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April 26, 2017

Board of Directors
Newport Chemical Depot Reuse Authority
1051 West Indiana Avenue
Hillsdale, IN 47854

We have reviewed the audit report prepared by Katz Sapper & Miller, LLP, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditors' Report, the financial statements included in the report present fairly the financial condition of the Newport Chemical Depot Reuse Authority, as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

NEWPORT CHEMICAL DEPOT REUSE AUTHORITY
d/b/a VERMILLION RISE MEGA PARK

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2016 and 2015

KATZ SAPPER & MILLER

NEWPORT CHEMICAL DEPOT REUSE AUTHORITY
d/b/a VERMILLION RISE MEGA PARK

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Independent Auditors' Report

Board of Directors
Newport Chemical Depot Reuse Authority
d/b/a Vermillion Rise Mega Park

Report on the Financial Statements

We have audited the accompanying financial statements of the single-purpose business-type activity of Newport Chemical Depot Reuse Authority d/b/a Vermillion Rise Mega Park, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Newport Chemical Depot 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 *Guidelines for Audit of State and Local Governments by Authorized Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Katz, Sapper & Miller, LLP
Certified Public Accountants

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

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An Affiliate of
KSM Business Services, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Chemical Depot Reuse Authority as of December 31, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

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

Report on Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on Newport Chemical Depot Reuse Authority's basic financial statements. The schedule of allowable reinvestment of additional proceeds, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of allowable reinvestment of additional proceeds has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2017, on our consideration of Newport Chemical Depot 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 Newport Chemical Depot Reuse Authority's internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
April 20, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2016 and 2015

Introduction

The management of the Newport Chemical Depot Reuse Authority d/b/a Vermillion Rise Mega Park (the Authority), which is a governmental entity located in Vermillion County, 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, 2016 and 2015. 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 complete a reuse master plan for the property that was formerly the U.S. Department of the Army's (the Army) Newport Chemical Depot. The goal in creating the Authority is to bring businesses to occupy the 7,155 acres of land formerly used by the Army and create new jobs in the area. The activities of the Authority include the marketing of acreage held for sale by the Authority, conducting planning and making physical improvements to the acreage to add value to the area, and promoting business development opportunities. The Authority strives to acquire property at no cost to the Authority or the community, develop a reuse plan for agricultural and industrial uses, ensure preservation of natural resources and maximize local jobs and investment for Vermillion County and the region.

About half of the 7,155 acres is dedicated to large-scale enterprise opportunities. The other half is set aside for natural areas and agricultural uses to retain the pastoral environment that currently graces the site and surrounding areas. There are also smaller parcels available for highway-oriented commercial activities and conference and support facilities.

Financial Highlights

Overview of Financial Statements

The financial statements of the Authority include the following for calendar years 2016 and 2015:

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

Basis of Accounting and Financial Reporting

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

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

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

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

- *Restricted* – represents resources restricted externally by creditors, grantors, contributors, or laws or regulations of other governments and constraints imposed by law through constitutional provisions or enabling legislation.

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

Statements of Net Position

The statements of net position reflect the assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The Authority's net position – the difference between total assets and total liabilities – represents one way to measure the Authority's financial health. In assessing the financial position of the Authority, one may additionally consider the ability of the Authority to implement its mission and take into consideration its accomplishments relevant to significant projects that impact the long-term goals of the community.

Comparative Statements of Net Position

The comparative analysis below is a summary of the statements of net position for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
Current assets – unrestricted			
Property held for sale	$36,428,596	$35,714,653	$32,969,977
Other unrestricted current assets	1,814,674	1,772,415	2,920,709
Total current assets - unrestricted	38,243,270	37,487,068	35,890,686
Current assets – restricted			
Restricted property held for sale	2,623,200	2,623,200	2,623,200
Other restricted current assets	360,000	360,000	
Total current assets – restricted	2,983,200	2,983,200	2,623,200

Comparative Statements of Net Position (Continued)

	2016	2015	2014
Noncurrent assets			
Nondepreciable capital assets	$ 371,735	$ 371,735	$ 371,735
Depreciable capital assets, net	2,096,753	2,370,762	2,546,156
Other noncurrent assets	1,500,000		
Total noncurrent assets	3,968,488	2,742,497	2,917,891
Total Assets	$45,194,958	$43,212,765	$41,431,777
Current liabilities – payable from unrestricted assets	$ 631,938	$ 730,528	$ 677,418
Noncurrent liabilities – payable from unrestricted and restricted assets	6,377,346	4,421,609	2,866,130
Total Liabilities	7,009,284	5,152,137	3,543,548
Net position			
Net investment in property held for sale and capital assets	35,157,678	36,546,035	35,266,761
Unrestricted	2,976,385	1,481,739	2,620,363
Restricted	51,611	32,854	1,105
Total Net Position	38,185,674	38,060,628	37,888,299
Total Liabilities and Net Position	$45,194,958	$43,212,765	$41,431,777

2016 to 2015 Comparative Statements of Net Position

Current Assets increased approximately $756,000 due to development of property held for sale totaling approximately $883,000. Additionally, the sale of 32.6 acres of land resulted in a receivable at year end of $652,000 and a reduction of $170,000 for the cost-basis of the property sold. The Authority also saw a decrease of approximately $249,000 in grants receivable and approximately $328,000 in cash attributable to the timing of grant project draws and ongoing operations of the Authority.

Noncurrent Assets increased approximately $1,226,000 due to the issuance of a note receivable to a developer of $1,500,000 to aid in construction on 32.6 acres of land sold. This was offset by approximately $274,000 as a function of depreciation expense.

Current Liabilities decreased approximately $99,000 primarily due to a reduction in current portion of debt of approximately $126,000.

Noncurrent Liabilities increased $1,956,000 from the issuance of new debt offset by regular scheduled payments of the Authority's debt service. New debt totaling $1,500,000 was obtained and in turn lent to a developer to fund construction on 32.6 acres of land sold. Also, $780,000 was borrowed to complete the Authority's water project.

2015 to 2014 Comparative Statements of Net Position

Current Assets increased approximately $1,956,000 due to development of property held for sale totaling approximately $2,740,000, as well as approximately $350,000 increase in grants receivable from draws on the ESCA, OEA, and IDGF grants. These increases were partially offset by a decrease of approximately $280,000 in lease receivables related to the timing of tenant payments and a decrease in cash of approximately $900,000 attributable to the acquisition and construction of property held for sale.

Noncurrent Assets decreased approximately $175,000 as a function of depreciation expense.

Current Liabilities were comparable year to year.

Noncurrent Liabilities increased $1,556,000 from the issuance of new debt offset by regular scheduled payments of the Authority's debt service. New debt totaling $2,020,000 was obtained to finance the Authority's water project.

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, 2016, 2015 and 2014.

	2016	2015	2014
Operating Revenue			
Federal and matching grants	$ 656,925	$ 993,059	$ 1,486,645
Other grants		260,000	
Lease contracts	1,059,432	1,130,685	1,365,079
Other income	195,336	153,372	159,680
Total Operating Revenue	1,911,693	2,537,116	3,011,404
Operating Expenses			
Personnel	746,628	752,294	648,255
Occupancy and office expenses	223,406	240,515	353,185
Travel	21,013	37,336	31,206
Contractual services	542,293	688,075	989,432
Repairs and maintenance	238,718	399,647	246,595
Insurance	91,980	80,335	67,934
Depreciation	282,850	286,772	309,211
Other expenses	67,002	35,179	69,757
Total Operating Expenses	2,213,890	2,520,153	2,715,575
Income (Loss) from Operations	(302,197)	16,963	295,829

	2016	2015	2014
Nonoperating Revenue (Expenses)			
TIF property tax revenue	$ 17,652	$ 32,854	$ 1,105
Gain on sale of property held for sale	482,480	146,285	14,671
Interest expense, net of capitalized interest	(72,889)	(23,703)	(4,900)
Total Nonoperating Revenue (Expenses)	427,243	155,436	10,876
Increase in Net Position	125,046	172,399	306,705
Net Position, Beginning of Year	38,060,628	37,888,229	37,581,524
Net Position, End of Year	$38,185,674	$38,060,628	$37,888,229

2016 to 2015 Comparative Statements of Revenue, Expenses and Changes in Net Position

Operating Revenue decreased by approximately $625,000. This was driven by decreases in Federal and matching and other grants of approximately $596,000 primarily due to the timing of the Authority's base reuse projects. Agricultural revenues decreased by approximately $71,000 as the farming market saw declining prices and yields. Other income increased by approximately $42,000 consisting of land option income and utility revenues.

Operating Expenses decreased by approximately $306,000, led by decreases in contractual services and repairs and maintenance expenses. There were also decreases in personnel, occupancy, travel and office expenses.

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

Operating Revenue decreased by approximately $474,000. Federal and matching grants decreased approximately $494,000 primarily due to the timing of the Authority's base reuse projects. In 2015, agricultural revenues decreased by approximately $234,000 as third-party managing is being utilized and commissions are retained. These decreases were offset by a $250,000 infrastructure grant from the Indiana Economic Development Corporation.

Operating Expenses decreased by approximately $195,000, led by a decrease in contractual services. There were also notable decreases in occupancy and office expenses. These decreases were partially offset by increases in personnel and repair and maintenance expenses.

Capital Assets and Debt Administration

Capital Assets

As discussed, the Authority is organized to promote and develop the former Newport Chemical Depot located in Newport, Indiana. The Authority initially received contributions from the Army including land, buildings and personal property and has since conducted projects to develop the property to appeal to potential businesses as tenants or purchasers of the property. The fair market value, net of future required payments to the Army, was recorded as a contribution as of the date of the transfer. The Authority incurred $9,000 and $111,000 in depreciable capital asset additions and $883,000 and $2,744,000 in property held for sale additions for the years ended December 31, 2016 and 2015, respectively. A parcel of 32.6 acres of land was sold during 2016 for $652,000 for a gain of $482,480. Readers are directed to Notes 3 and 4 of the financial statements for more detailed information on capital asset activity.

Long-term Debt

The Authority's long-term debt is comprised of notes payable, which over time has afforded the Authority the ability to acquire, construct and develop certain land, improvements and buildings on the property. The Authority incurred $2,280,000 and $2,020,000 in new debt and $450,000 and $373,000 in debt payments for the years ended December 31, 2016 and 2015, respectively. Readers are directed to Note 6 for more detailed information on long-term debt activity.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Newport Chemical Depot Reuse Authority, 1051 W Indiana Avenue, Hillsdale, IN 47854.

FINANCIAL STATEMENTS

NEWPORT CHEMICAL DEPOT REUSE AUTHORITY
d/b/a VERMILLION RISE MEGA PARK

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Unrestricted Current Assets:		
Cash	$ 910,628	$ 1,238,606
Lease receivable	23,900	47,411
Grants receivable	162,456	411,825
Proceeds receivable from asset sale	652,000	
TIF property tax receivable	17,500	19,933
Prepaid expenses and other assets	48,190	54,640
Property held for sale	36,428,596	35,714,653
Total Unrestricted Current Assets	38,243,270	37,487,068
Restricted Current Assets:		
Restricted cash	360,000	360,000
Restricted property held for sale	2,623,200	2,623,200
Total Restricted Current Assets	2,983,200	2,983,200
Total Current Assets	41,226,470	40,470,268
NONCURRENT ASSETS		
Note receivable	1,500,000	
Nondepreciable capital assets	371,735	371,735
Depreciable capital assets, net	2,096,753	2,370,762
Total Noncurrent Assets	3,968,488	2,742,497
TOTAL ASSETS	$ 45,194,958	$ 43,212,765

LIABILITIES AND NET POSITION

	2016	2015
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts payable	$ 257,536	$ 229,072
Unearned revenue	18,664	17,809
Accrued expenses	10,478	10,941
Accrued interest on debt	6,334	8,184
Current portion of long-term debt	338,926	464,522
Total Current Liabilities	631,938	730,528
NONCURRENT LIABILITIES		
Payable from Unrestricted and Restricted Assets:		
Long-term debt, less current portion	6,377,346	4,421,609
Total Liabilities	7,009,284	5,152,137
NET POSITION		
Net investment in property held for sale and capital assets	35,157,678	36,546,035
Unrestricted	2,976,385	1,480,634
Restricted	51,611	33,959
Total Net Position	38,185,674	38,060,628
TOTAL LIABILITIES AND NET POSITION	$ 45,194,958	$ 43,212,765

See accompanying notes.

NEWPORT CHEMICAL DEPOT REUSE AUTHORITY
d/b/a VERMILLION RISE MEGA PARK

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUE		
Federal and matching grants	$ 656,925	$ 993,059
Other grants		260,000
Lease contracts	1,059,432	1,130,685
Other income	195,336	153,372
Total Operating Revenue	1,911,693	2,537,116
OPERATING EXPENSES		
Personnel	746,628	752,294
Occupancy and office expenses	223,406	240,515
Travel	21,013	37,336
Contractual services	542,293	688,075
Repairs and maintenance	238,718	399,647
Insurance	91,980	80,335
Depreciation	282,850	286,772
Other expenses	67,002	35,179
Total Operating Expenses	2,213,890	2,520,153
INCOME (LOSS) FROM OPERATIONS	(302,197)	16,963
NONOPERATING REVENUE (EXPENSES)		
TIF property tax revenue	17,652	32,854
Gain on sale of property held for sale	482,480	146,285
Interest expense, net of capitalized interest	(72,889)	(23,703)
Total Nonoperating Revenue (Expenses)	427,243	155,436
INCREASE IN NET POSITION	125,046	172,399
NET POSITION		
Beginning of Year	38,060,628	37,888,229
End of Year	$ 38,185,674	$ 38,060,628

See accompanying notes.

NEWPORT CHEMICAL DEPOT REUSE AUTHORITY
d/b/a VERMILLION RISE MEGA PARK

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES		
Grant receipts	$ 906,294	$ 904,154
Receipts from customers and users	1,279,134	1,567,843
Payments to vendors for goods and services	(1,149,961)	(1,544,497)
Payments for employees services	(746,628)	(752,294)
Net Cash Provided by Operating Activities	288,839	175,206
CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(449,859)	(373,276)
Proceeds from issuance of long-term debt	2,280,000	2,020,000
Interest paid	(112,149)	(20,419)
TIF property taxes received	20,085	12,921
Acquisition and construction of capital assets	(8,841)	(111,378)
Acquisition and construction of property held for sale	(846,053)	(2,744,676)
Proceeds from sale of property held for sale		146,285
Funding provided to purchaser of property held for sale	(1,500,000)	
Net Cash Used by Capital and Related Financing Activities	(616,817)	(1,070,543)
NET DECREASE IN CASH	(327,978)	(895,337)
CASH		
Beginning of Year	1,598,606	2,493,943
End of Year	$ 1,270,628	$ 1,598,606
CASH		
Cash	$ 910,628	$ 1,238,606
Restricted cash	360,000	360,000
TOTAL CASH	$ 1,270,628	$ 1,598,606
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income (loss) from operations	$ (302,197)	$ 16,963
Depreciation expense	282,850	286,772
Bad debt expense		5,919
Decrease in lease receivable	23,511	269,427
(Increase) decrease in grants receivable	249,369	(348,905)
(Increase) decrease in prepaid expenses and other assets	6,450	(13,551)
Increase in unearned revenue	855	8,440
Increase (decrease) in accounts payable	28,464	(59,010)
Increase (decrease) in accrued expenses	(463)	9,151
Net Cash Provided by Operating Activities	$ 288,839	$ 175,206
Noncash Capital and Related Financing Activities:		
Proceeds receivable from asset sale at year-end	$ 652,000	

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Newport Chemical Depot Reuse Authority d/b/a Vermillion Rise Mega Park (the Authority) was established in April 2006, by Indiana Code, Section 36-7-30. The Authority is a facility of 7,155 acres located in Vermillion County, Indiana (the Depot). In late 2005, Congress approved the Department of Defense Base Realignment and Closure recommendations, which included the closure of the U.S. Department of the Army's (the Army) Newport Chemical Depot in Vermillion County, Indiana. The Authority was created to complete the reuse master plan for the Depot. Its primary purpose is community financial assistance through economic development.

The Authority comprises a board of five citizens appointed by the Vermillion County Commissioners. The Authority worked in conjunction with the local community to create a plan and implementation strategy for conversion of the Depot to civilian use. In providing a framework for evaluating proposed new uses for the Depot, the Authority strives to acquire property at no cost to the Authority or the community, develop a reuse plan primarily for agricultural and industrial uses, ensure preservation of natural resources and maximize local jobs and investment for Vermillion County and the region.

Effective October 1, 2011, an agreement between the Army and the Authority for conveyance of certain real property, improvements and personal property located at the Depot went into effect. Real property was to be transferred in two parcels. The first parcel of approximately 6,650 acres was transferred in October 2011 and the second parcel of approximately 480 acres was transferred in September 2012. A third parcel of approximately 4 acres was transferred in April 2015. In addition, the land easements, mineral rights and water rights were also transferred.

In accordance with the Army agreement, the Authority has agreed all additional proceeds earned from the Depot received during the 10-year period must be reinvested to support the economic development of Depot. Any proceeds not reinvested shall be remitted to the Army at the end of the 10-year period.

Agricultural, natural areas and open space uses account for approximately one half of the Depot's 7,155 acres, and business, highway-oriented commercial and conference and support facilities account for the other half. Revenue sources include grants from the Office of Economic Adjustment (OEA), "matching revenue" from the Vermillion County Economic Development Council (VCEDC), agricultural and building leases, an Environmental Services Cooperative Agreement (ESCA) grant, and tax increment financing revenue. The Authority also receives revenue from utility services provided to its tenants and to the Vermillion County Jail.

The Authority is eligible for tax increment financing for future development and operational expenditures, including the providing of water services. These funds are based on property taxes paid by organizations within the Authority's special taxing district. The Authority also serves as the governing body of the special taxing district, which provides for the planning, replanning, development, redevelopment and preparation for reuse of the Depot.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash: 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.

Receivables and Credit Policies: Grants and lease receivables represent amounts due under the OEA grant, ESCA grant and agricultural and other lease contracts.

Under the OEA grant, the Authority is allowed to receive funds in advance for operational expenses, but it generally operates on a cost reimbursement basis. The annual grant totals are based on a budget submitted by the Authority. The grant agreement stipulates that a defined amount of project funds must come from nonfederal sources, which currently are the VCEDC and other sources. Receivables from VCEDC are not recorded, as they are paid directly to the Authority's vendors and are treated as both revenue and expense in the period in which they are incurred.

There is no provision to charge interest on any amounts considered past due. Management periodically reviews receivables for collectability. Uncollectable accounts are written off as deemed necessary. Management determined no allowance for doubtful accounts was necessary at December 31, 2016 and 2015.

Proceeds Receivable represent amounts due to the Authority from the sale of property held for sale. See Note 3.

TIF Property Tax Receivable: A special property tax assessment is made on properties in the Depot area for the purpose of providing funding to the Authority to carry out its purpose. Property taxes are collected and remitted to the Authority by Vermillion County, Indiana. Taxes are levied annually on March 1 and are due on May 10 and November 10 one year later. Major tax payments are received in June and December and are accrued as revenue in the year they are levied. No allowance has been made for uncollectible taxes.

Allowance for Losses on Property: Valuation allowances are provided for property held for sale when the net realizable value of the property is less than its carrying value. Additions to the allowance are recorded as expense in the year the loss amounts are estimated. No losses on property held for sale were recorded in 2016 or 2015.

Capital Assets: Capital assets purchased by the Authority are stated at historical cost. Contributed capital assets are stated at the fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	39 years
Land improvements	15 to 25 years
Equipment	3 to 7 years
Automobiles	5 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Maintenance and repairs are expensed as incurred. Gains and losses on disposition of capital assets are included in nonoperating revenue and expenses. Interest incurred during construction, renovation and/or remediation periods is capitalized and included in the cost of property and equipment. The Authority capitalizes interest costs of borrowings specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowings. Total interest incurred for the years ended December 31 were:

	2016	2015
Interest costs charged to expense	$ 72,889	$23,703
Interest costs capitalized in cost of property and equipment	37,410	8,043
Total interest incurred	$110,299	$31,746

Environmental Remediation: The United States Department of Defense is responsible for environmental remediation of designated areas within the Depot. Remediation was completed before property was deeded to the Authority. Therefore, no significant accruals are considered necessary for any environmental remediation issues.

Unearned Revenue relates to rental income received in advance as well as funds received in advance under reimbursement-based grants. Upon expenditure of the funds, or specific timing in the case of rental income, the unearned revenue is reclassified to revenue.

Lease Contract Revenue: 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. Cash received in advance of the rental period is recorded as unearned revenue.

Government Grants: Grant revenues for reimbursement-based grants are recognized in the period in which eligible expenses are incurred. Grant revenues received in advance of being earned are recognized as unearned revenue. Grant activities are subject to audit and acceptance by the granting agency and, as a result, adjustments could be required.

Revenue and Expense Recognition: Revenue from tenants and grant revenue are 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.

Net Position: The Authority classifies net position for accounting and financial reporting purposes in the following net position categories:

- Net investment in property held for sale and capital assets - This component of net position consists of property held for sale and capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted - This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in property held for sale and capital assets”.

Use of Restricted and Unrestricted Resources: When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Subsequent Events: The Authority has evaluated the financial statements for subsequent events occurring through April 20, 2017 the date financial statements were available to be issued. See Note 3.

NOTE 2 - CASH

Deposits as of December 31, 2016 and 2015, consisted of the following:

	2016	**2015**
Unrestricted	$ 910,628	$1,238,606
Restricted for debt service	360,000	360,000
Total cash deposits	$1,270,628	$1,598,606

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.

NOTE 3 - PROPERTY HELD FOR SALE

Property held for sale was conveyed by the Army, and is stated at the lower of cost or market less costs to sell (net realizable value) using the specific-identification method. The property held for sale was transferred in three parcels. The first parcel of approximately 6,650 acres was transferred in October 2011. The second parcel of approximately 480 acres was transferred in September 2012. The third parcel of approximately 4 acres was transferred in April 2015. In addition, the land easements, mineral rights and water rights were also transferred. As of December 31, 2016 and 2015, the balance of property held for sale plus development costs was $39,051,796 and $38,337,853, respectively.

It is anticipated that approximately 1,700 forested acres will be transferred to the Indiana Department of Natural Resources, though there is no firm timeframe for this transfer. These acres are included as restricted property held for sale on the Authority’s statement of net position.

The Authority has signed one option agreement with a third party for the sale of property in order to build on the Depot. The agreement required payments to the Authority of $15,000 every six months. Additionally, the third party reimbursed the Authority for $160,413 of costs to prepare the property for sale during 2016.

NOTE 3 - PROPERTY HELD FOR SALE (CONTINUED)

The Authority developed and improved infrastructure to its parcels of land classified as held for sale which resulted in $883,463 and $2,744,676 of improvements capitalized in property held for sale in 2016 and 2015, respectively.

During 2016, the Authority sold 32.6 acres of land to a developer to construct a 50,000 square foot industrial building. The land was sold for $652,000 and had a carrying value of $169,520. The land proceeds were received in early 2017. As a result of the sale, a payment of $97,800 was made to the Army in accordance with their debt terms. As part of the agreement, the Authority provided a $1,500,000 interest free loan to the developer which was funded with a $1,500,000 loan from the Vermillion County Commissioners (VCC) (see Notes 5 and 6). Additionally, the Authority has agreed to pay the interest on the developer's construction loan at a rate of prime plus 1.5% (5.25% at December 31, 2016) for the earlier of the sale or lease of the developed real estate or 10 years. The balance of the construction loan was $1,349,522 at December 31, 2016. The Authority recognized $2,958 of interest expense for amounts paid on behalf of the developer in 2016.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2016 and 2015 is as follows:

	Beginning Balance, January 1, 2016	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2016
Capital assets, not being depreciated:				
Land	$ 371,735			$ 371,735
Total capital assets, not being depreciated	371,735			371,735
Capital assets, being depreciated:				
Buildings and improvements	1,820,756			1,820,756
Equipment, furniture and fixtures and other	1,694,800	$ 8,841		1,703,641
Total capital assets, being depreciated	3,515,556	8,841		3,524,397
Less accumulated depreciation for:				
Buildings and improvements	(175,740)	(46,480)		(222,220)
Equipment, furniture and fixtures and other	(969,054)	(236,370)		(1,205,424)
Total accumulated depreciation	(1,144,794)	(282,850)		(1,427,644)
Total capital assets, being depreciated, net	2,370,762	(274,009)		2,096,753
Capital assets, net	$ 2,742,497	$(274,009)	$	$ 2,468,488

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance, January 1, 2015	Transfers and Additions	Transfers and Disposals	Ending Balance, December 31, 2015
Capital assets, not being depreciated:				
Land	$ 371,735			$ 371,735
Total capital assets, not being depreciated	371,735			371,735
Capital assets, being depreciated:				
Buildings and improvements	1,761,490	$ 59,266		1,820,756
Equipment, furniture and fixtures and other	1,642,688	52,112		1,694,800
Total capital assets, being depreciated	3,404,178	111,378		3,515,556
Less accumulated depreciation for:				
Buildings and improvements	(131,437)	(44,303)		(175,740)
Equipment, furniture and fixtures and other	(726,585)	(242,469)		(969,054)
Total accumulated depreciation	(858,022)	(286,772)		(1,144,794)
Total capital assets, being depreciated, net	2,546,156	(175,394)		2,370,762
Capital assets, net	$2,917,891	$(175,394)	$	$ 2,742,497

NOTE 5 - NOTES RECEIVABLE

During 2016, associated with the sale of real estate held for sale to a developer, the Authority provided $1,500,000 to finance the parcel's development. The note is interest free and is payable upon the earlier of the sale or lease of the developed real estate or January 5, 2026. The note is secured by a mortgage on the developed real estate.

NOTE 6 - LONG-TERM DEBT

Long-term debt outstanding consisted of the following at December 31, 2016 and 2015:

	2016	2015
Note payable to Army	$1,690,110	$2,048,029
Note payable to VCEDC	226,667	266,667
Note payable to CoBank	2,800,000	2,020,000
Note Payable to VCC	1,500,000	
Wastewater project note payable to Old National Bank	499,495	551,435
Total long-term debt	6,716,272	4,886,131
Less: Current portion	(338,926)	(464,522)
Long-term debt, less current portion	$6,377,346	$4,421,609

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Note Payable to Army: In consideration for the transfer of property from the Army, the Authority signed a Promissory Note for an amount not to exceed $3,000,000. There is no stated interest rate and payments are required over a 10-year period (through September 30, 2021) based on the following four criteria: 1) the Authority will pay $3,000 per acre to the Army for all land sold or land sales under the contract; 2) annually, the Authority will pay the Army the following share of gross revenues received from agriculture leases: 20% in years 1-3, 25% in years 4-6 and 30% in years 7-10; 3) annually, the Authority will pay the Army 10% of gross revenues received from land and building leases; and 4) annually, the Authority will pay the Army 33% of net revenue received from the wetlands bank.

The Promissory Note is secured by a mortgage agreement. In accordance with the Promissory Note, the total cash consideration to be paid is reduced to $2,750,000, and the mortgage is released, if the Authority makes payments totaling $2,750,000 to the Army by the end of year seven and it accepts the transfer of any additional parcels of land required to transfer all of the property pursuant to the Army conveyance agreement.

If payments do not total $2,750,000 by the end of year seven, then payments will continue for the remainder of the 10-year period (through September 2021). Following the 10-year period, the Authority will have no obligation to continue making payments even if the full $3,000,000 is not paid in full.

Note Payable to VCEDC: During 2012, the Authority secured a $400,000 interest-free note payable in 120 monthly installments of $3,333 through August 2022.

Note Payable to CoBank: During 2015, the Authority signed a Promissory Note with a bank for an amount not to exceed $3,000,000. Outstanding principal is due in total on July 31, 2018. Interest is charged at a quoted rate set by the bank (3.53% at December 31, 2016). The note is secured by substantially all assets of the Authority.

Note Payable to Vermillion County Commissioners (VCC): During 2016, the Authority signed a promissory note with the VCC for $1,500,000 to aid a developer in financing the construction of a building. Outstanding principal is due in total the earlier of January 5, 2026 or when the developed real estate is sold or leased. The note is interest free. The Authority in turn has provided a note receivable to the developer with the same terms (see Note 5).

Wastewater Project Note Payable to Old National Bank: During 2014, the Authority secured a $600,000 note payable due in 10 annual installments of $77,326, including interest at 4.9% through November 2024. The note is secured by a mortgage on a building of the Authority.

Based on the above payment requirements and current revenue sources, and assuming no land sales over the next five years, estimated maturities of long-term debt are as follows:

Payable In	Principal	Interest	Total
2017	$ 338,926	$ 84,493	$ 423,419
2018	3,188,782	55,534	3,244,316
2019	391,065	15,780	406,845
2020	393,404	13,440	406,844
2021	395,912	10,933	406,845
2022 - 2026	2,008,183	16,950	2,025,133
	$6,716,272	$197,130	$6,913,402

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Changes in long-term debt for the years ended December 31, 2016 and 2015 were as follows:

	2016				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Long-term Debt:					
Note payable to Army	$2,048,029		$(357,919)	$1,690,110	$244,818
Note payable to VCEDC	266,667		(40,000)	226,667	40,000
Note payable to CoBank	2,020,000	$ 780,000		2,800,000	
Note payable to VCC		1,500,000		1,500,000	
Wastewater project note payable to Old National Bank	551,435		(51,940)	499,495	54,108
Total Long-term Debt	$4,886,131	$2,280,000	$(449,859)	$6,716,272	$338,926

	2015				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Long-term Debt:					
Note payable to Army	$2,332,740		$(284,711)	$2,048,029	$372,582
Note payable to VCEDC	306,667		(40,000)	266,667	40,000
Note payable to CoBank		$2,020,000		2,020,000	
Wastewater project note payable to Old National Bank	600,000		(48,565)	551,435	51,940
Total Long-term Debt	$3,239,407	$2,020,000	$(373,276)	$4,886,131	$464,522

NOTE 7 - EMPLOYEE BENEFITS

Effective in January 2015, the Authority sponsors a defined contribution retirement savings plan which covers all eligible employees. Participants in the Plan may elect to contribute a portion of their compensation to the Plan, limited to the maximum annual amount allowed under the Internal Revenue Code. The Plan also provides for a discretionary match by the Authority (3% in 2016 and 2015). Employer contributions to the plan were $9,318 in 2016 and $10,785 in 2015.

NOTE 8 - LEASES

The Authority as Lessor:

The Authority leases land to farmer tenants under lease agreements that are billed annually at a per acre rate. The annual rental rates range from $265 per acre to $361 per acre, and include approximately 3,566 acres of land. Revenue from the leases totaled $994,574 and $1,078,534 for the years ending December 31, 2016 and 2015, respectively. The rental agreements are for one-year terms and currently expire in February 2018 including the effects of renewals and new tenant leases signed in 2017.

Additionally, the Authority leases buildings and grounds to unrelated third parties requiring monthly payments aggregating $5,770 at December 31, 2016. Total lease income was $64,858 and $52,151 for the years ending December 31, 2016 and 2015, respectively.

NOTE 8 - LEASES (CONTINUED)

The future minimum lease payments required by all long-term noncancellable operating leases at December 31, 2016, are as follows:

Year Ending December 31,	Amount
2017	$1,006,491
2018	12,928
2019	12,928
2020	6,464
	$1,038,811

NOTE 9 - CONCENTRATIONS OF FUNDING

The Authority is dependent on funding from federal awards. The percentage of revenue by source for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Federal Awards:		
ESCA grant	5%	20%
OEA grant	30%	19%
Total Federal Awards	35%	39%
Other grants	0%	10%
Agriculture leases and other	62%	49%
Building leases	3%	2%

At December 31, 2016 and 2015, 100% of grants receivable were due from federal agencies.

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance policies to cover these risks. 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 AND CONTINGENCIES

The Authority is located on the site of the former Newport Chemical Depot where hazardous substances and contaminants were located and stored. At the time of the conveyance of this land to the Authority, a Remediation Plan was completed. The deed transferring the property lists restrictions, such as prohibitions against residential or agricultural uses in some areas, prohibitions against soil excavations and prohibitions against groundwater use. These restrictions result from the potential environmental impact associated with the restricted areas. The Army has agreed to be held liable for any additional environmental remediation.

A contingency gain exists in relation to the $3,000,000 Promissory Note (see Note 6). Should the Authority remit $2,750,000 to the Army in accordance with the terms of the agreement within seven years, and comply with the other terms of the agreement, it will not be required to pay the remaining $250,000. Additionally, if the revenue sources on which the payments are based are not sufficient to require total payments of $3,000,000 over 10 years, any shortfall will be forgiven. If either of these events occurs, a gain equal to the amount of debt forgiven will be recorded at that date.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Authority has entered into four agreements to provide for infrastructure improvements to property held for sale. The total quoted contract price of these agreements is $361,644, of which $8,685 has been paid or is payable as of December 31, 2016.

SUPPLEMENTARY INFORMATION

NEWPORT CHEMICAL DEPOT REUSE AUTHORITY
d/b/a VERMILLION RISE MEGA PARK

SCHEDULE OF ALLOWABLE REINVESTMENT OF ADDITIONAL PROCEEDS (UNAUDITED)
Year Ended December 31, 2016

	Amounts Reinvested
ALLOWABLE REINVESTMENT CATEGORIES:	
Road construction and public buildings	
Transportation management facilities	
Police and fire protection facilities and other public facilities	
Utility construction	
Building rehabilitation	
Historic property preservation	
Pollution prevention equipment or facilities	
Demolition	
Disposal of hazardous materials generated by demolition	
Landscaping, grading and other site or public improvements	
Planning for or marketing of the redevelopment and reuse of the installation	$ 1,815,519
	$ 1,815,519
INCOME DETAIL:	
Land option income	$ 28,200
Property lease contracts	1,059,432
Hunting lease income	75,887
Sale of land	652,000
	$ 1,815,519

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, 2016

Board of Directors
Newport Chemical Depot Reuse Authority
d/b/a Vermillion Rise Mega Park

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the single-purpose business-type activity of Newport Chemical Depot Reuse Authority d/b/a Vermillion Rise Mega Park (the Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise of the Authority's basic financial statements, and have issued our report thereon dated April 20, 2017.

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.

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An Affiliate of
KSM Business Services, Inc.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
April 20, 2017