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STATE OF INDIANA

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May 11, 2012

Board of Directors
River Ridge Development Authority
6200 E. Highway 62, Suite 600
Jeffersonville, IN 47130

We have reviewed the audit report prepared by McCauley, Nicolas & Company, LLC, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the River Ridge Development Authority, as of December 31, 2011 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

RIVER RIDGE DEVELOPMENT AUTHORITY

REPORT ON AUDITS OF FINANCIAL STATEMENTS

for the years ended
December 31, 2011 and 2010

CONTENTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
River Ridge Development Authority
Jeffersonville, Indiana

We have audited the accompanying financial statements of River Ridge Development Authority (the Authority) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on River Ridge Development Authority's financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as whole.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
February 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the River Ridge Development Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended December 31, 2011 and 2010.

NATURE OF ORGANIZATION AND REPORTING ENTITY

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

THE STATEMENTS OF NET ASSETS

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

THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

THE STATEMENTS OF CASH FLOWS

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

Table 1
Condensed Statement of Net Assets

ASSETS	2011	2010	Increase (Decrease)
Current assets	$ 7,141,096	$ 9,891,264	$ (2,750,168)
Restricted assets	1,227,673	1,221,511	6,162
Capital assets, net	8,277,358	4,095,867	4,181,491
Other assets	4,280,724	4,157,962	122,762
TOTAL ASSETS	$ 20,926,851	$ 19,366,604	$ 1,560,247
LIABILITIES			
Current liabilities	$ 1,555,491	$ 525,570	$ 1,029,921
Other liabilities	427,673	421,511	6,162
Long-term debt	11,618,020	12,251,877	(633,857)
TOTAL LIABILITIES	13,601,184	13,198,958	402,226
NET ASSETS			
Investment in capital assets	3,999,975	4,095,867	(95,892)
Unrestricted net assets	3,325,692	2,071,779	1,253,913
TOTAL NET ASSETS	7,325,667	6,167,646	1,158,021
TOTAL LIABILITIES AND NET ASSETS	$ 20,926,851	$ 19,366,604	$ 1,560,247

Total assets increased by $1,560,247 in 2011, however, there was a decrease in current assets of $2,750,168. The primary factor in the decrease in current assets was that in December 2010, the Authority issued $8,500,000 in bonds of which approximately $7,700,000 remained in cash as of December 31, 2010. During 2011, the Authority expended approximately $4,200,000 of these bond proceeds. The primary increase in net capital assets resulted from infrastructure improvements and construction in progress. Other assets include the Army credit approved as an offset to a loss in revenue from a tenant located on Army owned property. This credit may be used to cover land conveyance costs on future parcel transfers from the Army to River Ridge.

One 3.44-acre parcel was sold to one company for approximately $120,000. Additionally, a 2-acre parcel was sold to another developer for $140,000.

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

	2011	2010	Increase (Decrease)
TOTAL REVENUES, including nonoperating revenues	$ 4,587,160	$ 3,610,752	$ 976,408
TOTAL EXPENSES	3,429,139	2,475,589	953,550
INCREASE IN NET ASSETS	$ 1,158,021	$ 1,135,163	$ 22,858

- Total revenues increased by approximately $976,000 in 2011 primarily due to recycle and scrap sales from the demolition of P&E Power Plants.

- During 2011, economic activity continued to be relatively flat in many regions of the United States, including southern Indiana. Land sales, net of related costs, at River Ridge declined by approximately $243,000 compared to 2010. There was, however, a notable increase in industrial prospect inquiries and contacts in the last quarter of the year.

- Operating expenses as compared to 2010 increased primarily due to increases in development expenses and personnel costs associated with water delivery services, marketing, legal, and facility maintenance. Other expenses were generally within budgeted amounts.

FUTURE OPERATIONS

The Authority anticipates an increase in land sales for 2012 based on activities occurring during the last quarter of 2011. Non-operating revenues are expected to increase as a result of continued emphasis on salvage operations. Additional increases in Tax Increment Financing (TIF) and Urban Enterprise Zone (UEZ) revenues are also expected in 2012 due to past private investments by developers and new tenants.

Our emphasis will continue to be site development and infrastructure improvements required to support future projects and private investments. Expanded marketing initiatives will also be implemented in 2012. Significant on-site infrastructure and road improvements were completed in 2011 with additional projects slated for 2012. It is anticipated that the completed infrastructure improvements will greatly enhance the quality and overall marketability of the River Ridge Commerce Center.

REQUESTS FOR ADDITIONAL INFORMATION

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

RIVER RIDGE DEVELOPMENT AUTHORITY

STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,028,259	$ 9,438,158
Accounts receivable - tenants	1,405	-
Accounts receivable - Tax Increment Financing	-	440,113
Interest rebate receivable	89,402	-
Prepaid expenses	22,030	12,993
TOTAL CURRENT ASSETS	7,141,096	9,891,264
RESTRICTED ASSETS		
Cash and cash equivalents - security deposits	57,673	49,011
Cash and cash equivalents - escrow deposits	370,000	372,500
Cash and cash equivalents - reserve funds	800,000	800,000
TOTAL RESTRICTED ASSETS	1,227,673	1,221,511
CAPITAL ASSETS		
Equipment	226,182	159,271
Vehicles	126,781	71,480
Infrastructure	5,758,379	4,374,063
Construction in process	2,909,171	-
	9,020,513	4,604,814
Less accumulated depreciation	(743,155)	(508,947)
CAPITAL ASSETS, NET	8,277,358	4,095,867
OTHER ASSETS		
Army credit	809,984	814,000
Bond issuance costs, net	100,800	108,000
Real estate available for sale	3,369,940	3,235,962
TOTAL OTHER ASSETS	4,280,724	4,157,962
TOTAL ASSETS	$ 20,926,851	$ 19,366,604
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of bonds payable	$ 490,000	$ -
Accounts payable and accruals	719,588	474,307
Bond interest payable	230,208	-
Advanced rental payments	69,605	21,810
Accrued compensated absences	46,090	29,453
TOTAL CURRENT LIABILITIES	1,555,491	525,570
OTHER LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)		
Security deposits	57,673	49,011
Escrow deposits	370,000	372,500
TOTAL OTHER LIABILITIES	427,673	421,511
LONG-TERM DEBT		
Deferred rental revenue	378,335	515,915
Bonds payable	8,010,000	8,500,000
Payable to United States Army	3,229,685	3,235,962
TOTAL LONG-TERM DEBT	11,618,020	12,251,877
TOTAL LIABILITIES	13,601,184	13,198,958
NET ASSETS		
Investment in capital assets, net of related debt	3,999,975	4,095,867
Unrestricted net assets	3,325,692	2,071,779
TOTAL NET ASSETS	7,325,667	6,167,646
TOTAL LIABILITIES AND NET ASSETS	$ 20,926,851	$ 19,366,604

See notes to financial statements.

RIVER RIDGE DEVELOPMENT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

for the years ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Rental income	$ 1,280,634	$ 1,444,052
Rental income River Ridge property	164,406	172,194
Equipment rental	10,458	15,237
Urban Enterprise Zone income	919,400	850,000
Tax Increment Financing income	395,802	440,113
Recycling and scrap sale income	1,314,860	128,525
Grant income	-	25,000
Land proceeds, net	254,157	497,757
Water sales, net	7,937	-
TOTAL OPERATING REVENUES	4,347,654	3,572,878
OPERATING EXPENSES		
Payroll	612,015	460,323
Employee benefits	163,166	114,530
Payroll taxes	47,965	31,776
Temporary labor	294	12,307
Development expenses	651,237	230,642
Road and ground maintenance	178,633	156,639
Sewage expenses	65,815	52,979
Depreciation expense	234,208	194,046
Amortization expense	7,200	-
Legal fees	127,830	179,400
Insurance	87,774	89,031
Marketing	102,549	89,237
Office equipment and supplies	24,933	25,280
Professional fees	30,369	28,011
Rental expense	64,818	61,121
Security	257,194	261,643
Telephone repair and service	7,350	3,428
Master planning services	39,026	197,717
Lease management	-	12,392
Training expense	3,765	602
Travel	36,985	30,987
Utilities	34,411	27,251
Environmental monitoring	42,658	60,701
Army operational expenses	24,044	134,362
Employee recruitment	12,977	3,744
TIF administration	5,500	17,440
Settlement expense	226,610	-
Interest expense	339,813	-
TOTAL OPERATING EXPENSES	3,429,139	2,475,589
OPERATING INCOME	918,515	1,097,289
NONOPERATING REVENUES		
Interest income	231,725	33,141
Other income	7,781	4,733
TOTAL NONOPERATING REVENUES	239,506	37,874
CHANGES IN NET ASSETS	1,158,021	1,135,163
NET ASSETS, beginning of year	6,167,646	5,032,483
NET ASSETS, end of year	$ 7,325,667	$ 6,167,646

See notes to financial statements.

RIVER RIDGE DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS

for the years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	$ 3,701,833	$ 1,146,587
Cash paid to suppliers, employees, and others	(2,700,626)	(1,962,891)
Urban Enterprize Zone income received	919,400	850,000
Interest received	231,725	33,141
Grant received	-	25,000
Net cash provided by operating activities	2,152,332	91,837
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of real estate available for sale	(140,255)	-
Bond issuance costs	-	(108,000)
Purchases of capital assets	(4,415,699)	(266,663)
Net cash (used) by investing activities	(4,555,954)	(374,663)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bond issuance	-	8,500,000
Deposit into reserve fund	-	(800,000)
Payment to United States Army	(6,277)	(6,626)
Net cash provided (used) by financing activities	(6,277)	7,693,374
NET INCREASE (DECREASE) IN CASH	(2,409,899)	7,410,548
CASH AND CASH EQUIVALENTS, beginning of year	9,438,158	2,027,610
CASH AND CASH EQUIVALENTS, end of year	$ 7,028,259	$ 9,438,158
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	$ 1,158,021	$ 1,135,163
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation expense	234,208	194,043
Amortization expense	7,200	-
Army credit deferred income	(137,580)	(298,085)
Non cash proceeds from sale of capital assets	-	(746,000)
(Increase) decrease in:		
Accounts receivable - tenants	(1,405)	532
Accounts receivable - Tax Increment Financing	440,113	(440,113)
Interest rebate receivable	(89,402)	
Prepaid expenses	(9,037)	4,921
Real estate available for sale	6,277	6,626
Army credits	4,016	-
Increase (decrease) in:		
Accounts payable	245,281	299,193
Bond interest payable	230,208	-
Advanced rental payments	47,795	(78,984)
Accrued compensated absences	16,637	14,538
Net cash provided by operating activities	$ 2,152,332	$ 91,834

See notes to financial statements.

RIVER RIDGE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The financial statements are presented using the accrual basis of accounting with an economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As permitted by accounting principles generally accepted in the United States of America (GAAP), the Agency has elected to apply all relevant Government Accounting Standards Board (GASB) pronouncements and only applicable Financial Accounting Standards Board (FASB) Accounting Standards Certification (ASC) pronouncements that do not contradict GASB pronouncements in the preparation of the financial statements.

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Cash Equivalents
The Authority considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2011 and 2010.

Accounts Receivable - Tenants
Accounts receivable consists of amounts due from tenants for monthly lease income. The Authority uses the allowance for bad debts method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables. Management has determined no allowance was required at December 31, 2011 and 2010.

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

Depreciation is provided on the estimated useful lives of the assets using the straight-line method. The estimated useful lives are 5 to 7 years for office equipment, 7 to 10 years for furniture and fixtures, 5 years for vehicles, and 20 to 50 years for infrastructure. See Note 4 for additional information.

Public domain (infrastructure) capital assets consisting of the development of roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems on land that has not been deeded to the Authority are not capitalized, as these assets are included as documented costs per the master lease agreement (See Note 11). Documented costs are used to offset the rental income received by the Authority and due to the United States Army.

Bond Issuance Costs
In December 2010, the Authority obtained financing for future infrastructure improvements planned at River Ridge Commerce Center through a bond issuance of $8,500,000. The costs of issuing the bonds, totaling $108,000, are being amortized ratably over the term of the bonds through February 1, 2026. Because the bonds were issued December 29, 2010, no amortization expense was recorded during the year ended December 31, 2010. Amortization expense in the amount of $7,200 was record for the year ended December 31, 2011. The balance of the bond issuance costs at December 31, 2011 is $100,800.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

NOTE 2—ACCOUNTS RECEIVABLE-TAX INCREMENT FINANCING

Accounts receivable – Tax Increment Financing consists of amounts for property taxes levied by local governments relating to years ended December 31, 2011 and 2010. Management has determined no allowance for this receivable was required at December 31, 2011 and 2010. The balance at December 31, 2011 and 2010 was $ -0- and $440,113, respectively.

NOTE 3—RESTRICTED ASSETS

Security deposits totaling approximately $57,600 and $49,000 for the years ending December 31, 2011 and 2010, respectively, represent deposits made by tenants for the property leased from the Authority.

Restricted escrow deposits consists of earnest money and local match funds totaling $370,000 and $372,500 as of December 31, 2011 and 2010, respectively. During 2009, the Authority received $185,000 in local match funds ($370,000 total) from both the City of Jeffersonville Urban Enterprise Zone Association and Clark County for planned traffic improvements on State Road 62 pending Indiana Department of Transportation (INDOT) final approval. These funds have been obligated for the construction of traffic lights and, therefore, are also being shown as an escrow liability at December 31, 2011 and 2010.

In December 2010, the Authority obtained financing for future infrastructure improvements planned at River Ridge Commerce Center through a bond issuance of $8,500,000. See Note 6 for more information on the bonds payable. The Authority was required to establish a bond reserve fund totaling $800,000 for future bond payments.

NOTE 4—CAPITAL ASSETS

The following is a summary of capital assets during the years ended December 31, 2011 and 2010:

	Balance at 12/30/10	Additions	Dispositions	Balance at 12/31/11
Equipment	$ 159,271	$ 66,911	$ -	$ 226,182
Vehicles	71,480	55,301	-	126,781
Infrastructure	4,374,063	1,384,316	-	5,758,379
Construction in Process	-	2,909,171	-	2,909,171
	4,604,814	4,415,699	-	9,020,513
Accumulated depreciation	(508,947)	(234,208)	-	(743,155)
Total, net	$ 4,095,867	$ 4,181,491	$ -	$ 8,277,358

	Balance at 12/30/09	Additions	Dispositions	Balance at 12/31/10
Equipment	$ 101,860	$ 77,621	$ (20,210)	$ 159,271
Vehicles	69,885	1,595	-	71,480
Infrastructure	3,389,116	984,947	-	4,374,063
Construction in Process	-	-	-	-
	3,560,861	1,064,163	(20,210)	4,604,814
Accumulated depreciation	(335,111)	(194,046)	20,210	(508,947)
Total, net	$ 3,225,750	$ 870,117	$ -	$ 4,095,867

Total depreciation expense was $234,208 and $194,046 for the years ended December 31, 2011 and 2010, respectively.

NOTE 5—REAL ESTATE AVAILABLE FOR SALE AND PAYABLE TO UNITED STATES ARMY

On June 6, 2005, August 24, 2006, July 2, 2009, and September 10, 2010 through quitclaim deeds, the United States of America, acting by and through the Deputy Assistant Secretary of the Army, entered into agreements with the Authority to deed land to the Authority. The agreements state that in accordance with the Federal Act, the Authority shall pay to the Army a monetary consideration for conveyance of the property to the Authority (the "Conveyance Consideration") as agreed upon in the deed agreements.

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

NOTE 5—REAL ESTATE AVAILABLE FOR SALE AND PAYABLE TO UNITED STATES ARMY—Continued

Year Conveyed	Number of Acres	Acquisition Price Per Acre	Original Purchase Price	Year Sold	Acres Sold	Cost Repaid	Acres Remaining	Cost Remaining
2005	2,325.62	$1,122	$ 2,608,650	2006	105.30	$ 119,095	2,220.32	
				2007	31.95	35,861	2,188.37	
				2008	26.15	30,383	2,162.22	
				2009	27.71	31,087	2,134.51	
				2010	1.42	1,609	2,133.09	
				2011	2.00	2,262	2,131.09	$ 2,388,353
2006	577.63	$1,167	674,094	2007	91.96	107,311	485.67	
				2010	19.90	23,207	465.78	
				2011	3.44	4,016	462.33	539,560
2009	143.77	$1,219	175,256			-	143.77	175,256
2010	82.85	$1,317	126,516			-	82.85	126,516
						$ 354,831		
Purchased from the United States Army			3,584,516	Payable to United States Army at 12/31/2011				3,229,685
2011	2.00	$70,128	140,255				2.00	140,255
Purchased from other than United States Army			140,255					
Total Real Estate Purchased			$ 3,724,771	Real estate available for sale at 12/31/2011				$ 3,369,940

NOTE 6—BONDS PAYABLE

The Authority obtained financing for future infrastructure improvements planned at River Ridge Commerce Center through a bond issuance of $8,500,000. The bonds were issued December 29, 2010 and mature February 1, 2026. The bonds have an interest rate of 6.5%. Interest is payable semiannually and payments began on August 1, 2011. Semiannual bond principal payments begin February 1, 2012. Accrued interest payable at December 31, 2011 was $230,208.

River Ridge Development Authority's balance at December 31, 2011 is as follows:

Balance at December 31, 2011	$ 8,500,000
Less current portion	(490,000)
Long-term portion	$ 8,010,000

NOTE 6—BONDS PAYABLE—Continued

As of December 31, 2011, bonds mature as follows:

2012	$ 490,000
2013	390,000
2014	410,000
2015	430,000
2016	475,000
Thereafter	6,305,000
Total	$ 8,500,000

NOTE 7—SHORT-TERM BANK BORROWINGS

The Authority has a line of credit with Your Community Bank, which expires in May 2012. At December 31, 2011 and 2010, no amount was outstanding on the line of credit. The line of credit bears interest at prime with a floor of 4.0% per annum. The interest rate at December 31, 2011 was 4.0%. Under this line of credit agreement, the Authority can borrow up to a maximum of $1,500,000.

NOTE 8—ADVANCED RENTAL PAYMENTS

The Authority recognizes rent received by tenants for future periods as "Advanced rental payments" on the Statements of Net Assets. The liability for "Advanced rental payments" at December 31, 2011 and 2010 was $69,605 and $21,810, respectively.

NOTE 9—COMPENSATED ABSENCES

The Authority employees earn paid time off (sick/vacation) at a rate of 18 to 22 days per year based upon the number of years of service. Employees may carry unused time until the accumulated paid time off balance equals two times the annual paid time off. At December 31, 2011 and 2010, accrued compensated absences were $46,090 and $29,453, respectively.

NOTE 10—RENTAL INCOME UNDER OPERATING LEASES

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

2012	$ 907,115
2013	$ 747,561
2014	$ 384,377
2015	$ 344,491
2016	$ 252,375
Thereafter	$ 224,750

NOTE 11—OPERATING LEASES

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

Consideration for the lease is based on the fair market rental value. The parties originally agreed the total value of the property under lease was $1,723,998 at the date the master lease was signed. The consideration for the leased premises will be reappraised or evaluated every five years. The Army has agreed that all documented costs, which are directly related to improvement, operation, maintenance, protection, and repair of the Ammunition Plant will offset rents due the Army under the lease. In the event that documented costs exceed rent, the costs will be carried over to future years. In the event that rent exceeds documented costs, the Army may request excess rent to be paid to the Army based upon the terms of the master lease agreement. As of December 31, 2011, management believes the Authority had incurred cumulative documented costs greater than the rent obligation and therefore no payments for rent were required to be recognized in the financial statements at this time.

Additionally, the Authority leases office space from an unrelated party. The lease expires in December 2012. Lease expense under this lease was $64,818 and $61,121 for the years ended December 31, 2011 and 2010, respectively. Future minimum lease payments under this operating lease are expected to be approximately $62,000 for the year ended December 31, 2012.

NOTE 12—DEFINED CONTRIBUTION PLAN

The Authority has established a 401(a) retirement plan for all eligible employees. All employees are eligible upon the beginning of their employment. Employer contributions to the Plan are based upon 6% of each eligible employee's compensation. Contributions to the Plan totaled $36,477 and $26,413 for the years ended December 31, 2011 and 2010, respectively. These amounts are included in employee benefits in the Statements of Revenues, Expenses and Changes in Net Assets.

NOTE 13—CASH AND CASH HELD FOR RESTRICTED DEPOSITS

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

The carrying value of cash and cash equivalents including restricted deposits at December 31, 2011 and 2010 was $8,255,932 and $10,659,669, respectively. The bank balance at December 31, 2011 was $8,327,789 and $10,712,993, respectively.

NOTE 14—MAJOR CUSTOMER

Approximately $879,703 (62%) and $786,000 (59%) of the Authority's rental income for 2011 and 2010, respectively, was generated from two customers.

NOTE 15—RISK MANAGEMENT

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

In January 2005, the Board Members of the Authority voted to purchase an environmental liability insurance policy for approximately $1,000,000. This policy was purchased in May 2005 and provides coverage for the lesser of the earliest of ten years or $25,000,000 in payouts. The policy premiums are non-refundable. This policy will protect the Authority from claims of property damage or personal injury and provide funds for the Authority's defense in case of a lawsuit. The Authority determined the insurance was necessary after a review of its master lease with the Department of Defense by environmental attorneys. There have been no payouts through December 31, 2011 under this policy.

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

NOTE 16—ENVIROMENTAL REMEDIATION

The Department of Defense is responsible for any environmental remediation of designated areas as defined in the master lease agreement with River Ridge Development Authority. Therefore, no accrual is necessary for environmental issues.

NOTE 17—COMMITMENTS

On March 11, 2010, the Authority entered into an indefinite agreement with the City of Charlestown, Inc., whereby the City of Charlestown agrees to operate the P&E Plant (a sewage treatment plant and collector system located within the City of Charlestown). As compensation for services, the Authority will pay the City of Charlestown $4,500 monthly. For the year ended December 31, 2011 and 2010 the fees incurred by the Authority were $54,000 and $45,000, respectively, which is included in sewage expenses in the Statements of Revenues, Expenses, and Changes in Net Assets.

NOTE 17—COMMITMENTS —Continued

On July 28, 2010, the Authority entered into a four-year contract with Louisville Water Company (LWC), whereby LWC would provide the Authority with various operational and maintenance related needs of the water treatment, pumping and storage facilities. The Authority agreed to pay $212,351 ($4,424 monthly) for the services. The total paid to LWC for the year ended December 31, 2011 was $22,120.

NOTE 18—LITIGATION

The Authority is subject to various legal actions and general asserted and unasserted claims arising in the ordinary course of its business. Litigation is subject to many uncertainties; the outcome of individual litigated matters is not predictable with assurance. Should any legal action occur, the Authority would defend itself vigorously against any claims. During 2011, the Authority settled a lawsuit arising from the ordinary course of operations for approximately $200,000.

NOTE 19—SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification Topic 885, *Subsequent Events,* the Authority has evaluated events and transactions for potential recognition or disclosure through February 21, 2012, the date the financials were available to be issued.

NOTE 20—RECLASSIFICATION

Certain items have been reclassified for 2010 to conform to the classifications in 2011. Such reclassifications had no effect on the change in net assets or net assets as previously reported.

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

The Board of Directors
River Ridge Development Authority
Jeffersonville, Indiana

We have audited the financial statements of River Ridge Development Authority (the Authority) as of and for the year ended December 31, 2011, and have issued our report thereon dated February 21, 2012. 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.

<u>Internal Control Over Financial Reporting</u>
In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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.*

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

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
February 21, 2012

SUPPLEMENTARY INFORMATION

RIVER RIDGE DEVELOPMENT AUTHORITY
Tax Increment Revenue Bonds of 2010, Series A
Build America Bonds
Amortization Schedule

December 31, 2011

Date	Principal	Interest Rate	Interest	Period Total	Fiscal Total
2/1/2012	$ 190,000	6.5%	$ 170,300	$ 360,300	
8/1/2012	115,000	6.5%	164,125	279,125	$ 639,425
2/1/2013	115,000	6.5%	160,388	275,388	
8/1/2013	120,000	6.5%	156,650	276,650	552,038
2/1/2014	125,000	6.5%	152,750	277,750	
8/1/2014	130,000	6.5%	148,687	278,687	556,437
2/1/2015	130,000	6.5%	144,462	274,462	
8/1/2015	135,000	6.5%	140,238	275,238	549,700
2/1/2016	145,000	6.5%	135,850	280,850	
8/1/2016	150,000	6.5%	131,138	281,138	561,988
2/1/2017	150,000	6.5%	126,262	276,262	
8/1/2017	155,000	6.5%	121,387	276,387	552,649
2/1/2018	160,000	6.5%	116,350	276,350	
8/1/2018	170,000	6.5%	111,150	281,150	557,500
2/1/2019	170,000	6.5%	105,625	275,625	
8/1/2019	180,000	6.5%	100,100	280,100	555,725
2/1/2020	180,000	6.5%	94,250	274,250	
8/1/2020	195,000	6.5%	88,400	283,400	557,650
2/1/2021	190,000	6.5%	82,063	272,063	
8/1/2021	205,000	6.5%	75,887	280,887	552,950
2/1/2022	205,000	6.5%	69,225	274,225	
8/1/2022	215,000	6.5%	62,562	277,562	551,787
2/1/2023	220,000	6.5%	55,575	275,575	
8/1/2023	230,000	6.5%	48,425	278,425	554,000
2/1/2024	235,000	6.5%	40,950	275,950	
8/1/2024	245,000	6.5%	33,312	278,312	554,262
2/1/2025	250,000	6.5%	25,350	275,350	
8/1/2025	265,000	6.5%	17,225	282,225	557,575
2/1/2026	265,000	6.5%	8,613	273,613	273,613
	$ 5,240,000		$ 2,887,299	$ 8,127,299	$ 8,127,299

RIVER RIDGE DEVELOPMENT AUTHORITY
Tax Increment Revenue Bonds of 2010, Series B
Recovery Zone Economic Development Bonds
Amortization Schedule

December 31, 2011

Date	Principal	Interest Rate	Interest	Period Total	Fiscal Total
2/1/2012	$ 115,000	6.5%	$ 105,950	$ 220,950	
8/1/2012	70,000	6.5%	102,213	172,213	$ 393,163
2/1/2013	75,000	6.5%	99,938	174,938	
8/1/2013	80,000	6.5%	97,500	177,500	352,438
2/1/2014	75,000	6.5%	94,900	169,900	
8/1/2014	80,000	6.5%	92,463	172,463	342,363
2/1/2015	80,000	6.5%	89,862	169,862	
8/1/2015	85,000	6.5%	87,262	172,262	342,124
2/1/2016	90,000	6.5%	84,500	174,500	
8/1/2016	90,000	6.5%	81,575	171,575	346,075
2/1/2017	95,000	6.5%	78,650	173,650	
8/1/2017	95,000	6.5%	75,563	170,563	344,213
2/1/2018	100,000	6.5%	72,475	172,475	
8/1/2018	105,000	6.5%	69,225	174,225	346,700
2/1/2019	105,000	6.5%	65,813	170,813	
8/1/2019	110,000	6.5%	62,400	172,400	343,213
2/1/2020	115,000	6.5%	58,825	173,825	
8/1/2020	115,000	6.5%	55,088	170,088	343,913
2/1/2021	125,000	6.5%	51,350	176,350	
8/1/2021	125,000	6.5%	47,287	172,287	348,637
2/1/2022	130,000	6.5%	43,225	173,225	
8/1/2022	135,000	6.5%	39,000	174,000	347,225
2/1/2023	135,000	6.5%	34,612	169,612	
8/1/2023	145,000	6.5%	30,225	175,225	344,837
2/1/2024	145,000	6.5%	25,512	170,512	
8/1/2024	155,000	6.5%	20,800	175,800	346,312
2/1/2025	155,000	6.5%	15,762	170,762	
8/1/2025	165,000	6.5%	10,725	175,725	346,487
2/1/2026	165,000	6.5%	5,362	170,362	170,362
	$ 3,260,000		$ 1,798,062	$ 5,058,062	$ 5,058,062