



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B52856

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

June 13, 2019

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

We have reviewed the audit report of Ports of Indiana which was opined upon by Crowe, LLP, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. 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, 2018, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

A handwritten signature in 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, 2018 and 2017

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

FINANCIAL STATEMENTS
December 31, 2018 and 2017

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
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULES OF THE PORTS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - PERF.....	26
SCHEDULES OF THE PORTS' CONTRIBUTIONS - PERF.....	27

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, 2018 and 2017, 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, 2018 and 2017, 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 LLP
Crowe LLP

Indianapolis, Indiana
April 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2018 and 2017

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, 2018. Please read it in conjunction with the Ports of Indiana's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Net position increased by \$5,348,048 for 2018. Operating income before depreciation was \$7,337,194. In addition to preparing operating budgets, the Ports of Indiana conducts a longer term capital planning and budgeting process that projects the on-going needs for maintenance of existing ports assets, strategic acquisition of adjacent port land, as well as future infrastructure requirements for developed and undeveloped port land. The capital plan typically projects out activities for 15 years and is updated annually. The long term capital plan projects approximately \$191,000,000 of capital expenditures will be incurred through 2034 to maintain and support the infrastructure at the three Ports locations. Capital budgets are funded by the operations of the Ports of Indiana. For the year ended December 31, 2018, 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 detail.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2018 and 2017

FINANCIAL ANALYSIS

Net Position

The Ports of Indiana's total assets at December 31, 2018 reached \$145,983,843. This represents an increase in 2018 of \$5,071,367, or 3.6 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 \$3,255,117, a decrease of \$622,336 or 16% percent from 2017. The decrease in total liabilities is mainly attributed to the timing of accounts payable around year-end. A minimal increase was experienced in 2018 relating to the net pension liability associated with the PERF pension plan. Deferred inflows of resources increased \$230,410 in 2018 from the prior year. The increase from 2016 to 2017 is a result of cash received from an agreement with a third party at the Ports of Indiana – Burns Harbor. Total net position amounted to \$139,152,426, an increase of \$5,348,048, or 4.0 percent (See Table 1).

Table 1 Net Position			
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current assets	\$ 22,455,442	\$ 16,918,909	\$ 11,714,585
Non-current assets (**)	22,000,000	22,000,000	22,000,000
Capital	<u>101,528,401</u>	<u>101,993,567</u>	<u>100,280,176</u>
Total assets	<u>145,983,843</u>	<u>140,912,476</u>	<u>133,994,761</u>
Deferred outflow of resources	<u>324,159</u>	<u>439,404</u>	<u>607,989</u>
Liabilities:			
Current liabilities	1,733,241	2,027,251	2,248,967
Non-current liabilities	<u>1,521,876</u>	<u>1,850,202</u>	<u>1,834,893</u>
Total liabilities	<u>3,255,117</u>	<u>3,877,453</u>	<u>4,083,860</u>
Deferred inflow of resources	<u>3,900,459</u>	<u>3,670,049</u>	<u>32,475</u>
Net position:			
Invested in capital assets	101,346,760	101,275,973	99,924,808
Unrestricted (**)	<u>37,805,666</u>	<u>32,528,405</u>	<u>30,561,607</u>
Total net position	<u>\$ 139,152,426</u>	<u>\$ 133,804,378</u>	<u>\$ 130,486,415</u>

** - For the years ended December 31, 2018 and 2017, 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 no increase from the previously established strategic reserve for 2017, which was \$22,000,000.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2018 and 2017

Changes in Net Position

The change in net position at December 31, 2018 was \$5,348,048, or 4.0 percent. The Ports of Indiana's total operating revenues increased by \$452,467, or 3.5 percent. Total operating expenses before depreciation increased by \$166,512, or 2.8 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>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue:			
Maritime services	\$ 13,148,482	\$ 12,594,748	\$ 12,599,480
Other	<u>349,435</u>	<u>450,702</u>	<u>647,008</u>
Total operating revenues	<u>13,497,917</u>	<u>13,045,450</u>	<u>13,246,488</u>
Operating expenses:			
Operating expenses	6,160,723	5,994,211	6,096,446
Depreciation	<u>3,770,995</u>	<u>3,964,492</u>	<u>3,702,393</u>
Total operating expenses	<u>9,931,718</u>	<u>9,958,703</u>	<u>9,798,839</u>
Operating income	3,566,199	3,086,747	3,447,649
Non-operating revenues:	899,984	194,738	197,454
Capital contributions	<u>881,865</u>	<u>36,478</u>	<u>290,826</u>
Change in net position	5,348,048	3,317,963	3,935,929
Net position, beginning of year	<u>133,804,378</u>	<u>130,486,415</u>	<u>126,550,486</u>
Total net position, end of year	<u>\$ 139,152,426</u>	<u>\$ 133,804,378</u>	<u>\$ 130,486,415</u>

Revenues: Operating revenues from maritime services increased by \$553,734 or 4.4 percent in 2018 from 2017. In 2017, operating revenues from maritime services decreased by \$4,732 and 0.04 percent compared to 2016. The increase resulted primarily from an increase in coal, steel and grain tonnage at the ports, which experienced record tonnage volume in 2018.

Non-operating and capital contributions increased by \$1,550,633 in 2018 and decreased by \$257,064 in 2017 compared to 2016. In 2018, this category includes \$548,105 from federal programs. In 2017, this category includes \$36,478 from federal programs. In 2016, this category includes \$290,826 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 2018, 2017, or 2016.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2018 and 2017

Expenses: Total operating expenses decreased by \$26,985, or 0.03 percent, in 2018. In 2017, operating expenses increased by \$159,864 or 1.6 percent compared to 2016. Operating expenses, not including depreciation, increased by \$166,512, or 2.8 percent, in 2018 and decreased by \$102,235, or 1.7 percent, in 2017. The decrease in expense from 2017 to 2018 is primarily due to a decrease in depreciation expense offset with increases in expenditures incurred for employee related expenses as well as travel, security services, legal and professional services. Operating expenses are summarized as follows:

<u>Expense Category</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Labor and fringe benefits	\$ 3,905,908	\$ 3,685,694	\$ 3,423,016
Travel and training	120,034	100,924	129,532
Security services	297,814	274,729	260,693
Legal services	240,097	152,971	108,788
Accounting services	35,600	40,666	35,380
Computer services	105,048	98,374	94,902
Other professional services	241,222	53,920	174,760
Advertising and public relations	157,840	206,818	343,253
Insurance	262,550	289,251	309,078
Property rentals	101,690	95,427	94,014
Office expenses	79,355	75,134	72,894
Business association memberships	102,748	100,684	112,075
Utilities	49,701	147,974	136,334
Maintenance	453,826	660,915	791,678
Other	7,290	10,730	10,049
Depreciation	<u>3,770,995</u>	<u>3,964,492</u>	<u>3,702,393</u>
Total operating expenses	<u>\$ 9,931,718</u>	<u>\$ 9,958,703</u>	<u>\$ 9,798,839</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2018 and 2017, the Ports of Indiana had invested \$101,528,401 and \$101,993,567 in capital assets and related assets, net of accumulated depreciation. As compared to the prior year, this amount represents a decrease of \$465,166. See Note 3 for capital asset activity.

There is no outstanding debt other than construction related payables of \$181,641 and \$717,593 at December 31, 2018 and 2017.

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 17,751,176	\$ 12,700,870
Investments (Note 2)	3,995,838	3,543,697
Trade accounts receivable, net	365,525	434,284
Other receivables	25,051	17,706
Prepaid expenses	<u>317,852</u>	<u>222,352</u>
Total current assets	<u>22,455,442</u>	<u>16,918,909</u>
Noncurrent assets:		
Investments (Note 2)	22,000,000	22,000,000
Non-depreciable capital assets (Note 3)	37,052,011	34,898,050
Depreciable capital assets, net (Note 3)	<u>64,476,390</u>	<u>67,095,517</u>
Total noncurrent assets	<u>123,528,401</u>	<u>123,993,567</u>
Total assets	<u>145,983,843</u>	<u>140,912,476</u>
Deferred outflows of resources		
Pension (Note 8)	<u>324,159</u>	<u>439,404</u>
Total assets and deferred outflows of resources	<u>\$ 146,308,002</u>	<u>\$ 141,351,880</u>
Liabilities		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 1,551,600	\$ 1,309,658
Contracts and retainage payable on capital projects	<u>181,641</u>	<u>717,593</u>
Total current liabilities	1,733,241	2,027,251
Non-current liabilities:		
Net pension liability (Note 8)	<u>1,521,876</u>	<u>1,850,202</u>
Total liabilities	<u>3,255,117</u>	<u>3,877,453</u>
Deferred inflows of resources		
Sale of future revenues (Note 1)	3,654,250	3,654,250
Pension (Note 8)	<u>246,209</u>	<u>15,799</u>
Total deferred inflows of resources	3,900,459	3,670,049
Net position		
Net investment in capital assets	101,346,760	101,275,973
Unrestricted	<u>37,805,666</u>	<u>32,528,405</u>
Total net position	<u>139,152,426</u>	<u>133,804,378</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 146,308,002</u>	<u>\$ 141,351,880</u>

See accompanying notes to financial statements.

PORTS OF INDIANA
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Maritime services	\$ 3,513,036	\$ 3,245,196
Facility rentals and storage	8,677,104	8,447,656
User fees	861,342	804,896
Foreign trade zone fees	97,000	97,000
Other	<u>349,435</u>	<u>450,702</u>
Total operating revenues	13,497,917	13,045,450
Operating expenses before depreciation		
Labor and fringe benefits	3,905,908	3,685,694
Maintenance	453,826	660,915
Other	<u>1,800,989</u>	<u>1,647,602</u>
Total operating expenses before depreciation	<u>6,160,723</u>	<u>5,994,211</u>
Operating income before depreciation	7,337,194	7,015,239
Depreciation expense	<u>3,770,995</u>	<u>3,964,492</u>
Operating income	3,566,199	3,086,747
Non-operating revenues		
Net interest income	677,740	201,557
Other income (expense)	<u>222,244</u>	<u>(6,819)</u>
Total non-operating revenues	<u>899,984</u>	<u>194,738</u>
Income before capital contributions	4,486,183	3,281,485
Capital contributions	<u>881,865</u>	<u>36,478</u>
Change in net position	5,348,048	3,317,963
Net position, at beginning of year	<u>133,804,378</u>	<u>130,486,415</u>
Net position, at end of year	<u>\$ 139,152,426</u>	<u>\$ 133,804,378</u>

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 13,559,331	\$ 13,078,554
Payments to suppliers	(1,866,433)	(2,955,083)
Payments to employees	(2,825,873)	(2,337,224)
Payments of benefits on behalf of employees	<u>(1,304,646)</u>	<u>(1,089,774)</u>
Net cash provided by operating activities	7,562,379	6,696,473
Cash flows from capital and related financing activities:		
Settlement of contract and receipt of option fees	222,244	(6,820)
Receipt of capital contributions	881,865	36,478
Proceeds from sale of future revenues	-	3,654,250
Purchases for acquisitions and construction of capital assets	<u>(3,841,781)</u>	<u>(5,315,658)</u>
Net cash used in capital and related financing	(2,737,672)	(1,631,750)
Cash flows from investing activities:		
Purchases of investments	(697)	(6,000,000)
Investment income received	<u>226,296</u>	<u>86,514</u>
Net cash provided/ (used) in investing activities	<u>225,599</u>	<u>(5,913,486)</u>
Net change in cash and cash equivalents	5,050,306	(848,763)
Cash and cash equivalents, beginning of year	<u>12,700,870</u>	<u>13,549,633</u>
Cash and cash equivalents, end of year:	<u>\$ 17,751,176</u>	<u>\$ 12,700,870</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,566,199	\$ 3,086,747
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,770,995	3,964,492
Changes in assets and liabilities:		
Trade accounts receivable	68,759	(7,297)
Other receivables	(7,345)	40,401
Prepaid expenses	(95,500)	28,853
Deferred outflows – pension liability	115,245	168,585
Accounts payable	241,942	(583,941)
Net pension liability	(328,326)	15,309
Deferred inflows – pension liability	<u>230,410</u>	<u>(16,676)</u>
Net cash provided by operating activities	<u>\$ 7,562,379</u>	<u>\$ 6,696,473</u>

Noncash activities: The Ports of Indiana had contracts and retainage payable on related capital assets of \$181,641 and \$717,593 at December 31, 2018 and 2017, respectively.

See accompanying notes to financial statements.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Ports of Indiana's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include all the accounts of the Ports of Indiana and its subsidiary, The Indiana Ports Railroad Holding Corporation (Railroad Holding Corporation). The Railroad Holding Corporation is a not-for-profit entity, which is the parent of the wholly owned subsidiaries of Clark Shortline Railroad Co., Burns Harbor Shortline Railroad Co., and Southwind Railroad Co. 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." During 2018, the following GASB statements were implemented by the Ports of Indiana:

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.
- GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during the implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)).

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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. 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, 2018 and 2017.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

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, 2018 and 2017, 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, 2018. At December 31, 2018, the construction of the bulk load-out terminal is in progress and expected to be completed by 2020.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

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 eligible to be paid from either restricted or unrestricted resources, 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, 2018 and 2017, 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, 2018 and 2017.

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2018 and 2017

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 \$17,751,176 and \$12,700,870 at December 31, 2018 and 2017, respectively, while the bank balance was \$17,833,974 and \$12,920,946, respectively. The difference relates to outstanding checks at December 31, 2018 and 2017. 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 \$24,944,006 and \$24,815,174 at December 31, 2018 and 2017, 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 \$1,051,832 and \$728,523 and negotiable certificates of deposit of \$24,944,006 and \$24,815,174 at December 31, 2018 and 2017, 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, 2018 and 2017.

<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>2018</u>			
Money market funds	\$ 1,051,832	\$ 1,051,832	\$ -
Certificates of deposit	<u>24,944,006</u>	<u>19,007,036</u>	<u>5,936,970</u>
Total	<u>\$ 25,995,838</u>	<u>\$ 20,058,869</u>	<u>\$ 5,936,970</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>
Total	<u>\$ 25,543,697</u>	<u>\$ 8,099,624</u>	<u>\$ 17,444,073</u>

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2018 and 2017

NOTE 3 - CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Non-depreciable capital assets:		
Land	\$ 29,054,432	\$ 25,599,558
Construction in progress	<u>7,997,579</u>	<u>9,298,492</u>
	37,052,011	34,898,050
Depreciable capital assets:		
Land improvements	53,621,340	53,621,340
Harbor improvements	19,674,896	19,674,896
Docks and mooring facilities	45,324,900	44,657,381
Buildings and structures	24,149,055	24,100,210
Machinery and equipment	1,403,664	1,046,727
Office furniture and equipment	629,130	580,447
Trucks and automobiles	<u>823,884</u>	<u>794,000</u>
	145,626,869	144,475,001
 Total capital assets	 182,678,880	 179,373,051
Less: Accumulated depreciation	<u>(81,150,479)</u>	<u>(77,379,484)</u>
	<u>\$ 101,528,401</u>	<u>\$ 101,993,567</u>

Land and construction in progress are not subject to depreciation.

Capital asset activity for 2018 and 2017 included:

	<u>Capital Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
<u>2018</u>				
Beginning balance	\$ 170,074,559	\$ 9,298,492	\$ 179,373,051	\$ (77,379,484)
Additions	-	3,305,829	3,305,829	-
Retirements	-	-	-	-
Transfers	4,606,742	(4,606,742)	-	-
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,770,995)</u>
Ending balance	<u>\$ 174,681,301</u>	<u>\$ 7,997,579</u>	<u>\$ 182,678,880</u>	<u>\$ (81,150,479)</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>

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

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.

2019	\$10,458,084
2020	9,923,656
2021	8,404,986
2022	6,222,021
2023	4,712,396
2024 - 2028	13,018,084
2029 - 2033	8,259,157
2034 - 2038	5,366,037
2039 - 2043	3,472,149
2044 - 2047	<u>1,809,608</u>
	<u>\$ 71,646,178</u>

Operating Lease Obligations: The Ports of Indiana, as lessee, leases office space under an operating lease that expires on June 30, 2027. Rent expense was \$101,690 and \$95,427 for the years ended December 31, 2018 and 2017, respectively. Minimum lease commitments are as follows:

2019	\$ 106,852
2020	108,342
2021	110,222
2022	112,101
2023	113,980
Thereafter	<u>413,493</u>
	<u>\$ 964,990</u>

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

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	\$ 3,663,018
Ports of Indiana Industrial Development Revenue Bond Series 2014B (Mill Steel Project)	May 1, 2022	\$ 1,848,380

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, 2018 and 2017, 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 2018 and 2017 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 \$2,135,413 and \$2,132,274 at December 31, 2018 and 2017, respectively. The fair market value of IDC investments held in custodial funds for participants was \$256,575 and \$353,767 at December 31, 2018 and 2017, respectively.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

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 IC 5-10.2, IC 5-10.3, and 35 IAC 1.2. PERF provides retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan and those political subdivisions that elect to participate in the retirement fund. 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.

New employees hired by the State or a participating political subdivision have a one-time election to join either the Public Employees' Hybrid Plan (PERF Hybrid) or the My Choice: Retirement Savings Plan for Public Employees (My Choice). A new hire that is an existing member of PERF Hybrid and was not given the option for My Choice is given the option to elect My Choice or remain in PERF Hybrid. PERF Hybrid consists of two components: PERF DB, the employer-funded monthly defined benefit component, and the Public Employees' Hybrid Members Defined Contribution Account, the defined contribution component.

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and 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 2013 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.

Effective January 1, 2018, funds previously known as annuity savings accounts (ASA) (which had been reported within defined benefit funds) were reclassified as defined contribution funds based on Internal Revenue Service Private Letter Rulings PLR-193-2016 and PLR-110249-18. Defined contribution member balances previously reported within PERF defined benefit fund totals were transferred to the appropriate defined contribution fund as of January 1, 2018.

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.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

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

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.

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, 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, 2018; however, eligible members received a one-time check (a.k.a. 13th check) in September 2017. 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, 2017, and who was entitled to receive a monthly benefit on July 1, 2018.

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.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

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

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 that 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.

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 contribute 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 contribute 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 contribute 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 2018 and 2017, 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, 2018 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 7.2 percent as of January 1, 2017 and 7.1 percent effective January 1, 2018. Ports contributed 11.2 percent for the 2018 and 2017, 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 contribute 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.

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2018 and 2017

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

The contribution requirement, which was made by the Ports, was \$282,028 and \$239,203 for 2018 and 2017, respectively. These total contributions represent 11.2% of covered payroll for 2018 and 2017.

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>
2018	\$ 282,028	100%
2017	239,203	100%
2016	220,601	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, 2018
- Liability valuation date – June 30, 2017 – Member census data as of June 30, 2017 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2017 and June 30, 2018. Valuation results from June 30, 2017 were rolled-forward to June 30, 2018 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 – In lieu of a 1% COLA occurring beginning on January 1, 2020, it is now assumed that the COLA will be replaced by a 13th check for 2020 and 2021. The COLA assumption thereafter would be 0.4% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.
- 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.

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2018 and 2017

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

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.

For the June 30, 2018 actuarial valuation, the COLA assumption was changed due to the passage of Senate Enrolled Act No. 373. In lieu of a 1% COLA, beginning on January 1, 2020, it is now assumed that the COLA will be replaced by a 13th check for 2020 and 2021. The COLA assumption thereafter would be 0.4% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.

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%	4.4%
Private equity	14.0	5.4
Fixed income – ex inflation - linked	20.0	2.2
Fixed income – inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	<u>12.0</u>	5.2
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 2018 and 2017). 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.

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2018 and 2017

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

Sensitivity: The following presents the Port's share of the net pension liability calculated using the discount rate of 6.75 percent for 2018 and 2017, 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>2018</u>			
Proportionate share of the Collective Net Pension Liability	\$ 2,395,678	\$ 1,521,876	\$ 793,221
<u>2017</u>			
Proportionate share of the Collective Net Pension Liability	\$ 2,698,445	\$ 1,850,202	\$ 1,145,076

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 approximated fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described in the next section.

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 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.

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2018 and 2017

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

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.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2018 and 2017, the Ports reported a liability of \$1,521,876 and \$1,850,202, 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, 2018 measurement date was 0.0004480. This represents a slight increase from the prior measurement date. The proportionate share used at the June 30, 2017 measurement date was 0.0004147.

For the years ended December 31, 2018 and 2017, the Ports recognized pension expense of \$299,357 and \$406,421, respectively, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$60,736 and \$40,700, respectively. At December 31, 2018 and 2017, 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>2018</u>		
Differences between expected and actual experience	\$ 19,903	\$ 104
Net difference between projected and actual earnings on pension plan investments	45,072	-
Changes in assumptions	3,626	244,358
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>110,842</u>	<u>1,747</u>
Total that will be recognized in pension expense (income) based on table below	179,443	246,209
Pension contributions subsequent to measurement date	<u>144,716</u>	-
Total	<u>\$ 324,159</u>	<u>\$ 246,209</u>

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2018 and 2017

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

	<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>

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2018 measurement date is recognized as a reduction of net pension liability in the year ending December 31, 2018. 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 amortizes 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>
2019	\$ 72,355
2020	(29,384)
2021	(82,785)
2022	<u>(26,952)</u>
Total	<u>\$ (66,766)</u>

REQUIRED SUPPLEMENTARY INFORMATION

PORTS OF INDIANA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE PORTS' PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY - PERF
 December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Ports' proportion of the net pension liability	0.0004480	0.0004147	0.0004043	0.0003895
Ports' proportionate share of the net pension liability	\$ 1,521,876	\$ 1,850,202	\$ 1,834,893	\$ 1,586,395
Ports' covered payroll	\$ 2,285,974	\$ 2,057,231	\$ 1,937,656	\$ 1,865,849
Ports' proportionate share of the net pension liability as a percentage of its covered payroll	66.57%	89.94%	94.70%	85.18%
Plan fiduciary net position as a percentage of the total pension liability	78.90%	76.60%	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.

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

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

Plan amendments. In 2017, there were no plan changes 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.

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, 2019

For the June 30, 2018 actuarial valuation, the COLA assumption was changed due to the passage of Senate Enrolled Act No. 373. In lieu of a 1% COLA, beginning on January 1, 2020, it is now assumed that the COLA will be replaced by a 13th check for 2020 and 2021. The COLA assumption thereafter would be 0.4% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.

** 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.

PORTS OF INDIANA
 SUPPLEMENTARY INFORMATION
 SCHEDULES OF PORTS' CONTRIBUTIONS - PERF
 December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 282,028	\$ 239,203	\$ 220,601	\$ 212,888
Contributions in relation to the statutorily required contribution	<u>(282,028)</u>	<u>(239,203)</u>	<u>(220,601)</u>	<u>(212,888)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Ports' contributions as a percentage of statutorily required contribution for pension	100%	100%	100%	100%
Port's covered payroll	\$ 2,518,100	\$ 2,135,700	\$ 1,969,700	\$ 1,900,800
Contributions as a percentage of covered payroll	11.2%	11.2%	11.2%	11.2%

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

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

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

Amortization method: Level dollar

Remaining amortization period: 20 years, closed

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

Inflation: 2.25%

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 11.20%. 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 actuarially determined contribution rate for the State for the fiscal year ended 6/30/18 was 9.89%; 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 the prior year-end was used in the valuation and adjusted, where appropriate, to reflect changes during the current fiscal year. Standard actuarial roll forward techniques were then used to project the liabilities computed as of prior year-end to the current year measurement date.