



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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December 1, 2015

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

Dear Mr. Cooper:

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Ports of Indiana as of December 31, 2013, 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 matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

**PORTS OF INDIANA**  
**FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

PORTS OF INDIANA  
Indianapolis, Indiana  
  
FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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## INDEPENDENT AUDITOR'S REPORT

The Members of the Commission  
Ports of Indiana  
Indianapolis, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Ports of Indiana, a discretely presented component unit of the State of Indiana, which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenue, expenses, and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

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, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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(Continued)

## **Other Matters**

### *Required Supplementary Information:*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by 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.

### *Supplementary Information:*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ports of Indiana's financial statements. The accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the schedule of actual operating expenses compared to budget are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of actual operating expenses compared to budget has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ports of Indiana's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana  
April 17, 2014

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

PORTS OF INDIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2013 and 2012

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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, 2013. Please read it in conjunction with the Ports of Indiana's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

Net position increased by \$4,800,192 for 2013. Operating income before depreciation was \$6,439,424. In 2013, the Board of Commissioners increased the amount of unrestricted net position designated as strategic reserves to \$14,000,000 and further clarified the permitted uses for land acquisitions, special projects, required maintenance and emergency infrastructure improvements 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 Position. All assets and liabilities associated with the operation of the Ports of Indiana are included in the Statement 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 detailed data.

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(Continued)

PORTS OF INDIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2013 and 2012

**FINANCIAL ANALYSIS**

**Net Position**

The Ports of Indiana's total assets at December 31, 2013, reached \$119,222,398. This represents an increase of \$4,569,756 or 4 percent from the prior year. Total liabilities amounted to \$1,728,243; a decrease of \$230,436 or 11.8 percent. Total net position amounted to \$117,494,155 an increase of \$4,800,192 or 4.3 percent (See Table 1).

<b>Table 1</b>			
<b>Net Position</b>			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>			
Current assets	\$ 23,039,151	\$ 21,449,727	\$ 21,705,987
Capital	96,183,247	93,116,820	88,123,339
Other assets	-	86,095	281,423
Total assets	<u>\$ 119,222,398</u>	<u>\$ 114,652,642</u>	<u>\$ 110,110,749</u>
<b>Liabilities:</b>			
Current liabilities	\$ 1,728,243	\$ 1,958,679	\$ 2,000,599
Total liabilities	<u>1,728,243</u>	<u>1,958,679</u>	<u>2,000,599</u>
<b>Net position:</b>			
Invested in capital assets	95,472,026	92,314,590	86,954,254
Unrestricted (**)	<u>22,022,129</u>	<u>20,379,373</u>	<u>21,155,896</u>
Total net position	<u>117,494,155</u>	<u>112,693,963</u>	<u>108,110,150</u>
Total liabilities and net position	<u>\$ 119,222,398</u>	<u>\$ 114,652,642</u>	<u>\$ 110,110,749</u>

\*\* - The Board of Commissioners has designated \$14,000,000 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  
Years ended December 31, 2013 and 2012

**Changes in Net Position**

The change in net position at December 31, 2013, was an increase of \$4,800,192, or 4.3 percent. The Ports of Indiana's total operating revenues increased by \$979,203, or 9.2 percent. Total operating expenses before depreciation increased \$447,328, or 9.4 percent. The changes in net position are detailed in Table 2 and operating expenses are detailed in Table 3.

<b>Table 2</b>			
<b>Changes in Net Position</b>			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Operating revenue:</b>			
Maritime services	\$ 11,022,540	\$ 10,055,920	\$ 9,128,927
Other	<u>604,342</u>	<u>591,759</u>	<u>553,770</u>
Total operating revenues	<u>11,626,882</u>	<u>10,647,679</u>	<u>9,682,697</u>
<b>Operating expenses:</b>			
Operating expenses	5,187,458	4,740,130	5,082,630
Depreciation	<u>2,491,232</u>	<u>2,503,611</u>	<u>2,616,617</u>
Total operating expenses	<u>7,678,690</u>	<u>7,243,741</u>	<u>7,699,247</u>
<b>Operating income</b>	3,948,192	3,403,938	1,983,450
<b>Non-operating revenues (expenses):</b>	203,876	45,241	4,043,245
Capital contributions	<u>648,124</u>	<u>1,134,634</u>	<u>273,153</u>
Change in net position	4,800,192	4,583,813	6,299,848
Total net position, beginning of year	<u>112,693,963</u>	<u>108,110,150</u>	<u>101,810,302</u>
<b>Total net position, end of year</b>	<u>\$ 117,494,155</u>	<u>\$ 112,693,963</u>	<u>\$ 108,110,150</u>

**Revenues:** Operating revenues from maritime services increased by \$966,620, or 9.6 percent. The increase resulted primarily from an increase in land/facility rental. Operating revenues from land/facility rental increased by \$728,677, or 10.8 percent. The facility rental increase resulted from new tenants and an increase in renewal rates for current tenants.

Non-operating and capital contributions decreased by \$327,875, or 27.8 percent. In 2013, this category includes \$200,000 in land option and \$648,124 from federal programs. In 2012, this category included \$1,134,634 from federal programs. 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 2013 or 2012.

(Continued)

PORTS OF INDIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2013 and 2012

**Expenses:** Total operating expenses increased \$434,949 or 6 percent. Operating expenses, not including depreciation, increased by \$447,328, or 9.4 percent. The decrease in depreciation expense is due to older assets reaching full depreciation. Operating expenses are summarized as follows:

<b>Table 3</b>			
<b>Operating Expenses</b>			
<b><u>Expense Category</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Labor and fringe benefits	\$ 3,022,473	\$ 2,598,600	\$ 2,487,658
Travel and training	100,003	105,963	95,628
Security services	252,732	246,383	247,639
Legal services	157,473	120,594	656,746
Accounting services	32,500	32,000	32,000
Computer services	56,382	65,560	61,381
Other professional services	120,939	179,420	177,346
Advertising and public relations	223,584	217,854	241,825
Insurance	290,917	276,412	277,357
Property rentals	96,013	94,507	93,712
Office expenses	84,472	92,800	87,503
Business Association memberships	80,686	78,371	75,548
Utilities	119,432	113,282	110,948
Maintenance	539,788	508,737	429,975
Bad Debt Expense	-	-	-
Other	10,064	9,647	7,364
Depreciation	<u>2,491,232</u>	<u>2,503,611</u>	<u>2,616,617</u>
Total operating expenses	<u>\$ 7,678,690</u>	<u>\$ 7,243,741</u>	<u>\$ 7,699,247</u>

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

As of December 31, 2013, the Ports of Indiana had invested \$96,183,247 in capital assets and related assets, net of accumulated depreciation. As compared to the prior year, this amount represents an increase of \$3,066,427.

There is no outstanding debt other than construction related payables of \$790,730 and \$679,855 at December 31, 2013 and 2012.

### 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 POSITION  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 10,981,100	\$ 20,295,198
Investments (Note 2)	11,233,371	-
Trade accounts receivable, net	423,320	406,607
Other receivables	62,052	281,671
Net investment in direct financing lease (Note 4)	86,095	195,328
Prepaid expenses	<u>253,213</u>	<u>270,923</u>
Total current assets	<u>23,039,151</u>	<u>21,449,727</u>
Noncurrent assets:		
Net investment in direct financing lease (Note 4)	-	86,095
Capital assets, net of accumulated depreciation (Note 3)	<u>96,183,247</u>	<u>93,116,820</u>
Total noncurrent assets	<u>96,183,247</u>	<u>93,202,915</u>
Total assets	<u>\$ 119,222,398</u>	<u>\$ 114,652,642</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 937,513	\$ 987,814
Contracts and retainage payable	790,730	770,865
Unearned revenue	-	200,000
Total current liabilities	<u>1,728,243</u>	<u>1,958,679</u>
Net position:		
Net investments in capital assets	95,472,026	92,314,590
Unrestricted	<u>22,022,129</u>	<u>20,379,373</u>
Total net position	<u>117,494,155</u>	<u>112,693,963</u>
Total liabilities and net position	<u>\$ 119,222,398</u>	<u>\$ 114,652,642</u>

See accompanying notes to financial statements.

PORTS OF INDIANA  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Operating revenues</b>		
Maritime services	\$ 2,623,199	\$ 2,424,239
Facility rentals and storage	7,504,052	6,775,375
User fees	793,289	760,973
Foreign trade zone fees	102,000	95,333
Other	<u>604,342</u>	<u>591,759</u>
Total operating revenues	11,626,882	10,647,679
<b>Operating expenses before depreciation</b>	<u>5,187,458</u>	<u>4,740,130</u>
<b>Operating income before depreciation</b>	6,439,424	5,907,549
Depreciation expense	<u>2,491,232</u>	<u>2,503,611</u>
<b>Operating income</b>	3,948,192	3,403,938
<b>Non-operating revenues (expenses)</b>		
Net interest income	2,264	42,166
Other income	<u>201,612</u>	<u>3,075</u>
Total non-operating revenues	<u>203,876</u>	<u>45,241</u>
<b>Income before capital contributions</b>	4,152,068	3,449,179
Capital contributions	<u>648,124</u>	<u>1,134,634</u>
<b>Change in net position</b>	4,800,192	4,583,813
Net position, at beginning of year	<u>112,693,963</u>	<u>108,110,150</u>
<b>Net position, at end of year</b>	<u>\$ 117,494,155</u>	<u>\$ 112,693,963</u>

See accompanying notes to financial statements.

PORTS OF INDIANA  
STATEMENTS OF CASH FLOWS  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers and users	\$ 11,610,169	\$ 10,843,320
Payments to suppliers	(2,233,950)	(1,972,633)
Payments to employees	(2,182,239)	(1,945,357)
Payments of benefits on behalf of employees	(803,860)	(613,240)
Net cash provided by operating activities	<u>6,390,120</u>	<u>6,312,090</u>
<b>Cash flows from capital and related financing activities:</b>		
Settlement of contract and (payment)/receipt of option fees	1,612	203,075
Proceeds from direct financing leases	195,328	180,358
Receipt of capital contributions	648,124	1,134,634
Proceeds on disposal of property	-	20,000
Change in other receivables	219,618	(265,952)
Change in retainage and contracts payable	19,865	(451,867)
Expenditures for acquisitions and construction of capital assets	<u>(5,554,760)</u>	<u>(7,517,094)</u>
Net cash provided by (used in) capital and related financing	(4,470,213)	(6,696,846)
<b>Cash flows from investing activities:</b>		
Purchase of investments	(11,236,269)	-
Proceeds from sales and maturities of investments	-	14,042,658
Investment income received	<u>2,264</u>	<u>42,166</u>
Net cash provided by (used in) investing activities	<u>(11,234,005)</u>	<u>14,084,824</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(9,314,098)	13,700,068
<b>Cash and cash equivalents, beginning of year</b>	<u>20,295,198</u>	<u>6,595,130</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 10,981,100</u>	<u>\$ 20,295,198</u>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities:</b>		
Operating income	\$ 3,948,192	\$ 3,403,938
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,491,232	2,503,611
Changes in assets and liabilities:		
Trade accounts receivable	(16,713)	195,641
Accounts payable	(50,301)	209,949
Prepaid expenses	<u>17,710</u>	<u>(1,049)</u>
<b>Net cash provided by operating activities</b>	<u>\$ 6,390,120</u>	<u>\$ 6,312,090</u>

**2013 and 2012 noncash activities:** The Ports of Indiana had contracts and retainage payable on related capital assets of \$790,730 and \$679,855 at December 31, 2013 and 2012.

See accompanying notes to financial statements.

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**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 by the state and the 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. 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 follows GASB pronouncements as codified under GASB 62, which was adopted in 2012. In 2013, the Ports of Indiana adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66 *Technical Corrections*, with no impact on the financial statements.

Other GASB standards that are under evaluation for future years include:

- Statement No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Ports of Indiana has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

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(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**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.

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.

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.

Other Receivables: Other receivables consist of grant reimbursements receivable and option fee receivables. Grant reimbursements receivable include amounts billed or billable for services provided or contracted.

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 allowance was necessary at December 31, 2013 and 2012.

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 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

Net Position: Net position is the difference between assets and liabilities in the statements of net position. Net position is 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.

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(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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

Net Investment in Capital Assets: 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: Restricted 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
- 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 investment 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 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.

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, 2013 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 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 A-1+ by Standard & Poor's or MIG-1 by Moody's. The Port's is fully collateralized as of December 31, 2013 and 2012.

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(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

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 and money markets was \$10,981,100 and \$20,295,198 at December 31, 2013 and 2012, while the bank balances were \$10,980,554 and \$20,369,587. 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 Port's name by financial institutions acting as the Port's agent.

Certificates of Deposit: Certificates of deposit amounted to \$7,140,485 and \$0 at December 31, 2013 and 2012. 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, 2013 and 2012.

		Investment Maturities			
2013	<u>Fair value</u>	<u>Less than one year</u>	<u>One to five years</u>	<u>Six to ten years</u>	<u>Greater than ten years</u>
<u>Investment Type</u>					
Money market funds	\$ 2,742,283	2,742,283	-	-	-
Certificates of deposit	7,140,485	1,711,880	5,428,605	-	-
US Agencies	<u>1,350,603</u>	<u>324,412</u>	<u>1,026,191</u>	-	-
Total	<u>\$ 11,233,371</u>	<u>4,778,574</u>	<u>6,454,797</u>	-	-

  

		Investment Maturities			
2012	<u>Fair value</u>	<u>Less than one year</u>	<u>One to five years</u>	<u>Six to ten years</u>	<u>Greater than ten years</u>
<u>Investment Type</u>					
Money market funds	\$ -	-	-	-	-
Certificates of deposit	-	-	-	-	-
US Agencies	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE 3 - CAPITAL ASSETS**

Capital assets consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 23,548,314	\$ 22,363,602
Land improvements	45,871,448	45,148,687
Harbor improvements	20,103,091	20,103,091
Docks and mooring facilities	42,491,625	41,918,438
Buildings and structures	20,401,887	19,108,803
Machinery and equipment	943,966	658,925
Office furniture and equipment	632,570	652,539
Trucks and automobiles	701,108	652,787
Construction in progress	<u>5,200,438</u>	<u>3,853,306</u>
	158,894,447	154,460,178
Accumulated depreciation	<u>(63,711,200)</u>	<u>(61,343,358)</u>
	<u>\$ 96,183,247</u>	<u>\$ 93,116,820</u>

Land and construction in progress are not subject to depreciation.

Capital asset activity for 2013 and 2012 included:

	<u>Capital Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
<b><u>2013</u></b>				
Beginning balance	\$ 150,606,873	\$ 3,853,306	\$ 154,460,179	\$ (61,343,358)
Additions	4,212,638	5,559,770	9,772,408	
Retirements	(125,502)	-	(125,502)	123,390
Transfers	-	(4,212,638)	(4,212,638)	
Depreciation	-	-	-	(2,491,232)
Ending balance	<u>154,694,009</u>	<u>5,200,438</u>	<u>159,894,447</u>	<u>(63,711,200)</u>
<b><u>2012</u></b>				
Beginning balance	\$ 138,176,325	\$ 8,802,279	\$ 146,978,604	\$ (58,855,265)
Additions	12,446,064	7,497,091	19,943,155	-
Retirements	(15,517)	-	(15,517)	15,517
Transfers	-	(12,446,064)	(12,446,064)	-
Depreciation	-	-	-	(2,503,611)
Ending balance	<u>150,606,872</u>	<u>3,853,306</u>	<u>154,460,178</u>	<u>(61,343,358)</u>

(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**NOTE 4 - CAPITAL AND OPERATING LEASES**

Direct Financing Lease Receivable: During 1994, the Ports of Indiana, as the 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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Future minimum lease payments receivable	\$ 87,826	\$ 298,609
Unearned interest income	<u>(1,730)</u>	<u>(17,186)</u>
Long-term net investment in direct financing lease	<u>\$ 86,096</u>	<u>\$ 281,423</u>

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

<u>Year Ending December 31,</u>	
2014	<u>\$ 87,826</u>

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 non-cancelable operating leases are as follows:

<u>Year Ending December 31,</u>	
2014	\$ 10,482,518
2015	9,585,716
2016	8,129,201
2017	6,417,764
2018	5,388,786
2019 - 2023	19,569,359
2024 - 2028	11,930,401
2029 - 2033	5,107,238
2034 - 2038	3,364,571
2039 - 2043	<u>2,089,996</u>
	<u>\$ 82,065,550</u>

Operating Lease Obligations: The Ports of Indiana, as lessee, leases office space under an operating lease that expires on May 31, 2018. Rent expense was \$96,013 and \$94,507 for 2013 and 2012, respectively. Minimum lease commitments are as follows:

2014	\$ 97,405
2015	98,826
2016	100,246
2017	101,666
2018	<u>42,608</u>
	<u>\$ 440,751</u>

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(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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**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.

<u>Project and Series</u>	<u>Maturity</u>	<u>Outstanding Principal</u>
Ports of Indiana Port Revenue Bonds, Series 1994 (American Commercial Marine)	Final maturity due in 2014	\$ 255,000

**NOTE 6 - 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 years ended December 31, 2013 and 2012, 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 \$1,283,879 and \$986,703 at December 31, 2013 and 2012. The fair market value of IDC investments held in custodial funds for participants was \$270,445 and \$234,371 at December 31, 2013 and 2012.

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(Continued)

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

The Ports of Indiana contributes to PERF, a multiple employer public employee retirement fund. PERF funds are managed by the Indiana Public Retirement System (INPRS) system, which was established in 2011 to administer and manage the retirement funds 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.

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.

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, 2013 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 rate/investment return— 6.75% (net of administrative and investment expenses).
- Interest on Member ASA Balances – 3% per year.
- Future Salary Increases – Age-based rates ranging from 3.25% - 4.5%, based on 2005-2010 experience.
- Inflation – 3% per year.
- 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 – 2013 IRS Static Mortality projected 5 years with scale AA.
- Disability - Based on PERF experience 1995-2000 for females and 2000 – 2005 experience for males.
- Termination – 5-year 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.

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(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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

- Decrement Timing – Assumed to occur at the beginning of the year.
- 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 than their spouses and female members are assumed to be two (2) years younger than their spouses.

There have been no changes in the actuarial assumptions since the June 30, 2012 valuation.

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 vesting service and qualified for Social Security disability benefits or federal Civil Service disability benefits.
  - Termination - 10 years of vesting service and no longer active (i.e. vested inactive).
  - Pre-Retirement Death    - If death occurs in service, 15 years of vesting service. If death occurs after separating from service, age 50 with 15 years of vesting service.

Amount of Benefits: Benefit amounts include:

- Normal Retirement - The normal retirement benefit is a pension payable for life with 60 months guaranteed and is equal to 1.1% of average monthly earnings multiplied by 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 member 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 member has 15 or more years of creditable service, then the member may elect to receive a reduced early retirement benefit prior to age 65.
- Pre-Retirement Death    - The spouse or dependent beneficiary is entitled to receive the monthly life benefit under the assumption that the member retired on the later of age 50 or the day before the date of death and elected the joint and full survivor option.

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(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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

- Member Contributions - Each member is required to contribute to an Annuity Savings Account (ASA) 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 based on the investment elections of each member until such time as they are withdrawn or annuitized by the member. The ASA benefit is in addition to the annuity benefits provided by the employer.

The following changes in plan provisions were made during 2013:

- In lieu of permanent cost of living adjustments to member benefits, 13<sup>th</sup> checks were granted to members in 2011, 2012, and 2013. The amount of each 13<sup>th</sup> check was based on a member's years of creditable service at retirement.
- The liability associated with expected annuitization of ASA balances was eliminated as of June 30, 2013 due to the PERF Board's decision to modify ASA annuitizations starting October 1, 2014.
- Effective March 1, 2013, the ASA-Only Plan was made available to newly hired State employees.

**Schedule of Employer Contributions**

Valuation Date	Annual Required Contributions	Actual Employer Contributions	Net Pension Obligation	Net Percentage Contributed
7/1/13	\$ 159,090	\$ 140,758	\$ 79,222	88%
7/1/12	\$ 136,316	\$ 91,386	\$ 60,890	67%
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%

The contributions to PERF were in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2013.

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	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Excess of Assets Over (Unfunded) AAL	Funded Ratio	Covered Payroll	Excess/ (Unfunded) liability as a Percentage of Payroll
7/1/13	\$ 1,338,229	\$ 2,278,285	\$ (940,057)	59%	\$ 1,835,754	(51%)
7/1/12	\$ 1,134,526	\$ 2,209,898	\$(1,075,372)	51%	\$ 1,650,343	(65%)
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%

(Continued)

PORTS OF INDIANA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

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

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, 2013 and 2012 was approximately \$1,870,000 and \$1,567,000. The total payroll for the same period was approximately \$2,130,000 and \$1,810,000.

Analysis of the dollar amounts of assets available for benefits, actuarial accrued liability (AAL), and assets in excess or shortfall of the AAL in isolation can be misleading. Expressing the assets available for benefits as a percentage of the AAL provides 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 the funded ratio percentage, the stronger the plan. Trends in asset value, AAL, and annual covered payroll are affected by inflation.

Expressing the assets in excess or shortfall of the AAL 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 ACTUAL OPERATING EXPENSES COMPARED TO BUDGET (UNAUDITED)  
Year ended December 31, 2013

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<u>Expense Category</u>	<u>Actual Expenses</u>	<u>Budgeted Expenses</u>	<u>Variance (Over) Under</u>
Salaries, benefits, and travel	\$ 3,122,476	\$ 3,262,184	\$ 139,708
Professional services	620,026	761,184	141,158
Marketing and advertising	223,584	233,900	10,316
Insurance	290,917	290,727	(190)
Facility Rental	96,013	93,842	(2,171)
Maintenance and utilities	659,220	2,009,811	1,350,591
Other office and administrative expenses	<u>175,222</u>	<u>193,828</u>	<u>18,606</u>
Total operating expenses	<u>\$ 5,187,458</u>	<u>\$ 6,845,476</u>	<u>\$ 1,658,018</u>

PORTS OF INDIANA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended December 31, 2013

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<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grant Number</u>	<u>Expenditures</u>
<b><u>U.S. Department of Homeland Security</u></b>			
<b>Direct</b>			
2010 Port Security Grant Program (Award No. 2010-PU-T0-0133)	97.056	n/a	\$ 255,568
<b>Passed through Inland Rivers Ports &amp; Terminals Inc.</b>			
2008 Port Security Grant Program	97.056	2008-GB-T8-K012	29,630
2009 Port Security Grant Program	97.056	2009-PU-T9-K046	121,581
2010 Port Security Grant Program	97.056	2010-PU-T0-K025	3,829
2011 Port Security Grant Program	97.056	EMW-2011-PU-K00117	<u>237,516</u>
	Total federal expenditures		<u>\$ 648,124</u>

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See accompanying note to the schedule of federal awards.

PORTS OF INDIANA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2013

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**NOTE 1 - BASIS OF PRESENTATION**

This schedule includes the federal awards activity of the Ports of Indiana and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Members of the Ports of Indiana  
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ports of Indiana ("Ports"), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 17, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Ports' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ports' internal control. Accordingly, we do not express an opinion on the effectiveness of Ports' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

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(Continued)

## Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana  
April 17, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

The Members of the Ports of Indiana  
Indianapolis, Indiana

**Report on Compliance for Each Major Federal Program**

We have audited the Ports of Indiana's ("Ports") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Ports' major federal program for the year ended December 31, 2013. The Ports' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Ports' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Ports' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Ports' compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Ports complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

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(Continued)

## Report on Internal Control Over Compliance

Management of the Ports is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Ports' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Ports' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana  
April 17, 2014

PORTS OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2013

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**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified not considered to be material weaknesses?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

***Federal Awards***

Internal Control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified not considered to be material weaknesses?  Yes  None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?  Yes  No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
97.056	U.S. Department of Homeland Security – Port Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**SECTION 2 - FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS.**

None reported.

**SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED ON OMB CIRCULAR A-133 SECTION 510(a).**

None reported.

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PORTS OF INDIANA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2013

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There were no audit findings or questioned costs in the prior year.