



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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, 2014 to December 31, 2014. 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, 2014, 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
(A COMPONENT UNIT OF THE
STATE OF INDIANA)

FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

FINANCIAL STATEMENTS
December 31, 2014 and 2013

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	7
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	8
STATEMENTS OF CASH FLOWS.....	9
NOTES TO FINANCIAL STATEMENTS	10
SUPPLEMENTAL SCHEDULES	
SCHEDULE OF ACTUAL OPERATING EXPENSES COMPARED TO BUDGET	18

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 component unit of the State of Indiana, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Ports of Indiana's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Ports of Indiana as of December 31, 2014 and 2013, and the respective 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.

(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 basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 basic financial statements. The accompanying schedule of actual operating expenses compared to budget is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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.

Crowe Horwath LLP
Crowe Horwath LLP

Indianapolis, Indiana
April 23, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2014 and 2013

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, 2014. Please read it in conjunction with the Ports of Indiana's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Net position increased by \$5,450,187 for 2014. Operating income before depreciation was \$7,691,886. The Board of Commissioners has maintained a 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.

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.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2014 and 2013

FINANCIAL ANALYSIS

Net Position

The Ports of Indiana's total assets at December 31, 2014, reached \$124,628,698. This represents an increase of \$5,406,300 or 4.5 percent from the prior year. Total liabilities amounted to \$1,684,356; a decrease of \$43,887 or 2.5 percent. Total net position amounted to \$122,944,342 an increase of \$5,450,187 or 4.6 percent (See Table 1).

Table 1			
Net Position			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 12,298,434	\$ 9,039,151	\$ 10,199,727
Non-current assets (**)	14,000,000	14,000,000	11,250,000
Capital	98,330,264	96,183,247	93,116,820
Other assets	-	-	86,095
Total assets	<u>\$ 124,628,698</u>	<u>\$ 119,222,398</u>	<u>\$ 114,652,642</u>
Liabilities:			
Current liabilities	<u>\$ 1,684,356</u>	<u>\$ 1,728,243</u>	<u>\$ 1,958,679</u>
Total liabilities	<u>1,684,356</u>	<u>1,728,243</u>	<u>1,958,679</u>
Net position:			
Invested in capital assets	98,002,317	95,472,026	92,314,590
Unrestricted (**)	<u>24,942,025</u>	<u>22,022,129</u>	<u>20,379,373</u>
Total net position	<u>122,944,342</u>	<u>117,494,155</u>	<u>112,693,963</u>
Total liabilities and net position	<u>\$ 124,628,698</u>	<u>\$ 119,222,398</u>	<u>\$ 114,652,642</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, 2014 and 2013

Changes in Net Position

The change in net position at December 31, 2014, was an increase of \$5,450,187, or 4.6 percent. The Ports of Indiana's total operating revenues increased by \$1,955,895, or 16.8 percent. Total operating expenses before depreciation increased \$703,433, or 13.6 percent. The changes in net position are detailed in Table 2 and operating expenses are detailed in Table 3.

Table 2			
Changes in Net Position			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenue:			
Maritime services	\$ 12,847,577	\$ 11,022,540	\$ 10,055,920
Other	<u>735,200</u>	<u>604,342</u>	<u>591,759</u>
Total operating revenues	<u>13,582,777</u>	<u>11,626,882</u>	<u>10,647,679</u>
Operating expenses:			
Operating expenses	5,890,891	5,187,458	4,740,130
Depreciation	<u>2,768,975</u>	<u>2,491,232</u>	<u>2,503,611</u>
Total operating expenses	<u>8,659,866</u>	<u>7,678,690</u>	<u>7,243,741</u>
Operating income	4,922,911	3,948,192	3,403,938
Non-operating revenues:	428,374	203,876	45,241
Capital contributions	<u>98,902</u>	<u>648,124</u>	<u>1,134,634</u>
Change in net position	5,450,187	4,800,192	4,583,813
Total net position, beginning of year	<u>117,494,155</u>	<u>112,693,963</u>	<u>108,110,150</u>
Total net position, end of year	<u>\$ 122,944,342</u>	<u>\$ 117,494,155</u>	<u>\$ 112,693,963</u>

Revenues: Operating revenues from maritime services increased by \$1,825,037, or 16.7 percent. The increase resulted primarily from an increase in land/facility rental. Operating revenues from land/facility rental increased by \$1,103,308, or 14.7 percent. The facility rental increase resulted from new tenants and expansion onto additional land by current tenants.

Non-operating and capital contributions decreased by \$324,724, or 38.1 percent. In 2014, this category includes \$322,557 in capital contributions from private programs and \$98,902 from federal programs. In 2013, this category included \$648,124 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 2014 or 2013.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2014 and 2013

Expenses: Total operating expenses increased \$981,175 or 12.8 percent. Operating expenses, not including depreciation, increased by \$703,433, or 13.6 percent. The increase in expense is primarily due to expenditures for maintenance of capital assets. Operating expenses are summarized as follows:

<u>Expense Category</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Labor and fringe benefits	\$ 3,212,878	\$ 3,022,473	\$ 2,598,600
Travel and training	109,797	100,003	105,963
Security services	258,364	252,732	246,383
Legal services	60,909	157,473	120,594
Accounting services	32,500	32,500	32,000
Computer services	83,518	56,382	65,560
Other professional services	161,277	120,939	179,420
Advertising and public relations	220,913	223,584	217,854
Insurance	300,176	290,917	276,412
Property rentals	94,731	96,013	94,507
Office expenses	77,079	84,472	92,800
Business association memberships	94,820	80,686	78,371
Utilities	121,304	119,432	113,282
Maintenance	1,053,837	539,788	508,737
Other	8,788	10,064	9,647
Depreciation	<u>2,768,975</u>	<u>2,491,232</u>	<u>2,503,611</u>
Total operating expenses	<u>\$ 8,659,866</u>	<u>\$ 7,678,690</u>	<u>\$ 7,243,741</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2014, the Ports of Indiana had invested \$98,330,264 in capital assets and related assets, net of accumulated depreciation. As compared to the prior year, this amount represents an increase of \$2,147,017.

There is no outstanding debt other than construction related payables of \$443,369 and \$790,730 at December 31, 2014 and 2013.

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 11,504,183	\$ 8,214,471
Investments (Note 2)	101,299	-
Trade accounts receivable, net	413,606	423,320
Other receivables	13,333	62,052
Net investment in direct financing lease (Note 4)	-	86,095
Prepaid expenses	<u>266,013</u>	<u>253,213</u>
Total current assets	<u>12,298,434</u>	<u>9,039,151</u>
Noncurrent assets:		
Cash and cash equivalents (Note 2)	-	2,766,629
Investments (Note 2)	14,000,000	11,233,371
Capital assets, net of accumulated depreciation (Note 3)	<u>98,330,264</u>	<u>96,183,247</u>
Total noncurrent assets	<u>112,330,264</u>	<u>110,183,247</u>
 Total assets	 <u>\$ 124,628,698</u>	 <u>\$ 119,222,398</u>
 LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 1,240,987	\$ 937,513
Contracts and retainage payable on capital projects	<u>443,369</u>	<u>790,730</u>
Total current liabilities	<u>1,684,356</u>	<u>1,728,243</u>
Net position:		
Net investment in capital assets	98,002,317	95,472,026
Unrestricted	<u>24,942,025</u>	<u>22,022,129</u>
Total net position	<u>122,944,342</u>	<u>117,494,155</u>
 Total liabilities and net position	 <u>\$ 124,628,698</u>	 <u>\$ 119,222,398</u>

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Maritime services	\$ 3,299,003	\$ 2,623,199
Facility rentals and storage	8,607,360	7,504,052
User fees	839,214	793,289
Foreign trade zone fees	102,000	102,000
Other	<u>735,200</u>	<u>604,342</u>
Total operating revenues	13,582,777	11,626,882
Operating expenses before depreciation	<u>5,890,891</u>	<u>5,187,458</u>
Operating income before depreciation	7,691,886	6,439,424
Depreciation expense	<u>2,768,975</u>	<u>2,491,232</u>
Operating income	4,922,911	3,948,192
Non-operating revenues		
Net interest income	105,355	2,264
Other income	<u>323,019</u>	<u>201,612</u>
Total non-operating revenues	<u>428,374</u>	<u>203,876</u>
Income before capital contributions	5,351,285	4,152,068
Capital contributions	<u>98,902</u>	<u>648,124</u>
Change in net position	5,450,187	4,800,192
Net position, at beginning of year	<u>117,494,155</u>	<u>112,693,963</u>
Net position, at end of year	<u>\$ 122,944,342</u>	<u>\$ 117,494,155</u>

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 13,592,491	\$ 11,610,169
Payments to suppliers	(2,433,358)	(2,233,950)
Payments to employees	(2,292,251)	(2,182,239)
Payments of benefits on behalf of employees	(874,608)	(803,860)
Net cash provided by operating activities	<u>7,992,274</u>	<u>6,390,120</u>
Cash flows from capital and related financing activities:		
Settlement of contract and receipt of option fees	323,019	1,612
Proceeds from direct financing leases	86,095	195,328
Receipt of capital contributions	98,902	648,124
Change in other receivables	48,721	219,618
Change in retainage and contracts payable	(347,361)	19,865
Expenditures for acquisitions and construction of capital assets	(4,915,994)	(5,554,760)
Net cash used in capital and related financing	<u>(4,706,618)</u>	<u>(4,470,213)</u>
Cash flows from investing activities:		
Purchase of investments	(2,867,928)	(11,236,269)
Investment income received	105,355	2,264
Net cash used in investing activities	<u>(2,762,573)</u>	<u>(11,234,005)</u>
Net increase (decrease) in cash and cash equivalents	523,083	(9,314,098)
Cash and cash equivalents, beginning of year	<u>10,981,100</u>	<u>20,295,198</u>
Cash and cash equivalents, end of year	<u>\$ 11,504,183</u>	<u>\$ 10,981,100</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 4,922,911	\$ 3,948,192
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,768,975	2,491,232
Changes in assets and liabilities:		
Trade accounts receivable	9,714	(16,713)
Accounts payable	303,474	(50,301)
Prepaid expenses	(12,800)	17,710
Net cash provided by operating activities	<u>\$ 7,992,274</u>	<u>\$ 6,390,120</u>

2014 and 2013 noncash activities: The Ports of Indiana had contracts and retainage payable on related capital assets of \$443,369 and \$790,730 at December 31, 2014 and 2013.

See accompanying notes to financial statements.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2014 and 2013

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 state and federal grants.

The Ports of Indiana's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include all the accounts of the Ports of Indiana and its subsidiary, The Indiana Ports Railroad Holding Corporation (Railroad Holding Corporation). The Railroad Holding Corporation is a not-for-profit entity, which is the parent of the wholly owned subsidiaries of Clark Shortline Railroad Co., Burns Harbor Shortline Railroad Co., and Southwind Railroad Co. 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." In 2014, the Ports of Indiana adopted GASB Statement No. 67, *Financial Reporting for Pension Plans* as identified in the notes to financial statements. GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* were also implemented in 2014 with no impact on the financial statements.

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

- Statement No. 68 and 71, *Accounting and Financial Reporting for Pensions*. The Ports of Indiana has not yet adopted these standards and is evaluating the impact they may have on its financial statements. However, management does believe the adoption of GASB 68 will significantly decrease its net position when it is implemented.
- Statement No. 72, *Fair Value Measurement and Application*. The Ports of Indiana has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2014 and 2013

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.

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

Trade Accounts Receivable: Operating revenues include rental income derived from leasing port property. Amounts due from certain lease agreements are billed 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, 2014 and 2013.

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

Noncurrent Cash and Investments: At December 31, 2014 and 2013, the Board of Commissioners has designated \$14,000,000 of cash and investments as a strategic reserve for land acquisitions, special projects, required maintenance, and emergency infrastructure improvements, which are classified as noncurrent assets in the statement of net position because of their long term nature.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position may be designated for specific purposes at the option of the Board of Commissioners.

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.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net position or total net position.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

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

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

Credit Risk: The Ports' general investment policy is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. At December 31, 2014 and 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.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2014 and 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Ports' will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Ports' investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for Ports' investment or any other high-quality, interest bearing security rated at least A-1+ by Standard & Poor's or MIG-1 by Moody's. The Ports' is fully collateralized as of December 31, 2014 and 2013.

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

Operating Cash: The carrying amount of operating cash was \$11,504,183 and \$10,981,100 at December 31, 2014 and 2013, while the bank balances were \$11,582,971 and \$10,980,554. All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000, or collateralized with securities of the U.S. Government held in the Ports' name by financial institutions acting as the Ports' agent.

Certificates of Deposit: Certificates of deposit amounted to \$12,535,215 and \$7,157,646 at December 31, 2014 and 2013. In accordance with Ports' policy, certificates of deposit were fully collateralized with securities of the U.S. Government. All investment collateral is held in safekeeping in the Ports' name by financial institutions acting as the Ports' agent. Collateral is priced to market semi-monthly and monitored regularly with additional collateral requested as necessary.

Fair Values: The following schedule reports the fair values and maturities (using the segmented time distribution method) for the Ports' investments at December 31, 2014 and 2013.

2014 <u>Investment Type</u>	<u>Investment Maturities</u>				
	<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>
Money market funds	\$ 37,133	37,133	-	-	-
Certificates of deposit	12,535,215	5,441,482	7,093,733	-	-
US Agencies	1,528,951	1,528,951	-	-	-
Total	\$ 14,101,299	7,007,566	7,093,733	-	-

2013 <u>Investment Type</u>	<u>Investment Maturities</u>				
	<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>
Money market funds	\$ 2,742,283	2,742,283	-	-	-
Certificates of deposit	7,140,485	1,711,880	5,428,605	-	-
US Agencies	1,350,603	324,412	1,026,191	-	-
Total	\$ 11,233,371	4,778,574	6,454,797	-	-

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2014 and 2013

NOTE 3 – CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 25,599,558	\$ 23,548,314
Land improvements	48,348,891	45,871,448
Harbor improvements	19,485,431	20,103,091
Docks and mooring facilities	44,473,907	42,491,625
Buildings and structures	21,286,865	20,401,887
Machinery and equipment	940,231	943,966
Office furniture and equipment	555,794	632,570
Trucks and automobiles	699,006	701,108
Construction in progress	<u>3,196,714</u>	<u>5,200,438</u>
	164,586,397	159,894,447
Accumulated depreciation	<u>(66,256,133)</u>	<u>(63,711,200)</u>
	<u>\$ 98,330,264</u>	<u>\$ 96,183,247</u>

Land and construction in progress are not subject to depreciation.

Capital asset activity for 2014 and 2013 included:

<u>2014</u>	<u>Capital Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
Beginning balance	\$ 154,694,009	\$ 5,200,438	\$ 159,894,447	\$ (63,711,200)
Additions	-	4,925,361	4,925,361	-
Retirements	(233,411)	-	(233,411)	224,042
Transfers	6,929,085	(6,929,085)	-	-
Depreciation	-	-	-	(2,768,975)
Ending balance	<u>161,389,683</u>	<u>3,196,714</u>	<u>164,586,397</u>	<u>(66,256,133)</u>
<u>2013</u>	<u>Capital Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
Beginning balance	\$ 150,606,873	\$ 3,853,306	\$ 154,460,179	\$ (61,343,358)
Additions	-	5,559,770	5,559,770	-
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>

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2014 and 2013

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. All lease payments necessary to retire the direct financing lease were received and the facility was conveyed to the lessee per the terms of the lease agreement. The components of the Ports of Indiana's investment in the lease at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Future minimum lease payments receivable	\$ -	\$ 87,826
Unearned interest income	<u>-</u>	<u>(1,731)</u>
Long-term net investment in direct financing lease	<u>\$ -</u>	<u>\$ 86,095</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:

Year Ending December 31,

2015	\$ 11,022,917
2016	9,579,712
2017	7,810,466
2018	6,745,578
2019	5,429,894
2020 - 2024	19,495,640
2025 - 2029	9,693,792
2030 - 2034	5,318,766
2035 - 2039	3,076,587
2040 - 2044	<u>1,665,613</u>
	<u>\$ 79,838,965</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 \$94,731 and \$96,013 for 2014 and 2013, respectively. Minimum lease commitments are as follows:

2015	\$ 98,826
2016	100,246
2017	101,666
2018	<u>42,608</u>
	<u>\$ 343,346</u>

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2014 and 2013

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 Industrial Development Revenue Bond Series 2014A (Mill Steel Project)	May 1, 2029	\$ 5,934,486
Ports of Indiana Industrial Development Revenue Bond Series 2014B (Mill Steel Project)	May 1, 2022	\$ 3,815,443

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, 2014 and 2013, the Ports has purchased commercial insurance policies covering risks of loss related to the above mentioned events. There were no significant reductions in insurance coverage during 2014 and there were no settlements that exceeded insurance coverage during any of the past three fiscal years for those risks that the Ports purchased insurance.

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 \$1,424,509 and \$1,283,879 at December 31, 2014 and 2013. The fair market value of IDC investments held in custodial funds for participants was \$290,241 and \$270,445 at December 31, 2014 and 2013.

(Continued)

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

Plan Description: The Ports of Indiana contributes to the Public Employees Retirement Fund (PERF). As of July 1, 2013 and as part of the implementation of GASB Statement No. 67, PERF changed from an agent to a cost-sharing multiple-employer defined benefit pension plan. PERF funds are managed by Indiana Public Retirement System (INPRS). PERF provides retirement, disability and survivor benefits to plan members and beneficiaries. INPRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for PERF. That report can be obtained from the INPRS website at <http://www.inprs.in.gov>.

All full-time employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2, 5-10.3 and 5-10.5) 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.

Funding Policy: Eligible 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 annuity savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

PERF's funding policy provides for actuarially determined periodic contributions rates for individual employers. The entry age normal cost method is used to determine the contribution requirements. For fiscal year 2014, the Ports of Indiana contributed at 10.5% of annual covered payroll. The Ports of Indiana's contributions to PERF for the years ending December 31, 2014, 2013 and 2012 were \$251,563, \$217,792 and \$164,511, respectively, in alignment with the required contributions for each year.

SUPPLEMENTAL SCHEDULES

PORTS OF INDIANA
SUPPLEMENTAL SCHEDULE OF ACTUAL OPERATING EXPENSES
COMPARED TO BUDGET (UNAUDITED)
Year ended December 31, 2014

<u>Expense Category</u>	<u>Actual Expenses</u>	<u>Budgeted Expenses</u>	<u>Variance (Over) Under</u>
Salaries, benefits, and travel	\$ 3,353,423	\$ 3,351,995	\$ (1,428)
Professional services	569,322	845,704	276,382
Marketing and advertising	217,415	239,600	22,185
Insurance	300,176	292,573	(7,603)
Facility Rental	94,731	94,042	(689)
Maintenance and utilities	1,167,018	1,748,608	581,590
Other office and administrative expenses	<u>188,806</u>	<u>186,562</u>	<u>(2,244)</u>
Total operating expenses	<u>\$ 5,890,891</u>	<u>\$ 6,759,084</u>	<u>\$ 868,193</u>
