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June 28, 2021

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

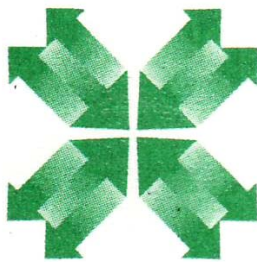
We have received the audit report of the Fort Harrison Reuse Authority which was opined upon by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the Independent Auditors' Report, the financial statements included in the report present fairly the financial condition of the Fort Harrison Reuse Authority as of December 31, 2018, 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 included in the report on page 33. The Authority's response is included on page 33.

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, 2018 and 2017

# 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 Fort Harrison Reuse Authority, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Fort Harrison Reuse 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 Hospitals and 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, 2018 and 2017, 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 9 and the schedules of the Authority's proportionate share of the net pension liability and the Authority's contributions and the related notes on pages 30 through 32 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 August 22, 2019, 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  
August 22, 2019

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

# FORT HARRISON REUSE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) December 31, 2018 and 2017

### 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, 2018 and 2017. 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 consist of a special-purpose business-type activity which is reported on the accrual basis of accounting using the economic resources measurement focus, which is similar to the accounting method used by most private-sector companies. The Authority prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements include the *Statements of Net Position*, the *Statements of Revenue, Expenses and Changes in Net Position*, and the *Statements of Cash Flows*. These statements provide current and long-term information about the Authority and its activities.

The *Statement of Net Position* answers the question, "How was our financial health at the end of the year?" This statement provides information about the financial position of the Authority at a specific date. The organization of the statement separates assets and liabilities into current and non-current balances. The statement shows the totals of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. 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.

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 and area development* represents annual obligations to outstanding debt issued for various improvements in the Authority's jurisdiction.

## FORT HARRISON REUSE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) December 31, 2018 and 2017

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

All of the current year's revenues and expenses are accounted for in the *Statement of Revenue, Expenses and Changes in Net Position*. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through mortgages and loans, externally funded programs and other revenue sources. This statement also helps answer the question "Is the Authority as a whole better off or worse off as a result of the year's activities?"

The primary purpose of the *Statement of Cash Flows* is to provide information about the Authority's cash receipts and cash payments during the accounting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. It provides answers to such questions as "Where did the cash come from?"; "What was the cash used for?" and "What was the change in cash balance during the reporting period?"

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

#### Financial Highlights

In 2015 the Authority entered into an agreement to sell 74 lots for an approximate total sales price of \$1,864,000. The agreement is with a housing developer to sell developed real estate held for sale. The Authority's approximate total cost basis in the real estate committed to this developer was \$4,951,000 including subsequent development by the Authority. In 2018, the Authority sold the last 15 lots for approximately \$400,000 with an approximate cost basis of \$1,026,000. In 2017, the Authority sold 24 lots for approximately \$595,000 with an approximate cost basis of \$1,640,000. In 2016, the Authority sold 25 lots for approximately \$597,000 with an approximate cost basis of \$1,600,000, and in 2015, the Authority sold 10 lots for approximately \$221,000 with an approximate cost basis of \$573,000.

In 2018 and 2017 the Authority entered into two agreements to sell an additional 69 total lots for a total sales price of approximately \$2,548,000. These agreements are with the same housing developer to sell additional developed real estate held for sale. The Authority's total cost basis in the real estate committed to this developer is approximately \$2,217,000 including subsequent development by the Authority. No individual lots have been sold related to these agreements as of December 31, 2018.

During 2017, the Authority sold a lot with a cost basis of \$320,000 for approximately \$312,000. Additionally, the Authority sold 4.138 acres to a developer for \$469,000 with a cost basis of approximately \$1,184,000. However, in 2018 the Authority exercised its right to repurchase the 4.138 acres from the developer for approximately \$595,000.

In 2017, the Authority completed the dedication of the Otis Avenue road extension to the City of Lawrence resulting in contribution expense of \$2,559,000 and a corresponding decrease in real estate held for sale.

In 2018 and 2017, the Authority developed real estate held for sale totaling approximately \$1,675,000 and \$1,612,000 in costs, respectively, which included approximately \$98,000 in capitalized interest in 2017.

Repayment of bonds totaled \$1,750,000 in 2018 and \$1,480,000 in 2017.

**FORT HARRISON REUSE AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**December 31, 2018 and 2017**

In 2017, the Authority issued \$9,000,000 in refunding bonds which defeased the outstanding Series 2009 bonds and resulted in a net present value savings of \$415,305. In addition, the Authority issued the 2017 bond anticipation notes payable for \$2,250,000.

***Comparative Statements of Net Position***

The comparative analysis below is a summary of the statements of net position for the years ended December 31, 2018, 2017 and 2016.

|   | <b>2018</b>               | <b>2017</b>               | <b>2016</b>               |
|---|---------------------------|---------------------------|---------------------------|
| Current assets - unrestricted                             |                           |                           |                           |
| Real estate held for sale                                 | \$ 8,614,792              | \$ 7,371,017              | \$ 11,462,449             |
| Other unrestricted current assets                         | <u>3,250,346</u>          | <u>3,045,570</u>          | <u>173,154</u>            |
| Total current assets - unrestricted                       | 11,865,138                | 10,416,587                | 11,635,603                |
| Current assets - restricted                               | 7,222,746                 | 9,040,524                 | 11,383,288                |
| Noncurrent assets   |                           |                           |                           |
| Depreciable and nondepreciable capital assets             | <u>598,766</u>            | <u>624,258</u>            | <u>655,602</u>            |
| <br>Total Assets  | <br><u>\$ 19,686,650</u>  | <br><u>\$ 20,081,369</u>  | <br><u>\$ 23,674,493</u>  |
| <br>Deferred Outflows of Resources                        | <br><u>\$ 364,195</u>     | <br><u>\$ 438,423</u>     | <br><u>\$ 65,446</u>      |
| Current liabilities - payable from unrestricted assets    | \$ 400,255                | \$ 30,828                 | \$ 664,033                |
| Current liabilities - payable from restricted assets      | 2,082,081                 | 2,050,150                 | 1,909,206                 |
| Noncurrent liabilities - payable from unrestricted assets | 121,275                   | 161,508                   | 170,192                   |
| Noncurrent liabilities - payable from restricted assets   | <u>23,748,582</u>         | <u>25,545,107</u>         | <u>24,416,610</u>         |
| <br>Total Liabilities                                     | <br><u>\$ 26,352,193</u>  | <br><u>\$ 27,787,593</u>  | <br><u>\$ 27,160,041</u>  |
| <br>Deferred Inflows of Resources                         | <br><u>\$ 22,687</u>      | <br><u>\$ 12,499</u>      | <br><u>\$ 12,131</u>      |
| Net position  |                           |                           |                           |
| Net investment in capital assets                          | \$(16,332,189)            | \$(19,313,287)            | \$(14,387,386)            |
| Restricted for debt service                               | 6,850,665                 | 8,740,374                 | 10,954,082                |
| Unrestricted  | <u>3,157,489</u>          | <u>3,292,613</u>          | <u>1,071</u>              |
| <br>Total Net Position                                    | <br><u>\$ (6,324,035)</u> | <br><u>\$ (7,280,300)</u> | <br><u>\$ (3,432,233)</u> |

## FORT HARRISON REUSE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) December 31, 2018 and 2017

#### **2018 to 2017 Comparative Statements of Net Position**

*Current assets - unrestricted* increased approximately \$1,449,000 due primarily to an increase in cash of approximately \$206,000 and an increase in real estate held for sale of approximately \$1,244,000. Real estate held for sale increased due to approximately \$1,675,000 in development cost of real estate held for sale and repurchase of real estate held for sale for \$595,000, net of approximately \$1,026,000 in cost basis of sold real estate.

*Current assets - restricted* decreased approximately \$1,818,000 due primarily to released restrictions on cash of approximately \$2,178,000 from servicing the Authority's debt.

*Deferred outflows of resources* decreased approximately \$74,000 due to amortization of the deferred loss on the advance refunding of the outstanding 2009 bonds and deferred pension costs.

*Current liabilities - unrestricted* increased approximately \$369,000 as a function of timing of the Authority's development projects and associated construction invoices.

*Noncurrent liabilities - restricted* decreased approximately \$1,797,000 as a function of ongoing debt service payments.

#### **2017 to 2016 Comparative Statements of Net Position**

*Current assets - unrestricted* decreased approximately \$1,219,000 due primarily to an increase in cash of approximately \$2,876,000 offset by a decrease in real estate held for sale of approximately \$4,091,000. Real estate held for sale decreased due to approximately \$1,612,000 in development cost of real estate held for sale net of approximately \$3,144,000 in cost basis of sold real estate and approximately \$2,559,000 cost basis from the Otis Avenue road extension contribution to the City of Lawrence. Development primarily related to infrastructure improvements related to The Residences of Lawrence Village (approximately \$217,000) and a separate parcel under agreement with a developer (approximately \$1,378,000). Real estate sold during 2017 consisted of approximately \$1,640,000 cost basis lots to The Residences of Lawrence Village, approximately \$320,000 cost basis to Art to Remember and approximately \$1,184,000 to the Ackerman group.

*Current assets - restricted* decreased approximately \$2,343,000 as a result of released restrictions on cash from maturity of the Authority's line of credit which was restricting approximately \$1,256,000 and from servicing the Authority's debt.

*Deferred outflows of resources* increased approximately \$373,000 due to a deferred loss on the advance refunding of the outstanding 2009 bonds of approximately \$393,000 offset by changes in deferred pension costs of approximately \$20,000.

*Current liabilities - unrestricted* decreased approximately \$633,000 primarily from a decrease in accounts and retainage payable related to the Authority's current development projects.

*Current liabilities - restricted* increased approximately \$141,000 as a function of timing of debt service payments on the Authority's debt.

**FORT HARRISON REUSE AUTHORITY**

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

**December 31, 2018 and 2017**

*Noncurrent liabilities - restricted* increased approximately \$1,128,000 as a function of the issuance of new 2017 bonds for \$9,000,000 and issuance of a bond anticipation note for \$2,250,000 offset by advance refunding of the outstanding 2009 bonds of \$8,360,000. Additionally, payments on outstanding bonds of \$1,480,000 and the change from noncurrent to current of approximately \$141,000 noted above offset the increases.

**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, 2018, 2017 and 2016.

|   | <b>2018</b>          | <b>2017</b>          | <b>2016</b>          |
|---|----------------------|----------------------|----------------------|
| <b>Operating Revenue</b>                      |                      |                      |                      |
| Rental income                                 | \$ 63,188            | \$ 66,129            | \$ 56,850            |
| Total Operating Revenue                       | <u>63,188</u>        | <u>66,129</u>        | <u>56,850</u>        |
| <b>Nonoperating Revenue</b>                   |                      |                      |                      |
| TIF tax revenue                               | 4,204,821            | 3,639,425            | 3,614,451            |
| Investment income, net of fees                | 63,932               | 31,940               | 8,458                |
| Other income                                  |                      | 19,361               | 7,211                |
| Total Nonoperating Revenue                    | <u>4,268,753</u>     | <u>3,690,726</u>     | <u>3,630,120</u>     |
| Total Revenue                                 | <u>4,331,941</u>     | <u>3,756,855</u>     | <u>3,686,970</u>     |
| <b>Operating Expenses</b>                     |                      |                      |                      |
| Personnel                                     | 249,262              | 277,476              | 272,200              |
| Utilities                                     | 71,131               | 62,709               | 59,621               |
| Office supplies and other expenses            | 46,742               | 41,399               | 48,809               |
| Professional fees                             | 375,911              | 876,181              | 362,012              |
| Repairs and maintenance                       | 209,884              | 152,396              | 156,495              |
| Engineering services                          | 42,707               | 31,243               | 41,149               |
| Insurance                                     | 24,403               | 28,275               | 24,531               |
| Depreciation                                  | 28,126               | 31,344               | 33,323               |
| Total Operating Expenses                      | <u>1,048,166</u>     | <u>1,501,023</u>     | <u>998,140</u>       |
| <b>Nonoperating Expenses</b>                  |                      |                      |                      |
| Loss on real estate held for sale             | 624,709              | 1,769,013            | 1,036,888            |
| Contribution of road to City of Lawrence      |                      | 2,559,045            |                      |
| Interest expense, net of capitalized interest | 877,830              | 952,041              | 961,097              |
| Bond issuance expense                         |                      | 131,853              |                      |
| Interlocal agreement                          | 824,971              | 691,947              | 475,000              |
| Total Nonoperating Expenses                   | <u>2,327,510</u>     | <u>6,103,899</u>     | <u>2,472,985</u>     |
| Total Expenses                                | <u>3,375,676</u>     | <u>7,604,922</u>     | <u>3,471,125</u>     |
| Increase (Decrease) in Net Position           | 956,265              | (3,848,067)          | 215,845              |
| Net Position, Beginning of Year               | <u>(7,280,300)</u>   | <u>(3,432,233)</u>   | <u>(3,648,078)</u>   |
| Net Position, End of Year                     | <u>\$(6,324,035)</u> | <u>\$(7,280,300)</u> | <u>\$(3,432,233)</u> |

## **FORT HARRISON REUSE AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) December 31, 2018 and 2017**

#### ***2018 to 2017 Comparative Statements of Revenue, Expenses and Changes in Net Position***

*Operating Expenses* decreased by approximately \$453,000 primarily due to decreases in costs associated with development and sale projects that occurred in 2018.

*Nonoperating Revenue* increased by approximately \$578,000 due to increased TIF tax revenue and investment income.

*Nonoperating Expenses* decreased by approximately \$3,776,000 due primarily to decreases in loss on real estate held for sale of approximately \$1,144,000 and the cost basis of the contribution of the Otis Avenue road extension to the City of Lawrence of approximately \$2,559,000 in 2017.

#### ***2017 to 2016 Comparative Statements of Revenue, Expenses and Changes in Net Position***

*Operating Expenses* increased by approximately \$503,000 primarily due to professional fees paid associated with current development and sale projects occurring in 2017.

*Nonoperating Expenses* increased by approximately \$3,631,000 due to increased losses from sales of real estate held for sale, the contribution of the Otis Avenue road extension to the City of Lawrence, bond issuance costs and increases in costs associated with the interlocal agreement.

#### ***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 6 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 7 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, 2018 and 2017

|  | <b>2018</b>           | <b>2017</b>           |
|--|-----------------------|-----------------------|
| <b>CURRENT ASSETS</b>                            |                       |                       |
| Unrestricted Current Assets:                     |                       |                       |
| Cash and equivalents                             | \$ 3,229,580          | \$ 3,023,350          |
| Prepaid expenses and other assets                | 20,766                | 22,220                |
| Real estate held for sale                        | 8,614,792             | 7,371,017             |
| Total Unrestricted Current Assets                | <u>11,865,138</u>     | <u>10,416,587</u>     |
| Restricted Current Assets:                       |                       |                       |
| Cash equivalents                                 | 5,302,286             | 7,480,692             |
| TIF property tax receivable                      | 1,920,460             | 1,559,832             |
| Total Restricted Current Assets                  | <u>7,222,746</u>      | <u>9,040,524</u>      |
| Total Current Assets                             | <u>19,087,884</u>     | <u>19,457,111</u>     |
| <b>NONCURRENT ASSETS</b>                         |                       |                       |
| Nondepreciable capital assets                    | 125,000               | 125,000               |
| Depreciable capital assets, net                  | 473,766               | 499,258               |
| Total Noncurrent Assets                          | <u>598,766</u>        | <u>624,258</u>        |
| <b>TOTAL ASSETS</b>                              | <u>19,686,650</u>     | <u>20,081,369</u>     |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>            |                       |                       |
| Deferred loss on bond advanced refunding         | 348,908               | 392,521               |
| Deferred pension costs                           | 15,287                | 45,902                |
| Total Deferred Outflows of Resources             | <u>364,195</u>        | <u>438,423</u>        |
| <b>CURRENT LIABILITIES</b>                       |                       |                       |
| Payable from Unrestricted Assets:                |                       |                       |
| Accounts payable                                 | 313,090               | 14,052                |
| Retainage payable                                | 87,165                | 13,455                |
| Other current liabilities                        |                       | 3,321                 |
| Total Payable from Unrestricted Assets           | <u>400,255</u>        | <u>30,828</u>         |
| Payable from Restricted Assets:                  |                       |                       |
| Accrued interest on debt                         | 372,081               | 300,150               |
| Current portion of debt                          | 1,710,000             | 1,750,000             |
| Total Payable from Restricted Assets             | <u>2,082,081</u>      | <u>2,050,150</u>      |
| Total Current Liabilities                        | <u>2,482,336</u>      | <u>2,080,978</u>      |
| <b>NONCURRENT LIABILITIES</b>                    |                       |                       |
| Payable from Unrestricted Assets:                |                       |                       |
| Accrued pension obligation                       | 121,275               | 161,508               |
| Payable from Restricted Assets:                  |                       |                       |
| Bonds payable, less current portion              | <u>23,748,582</u>     | <u>25,545,107</u>     |
| Total Noncurrent Liabilities                     | <u>23,869,857</u>     | <u>25,706,615</u>     |
| <b>TOTAL LIABILITIES</b>                         | <u>26,352,193</u>     | <u>27,787,593</u>     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>             |                       |                       |
| Deferred pension revenue                         | <u>22,687</u>         | <u>12,499</u>         |
| <b>NET POSITION</b>                              |                       |                       |
| Net investment in capital assets                 | (16,332,189)          | (19,313,287)          |
| Restricted for debt service and area development | 6,850,665             | 8,740,374             |
| Unrestricted                                     | <u>3,157,489</u>      | <u>3,292,613</u>      |
| <b>TOTAL NET POSITION</b>                        | <u>\$ (6,324,035)</u> | <u>\$ (7,280,300)</u> |

See accompanying notes.

**FORT HARRISON REUSE AUTHORITY**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2018 and 2017**

|   | <b>2018</b>           | <b>2017</b>           |
|---|-----------------------|-----------------------|
| <b>OPERATING REVENUE</b>                      |                       |                       |
| Rental income                                 | \$ 63,188             | \$ 66,129             |
| Total Operating Revenue                       | <u>63,188</u>         | <u>66,129</u>         |
| <b>OPERATING EXPENSES</b>                     |                       |                       |
| Personnel                                     | 249,262               | 277,476               |
| Utilities                                     | 71,131                | 62,709                |
| Office supplies and other expenses            | 46,742                | 41,399                |
| Professional fees                             | 375,911               | 876,181               |
| Repairs and maintenance                       | 209,884               | 152,396               |
| Engineering services                          | 42,707                | 31,243                |
| Insurance                                     | 24,403                | 28,275                |
| Depreciation                                  | 28,126                | 31,344                |
| Total Operating Expenses                      | <u>1,048,166</u>      | <u>1,501,023</u>      |
| <b>LOSS FROM OPERATIONS</b>                   | <u>(984,978)</u>      | <u>(1,434,894)</u>    |
| <b>NONOPERATING REVENUE (EXPENSES)</b>        |                       |                       |
| TIF tax revenue                               | 4,204,821             | 3,639,425             |
| Investment income, net of fees                | 63,932                | 31,940                |
| Loss on real estate held for sale             | (624,709)             | (1,769,013)           |
| Contribution of road to City of Lawrence      |                       | (2,559,045)           |
| Interest expense, net of capitalized interest | (877,830)             | (952,041)             |
| Bond issuance costs                           |                       | (131,853)             |
| Interlocal agreement                          | (824,971)             | (691,947)             |
| Other income                                  |                       | 19,361                |
| Total Nonoperating Revenue (Expenses)         | <u>1,941,243</u>      | <u>(2,413,173)</u>    |
| <b>INCREASE (DECREASE) IN NET POSITION</b>    | 956,265               | (3,848,067)           |
| <b>NET POSITION</b>                           |                       |                       |
| Beginning of Year                             | <u>(7,280,300)</u>    | <u>(3,432,233)</u>    |
| End of Year                                   | <u>\$ (6,324,035)</u> | <u>\$ (7,280,300)</u> |

See accompanying notes.

**FORT HARRISON REUSE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2018 and 2017**

|   | <b>2018</b>         | <b>2017</b>           |
|---|---------------------|-----------------------|
| <b>OPERATING ACTIVITIES</b>   |                     |                       |
| Receipts from customers and users   | \$ 59,867           | \$ 56,388             |
| Payments to vendors for goods and services  | (470,286)           | (1,216,749)           |
| Payments for employees services   | (248,692)           | (266,248)             |
| Net Cash Used by Operating Activities   | <u>(659,111)</u>    | <u>(1,426,609)</u>    |
| <b>NONCAPITAL FINANCING ACTIVITIES</b>  |                     |                       |
| Payments to local government - Interlocal agreement                                     | (824,971)           | (691,947)             |
| Other income receipts   |                     | 19,361                |
| Net Cash Used by Noncapital Financing Activities  | <u>(824,971)</u>    | <u>(672,586)</u>      |
| <b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |                     |                       |
| Proceeds from issuance of bonds, net of \$131,853 in costs paid                         |                     | 11,095,647            |
| Advance refunding of bonds, including \$392,521 in deferred loss                        |                     | (8,707,118)           |
| Principal paid on bonds   | (1,750,000)         | (1,480,000)           |
| Interest paid   | (848,811)           | (1,213,602)           |
| Property taxes received   | 3,844,193           | 3,635,914             |
| Acquisition and construction of capital assets  | (2,634)             |                       |
| Acquisition and construction of real estate held for sale                               | (2,195,846)         | (2,109,671)           |
| Proceeds from sale of real estate held for sale, net of costs of sale                   | 401,072             | 1,375,772             |
| Net Cash Provided (Used) by Capital and Related Financing Activities                    | <u>(552,026)</u>    | <u>2,596,942</u>      |
| <b>INVESTING ACTIVITIES</b>   |                     |                       |
| Investment income received on cash equivalents  | 63,932              | 31,940                |
| Net Cash Provided by Investing Activities   | <u>63,932</u>       | <u>31,940</u>         |
| <b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>                                  | (1,972,176)         | 529,687               |
| <b>CASH AND EQUIVALENTS</b>   |                     |                       |
| Beginning of Year   | <u>10,504,042</u>   | <u>9,974,355</u>      |
| End of Year   | <u>\$ 8,531,866</u> | <u>\$ 10,504,042</u>  |
| <b>RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES</b>  |                     |                       |
| Loss from operations  | \$ (984,978)        | \$ (1,434,894)        |
| Depreciation expense  | 28,126              | 31,344                |
| Changes in certain current assets, deferred outflows, liabilities, and deferred inflows |                     |                       |
| Prepaid expenses and other assets   | 1,454               | 3,546                 |
| Deferred pension costs  | 30,615              | 19,544                |
| Other current liabilities   | (3,321)             | (9,741)               |
| Accounts payable  | 299,038             | (28,092)              |
| Accrued pension obligation  | (40,233)            | (8,684)               |
| Deferred pension revenue  | 10,188              | 368                   |
| Net Cash Used by Operating Activities   | <u>\$ (659,111)</u> | <u>\$ (1,426,609)</u> |
| Noncash Capital and Related Financing Activities:                                       |                     |                       |
| Loss on sale of real estate held for sale, excluding funding provided to purchaser      | \$ (624,709)        | \$ (1,769,013)        |
| Contribution of road to City of Lawrence  |                     | (2,559,045)           |
| Construction on real estate held for sale in accounts and retainage payable             | 87,165              | 13,455                |
| Amortization of net premium on bonds payable  | 86,525              | 34,406                |
| Amortization of deferred loss on advance refunded bonds                                 | 43,613              |                       |

See accompanying notes.

# FORT HARRISON REUSE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

### 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 special-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.

**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.

**Real Estate Held for Sale** consists of real estate originally purchased from the Department of the U.S. Army and subsequent purchases and development costs. The real estate held for sale is stated at the lower of historical cost or market less costs to sell (net realizable value) using the specific-identification method. Due to the nature of the Authority's purpose, real estate held for sale is often sold at a loss as an incentive for economic development. These losses are reflected in the year of the sale.

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 2018 and 2017, the Authority did not have a loss on real estate held for sale due to changes in the fair values of the assets.

**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.

**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:

|   | <b>Years</b> |
|---|--------------|
| Buildings and improvements                  | 15 to 39     |
| Equipment, furniture and fixtures and other | 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>2018</b>                 | <b>2017</b>        |
|---|-----------------------------|--------------------|
| Interest costs charged to expense                       | \$877,830                   | \$ 952,041         |
| Interest costs capitalized in real estate held for sale | <u>                    </u> | <u>98,099</u>      |
| Total interest incurred                                 | <u>\$877,830</u>            | <u>\$1,050,140</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.

**Pension Plan:** The employees of the Authority participate in the Indiana Public Retirement System (INPRS). The Authority recognizes its proportionate share of the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense. Deferred outflows and inflows represent changes in the Authority’s allocated proportion from the previous year; differences between the Authority’s contributions to the Plan and its proportionate share, actual Plan investment earnings and expected amounts, and expected and actual experience on the Plan included in determining pension expense; and the impact of changes in assumptions on the net pension liability, all of which are being amortized into pension expense over the average expected remaining services life, except for the difference between expected and actual investment earnings, which is amortized over five years. Deferred outflows of resources also includes contributions made to the Plan between the Plan’s measurement date for the net pension liability and the end of the Authority’s fiscal year.

**Deferred Outflows of Resources:** The Authority reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its Statement of Net Position.

**Deferred Inflows of Resources:** The Authority’s Statement of Net Position reports a separate section for deferred inflows of resources, which reflects an increase in net assets that applies to future periods.

**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. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

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 August 22, 2019, 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 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, 2018 and 2017, respectively, the Authority had \$5,302,286 and \$7,480,692 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018:

Bank of New York Cash Reserve Money Market Fund 69%

*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>2018</b>        | <b>2017</b>         |
|------------------------|--------------------|---------------------|
| Cash and equivalents:  |                    |                     |
| Current - unrestricted | \$3,229,580        | \$ 3,023,350        |
| Current - restricted   | <u>5,302,286</u>   | <u>7,480,692</u>    |
|                        | <u>\$8,531,866</u> | <u>\$10,504,042</u> |

Cash and equivalents are restricted as follows:

|                                  | <b>2018</b>        | <b>2017</b>        |
|----------------------------------|--------------------|--------------------|
| Revenue Account                  | \$ 356,053         | \$ 527,198         |
| 2015 Capital Fund                | 2,055,661          | 2,111,622          |
| 2015 Debt Service Reserve Fund   | 1,810,554          | 1,806,315          |
| 2017 Bond Anticipation Note Fund | 866,528            | 2,181,883          |
| 2017 Bond Issuance Expense Fund  | 2,176              | 2,155              |
| TIF Fund                         | <u>211,314</u>     | <u>851,519</u>     |
|                                  | <u>\$5,302,286</u> | <u>\$7,480,692</u> |

**NOTE 3 - FAIR VALUE MEASUREMENT**

The Authority has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**NOTE 3 - FAIR VALUE MEASUREMENT (CONTINUED)**

The three levels of the fair value hierarchy are described as follows:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

**Level 2** - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the Authority makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk. Also included in

Following is a description of the valuation methodologies used by the Authority for assets that are measured at fair value on a recurring basis. There have been no changes in the methodologies used at December 31, 2018 and 2017.

**Money Market Fund Shares:** Valued at the daily closing price as reported by the funds. These funds are required to publish their daily net asset value (NAV) and to transact at that price. These funds held by the Authority are deemed to be actively traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Authority’s management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets and liabilities could result in a different fair value measurement at the reporting date.

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of the Authority’s assets that are measured at fair value on a recurring basis as of December 31, 2018 and 2017:

| <b>2018</b>              | <b>Level 1</b>     | <b>Total</b>       |
|--------------------------|--------------------|--------------------|
| Assets:                  |                    |                    |
| Money market fund shares | <u>\$5,844,358</u> | <u>\$5,844,358</u> |
| Assets at fair value     | <u>\$5,844,358</u> | <u>\$5,844,358</u> |
| <br><b>2017</b>          |                    |                    |
| Assets:                  |                    |                    |
| Money market fund shares | <u>\$7,376,313</u> | <u>\$7,376,313</u> |
| Assets at fair value     | <u>\$7,376,313</u> | <u>\$7,376,313</u> |

At December 31, 2018 and 2017, the Authority had no other assets and no liabilities that are measured at fair value on a recurring basis.

#### **NOTE 4 - NOTES RECEIVABLE**

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 principal and accrued interest due on December 31, 2022. However, provided the purchaser meets certain covenants during the term of the loans, the full amount of the loans 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 has established an allowance for the full amount of 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 principal and accrued interest due on December 31, 2020. However, provided the purchaser meets certain covenants during the term of the loans, the full amount of the loans 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 has established an allowance for the full amount of principal and accrued interest.

#### **NOTE 5 - REAL ESTATE HELD FOR SALE**

Real estate held for sale was purchased from the Department of the U.S. Army on June 26, 1996. 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, 2018 and 2017, the balance of real estate held for sale including subsequent development costs net of sold real estate was \$8,614,792 and \$7,371,017, respectively.

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 committed to sell lots to the developer as the developer sold the lots to homeowners. The lots were sold on a sliding scale ranging from \$22,500 to \$28,143. The agreement called 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 \$4,950,510 including subsequent development by the Authority. During 2018, the Authority sold the last 15 of these lots for \$420,502 with a cost basis of \$1,025,781. The Authority incurred \$19,430 in costs related to the sale resulting in a net loss on the sale of \$624,709 in 2018. During 2017, the Authority sold 24 of these lots for \$622,000 with a cost basis of \$1,641,249. The Authority incurred \$26,992 in costs related to the sale resulting in a net loss on the sale of \$1,046,241 in 2017.

In 2018 and 2017, the Authority entered into two agreements to sell an additional 69 total lots for a total sales price of \$2,548,020. These agreements are with the same housing developer to sell additional developed real estate held for sale. The Authority's total cost basis in the real estate committed to this developer is \$2,216,894 including subsequent development by the Authority. No individual lots have been sold related to these agreements as of December 31, 2018.

During 2017, the Authority sold two parcels classified as real estate held for sale with a cost basis of \$1,503,536 and incurred \$73,306 in costs associated with the sales, resulting in a net loss of \$722,772 on the sales. However, during 2018, the Authority exercised its option to buy back one of the parcels for \$595,000.

In July 2017, the Authority entered into a sales agreement with a company to sell a parcel included in the Authority's real estate held for sale with a cost basis of \$201,675. Soon after, the Authority entered into an associated agreement providing the company early access to the parcel. However in 2018, the company determined renovation costs to be higher than expected and terminated the agreement for the parcel.

**NOTE 5 - REAL ESTATE HELD FOR SALE (CONTINUED)**

During 2017, the Authority dedicated a road to the City of Lawrence resulting in a contribution expense for the cost basis of \$2,559,045.

The Authority has 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.

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 6 - CAPITAL ASSETS**

A summary of changes in capital assets for the years ended December 31, 2018 and 2017 is as follows:

|  | <b>Beginning<br/>Balance,<br/>January 1,<br/>2018</b> | <b>Transfers<br/>and<br/>Additions</b> | <b>Transfers<br/>and<br/>Disposals</b> | <b>Ending<br/>Balance,<br/>December 31,<br/>2018</b> |
|--|---|--|--|--|
| Capital assets, not being depreciated:         |   |  |  |  |
| Land   | \$ 125,000  | \$ _____                               | \$ _____                               | \$ 125,000   |
| Total capital assets,<br>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>2,634</u>                           | <u>(15,157)</u>                        | <u>17,022</u>  |
| Total capital assets, being depreciated        | <u>1,010,925</u>                                      | <u>2,634</u>                           | <u>(15,157)</u>                        | <u>998,402</u>                                       |
| Less accumulated depreciation for:             |   |  |  |  |
| Buildings and improvements                     | (483,317)   | (27,608)                               |  | (510,925)  |
| Equipment, furniture and fixtures and other    | <u>(28,350)</u>                                       | <u>(518)</u>                           | <u>15,157</u>                          | <u>(13,711)</u>                                      |
| Total accumulated depreciation                 | <u>(511,667)</u>                                      | <u>(28,126)</u>                        | <u>15,157</u>                          | <u>(524,636)</u>                                     |
| Total capital assets, being depreciated, net   | <u>499,258</u>  | <u>(25,492)</u>                        | _____                                  | <u>473,766</u>                                       |
| Capital assets, net                            | <u>\$ 624,258</u>                                     | <u>\$(25,492)</u>                      | \$ _____                               | <u>\$ 598,766</u>                                    |

**NOTE 6 - CAPITAL ASSETS (CONTINUED)**

|  | <b>Beginning<br/>Balance,<br/>January 1,<br/>2017</b> | <b>Transfers<br/>and<br/>Additions</b> | <b>Transfers<br/>and<br/>Disposals</b> | <b>Ending<br/>Balance,<br/>December 31,<br/>2017</b> |
|--|---|--|--|--|
| Capital assets, not being depreciated:         |   |  |  |  |
| Land   | \$ 125,000  | \$ _____                               | \$ _____                               | \$ 125,000   |
| Total capital assets,<br>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                     | (412,363)   | (30,826)                               | _____                                  | (443,189)  |
| Equipment, furniture and fixtures and other    | <u>(67,960)</u>                                       | <u>(518)</u>                           | _____                                  | <u>(68,478)</u>                                      |
| Total accumulated depreciation                 | <u>(480,323)</u>                                      | <u>(31,344)</u>                        | _____                                  | <u>(511,667)</u>                                     |
| Total capital assets, being depreciated, net   | <u>530,602</u>  | <u>(31,344)</u>                        | _____                                  | <u>499,258</u>                                       |
| Capital assets, net                            | <u>\$ 655,602</u>                                     | <u>\$(31,344)</u>                      | <u>\$ _____</u>                        | <u>\$ 624,258</u>                                    |

**NOTE 7 - DEBT AND CREDIT ARRANGEMENTS**

Bonds outstanding consisted of the following at December 31, 2018 and 2017:

|   | <b>2018</b>  | <b>2017</b>  |
|---|--------------|--------------|
| Fixed Rate Tax Increment Revenue Bonds, Series 2015A:   |              |              |
| Serial bonds, maturing February 1, 2019 to August 1, 2028,<br>in payments ranging from \$325,000 to \$390,000.<br>Interest computed at 3.00% to 4.00%, due semiannually<br>on February 1 and August 1.  | \$ 2,835,000 | \$ 3,460,000 |
| Term bonds, maturing February 1, 2029 to February 1, 2035,<br>in payments ranging from \$395,000 to \$495,000. Interest<br>computed at 3.625% to 4.00%, due semiannually on<br>February 1 and August 1. | 5,765,000    | 5,765,000    |
| Fixed Rate Tax Increment Revenue Refunding Bonds, Series 2015B:   |              |              |
| Serial bonds, maturing February 1, 2019 to August 1, 2025, in<br>payments ranging from \$225,000 to \$320,000. Interest computed<br>at 3.00% to 4.00%, due semiannually on February 1 and August 1.     | 3,745,000    | 4,315,000    |
| Term bonds, maturing February 1, 2026 to August 1, 2027, in<br>payments ranging from \$220,000 to \$755,000. Interest computed<br>at 4.00%, due semiannually on February 1 and August 1.                | 1,975,000    | 1,975,000    |

**NOTE 7 - DEBT AND CREDIT ARRANGEMENTS (CONTINUED)**

|  | <b>2018</b>         | <b>2017</b>         |
|--|---------------------|---------------------|
| Fixed Rate Tax Increment Revenue Refunding Bonds, Series 2017:   |                     |                     |
| Term bonds, maturing February 1, 2019 to February 1, 2033, in payments ranging from \$175,000 to \$365,000. Interest computed at 3.08%, due semiannually on February 1 and August 1.                     | \$ 8,445,000        | \$ 9,000,000        |
| 2017 Bond Anticipation Notes with interest only payments made February 1 and August 1 of each year computed at 3.50% with a final payment of all principal and interest upon maturity on August 1, 2022. | <u>2,250,000</u>    | <u>2,250,000</u>    |
| Total principal  | 25,015,000          | 26,765,000          |
| Net premium on bonds payable   | <u>443,582</u>      | <u>530,107</u>      |
| Total bonds payable  | 25,458,582          | 27,295,107          |
| Less: Current portion  | <u>(1,710,000)</u>  | <u>(1,750,000)</u>  |
| Bonds payable, less current portion  | <u>\$23,748,582</u> | <u>\$25,545,107</u> |

**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, Series 2015 bonds). The purpose of the Series 2015 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 Series 2015 bonds.

The Series 2015 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.

**Fixed Rate Tax Increment Bonds, Series 2017**

On December 27, 2017, the Authority issued \$9,000,000 of Fixed Rate Tax Increment Revenue and Revenue Refunding Bonds, Series 2017 (Series 2017 bonds). The purpose of the Series 2017 bonds was to refund the outstanding Series 2009 bonds and fund continued local public improvements. The Series 2017 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.

**2017 Bond Anticipation Notes**

Concurrent with the issuance of the Series 2017 bonds, the Authority issued a series of notes in the principal amount of \$2,250,000. The notes are limited obligations of the Authority with principal and interest solely payable from a subordinate pledge of TIF, real estate sale proceeds and the proceeds from the refunding of the Series 2009 bonds.

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

**NOTE 7 - DEBT AND CREDIT ARRANGEMENTS (CONTINUED)**

Debt service requirements to maturity for all debt of the Authority, excluding any unamortized premium, are as follows at December 31, 2018.

| <b>Payable In</b> | <b>Principal</b>    | <b>Interest</b>    | <b>Total</b>        |
|-------------------|---------------------|--------------------|---------------------|
| 2019              | \$ 1,710,000        | \$ 877,129         | \$ 2,587,129        |
| 2020              | 1,775,000           | 812,161            | 2,587,161           |
| 2021              | 1,405,000           | 745,008            | 2,150,008           |
| 2022              | 3,260,000           | 701,838            | 3,961,838           |
| 2023              | 1,050,000           | 587,348            | 1,637,348           |
| 2023-2027         | 6,945,000           | 2,293,644          | 9,238,644           |
| 2028-2032         | 7,415,000           | 1,000,122          | 8,415,122           |
| 2033-2035         | <u>1,455,000</u>    | <u>58,600</u>      | <u>1,513,600</u>    |
|                   | <u>\$25,015,000</u> | <u>\$7,075,850</u> | <u>\$32,090,850</u> |

Changes in long-term obligations for the years ended December 31, 2018 and 2017 were as follows:

|                              | <b>Beginning Balance</b> | <b>Additions</b>    | <b>2018<br/>Reductions</b> | <b>Ending Balance</b> | <b>Current Portion</b> |
|------------------------------|--------------------------|---------------------|----------------------------|-----------------------|------------------------|
| Long-term Obligations:       |                          |                     |                            |                       |                        |
| 2015 Authority Bonds         | \$15,515,000             |                     | \$(1,195,000)              | \$14,320,000          | \$1,255,000            |
| 2017 Authority Bonds         | 9,000,000                |                     | (555,000)                  | 8,445,000             | 455,000                |
| 2017 Bond Anticipation Notes | 2,250,000                |                     |                            | 2,250,000             |                        |
| Premium and discount         | <u>530,107</u>           |                     | <u>(86,525)</u>            | <u>443,582</u>        |                        |
| Total long-term obligations  | <u>\$27,295,107</u>      | <u>\$</u>           | <u>\$(1,836,525)</u>       | <u>\$25,458,582</u>   | <u>\$1,710,000</u>     |
|                              |                          |                     |                            |                       |                        |
|                              | <b>Beginning Balance</b> | <b>Additions</b>    | <b>2017<br/>Reductions</b> | <b>Ending Balance</b> | <b>Current Portion</b> |
| Long-term Obligations:       |                          |                     |                            |                       |                        |
| 2009 Authority Bonds         | \$ 8,685,000             |                     | \$(8,685,000)              |                       |                        |
| 2015 Authority Bonds         | 16,670,000               |                     | (1,155,000)                | \$15,515,000          | \$1,195,000            |
| 2017 Authority Bonds         |                          | \$ 9,000,000        |                            | 9,000,000             | 555,000                |
| 2017 Bond Anticipation Notes |                          | 2,250,000           |                            | 2,250,000             |                        |
| Premium and discount         | <u>541,610</u>           | <u>(22,500)</u>     | <u>10,997</u>              | <u>530,107</u>        |                        |
| Total long-term obligations  | <u>\$25,896,610</u>      | <u>\$11,227,500</u> | <u>\$(9,829,003)</u>       | <u>\$27,295,107</u>   | <u>\$1,750,000</u>     |

The Authority's Series 2009 bonds, were advance refunded in 2017 by the issuance of the Series 2017 bonds. Principal of \$330,000 was paid in 2018 and a final principal payment of \$8,030,000 will be made in 2019. Principal and interest will be paid from an escrow account created to fully fund the future payments of the Series 2009 bonds. In accordance with GASB, the advance refunding resulted in the Series 2009 bonds and related escrow being removed from the Authority's financial statements with the net recorded as a deferred outflow and recognized over the term of the new bond in interest expense at an annual amount of \$43,613 annually through 2026.

## **NOTE 8 - 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. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, or township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two tiers to PERF. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the My Choice: Retirement Savings Plan for Public Employees (My Choice), formerly known as the Public Employees' Annuity Savings Account Only Plan. The Authority does not participate in MyChoice.

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. 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.

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 self-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.

### ***Funding Policy***

The State is obligated by statute to make contributions to the PERF Hybrid Plan or My Choice. 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, 2018, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State and Political Subdivisions.

For My Choice, the State was also required to contribute 11.2 percent of covered payroll. In accordance with 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 three percent and not be greater than the normal cost of the fund which was 3.6 percent for the State for the fiscal year ended June 30, 2018 and any amount not credited to the member's account shall be applied to the pooled assets of PERF Hybrid Plan. The political subdivisions were required to contribute a supplemental cost of 7.2 percent of covered payroll as of January 1, 2017, which decreased to 7.1 percent as of January 1, 2018. In addition, for political subdivisions, the amount credited to the member's account for the normal cost ranged up to 4 percent as of January 1, 2018.

## **NOTE 8 - BENEFIT PLAN (CONTINUED)**

The PERF Hybrid Plan and My Choice members contribute three percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The State pays the member's contributions on behalf of the member employed by the State that participate in My Choice. Political subdivisions may choose to pay part or all of the member's contributions on behalf of the member for My Choice. In addition, members of PERF Hybrid and My Choice may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts. Political subdivisions that participate in My Choice may elect to match voluntary contributions at a rate of 50 percent.

### ***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 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.

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, 2018; however, eligible members received a one-time check (a.k.a. 13th check) in October 2017. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2016, and who was entitled to receive a monthly benefit on July 1, 2017.

## **NOTE 8 - BENEFIT PLAN (CONTINUED)**

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/>. Detailed information about the Plan's fiduciary net position is included in the INPRS financial report.

### ***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.

### ***Significant Actuarial Assumptions***

The total pension liability is determined by INPRS actuaries in accordance with GASB Statement No. 67, 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. In 2018, the following actuarial assumptions and methods were changed: the COLA assumption was changed due to the passage of Senate Enrolled Act No. 373. In lieu of a 1.0% COLA beginning on January 1, 2020, INPRS now assumes that the COLA will be replaced by a thirteenth check for 2020 and 2021. The COLA assumption thereafter would be 0.4% beginning on January 1, 2022, changing to 0.5% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.

The accompanying Schedule of Contributions in the Required Supplementary Information presents trend information about the amounts contributed to the plan by employers and a nonemployer contributing entity in comparison to the Actuarially Determined Contribution (ADC). The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and the amortization of any unfunded actuarial accrued liability (or funding excess).

## NOTE 8 - BENEFIT PLAN (CONTINUED)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly-hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

|   |  |
|---|--|
| Asset valuation date:                         | June 30, 2018  |
| Liability valuation date and method:          | June 30, 2017 - Member census data as of June 30, 2017 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2017 and June 30, 2018. Standard actuarial roll forward techniques were then used to project the liability computed as of June 30, 2017 to the June 30, 2018 measurement date. |
| Actuarial cost method:                        | Entry age normal - level percent of payroll  |
| Experience study date:                        | Computed April 2015 and reflects the experience period from July 1, 2010 to June 30, 2014  |
| Investment rate of return:                    | 6.75%  |
| COLA:   | 13 <sup>th</sup> check   |
| Future salary increases, including inflation: | 2.50% - 4.25%  |
| Inflation:                                    | 2.25%  |
| Mortality - Healthy:                          | RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2006   |
| Mortality - Disabled:                         | RP-2014 Disabled Mortality Table, with Social Security Administration generational improvement scale from 2006   |

**NOTE 8 - BENEFIT PLAN (CONTINUED)**

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<br/>Long-term Expected<br/>Real Rate of Return</b> |
|------------------------------------|--------------------------|---|
| Public equity                      | 22.0%                    | 4.4%  |
| Private equity                     | 14.0%                    | 5.4%  |
| Fixed income - ex inflation-linked | 20.0%                    | 2.2%  |
| Fixed income - Inflation-linked    | 7.0%                     | 0.8%  |
| Commodities                        | 8.0%                     | 2.3%  |
| Real estate                        | 7.0%                     | 6.5%  |
| Absolute return                    | 10.0%                    | 2.7%  |
| Risk parity                        | 12.0%                    | 5.2%  |

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. 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 percent) or one percentage point higher (7.75 percent) than the current rate:

| <b>1% Decrease<br/>(5.75%)</b> | <b>Current Discount<br/>Rate (6.75%)</b> | <b>1% Increase<br/>(7.75%)</b> |
|--------------------------------|--|--------------------------------|
| <u>\$190,906</u>               | <u>\$121,275</u>                         | <u>\$63,210</u>                |

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

At December 31, 2018, the Authority reported a liability of \$121,275 for its proportionate share of the net pension liability. The Authority’ proportionate share of the net pension liability was based on the Authority’ wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2018 measurement date was 0.0000357.

**NOTE 8 - BENEFIT PLAN (CONTINUED)**

For the year ended December 31, 2018, the Authority recognized pension expense of \$17,545, 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 \$(1,470). The amounts related to changes in the Authority's allocated proportion from the previous year and differences between the Authority's contributions to the plan and its proportionate share are being amortized into pension expense over the average expected remaining service lives, except for the difference between expected and actual investment earnings, which is being amortized over five years. At December 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

|  | <u>2018</u>                           |                                      | <u>2017</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   | \$ 1,586                              | \$ 8                                 | \$ 3,067                              | \$ 125                               |
| Net differences between project and actual earnings on pension plan investments                                      | 3,592                                 |                                      | 25,548                                | 8,097                                |
| Changes of assumptions   | 289                                   | 19,472                               | 2,593                                 |                                      |
| Changes in proportion and differences between the Authority's contributions and proportionate share of contributions | <u>194</u>                            | <u>3,207</u>                         | <u>1,614</u>                          | <u>4,277</u>                         |
| Total that will be recognized in pension expense (income) based on table below                                       | 5,661                                 | 22,687                               | 32,822                                | 12,499                               |
| Pension contribution subsequent to measurement date  | <u>9,626</u>                          |                                      | <u>13,080</u>                         |                                      |
| Total  | <u>\$15,287</u>                       | <u>\$22,687</u>                      | <u>\$45,902</u>                       | <u>\$12,499</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>      |
|---------------------------------|--------------------|
| 2019                            | \$ 215             |
| 2020                            | (5,647)            |
| 2021                            | (9,447)            |
| 2022                            | <u>(2,147)</u>     |
|                                 | <u>\$ (17,026)</u> |

**NOTE 9 - 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, 2018 are as follows:

| <b>Receivable In</b> | <b>Rental</b>    |
|----------------------|------------------|
| 2019                 | \$ 37,092        |
| 2020                 | 24,000           |
| 2021                 | 24,000           |
| 2022                 | 24,000           |
| 2023                 | <u>18,000</u>    |
|                      | <u>\$127,092</u> |

**NOTE 10 - 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 11 - COMMITMENTS**

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 2019. 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.

The Authority enters into agreements with developers to develop certain parcels of the Authority's real estate held for sale. At December 31, 2018, the Authority has one open agreement for development. The quoted total contract price including subsequent change orders through December 31, 2018 is \$1,743,308, of which \$1,621,716 has been paid or is payable as of December 31, 2018.

**NOTE 12 - 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 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 current agreement, which is through December 2021, the Authority expensed \$824,971 in 2018 and \$691,947 in 2017. The current agreement, completed in July 2016, requires a payment of \$824,971 for 2019.

**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>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Authority's proportion of the net position liability   | 0.00357%    | 0.00362%    | 0.00375%    | 0.00367%    | 0.00353%    | 0.00349%    |
| Authority's proportionate share of the net pension liability   | \$121,275   | \$161,508   | \$170,192   | \$149,476   | \$92,766    | \$119,535   |
| Authority's covered-employee payroll   | \$182,399   | \$179,520   | \$179,750   | \$175,850   | \$172,373   | \$167,385   |
| Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 66.5%       | 89.9%       | 94.7%       | 85.0%       | 53.8%       | 71.3%       |
| Plan fiduciary net position as a percentage of the total pension liability                                   | 78.9%       | 72.7%       | 71.2%       | 73.3%       | 81.1%       | 74.3%       |

\*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.

*See accompanying notes to required supplementary information.*

**FORT HARRISON REUSE AUTHORITY**  
**SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS (UNAUDITED)**

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

|  | 2018          | 2017          | 2016          | 2015          | 2014          | 2013          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually required contribution                                  | \$ 20,429     | \$ 20,106     | \$ 20,132     | \$ 19,521     | \$ 17,677     | \$ 15,902     |
| Contributions in relation to the contractually required contribution | <u>20,429</u> | <u>20,106</u> | <u>20,132</u> | <u>19,521</u> | <u>17,677</u> | <u>15,902</u> |
| Contribution deficiency  | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   |
| Authority's covered-employee payroll                                 | \$182,399     | \$179,520     | \$179,520     | \$175,850     | \$172,373     | \$167,385     |
| Contributions as a percentage of covered-employee payroll            | 11.2%         | 11.2%         | 11.2%         | 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.

*See accompanying notes to required supplementary information.*

## FORT HARRISON REUSE AUTHORITY

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) December 31, 2018 and 2017

#### SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)

**Plan Amendments:** In 2018, there were no changes to the Plan that impacted the pension benefits during the fiscal year.

**Assumption Changes:** In 2018, the COLA assumption was changed due to passage of Senate Enrolled Act No. 373. In lieu of a 1.0% COLA beginning on January 1, 2020, INPRS now assumes that the COLA will be replaced by a thirteenth check for 2020 and 2021. The COLA assumption, thereafter, would be .4% beginning on January 1, 2022, changing to .5% beginning on January 1, 2034, and ultimately .6% beginning on January 1, 2039.

#### SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS (UNAUDITED)

**Methods and Assumptions Used in Calculating Actuarially Determined Contributions:** The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution Rates:

|   |  |
|---|--|
| Asset valuation date and method:              | June 30, 2016 - Five year smoothing of gains and losses on the Fair Value of assets subject to a 20% corridor  |
| Liability valuation date and method:          | June 30, 2015 - Member census data as of June 30, 2015 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2015 and June 30, 2016. Standard actuarial roll forward techniques were then used to project the liability computed as of June 30, 2015 to the June 30, 2016 measurement date. |
| Actuarial cost method:                        | Entry age normal - level percent of payroll  |
| Actuarial amortization method and period:     | Level dollar - 20 years, closed  |
| Remaining amortization period (weighted):     | 25 years   |
| Investment rate of return:                    | 6.75%  |
| COLA:   | 1.0%   |
| Future salary increases, including inflation: | 2.50% - 4.25%  |
| Inflation:                                    | 2.25%  |

**Trends:** In 2015, an experience study was performed resulting in an update to several assumptions. These assumption changes included a change in the mortality assumptions, retirement assumptions, withdrawal assumptions, disability assumptions, ASA annuitization assumptions, dependent assumptions, future salary increase assumptions, inflation assumptions and COLA assumptions.

In 2018, SEA 373 replaced the 1% COLA assumption with a COLA of .40/.50/.60%, which lowered the actuarial accrued liability.

## **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, 2018*

Board of Directors  
Fort Harrison Reuse Authority

We have audited, in accordance with the 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 Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts, the financial statements of Fort Harrison Reuse Authority (the Authority), as of and for the year ended December 31, 2018, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 22, 2019.

### **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 have not been identified. We did identify a certain 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 removing bonds advance refunded in a prior year and associated adjustments to deferred outflows, adjustments to bond interest and amortization of premiums and discounts, recording accounts payable based on accrual search procedures and recording cost basis of real estate sold. 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.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
August 22, 2019