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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, 2010 through December 31, 2010. 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, 2010 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report, found on page 25, citing a deficiency in controls pertaining to financial reporting. Auditors have included a virtually identical finding in the two prior audit reports, for the years 2008 and 2007.

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, 2010 and 2009

Fort Harrison Reuse Authority
December 31, 2010 and 2009

Contents

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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 years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express and opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fort Harrison Reuse Authority as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2011, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

BKD, LLP

June 27, 2011

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, 2010. 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 years 2010 and 2009.

- 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 must also consider the ability of the Authority to implement its mission and take into consideration its accomplishments relative 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 2010, 2009 and 2008.

	2010	2009	2008
Current assets - unrestricted	$ 4,883,771	$ 5,357,284	$ 5,339,519
Current assets - restricted	14,461,798	18,967,551	14,060,300
Noncurrent assets	17,552,851	13,821,065	4,750,200
Total assets	$ 36,898,420	$ 38,145,900	$ 24,150,019
Current liabilities - payable from unrestricted assets	$ 52,416	$ 34,808	$ 13,377
Current liabilities - payable from restricted assets	2,620,795	4,229,980	9,505,168
Noncurrent liabilities - payable from restricted assets	26,787,724	28,060,980	10,480,000
Total liabilities	29,460,935	32,325,768	19,998,545
Net assets			
Invested in capital assets, net of related debt	(6,673,720)	(8,437,346)	(9,252,589)
Restricted for debt service	13,931,010	14,080,751	13,242,099
Unrestricted	180,195	176,727	161,964
Total net assets	7,437,485	5,820,132	4,151,474
Total liabilities and net assets	$ 36,898,420	$ 38,145,900	$ 24,150,019

2010 to 2009 Comparative Balance Sheets

Current assets - restricted decreased approximately $4.5 million due to a decrease in the Authority's cash and cash equivalents relating to the use of funds from the 2009 bond issue. In 2009, approximately $8.5 million of Variable Rate Demand Tax Increment and Revenue Bonds, Series 2009D ("2009 Authority Bonds") were issued. There was also a decrease of approximately $260,000 relating to the TIF property tax receivable.

Noncurrent assets increased approximately $3.7 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 restricted assets decreased approximately $1.6 million due to accounts payable decreasing approximately $1.6 million relating to the timing of services and payment of invoices. This decrease was offset by an increase in the current portion of debt of approximately $55,000, which relates to the payment of the Authority's debt service due in the upcoming year.

Noncurrent liabilities - payable from restricted assets decreased approximately $1.3 million, resulting from the payment of the Authority's debt service.

2009 to 2008 Comparative Balance Sheets

Current assets - restricted increased approximately $4.9 million due to an increase in the Authority's cash and cash equivalents from unspent bond proceeds and the debt reserve fund, the result of issuing approximately $8.5 million of Variable Rate Demand Tax Increment and Revenue Bonds, Series 2009D ("2009 Authority Bonds"). This increase is offset by a decrease in the TIF property tax receivable of approximately $3.3 million related to reassessments being caught up and the Authority receiving the taxes on a more timely basis.

Noncurrent assets increased approximately $8.6 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 restricted assets decreased approximately $5.7 million due to the classification of the Variable Rate Demand Tax Increment and Revenue Bonds, Series 2000 ("the Series 2000 Bonds") being classified as long-term as a result of obtaining a letter of credit with a due date greater than one year from the fiscal year end. This classification resulted in an increase of $8 million of the change. This decrease was offset by increases in accrued interest of approximately $165,000 related to the 2009 Authority Bonds as well as an increase in accounts payable and retainage payable from construction invoices for the Lawrence Village at the Fort of approximately $1.9 million.

Noncurrent liabilities - payable from restricted assets increased approximately $17.6 million, resulting from the issuance of the 2009 Authority Bonds of approximately $11 million and classification of the Series 2000 Bonds to long-term as discussed earlier of approximately $8 million, offset by the Authority making its normal debt service payments.

2010 to 2009 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, 2010 and 2009.

	2010	2009	$ Variance
Operating Revenues			
Rental income	$ 90,837	$ 82,348	$ 8,489
Total operating revenues	90,837	82,348	8,489
Nonoperating Revenues			
TIF tax revenue	3,295,777	3,166,509	129,268
Investment income, net of fees	3,013	5,432	(2,419)
Gain (loss) on sale of capital assets	(233,478)	71,371	(304,849)
Land contributed to City of Lawrence	(83,986)	-	(83,986)
Other	103	77,201	(77,098)
Total nonoperating revenues	2,981,429	3,320,513	(339,084)
Total revenues	3,072,266	3,402,861	(330,595)
Operating Expenses			
Personnel	194,314	145,452	48,862
Utilities	28,235	29,738	(1,503)
Office supplies and other expenses	36,047	50,290	(14,243)
Professional fees	101,266	70,006	31,260
Repairs and maintenance	52,240	50,167	2,073
Engineering services	1,742	2,706	(964)
Insurance	21,314	34,736	(13,422)
Depreciation	30,303	30,344	(41)
Total operating expenses	465,461	413,439	52,022
Nonoperating Expenses			
Interest expense	704,547	716,838	(12,291)
Interlocal agreement	284,905	603,926	(319,021)
Total nonoperating expenses	989,452	1,320,764	(331,312)
Total expenses	1,454,913	1,734,203	(279,290)
Increase in Net Assets	1,617,353	1,668,658	(51,305)
Net Assets, Beginning of Year	5,820,132	4,151,474	1,668,658
Net Assets, End of Year	$ 7,437,485	$ 5,820,132	$ 1,617,353

Nonoperating revenues decreased approximately $339,000 due to the writedown of the cost basis of certain real estate held for sale to approximately reflect the lower of cost or market less costs to sell. In addition, the Authority deeded certain parcels to the City of Lawrence during the year. These two items accounted for approximately $389,000 of the decrease. Other income also decreased by approximately $77,000. In 2009, there were some funds disbursed by the Authority that were never cashed; therefore, the funds were re-deposited and booked to income in 2009. This situation did not occur in 2010, thus causing a decrease in other income. These decreases were offset by the increase in TIF tax revenue of approximately $130,000 caused by the normal fluctuations from year to year.

Operating expenses increased by approximately $52,000 primarily due to the increase in personnel expenses.

Nonoperating expenses decreased by approximately $330,000 due to the decrease of $319,000 relating to the interlocal agreement with the City of Lawrence. In 2009, this account included the transfer of the skate park in lieu of 2007 and 2008 user fees as well as the 2009 user fee. In 2010, this account only includes the 2010 user fees.

2009 to 2008 Comparative Statements of Revenues, Expenses and Changes in Net Assets

	2009	2008	$ Variance
Operating Revenues			
Rental income	$ 82,348	$ 80,000	$ 2,348
Total operating revenues	82,348	80,000	2,348
Nonoperating Revenues			
TIF tax revenue	3,166,509	2,599,727	566,782
Investment income, net of fees	5,432	150,339	(144,907)
Gain on sale of capital assets	71,371	10,000	61,371
Other	77,201	55,001	22,200
Total nonoperating revenues	3,320,513	2,815,067	505,446
Total revenues	3,402,861	2,895,067	507,794
Operating Expenses			
Personnel	145,452	168,073	(22,621)
Utilities	29,738	38,695	(8,957)
Office supplies and other expenses	50,290	56,113	(5,823)
Professional fees	70,006	100,668	(30,662)
Repairs and maintenance	50,167	81,506	(31,339)
Engineering services	2,706	6,128	(3,422)
Insurance	34,736	23,186	11,550
Depreciation	30,344	29,183	1,161
Total operating expenses	413,439	503,552	(90,113)
Nonoperating Expenses			
Interest expense	716,838	230,085	486,753
Interlocal agreement	603,926	-	603,926
Total nonoperating expenses	1,320,764	230,085	1,090,679
Total expenses	1,734,203	733,637	1,000,566
Increase (Decrease) in Net Assets	1,668,658	2,161,430	(492,772)
Net Assets, Beginning of Year	4,151,474	1,990,044	2,161,430
Net Assets, End of Year	$ 5,820,132	$ 4,151,474	$ 1,668,658

Nonoperating revenues increased approximately $500,000 due to a significant change in the nature of the TIF tax revenue calculation, which accounted for an increase of approximately $1.7 million, which was offset by approximately $1.1 million of prior year TIF tax receivable not being received due to the delays in the reassessment process and estimates made previously were not realized, and thus written off, as well as an increase of approximately $60,000 from gains on real estate held for resale. These increases were offset by lower interest income due to lowered interest rates of approximately $145,000.

Operating expenses decreased by approximately $100,000 primarily due to a reduction in spending of various operating expenses.

Nonoperating expenses increased by approximately $1.1 million due to the interlocal agreement with the City of Lawrence. $350,000 of the interlocal expenses were related to a skate park the Authority paid for with remaining funds from the 2006 bond issuance in lieu of a PILOT to the City of Lawrence. Another $250,000 was accrued for a proposed 2009 user fee agreement with the City of Lawrence. This agreement has yet to be signed. Additionally, interest expense increased by approximately $500,000 due to the issuance of the 2009 Authority Bonds and payment of interest on those bonds.

Capital Assets and Debt Administration

Capital Assets

As discussed, the Authority is organized to promote and develop the former Fort Benjamin Harrison United States Army Military Base (Fort Harrison) located in Lawrence, Indiana. The Authority had initially acquired the land and buildings on the Fort Harrison property and has since developed and continued to construct infrastructure and buildings on the Lawrence Village at the Fort, which provides a park-like setting for a variety of uses. Readers are referred to footnotes 3 and 4 to the financial statements for more detailed information on capital asset activity.

Long-Term Debt

The Authority's long-term debt is comprised of bond indebtedness, which over time has afforded the Authority the ability to acquire, construct and develop certain land, improvements and buildings on the Fort Harrison property. The bonds are payable from incremental ad valorem real property tax revenues levied and collected on property within the designated tax increment Allocation Area. Readers are referred to footnote 5 for more detailed information on long-term debt activity.

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.

In April 2009, the Authority closed on the Fixed Rate District Tax Increment Bonds, Series 2009 and released a request for bid specification package for a $9 million infrastructure construction project 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. Poindexter Excavating was low bidder, and therefore, awarded the work as project general contractor. Meyer Najem was awarded the contract to be the Owner's Technical Representative. The infrastructure work was approximately 90% complete by end of year 2009. Nearly two miles of streets were recreated with wet utilities installed beneath streets and dry utilities installed beneath sidewalks, which line both sides of each street. Forty-eight rain gardens were installed to enhance the Village drainage plan, which also includes the installation of a one acre pond and a Ravine Park area. Raised median planters and monuments greet visitors at primary entrances into the Village. Over 380 trees, 2,300 shrubs and 23,000 perennials and groundcover were planted lining new streets and pocket parks, which by May 2010 included bike lanes. Yet to be completed is the final surface coat on all streets, installation of street lighting and installation of the remainder of electrical and phone utilities.

The Authority continues to work with Browning as its real estate development consultant in an ongoing effort to market the property within Lawrence Village at the Fort to residential, commercial and office developers. By the end of 2010, the Authority had sold two parcels of land and has one sale pending. One parcel of land sold was for 2 acres of property to Indiana Youth Soccer and the other was for 1.61 acres to Miller Valentine Group. The one sale pending at year end is for 6.65 acres of property to J.C. Hart, which is set to close in June 2011.

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, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	$ 221,551	$ 202,372
Prepaid expenses and other assets	11,060	9,163
Real estate held for sale	4,651,160	5,145,749
Total unrestricted current assets	4,883,771	5,357,284
Restricted Assets		
Cash equivalents	12,584,243	16,829,416
TIF property tax receivable	1,877,555	2,138,135
Total restricted current assets	14,461,798	18,967,551
Total current assets	19,345,569	24,324,835
Noncurrent Assets		
Bond issuance costs, net of accumulated amortization	433,466	462,206
Nondepreciable capital assets	16,452,258	12,661,429
Depreciable capital assets, net	667,127	697,430
Total noncurrent assets	17,552,851	13,821,065
Total assets	$ 36,898,420	$ 38,145,900
Liabilities and Net Assets		
Current Liabilities		
Payable From Unrestricted Assets		
Accounts payable	$ 35,581	$ 9,363
Deferred revenue	16,835	25,445
Total current liabilities payable from unrestricted assets	52,416	34,808
Payable From Restricted Assets		
Accounts payable	964,418	2,617,702
Accrued interest on debt	376,377	387,278
Current portion of debt	1,280,000	1,225,000
Total current liabilities payable from restricted assets	2,620,795	4,229,980
Total current liabilities	2,673,211	4,264,788
Noncurrent Liabilities		
Payable From Restricted Assets		
Bonds payable	26,787,724	28,060,980
Total liabilities	29,460,935	32,325,768
Net Assets		
Invested in capital assets, net of related debt	(6,673,720)	(8,437,346)
Restricted for debt service	13,931,010	14,080,751
Unrestricted	180,195	176,727
Total net assets	7,437,485	5,820,132
Total liabilities and net assets	$ 36,898,420	$ 38,145,900

Fort Harrison Reuse Authority

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2010 and 2009

	2010	2009
Operating Revenues		
Rental income	$ 90,837	$ 82,348
Total operating revenues	90,837	82,348
Operating Expenses		
Personnel	194,314	145,452
Utilities	28,235	29,738
Office supplies and other expenses	36,047	50,290
Professional fees	101,266	70,006
Repairs and maintenance	52,240	50,167
Engineering services	1,742	2,706
Insurance	21,314	34,736
Depreciation	30,303	30,344
Total operating expenses	465,461	413,439
Loss From Operations	(374,624)	(331,091)
Nonoperating Revenues (Expenses)		
TIF tax revenue	3,295,777	3,166,509
Investment income, net of fees	3,013	5,432
Gain (loss) on sale of capital assets	(233,478)	71,371
Land contributed to City of Lawrence	(83,986)	-
Interest expense, net of capitalized interest	(704,547)	(716,838)
Interlocal agreement	(284,905)	(603,926)
Other	103	77,201
	1,991,977	1,999,749
Increase in Net Assets	1,617,353	1,668,658
Net Assets, Beginning of Year	5,820,132	4,151,474
Net Assets, End of Year	$ 7,437,485	$ 5,820,132

Fort Harrison Reuse Authority
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Receipts from customers and users	$ 90,837	$ 82,348
Payments to vendors for goods and services	(466,523)	(227,163)
Payments for employees services	(194,314)	(145,452)
Net cash used in operating activities	(570,000)	(290,267)
Cash Flows From Noncapital Financing Activities - payments to local government - Interlocal agreement	(284,905)	(353,926)
Cash Flows From Capital and Related Financing Activities		
Principal paid on bonds	(1,225,000)	(1,140,000)
Proceeds from issuance of bonds	-	10,971,484
Interest paid	(679,964)	(523,347)
Property taxes received	3,556,357	6,471,455
Bond issue costs paid	-	(244,197)
Acquisition and construction of capital assets	(5,194,113)	(6,826,195)
Proceeds from sale of real estate held for sale	207,125	89,800
Other	(38,507)	92,712
Net cash provided by (used in) capital and related financing activities	(3,374,102)	8,891,712
Cash Flows From Investing Activity - investment income received on cash equivalents	3,013	5,432
Net Increase (Decrease) in Cash and Cash Equivalents	(4,225,994)	8,252,951
Cash and Cash Equivalents, Beginning of Year	17,031,788	8,778,837
Cash and Cash Equivalents, End of Year	$ 12,805,794	$ 17,031,788
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities		
Loss from operations	$ (374,624)	$ (331,091)
Item not requiring cash		
Depreciation	30,303	30,344
Change in assets and liabilities		
Prepaid expenses and other assets	(1,897)	4,560
Accounts payable and accrued liabilities	(223,782)	5,920
Net cash used in operating activities	$ (570,000)	$ (290,267)
Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable at end of year	$ 964,418	$ 2,367,702
Gain (loss) on sale of real estate held for sale	(233,478)	71,371
Land contributed to City of Lawrence	(83,986)	-

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.

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, 2010 and 2009, 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 of borrowings specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowings. Total interest incurred each year was:

	2010	2009
Interest costs capitalized	$ 445,876	$ 323,535
Interest costs charged to expense	704,547	716,838
Total interest incurred	$ 1,150,423	$ 1,040,373

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 significant accruals are 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 2009 financial statements to conform to the 2010 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 financial institution holding the Authority's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Pursuant to further legislation enacted in 2010, the FDIC will continue to fully insure all noninterest-bearing transaction accounts through December 31, 2012, at all FDIC-insured institutions. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000 for all interest-bearing accounts.

Any cash deposits in excess of the FDIC limits described above 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, Indiana municipal securities, secured 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, 2010 and 2009, the Authority had $12,584,243 and $16,829,416 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, 2010 and 2009, 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, 2010 and 2009, 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 and cash equivalents included in the balance sheets are classified as follows:

	2010	2009
Cash and cash equivalents		
Current - unrestricted	$ 221,551	$ 202,372
Current - restricted	12,584,243	16,829,416
	$ 12,805,794	$ 17,031,788

Investment Income

Investment income for the years ended December 31, 2010 and 2009 consisted of $4,837 and $15,194 of interest and dividends.

Cash and cash equivalents are restricted as follows:

	2010	2009
Investment Surplus Fund - 2000 Bonds	$ 2,180,927	$ 3,452,781
Investment Revenue Fund - 2000 Bonds	7,380,523	6,014,687
Investment Main Reserve Fund - 2000 Bonds	844,162	843,952
Investment Secondary Reserve Fund - 2000 Bonds	281,417	281,347
Bond Reserve Fund - 2006 Bonds	997,515	991,839
Investment Capital Fund - 2006 Bonds	73,213	227,513
Bond Reserve Fund - 2009 Bonds	745,288	745,288
Investment Capital Fund - 2009 Bonds	81,198	4,272,009
	$ 12,584,243	$ 16,829,416

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, 2010 and 2009, the balance of land held for resale plus development costs was $4,651,160 and $5,145,749, 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: Capital Assets

A summary of changes in capital assets for the years ended December 31, 2010 and 2009 is as follows:

	2010			
	Beginning Balance, January 1, 2010	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2010
Capital assets, not being depreciated:				
Land	$ 125,000	$ -	$ -	$ 125,000
Construction in progress	12,536,429	3,790,829	-	16,327,258
Total capital assets, not being depreciated	12,661,429	3,790,829	-	16,452,258
Capital assets, being depreciated:				
Buildings and improvements	922,691	-	-	922,691
Equipment, furniture and fixtures and other	32,143	-	-	32,143
Total capital assets, being depreciated	954,834	-	-	954,834
Less accumulated depreciation for:				
Buildings and improvements	(224,220)	(29,612)	-	(253,832)
Equipment, furniture and fixtures and other	(33,184)	(691)	-	(33,875)
Total accumulated depreciation	(257,404)	(30,303)	-	(287,707)
Total capital assets, being depreciated, net	697,430	(30,303)	-	667,127
Capital assets, net	$ 13,358,859	$ 3,760,526	$ -	$ 17,119,385

	2009			
	Beginning Balance, January 1, 2009	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2009
Capital assets, not being depreciated:				
Land	$ 125,000	$ -	$ -	$ 125,000
Construction in progress	3,693,273	8,843,156	-	12,536,429
Total capital assets, not being depreciated	3,818,273	8,843,156	-	12,661,429
Capital assets, being depreciated:				
Buildings and improvements	886,113	36,578	-	922,691
Equipment, furniture and fixtures and other	30,961	1,182	-	32,143
Total capital assets, being depreciated	917,074	37,760	-	954,834
Less accumulated depreciation for:				
Buildings and improvements	(195,421)	(28,799)	-	(224,220)
Equipment, furniture and fixtures and other	(31,639)	(1,545)	-	(33,184)
Total accumulated depreciation	(227,060)	(30,344)	-	(257,404)
Total capital assets, being depreciated, net	690,014	7,416	-	697,430
Capital assets, net	$ 4,508,287	$ 8,850,572	$ -	$ 13,358,859

Note 5: Bonds Payable

Bonds outstanding at December 31, 2010 and 2009 consist of:

	2010	2009
Variable Rate Demand Tax Increment and Revenue Bonds, Series 2000		
Serial bonds, maturing February 1, 2011 to 2021 in payments from $515,000 to $895,000. Interest at a variable rate, due monthly	$ 7,595,000	$ 8,085,000
Fixed Rate Tax Increment Bonds, Series 2006		
Serial bonds, maturing February 1 and August 1, 2011 to 2019 in payments from $230,000 to $325,000. Interest at 4.000% to 5.000%, due semiannually on February 1 and August 1	3,425,000	3,870,000
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	6,610,000	6,610,000
	10,035,000	10,480,000
Fixed Rate Tax Increment Bonds, Series 2009		
Serial bonds, maturing February 1 and August 1, 2011 to 2019 in payments from $150,000 to $170,000. Interest at 2.50% to 4.00%, due semiannually on August 1 and February 1	2,850,000	3,140,000
Term bonds, maturing August 1, 2020 to August 1, 2024 and February 1, 2026 in payments from $350,000 to $2,325,000. Interest at 4.125% to 5.000%, respectively, due semiannually on February 1 and August 1	7,690,000	7,690,000
Unamortized discount on 2009 bonds	(102,276)	(109,020)
	10,437,724	10,720,980
Total bonds payable	28,067,724	29,285,980
Current portion	(1,280,000)	(1,225,000)
	$ 26,787,724	$ 28,060,980

Variable Rate Demand Tax Increment and Revenue Bonds, Series 2000

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 $7,688,637, which expires in successive one-year periods on March 15, but in no event beyond February 15, 2021 unless 180 days notice prior to any Stated Termination Date is provided to the Trustee. 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. Interest was .78% at December 31, 2010.

Fixed Rate Tax Increment Bonds, Series 2006

On October 10, 2006, the Authority issued $11,795,000 of Fixed Rate Tax Increment Bonds, Series 2006 (the 2006 Authority Bonds) to provide funds to 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 (as defined in the Authority indenture) 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.

Fixed Rate Tax Increment Bonds, Series 2009

On April 17, 2009, the Authority issued $11,085,000 of Fixed Rate Tax Increment Bonds, Series 2009 (the 2009 Authority Bonds) to provide funds for the development of the Lawrence Village at the Fort. 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 2009 Authority 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.

Debt service requirements to maturity for all debt of the Authority, excluding any unamortized discount or premium are as follows at December 31, 2010. The debt service requirements for the Variable Rate Demand Tax Increment and Revenue Bonds are based upon scheduled maturities, but may be called on demand.

Years Ending December 31	Principal	Interest	Total
2011	$ 1,280,000	$ 938,309	$ 2,218,309
2012	1,330,000	906,889	2,236,889
2013	1,385,000	873,724	2,258,724
2014	1,445,000	838,413	2,283,413
2015	1,510,000	803,217	2,313,217
2016 - 2020	8,620,000	3,376,297	11,996,297
2021 - 2025	8,970,000	1,558,283	10,528,283
2026 - 2030	3,630,000	90,750	3,720,750
	$ 28,170,000	$ 9,385,882	$ 37,555,882

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2010 and 2009:

2010

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term obligations					
2000 TIF bonds	$ 8,085,000	$ -	$ (490,000)	$ 7,595,000	$ 515,000
2006 TIF bonds	10,480,000	-	(445,000)	10,035,000	465,000
2009 TIF bonds	10,830,000	-	(290,000)	10,540,000	300,000
Discount	(109,020)	-	6,744	(102,276)	-
Total long-term obligations	$ 29,285,980	$ -	$ (1,218,256)	$ 28,067,724	$ 1,280,000

2009

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term obligations					
2000 TIF bonds	$ 8,545,000	$ -	$ (460,000)	$ 8,085,000	$ 490,000
2006 TIF bonds	10,905,000	-	(425,000)	10,480,000	445,000
2009 TIF bonds	-	11,085,000	(255,000)	10,830,000	290,000
Discount	-	(113,516)	4,496	(109,020)	-
Total long-term obligations	$ 19,450,000	$ 10,971,484	$ (1,135,504)	$ 29,285,980	$ 1,225,000

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/2376.htm.

The Authority made contributions to PERF for the years ended December 31, 2010 and 2009 of 6.5% and 6.0%, respectively, of each eligible employee's gross wages.

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, 2010 are as follows:

2011	$	52,043
2012		35,006
2013		34,089
2014		24,001
2015		24,001
Thereafter		136,009
	$	305,149

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: Interlocal Agreement

The Authority entered into an Interlocal Agreement with the City of Lawrence as a result of the strain the promotion, development and redevelopment of the former Fort Benjamin Harrison has put on the capacity and maintenance of local municipal public improvements of the City of Lawrence that are in, directly serving, or benefiting the Redevelopment Area.

The Agreement stipulates certain obligations of the City of Lawrence, including management of design, construction, repair, maintenance or reconstruction, as well as providing construction inspection, of any local municipal public improvements within the Redevelopment Area. Under the Interlocal Agreement, the Authority has agreed to reimburse the City of Lawrence for a portion of such expenses the City incurs in this regard. While the Interlocal Agreement expired on December 31, 2006, the Authority has agreed to continue to reimburse the City for a portion of the costs it is incurring to directly or indirectly benefit the Redevelopment Area. Interlocal expense for 2010 and 2009 was $284,905 and $603,926, respectively. The Authority has committed to provide additional payments to the City of Lawrence of $350,000 in both 2011 and 2012.

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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, 2010, and have issued our report thereon dated June 27, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 10-1 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to the Authority's management in a separate letter dated June 27, 2011.

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

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

June 27, 2011

Fort Harrison Reuse Authority

Schedule of Findings and Responses
Year Ended December 31, 2010

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	
10-1	**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 adjustments that were subsequently identified as a result of our auditing procedures.
	Context:	The Authority's control procedures do not include reconciliations of all significant account balances on a monthly basis to ensure accurate financial reporting. Instead, the Authority focuses only on reconciling the significant amount of activity that flows through its trust accounts.
	Effect:	Potential misstatements in the financial statements.
	Cause:	The Authority has a very limited staff size and outsources a significant portion of its accounting function to a third party.
	Recommendation:	Management should establish and maintain a policy whereby all significant account balances are reconciled to the general ledger on a monthly basis to ensure accurate financial reporting.
	Views of Responsible Officials and Planned Corrective Actions:	Management concurs with the finding and recommendation. During 2010, the Authority did reconcile all of the activity that flows through bond trust accounts on a monthly basis. Furthermore, the Authority employed the use of an outside accounting firm to assist with the preparation for the audit. The Authority will look for alternative staffing options to ensure that all accounts are reconciled on a regular basis going forward.