. The project is funded by a third TIF revenue bond issue issued in April 2009. The infrastructure work will be complete at the end of 2009. The construction project includes new streets, landscaping, lighting, three parks, signage, rain gardens, raised median planters, entrance columns and installation of all underground utilities. Over 380 trees, 2,300 shrubs and 23,000 perennials and groundcover will be planted lining new streets and pocket parks which include bike lanes, sidewalks, jogging trails and on-street parking. In fact, 10% of this project is in landscaping and area beautification. The project sets the stage for the development of Lawrence Village at the Fort, a master planned, sustainable, mixed use community which will include residential, commercial and retail offerings.

The Authority continues to work with Browning Investments on marketing the property within Lawrence Village at the Fort, concentrating on securing residential and retail opportunities. While several commercial office opportunities have been brought into consideration, we are finding more interest in residential development as a result of more readily available lending opportunities.

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, 2008 and 2007

	2008	2007
Assets		
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	$ 161,618	$ 517,884
Prepaid expenses and other assets	13,723	13,510
Real estate held for sale	5,164,178	5,164,178
Total unrestricted current assets	5,339,519	5,695,572
Restricted Assets		
Cash equivalents	8,617,219	8,862,139
TIF property tax receivable	5,443,081	5,302,839
Total restricted current assets	14,060,300	14,164,978
Total current assets	19,399,819	19,860,550
Noncurrent Assets		
Bond issuance costs, net of accumulated amortization	241,913	256,145
Non-depreciable capital assets	3,818,273	2,444,828
Depreciable capital assets, net	690,014	713,202
Total noncurrent assets	4,750,200	3,414,175
Total assets	$ 24,150,019	$ 23,274,725
Liabilities and Net Assets		
Current Liabilities		
Payable From Unrestricted Assets		
Accounts payable	$ 3,443	$ 19,460
Deferred revenue	9,934	9,934
Total current liabilities payable from unrestricted assets	13,377	29,394
Payable From Restricted Assets		
Accounts payable	312,981	256,848
Accrued interest on debt	222,187	703,439
Current portion of debt	8,970,000	9,390,000
Total current liabilities payable from restricted assets	9,505,168	10,350,287
Total current liabilities	9,518,545	10,379,681
Noncurrent Liabilities		
Payable From Restricted Assets		
Bonds payable	10,480,000	10,905,000
Total liabilities	19,998,545	21,284,681
Net Assets		
Invested in capital assets, net of related debt	(9,252,589)	(11,386,168)
Restricted for debt service	13,242,099	12,874,212
Unrestricted	161,964	502,000
Total net assets	4,151,474	1,990,044
Total liabilities and net assets	$ 24,150,019	$ 23,274,725

Fort Harrison Reuse Authority

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2008 and 2007

	2008	2007
Operating Revenues		
Rental income	$ 80,000	$ 93,215
Total operating revenues	80,000	93,215
Operating Expenses		
Personnel	168,073	188,045
Utilities	38,695	26,563
Office supplies and other expenses	56,113	83,473
Professional fees	100,668	100,159
Repairs and maintenance	81,506	23,200
Engineering services	6,128	8,500
Insurance	23,186	3,498
Depreciation	29,183	29,843
Total operating expenses	503,552	463,281
Loss From Operations	(423,552)	(370,066)
Nonoperating Revenues (Expenses)		
TIF tax revenue	2,599,727	3,287,696
Interest income, net	150,339	396,919
Gain on sale of capital assets	10,000	342,168
Interest expense, net of capitalized interest	(230,085)	(819,742)
Loss on land exchange	-	(7,612,603)
Other	55,001	-
	2,584,982	(4,405,562)
Increase (Decrease) in Net Assets	2,161,430	(4,775,628)
Net Assets, Beginning of Year	1,990,044	6,765,672
Net Assets, End of Year	$ 4,151,474	$ 1,990,044

Fort Harrison Reuse Authority

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Receipts from customers and users	$ 80,000	$ 228,215
Payments to vendors for goods and services	(322,313)	(240,976)
Payments for employees services	(168,073)	(188,045)
Net cash used in operating activities	(410,386)	(200,806)
Cash Flows From Capital and Related Financing Activities		
Principal paid on bonds	(845,000)	(900,000)
Interest paid	(711,550)	(557,657)
Property taxes received	2,459,485	3,810,916
Bond issue costs paid	14,232	-
Acquisition and construction of capital assets	(1,323,307)	(7,751,497)
Proceeds from sale of real estate held for sale	-	342,168
Other	65,001	-
Net cash used in capital and related financing activities	(341,139)	(5,056,070)
Cash Flows From Investing Activity - interest received on investments and cash equivalents	150,339	396,919
Net Decrease in Cash and Cash Equivalents	(601,186)	(4,859,957)
Cash and Cash Equivalents, Beginning of Year	9,380,023	14,239,980
Cash and Cash Equivalents, End of Year	$ 8,778,837	$ 9,380,023
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities		
Loss from operations	$ (423,552)	$ (370,066)
Item not requiring cash		
Depreciation	29,183	29,843
Change in assets and liabilities		
Prepaid expenses and other assets	-	135,000
Accounts payable and accrued liabilities	(16,017)	4,417
Net cash used in operating activities	$ (410,386)	$ (200,806)
Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable at end of year	$ 312,981	$ 256,848
Forgiveness of debt and accrued interest	-	3,454,131
Impairment loss recognized on land exchange	-	11,066,734
Gain on sale of real estate held for sale	-	342,168

Note 1: Nature of Organization and 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 of America 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.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investment Securities

Investment securities are stated at fair value.

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.

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, 2008 and 2007, and therefore, no allowance is provided.

Capital Assets

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 each year was:

	2008	2007
Interest costs capitalized	$ 130,366	$ 201,808
Interest costs charged to expense	230,085	819,742
Total interest incurred	$ 360,451	$ 1,021,550

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, 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 reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Cash, Cash Equivalents and Investment Securities

Deposits

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 by the Federal Deposit Insurance Corporation (FDIC). Effective October 3, 2008, the FDIC's insurance limits increased from $100,000 to $250,000. The increase in federally insured limits is currently set to expire December 31, 2013. Any cash deposits in excess of the $250,000 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.

Investments

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.

At December 31, 2008 and 2007, the Authority had $7,629,275 and $7,901,375 of investment securities, all of which were money market mutual funds that mature within one year.

***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 an investment with a maturity of less than one year because they are redeemable in full immediately.

***Credit Risk* -** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy for credit risk requires compliance with the provisions of Indiana statutes, and Indiana Code Section 5-13-9-2.5 requires that the Authority only invest in securities that are rated AAA by Standard and Poor's or Aaa by Moody's Investor's Service. At December 31, 2008 and 2007, the Authority's money market mutual funds were rated AAA by Standard & Poor's.

***Custodial Credit Risk* -** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority's investment in money market mutual funds was not subject to custodial credit risk at December 31, 2008 and 2007, as their existence is 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.

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

Summary of Carrying Values

Cash, cash equivalents and investment securities included in the balance sheets are classified as follows:

	2008	2007
Cash and cash equivalents		
Current - unrestricted	$ 161,618	$ 517,884
Current - restricted	8,617,219	8,862,139
	$ 8,778,837	$ 9,380,023

Investment Income

Investment income for the years ended December 31, 2008 and 2007 consisted of $178,859 and $535,255 of interest and dividends.

Cash and cash equivalents are restricted as follows:

	2008	2007
Investment Surplus Fund - 2000 Bonds	$ 397,242	$ 460,580
Investment Revenue Fund - 2000 Bonds	5,343,723	5,580,010
Investment Main Reserve Fund - 2000 Bonds	969,247	955,119
Investment Secondary Reserve Fund - 2000 Bonds	323,049	318,339
Investment Capital Fund - 2006 Bonds	596,014	587,327
Reserve Fund - 2006 Bonds	987,944	960,764
	$ 8,617,219	$ 8,862,139

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, 2008 and 2007, the balance of land held for resale plus development costs was $5,164,178.

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: Capital Assets

A summary of changes in capital assets for the years ended December 31, 2008 and 2007 is as follows:

	2008			
	Beginning Balance, January 1, 2008	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2008
Capital assets, not being depreciated:				
Land	$ 125,000	$ -	$ -	$ 125,000
Construction in progress	2,319,828	1,373,445	-	3,693,273
Total capital assets, not being depreciated	2,444,828	1,373,445	-	3,818,273
Capital assets, being depreciated:				
Buildings and improvements	875,318	10,795	-	886,113
Equipment, furniture and fixtures and other	35,761	-	4,800	30,961
Total capital assets, being depreciated	911,079	10,795	4,800	917,074
Less accumulated depreciation for:				
Buildings and improvements	(168,721)	(26,700)	-	(195,421)
Equipment, furniture and fixtures and other	(29,156)	(2,483)	-	(31,639)
Total accumulated depreciation	(197,877)	(29,183)	-	(227,060)
Total capital assets, being depreciated, net	713,202	(18,388)	4,800	690,014
Capital assets, net	$ 3,158,030	$ 1,355,057	$ 4,800	$ 4,508,287

	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	10,375,741	5,900,821	13,956,734	2,319,828
Total capital assets, not being depreciated	10,500,741	5,900,821	13,956,734	2,444,828
Capital assets, being depreciated:				
Buildings and improvements	875,318	-	-	875,318
Equipment, furniture and fixtures and other	36,761	-	1,000	35,761
Total capital assets, being depreciated	912,079	-	1,000	911,079
Less accumulated depreciation for:				
Buildings and improvements	(143,006)	(25,715)	-	(168,721)
Equipment, furniture and fixtures and other	(25,028)	(4,128)	-	(29,156)
Total accumulated depreciation	(168,034)	(29,843)	-	(197,877)
Total capital assets, being depreciated, net	744,045	(29,843)	1,000	713,202
Capital assets, net	$ 11,244,786	$ 5,870,978	$ 13,957,734	$ 3,158,030

Note 5: Bonds Payable and Other Debt

Bonds and other debt outstanding at December 31, 2008 and 2007 consist of:

	2008	2007
Variable Rate Demand Tax Increment and Revenue Bonds, Series 2000		
Serial bonds, maturing February 1, 2009 to 2021 in payments from $390,000 to $895,000. Interest at a variable rate, due monthly	$ 8,545,000	$ 8,985,000
Fixed Rate District Tax Increment Bonds, Series 2006		
Serial bonds, maturing February 1 and August 1, 2009 to 2019 in payments from $195,000 to $325,000. Interest at 4.000% to 5.000%, due semiannually on February 1 and August 1	4,895,000	4,700,000
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	6,010,000	6,610,000
Total bonds payable and other debt	19,450,000	20,295,000
Current portion	(8,970,000)	(9,390,000)
	$ 10,480,000	$ 10,905,000

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 and the construction of a new post exchange and commissary facility and related improvements (collectively, the "2006 Project"); including repayment of interim advances and financing thereof, and incidental expenses incurred in connection therewith. The 2006 Authority Bonds are issued on a 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 2007 statement 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.

Debt service requirements to maturity for all debt of the Authority, excluding any unamortized discount or premium are as follows at December 31, 2008. The debt service requirements for the Variable Rate Demand Tax Increment and Revenue Bonds is based of scheduled maturities, but could be called on demand.

Years Ending December 31	Principal	Interest	Total
2009	$ 885,000	$ 732,281	$ 1,617,281
2010	935,000	697,577	1,632,577
2011	980,000	661,455	1,641,455
2012	1,030,000	623,485	1,653,485
2013	1,080,000	583,366	1,663,366
2014 - 2018	6,290,000	2,237,126	8,527,126
2019 - 2023	6,125,000	1,066,338	7,191,338
2024 - 2026	2,125,000	200,025	2,325,025
	$ 19,450,000	$ 6,801,653	$ 26,251,653

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2008 and 2007:

	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term obligations					
TIF bonds payable	$ 8,985,000	$ -	$ 440,000	$ 8,545,000	$ 8,545,000
2006 bonds payable	11,310,000	-	405,000	10,905,000	425,000
Total long-term obligations	$ 20,295,000	$ -	$ 845,000	$ 19,450,000	$ 8,970,000

	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	2,360,436	-	2,360,436	-	-
Total long-term obligations	$ 23,555,436	$ -	$ 3,260,436	$ 20,295,000	$ 9,390,000

Note 6: 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.

Note 7: 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 noncancelable operating leases to be received in each of the next five years and thereafter as of December 31, 2008 are as follows:

2009	$ 43,261
2010	34,269
2011	31,702
2012	24,001
2013	24,001
Thereafter	234,009
	$ 391,243

Note 8: Risk Management

The Authority maintains commercial insurance policies for all risks of loss. Certain of these policies allow for deductibles, which range up to $5,000 per occurrence. Settled claims have not exceeded this commercial coverage in any of the past three years.

Note 9: Subsequent Event

The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2009D, (Fort Harrison Reuse Authority Project)

On April 17, 2009, the Authority issued $11,085,000 of The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2009D (the "Series 2009D Bonds"), (Fort Harrison Reuse Authority Project) to provide funds to (1) purchase the Fort Harrison Military Base Reuse District Tax Increment Revenue Bonds, Series 2009 (the "2009 Authority Bonds") to be issued by the Authority in the name of Lawrence; (2) pay costs of issuance of Series 2009D Bonds and the 2009 Authority Bonds; (3) fund the 2009 Debt Service Reserve Fund; and (4) pay for certain program expenses of the Bond Bank. The 2009 Authority Bonds are issued on a 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 2009 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 2009D Bonds, maturing August 1, in the years 2020, 2021, 2022, 2023 and 2024, and February 1, 2026 (the Term Bonds), are subject to optional redemption by the Authority beginning in August 2019, at amounts equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.

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

Board of Directors
Fort Harrison Reuse Authority
Indianapolis, Indiana

We have audited the financial statements of Fort Harrison Reuse Authority (Authority) as of and for the year ended December 31, 2008, and have issued our report thereon dated September 4, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a combination of control deficiencies, that adversely affects the Authority'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. We consider the deficiency described in the accompanying schedule of findings and responses as item 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as item 08-1 to be a material weakness.

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.

We also noted certain additional matters that we reported to the Authority's management in a separate letter dated September 4, 2009.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD LLP

September 4, 2009

Fort Harrison Reuse Authority

Schedule of Findings and Responses
Year Ended December 31, 2008

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	
08-1	**Criteria or Specific Requirement:**	Management is responsible for establishing and maintaining effective internal controls over financial reporting.
	Condition:	The Authority's internal control environment over financial reporting did not detect five journal entries and two passed adjustments that were the result of our auditing procedures.
	Context:	The Authority's existing policies do not include a requirement that all account balances be reconciled on a regular basis to ensure accurate financial reporting.
	Effect:	Potentially material misstatements in the financial statements.
	Cause:	The Authority has a very limited staff size and experienced significant turnover during 2008.
	Recommendation:	Management should develop a policy whereby various account balances are reconciled to the general ledger in a timely fashion to ensure accurate financial reporting.
	Views of Responsible Officials and Planned Corrective Actions:	Management concurs with the finding and recommendation. Subsequent to December 31, 2008, the Authority employed the services of an accounting firm to assist in the preparation of various account reconciliations and does not believe this to be a matter of ongoing consideration.