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June 10, 2014

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

We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. 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, 2012 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.

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

STATE BOARD OF ACCOUNTS

FORT HARRISON
Reuse Authority

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2012 and 2011

FORT HARRISON REUSE AUTHORITY

CONTENTS

Independent Auditors' Report

Board of Directors
Fort Harrison Reuse Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Fort Harrison Reuse Authority, which comprise the statement of net position as of December 31, 2012, and the related statements of revenue, expenses and changes in net position and cash flows for the year ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Katz, Sapper & Miller, LLP
Certified Public Accountants

800 East 96th Street, Suite 500
Indianapolis, IN 46240

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An Affiliate of
KSM Business Services, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matter

The financial statements of Fort Harrison Reuse Authority as of and for the year ended December 31, 2011, were audited by other auditors whose report dated February 7, 2013 and October 31, 2013, expressed an unmodified opinion on those statements.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 8 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, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013, on our consideration of Fort Harrison Reuse Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fort Harrison Reuse Authority's internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
November 21, 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

FORT HARRISON REUSE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2012

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 calendar years ended December 31, 2012 and 2011. 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).

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

Financial Highlights

Overview of Financial Statements

The financial statements of the Authority include the following for the calendar years 2012 and 2011.

- Statements of Net Position
- Statements of Revenue, Expenses and Changes in Net Position
- Statements of Cash Flows

Basis of Accounting and Financial Reporting

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

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

The net position of the Authority is comprised of three categories:

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

- *Restricted for debt service* – represents annual obligations to outstanding debt issued for various improvements in the Authority's jurisdiction.

- *Unrestricted* – represents resources that may be used to meet the Authority's ongoing obligations to the public and creditors.

Statements of Net Position

The statements of net position 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 position – the difference between total assets and total liabilities – represents one way to measure the Authority's financial health. In assessing the financial position of the Authority, one may additionally consider the ability of the Authority to implement its mission and take into consideration its accomplishments relevant to significant projects that impact the long-term goals of the community, more specifically the City of Lawrence, Indiana and the east side of Indianapolis.

Comparative Statements of Net Position

The comparative analysis below is a summary of the statements of net position for the years ended December 31, 2012, 2011 and 2010.

	2012	2011	2010
Current assets – unrestricted	$ 9,079,229	$ 10,374,245	$ 4,883,771
Current assets – restricted	12,658,053	12,896,020	14,461,798
Noncurrent assets	2,161,925	2,219,198	17,552,851
Total Assets	$ 23,899,207	$ 25,489,463	$36,898,420
Current liabilities – payable from unrestricted assets	$ 146,609	$ 24,242	$ 52,416
Current liabilities – payable from restricted assets	1,738,543	1,695,257	2,620,795
Noncurrent liabilities – payable from restricted assets	24,086,212	25,464,468	26,787,724
Total Liabilities	25,971,364	27,183,967	29,460,935
Net position			
Net investment in capital assets	(15,811,932)	(15,372,830)	(6,673,720)
Restricted for debt service	12,304,510	12,530,763	13,931,010
Unrestricted	1,435,265	1,147,563	180,195
Total Net Position	(2,072,157)	(1,694,504)	7,437,485
Total Liabilities and Net Position	$ 23,899,207	$ 25,489,463	$36,898,420

2012 to 2011 Comparative Statements of Net Position

Current Assets – Unrestricted decreased approximately $1.3 million due to the $1.8 million write down of real estate held for sale to its appraised values which was partially offset by a $430,000 increase in prepaid expenses related to the Interlocal agreement.

Current Assets – Restricted decreased approximately $238,000 due to the 2012 TIF property tax receivable decreasing approximately $161,000 from the 2011 receivable due to a difference in fall City tax assessments between the two years, as well as a decrease of approximately $77,000 in cash equivalents.

Current Liabilities – Payable from Unrestricted Assets increased approximately $122,000 due to the Interlocal agreement payable of $125,000 paid in 2013.

Noncurrent Liabilities decreased approximately $1.4 million from the payment of the Authority's debt service.

2011 to 2010 Comparative Statements of Net Position

Current Assets – Unrestricted increased approximately $5.5 million due to the Authority completing the Lawrence Village at the Fort project and allocating approximately $5.7 million of those costs to the real estate held for sale, as significant improvements were made to those parcels thereby increasing the related carrying value.

Current Assets – Restricted decreased approximately $1.6 million due to a decrease in the Authority's cash and cash equivalents relating to the pay down of the 2000 bonds.

Noncurrent Assets decreased approximately $15.3 million, the result of completing the Lawrence Village at the Fort project and transferring a portion of those costs of real estate held for sale. Additionally, $5.0 million of the costs incurred in relation to this project were transferred as capital contributions to other governments and $3.5 million was reflected as a loss of real estate held for sale.

Current Liabilities – Payable From Unrestricted Assets decreased approximately $926,000 due to the Authority's payment of $964,000 of prior year construction payables, offset by an increase in the current portion of debt of approximately $50,000.

Noncurrent Liabilities decreased approximately $1.3 million from the payment of the Authority's debt service.

FORT HARRISON REUSE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
December 31, 2012

Comparative Statements of Revenue, Expenses and Changes in Net Position

The comparative analysis below is a summary of the statements of revenue, expenses and changes in net position for the years ended December 31, 2012, 2011, and 2010.

	2012	2011	2010
Operating Revenue			
Rental income	$ 92,838	$ 91,945	$ 90,837
Total Operating Revenue	92,838	91,945	90,837
Nonoperating Revenue			
TIF tax revenue	3,331,313	3,322,650	3,295,777
Interest income	100,000	33,333	
Investment income, net of fees	1,122	1,074	3013
Loss on real estate held for sale	(1,804,773)	(5,548,556)	(233,478)
Other		99	103
Total Nonoperating Revenue	1,627,662	(2,191,400)	3,065,415
Total Revenue	1,720,500	(2,099,455)	3,156,252
Operating Expenses			
Personnel	176,091	145,275	194,314
Utilities	59,288	61,508	28,235
Office supplies and other expenses	191,674	154,477	36,047
Professional fees	117,448	159,555	101,266
Repairs and maintenance	94,191	178,620	52,240
Engineering services	16,048	48,170	1,742
Insurance	10,534	20,897	21,314
Depreciation	33,761	31,115	30,303
Total Operating Expenses	699,035	799,617	465,461
Nonperating Expenses and Capital Contributions			
Interest expense	1,049,118	840,611	704,547
Interlocal agreement	350,000	350,000	284,905
Capital Contributions to other governments		5,042,306	83,986
Total Nonoperating Expenses	1,399,118	6,232,917	1,073,438
Total Expenses	2,098,153	7,032,534	1,538,899
Increase (Decrease) in Net Position	(377,653)	(9,131,989)	1,617,353
Net Position, Beginning of Year	(1,694,504)	7,437,485	5,820,132
Net Position, End of Year	$(2,072,157)	$(1,694,504)	$7,437,485

2012 to 2011 Comparative Statements of Revenue, Expenses and Changes in Net Position

Nonoperating revenue increased by approximately $3.8 million due to a much smaller loss on real estate held for sale in 2012.

Operating expenses decreased by approximately $101,000 primarily due to the decrease in lawn care services of $50,000 and other repairs and maintenance expenses of approximately $34,000.

Nonoperating expenses and capital contributions decreased by approximately $4.8 million. In 2011, the Lawrence Village at the Fort project was completed and approximately $5.0 million was contributed to the Town of Lawrence, which is the government responsible for managing those assets. Interest expense increased by approximately $209,000 due to the Village at the Fort project completion during 2011, causing that interest expense to be expensed rather than capitalized as it had been during the project.

2011 to 2010 Comparative Statements of Revenue, Expenses and Changes in Net Position

Nonoperating revenue decreased by approximately $5.3 million due to the loss on real estate held for sale in 2011 of approximately $5.5 million compared to the loss on real estate held for sale in the prior year of approximately $233,000.

Operating expenses increased by approximately $334,000 primarily due to the increase in lawn care services of $126,000 and real estate management fees of $97,000.

Nonoperating expenses and capital contributions increased by approximately $5.2 million. In 2011, the Lawrence Village at the Fort project was completed and approximately $5.0 million was contributed to the Town of Lawrence, which is the government responsible for managing those assets.

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 Notes 4 and 5 of 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 taxes levied and collected on property within the designated tax increment Allocation Area. Readers are referred to Note 6 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 more than $3 million of property tax is generated in the Reuse Area annually.

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. The Lawrence Village at the Fort was completed during 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.

FINANCIAL STATEMENTS

FORT HARRISON REUSE AUTHORITY

STATEMENTS OF NET POSITION
December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Unrestricted Current Assets:		
Cash and equivalents	$ 138,238	$ 124,680
Prepaid expenses and other assets	443,636	13,792
Interest receivable		33,333
Real estate held for sale	8,497,355	10,202,440
Total Unrestricted Current Assets	9,079,229	10,374,245
Restricted Current Assets:		
Cash equivalents	11,150,384	11,227,197
TIF property tax receivable	1,507,669	1,668,823
Total Restricted Current Assets	12,658,053	12,896,020
Total Current Assets	21,737,282	23,270,265
NONCURRENT ASSETS		
Bond issuance costs, net of accumulated amortization	375,986	404,726
Note receivable	1,000,000	1,000,000
Nondepreciable capital assets	125,000	125,000
Depreciable capital assets, net	660,939	689,472
Total Noncurrent Assets	2,161,925	2,219,198
TOTAL ASSETS	$ 23,899,207	$ 25,489,463

LIABILITIES AND NET POSITION

	2012	2011
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts payable	$ 136,646	$ 8,717
Deferred revenue	9,963	15,525
Total Payable from Unrestricted Assets	146,609	24,242
Payable from Restricted Assets:		
Accrued interest on debt	353,543	365,257
Current portion of debt	1,385,000	1,330,000
Total Payable from Restricted Assets	1,738,543	1,695,257
Total Current Liabilities	1,885,152	1,719,499
NONCURRENT LIABILITIES		
Payable from Restricted Assets:		
Bonds payable, less current portion	24,086,212	25,464,468
Total Liabilities	25,971,364	27,183,967
NET POSITION		
Net investment in capital assets	(15,811,932)	(15,372,830)
Restricted for debt service	12,304,510	12,530,763
Unrestricted	1,435,265	1,147,563
Total Net Position	(2,072,157)	(1,694,504)
TOTAL LIABILITIES AND NET POSITION	$ 23,899,207	$ 25,489,463

See accompanying notes.

FORT HARRISON REUSE AUTHORITY

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUE		
Rental income	$ 92,838	$ 91,945
Total Operating Revenue	92,838	91,945
OPERATING EXPENSES		
Personnel	176,091	145,275
Utilities	59,288	61,508
Office supplies and other expenses	191,674	154,477
Professional fees	117,448	159,555
Repairs and maintenance	94,191	178,620
Engineering services	16,048	48,170
Insurance	10,534	20,897
Depreciation	33,761	31,115
Total Operating Expenses	699,035	799,617
LOSS FROM OPERATIONS	(606,197)	(707,672)
NONOPERATING REVENUE (EXPENSES)		
TIF tax revenue	3,331,313	3,322,650
Interest income	100,000	33,333
Investment income, net of fees	1,122	1,074
Loss on real estate held for sale	(1,804,773)	(5,548,556)
Interest expense, net of capitalized interest	(1,049,118)	(840,611)
Interlocal agreement	(350,000)	(350,000)
Other		99
Total Nonoperating Revenue (Expenses)	228,544	(3,382,011)
CAPITAL CONTRIBUTIONS TO OTHER GOVERNMENTS		(5,042,306)
DECREASE IN NET POSITION	(377,653)	(9,131,989)
NET POSITION		
Beginning of year	(1,694,504)	7,437,485
End of year	$ (2,072,157)	$ (1,694,504)

See accompanying notes.

FORT HARRISON REUSE AUTHORITY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Receipts from customers and users	$ 87,276	$ 90,635
Payments to vendors for goods and services	(791,098)	(652,823)
Payments for employees services	(176,091)	(145,275)
Net Cash Used by Operating Activities	(879,913)	(707,463)
NONCAPITAL FINANCIAL ACTIVITIES		
Payments to local government - Interlocal agreement	(350,000)	(350,000)
Net Cash Used by Noncapital Financial Activities	(350,000)	(350,000)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on bonds	(1,330,000)	(1,280,000)
Interest paid	(1,025,348)	(816,247)
Property taxes received	3,492,467	3,531,382
Acquisition and construction of capital assets	(5,228)	(1,825,402)
Acquisition of real estate held for sale	(99,688)	
Proceeds from sale of real estate held for sale		126,111
Other		(133,372)
Net Cash Provided (Used) by Capital and Related Financing Activities	1,032,203	(397,528)
INVESTING ACTIVITIES		
Interest income received on note receivable	133,333	
Investment income received on cash equivalents	1,122	1,074
Net Cash Provided by Investing Activities	134,455	1,074
NET DECREASE IN CASH AND EQUIVALENTS	(63,255)	(1,453,917)
CASH AND EQUIVALENTS		
Beginning of Year	11,351,877	12,805,794
End of Year	$ 11,288,622	$ 11,351,877
RECONCILIATION OF LOSS FROM OPERATIONS NET CASH USED BY OPERATING ACTIVITIES		
Loss from operations	$ (606,197)	$ (707,672)
Depreciation expense	33,761	31,115
Increase in prepaid expenses	(429,844)	(2,732)
Decrease in deferred revenue	(5,562)	(1,310)
Increase (decrease) in accounts payable	127,929	(26,864)
Net Cash Used by Operating Activities	$ (879,913)	$ (707,463)
Noncash Capital and Related Financing Activities:		
Sale of real estate financed by note receivable		$ 1,000,000
Gain (loss) on sale of real estate held for sale	$ (1,804,773)	933,583
Capital assets transferred to real estate held for sale		8,603,808
Loss on assets constructed and transferred to real estate held for sale		(3,488,668)
Capital contributions to other governments		(5,042,306)

See accompanying notes.

FORT HARRISON REUSE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Fort Harrison Reuse Authority (the Authority) was established on May 1, 1995, by Indiana Code, Section 36-7-30. Based in Indianapolis, 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.

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

The Authority prepares its financial statements in conformity with accounting principles generally accepted in the United States as applied to governmental units. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority follows GASB pronouncements as codified under GASB Statement No. 62.

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

Cash and Equivalents include cash, money market mutual funds, and other highly liquid instruments with original maturities of three months or less. The Authority maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Authority has not experienced any losses in such accounts.

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 July and January 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. In 2012, the Authority recorded a loss on real estate held for sale of $1,804,773 due to appraised values being lower than cost. In 2011, the Authority recorded a loss on real estate held for sale of $5,548,556 related to improvements made.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the assets 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 revenue 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:

	2012	2011
Interest costs capitalized		$ 441,517
Interest costs charged to expense	$1,049,118	840,611
Total interest incurred	$1,049,118	$1,282,128

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 Position Recognition: Revenue from tenants is reported as operating revenue. Operating expenses include the cost of administering the Authority, including depreciation and amortization of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

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

Income Tax Status: Income received or generated by the Authority is not subject to federal income tax, pursuant to Internal Revenue Code Section 115. Interest paid on obligations issued by the Authority is excludable from the gross income of the recipients, pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended. Contributions to the Authority are tax deductible contributions, pursuant to Sections 170(b)(1)(A)(v) and 170(c)(1) of the Internal Revenue Code of 1986, as amended.

Subsequent Events: The Authority has evaluated the financial statements for subsequent events occurring through November 21, 2013, the date the financial statements were available to be issued.

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, 2012 and 2011, the Authority had $11,150,384 and $11,227,197 of investment securities, all of which were money market mutual funds and classified as cash equivalents.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority is limited to investing in securities with a stated maturity of not more than two years after the date of purchase or entry into a repurchase agreement, as defined by Indiana Code, Section 5-13-9-5.6. The Authority's investment policy for interest rate risk requires compliance with the provisions of Indiana statutes. The money market mutual funds are presented as cash equivalents 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, 2012 and 2011, 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, 2012 and 2011, 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. The following shows investments in issuers that represent 5% or more of the total investments at December 31, 2012:

Bank of New York Cash Reserve Money Market Fund	91.05%
Dreyfus Treasury & Agency Cash Management 598 Money Market Fund	8.95%

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES (CONTINUED)

Foreign Currency Risk - This risk relates to adverse effects 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 equivalents included in the statements of net position are classified as follows:

	2012	2011
Cash and equivalents		
Current - unrestricted	$ 138,238	$ 124,680
Current - restricted	11,150,384	11,227,197
	$11,288,622	$11,351,877

Cash and equivalents are restricted as follows:

	2012	2011
Investment Surplus Fund 2000 Bonds	$ 2,306,372	$ 1,656,495
Investment Revenue Fund 2000 Bonds	5,975,277	6,702,186
Investment Main Reserve Fund 2000 Bonds	844,331	844,247
Investment Secondary Reserve Fund 2000 Bonds	281,474	281,446
Bond Reserve Fund 2006 Bonds	997,611	997,519
Bond Reserve Fund 2009 Bonds	745,319	745,304
	$11,150,384	$11,227,197

NOTE 3 - NOTE RECEIVABLE

A parcel of land held for sale was sold on September 2, 2011 for $1,126,111. With this sale, the Authority received $126,111 and financed the remaining $1,000,000 with a note receivable from the buyer. The terms include quarterly interest payments of 10% beginning on October 1, 2011 with the principal balance of the note and any accrued unpaid interest being due September 1, 2016. The scheduled maturities of the note receivable were as follows at December 31, 2012:

Receivable In	Principal	Interest	Total
2013		$100,000	$ 100,000
2014		100,000	100,000
2015		100,000	100,000
2016	$1,000,000	75,000	1,075,000
	$1,000,000	$375,000	$1,375,000

NOTE 4 - 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 (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, 2012 and 2011, the balance of land held for resale plus development costs was $8,497,355 and $10,202,440, respectively.

During 2012, the Authority purchased one building classified as held for sale which resulted in $99,688 of additions included in real estate held for sale. During 2011, the Authority completed the Lawrence Village Project which resulted in $6,240,894 of improvements to the parcels of land included in real estate held for sale.

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 5 - CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2012 and 2011 is as follows:

	Beginning Balance, January 1, 2012	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2012
Capital assets, not being depreciated:				
Land	$ 125,000			$ 125,000
Total capital assets, not being depreciated	125,000			125,000
Capital assets, being depreciated:				
Buildings and improvements	976,151	5,229		981,380
Equipment, furniture and fixtures and other		32,143		
32,143				
Total capital assets, being depreciated	1,008,294	5,228		1,013,523
Less accumulated depreciation for:				
Buildings and improvements	(284,335)	(19,788)		(307,177)
Equipment, furniture and fixtures and other	(34,487)	(13,973)		(45,407)
Total accumulated depreciation	(318,822)	(33,761)		(352,584)
Total capital assets, being depreciated, net	689,472	(28,533)		660,939
Capital assets, net	$ 814,472	$ (28,533)	$	$ 785,939

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance, January 1, 2011	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2011
Capital assets, not being depreciated:				
Land	$ 125,000			$ 125,000
Construction in progress	16,327,258	$837,524	$17,164,782	
Total capital assets, not being depreciated	16,452,258	837,524	17,164,782	125,000
Capital assets, being depreciated:				
Buildings and improvements	922,691	53,460		976,151
Equipment, furniture and fixtures and other	32,143			32,143
Total capital assets, being depreciated	954,834	53,460		1,008,294
Less accumulated depreciation for:				
Buildings and improvements	(253,832)	(30,503)		(284,335)
Equipment, furniture and fixtures and other	(33,875)	(612)		(34,487)
Total accumulated depreciation	(287,707)	(31,115)		(318,822)
Total capital assets, being depreciated, net	667,127	22,345		689,472
Capital assets, net	$17,119,385	$859,869	$17,164,782	$ 814,472

The Authority completed the Lawrence Village at the Fort project during 2011. With the completion of this significant project, the Authority allocated approximately $5.7 million of project costs to the real estate held for sale and $5.0 million to other governments responsible for managing the newly constructed assets. The remaining $6.4 million of project costs are reflected as losses on real estate held for sale, which is carried at the lower of cost or market less costs to sell.

NOTE 6 - BONDS PAYABLE

Bonds outstanding consisted of the following at December 31, 2012 and 2011:

	2012	2011
Variable Rate Demand Tax Increment and Revenue Bonds, Series 2000:		
Serial bonds, maturing February 1, 2013 to 2021 in payments ranging from $545,000 to $895,000. Interest computed at a variable rate, due monthly.	$ 6,535,000	$ 7,080,000
Fixed Rate Tax Increment Bonds, Series 2006:		
Serial bonds, maturing February 1 and August 1, 2013 to 2019 in payments ranging from $250,000 to $325,000. Interest computed at 4.00% to 5.00%, due semiannually on February 1 and August 1.	2,475,000	2,960,000
Term bonds, maturing August 1, 2017 to August 1, 2024 and February 1, 2026 in payments ranging from $600,000 to $1,460,000. Interest computed at 4.00% to 5.00%, respectively, due semiannually on February 1 and August 1.	6,610,000	6,610,000

NOTE 6 - BONDS PAYABLE (CONTINUED)

	2012	2011
Fixed Rate Increment Bonds, Series 2009:		
Serial bonds, maturing February 1 and August 1, 2013 to 2019 in payments ranging from $150,000 to $170,000. Interest computed at 2.50% to 4.00%, due semiannually on February 1 and August 1.	$ 2,250,000	$ 2,550,000
Term bonds, maturing August 1, 2020 to August 1, 2024 and February 1, 2026 in payments ranging from $350,000 to $2,325,000. Interest computed at 4.125% to 5.000%, respectively, due semiannually on February 1 and August 1.	7,690,000	7,690,000
Total Principal	25,560,000	26,890,000
Net discount on bonds payable	(88,788)	(95,532)
Total Bonds Payable	25,471,212	26,794,468
Less: Current portion	(1,385,000)	(1,330,000)
Bonds Payable, Less Current Portion	$24,086,212	$25,464,468

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 $5,960,000, 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 rate was .28% at December 31, 2012.

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 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 Series 2000 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.

NOTE 6 - BONDS PAYABLE (CONTINUED)

The 2006 Authority Bonds, maturing August 1, in the years 2017, 2018, 2020, 2022, 2023 and 2024, and February 1, 2026, 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 Series 2000 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, 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, 2012. 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.

Payable In	Principal	Interest	Total
2013	$ 1,385,000	$ 857,763	$ 2,242,763
2014	1,445,000	825,487	2,270,487
2015	1,510,000	790,703	2,300,703
2016	1,575,000	751,967	2,326,967
2017	1,645,000	718,880	2,363,880
2018-2022	9,915,000	2,973,490	12,888,490
2023-2026	8,085,000	941,594	9,026,594
	$25,560,000	$7,859,884	$33,419,884

Changes in long-term obligations for the years ended December 31, 2012 and 2011 were as follows:

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term obligations					
Series 2000 Bonds	$ 7,080,000	$	$ (545,000)	$ 6,535,000	$ 575,000
2006 Authority Bonds	9,570,000		(485,000)	9,085,000	505,000
2009 Authority Bonds	10,240,000		(300,000)	9,940,000	305,000
Discount	(95,532)		6,744	(88,788)	
Total long-term obligations	$26,794,468	$	$(1,323,256)	$25,471,212	$1,385,000

NOTE 6 - BONDS PAYABLE (CONTINUED)

	2011				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term obligations					
Series 2000 Bonds	$ 7,595,000	$	$ (515,000)	$ 7,080,000	$ 545,000
2006 Authority Bonds	10,035,000		(465,000)	9,570,000	485,000
2009 Authority Bonds	10,540,000		(300,000)	10,240,000	300,000
Discount	(102,276)		6,744	(95,532)	
Total long-term obligations	$28,067,724	$	$(1,273,256)	$26,794,468	$1,330,000

NOTE 7 - BENEFIT PLAN

Plan Description

The Authority is a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employers' Retirement Fund (PERF) and the Teacher's Retirement Fund (TRF), with the merger of the funds being effective July 1, 2011. The Authority contributes to the INPRS, an agent multiple-employer public employee retirement system, which acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under the Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all of the Authority's employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

In addition, the participants are required to contribute to an annuity savings account. Legislation permits an INPRS employer to make the participant's contributions on behalf of the participants. Participants may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described above. The participant's balance in the annuity savings account may be withdrawn at any time with interest should a participant terminate employment.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

NOTE 7 - BENEFIT PLAN (CONTINUED)

Funding Policy

The Authority is required to contribute to the Plan at an actuarially determined rate. The current rate is 9.7% (8.6% in prior year) of annual covered payroll. The Authority contributed 3% of the participant's annual salary to the annuity savings account. The contribution requirements of participants are determined by State statute.

Annual Pension Cost

For the 2012 plan year, the Authority's annual contribution was $15,394. Information regarding the 2013 plan year is not yet available. The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2012 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 6.75% and 7% in 2012 and 2011, respectively per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual postretirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

NOTE 8 - RENTAL INCOME FROM OPERATING LEASES

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

Minimum future rentals on noncancelable operating leases to be received in each of the next five years and thereafter as of December 31, 2012 are as follows:

Receivable In	Rental
2013	$ 73,548
2014	26,352
2015	1
2016	1
2017	24,001
Thereafter	138,007
	$261,910

NOTE 9 - RISK MANAGEMENT

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

NOTE 10 - INTERLOCAL AGREEMENT

The Authority entered into an Interlocal Agreement with the City of Lawrence (the City) 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 that are in, directly serving, or benefiting the Redevelopment Area. The Agreement stipulated certain obligations of the City, 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 agreed to reimburse the City for a portion of such expenses the City incurred in this regard. While the Interlocal Agreement expired on December 31, 2006, the Authority agreed to continue to reimburse the City for a portion of the costs it is incurring to directly or indirectly benefit the Redevelopment Area. This agreement was terminated on December 31, 2012. Interlocal expense in 2012 and 2011 was $350,000.

In November 2012, the Authority entered into a City Services and Payment Agreement, which replaced the Interlocal Agreement described above, with the City through the Department of Public Works for police, fire protection, and utility services provided to the Redevelopment Area provided by the City. The Authority is to pay $425,000 each year for 2013 and 2014 calendar years. As of December 31, 2012, $300,000 was prepaid.

OTHER REPORT AND SCHEDULE

Independent Auditors' 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

Year Ended December 31, 2012

Board of Directors
Fort Harrison Reuse Authority

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fort Harrison Reuse Authority (the Authority), which comprise the statement of net position as of December 31, 2012, and the related statements of revenue, expenses and changes in net position and cash flows for the year ended December 31, 2012, and the related notes to the financial statements and have issued our report thereon dated November 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item 2012-01 in the accompanying schedule of findings and responses to be a material weakness.

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Web ksmcpa.com
An Affiliate of
KSM Business Services, Inc.

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*.

The Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
November 21, 2013

FORT HARRISON RESUE AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2012

Finding Reference Number: **2012-01**

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting.

Condition and Context: The Authority's internal control over financial reporting did not detect adjustments that were subsequently identified as a result of our auditing procedures. A significant adjustment to the carrying value of real estate held for sale was necessary to adjust the real estate held for sale to its appraised values.

Cause and Effect: The Authority has very limited staff and outsources a significant portion of its accounting function to a third party. Possible effects are potential misstatements in the financial statements.

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.

Management Response: Management concurs with the finding and recommendation. During 2012, 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.