



STATE OF INDIANA
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April 27, 2018

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

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Ports of Indiana, as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

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

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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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 (Ports), a component unit of the State of Indiana, as of and for the years ended December 31, 2017 and 2016, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

(Continued)

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, 2017 and 2016, 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.

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, the schedules of the Ports' proportionate share of the net pension liability on page 26 and the schedules of the Ports' contributions on page 27 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.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
April 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2017 and 2016

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, 2017. Please read it in conjunction with the Ports of Indiana's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Net position increased by \$3,317,963 for 2017. Operating income before depreciation was \$7,015,239. In addition to preparing operating budgets, the Ports of Indiana conducts a longer term capital planning and budgeting process that projects the on-going needs for maintenance of existing ports assets, strategic acquisition of adjacent port land, as well as future infrastructure requirements for developed and undeveloped port land. The capital plan typically projects out 15 years and is updated annually. Capital budgets are funded by the operations of the Ports of Indiana. For the year ended December 31, 2017, the Board of Commissioners has established a designated \$22,000,000 of unrestricted net position as strategic reserves for infrastructure improvements at its three Port locations.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2017 and 2016

FINANCIAL ANALYSIS

Net Position

The Ports of Indiana's total assets at December 31, 2017 reached \$140,912,470. This represents an increase in 2017 of \$6,917,715, or 5.1 percent from the prior year. The increase in total assets is a result of positive cash flows from operations and continued investment in capital assets around the ports. Total liabilities amounted to \$3,877,453, a decrease of \$206,407 or 5.1 percent from 2016. The decrease in total liabilities is mainly attributed to the timing of accounts payable around year-end. A minimal increase was experienced in 2017 relating to the net pension liability associated with the PERF pension plan. Deferred inflows of resources increased \$3,637,574 in 2017 from the prior year. The increase is a result of cash received from an agreement with a third party to be the exclusive operator of the bulk load out terminal at the Ports of Indiana – Jeffersonville. The third party paid \$3,000,000 in consideration for the rights to be the exclusive operator as well as \$654,250 as part of the agreement to share in certain construction costs of the terminal which is ongoing at December 31, 2017. Total net position amounted to \$133,804,378, an increase of \$3,317,963, or 2.5 percent (See Table 1).

| Table 1 | | | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|
| Net Position | | | |
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Assets: | | | |
| Current assets | \$ 16,918,909 | \$ 11,714,585 | \$ 15,943,861 |
| Non-current assets (**) | 22,000,000 | 22,000,000 | 14,000,000 |
| Capital | <u>101,993,561</u> | <u>100,280,176</u> | <u>99,700,303</u> |
| Total assets | <u>140,912,470</u> | <u>133,994,761</u> | <u>129,644,164</u> |
| Deferred outflow of resources | <u>439,404</u> | <u>607,989</u> | <u>498,671</u> |
| Liabilities: | | | |
| Current liabilities | 2,027,251 | 2,248,967 | 1,989,654 |
| Non-current liabilities | <u>1,850,202</u> | <u>1,834,893</u> | <u>1,586,395</u> |
| Total liabilities | <u>3,877,453</u> | <u>4,083,860</u> | <u>3,576,049</u> |
| Deferred inflow of resources | <u>3,670,049</u> | <u>32,475</u> | <u>16,300</u> |
| Net position: | | | |
| Invested in capital assets | 101,275,973 | 99,924,808 | 98,773,894 |
| Unrestricted (**) | <u>32,528,405</u> | <u>30,561,607</u> | <u>27,776,592</u> |
| Total net position | <u>\$ 133,804,378</u> | <u>\$ 130,486,415</u> | <u>\$ 126,550,486</u> |

** - For the years ended December 31, 2017 and 2016, the Board of Commissioners has designated \$22,000,000 of unrestricted net position as strategic reserves for land acquisitions, special projects, required maintenance, and emergency infrastructure improvements at its three Port locations. This represents an \$8,000,000 increase in the previously established strategic reserve for 2015, which was \$14,000,000.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2017 and 2016

Changes in Net Position

The change in net position at December 31, 2017 was \$3,317,963, or 2.5 percent. The Ports of Indiana's total operating revenues decreased by \$201,038, or 1.5 percent. Total operating expenses before depreciation decreased by \$102,235, or 1.7 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>2017</u> | <u>2016</u> | <u>2015</u> |
| Operating revenue: | | | |
| Maritime services | \$ 12,594,748 | \$ 12,599,480 | \$ 13,093,261 |
| Other | <u>450,702</u> | <u>647,008</u> | <u>666,871</u> |
| Total operating revenues | <u>13,045,450</u> | <u>13,246,488</u> | <u>13,760,132</u> |
| Operating expenses: | | | |
| Operating expenses | 5,994,211 | 6,096,446 | 6,121,908 |
| Depreciation | <u>3,964,492</u> | <u>3,702,393</u> | <u>3,606,114</u> |
| Total operating expenses | <u>9,958,703</u> | <u>9,798,839</u> | <u>9,728,022</u> |
| Operating income | 3,086,747 | 3,447,649 | 4,032,110 |
| Non-operating revenues: | | | |
| | 194,738 | 197,454 | 188,167 |
| Capital contributions | <u>36,478</u> | <u>290,826</u> | <u>428,362</u> |
| Change in net position | 3,317,963 | 3,935,929 | 4,648,639 |
| Net position, beginning of year | <u>130,486,415</u> | <u>126,550,486</u> | <u>121,901,847</u> |
| Total net position, end of year | <u>\$ 133,804,378</u> | <u>\$ 130,486,415</u> | <u>\$ 126,550,486</u> |

Revenues: Operating revenues from maritime services decreased slightly by \$4,732, or 0.04 percent in 2017 from 2016. In 2016, operating revenues from maritime services decreased by \$493,781 and 3.8 percent compared to 2015. The decrease resulted primarily from a decrease in steel and grain tonnage at the ports, which experienced record tonnage volume in 2015.

Non-operating and capital contributions decreased by \$257,064 in 2017 and decreased by \$128,249 in 2016 compared to 2015. In 2017, this category includes \$36,478 from federal programs. In 2016, this category includes \$290,826 from federal programs. In 2015, this category included \$10,000 in capital contributions from private programs and \$418,362 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 2017, 2016, or 2015.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2017 and 2016

Expenses: Total operating expenses increased by \$159,864, or 1.6 percent, in 2017. In 2016, operating expenses increased by \$70,817 or 0.7 percent compared to 2015. Operating expenses, not including depreciation, decreased by \$102,235, or 1.7 percent, in 2017 and decreased by \$25,462, or 0.4 percent, in 2016. The increase in expense from 2016 to 2017 is primarily due to employee related expenses and depreciation expense offset with decreases in expenditures incurred for advertising and public relations and maintenance. Operating expenses are summarized as follows:

| <u>Expense Category</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|----------------------------------|---------------------|---------------------|---------------------|
| Labor and fringe benefits | \$ 3,685,694 | \$ 3,423,016 | \$ 3,277,472 |
| Travel and training | 100,924 | 129,532 | 102,244 |
| Security services | 274,729 | 260,693 | 260,474 |
| Legal services | 152,971 | 108,788 | 105,507 |
| Accounting services | 40,666 | 35,380 | 33,000 |
| Computer services | 98,374 | 94,902 | 86,789 |
| Other professional services | 53,920 | 174,760 | 151,808 |
| Advertising and public relations | 206,818 | 343,253 | 315,994 |
| Insurance | 289,251 | 309,078 | 310,085 |
| Property rentals | 95,427 | 94,014 | 96,188 |
| Office expenses | 75,134 | 72,894 | 71,720 |
| Business association memberships | 100,684 | 112,075 | 102,439 |
| Utilities | 147,974 | 136,334 | 138,969 |
| Maintenance | 660,915 | 791,678 | 1,060,473 |
| Other | 10,730 | 10,049 | 8,746 |
| Depreciation | 3,964,492 | 3,702,393 | 3,606,114 |
| Total operating expenses | <u>\$ 9,958,703</u> | <u>\$ 9,798,839</u> | <u>\$ 9,728,022</u> |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2017 and 2016, the Ports of Indiana had invested \$101,993,567 and \$100,280,176 in capital assets and related assets, net of accumulated depreciation. As compared to the prior year, this amount represents an increase of \$1,713,385. The most significant capital asset addition in 2017 was an approximate \$2.9 million addition related to the purchase of land and an industrial building located at the Port of Indiana – Jeffersonville. See Note 3 for capital asset activity.

There is no outstanding debt other than construction related payables of \$717,593 and \$355,368 at December 31, 2017 and 2016.

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, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ 12,700,870 | \$ 10,978,286 |
| Investments (Note 2) | 3,543,697 | - |
| Trade accounts receivable, net | 434,284 | 426,987 |
| Other receivables | 17,706 | 58,107 |
| Prepaid expenses | <u>222,352</u> | <u>251,205</u> |
| Total current assets | <u>16,918,909</u> | <u>11,714,585</u> |
| Noncurrent assets: | | |
| Cash and cash equivalents (Note 2) | \$ - | \$ 2,571,347 |
| Investments (Note 2) | 22,000,000 | 19,428,653 |
| Non-depreciable capital assets (Note 3) | 34,898,050 | 31,299,805 |
| Depreciable capital assets, net (Note 3) | <u>67,095,517</u> | <u>68,980,371</u> |
| Total noncurrent assets | <u>123,993,567</u> | <u>122,280,176</u> |
| Total assets | <u>140,912,476</u> | <u>133,994,761</u> |
| Deferred outflows of resources | | |
| Pension (Note 8) | <u>439,404</u> | <u>607,989</u> |
| Total assets and deferred outflows of resources | <u>\$ 141,351,880</u> | <u>\$ 134,602,750</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and other accrued expenses | \$ 1,309,658 | \$ 1,893,599 |
| Contracts and retainage payable on capital projects | <u>717,593</u> | <u>355,368</u> |
| Total current liabilities | <u>2,027,251</u> | <u>2,248,967</u> |
| Non-current liabilities: | | |
| Net pension liability (Note 8) | <u>1,850,202</u> | <u>1,834,893</u> |
| Total liabilities | <u>3,877,453</u> | <u>4,083,860</u> |
| Deferred inflows of resources | | |
| Sale of future revenues (Note 1) | 3,654,250 | - |
| Pension (Note 8) | <u>15,799</u> | <u>32,475</u> |
| Total deferred outflows of resources | <u>3,670,049</u> | <u>32,475</u> |
| Net position | | |
| Net investment in capital assets | 101,275,973 | 99,924,808 |
| Unrestricted | <u>32,528,405</u> | <u>30,561,607</u> |
| Total net position | <u>133,804,378</u> | <u>130,486,415</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 141,351,880</u> | <u>\$ 134,602,750</u> |

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Operating revenues | | |
| Maritime services | \$ 3,245,196 | \$ 3,085,886 |
| Facility rentals and storage | 8,447,656 | 8,741,434 |
| User fees | 804,896 | 683,493 |
| Foreign trade zone fees | 97,000 | 88,667 |
| Other | <u>450,702</u> | <u>647,008</u> |
| Total operating revenues | 13,045,450 | 13,246,488 |
| Operating expenses before depreciation | | |
| Labor and fringe benefits | 3,685,694 | 3,423,016 |
| Maintenance | 660,915 | 791,678 |
| Other | <u>1,647,602</u> | <u>1,881,752</u> |
| Total operating expenses before depreciation | <u>5,994,211</u> | <u>6,096,446</u> |
| Operating income before depreciation | 7,015,239 | 7,150,042 |
| Depreciation expense | <u>3,964,492</u> | <u>3,702,393</u> |
| Operating income | 3,086,747 | 3,447,649 |
| Non-operating revenues | | |
| Net interest income | 201,557 | 240,652 |
| Other income (expense) | <u>(6,819)</u> | <u>(43,198)</u> |
| Total non-operating revenues | <u>194,738</u> | <u>197,454</u> |
| Income before capital contributions | 3,281,485 | 3,645,103 |
| Capital contributions | <u>36,478</u> | <u>290,826</u> |
| Change in net position | 3,317,963 | 3,935,929 |
| Net position, at beginning of year | <u>130,486,415</u> | <u>126,550,486</u> |
| Net position, at end of year | <u>\$ 133,804,378</u> | <u>\$ 130,486,415</u> |

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 13,078,554 | \$ 13,087,347 |
| Payments to suppliers | (2,955,083) | (1,963,292) |
| Payments to employees | (2,337,224) | (2,057,366) |
| Payments of benefits on behalf of employees | <u>(1,089,774)</u> | <u>(1,026,915)</u> |
| Net cash provided by operating activities | 6,696,473 | 8,039,774 |
| Cash flows from capital and related financing activities: | | |
| Settlement of contract and receipt of option fees | (6,820) | (43,198) |
| Receipt of capital contributions | 36,478 | 290,826 |
| Proceeds from sale of future revenues | 3,654,250 | - |
| Purchases for acquisitions and construction of capital assets | <u>(5,315,658)</u> | <u>(4,853,312)</u> |
| Net cash used in capital and related financing | (1,631,750) | (4,605,684) |
| Cash flows from investing activities: | | |
| Purchases of investments | (6,000,000) | (1,258,221) |
| Investment income received | <u>86,514</u> | <u>240,652</u> |
| Net cash used in investing activities | <u>(5,913,486)</u> | <u>(1,017,569)</u> |
| Net change in cash and cash equivalents | (848,763) | 2,416,521 |
| Cash and cash equivalents, beginning of year | <u>13,549,633</u> | <u>11,133,112</u> |
| Cash and cash equivalents, end of year: | <u>\$ 12,700,870</u> | <u>\$ 13,549,633</u> |
| Reconciliation of cash and cash equivalents: | | |
| Cash and cash equivalents, current assets | \$ 12,700,870 | \$ 10,978,286 |
| Cash and cash equivalents, noncurrent assets | - | 2,571,347 |
| Cash and cash equivalents, end of year | <u>\$ 12,700,870</u> | <u>\$ 13,549,633</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 3,086,747 | \$ 3,447,649 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 3,964,492 | 3,702,393 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (7,297) | (101,034) |
| Other receivables | 40,401 | (58,107) |
| Prepaid expenses | 28,853 | 63,164 |
| Deferred outflows – pension liability | 168,585 | (109,318) |
| Accounts payable | (583,941) | 830,354 |
| Net pension liability | 15,309 | 248,498 |
| Deferred inflows – pension liability | <u>(16,676)</u> | <u>16,175</u> |
| Net cash provided by operating activities | <u>\$ 6,696,473</u> | <u>\$ 8,039,774</u> |

Noncash activities: The Ports of Indiana had contracts and retainage payable on related capital assets of \$717,593 and \$355,368 at December 31, 2017 and 2016, respectively.

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 and there is not a separate audit report issued for the entity.

Measurement Focus, Basis of Accounting and Financial Reporting: The accounting policies of the Ports of Indiana conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.” As of December 31, 2017, the GASB has issued the following statements which were implemented by the Ports:

- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

These new statements had no effect on the Ports' net position or changes therein.

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

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

Investments: The Ports accounts for its investments at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of net 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.

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, 2017 and 2016.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Noncurrent Cash and Investments: At December 31, 2017 and 2016, the Board of Commissioners has designated \$22,000,000, respectively, of cash and investments as a strategic reserve for land acquisitions, special projects, required maintenance, and emergency infrastructure improvements, which are classified as noncurrent assets in the statement of net position because of their long term nature.

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

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

Deferred Inflows of Resources - Sale of Future Revenues: During 2017, the Ports entered into an agreement with a third party to serve as the exclusive operator of the bulk load out terminal at the Port of Indiana – Jeffersonville. The agreement has an original term of ten years with the option to renew for an additional five years. The third party paid \$3,000,000 in consideration for the right to charge other parties for use of the bulk terminal over the lease term and must also pay annual operating fees, tonnage fees, and meet a guaranteed minimum tonnage threshold outlined in the agreement. In accordance with GASB Statement No. 48 and clarified by GASB Statement No. 65, the payment received in consideration for the right to future revenues as the exclusive operator of the bulk terminal has been recorded as a deferred inflow of resource. Revenue will be recognized straight line over the course of the original ten-year lease term. The Ports and the third party have also agreed to share in the financial responsibility of “non-essential” items relating to the ongoing construction of the bulk terminal. The third party paid \$654,250 for their share of the costs which had not been incurred by Ports at December 31, 2017. At December 31, 2017, the construction of the bulk load-out terminal is in progress and expected to be completed during 2018.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Restricted Asset Spending Policy: Restricted assets are released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events. When expenditures are 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 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, 2017 and 2016, all funds were held at banks in accounts either insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000, or collateralized with securities of the U.S. Government or in municipal obligations with the appropriate credit rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Ports' will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Ports' investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for Ports' investment or any other high-quality, interest bearing security rated at least A-1+ by Standard & Poor's or MIG-1 by Moody's. The Ports' is fully collateralized as of December 31, 2017 and 2016.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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 \$12,700,870 and \$13,549,633 at December 31, 2017 and 2016, respectively, while the bank balance was \$12,920,946 and \$13,584,081, respectively. The difference relates to outstanding checks at December 31, 2017 and 2016. 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 \$24,815,174 and \$18,160,340 at December 31, 2017 and 2016, respectively. In accordance with Ports' policy, certificates of deposit were fully collateralized with securities of the U.S. Government. All investment collateral is held in safekeeping in the Ports' name by financial institutions acting as the Ports' agent. Collateral is priced to market semi-monthly and monitored regularly with additional collateral requested as necessary.

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

The Ports has money market funds of \$728,523 and \$1,268,313 and negotiable certificates of deposit of \$24,815,174 and \$18,160,340 at December 31, 2017 and 2016, respectively, which are valued at fair value.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the Ports' investments at December 31, 2017 and 2016.

| <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> |
| <u>2017</u> | | | | | |
| Money market funds | \$ 728,523 | \$ 728,523 | \$ - | \$ - | \$ - |
| Certificates of deposit | <u>24,815,174</u> | <u>7,371,101</u> | <u>17,444,073</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 25,543,697</u> | <u>\$ 8,099,624</u> | <u>\$ 17,444,073</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>2016</u> | | | | | |
| Money market funds | \$ 1,268,313 | \$ 1,268,313 | \$ - | \$ - | \$ - |
| Certificates of deposit | <u>18,160,340</u> | <u>8,192,625</u> | <u>9,967,715</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 19,428,653</u> | <u>\$ 9,460,938</u> | <u>\$ 9,967,715</u> | <u>\$ -</u> | <u>\$ -</u> |

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

NOTE 3 - CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|-----------------------|-----------------------|
| Non-depreciable capital assets: | | |
| Land | \$ 25,599,558 | \$ 25,599,558 |
| Construction in progress | <u>9,298,492</u> | <u>5,700,247</u> |
| | 34,898,050 | 31,299,805 |
| Depreciable capital assets: | | |
| Land improvements | 53,621,340 | 52,358,472 |
| Harbor improvements | 19,674,896 | 19,485,431 |
| Docks and mooring facilities | 44,657,381 | 44,715,183 |
| Buildings and structures | 24,100,210 | 23,561,987 |
| Machinery and equipment | 1,046,727 | 1,046,727 |
| Office furniture and equipment | 580,447 | 560,314 |
| Trucks and automobiles | <u>794,000</u> | <u>739,306</u> |
| | <u>144,475,001</u> | <u>142,467,420</u> |
| Total capital assets | 179,373,051 | 173,767,225 |
| Less: Accumulated depreciation | <u>(77,379,484)</u> | <u>(73,487,049)</u> |
| | <u>\$ 101,993,567</u> | <u>\$ 100,280,176</u> |

Land and construction in progress are not subject to depreciation.

Capital asset activity for 2017 and 2016 included:

| | <u>Capital Assets</u> | <u>Construction in Progress</u> | <u>Total</u> | <u>Accumulated Depreciation</u> |
|-------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|
| <u>2017</u> | | | | |
| Beginning balance | \$ 168,066,978 | \$ 5,700,247 | \$ 173,767,225 | \$ (73,486,949) |
| Additions | - | 5,677,882 | 5,677,882 | - |
| Retirements | (72,056) | - | (72,056) | 71,957 |
| Transfers | 2,079,637 | (2,079,637) | - | - |
| Depreciation | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,964,492)</u> |
| Ending balance | <u>\$ 170,074,559</u> | <u>\$ 9,298,492</u> | <u>\$ 179,373,051</u> | <u>\$ (77,379,484)</u> |
| <u>2016</u> | | | | |
| Beginning balance | \$ 164,586,164 | \$ 4,907,276 | \$ 169,493,440 | \$ (69,793,137) |
| Additions | - | 4,281,861 | 4,281,859 | - |
| Retirements | (8,076) | - | (8,076) | 8,481 |
| Transfers | 3,488,890 | (3,488,890) | - | - |
| Depreciation | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,702,393)</u> |
| Ending balance | <u>\$ 168,066,978</u> | <u>\$ 5,700,247</u> | <u>\$ 173,767,225</u> | <u>\$ (73,487,049)</u> |

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

NOTE 4 - OPERATING LEASES

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,

| | |
|-------------|----------------------|
| 2018 | \$10,531,035 |
| 2019 | 9,494,086 |
| 2020 | 8,998,284 |
| 2021 | 7,889,498 |
| 2022 | 5,953,949 |
| 2023 - 2027 | 15,191,848 |
| 2028 - 2032 | 9,030,604 |
| 2033 - 2037 | 5,656,037 |
| 2038 - 2042 | 4,008,469 |
| 2043 - 2046 | <u>1,981,553</u> |
| | <u>\$ 78,735,363</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 \$95,427 and \$94,014 for the years ended December 31, 2017 and 2016, respectively. Minimum lease commitments are as follows:

| | |
|------|------------------|
| 2018 | <u>\$ 42,608</u> |
| | <u>\$ 42,608</u> |

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

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 | \$ 4,040,142 |
| Ports of Indiana Industrial Development Revenue Bond Series 2014B (Mill Steel Project) | May 1, 2022 | \$ 2,347,464 |

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, 2017 and 2016, 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 2017 and 2016 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 \$2,132,274 and \$1,660,292 at December 31, 2017 and 2016, respectively. The fair market value of IDC investments held in custodial funds for participants was \$353,767 and \$311,339 at December 31, 2017 and 2016, respectively.

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

Plan Description: The Ports of Indiana contributes to the Public Employees' Retirement Fund (PERF), which is administered by the Indiana Public Retirement System (INPRS). PERF is a cost-sharing, multiple-employer defined benefit plan based on based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two tiers to PERF. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid) and the second is the My Choice: Retirement Savings Plan for Public Employees' (My Choice), formerly known as the Public Employees' Annuity Savings Account Only Plan. Details of the PERF Hybrid and My Choice are described below.

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3 and IC 5-10.5. There are two aspects to the PERF Hybrid defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Retirement Savings Plan for Public Employees (My Choice) was formerly known as the PERF ASA Only Plan. My Choice was established by the Indiana Legislature in 2011 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12 and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. My Choice members are full-time employees of the State (as defined in IC 5-10.3-7-1(d)), or a political subdivision who elected to participate in My Choice, and who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of My Choice. Any government agency that pays employees through the Auditor of the State is a mandatory participant in My Choice and must offer eligible employees My Choice option. Quasi-government agencies and State educational institutions may choose to offer My Choice as an option to their employees.

Financial report: INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Retirement Benefits – Defined Benefit Pension: The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account (ASA). Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

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

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four consecutive calendar quarters. The same calendar quarter may not be included in two different groups. For PERF members who serve as an elected official, the highest one year (total of four consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the years ended June 30, 2017; however, eligible members received a one-time check (a.k.a. 13th check) in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

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

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their ASA. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' ASA are self-directed, as participants direct the investment of their account balances among eight (8) investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may direct changes to their investment fund allocations daily and investments are reported at fair value.

Contributions: The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or My Choice. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During 2017 and 2016, participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State and Political Subdivisions.

For My Choice, the State was also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 3.3 percent for the State for the year ended June 30, 2017 and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan. The political subdivisions were required to contribute a supplemental cost of 5.4 percent of covered payroll as of July 1, 2016, which increased to 7.2 percent as of January 1, 2017. In addition, for political subdivisions, the amount credited to the members account for the normal cost ranged up to 5.8 percent as of July 1, 2016, and up to 4 percent as of January 1, 2017. Ports contributed 11.2 percent for the 2017 and 2016, respectively.

PERF Hybrid Plan and My Choice members contribute three percent of covered payroll to their ASA, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for My Choice. Political subdivisions may choose to pay part or all of the member's contributions on behalf of the member for My Choice. In addition, members of the PERF Hybrid Plan may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their ASA. Political subdivisions that participate in My Choice may elect to match voluntary contributions at a rate of 50 percent.

The contribution requirement, which was made by the Ports, was \$239,203 and \$220,601 for 2017 and 2016, respectively. These total contributions represent 11.2% of covered payroll for 2017 and 2016.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

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

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

| <u>Year Ended December 31</u> | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|-----------------------------------|---|-----------------------------------|
| 2017 | \$ 239,203 | 100% |
| 2016 | 220,601 | 100% |
| 2015 | 212,888 | 100% |

Significant Actuarial Assumptions: The total pension liability is determined by INPRS actuaries in accordance with GASB No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

- Asset valuation date – June 30, 2017
- Liability valuation date – June 30, 2016 – Member census data as of June 30, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Valuation results from June 30, 2016 were rolled-forward to June 30, 2017 to reflect benefit accruals during the year less benefits paid.
- Experience study date – Period of 4 years ended June 30, 2014
- Actuarial cost method – Entry age normal (level percent of payroll)
- Investment rate of return – 6.75%
- Cost of living increases – 1.0%
- Future salary increases, including inflation – 2.5% - 4.25%
- Inflation – 2.25%
- Mortality - RP-2014 Total Data Set Mortality Tables, with Social Security generational improvements from 2006 based on the Social Security Administration's 2014 Trustee Report

There were no changes in actuarial assumptions or plan provisions for the June 30, 2016 fiscal year. The INPRS Board approved the following changes in actuarial methods effective for June 30, 2016:

- For funding purposes and when the plan is below 100% funded, gains and losses occurring from census experience different than assumed, assumption changes, and benefit changes will be amortized over a 20-year period with level payments each year, rather than a 30-year period.
- For the funding purposes, the smoothing period of investment gains and losses in the development of the Actuarial Value of Assets was increased from four years to five years at June 30, 2016.

There were no changes in actuarial methods or plan provisions for the June 30, 2017 fiscal year. The following changes in actuarial assumptions were made for the June 30, 2017 fiscal year:

- For vested members, a salary load of \$400 was added to approximate the impact on average monthly earnings of unused sick leave accumulated at termination of employment
- For disabled members, the mortality assumptions were updated from the RP-2014 Total Data Set Mortality tables to the RP-2014 Disability Mortality tables.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

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

The long-term return expectation for the defined benefit retirement plan has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of geometric real rates of return for each major asset class is summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation %</u> | <u>Geometric Basis Long-Term Expected Real Rate of Return</u> |
|--------------------------------------|----------------------------|---|
| Public equity | 22.0% | 4.9% |
| Private equity | 14.0 | 5.7 |
| Fixed income – ex inflation - linked | 20.0 | 2.3 |
| Fixed income – inflation - linked | 7.0 | 0.6 |
| Commodities | 8.0 | 2.2 |
| Real estate | 7.0 | 3.7 |
| Absolute return | 10.0 | 3.9 |
| Risk parity | <u>12.0</u> | 5.1 |
| Total | <u>100.0%</u> | |

Discount rate: Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent for 2017 and 2016). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Sensitivity: The following presents the Port's share of the net pension liability calculated using the discount rate of 6.75 percent for 2017 and 2016, as well as what the Port's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

| | 1% Decrease <u>(5.75%)</u> | Current Rate <u>(6.75%)</u> | 1% Increase <u>(7.75%)</u> |
|--|----------------------------------|-----------------------------------|----------------------------------|
| <u>2017</u> | | | |
| Proportionate share of the Collective Net Pension Liability | \$ 2,698,445 | \$ 1,850,202 | \$ 1,145,076 |
| <u>2016</u> | | | |
| Proportionate share of the Collective Net Pension Liability | \$ 2,635,341 | \$ 1,834,893 | \$ 1,169,600 |

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

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a stand-alone financial report of INPRS that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Investment Valuation and Benefit Payment Policies: The pooled and non-pooled investments are reported at fair value by INPRS. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity.

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business.

Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' ASAs. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2017 and 2016

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2017 and 2016, the Ports reported a liability of \$1,850,202 and \$1,834,893, respectively, for its proportionate share of the net pension liability. The Ports' proportionate share of the net pension liability was based on the Ports' wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2017 measurement date was 0.0004147. This represents a slight increase from the prior measurement date. The proportionate share used at the June 30, 2016 measurement date was 0.0004043.

For the years ended December 31, 2017 and 2016, the Ports recognized pension expense of \$406,421 and \$375,956, respectively, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$40,700 and \$29,185, respectively. At December 31, 2017 and 2016, the Ports reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| <u>2017</u> | | |
| Differences between expected and actual experience | \$ 35,137 | \$ 1,436 |
| Net difference between projected and actual earnings on pension plan investments | 199,906 | - |
| Changes in assumptions | 29,707 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>55,937</u> | <u>14,363</u> |
| Total that will be recognized in pension expense (income) based on table below | 320,687 | 15,799 |
| Pension contributions subsequent to measurement date | <u>118,717</u> | - |
| Total | <u>\$ 439,404</u> | <u>\$ 15,799</u> |
| <u>2016</u> | | |
| Differences between expected and actual experience | \$ 41,108 | \$ 3,387 |
| Net difference between projected and actual earnings on pension plan investments | 300,335 | - |
| Changes in assumptions | 80,957 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>75,666</u> | <u>29,088</u> |
| Total that will be recognized in pension expense (income) based on table below | 498,066 | 32,475 |
| Pension contributions subsequent to measurement date | <u>109,923</u> | - |
| Total | <u>\$ 607,989</u> | <u>\$ 32,475</u> |

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

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

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2017 measurement date is recognized as a reduction of net pension liability in the year ending December 31, 2017. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5-year period. A change in an employer's proportionate share represents the change as of the current year measurement date versus the prior year measurement date, and is amortized over the average expected remaining service lives of the plan. The difference between an employer's contributions and the employer's proportionate share of the collective contributions is amortized over the average expected remaining service lives of the plan. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2018 | \$ 134,428 |
| 2019 | 137,710 |
| 2020 | 42,704 |
| 2021 | (9,954) |

REQUIRED SUPPLEMENTARY INFORMATION

PORTS OF INDIANA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE PORTS' PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY - PERF
 December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|--------------|
| Ports' proportion of the net pension liability | 0.0004147 | 0.0004043 | 0.0003895 |
| Ports' proportionate share of the net pension liability | \$ 1,850,202 | \$ 1,834,893 | \$ 1,586,395 |
| Ports' covered payroll | \$ 2,057,231 | \$ 1,937,656 | \$ 1,865,846 |
| Ports' proportionate share of the net pension liability as a percentage of its covered payroll | 89.94% | 94.70% | 85.18% |
| Plan fiduciary net position as a percentage of the total pension liability | 76.6% | 75.30% | 77.30% |

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

Changes of assumptions: An assumption study was performed in April 2015 resulting in an update to the following assumptions:

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from a table ranging from 3.25% to 4.50% to a table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2018

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

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

Benefit changes: There were no changes to the plan that impacted pension benefits during the fiscal year.

Plan amendments. In 2016, there were no changes to the plan that impacted pension benefits during the year. In 2014, HB 1075 impacted the PERF by reducing the Annuity Savings Account (ASA) interest crediting rate on annuities from 7.5% to 5.75% effective October 1, 2014. Effective October 1, 2015 the rate becomes the greater of 4.5% or market rate. On January 1, 2017, the ASA annuities are allowed to be outsourced to a third party provider.

PORTS OF INDIANA
 SUPPLEMENTARY INFORMATION
 SCHEDULES OF PORTS' CONTRIBUTIONS - PERF
 December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|------------------|
| Statutorily required contribution | \$ 239,203 | \$ 220,601 | \$ 212,888 |
| Contributions in relation to the statutorily required contribution | <u>(239,203)</u> | <u>(220,601)</u> | <u>(212,888)</u> |
| Annual contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| The Ports' contributions as a percentage of statutorily required contribution for pension | 100% | 100% | 100% |
| Port's covered payroll | \$ 2,135,700 | \$ 1,969,700 | \$ 1,900,800 |
| Contributions as a percentage of covered payroll | 11.2% | 11.2% | 11.2% |

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

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

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

Amortization method: Level dollar

Remaining amortization period: 20 years, closed

Asset valuation method: 4 year smoothing of gains and losses on the market value of assets subject to a 20% corridor.

Inflation: 2.25%

Salary increases: 2.50% - 4.25%

Investment rate of return: 6.75%

Mortality: RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2016

Other information:

The INPRS Board sets, at its discretion, the State's employer contribution rate upon considering the results of the actuarial valuation and other analysis as appropriate. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/15 was 10.55%; however, the INPRS Board approved a State employer contribution rate of 11.20%. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/16 was 9.80%; however, the INPRS Board approved a State employer contribution rate of 11.2%. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/17 was 10.11%; however, the INPRS Board approved a State employer contribution rate of 11.2%. The actual dollar amount of the State's contributions depends on the actual payroll for the fiscal year.

Member census data as of June 30, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Standard actuarial roll forward techniques were then used to project the liabilities computed as of June 30, 2016 to June 30, 2017.