



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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October 5, 2023

Indiana Ports Commission
Ports of Indiana
150 West Market Street, Suite 100
Indianapolis, IN 46204

We have reviewed the audit report of Ports of Indiana, which was opined upon by Crowe LLP, Independent Public Accountants, for the period January 1, 2022 to December 31, 2022. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Ports of Indiana, as of December 31, 2022, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Crowe LLP prepared the audit report in accordance with the guidelines established by the Indiana State Board of Accounts.

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

A handwritten signature in black ink that reads "Tammy R. White". The signature is written in a cursive style.

Tammy R. White, CPA
Deputy State Examiner

PORTS OF INDIANA
(A COMPONENT UNIT OF THE STATE OF INDIANA)

FINANCIAL STATEMENTS
December 31, 2022

PORTS OF INDIANA
(A COMPONENT UNIT OF THE STATE OF INDIANA)
Indianapolis, Indiana

BASIC FINANCIAL STATEMENTS
December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

The Members of the Commission
Ports of Indiana
Indianapolis, Indiana

Report on the Audit of the Financial Statements***Opinion***

We have audited the financial statements of the Ports of Indiana (Ports), a component unit of the State of Indiana, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Ports' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Ports, as of December 31, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Ports, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in 2022, the Ports adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Ports' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ports' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Ports' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Ports' Proportionate Share of the Net Pension Liability-PERF and the Schedule of the Ports' Contributions-PERF on pages 3-6 and 25-26 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



Crowe LLP

Indianapolis, Indiana
September 15, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2022

This section of the annual financial report presents a discussion and analysis of the Ports of Indiana's financial performance for the calendar year ended December 31, 2022. Please read it in conjunction with the Ports of Indiana's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Net position increased by \$8,705,782 for 2022. Operating income before depreciation was \$7,902,783. In addition to preparing operating budgets, the Ports of Indiana conducts a longer-term capital planning and budgeting process that projects the on-going needs for maintenance of existing ports assets, strategic acquisition of adjacent port land, as well as future infrastructure requirements for developed and undeveloped port land. The capital plan typically projects out activities for 15 years and is updated annually. The long-term capital plan projects approximately \$205,789,219 of capital expenditures will be incurred through 2036 to maintain and support the infrastructure at the three Ports locations. Capital budgets are funded by the operations of the Ports of Indiana.

For the year ended December 31, 2022, the Board of Commissioners has established a designated \$22,000,000 of unrestricted net position as strategic reserves for infrastructure improvements at its three Port locations which is reported as noncurrent asset.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the notes to the financial statements.

The Ports of Indiana's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Position. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the Ports of Indiana are included in the Statements of Net Position.

The financial statements provide both long and short-term information about the Ports of Indiana's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detail.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2022

FINANCIAL ANALYSIS

Net Position

The Ports of Indiana's total assets as of December 31, 2022 reached \$236,146,739. This represents an increase in 2022 of approximately \$60.7 million, or 34.5% percent from the prior year. A significant portion of the increase relates to the creation of a lease receivable balance from the adoption of GASB 87 which approximated \$52.4 million at December 31, 2022. Total assets also increased as a result of positive cash flows from operations and continued investment in capital assets around the ports. Total liabilities amounted to \$4,896,497, an increase of \$744,696 or 17.9% percent from 2021. The increase in total liabilities is mainly attributed the creation of lease payable balance from the adoption of GASB 87 for office space and an increase in the net pension liability from the PERF pension plan. The increase in deferred inflows of resources is mainly attributed to the GASB 87 adoption for the corresponding impact of the lease receivable noted within total assets. Total net position amounted to \$175,525,307, an increase of \$8,705,782, or 5.2% percent (See Table 1).

Table 1			
Net Position			
	<u>2022</u>	<u>2021</u>	<u>\$ Change</u>
Assets:			
Current assets	\$ 46,366,331	\$ 32,075,581	\$ 14,290,750
Non-current assets (**)	65,226,994	22,000,000	43,226,994
Capital	<u>124,553,414</u>	<u>121,385,429</u>	<u>3,167,985</u>
Total assets	<u>236,146,739</u>	<u>175,461,010</u>	<u>60,685,729</u>
Deferred outflow of resources	<u>674,334</u>	<u>643,271</u>	<u>31,063</u>
Liabilities:			
Current liabilities	3,074,337	3,508,545	(434,208)
Non-current liabilities	<u>1,822,160</u>	<u>643,256</u>	<u>1,178,904</u>
Total liabilities	<u>4,896,497</u>	<u>4,151,801</u>	<u>744,696</u>
Deferred inflow of resources	<u>56,399,269</u>	<u>5,132,955</u>	<u>51,266,314</u>
Net position:			
Invested in capital assets	124,553,414	120,047,080	4,506,334
Unrestricted (**)	<u>50,971,893</u>	<u>46,772,445</u>	<u>4,199,448</u>
Total net position	<u>\$ 175,525,307</u>	<u>\$ 166,819,525</u>	<u>\$ 8,705,782</u>

**For the years ended December 31, 2022, and 2021, the Board of Commissioners has designated \$22,000,000 of unrestricted net position as strategic reserves for land acquisitions, special projects, required maintenance, and emergency infrastructure improvements at its three Port locations.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2022

Changes in Net Position

The change in net position at December 31, 2022 was \$8,705,782 or 5.2%. The Ports of Indiana's total operating revenues increased by \$2,625,532 or 16.2%. Total operating expenses before depreciation increased by \$4,437,627 or 68.8%. The changes in net position are detailed in Table 2 and operating expenses are detailed in Table 3.

Table 2			
Changes in Net Position			
	<u>2022</u>	<u>2021</u>	<u>\$ Change</u>
Operating revenue:			
Maritime services	\$ 18,655,601	\$ 16,096,782	\$ 2,558,819
Other	<u>133,535</u>	<u>66,822</u>	<u>66,713</u>
Total operating revenues	<u>18,789,136</u>	<u>16,163,604</u>	<u>2,625,532</u>
Operating expenses:			
Operating expenses	10,886,353	6,448,726	4,437,627
Depreciation	<u>2,553,843</u>	<u>1,958,511</u>	<u>595,332</u>
Total operating expenses	<u>13,440,196</u>	<u>8,407,237</u>	<u>5,032,959</u>
Operating income	5,348,940	7,756,367	(2,407,427)
Non-operating revenues	2,763,490	43,052	2,720,438
Capital contributions	<u>593,352</u>	<u>6,399,112</u>	<u>(5,805,760)</u>
Change in net position	8,705,782	14,198,531	(5,492,749)
Net position, beginning of year	<u>166,819,525</u>	<u>152,620,994</u>	<u>14,198,531</u>
Total net position, end of year	<u>\$ 175,525,307</u>	<u>\$ 166,819,525</u>	<u>\$ 8,705,782</u>

Revenues: Operating revenues from maritime services increased by \$2,558,819 or 15.9% in 2022 from 2021. The increase resulted primarily from an increase in rail revenue as a full year of the new switching model in Mount Vernon has been operating.

In 2022, key non-operating activity included investment income of \$545,454 and lease interest income of \$1,578,092 from the adoption of GASB Statement No. 87. In 2021, key non-operating activity included investment income of \$41,413.

Capital contributions decreased by \$5,839,985 in 2022 compared to 2021. In 2022, capital contributions include \$593,350 of federal grant reimbursements. In 2021, capital contributions include \$6,399,112 of federal grant reimbursements.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2022

Expenses: Total operating expenses increased by \$5,032,959 or 59.9%, in 2022. The increase in operating expenses from 2021 to 2022 is primarily due to an increase in engineering and other professional services for an increase in outsourced consulting work compared to 2021 and an increase in rail operator fees due to the new switching model in Mount Vernon that was fully operational in 2022. Operating expenses, not including depreciation, increased by \$4,437,627 or 68.8% in 2022. Additionally, utility cost continued to climb as the increase from 2021 to 2022 was 215,744 or 140.5%. Operating expenses are summarized as follows:

Table 3 Operating Expenses			
Expense Category	2022	2021	\$ Change
Labor and fringe benefits	\$ 3,786,948	\$ 3,444,546	\$ 342,402
Travel and training	44,363	56,136	(11,773)
Security services	324,222	316,080	8,142
Legal services	358,223	610,547	(252,324)
Accounting services	45,577	42,650	2,927
Computer services	158,152	164,026	(5,874)
Engineering and other professional services	2,935,973	619,148	2,316,825
Rail operator fees	1,932,030	119,804	1,812,226
Advertising and public relations	74,903	84,490	(9,587)
Insurance	352,157	361,268	(9,111)
Property rentals	108,854	106,975	1,879
Office expenses	71,457	69,559	1,898
Business association memberships	174,844	123,129	51,715
Utilities	369,257	153,513	215,744
Maintenance	130,923	163,935	(33,012)
Other	18,470	12,920	5,550
Operating expenses before depreciation	<u>10,886,353</u>	<u>6,448,726</u>	<u>4,437,627</u>
Depreciation	<u>2,553,843</u>	<u>1,958,511</u>	<u>595,332</u>
Total operating expenses	<u>\$ 13,440,196</u>	<u>\$ 8,407,237</u>	<u>\$ 5,032,959</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2022 and 2021, the Ports of Indiana had invested \$124,553,414 and \$121,385,429 in capital assets, net of accumulated depreciation. As compared to the prior year, this amount represents an increase of \$3,167,985. Construction in process totals \$11,489,769 and \$33,382,913 as of December 31, 2022 and 2021. Key ongoing construction projects include the Fastlane project at Burns Harbor. See Note 3 for capital asset activity.

There is no outstanding debt as of December 31, 2022 and 2021.

CURRENTLY KNOWN FACTS

Other than the uncertainty of general economic indicators on the Ports of Indiana and its customers, there are no significant facts, decisions or conditions that are expected that management believes will have a significant impact on the financial position or results of operations.

This financial report was designed to provide our stakeholders, patrons, and other interested parties with a general overview of the Ports of Indiana's finances and to demonstrate the Ports of Indiana's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Ports of Indiana at (317) 232-9200.

PORTS OF INDIANA
STATEMENT OF NET POSITION
December 31, 2022

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 24,088,296
Investments (Note 2)	9,163,936
Trade accounts and other receivables, net	2,363,301
Grants receivable	593,350
Leases receivable (Note 4)	9,633,232
Prepaid expenses	<u>524,216</u>
Total current assets	<u>46,366,331</u>

Noncurrent assets:

Investments (Note 2)	22,000,000
Non-depreciable capital assets (Note 3)	41,674,640
Depreciable capital assets, net (Note 3)	82,878,774
Leases receivable (Note 4)	42,762,824
Right of use lease asset, net (Note 4)	<u>464,170</u>
Total noncurrent assets	<u>189,780,408</u>

Total assets 236,146,739

Deferred outflows of resources

Pension (Note 8)	<u>674,334</u>
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Total assets and deferred outflows of resources \$ 236,821,073

Liabilities

Current liabilities:

Accounts payable and other accrued expenses	\$ 2,979,672
Lease payable (Note 4)	<u>94,665</u>
Total current liabilities	3,074,337

Non-current liabilities:

Lease payable (Note 4)	369,505
Net pension liability (Note 8)	<u>1,452,655</u>
Total non-current liabilities	<u>1,822,160</u>

Total liabilities 4,896,497

Deferred inflows of resources

Sale of future revenues (Note 1)	4,078,964
Leases (Note 4)	52,168,117
Pension (Note 8)	<u>152,188</u>
Total deferred inflows of resources	<u>56,399,269</u>

Net position

Net investment in capital assets	124,553,414
Unrestricted	<u>50,971,893</u>
Total net position	<u>175,525,307</u>

Total liabilities, deferred inflows of resources, and net position \$ 236,821,073

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31, 2022

Operating revenues	
Maritime services	\$ 4,981,920
Facility lease and storage	8,653,636
Rail and other user fees	4,923,045
Foreign trade zone fees	97,000
Other	<u>133,535</u>
Total operating revenues	18,789,136
Operating expenses before depreciation	
Labor and fringe benefits	3,786,948
Maintenance	130,923
Engineering and other professional services	2,935,973
Rail operator fees	1,932,030
Other operating expenses	<u>2,100,479</u>
Total operating expenses before depreciation	<u>10,886,353</u>
Operating income before depreciation	7,902,783
Depreciation expense	<u>2,553,843</u>
Operating income	5,348,940
Non-operating revenues	
Net investment income	545,454
Lease interest income	1,578,092
Other income	<u>639,944</u>
Total non-operating revenues	<u>2,763,490</u>
Income before capital contributions	8,112,430
Capital contributions	<u>593,352</u>
Change in net position	8,705,782
Net position, at beginning of year	<u>166,819,525</u>
Net position, at end of year	<u>\$ 175,525,307</u>

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENT OF CASH FLOWS
Year ended December 31, 2022

Cash flows from operating activities:	
Receipts from customers and users	\$ 17,144,110
Payments to suppliers	(6,183,060)
Payments to employees	(3,033,200)
Payments of employee benefits	<u>(1,033,608)</u>
Net cash provided by operating activities	6,894,242
Cash flows from capital and related financing activities:	
Receipt of option fees and other income	639,944
Receipt of capital contributions from federal sources	4,488,614
Purchases for acquisitions and construction of capital assets	<u>(7,060,175)</u>
Net cash used in capital and related financing	(1,931,617)
Cash flows from investing activities:	
Investment income received	311,051
Purchases of investments	(3,750,000)
Lease interest income received	<u>1,578,092</u>
Net cash used in investing activities	<u>(1,860,857)</u>
Net change in cash and cash equivalents	3,101,768
Cash and cash equivalents, beginning of year	<u>20,986,528</u>
Cash and cash equivalents, end of year	<u>\$ 24,088,296</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 5,348,942
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,553,843
Changes in assets and liabilities:	
Trade accounts receivable	(1,417,091)
Lease receivable	3,391,938
Prepaid expenses	(49,522)
Right of use asset	(82,819)
Deferred outflows – pension liability	(31,063)
Accounts payable	809,476
Lease payable	82,819
Net pension liability	809,399
Deferred inflows – leases	(3,619,877)
Deferred inflows – pension liability	<u>(901,803)</u>
Net cash provided by operating activities	<u>\$ 6,894,242</u>

See accompanying notes to financial statements.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Ports of Indiana (or “Ports”) is a body both Corporate and Politic created under Indiana Code Section 8-10-1-3 enacted by the General Assembly of the State of Indiana. The Ports of Indiana is authorized to construct, maintain and operate public ports with terminal facilities and traffic exchange points for all forms of transportation on Lake Michigan and the Ohio and Wabash Rivers. The Commission consists of seven members appointed by the Governor. Accordingly, it is a component unit of the State of Indiana. Operating and capital funds are derived from port activities; however, capital funds are periodically provided through state and federal grants.

The Ports of Indiana’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include all the accounts of the Ports of Indiana and its subsidiary, The Indiana Ports Railroad Holding Corporation (Railroad Holding Corporation). The Railroad Holding Corporation is a not-for-profit entity, which is the parent of the wholly owned subsidiaries of Clark Shortline Railroad Co., Burns Harbor Shortline Railroad Co., and Southwind Railroad Co. There is not a separate audit report issued for the entity.

Measurement Focus, Basis of Accounting and Financial Reporting: The accounting policies of the Ports of Indiana conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The principle operating revenues of the Ports includes maritime fees, facility rental fees, and other user fees. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Ports of Indiana accounts are organized into a single proprietary fund. The Ports of Indiana’s operations are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing services on a continuing basis be financed and recovered primarily through user charges. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions include revenue recognized from federal grants funding ongoing capital projects.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Ports of Indiana has adopted GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.”

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflow of resources at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents: Cash equivalents consist of short-term, liquid investments which are readily convertible into cash or which have an original maturity of 30 days or less.

Investments: The Ports accounts for its investments at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of net investment income in the statements of revenues, expenses, and changes in net position.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade Accounts Receivable: Operating revenues include rental income derived from leasing port property and from maritime revenues. Amounts due from certain lease agreements are billed and recognized over the appropriate lease term. Trade receivables are reported at an amount that is net of advance billings.

Grants Receivable: Grants receivable represents federal grant expenditures incurred but not yet claimed or reimbursed from grantors as of December 31, 2022. Revenue is reported as capital contributions.

Allowance for Uncollectible Accounts: The allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances and general economic conditions. Periodically, management reviews accounts receivable and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with the collection policy. Management estimated that no material allowance was necessary at December 31, 2022 for trade or grants receivable.

Lease Receivable and Deferred Inflows from Resources - Leases: The Ports is engaged in leasing various facilities to tenants under lease agreements. At the commencement of a lease, the Ports initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Ports determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The Ports uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Ports monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Capital Assets: Capital assets are stated at cost or acquisition value at date of gift, if donated. The Ports of Indiana capitalizes additions and improvements that have a value over \$500 and a useful life beyond one year. Depreciation is charged as an operating expense using the straight-line method over the estimated useful lives of the respective assets. Construction in progress consists of the costs of construction contracts and direct engineering costs incurred in the design and construction of port properties. Projects are capitalized when substantially complete. Land and harbor improvements consist of both depreciable and non-depreciable types of assets. Infrastructure assets are capitalized. Estimated useful lives used in computing depreciation on property and equipment are as follows:

	<u>Years</u>
Land improvements	5 - 50
Harbor improvements	25 - 40
Dock and mooring facilities	10 - 40
Buildings and structures	5 - 30
Machinery and equipment	5 - 20
Office furniture and equipment	5 - 10
Trucks and autos	5

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Noncurrent Cash and Investments: At December 31, 2022, the Board of Commissioners has designated \$22,000,000, respectively, of cash and investments as a strategic reserve for land acquisitions, special projects, required maintenance, and emergency infrastructure improvements, which are classified as noncurrent assets in the statement of net position because of their long-term nature.

Lease Payable: The Ports is a lessee for a noncancellable lease of office space. The Ports recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements. The Ports recognizes lease liabilities with an initial, individual value of \$500 or more.

At the commencement of a lease, the Ports initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Ports determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The Ports uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Ports generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments.

The Ports monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Net Pension Liability: The Ports has recorded a net pension liability reflecting their proportionate share of the difference between the total pension liabilities and the fiduciary net positions of the Indiana Public Retirement System (INPRS) PERF Plan. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of INPRS PERF Plan and additions to/deductions from the INPRS PERF Plan fiduciary net position have been determined on the same basis as they are reported by the INPRS system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources - Pension: Deferred outflows of resources represent a consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period. The Ports' activities are related to recognition of changes in its defined benefit plan's net pension liability that will be amortized in future periods.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources - Sale of Future Revenues: During 2017, the Ports entered into an agreement with a third party to serve as the exclusive operator of the bulk load out terminal at the Port of Indiana – Jeffersonville. The agreement has an original term of ten years with the option to renew for an additional five years. The third party paid \$3,000,000 in consideration for the right to charge other parties for use of the bulk terminal over the lease term and must also pay annual operating fees, tonnage fees, and meet a guaranteed minimum tonnage threshold outlined in the agreement. The Ports and the third party have also agreed to share in the financial responsibility of “non-essential” items relating to the ongoing construction of the bulk terminal. The third party also paid \$1,078,964 for additional capital related costs not yet incurred by the Ports. In accordance with GASB Statement No. 48 and clarified by GASB Statement No. 65, the payment received in consideration for the right to future revenues as the exclusive operator of the bulk terminal has been recorded as a deferred inflow of resource. Revenue will be recognized straight line over the course of the ten-year lease term upon completion of the project. At December 31, 2022, the construction of the bulk load-out terminal is in progress and expected to be completed during 2023, therefore no revenue has been recognized.

Net Position: Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the statements of net position. Net position is reported as:

- Unrestricted which may be designated for specific purposes at the option of the Board of Commissioners.
- Restricted when there are legal limitations imposed on their use by laws or regulations of other governments or external restrictions by creditors or grantors.
- Net Investment in Capital Assets which consists of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, notes or other borrowings, and payables that are attributable to the acquisition, construction or improvement of those assets.

Restricted Asset Spending Policy: Restricted assets are released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events. When expenditures are eligible to be paid from either restricted or unrestricted resources, it is the policy to apply restricted resources first, then unrestricted resources as needed.

Adoption of New Accounting Pronouncements: For the year ended December 31, 2022, the Ports adopted the following accounting pronouncements.

- GASB Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the entity’s leasing activities.

The Ports implemented this statement for the year ended December 31, 2022. As a result of implementation, the Ports reported a lease receivable of approximately \$55,788,000 and a corresponding deferred inflow of resource for the same amount as of January 1, 2022 for lease arrangements subject to GASB 87 where Ports is a lessor. The Ports also recognized a right of use asset of approximately \$547,000 and a corresponding lease liability for the same amount as of January 1, 2022 for lessee activity. There was no net impact on the beginning net position as a result of the implementation.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 91, *Conduit Debt Obligations*, effective for periods beginning after December 15, 2021 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. There was no impact on the Ports as a result of the implementation of this standard.
- GASB Statement No. 92, *Omnibus 2020*, enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. There was no impact on the Ports as a result of the implementation of this standard.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, addresses accounting and financial reporting implications that result from the replacement of an IBOR. There was no impact on the Ports as a result of the implementation of this standard.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. This statement requires that Section 457 plans be classified as pension or other employee benefit plans and clarifies that the provisions of *GASB Statement 84* should be applied to IRC Section 457 plans to determine whether those arrangements should be reported as fiduciary activities. This statement is effective for periods beginning after June 15, 2021. Certain provisions were effective immediately and the Ports implemented those provisions with no material impact to its financial statements. The Ports has implemented the remaining provisions of this statement during the year ended December 31, 2022.

NOTE 2 - DEPOSITS AND INVESTMENTS

Pursuant to Indiana Code Section 5-13-4-21, the Ports of Indiana is not subject to Indiana code 5-13-10.5 (the Public Funds Statute). However, the Ports of Indiana voluntarily includes in its investment policy those investments that qualify under the Public Funds Statute. Investment objectives, in order of importance, are:

- Preserving capital
- Meeting liquidity needs
- Achieving a market rate of return on investments
- Long term growth in assets in excess of the capital requirements for the development of the ports

Portfolio assets shall be invested 100% in fixed income securities, including U.S. Treasuries, or securities guaranteed by the US and agencies, certificates of deposit, fully collateralized repurchase agreements, government money market funds, and corporate bonds meeting certain credit quality ratings. Investments in deposits or certificates of deposit can only be held to the extent of FDIC coverage.

Interest Rate Risk: A formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Individual securities purchased are to be limited to those with maturities of 5 years or less from the time of purchase with a maximum of 25% of the investments maturing in the 2- to 5-year time frame.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: The Ports' general investment policy is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. At December 31, 2022, all funds were held at banks in accounts either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000 or collateralized with securities of the U.S. Government or in municipal obligations with the appropriate credit rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Ports' will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Ports' investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for Ports' investment or any other high-quality, interest-bearing security rated at least A-1+ by Standard & Poor's or MIG-1 by Moody's. The Ports' is fully collateralized as of December 31, 2022.

Concentration of Credit Risk: The Ports' places a 10 percent limit on the amount the Ports' may invest in any one issuer except securities that are backed by the full faith and credit of the United States Treasury, or fully guaranteed by the United States and issued by the U.S. Treasury, a federal agency, a federal instrumentality or federal government sponsored enterprise.

Operating Cash: The carrying amount of operating cash was \$24,088,296 at December 31, 2022, while the bank balance was \$24,034,590. The difference relates to outstanding checks at December 31, 2022. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000 or collateralized with securities of the U.S. Government held in the Ports' name by financial institutions acting as the Ports' agent.

Investments: Investments consist of money market funds and certificates of deposit. Certificates of deposit amounted to \$28,049,237 at December 31, 2022. In accordance with Ports' policy, certificates of deposit were fully collateralized with securities of the U.S. Government. All investment collateral is held in safekeeping in the Ports' name by financial institutions acting as the Ports' agent. Collateral is priced to market semi-monthly and monitored regularly with additional collateral requested as necessary.

Fair Values: The Ports' categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The Ports has money market funds (Level 1) of \$3,114,699 and negotiable certificates of deposit (Level 2) of \$28,049,237 at December 31, 2022, which are valued at fair value.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the Ports' investments at December 31, 2022.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>Less than One Year</u>	<u>One to Five Years</u>
<u>2022</u>			
Money market funds	\$ 3,114,699	\$ 3,114,699	\$ -
Certificates of deposit	<u>28,049,237</u>	<u>15,056,155</u>	<u>12,993,082</u>
Total	<u>\$ 31,163,936</u>	<u>\$ 18,170,854</u>	<u>\$ 12,993,082</u>

NOTE 3 - CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2022:

Non-depreciable capital assets:

Land	\$ 30,184,871
Construction in progress	<u>11,489,769</u>
	41,674,640

Depreciable capital assets:

Land improvements	47,047,467
Harbor improvements	23,569,049
Docks and mooring facilities	50,428,417
Buildings and structures	51,646,777
Machinery and equipment	3,623,219
Office furniture and equipment	2,330,620
Trucks and automobiles	<u>929,780</u>
	<u>179,575,329</u>

Total capital assets	221,249,969
Less accumulated depreciation	<u>(96,696,555)</u>

Total capital assets, net of accumulated depreciation \$ 124,553,414

Land and construction in progress are not subject to depreciation.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 3 - CAPITAL ASSETS (Continued)

Capital asset activity for 2022 included:

	<u>Capital Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
<u>2022</u>				
Beginning balance	\$ 182,145,228	\$ 33,382,913	\$ 215,528,141	\$ (94,142,712)
Additions	29,962	6,676,036	6,705,998	-
Retirements	-	(984,170)	(984,170)	-
Transfers	27,585,010	(27,585,010)	-	-
Depreciation	-	-	-	(2,553,843)
Ending balance	<u>\$ 209,760,200</u>	<u>\$ 11,489,769</u>	<u>\$ 221,249,969</u>	<u>\$ (96,696,555)</u>

NOTE 4 - LEASES

Lease Receivable: The Ports' is engaged in leasing land and buildings at Port locations to tenants under non-cancelable lease arrangements. The lease agreements may include property rental and annual minimums on cargo tonnage at a tariff rate per ton based on the type of cargo shipped in and out of the ports. The Ports, as a lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term. As lessor, the asset underlying the lease is not derecognized. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods. These leases range in expiration dates through 2067.

The receivable on these leases is discounted to the net present value at the commencement of the lease term. The discount rates are based on the Commission's incremental borrowing rate which ranges from 1.87% to 7.14%. As of December 31, 2022, the net present value of the lease receivable totaled \$52,396,056. The Ports also recognized deferred inflows of resources totaling \$52,168,117 related to these leases as of December 31, 2022.

Lease revenue from land and building leases and minimum tonnage arrangements totaled \$8,019,962 and \$2,631,004, respectively, and is recognized as facility lease and storage revenue or maritime services revenue on the Statement of Revenues, Expenses, and Changes in Net Position. The difference between these amounts and revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position is due to variable payments received from customers during the reporting period or short-term leases not subject to GASB Statement No. 87.

The Ports recognized lease interest revenue of \$1,578,092 for the year ended December 31, 2022.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 4 – LEASES (Continued)

The approximate future minimum lease payments to be received in each of the five succeeding years and thereafter under non-cancelable operating leases are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 9,633,232	\$ 1,418,286	\$ 11,051,518
2024	6,995,678	1,173,326	8,169,004
2025	6,293,517	971,373	7,264,890
2026	5,844,713	788,444	6,633,157
2027	4,285,395	634,710	4,920,105
2028-2032	12,019,609	1,862,752	13,882,361
2033-2037	2,316,052	943,043	3,259,095
2038-2042	1,343,754	641,923	1,985,677
2043-2047	620,100	507,025	1,127,125
2048-2052	720,157	406,968	1,127,125
2053-2057	836,892	290,233	1,127,125
2058-2062	972,217	154,908	1,127,125
2063-2067	514,740	19,911	534,651
	<u>\$ 52,396,056</u>	<u>\$ 9,812,902</u>	<u>\$ 62,208,958</u>

Lease Payable: The Ports, as lessee, leases office space under an operating lease that expires on June 30, 2027. As of December 31, 2022, the value of the lease payable was \$464,170. The Ports is required to make monthly principal and interest payments. The lease has an interest rate of 3.13%.

The future principal and interest lease payments as of December 31, 2022, were as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 94,666	\$ 13,184	\$ 107,850
2024	99,380	10,154	109,534
2025	104,299	6,974	111,273
2026	109,430	2,797	112,227
2027	56,395	516	56,911
	<u>\$ 464,170</u>	<u>\$ 33,625</u>	<u>\$ 497,795</u>

Right of Use Lease Asset: The Ports has recognized a corresponding right of use lease asset for the office space lease which is being amortized over the life of the lease. As of December 31, 2022, the Ports recognized a right of use asset with net book value of \$464,170. Amortization expense was \$81,424 for the year ended December 31, 2022.

NOTE 5 - CONTINGENCIES

The Ports of Indiana is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. For the year ended December 31, 2022, the Ports has purchased commercial insurance policies covering risks of loss related to the above-mentioned events. There were no significant reductions in insurance coverage during 2022 and there were no settlements that exceeded insurance coverage during any of the past three fiscal years for those risks that the Ports purchased insurance.

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NOTE 6 - DEFERRED COMPENSATION BENEFITS

The Ports of Indiana offers two deferred compensation plans to all its employees under plans administered by Nationwide Retirement Solutions, Inc. (Nationwide) and State of Indiana Public Employee Deferred Compensation Plan (Hoosier S.T.A.R.T) which is a multiple employer plan, and each is established in accordance with Internal Revenue Code Section 457. Employees are permitted to defer a portion of their salary until future years. Only upon terminations, retirement, death, or an unforeseen emergency is the deferred compensation available to an employee. Federal House Bill 3448 mandated that, effective January 1, 2000; all existing Internal Revenue Code Section 457 plan assets must be held in a qualified trust for the benefit of participants and their beneficiaries. There are no employer contributions to the plans.

Because these assets are held by a custodian for the specific benefit of participants and their beneficiaries, they are not reflected in the financial statements and are free from claims of Ports of Indiana creditors. The fair market value of Nationwide investments held in custodial funds for participants was \$948,130 at December 31, 2022. The fair market value of Hoosier S.T.A.R.T investments held in custodial funds for participants was \$291,232 as of December 31, 2022.

NOTE 7 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF)

The Ports of Indiana contributes to the Public Employees' Retirement Fund (PERF), which is administered by the Indiana Public Retirement System (INPRS).

Public Employees' Retirement System - Defined Benefit Plan

Plan Description: PERF Defined Benefit (DB) is a cost-sharing, multiple-employer defined benefit fund providing retirement, disability, and survivor benefits to fulltime employees of the State of Indiana not covered by another plan and those political subdivisions (counties, cities, townships, and other governmental units) that elect to participate in the retirement fund. Administration of the fund is generally in accordance with IC 5-10.2, IC 5-10.3, and 35 IAC 1.2 and other Indiana pension law. PERF DB is a component of the Public Employees Hybrid plan (PERF Hybrid).

PERF Hybrid consists of two components: PERF DB, the employer-funded monthly defined benefit component, along with the Public Employees' Hybrid Members Defined Contribution Account (see Defined Contribution Plans section), a member-funded account.

Retirement benefits provided: A member is entitled to a full retirement benefit 1) at age 65 with at least 10 years of creditable service (eight years for certain elected officials), 2) at age 60 with at least 15 years of creditable service, 3) at age 55 if age and creditable service total at least 85, 4) at age 55 with 20 years of creditable service and active as an elected official in the PERF-covered position, or 5) at age 70 with 20 years of creditable service and still active in the PERF-covered position. A member is entitled to an early retirement benefit at age 50 and a minimum of 15 years of creditable service. The benefit is reduced to 44 percent of full benefit at age 50, increasing five percent per year up to 89 percent at age 59.

The lifetime annual benefit equals years of creditable service multiplied by the average highest five-year annual salary multiplied by 1.1 percent (minimum of \$180 per month). Average annual compensation is outlined in IC 5-10.2-4-3 and includes compensation of not more than \$2,000 received from the employer in severance.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 7 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

Postretirement benefit increases are granted on an ad hoc basis pursuant to IC 5-10.2-12-4 and administered by the INPRS Board. For the year ended June 30, 2022, postretirement benefits of \$4.1 million were issued to members as a COLA.

Disability and survivor benefits provided: An active member qualifying for Social Security disability with five years of creditable service may receive an unreduced retirement benefit for the duration of their disability (minimum of \$180 per month). If a member dies after June 30, 2018, a spouse or dependent beneficiary of a member with a minimum of 10 years of creditable service receives a benefit as if the member retired the later of age 50 or the age the day before the member's death. If a member dies while receiving a benefit, a beneficiary receives the benefit associated with the member's selected form of payment Five Year Certain & Life, Joint with 100 percent Survivor Benefits, Joints with Two-Thirds Benefits, or Joint with One-Half Survivor Benefits.

Contributions: Contributions are determined by the INPRS Board of Trustees based on an actuarial valuation. During fiscal year 2022, all participating employers were required to contribute 11.2 percent of covered payroll for Hybrid members, with 0.44 percent funding a supplemental reserve account for postretirement benefits. No member contributions are required.

The employer contribution requirement, which was made by the Ports for 2022, was \$319,020, which represents the required 11.2 percent of covered payroll.

The following represents the Ports' annual required contributions for the last two years:

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2022	\$ 319,020	100%
2021	292,948	100%

Financial Report: INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Actuarial Assumptions: The total pension liability is determined by INPRS actuaries in accordance with GASB No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

- Measurement Date – June 30, 2022
- Asset valuation date – June 30, 2022
- Liability valuation date – June 30, 2021 – The TPL as of June 30, 2022 was determined based on an actuarial valuation prepared as of June 30, 2021 rolled forward one year to June 30, 2022, using the following key assumptions and other inputs, such as benefit accruals and actual benefits payments during that time period.
- Inflation – 2.00%
- Future salary increases, including inflation – 2.65% - 8.65% based on service

(Continued)

NOTE 7 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

- Investment rate of return – 6.25%, net of investment expenses
- COLA – As of June 30, 2022: Members in pay status were granted a 1.0% COLA on January 1, 2022 and no COLA on January 1, 2023. Therefore, the COLA assumption will be 0.4% beginning on January 1, 2024, 0.5% beginning on January 1, 2034, and 0.6% beginning on January 1, 2039.
- Mortality assumptions – Pub-2010 Public Retirement Plans Mortality Tables (Amount-Weighted) with a fully generational projection of mortality improvements using SOA Scale MP-2019.

The most recent comprehensive experience study, based on member experience between June 30, 2014 and June 30, 2019 was completed in February 2020. The demographic assumptions were approved by the Board in June 2020 and were used beginning with the June 30, 2020 actuarial valuation. Economic assumptions were updated and approved by the Board in May 2021 following the completion of an Asset-Liability study and first used in the June 30, 2021 actuarial valuation.

The long-term return expectation for the INPRS defined benefit retirement plan was 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. In order to determine the expected long-term nominal rate of return, the asset class geometric real returns are projected for a 30-year horizon. These returns are combined with a projected covariance matrix and the target asset allocations to create a range of expected long-term real rates of return for the portfolio. A range of possible expected long-term rates of return is created by adding the forecasted inflation to the expected long-term real rates of return and adding an expected contribution to the return due to manager selection. This range ultimately supports the long-term expected rate of return assumption of 6.25% selected by the Board as the discount rate.

The assumption is a long-term assumption and is not expected to change with small fluctuations in the underlying inputs, but may change with a fundamental shift in the underlying market factors or significant asset allocation change.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	<u>Target Asset Allocation</u>	<u>Geometric Basis Long-Term Expected Real Rate of Return*</u>
Public Equity	20.0%	3.6%
Private Equity	15.0%	7.7%
Fixed Income – Ex Inflation-Linked	20.0%	1.4%
Fixed Income – Inflation-Linked	15.0%	(0.3)%
Commodities	10.0%	0.9%
Real Assets	10.0%	3.7%
Absolute Return	5.0%	2.1%
Risk Parity	20.0%	3.8%
Cash and Cash Overlay	N/A	(1.7)%

*The defined benefit plan's target allocation for total exposure is 115%. For the long-term expected rate of return calculation, an additional -15% is allocated to the cash and cash overlay global asset class.

Changes in Assumptions from the Prior Year: There were no changes in actuarial assumptions from the prior year.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 7 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

Discount rate: Total pension liability for the defined benefit pension plan was calculated using the discount rate of 6.25 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 (6.25 percent). Based on these assumptions, the PERF defined benefit pension plan's fiduciary net position was 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.

Sensitivity: Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.25 percent for 2022, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.25%), or one percentage point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current Rate (6.25%)	1% Increase (7.25%)
<u>2022</u>			
Proportionate Share of the Collective Net Pension Liability	\$ 2,454,066	\$ 1,452,655	\$ 617,405

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a stand-alone financial report of INPRS that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2022, the Ports reported a liability of \$1,452,655, for its proportionate share of the net pension liability. The Ports' proportionate share of the net pension liability was based on the Ports' wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2022 measurement date was 0.0004606. This represents a slight decrease from the prior measurement date.

For the year ended December 31, 2022, the Ports recognized pension expense of \$192,951, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$7,210.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 7 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

At December 31, 2022, the Ports reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2022</u>		
Differences between expected and actual experience	\$ 31,324	\$ 5,525
Net difference between projected and actual earnings on pension plan investments	179,273	-
Changes in assumptions	196,755	62,149
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>80,073</u>	<u>84,514</u>
Total that will be recognized in pension expense (income) based on table below	487,425	152,188
Pension contributions subsequent to measurement date	<u>186,910</u>	-
Total	<u>\$ 674,335</u>	<u>\$ 152,188</u>

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2022 measurement date is recognized as a reduction of net pension liability in the year ending December 31, 2023. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5-year period. A change in an employer's proportionate share represents the change as of the current year measurement date versus the prior year measurement date, which is amortized over the average expected remaining service lives of the plan. The difference between an employer's contributions and the employer's proportionate share of the collective contributions is amortized over the average expected remaining service lives of the plan. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 60,104
2024	128,245
2025	(42,747)
2026	<u>189,635</u>
Total	<u>\$ 335,237</u>

Public Employees' Retirement Fund - Defined Contribution Plans

Public Employees' Defined Contribution Plan: The Public Employees' Defined Contribution Plan (PERF DC) is a multiple-employer defined contribution plan providing retirement benefits to full-time employees of the State of Indiana not covered by another plan and those political subdivisions (counties, cities, townships, and other governmental units) that elect to participate in the retirement fund. Administration of the account is in accordance with IC 5-10.2, IC 5-10.3, 35 IAC 1.2 and other Indiana pension law. The plan provides supplemental defined contribution benefits under the PERF Hybrid plan.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 7 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

The Public Employees' Hybrid Members Defined Contribution Account (PERF Hybrid DC) is the defined contribution component of the Public Employees' Hybrid Plan. The Public Employees' Defined Benefit Account (see Defined Benefit Plans section) is the other component of the Public Employees' Hybrid Plan.

Member contributions are set by statute at three percent of compensation, and the employer may choose to make these contributions on behalf of the member. Members are 100 percent vested in their account balance, which includes all contributions and earnings. The Commission has elected to make the required member contributions on behalf of employees.

The Ports made payments on behalf of employees for the three percent of covered payroll member contributions as follows:

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2022	\$ 88,168	100%
2021	82,658	100%

REQUIRED SUPPLEMENTARY INFORMATION

PORTS OF INDIANA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PORTS' PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - PERF
December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Ports' proportion of the net pension liability	0.0004606	0.0004878	0.0004381	0.0004643	0.0004480	0.0004147	0.00040437	0.0003895
Ports' proportionate share of the net pension liability	\$ 1,452,655	\$ 643,256	\$ 1,323,235	\$ 1,534,541	\$ 1,521,876	\$ 1,850,202	\$ 1,834,893	\$ 1,586,395
Ports' covered payroll	\$ 2,650,782	\$ 2,689,375	\$ 2,365,363	\$ 2,419,146	\$ 2,285,974	\$ 2,057,231	\$ 1,937,656	\$ 1,865,849
Ports' proportionate share of the net pension liability as a percentage of its covered payroll	54.80%	23.92%	55.94%	63.43%	66.57%	89.94%	94.70%	85.18%
Plan fiduciary net position as a percentage of the total pension liability	82.50%	92.50%	81.40%	80.10%	78.90%	76.60%	75.30%	77.30%

Notes: The amounts presented for each calendar year were determined as of the June 30 fiscal year-end that occurred within the calendar year.

- Asset valuation date – June 30, 2022
- June 30, 2021 – The TPL as of June 30, 2022 was determined based on an actuarial valuation prepared as of June 30, 2021 rolled forward one year to June 30, 2022, using the following key assumptions and other inputs, such as benefit accruals and actual benefits payments during that time period.
- Actuarial cost method (accounting) – Entry age normal (level percent of payroll)
- Experience study date – Period of 5 years ended June 30, 2019
- Investment rate of return – 6.25%
- COLA – Members in pay status were granted a 1.0% COLA on January 1, 2022 and no COLA on January 1, 2023. Therefore, the COLA assumption will be 0.4% beginning on January 1, 2024, 0.5% beginning on January 1, 2034, and 0.6% beginning on January 1, 2039.
- Future salary increases, including inflation – 2.65% - 8.65% based on service
- Inflation – 2.00%
- Mortality assumptions – Pub-2010 Public Retirement Plans Mortality Tables (Amount-Weighted) with a fully generational projection of mortality improvements using SOA Scale MP-2019.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Ports is presenting information for those years for which information is available.

Measurement date: Actuarial valuation reports from the prior fiscal year.

PORTS OF INDIANA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE PORTS' CONTRIBUTIONS - PERF
 December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 319,020	\$ 292,948	\$ 268,276	\$ 268,999	\$ 282,028	\$ 239,203	\$ 220,601	\$ 212,888
Contributions in relation to the statutorily required contribution	<u>(319,020)</u>	<u>(292,948)</u>	<u>(268,276)</u>	<u>(268,999)</u>	<u>(282,028)</u>	<u>(239,203)</u>	<u>(220,601)</u>	<u>(212,888)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Ports' contributions as a percentage of statutorily required contribution for pension	100%	100%	100%	100%	100%	100%	100%	100%
Port's covered payroll	\$ 2,848,393	\$ 2,615,600	\$ 2,395,300	\$ 2,401,800	\$ 2,518,100	\$ 2,135,700	\$ 1,969,700	\$ 1,900,800
Contributions as a percentage of covered payroll	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Ports is presenting information for those years for which information is available.

Valuation date: Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Actuarial cost method: Entry age normal (Level Percent of Payroll)

Amortization method: Level dollar

Remaining amortization period: 20 years, closed

Asset valuation method: 5 year smoothing of gains and losses on the market value of assets subject to a 20% corridor.

Inflation: 2.00%

Salary increases: 2.65% - 8.65% based on service

Investment rate of return: 6.25%

Mortality: Pub-2010 Public Retirement Plans Mortality Tables (Amount-Weighted) with a fully generational projection of mortality improvements using SOA Scale MP-2019.

Other information: The INPRS Board sets, at its discretion, the State's employer contribution rate upon considering the results of the actuarial valuation and other analysis as appropriate. The employer contribution rate for the year ended June 30, 2022 was 11.20%.

Member census data as of the prior year end was used in the valuation and adjusted, where appropriate, to reflect changes during the current fiscal year. Standard actuarial roll forward techniques were then used to project the liabilities computed as of prior year end to the current year measurement date.