STATE OF INDIANA

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July 26, 2012

Rich Cooper, Chief Executive Officer
Ports of Indiana
150 W. Market Street, Suite 100
Indianapolis, IN 46204

Dear Mr. Cooper:

We have received the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the Government Auditing Standards issued by the Comptroller General of the United States. The financial statements included in the report present fairly the financial condition of the Ports of Indiana as of December 31, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

PORTS OF INDIANA

FINANCIAL STATEMENTS
December 31, 2011 and 2010

PORTS OF INDIANA
Indianapolis, Indiana

FINANCIAL STATEMENTS
December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

The Members of the Commission
Ports of Indiana
Indianapolis, Indiana

We have audited the accompanying statements of net assets of the Ports of Indiana as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Ports of Indiana's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ports of Indiana as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2012 on our consideration of the Ports of Indiana'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Ports of Indiana as a whole. The accompanying Schedule of Port Operating Income before Depreciation and the Schedule of Actual Operating Expenses Compared to Budget is presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
May 25, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

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, 2011. Please read it in conjunction with the Ports of Indiana's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Net assets increased by $6,299,848 for 2011. Operating income before depreciation was $4,600,067. The Board of Commissioners has maintained a designated $11,250,000 of unrestricted net assets as strategic reserves for land acquisitions, special projects, and emergency infrastructure at its three Port locations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements and reports on compliance and internal control over financial reporting.

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 Assets. All assets and liabilities associated with the operation of the Ports of Indiana are included in the Statement of Net Assets.

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 detailed data.

FINANCIAL ANALYSIS

Net Assets

The Ports of Indiana's total assets at December 31, 2011, reached $110,110,749. This represents an increase of $5,909,204 or 5.7 percent from the prior year. Total liabilities amounted to $2,000,599; a decrease of $390,644 or 16.3 percent. Total net assets amounted to $108,110,150 an increase of $6,299,848 or 6.2 percent (See Table 1).

Table 1
Net Assets

	2011	2010	2009
Assets:			
Current assets	$ 21,705,987	$ 17,297,799	$ 27,805,004
Capital	88,123,339	86,441,965	74,932,035
Other assets	281,423	461,781	628,317
Total assets	$ 110,110,749	$ 104,201,545	$ 103,365,356
Liabilities:			
Current liabilities	$ 2,000,599	$ 2,391,243	$ 1,185,232
Non-current liabilities	-	-	4,957,201
Total liabilities	2,000,599	2,391,243	6,142,433
Net assets:			
Invested in capital assets	86,954,254	84,968,471	74,514,295
Unrestricted (**)	21,155,896	16,841,831	22,708,628
Total net assets	108,110,150	101,810,302	97,222,923
Total liabilities and net assets	$ 110,110,749	$ 104,201,545	$ 103,365,356

** - The Board of Commissioners has designated $11,250,000 of unrestricted net assets as strategic reserves for land acquisitions, special projects, and emergency infrastructure at its three Port locations.

Changes in Net Assets

The change in net assets at December 31, 2011, was an increase of $6,299,848, or 6.2 percent. The Ports of Indiana's total operating revenues increased by approximately $546,316, or 6 percent. Total operating expenses before depreciation decreased $471, or .01 percent. The changes in net assets are detailed in Table 2 and operating expenses are detailed in Table 3.

Table 2
Changes in Net Assets

	2011	2010	2009
Operating revenue:			
Maritime services	$ 9,128,927	$ 8,626,995	$ 7,790,096
Other	553,770	509,386	545,432
Total operating revenues	9,682,697	9,136,381	8,335,528
Operating expenses:			
Operating expenses	5,082,630	5,083,101	4,475,858
Depreciation	2,616,617	2,739,503	2,796,471
Total operating expenses	7,699,247	7,822,604	7,272,329
Operating income (loss)	1,983,450	1,313,777	1,063,199
Non-operating revenues (expenses):	4,043,245	326,401	1,383,057
Capital contributions	273,153	2,947,201	42,799
Change in net assets	6,299,848	4,587,379	2,489,055
Total net assets, beginning of year	101,810,302	97,222,923	94,733,868
Total net assets, end of year	$ 108,110,150	$ 101,810,302	$ 97,222,923

Revenues: Operating revenues from maritime services increased by $501,932, or 5.8 percent. The increase resulted primarily from an increase in land/facility rental and user fees. Operating revenues from land/facility rental and user fees increased by $245,361, or 4.4%, and $215,854, or 43.9%, respectively. The facility rental increase resulted from new tenants and an increase in renewal rates for current tenants and a new track usage agreement at Burns Harbor.

Non-operating and capital contributions have increased approximately $1,042,796, or 32 percent. In 2011, this category includes $4,000,000 in insurance proceeds and $273,153 from state and federal programs. In 2010, this category included $326,204 of insurance proceeds and $2,947,201 in capital contributions from private programs. In addition, interest income from investments decreased $147,058, or 97.3% percent. Although the Ports may receive appropriations for specific capital projects from the state of Indiana's legislature, no capital appropriations were made to the Ports in 2011 or 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

Expenses: Total operating expenses decreased $123,357, or 1.6 percent. Operating expenses, not including depreciation, decreased by $471, or .01 percent. The decrease in depreciation expense corresponds with the amounts of projects completed and capitalized within the last few years. Operating expenses are summarized as follows:

Table 3
Operating Expenses

	2011	2010	2009
Labor and fringe benefits	$ 2,487,658	$ 2,649,857	$ 2,511,149
Travel and training	95,628	90,638	97,176
Security services	247,639	245,509	247,181
Legal services	656,746	602,311	246,271
Accounting services	32,000	51,000	32,459
Computer services	61,381	44,221	40,869
Other professional services	206,125	202,431	166,843
Advertising and public relations	241,825	238,981	162,833
Insurance	277,357	271,922	277,224
Property rentals	93,712	94,163	263,661
Office expenses	58,724	58,516	57,185
Business Association memberships	75,548	89,186	84,936
Utilities	110,948	116,175	110,829
Maintenance	429,975	317,265	134,390
Bad Debt Expense	-	432	-
Other	7,364	10,494	42,852
Depreciation	2,616,617	2,739,503	2,796,471
Total operating expenses	$ 7,699,247	$ 7,822,604	$ 7,272,329

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2011, the Ports of Indiana had invested $88,123,339 in capital assets and related assets, net of accumulated depreciation. As compared to the prior year, this amount represents an increase of $1,681,374.

There is no outstanding debt other than construction related payables of $1,169,085 and $1,473,494 at December 31, 2011 and 2010.

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
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 6,595,130	$ 5,679,987
Investments (Note 2)	14,042,658	10,304,722
Accrued interest receivable	-	1,174
Trade accounts receivable, net	602,248	885,707
Other receivables	15,719	2,100
Net investment in direct financing leases (Note 4)	180,358	166,536
Prepaid expenses	269,874	257,573
Total current assets	21,705,987	17,297,799
Noncurrent assets:		
Net investment in direct financing lease (Note 4)	281,423	461,781
Capital assets, net of accumulated depreciation (Note 3)	88,123,339	86,441,965
Total noncurrent assets	88,404,762	86,903,746
Total assets	$ 110,110,749	$ 104,201,545
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued expenses	$ 777,867	$ 911,049
Contracts and retainage payable	1,222,732	1,473,494
Deferred revenue	-	6,700
Total current liabilities	2,000,599	2,391,243
Net assets:		
Invested in capital assets, net of related debt	86,954,254	84,968,471
Unrestricted	21,155,896	16,841,831
	108,110,150	101,810,302
Total liabilities and net assets	$ 110,110,749	$ 104,201,545

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended December 31, 2011 and 2010

	2011	2010
Operating revenues		
Maritime services	$ 2,533,046	$ 2,490,911
Facility rentals and storage	5,826,230	5,580,869
User fees	707,651	491,798
Foreign trade zone fees	62,000	63,417
Other	553,770	509,386
Total operating revenues	9,682,697	9,136,381
Operating expenses before depreciation	5,082,630	5,083,101
Operating income before depreciation	4,600,067	4,053,280
Depreciation expense	2,616,617	2,739,503
Operating income	1,983,450	1,313,777
Non-operating revenues (expenses)		
Net interest income	4,043	151,101
Insurance recovery proceeds	4,000,000	326,204
Gain/(loss) on capital asset dispositions	12,459	(19,107)
Other income (expense)	26,743	(131,797)
Total non-operating revenues (expenses)	4,043,245	326,401
Income before capital contributions	6,026,695	1,640,178
Capital contributions	273,153	2,947,201
Change in net assets	6,299,848	4,587,379
Net assets, at beginning of year	101,810,302	97,222,923
Net assets, at end of year	$ 108,110,150	$ 101,810,302

See accompanying notes to financial statements.

	2011	2010
Cash flows from operating activities:		
Receipts from customers and users	$ 9,966,151	$ 9,000,814
Payments to suppliers	(2,790,664)	(2,391,066)
Payments to employees	(1,843,333)	(1,974,624)
Payments of benefits on behalf of employees	(607,732)	(579,683)
Net cash provided by operating activities	4,724,422	4,055,441
Cash flows from capital and related financing activities:		
Proceeds from insurance recoveries	4,000,000	326,204
Settlement of contract and (payment)/receipt of option fees	(9,054)	(2,135,097)
Proceeds from direct financing leases	166,536	153,773
Receipt of capital contributions	273,153	-
Loss on disposal of property	(12,459)	19,107
Change in retainage and contracts payable	(250,762)	1,055,754
Expenditures for acquisitions and construction of capital assets	(4,284,178)	(13,274,367)
Net cash provided by (used in) capital and related financing	(116,764)	(13,854,626)
Cash flows from investing activities:		
Purchase of investments	(4,000,000)	(1,947,201)
Proceeds from sales and maturities of investments	252,883	8,921,043
Realized and unrealized loss on investments	43,373	50,827
Investment income received	11,229	68,465
Net cash provided by (used in) investing activities	(3,692,515)	7,093,134
Net increase (decrease) in cash and cash equivalents	915,143	(2,706,051)
Cash and cash equivalents, beginning of year	5,679,987	8,386,038
Cash and cash equivalents, end of year	$ 6,595,130	$ 5,679,987
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	$ 1,983,450	$ 1,313,777
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,616,617	2,739,503
Changes in assets and liabilities:		
Trade accounts receivable	283,459	(135,567)
Other receivables	(13,619)	-
Accounts payable	(133,184)	143,557
Prepaid expenses	(12,301)	(5,829)
Net cash provided by operating activities	$ 4,724,422	$ 4,055,441

2011 and 2010 noncash activities: The Ports of Indiana had contracts and retainage payable on related capital assets of $1,169,085 and $1,473,494 at December 31, 2011 and 2010.

(Continued)

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 funds are derived from port activities, however, the majority of capital funds are provided by the state and the federal government.

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. The Railroad Holding Corporation is currently inactive.

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. 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.

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."

The Ports of Indiana has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and liabilities 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.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. Reclassifications had no impact on total net assets, or change in net assets.

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

Trade Accounts Receivable and Deferred Income: Operating revenues include rental income derived from leasing port property. Amounts due from certain lease agreements are billed in advance and recognition of related revenue is deferred and recognized over the appropriate lease term service period. Trade receivables are reported at an amount that is net of advance billings.

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 collection policy. Management estimated that no allowance was necessary at December 31, 2011 and 2010.

Capital Assets: Capital assets are stated at cost or fair market 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 some 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:

	Years
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)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: Net assets present the difference between assets and liabilities in the statements of net assets. Net assets are reported as restricted when there are legal limitations imposed on their use by laws or regulations of other governments or external restrictions by creditors or grantors.

Unrestricted net assets may be designated for specific purposes as the option of the Board of Commissioners. As of December 31, 2011 and 2010, the Board of Commissioners has maintained a designated amount of $11,250,000 of unrestricted net assets as strategic reserves for land acquisitions, special projects, and emergency infrastructure at its three Port locations.

Invested in Capital Assets, Net of Related Debt: This consists of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Asset Spending Policy: Net assets are released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events. When expenditures are incurred for which both restricted and unrestricted resources are available, it is the policy to apply restricted resources first, then unrestricted resources as needed.

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
- Maximizing income
- Meeting liquidity needs
- 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 be held with a designated depository approved under the Public Funds Statute, but only 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 2 years or less from the time of purchase and must be issued by domestic issuers and denominated in U.S. dollars.

Credit Risk: The Port’s 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, 2011, the Port’s investment holdings are maintained entirely as government money market funds.

(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit ratings for investments in fixed income securities as described by Standard & Poor's and Moody's at December 31, 2010 (excluding investments in U.S. Treasuries which are not considered to have credit risk) are as follows:

Investment Type	Credit Ratings	% of Investment Type	% of Total Investments
U.S. Agencies	Aaa	100%	22%
Corporate Obligations	Aaa	100%	34%

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Port's investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for Port's investment or any other high-quality, interest bearing security rated at least AA/Aaa by one or more standard rating service to include Standard & Poor's, Moody's or Fitch. The market value of the pledge securities shall equal or exceed the portion of the deposit requiring collateralization. The Port's is fully collateralized as of December 31, 2011 and 2010.

Concentration of Credit Risk: The Port's places a 10 percent limit on the amount the Port's 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.

Cash: The carrying amount of cash was $6,595,130 and $5,679,987 at December 31, 2011 and 2010, while the bank balances were $6,681,862 and $5,680,354. 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 or with letters of credit issued by the Federal Home Loan Bank held in the Port's name by financial institutions acting as the Port's agent.

Certificates of Deposit: Certificates of deposit amounted to $0 and $250,000 at December 31, 2011 and 2010. In accordance with Port's policy, certificates of deposit were collateralized with securities of the U.S. Government in an amount equal to 110% of the funds on deposit. All investment collateral is held in safekeeping in the Port's name by financial institutions acting as the Port's agent. Collateral is priced to market semi-monthly and monitored regularly with additional collateral requested as necessary.

Fair Values: The following schedule reports the fair values and maturities (using the segmented time distribution method) for the Port's investments at December 31, 2011 and 2010.

2011		Investment Maturities			
Investment Type	Fair value	Less than one year	One to five years	Six to ten years	Greater than ten years
Money market funds	$ 14,042,658	14,042,658	-	-	-
Certificates of deposit	-	-	-	-	-
Corporate obligations	-	-	-	-	-
US Agencies	-	-	-	-	-
Total	$ 14,042,658	14,042,658	-	-	-

(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

2010 Investment Type	Fair value	Investment Maturities Less than one year	One to five years	Six to ten years	Greater than ten years
Cash equivalents	$ 4,311,298	4,311,298	-	-	-
Certificates of deposit	250,000	250,000	-	-	-
Corporate obligations	3,476,254	3,476,254	-	-	-
US Agencies	2,267,170	2,237,170	-	-	-
Total	$ 10,304,722	10,304,722	-	-	-

NOTE 3 - CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2011 and 2010:

	2011	2010
Land	$ 19,418,842	$ 17,297,310
Land improvements	42,947,955	39,700,628
Harbor improvements	20,103,091	19,433,522
Docks and mooring facilities	34,643,699	31,562,035
Buildings and structures	19,108,803	19,108,803
Machinery and equipment	659,775	648,825
Office furniture and equipment	652,072	654,525
Trucks and automobiles	642,088	647,049
Construction in progress	8,802,279	13,926,776
	146,978,604	142,979,473
Accumulated depreciation	(58,855,265)	(56,537,508)
	$ 88,123,339	$ 86,441,965

Land, some harbor improvements, and construction in progress are not subject to depreciation. As of December 31, 2011 and 2010, non-depreciable assets total $37,911,621 and $40,914,587.

Construction in progress includes a major project at the Burns Harbor location. Reconstruction of a collapsed dock wall has been ongoing since mid-2010 is expected to be completed in mid-2012. The total cost to complete this project is approximately $11,200,000.

Capital asset activity for 2010 and 2011 included:

2011	Capital Assets	Construction in Progress	Total	Accumulated Depreciation
Beginning balance	$ 129,052,697	$13,926,776	$ 142,979,473	$ (56,537,508)
Additions	10,359,933	4,288,289	14,648,222	-
Retirements	(1,236,305)	-	(1,236,305)	298,860
Transfers	-	(9,412,786)	(9,412,786)	-
Depreciation	-	-	-	(2,616,617)
Ending balance	$ 138,176,325	$ 8,802,279	$ 146,978,604	$ (58,855,265)

(Continued)

NOTE 3 - CAPITAL ASSETS (Continued)

2010	Capital Assets	Construction in Progress	Total	Accumulated Depreciation
Beginning balance	$ 128,218,581	$ 1,301,121	$ 129,519,702	$ (54,587,667)
Additions	1,642,885	14,197,203	15,840,088	
Retirements	(808,769)	-	(808,769)	789,662
Transfers	-	(1,571,548)	(1,571,548)	
Depreciation	-	-	-	(2,739,503)
Ending balance	$ 129,052,697	$13,926,776	$ 142,979,473	$ (56,537,508)

NOTE 4 - CAPITAL AND OPERATING LEASES

Direct Financing Lease Receivable: During 1994, the Ports of Indiana, as lessor, entered into a 20 year direct financing lease with a tenant for a building originally constructed by the Ports of Indiana. Security agreements were obtained as collateral for the lease receivable. The Ports of Indiana can repossess the structure if the customer defaults on the lease agreement. The components of the Ports of Indiana's investment in the lease at December 31, 2011 and 2010 are as follows:

	2011	2010
Future minimum lease payments receivable	$ 509,392	$ 720,175
Unearned interest income	(47,611)	(91,858)
Long-term net investment in direct financing lease	$ 461,781	$ 628,317

The future minimum lease payments to be received for this are as follows:

Year Ending December 31,	
2012	$ 210,783
2013	210,783
2014	87,826
	$ 509,392

NOTE 4 - CAPITAL AND OPERATING LEASES (Continued)

Operating Leases of a Lessor: The Ports of Indiana is engaged in leasing various properties to tenants under operating leases expiring over the next 1-30 years. The lease agreements 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. A majority of the Ports of Indiana's capital assets are available for lease. The approximate future minimum lease payments to be received in each of the five succeeding years and thereafter under noncancelable operating leases are as follows:

Year Ending December 31,	
2012	$ 8,372,283
2013	7,441,673
2014	5,957,168
2015	5,329,648
2016	4,645,485
2017 - 2021	17,549,857
2022 - 2026	11,915,157
2027 - 2031	4,717,108
2032 - 2036	2,835,383
2037 - 2041	2,011,408
	$ 70,775,170

Operating Lease Obligations: The Ports of Indiana, as lessee, leases office space under an operating lease that expires on December 31, 2012. Rent expense was $93,712 and $102,912 for 2011 and 2010. The minimum annual future lease payment for the office space is $88,555.

NOTE 5 - CONDUIT DEBT OBLIGATIONS

From time to time, the Ports of Indiana has issued Port Revenue Bonds to provide assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are special obligations of the Ports of Indiana payable from and secured solely by a pledge of debt service rentals. Principal and interest is payable from certain amounts payable to the Ports of Indiana by the private-sector entity and the guarantor pursuant to the lease and guarantor agreement. Neither the Ports of Indiana, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds beyond the resources provided by the related lease agreements. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Project and Series	Maturity	Outstanding Principal
Ports of Indiana, Port Refunding Revenue Bonds, Series of 1992 (Cargill Project)	Term bond payment in 2012	$ 21,950,000
Ports of Indiana Port Revenue Bonds, Series 1994 (American Commercial Marine)	Serial payments through 2011 and term bond payments through 2014	720,000
		$ 22,670,000

NOTE 6 - CONTINGENCIES

On December 31, 2007, a significant depression was noted in the asphalt on the dock of the west harbor arm at Burns Harbor. On or about January 2, 2008, a full collapse and failure of a portion of the dock wall was noted. Throughout 2008 and 2009, the Ports of Indiana incurred both legal and engineering costs related to the dock wall. In 2010, those costs continued and reconstruction of the dock wall started. Litigation against the insurance carrier commenced in 2010. During 2011, Ports of Indiana received $4,000,000 in a settlement agreement. Insurance recovery payments of $4,000,000 and $326,204 were received in 2011 and 2010 respectively. Both amounts were recorded in nonoperating revenue.

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 years ended December 31, 2011 and 2010, the Ports has purchased commercial insurance policies covering risks of loss related to the above mentioned events.

NOTE 7 - DEFERRED COMPENSATION BENEFITS

The Ports of Indiana offers two deferred compensation plans to all its employees under plans administered by the Public Employees Benefit Services Corporation (PEBSCO) and Indiana Deferred Compensation (IDC), 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.

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 PEBSCO investments held in custodial funds for participants was $825,347 and $797,840 at December 31, 2011 and 2010. The fair market value of IDC investments held in custodial funds for participants was $213,671 and $214,365 at December 31, 2011 and 2010.

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF)

The Ports of Indiana contributes to PERF, an agent multiple employer public employee retirement system, which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana.

All full-time employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give the Ports of Indiana the right to contribute and govern most requirements of the system, including the benefits, which vest after 10 years of service. Employees who have reached fifty years of age may receive retirement benefits with 15 years of service. An employee may receive benefits at age sixty-five with 10 years of service. Employees are required to contribute 3% of their annual compensation to an annuity savings account. Effective July 1, 1986, legislation permits a PERF employer to make the employee contributions on behalf of the employee. The Ports of Indiana elected to make, on behalf of covered employees, the employees' contribution that may be financed by the employer. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

(Continued)

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

All assets of the plans are held by and invested by PERF. Investments are mainly in obligations of the U.S. Government, federal agencies and in equity securities.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of PERF on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employees. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plan. However, PERF performed an actuarial valuation of the Ports of Indiana's plan as of June 30, 1998 which is included in the Annual Report of the Indiana Public Employees' Retirement Fund for state employees and employees of the various subdivisions of the State of Indiana.

Funding Policy: PERF's funding policy provides for actuarially determined periodic contributions at rates that for individual employers increase gradually over time so that sufficient assets will be available to pay benefits when due. The entry age normal cost method is used to determine the contribution requirements and the actuarial accrued liability.

The annual contribution to PERF is determined as part of the July 1, 2011 actuarial valuation and consists of the amortization of the unfunded actuarial accrued liability (expressed as a level dollar amount), plus the entry age normal cost (expressed as a percentage of total payroll).

Summary of Major Actuarial Assumptions: Actuarial assumptions include:

- Interest - 7.00% (net of administrative and investment expenses)
- Future Salary Increases – Age-based rates ranging from 3.25% - 4.5%, based on 2005-2010 experience.
- Cost of Living Increases - An increase of 1.0% (compounded annually) is assumed to be applied to the pension benefit each year following retirement. No increase is assumed to be applied to the annuitized ASA balances.
- Mortality – 2008 IRS Static Mortality projected with scale AA.
- Disability - Based on PERF experience 1995-2000 for females and 2000 – 2005 experience for males.
- Termination - Select and ultimate tables based on PERF 2005-2010 experience. Separate tables are used for State employees and Political Subdivision employees, earnings above and below $20,000, and gender.
- Retirement - Based on PERF experience 2005-2010.
- Spouse's Benefit - 75% of male members and 60% of female members are assumed to be married and or to have a dependent beneficiary. Male members are assumed to be three (3) years older that their spouses and female members are assumed to be two (2) years younger than their spouses.

(Continued)

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

Summary of Major Plan Provisions: Plan provisions include:

- Participation - All full time employees of the State of Indiana and all full time employees of Political Subdivisions which have adopted the plan become members of PERF upon date of hire.
- Eligibility for annuity benefits:
  - Normal Retirement Earliest of:
    - Age 65 with 10 years of creditable service;
    - Age 60 with 15 years of creditable service;
    - Sum of age and creditable service equal to 85 (but not earlier than age 55).
  - Early Retirement - Age 50 with 15 years of creditable service
  - Late Retirement - Subject to continued employment after normal retirement
  - Disability Retirement - 5 years of creditable service and qualified for Social Security disability benefits or federal Civil Service disability benefits.
  - Termination - 10 years of creditable service and election not to take lump sum payment of employee account balance with interest.
  - Pre-Retirement Death - If death occurs in service, 15 years of creditable service. If death occurs after separating from service, age 50 with 15 years of creditable service.

Amount of Benefits: Benefit amounts include:

- Normal Retirement - The normal retirement benefit is an annuity payable for life with 60 months guaranteed and is equal to 1.1% of average monthly earnings times years of creditable service earned.
- Early Retirement - The early retirement benefit is the accrued retirement benefit determined as of the early retirement date and payable commencing at the normal retirement date. A participant may elect to have the benefit commence prior to normal retirement provided the benefit is reduced by 1/10% for each of the first 60 months and by 5/12% for each of the next 120 months that the benefit commencement date precedes the normal retirement date.
- Late Retirement - The late retirement benefit is calculated in the same manner as the normal retirement benefit. Creditable service and earnings earned after normal retirement is included in the computation.
- Disability Retirement - The disability retirement benefit is the accrued retirement benefit determined as of the disability date and payable commencing the month following disability date without reduction for early commencement.
- Termination - The termination benefit is the accrued retirement benefit determined as of the termination date and payable commencing at 65. If the participant has 15 or more years of creditable service, then the participant may elect to receive a reduced early retirement benefit.
- Pre-Retirement Death - The spouse or dependent beneficiary is entitled to receive the monthly life annuity under the assumption that the participant retired on the later of age 50 or the day before the date of death and elected the joint and full survivor option.
- Employee Contributions - Each participant is required to contribute to an employee annuity at the rate of 3% of pay (unless the employer has opted to make the contribution for the employee). These contributions are kept on deposit and credited with interest until such time as they are refunded or used to provide the annuity benefit at retirement. The benefits provided by employee contributions are in addition to the benefits provided by employer contributions.

(Continued)

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

Schedule of Employer Contributions

Valuation Date	Annual Required Contributions	Actual Employer Contributions	Net Pension Obligation	Net Percentage Contributed
7/1/11	$ 128,334	$ 73,313	$ 15,961	57%
7/1/10	$ 88,116	$ 70,331	$ (39,060)	80%
7/1/09	$ 58,751	$ 78,569	$ (56,845)	134%
7/1/08	$ 27,650	$ 88,887	$ (37,027)	321%
7/1/07	$ 61,366	$ 73,687	$ 24,210	120%

The contributions to PERF were in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2011.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Historical funding information of the system may be found in the Annual Report of the Indiana Public Employees' Retirement Fund.

Schedule of Funding Progress of Ports of Indiana's Participation in the Public Employees Retirement Fund (PERF) (In thousands of dollars)

Actuarial Valuation Date	Non retired Valuation Assets	Actuarial Accrued Liability AAL	Excess of Assets Over (Unfunded) AAL	Funded Ratio	Covered Payroll	Excess/ (Unfunded) liability as a Percentage of Payroll
7/1/11	$ 1,468,582	$ 2,213,572	$ (744,990)	66%	$ 1,666,267	(45%)
7/1/10	$ 1,664,537	$ 1,904,096	$ (239,559)	87%	$ 1,578,950	(15%)
7/1/09	$ 1,807,165	$ 1,668,416	$ 138,749	108%	$ 1,662,343	9%
7/1/08	$ 2,216,203	$ 1,816,774	$ 399,429	122%	$ 1,563,155	37%
7/1/07	$ 2,338,862	$ 1,695,900	$ 642,962	138%	$ 1,267,949	51%

Note: The Ports of Indiana is considered as part of the State of Indiana. The above assets are an allocation based on the Ports of Indiana's percentage of the Accrued Liability. Payroll for employees covered by the plan for the years ended December 31, 2011 and 2010 was approximately $1,555,000 and $1,627,000. The total payroll for the same period was $1,739,000 and $1,838,000.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and assets in excess of the pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provide one indication of the funding status on a going concern basis. Analysis of this percentage over time indicates whether Ports of Indiana's participation in PERF is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in assets in excess of the pension benefit obligation and annual covered payroll are both affected by inflation.

(Continued)

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF) (Continued)

Expressing the assets in excess of the pension benefit obligation as a percentage of annual covered payroll approximately adjusts for effects of inflation and aids analysis of the Port's progress made in accumulating sufficient assets to pay benefits when due. Generally, the larger this percentage, the stronger the plan.

Certain ten-year historical trend information relative to the defined benefit plan as required by Governmental Accounting Standards Board Statement No. 5 is available for the multi-employer plan in the PERF report.

SUPPLEMENTAL SCHEDULES

PORTS OF INDIANA
SCHEDULE OF PORT OPERATING INCOME
BEFORE DEPRECIATION
Year ended December 31, 2011 with comparative totals for 2010

	2011					2010
	Port of Indiana - Burns Harbor	Port of Indiana - Mt. Vernon	Port of Indiana - Jeffersonville	Central Support Services	Total	Total
Operating revenues						
Maritime services	$ 1,199,037	$ 946,408	$ 387,601	$ -	$ 2,533,046	$ 2,490,911
Facility rentals	3,347,507	1,516,166	962,557	-	5,826,230	5,580,869
Other user fees	304,693	52,182	350,776	-	707,651	491,798
FTZ operator fees	37,000	-	25,000	-	62,000	63,417
Other operating fees	340,200	-	10,000	203,570	553,770	509,386
Total operating revenues	5,228,437	2,514,756	1,735,934	203,570	9,682,697	9,136,381
Operating expenses						
Salaries and wages	360,360	236,286	248,931	1,011,061	1,856,638	1,980,943
Employee benefits, taxes and insurance	190,551	91,287	104,308	244,874	631,020	668,914
Employee travel	12,046	10,483	5,414	67,685	95,628	90,638
Security services	246,358	524	757	-	247,639	245,509
Legal services	-	-	-	656,746	656,746	602,311
Accounting services	-	-	-	32,000	32,000	51,000
Computer services	128	-	-	61,253	61,381	44,221
Advertising and public relations	14,663	6,160	4,649	216,353	241,825	238,981
Association membership	41,806	3,314	2,879	27,549	75,548	89,186
Other professional services	54,242	4,295	4,492	143,096	206,125	202,431
Maintenance	293,785	96,340	37,446	2,404	429,975	317,265
Insurance	163,560	65,729	45,950	2,118	277,357	271,922
Utilities	58,554	43,628	8,362	404	110,948	116,175
Office supplies	21,085	7,329	9,094	21,216	58,724	58,516
Property rentals	-	-	-	93,712	93,712	94,163
Bad Debt Expense	-	-	-	-	-	432
Miscellaneous	10	306	-	7,048	7,364	10,494
Total operating expenses	1,457,148	565,681	472,282	2,587,519	5,082,630	5,083,101
Operating income before depreciation	$ 3,771,289	$ 1,949,075	$1,263,652	$ (2,383,949)	$ 4,600,067	$ 4,053,280

PORTS OF INDIANA
SCHEDULE OF ACTUAL OPERATING EXPENSES COMPARED TO BUDGET
Year ended December 31, 2011

	Actual Expenses	Budgeted Expenses	Variance (Over) Under
Salaries, benefits, and travel	$ 2,629,132	$ 2,737,193	$ 108,061
Professional services	1,121,228	843,637	(277,591)
Marketing and advertising	249,867	217,375	(32,492)
Insurance	277,357	284,569	7,212
Facility Rental	93,712	90,636	(3,076)
Maintenance and utilities	534,771	542,746	7,975
Other office and administrative expenses	176,563	189,473	12,910
Total operating expenses	$ 5,082,630	$ 4,905,629	$ (177,001)

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS 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

The Members of the Ports of Indiana
Indianapolis, Indiana

We have audited the financial statements of the Ports of Indiana (Ports) as of and for the year ended December 31, 2011, and have issued our report thereon dated the same date as this report. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the Ports is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Ports' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ports' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ports' internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ports' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members of the Ports of Indiana, management and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
May 25, 2012