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June 8, 2017

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

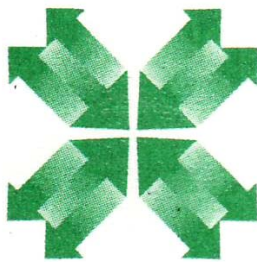
We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditors' Report, the financial statements included in the report present fairly the financial condition of the Fort Harrison Reuse Authority (Authority), as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Auditor's 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 Standard* contains a material weakness in internal control over financial reporting and the associated response from the Authority.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner



**FORT HARRISON**  
Reuse Authority

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

December 31, 2015 and 2014

# FORT HARRISON REUSE AUTHORITY

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## *Independent Auditors' Report*

Board of Directors  
Fort Harrison Reuse Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the single-purpose business-type activities of Fort Harrison Reuse Authority, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***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 of America; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Uniform Compliance Guidelines for Audit of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards and guidelines 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.

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

**Opinion**

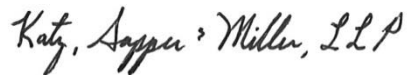
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fort Harrison Reuse Authority as of December 31, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedules of the Authority's proportionate share of the net pension liability and the Authority's contributions on pages 28 and 29 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, 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.



Indianapolis, Indiana  
October 31, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

# FORT HARRISON REUSE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2015 and 2014

### Introduction

The management of the Fort Harrison Reuse Authority (the 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, 2015 and 2014. 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.

### Overview of Financial Statements

The financial statements of the Authority include the following for the calendar years 2015 and 2014.

- 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 accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The net 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.

# FORT HARRISON REUSE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) December 31, 2015 and 2014

### Statements of Net Position

The statements of net position reflect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position 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 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.

### Financial Highlights

The Authority adopted GASB No. 68, *Accounting and Financial Reporting for Pensions* (GASB No. 68) and GASB No. 71, *Pension Transition For Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68* (GASB No. 71). GASB No. 68, subsequently amended by GASB No. 71, requires the Authority to measure and recognize assets and liabilities, deferred outflows and inflows, and expenses for the pension obligation as a participating employer in the Indiana Public Retirement System (INPRS). The adoption of GASB No. 68 resulted in a restatement of net position as of December 31, 2013, resulting in a decrease in net position of \$119,285 from balances previously reported, comprised of a noncurrent net pension liability of \$119,535 and deferred outflows of resources of \$250 related to the pension. The adoption of GASB No. 68 further resulted in a restatement of the net position as of December 31, 2014, resulting in a decrease of net position of \$103,755 from balances previously reported, comprised of a noncurrent net pension liability of \$92,766, deferred outflows of resources of \$7,942, and deferred inflows of resources of \$18,931 related to the pension. At December 31, 2015, the Authority had a net pension liability of \$149,476, deferred outflows of resources of \$60,772, and deferred inflows of resources of \$14,805 related to the pension.

The following is a reconciliation of net position at December 31:

	2014	2013
Net position, as previously reported	\$(2,362,256)	\$(695,040)
Decrease in net position due to adoption of GASB No. 68	<u>(103,755)</u>	<u>(119,285)</u>
Net Position, as Restated	<u>\$(2,466,011)</u>	<u>\$(814,325)</u>

The following is a reconciliation of loss from operations for 2014:

Loss from operations, as previously reported	\$(800,055)
Increase in net position due to adoption of GASB No. 68	<u>15,530</u>
Operating Loss, as Restated	<u>\$(784,525)</u>

## FORT HARRISON REUSE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) December 31, 2015 and 2014

#### *Comparative Statements of Net Position*

The comparative analysis below is a summary of the statements of net position for the years ended December 31, 2015, 2014 and 2013.

	2015	Restated 2014	Restated 2013
Current assets – unrestricted			
Real estate held for sale	\$ 10,142,318	\$ 8,547,182	\$ 8,804,153
Other unrestricted current assets	<u>172,832</u>	<u>1,556,541</u>	<u>1,075,952</u>
Total current assets - unrestricted	10,315,150	10,103,723	9,880,105
Current assets – restricted	13,225,831	9,866,539	12,141,700
Noncurrent assets			
Depreciable and nondepreciable capital assets	688,925	722,248	755,807
Other noncurrent assets	<u>        </u>	<u>        </u>	<u>1,000,000</u>
Total noncurrent assets	<u>688,925</u>	<u>722,248</u>	<u>1,755,807</u>
 Total Assets	 <u>\$ 24,229,906</u>	 <u>\$ 20,692,510</u>	 <u>\$ 23,777,612</u>
 Deferred Outflows of Resources	 <u>\$ 60,772</u>	 <u>\$ 7,942</u>	 <u>\$ 250</u>
Current liabilities – payable from unrestricted assets	\$ 21,231	\$ 72,181	\$ 38,909
Current liabilities – payable from restricted assets	1,842,109	1,837,885	1,785,787
Noncurrent liabilities – payable from unrestricted assets	149,476	92,766	119,535
Noncurrent liabilities – payable from restricted assets	<u>25,911,135</u>	<u>21,144,700</u>	<u>22,647,956</u>
 Total Liabilities	 <u>\$ 27,923,951</u>	 <u>\$ 23,147,532</u>	 <u>\$ 24,592,187</u>
 Deferred Inflows of Resources	 <u>\$ 14,805</u>	 <u>\$ 18,931</u>	 <u>\$</u>
Net position			
Net investment in capital assets	\$(16,474,892)	\$(13,385,270)	\$(14,532,996)
Restricted for debt service	12,778,722	9,538,654	11,800,913
Unrestricted	<u>48,092</u>	<u>1,380,605</u>	<u>1,917,758</u>
 Total Net Position	 <u>\$ (3,648,078)</u>	 <u>\$ (2,466,011)</u>	 <u>\$ (814,325)</u>

## FORT HARRISON REUSE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

December 31, 2015 and 2014

#### ***2015 to 2014 Comparative Statements of Net Position***

*Current assets – unrestricted* increased approximately \$211,000 due to development of real estate held for sale totaling approximately \$3,100,000. This increase was offset by the cost-basis of sold real estate of approximately \$1,505,000 and a decrease of approximately \$1,381,000 of cash on hand from the Authority's activities and changes in restricted cash from the refinancing of the Authority's bonds.

*Current assets – restricted* increased approximately \$3,359,000 due to the 2015 TIF property tax receivable increasing approximately \$143,000 from an increase in City tax assessments, as well as an increase in restricted cash of approximately \$3,216,000 restricted to service the Authority's debt.

*Noncurrent liabilities* increased approximately \$4,766,000 as a function of the addition of \$19,214,000 of new TIF bonds offset by debt service payments of \$2,085,000 and the refinancing two of the outstanding bonds in the amount of \$12,490,000.

#### ***2014 to 2013 Comparative Statements of Net Position***

*Current assets – unrestricted* increased approximately \$223,000 due to two purchases and subsequent development of real estate held for sale totaling approximately \$953,000, as well as approximately \$982,000 increase in unrestricted cash and equivalents from the early repayment of a note receivable. These increases were partially offset by the sale of real estate held for sale with a cost basis of approximately \$1,210,000 and a \$475,000 decrease in prepaid expenses related to the timing of the payment for the annual charge under the interlocal agreement.

*Current assets – restricted* decreased approximately \$2,275,000 due to the 2014 TIF property tax receivable decreasing approximately \$294,000 due to a decrease in City tax assessments, as well as a decrease of approximately \$1,981,000 in cash equivalents, primarily due to the payment of the Authority's debt service.

*Noncurrent assets* decreased approximately \$1,033,000 from cash inflows of approximately \$1,160,000 from the early repayment of a note receivable including accrued interest.

*Noncurrent liabilities – payable from restricted assets* decreased approximately \$1,503,000 from the payment of the Authority's debt service.

## FORT HARRISON REUSE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) December 31, 2015 and 2014

#### **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, 2015, 2014 and 2013.

	2015	Restated 2014	Restated 2013
<b>Operating Revenue</b>			
Rental income	\$ 45,506	\$ 61,060	\$ 83,174
Total Operating Revenue	<u>45,506</u>	<u>61,060</u>	<u>83,174</u>
<b>Nonoperating Revenue</b>			
TIF tax revenue	3,424,637	3,395,150	3,770,821
Interest income		163,199	100,000
Investment income, net of fees	<u>7,732</u>	<u>1,009</u>	<u>1,119</u>
Total Nonoperating Revenue	<u>3,432,369</u>	<u>3,559,358</u>	<u>3,871,940</u>
 Total Revenue	 <u>3,477,875</u>	 <u>3,620,418</u>	 <u>3,955,114</u>
<b>Operating Expenses</b>			
Personnel	219,587	198,572	208,380
Utilities	58,366	66,144	63,841
Office supplies and other expenses	184,801	138,877	144,490
Professional fees	194,397	187,245	239,743
Repairs and maintenance	92,175	111,794	77,576
Engineering services	1,661	80,857	53,151
Insurance	30,044	28,537	23,759
Depreciation	<u>33,323</u>	<u>33,559</u>	<u>33,759</u>
Total Operating Expenses	<u>814,354</u>	<u>845,585</u>	<u>844,699</u>
<b>Nonoperating Expenses</b>			
Loss on real estate held for sale	1,745,309	3,020,371	8,375
Interest expense	1,245,810	918,148	923,937
Bond issuance expense	453,469		
Interlocal agreement	<u>401,000</u>	<u>488,000</u>	<u>425,000</u>
Total Nonoperating Expenses	<u>3,845,588</u>	<u>4,426,519</u>	<u>1,357,312</u>
 Total Expenses	 <u>4,659,942</u>	 <u>5,272,104</u>	 <u>2,202,011</u>
 Increase (Decrease) in Net Position	 (1,182,067)	 (1,651,686)	 1,753,103
Net Position, Beginning of Year	<u>(2,466,011)</u>	<u>(814,325)</u>	<u>(2,567,428)</u>
Net Position, End of Year	<u>\$(3,648,078)</u>	<u>\$(2,466,011)</u>	<u>\$ (814,325)</u>

## FORT HARRISON REUSE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) December 31, 2015 and 2014

#### ***2015 to 2014 Comparative Statements of Revenue, Expenses and Changes in Net Position***

*Nonoperating Revenue* decreased by approximately \$127,000 primarily due to a reduction of approximately \$163,000 of interest income from the repayment of notes receivable.

*Nonoperating Expenses* decreased by approximately \$581,000 primarily due to a decrease of approximately \$1,275,000 in loss on real estate held for sale from 2014 to 2015. This was offset partially by approximately \$781,000 in additional interest and bond issuance costs related to the bond refinancing during 2015.

*Operating Revenue and Expenses* were comparable to 2014.

#### ***2014 to 2013 Comparative Statements of Revenue, Expenses and Changes in Net Position***

*Nonoperating Revenue* decreased by approximately \$313,000 primarily due to TIF revenue decreasing as a result of a change in the amount of property tax assessed.

*Nonoperating Expenses* increased by approximately \$3,069,000 primarily due to an increase in the loss on real estate held for sale in 2014 of \$3,012,000. A parcel held by the Authority with a cost basis of \$1,210,000 was sold during 2014 for \$1 and as part of the agreement, the Authority provided the developer initial funding of \$1,810,000.

*Operating Revenue and Expenses* were comparable to 2013.

#### ***Capital Assets and Debt Administration***

##### ***Capital Assets***

As discussed, the Authority is organized to promote and develop the former Fort Harrison located in Lawrence, Indiana. The Authority 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 Note 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.

#### **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, 2015 and 2014**

	<b>2015</b>	<b>Restated 2014</b>
<b>CURRENT ASSETS</b>		
Unrestricted Current Assets:		
Cash and equivalents	\$ 153,619	\$ 1,535,021
Prepaid expenses and other assets	19,213	21,520
Interest receivable		
Real estate held for sale	10,142,318	8,547,182
Total Unrestricted Current Assets	<u>10,315,150</u>	<u>10,103,723</u>
Restricted Current Assets:		
Cash equivalents	11,603,389	8,386,870
TIF property tax receivable	1,622,442	1,479,669
Total Restricted Current Assets	<u>13,225,831</u>	<u>9,866,539</u>
Total Current Assets	<u>23,540,981</u>	<u>19,970,262</u>
<b>NONCURRENT ASSETS</b>		
Nondepreciable capital assets	125,000	125,000
Depreciable capital assets, net	563,925	597,248
Total Noncurrent Assets	<u>688,925</u>	<u>722,248</u>
<b>TOTAL ASSETS</b>	<u>24,229,906</u>	<u>20,692,510</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension costs	60,772	7,942
<b>CURRENT LIABILITIES</b>		
Payable from Unrestricted Assets:		
Accounts payable	15,863	62,218
Other current liabilities	5,368	9,963
Total Payable from Unrestricted Assets	<u>21,231</u>	<u>72,181</u>
Payable from Restricted Assets:		
Accrued interest on debt	447,109	327,885
Current portion of debt	1,395,000	1,510,000
Total Payable from Restricted Assets	<u>1,842,109</u>	<u>1,837,885</u>
Total Current Liabilities	<u>1,863,340</u>	<u>1,910,066</u>
<b>NONCURRENT LIABILITIES</b>		
Payable from Unrestricted Assets:		
Accrued pension obligation	149,476	92,766
Payable from Restricted Assets:		
Bonds payable, less current portion	25,911,135	21,144,700
Total Noncurrent Liabilities	<u>26,060,611</u>	<u>21,237,466</u>
<b>TOTAL LIABILITIES</b>	<u>27,923,951</u>	<u>23,147,532</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension revenue	14,805	18,931
<b>NET POSITION</b>		
Net investment in capital assets	(16,474,892)	(13,385,270)
Restricted for debt service and area development	12,778,722	9,538,654
Unrestricted	48,092	1,380,605
<b>TOTAL NET POSITION</b>	<u>\$ (3,648,078)</u>	<u>\$ (2,466,011)</u>

See accompanying notes.

**FORT HARRISON REUSE AUTHORITY**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2015 and 2014**

	2015	Restated 2014
<b>OPERATING REVENUE</b>		
Rental income	\$ 45,506	\$ 61,060
Total Operating Revenue	<u>45,506</u>	<u>61,060</u>
<b>OPERATING EXPENSES</b>		
Personnel	219,587	198,572
Utilities	58,366	66,144
Office supplies and other expenses	184,801	138,877
Professional fees	194,397	187,245
Repairs and maintenance	92,175	111,794
Engineering services	1,661	80,857
Insurance	30,044	28,537
Depreciation	33,323	33,559
Total Operating Expenses	<u>814,354</u>	<u>845,585</u>
<b>LOSS FROM OPERATIONS</b>	<u>(768,848)</u>	<u>(784,525)</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
TIF tax revenue	3,424,637	3,395,150
Interest income		163,199
Investment income, net of fees	7,732	1,009
Loss on real estate held for sale	(1,745,309)	(3,020,371)
Interest expense, net of capitalized interest	(1,245,810)	(918,148)
Bond issuance costs	(453,469)	
Interlocal agreement	(401,000)	(488,000)
Total Nonoperating Revenue (Expenses)	<u>(413,219)</u>	<u>(867,161)</u>
<b>DECREASE IN NET POSITION</b>	(1,182,067)	(1,651,686)
<b>NET POSITION</b>		
Beginning of Year	<u>(2,466,011)</u>	(695,040)
Restatement		<u>(119,285)</u>
Beginning of Year, Restated		<u>(814,325)</u>
End of Year	<u>\$ (3,648,078)</u>	<u>\$ (2,466,011)</u>

See accompanying notes.

**FORT HARRISON REUSE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>Restated 2014</b>
<b>OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 40,911	\$ 67,702
Payments to vendors for goods and services	(605,492)	(581,830)
Payments for employees services	(219,833)	(214,102)
Net Cash Used by Operating Activities	<u>(784,414)</u>	<u>(728,230)</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Payments to local government - Interlocal agreement	<u>(401,000)</u>	<u>(13,000)</u>
Net Cash Used by Noncapital Financing Activities	<u>(401,000)</u>	<u>(13,000)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of bonds	19,214,268	
Costs incurred to issue bonds	(453,469)	
Refunding of bonds	(12,490,000)	
Principal paid on bonds	(2,072,833)	(1,438,256)
Interest paid	(1,237,513)	(931,050)
Property taxes received	3,281,864	3,689,024
Acquisition and construction of real estate held for sale	(2,988,937)	(953,029)
Proceeds from sale of real estate held for sale, net of costs of sale	186,419	1
Funding provided to purchaser of real estate held for sale	(427,000)	(1,810,372)
Proceeds from repayment of note receivable		1,000,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>3,012,799</u>	<u>(443,682)</u>
<b>INVESTING ACTIVITIES</b>		
Interest income received on note receivable		184,371
Investment income received on cash equivalents	<u>7,732</u>	<u>1,009</u>
Net Cash Provided by Investing Activities	<u>7,732</u>	<u>185,380</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	1,835,117	(999,532)
<b>CASH AND EQUIVALENTS</b>		
Beginning of Year	<u>9,921,891</u>	<u>10,921,423</u>
End of Year	<u>\$ 11,757,008</u>	<u>\$ 9,921,891</u>
<b>RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Loss from operations	\$ (768,848)	\$ (784,525)
Depreciation expense	33,323	33,559
Bad debt expense		3,828
Changes in certain current assets, deferred outflows, liabilities, and deferred inflows		
Prepaid expenses	2,307	1,166
Deferred pension costs	(52,830)	(7,692)
Other current liabilities	(4,595)	6,642
Accounts payable	(46,355)	26,630
Accrued pension obligation	56,710	(26,769)
Deferred pension revenue	(4,126)	18,931
Net Cash Used by Operating Activities	<u>\$ (784,414)</u>	<u>\$ (728,230)</u>
Noncash Capital and Related Financing Activities:		
Loss on sale of real estate held for sale, excluding funding provided to purchaser	\$ (1,318,309)	\$ (1,209,999)

See accompanying notes.

# FORT HARRISON REUSE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2015 and 2014

### 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 accordance with accounting principles generally accepted in the United States of America as applied to governmental units. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Accounting Pronouncements:** The Authority adopted GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* during 2015. The pronouncements require the Authority to measure and recognize assets and liabilities, deferred outflows and inflows, and expenses for the pension obligation as a participating employer in the Indiana Public Retirement System (INPRS). The adoption of the pronouncements resulted in a restatement of net position as of December 31, 2013, resulting in a decrease in net position of \$119,285 from balances previously reported, comprised of a noncurrent net pension liability of \$119,535 and deferred outflows of resources of \$250 related to the pension. The adoption further resulted in a restatement of the net position as of December 31, 2014, resulting in a decrease of net position of \$103,755 from balances previously reported, comprised of a noncurrent net pension liability of \$92,766, deferred outflows of resources of \$7,942, and deferred inflows of resources of \$18,931 related to the pension. At December 31, 2015, the Authority had a net pension liability of \$149,476, deferred outflows of resources of \$60,772, and deferred inflows of resources of \$14,805 related to the pension.

The following is a reconciliation of net position at December 31:

	2014	2013
Net position, as previously reported	\$(2,362,256)	\$(695,040)
Decrease in net position due to adoption of GASB No. 68	<u>(103,755)</u>	<u>(119,285)</u>
Net Position, as Restated	<u>\$(2,466,011)</u>	<u>\$(814,325)</u>

The following is a reconciliation of loss from operations for 2014:

Loss from operations, as previously reported	\$(800,055)
Increase in net position due to adoption of GASB No. 68	<u>15,530</u>
Operating Loss, as Restated	<u>\$(784,525)</u>

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates:** Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. 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 2015 and 2014, the Authority did not have a loss on real estate held for sale due to changes in the fair values of the assets.

**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:

	<b>Years</b>
Buildings and improvements	15 to 39
Office equipment	5 to 7

Maintenance and repairs are expensed as incurred. Gains and losses on disposition of capital assets are included in nonoperating revenue and expenses.

**Interest Costs** incurred on real estate held for sale and capital assets are expensed in the period incurred. 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:

	<b>2015</b>	<b>2014</b>
Interest costs charged to expense	\$1,245,810	\$918,148
Interest costs capitalized in real estate held for sale	<u>110,927</u>	<u>          </u>
Total interest incurred	<u>\$1,356,737</u>	<u>\$918,148</u>

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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. 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 October 31, 2016, the date the financial statements were available to be issued. See Note 12.

## 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 2014, the FDIC will continue to fully insure \$250,000 for all transaction accounts at all FDIC-insured institutions.

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, 2015 and 2014, the Authority had \$11,603,389 and \$8,386,870 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, 2015 and 2014, the Authority's money market mutual funds were rated AAA by Standard & Poor's.

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

*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, 2015 and 2014, 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, 2015:

Bank of New York Cash Reserve Money Market Fund 82%

*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:

	<b>2015</b>	<b>2014</b>
Cash and equivalents:		
Current - unrestricted	\$ 153,619	\$1,535,021
Current - restricted	<u>11,603,389</u>	<u>8,386,870</u>
	<u>\$11,757,008</u>	<u>\$9,921,891</u>

Cash and equivalents are restricted as follows:

	<b>2015</b>	<b>2014</b>
Investment Surplus Fund 2000 Bonds		\$ 512,623
Investment Revenue Fund 2000 Bonds	\$ 1,168,325	5,529,977
Investment Main Reserve Fund 2000 Bonds		600,967
Bond Reserve Fund 2006 Bonds		997,832
Bond Reserve Fund 2009 Bonds	745,322	745,471
Investment 2015 Capital Fund	5,887,830	
Bond Reserve Fund 2015 Bonds	1,801,912	
Line-of-credit collateral	<u>2,000,000</u>	<u>                    </u>
	<u>\$11,603,389</u>	<u>\$8,386,870</u>

**NOTE 3 - NOTES RECEIVABLE**

A parcel of real estate 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 included 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. This note was fully repaid during 2014.

### **NOTE 3 - NOTES RECEIVABLE (CONTINUED)**

A parcel of real estate held for sale was sold on April 17, 2015 for \$370,000 financed with a note receivable and another note receivable for \$290,000 was issued to finance the purchaser's development of the parcel. Both notes receivable have the same terms. The notes accrue interest at 5% with a single payment of all principle and accrued interest due on December 31, 2022. However, provided the purchaser meets certain covenants during the term of the loan, the full amount of the loan including all accrued interest will be forgiven. These covenants require certain timeliness for construction and beginning operations as well as certain minimum workforce requirements upon the start of operations. Management estimates the covenants will be met and therefore have established an allowance for full the principal and accrued interest.

A parcel of real estate held for sale was sold on September 17, 2015 for \$300,000 financed with a note receivable and another note receivable for \$137,000 was issued to finance the purchaser's development of the parcel. Both notes receivable have the same terms. The notes accrue interest at 5% with a single payment of all principle and accrued interest due on December 31, 2020. However, provided the purchaser meets certain covenants during the term of the loan, the full amount of the loan including all accrued interest will be forgiven. These covenants require certain timeliness for construction and beginning operations as well as certain minimum workforce requirements upon the start of operations. Management estimates the covenants will be met and therefore have established an allowance for full the principal and accrued interest.

### **NOTE 4 - REAL ESTATE HELD FOR SALE**

Real estate 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, 2015 and 2014, the balance of real estate held for sale including development costs was \$10,142,318 and \$8,547,182, respectively.

During 2015, the Authority sold two parcels classified as real estate held for sale, providing \$427,000 in initial funding to the developers, see Note 3. This resulted in \$932,131 of disposals included in real estate held for sale, \$1,965 in costs of the sales, and a net loss on the sales of \$1,361,096.

During 2015, the Authority entered into an agreement with a housing developer to sell developed land from the Authority's real estate held for sale. In accordance with the agreement, the Authority has committed to sell lots to the developer as the developer sells the lots to homeowners. The lots are sold on a sliding scale ranging from \$22,500 to \$28,143. The agreement calls for 74 lots for a total sales price of \$1,864,002. The Authority's cost basis in the real estate committed to this developer was \$4,237,219. During 2015, the Authority sold ten of these lots for \$221,145 with a basis of \$572,597. The Authority incurred \$32,761 in costs of this sale resulting in a net loss on the sale of \$384,213

During 2015, the Authority entered into a nonbinding memorandum of understanding with the Indianapolis-Marion County Public Library (the Library) regarding the future donation of a parcel of land to accommodate a library branch facility up to 25,000 square feet. Although nonbinding, the future donation has been advertised.

During 2014, the Authority purchased two parcels classified as held for sale and began developing these and other parcels held for sale which resulted in \$953,029 of additions included in real estate held for sale.

During 2014, the Authority sold one parcel classified as held for sale for \$1 and, as part of the sale, provided \$1,810,000 in initial funding to the developer. This resulted in \$1,210,000 of disposals included in real estate held for sale and a net loss on the sale of \$3,020,371. Related to this sale, the Authority entered into a master lease agreement with the purchaser as discussed further at Note 10.

**NOTE 4 - REAL ESTATE HELD FOR SALE (CONTINUED)**

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, 2015 and 2014 is as follows:

	<b>Beginning Balance, January 1, 2015</b>	<b>Transfers and Additions</b>	<b>Transfers and Disposals</b>	<b>Ending Balance, December 31, 2015</b>
Capital assets, not being depreciated:				
Land	\$ 125,000	_____	_____	\$ 125,000
Total capital assets, not being depreciated	<u>125,000</u>	_____	_____	<u>125,000</u>
Capital assets, being depreciated:				
Buildings and improvements	981,380			981,380
Equipment, furniture and fixtures and other	<u>29,545</u>	_____	_____	<u>29,545</u>
Total capital assets, being depreciated	<u>1,010,925</u>	_____	_____	<u>1,010,925</u>
Less accumulated depreciation for:				
Buildings and improvements	(346,752)	\$(32,805)		(379,557)
Equipment, furniture and fixtures and other	<u>(66,925)</u>	<u>(518)</u>	_____	<u>(67,443)</u>
Total accumulated depreciation	<u>(413,677)</u>	<u>(33,323)</u>	_____	<u>(447,000)</u>
Total capital assets, being depreciated, net	<u>597,248</u>	<u>(33,323)</u>	_____	<u>563,925</u>
Capital assets, net	<u>\$ 722,248</u>	<u>\$(33,323)</u>	<u>\$ _____</u>	<u>\$ 688,925</u>

**NOTE 5 - CAPITAL ASSETS (CONTINUED)**

	Beginning Balance, January 1, 2014	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2014
Capital assets, not being depreciated:				
Land	\$ 125,000	_____	_____	\$ 125,000
Total capital assets, not being depreciated	<u>125,000</u>	_____	_____	<u>125,000</u>
Capital assets, being depreciated:				
Buildings and improvements	981,380			981,380
Equipment, furniture and fixtures and other	<u>29,545</u>	_____	_____	<u>29,545</u>
Total capital assets, being depreciated	<u>1,010,925</u>	_____	_____	<u>1,010,925</u>
Less accumulated depreciation for:				
Buildings and improvements	(326,964)	\$(19,788)		(346,752)
Equipment, furniture and fixtures and other	<u>(53,154)</u>	<u>(13,771)</u>	_____	<u>(66,925)</u>
Total accumulated depreciation	<u>(380,118)</u>	<u>(33,559)</u>	_____	<u>(413,677)</u>
Total capital assets, being depreciated, net	<u>630,807</u>	<u>(33,559)</u>	_____	<u>597,248</u>
Capital assets, net	<u>\$ 755,807</u>	<u>\$(33,559)</u>	<u>\$ _____</u>	<u>\$ 722,248</u>

**NOTE 6 - LONG-TERM DEBT**

During 2015, the Authority entered into a secured bank line of credit available through February 2017, for borrowings up to a maximum amount of \$750,000. Interest is payable annually at LIBOR plus 1.75% (2.17% at December 31, 2015). At December 31, 2015, there were no borrowings outstanding on the line of credit.

Bonds outstanding consisted of the following at December 31, 2015 and 2014:

	2015	2014
Variable Rate Demand Tax Increment and Revenue Bonds, Series 2000:		
Serial bonds, maturing February 1, 2015 to 2021 in payments ranging from \$645,000 to \$895,000. Interest computed at a variable rate, due monthly. Fully refunded during 2015.		\$ 5,350,000
Fixed Rate Tax Increment Bonds, Series 2006:		
Serial bonds, maturing February 1 and August 1, 2015 to 2019 in payments ranging from \$270,000 to \$325,000. Interest computed at 4.00% to 5.00%, due semiannually on February 1 and August 1. Fully refunded in 2015.		1,445,000
Term bonds, maturing August 1, 2017 to 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. Fully refunded in 2015.		6,610,000

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

	2015	2014
Fixed Rate Tax Increment Bonds, Series 2009:		
Serial bonds, maturing February 1 and August 1, 2016 to 2019 in payments ranging from \$160,000 to \$170,000. Interest computed at 2.90% to 4.00%, due semiannually on February 1 and August 1.	\$ 1,315,000	\$ 1,635,000
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
Fixed Rate Tax Increment Revenue Bonds, Series 2015A:		
Serial bonds, maturing February 1 and August 1, 2016 to 2021, August 1, 2027, and February 1 and August 1, 2028 in payments ranging from \$290,000 to \$390,000. Interest computed at 3.00% to 4.00%, due semiannually on February 1 and August 1.	4,650,000	
Term bonds, maturing February 1, 2029 to February 1, 2035 in payments ranging from \$395,000 to \$495,000. Interest computed at 3.625% to 4.00%, respectively, due semiannually on February 1 and August 1.	5,765,000	
Fixed Rate Tax Increment Revenue Refunding Bonds, Series 2015B:		
Serial bonds, maturing February 1 and August 1, 2016 to 2025 in payments ranging from \$220,000 to \$365,000. Interest computed at 3.00% to 4.00%, due semiannually on February 1 and August 1.	5,355,000	
Term bonds, maturing February 1, 2026 to August 1, 2027 in payments ranging from \$220,000 to \$755,000. Interest computed at 4.00%, due semiannually on February 1 and August 1.	<u>1,975,000</u>	
Total Principal	26,750,000	22,730,000
Net premium (discount) on bonds payable	<u>556,135</u>	<u>(75,300)</u>
Total Bonds Payable	27,306,135	22,654,700
Less: Current portion	<u>(1,395,000)</u>	<u>(1,510,000)</u>
Bonds Payable, Less Current Portion	<u>\$25,911,135</u>	<u>\$21,144,700</u>

## **NOTE 6 - LONG-TERM DEBT (CONTINUED)**

### **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 were secured by a Letter of Credit in the amount of \$5,960,000. In 2015 the Series 2000 Bonds were refunded as a part of the issuance of new bonds, at which time, the Letter of Credit was terminated.

### **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. In 2015 the 2006 Authority Bonds were refunded as a part of the issuance of new bonds.

### **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 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.

### **Fixed Rate Tax Increment Revenue Bonds, Series 2015A and Series 2015B**

On June 23, 2015, the Authority issued \$18,595,000 of Fixed Rate Tax Increment Revenue and Revenue Refunding Bonds, Series 2015A and Series 2015B (together, the 2015 Authority Bonds). The purpose of the 2015 Authority bonds was to refund the outstanding Series 2000 and Series 2006 bonds, fund certain local public improvements including the construction of a road, fund a debt service reserve fund to secure the bonds and pay the cost of issuance of the 2015 Authority Bonds.

The 2015 Authority Bonds, maturing February 1 and August 1, in the years 2029 to 2034, and February 1, 2035, are subject to a mandatory sinking fund redemption at a redemption price of 100% of the principal amount redeemed, plus interest accrued to the redemption date.

All of the Authority's bond agreements include certain restrictive covenants.

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

Debt service requirements to maturity for all debt of the Authority, excluding any unamortized discount or premium are as follows at December 31, 2015. 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
2016	\$ 1,395,000	\$1,062,776	\$ 2,457,776
2017	1,480,000	1,018,671	2,498,671
2018	1,525,000	969,135	2,494,135
2019	1,595,000	908,094	2,503,094
2020	1,655,000	847,094	2,502,094
2021-2025	7,880,000	3,163,538	11,043,538
2026-2030	7,085,000	1,308,167	8,393,167
2031-2035	<u>4,135,000</u>	<u>418,383</u>	<u>4,553,383</u>
	<u>\$26,750,000</u>	<u>\$9,695,858</u>	<u>\$36,445,858</u>

Changes in long-term obligations for the years ended December 31, 2015 and 2014 were as follows:

	Beginning Balance	2015		Ending Balance	Current Portion
		Additions	Reductions		
Long-term Obligations:					
Series 2000 Bonds	\$ 5,350,000		\$ (5,350,000)		
2006 Authority Bonds	8,055,000		(8,055,000)		
2009 Authority Bonds	9,325,000		(320,000)	\$ 9,005,000	\$ 320,000
2015 Authority Bonds		\$18,595,000	(850,000)	17,745,000	1,075,000
Premium (Discount)	<u>(75,300)</u>	<u>619,268</u>	<u>12,167</u>	<u>556,135</u>	
Total Long-term Obligations	<u>\$22,654,700</u>	<u>\$19,214,268</u>	<u>\$(14,562,833)</u>	<u>\$27,306,135</u>	<u>\$1,395,000</u>

	Beginning Balance	2014		Ending Balance	Current Portion
		Additions	Reductions		
Long-term Obligations:					
Series 2000 Bonds	\$ 5,960,000	\$	\$ (610,000)	\$ 5,350,000	\$ 645,000
2006 Authority Bonds	8,580,000		(525,000)	8,055,000	545,000
2009 Authority Bonds	9,635,000		(310,000)	9,325,000	320,000
Discount	<u>(82,044)</u>		<u>6,744</u>	<u>(75,300)</u>	
Total Long-term Obligations	<u>\$24,092,956</u>	<u>\$</u>	<u>\$(1,438,256)</u>	<u>\$22,654,700</u>	<u>\$1,510,000</u>

**NOTE 7 - BENEFIT PLAN**

***Plan Description***

The Authority contributed to the Public Employees' Retirement Fund (PERF), which is administered by INPRS as a cost-sharing, multiple-employer defined benefit plan. PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. There are two tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan).

## **NOTE 7 - BENEFIT PLAN (CONTINUED)**

There are two aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement. This PERFASA Only Plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement.

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at three percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' ASA are individually directed and controlled by plan participants who direct the investment of their account balances among eight investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may make changes to their investment directions daily and investments are reported at fair value.

### ***Retirement Benefits – Defined Benefit Pension***

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's ASA. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four consecutive calendar quarters. The same calendar quarter may not be included in two different groups.

For PERF members who serve as an elected official, the highest one year (total of four consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

**NOTE 7 - BENEFIT PLAN (CONTINUED)**

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2015; however, eligible members received a one-time check (a.k.a. 13th check) by October 2015.

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.inprs.in.gov/>.

***Significant Actuarial Assumptions***

The total pension liability is determined by INPRS actuaries as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

Asset valuation date:	June 30, 2015
Liability valuation date and method:	June 30, 2014 – Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial roll forward techniques were then used to project the liability computed as of June 30, 2014 to June 30, 2015.
Actuarial cost method:	Entry age normal - level percent of payroll
Experience study date:	Computed April 2015 and reflects the experience period from July 1, 2011 to June 30, 2014

**NOTE 7 - BENEFIT PLAN (CONTINUED)**

Investment rate of return:	6.75%
COLA:	1.0%
Future salary increases, including inflation:	2.50% - 4.25%
Inflation:	2.25%

The long-term return expectation for the defined benefit retirement plan has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

	<b>Target Allocation</b>	<b>Geometric Basis Long-term Expected Real Rate of Return</b>
Private equity	10.0%	5.6%
Fixed income – Ex inflation-linked	22.0%	2.1%
Fixed income – Inflation-linked	10.0%	0.7%
Commodities	8.0%	2.0%
Real estate	7.5%	3.0%
Absolute return	10.0%	3.9%
Risk parity	10.0%	5.0%

Total pension liability for the Plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on those assumptions, the Plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current Plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for the Plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of the Plan calculated using the discount rate of 6.75 percent, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

<b>1% Decrease (5.75%)</b>	<b>Current Discount Rate (6.75%)</b>	<b>1% Increase (7.75%)</b>
\$220,489	\$149,476	\$90,521

## **NOTE 7 - BENEFIT PLAN (CONTINUED)**

### ***Investment Valuation and Benefit Payment Policies***

The pooled and non-pooled investments are reported at fair value by INPRS.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

### ***Funding Policy***

The State is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the Plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During the fiscal year ended June 30, 2015, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For the PERF ASA Only Plan, all participating employers were also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.7 percent for the fiscal year ended June 30, 2015, and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three percent of covered payroll to their ASA, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective July 1, 2014, the PERF ASA Only Plan may also participate) may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their ASA.

### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2015, the Authority reported a liability of \$149,476 for its proportionate share of the net pension liability. The Authority's proportionate share of the net pension liability was based on the Authority's wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2015 measurement date was 0.0000367.

**NOTE 7 - BENEFIT PLAN (CONTINUED)**

For the year ended December 31, 2015, the Authority recognized pension expense of \$25,044, which includes expenses from the net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$1,431. At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	<u>2015</u>		<u>2014</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,416	\$ 309		\$ 416
Net differences between project and actual earnings on pension plan investments	25,203	14,058		18,028
Changes of assumptions	12,636			
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	<u>\$ 3,872</u>	<u>\$ 438</u>	<u>\$1,066</u>	<u>\$ 487</u>
Total that will be recognized in pension expense (income) based on table below	48,127	14,805	1,066	18,931
Pension contribution subsequent to measurement date	<u>12,645</u>	<u>          </u>	<u>6,876</u>	<u>          </u>
Total	<u>\$60,772</u>	<u>\$14,805</u>	<u>\$7,942</u>	<u>\$18,931</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2016	\$10,892
2017	10,892
2018	5,238
2019	<u>6,300</u>
	<u>\$33,322</u>

**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.

**NOTE 8 - RENTAL INCOME FROM OPERATING LEASES (CONTINUED)**

Minimum future rentals on noncancelable operating leases to be received in each of the next five years and thereafter as of December 31, 2015 are as follows:

<b>Receivable In</b>	<b>Rental</b>
2016	\$ 33,231
2017	24,000
2018	24,000
2019	24,000
2020	24,000
Thereafter	<u>66,000</u>
	<u>\$195,231</u>

**NOTE 9 - RISK MANAGEMENT**

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

**NOTE 10 - COMMITMENTS**

During 2014, the Authority entered into a three party master lease agreement with the purchaser of a parcel of the Authority's real estate held for sale and the purchaser's senior lender. The agreement requires the Authority to pay rent to the purchaser equal to the purchaser's monthly debt service charge due to the purchaser's senior lender. The agreement requires the purchaser to pay rent to the Authority equal to the debt service charge paid to the purchaser's senior lender by the Authority. The Authority's required monthly rental payment to the Purchaser's senior lender is independent of the purchaser's requirement to pay the Authority and can't be waived due to lack of performance of the purchaser. In order to protect the Authority's interest, the purchase agreement has certain covenants which the purchaser must achieve. Additionally, the Authority has a second mortgage on the purchaser's property and a security interest in the purchaser. There have been no issues with purchaser payments through December 31, 2015. Management notes no indication of the purchaser's lack of ability to pay and has determined that no liability should be recorded related to this agreement.

The Authority has entered into a development services agreement with an organization to provide services related to the Authority's real estate held for sale. The agreement requires monthly payments of \$5,000 through December 2016. Additionally, there is a fee for success development projects equal to \$.50 per gross square foot of residential and \$1 per gross square foot of all other vertical development projects. The additional fee is payable at 100% as calculated for the first 150,000 square feet with a decreasing sliding scale thereafter. The agreement can be cancelled by either party with 10 days' notice.

**NOTE 11 - INTERLOCAL AGREEMENT**

The Authority and the City of Lawrence (the City) have agreed that there is a strain which the promotion, development and redevelopment of Fort 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. As a result, the Authority enters into annual City Services and Payment Agreements 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. In accordance with the agreements, the Authority expensed \$401,000 and \$488,000 in 2015 and 2014, respectively. The agreements require payments of \$475,000 in 2016 and \$691,947 in 2017. The most recent agreement, signed in July 2016, also requires annual payments for 2018 through 2021 to be annually determined based on an incremental assessed value, the City's tax rate for the prior year, and an increasing phase in rate. Payments for 2018 through 2021 are expected to increase compared to 2017 amounts.

## **NOTE 12 - SUBSEQUENT EVENTS**

Effective January 2016, the Authority entered into an agreement with a developer to sell approximately 4 acres of real estate held for sale with an approximate cost basis of \$865,961 for \$6,500 times the number of apartment units to be built as identified in the developer's project plan with a minimum sales price of \$520,000. Although subject to change, the most recent project plan from the developer submitted in June 2016, indicates the intention to build 101 apartment units which would result in a sales price of \$656,500.

Effective July 2016, the Authority entered into an agreement with a developer to develop a parcel of the Authority's real estate held for sale. The quoted total contract price including contingency for unforeseen items is \$3,122,000.

Effective July 2016, the Authority entered into an agreement with a developer to sell approximately 3.2 acres of real estate held for sale with a cost basis of \$320,000 for \$110,000 per net useable acre. The final purchase price is to be determined based on a land survey. As part of the agreement, the Authority has committed to reimburse the purchaser for certain development costs required to comply with local requirements up to \$300,000.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**FORT HARRISON REUSE AUTHORITY**  
**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY (UNAUDITED)**

**PUBLIC EMPLOYEE'S RETIREMENT FUND**  
**Last 10 Fiscal Years\***

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Authority's proportion of the net position liability	0.00367%	0.00353%	0.00349%
Authority's proportionate share of the net pension liability	\$149,476	\$92,766	\$119,535
Authority's covered-employee payroll	\$175,850	\$172,373	\$167,385
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.0%	53.8%	71.3%
Plan fiduciary net position as a percentage of the total pension liability	77.3%	84.3%	78.8%

\*The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2013 for GASB Statement No. 68 purposes.

**FORT HARRISON REUSE AUTHORITY**  
**SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS (UNAUDITED)**  
**PUBLIC EMPLOYEE'S RETIREMENT FUND**  
**Last 10 Fiscal Years\***

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Contractually required contribution	\$ 19,521	\$ 17,677	\$ 15,902
Contributions in relation to the contractually required contribution	<u>\$ 19,521</u>	<u>\$ 17,677</u>	<u>\$ 15,902</u>
Contribution deficiency	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$175,850	\$172,373	\$167,385
Contributions as a percentage of covered-employee payroll	11.1%	10.3%	9.5%

\*The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2013 for GASB Statement No. 68 purposes.

## **OTHER REPORT**

*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, 2015*

Board of Directors  
Fort Harrison Reuse Authority

We have audited, in accordance with the 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, the financial statements of the single-purpose business-type activities of Fort Harrison Reuse Authority (the Authority), as of December 31, 2015, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 31, 2016.

### **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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 below, we identified a deficiency in internal control that we consider to be a material weakness.

- **Material Audit Adjustments**

We identified material adjustments during the audit. Adjustments included, but were not limited to, changes to the entries associated with the issuance and refunding of bonds, recording of bond interest and amortization of premiums and discounts, recording notes receivable from and cost basis of real estate sold, and adjustments to the pension liability. We understand these transactions are unusual in nature and difficult to fully understand. However, implementing internal controls to ensure the timely and accurate recording of significant transactions throughout the year would ensure quality internal reporting for governance oversight and review as well as prevent material audit adjustments at year end. Management has approved and posted all material adjustments proposed by us during the audit.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

### **Authority's Response to Findings**

The Authority's response to the finding identified in our audit is described below. 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.

- **Authority's Response**

The Authority has reviewed and accepts the adjustments recorded as part of the audit. The Authority believes key controls are in place to adequately protect the Authority from misappropriation of assets and record its cash transactions. However, the Authority recognizes it needs to record the noncash activity of the Authority timely to provide the ability to effectively review the true activities of the Authority to help governance guide the Authority and review its performance. The Authority will work to record the Authority's noncash activity more timely.

### **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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Katy, Sapper & Miller, LLP*

Indianapolis, Indiana  
October 31, 2016