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May 26, 2020

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, 2019 to December 31, 2019. 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, 2019, 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, 2019 and 2018

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

FINANCIAL STATEMENTS
December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the respective changes in its net position and its cash flows thereof 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 schedule of the Ports' proportionate share of the net pension liability on page 25 and the schedule of the Ports' contributions on page 26 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
May 8, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2019 and 2018

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, 2019. Please read it in conjunction with the Ports of Indiana's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Net position increased by \$1,989,412 for 2019. Operating income before depreciation was \$8,238,874. 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 2035 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, 2019, 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, 2019 and 2018

FINANCIAL ANALYSIS

Net Position

The Ports of Indiana's total assets at December 31, 2019 reached \$149,300,429. This represents an increase in 2019 of \$3,316,586, or 2.3 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 \$4,135,025, an increase of \$879,908 or 27.0 percent from 2018. The increase in total liabilities is mainly attributed to the timing of accounts payable around year-end. A minimal increase was experienced in 2019 relating to the net pension liability associated with the PERF pension plan. Deferred inflows of resources increased \$417,879 in 2019 from the prior year. Total net position amounted to \$141,141,838, an increase of \$1,989,412, or 1.4 percent (See Table 1).

| Table 1 | | | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|
| Net Position | | | |
| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Assets: | | | |
| Current assets | \$ 29,354,544 | \$ 22,455,442 | \$ 16,918,909 |
| Non-current assets (**) | 22,000,000 | 22,000,000 | 22,000,000 |
| Capital | <u>97,945,885</u> | <u>101,528,401</u> | <u>101,993,567</u> |
| Total assets | <u>149,300,429</u> | <u>145,983,843</u> | <u>140,912,476</u> |
| Deferred outflow of resources | <u>294,772</u> | <u>324,159</u> | <u>439,404</u> |
| Liabilities: | | | |
| Current liabilities | 2,600,484 | 1,733,241 | 2,027,251 |
| Non-current liabilities | <u>1,534,541</u> | <u>1,521,876</u> | <u>1,850,202</u> |
| Total liabilities | <u>4,135,025</u> | <u>3,255,117</u> | <u>3,877,453</u> |
| Deferred inflow of resources | <u>4,318,338</u> | <u>3,900,459</u> | <u>3,670,049</u> |
| Net position: | | | |
| Invested in capital assets | 97,573,689 | 101,346,760 | 101,275,973 |
| Unrestricted (**) | <u>43,568,149</u> | <u>37,805,666</u> | <u>32,528,405</u> |
| Total net position | <u>\$ 141,141,838</u> | <u>\$ 139,152,426</u> | <u>\$ 133,804,378</u> |

** - For the years ended December 31, 2019 and 2018, 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 also \$22,000,000.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2019 and 2018

Changes in Net Position

The change in net position at December 31, 2019 was \$1,989,412, or 1.4 percent. The Ports of Indiana's total operating revenues increased by \$592,341, or 4.4 percent. Total operating expenses before depreciation decreased by \$309,339, or 5.0 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>2019</u> | <u>2018</u> | <u>2017</u> |
| Operating revenue: | | | |
| Maritime services | \$ 13,454,537 | \$ 13,148,482 | \$ 12,594,748 |
| Other | <u>635,721</u> | <u>349,435</u> | <u>450,702</u> |
| Total operating revenues | <u>14,090,258</u> | <u>13,497,917</u> | <u>13,045,450</u> |
| Operating expenses: | | | |
| Operating expenses | 5,851,384 | 6,160,723 | 5,994,211 |
| Depreciation | <u>7,344,688</u> | <u>3,770,995</u> | <u>3,964,492</u> |
| Total operating expenses | <u>13,196,072</u> | <u>9,931,718</u> | <u>9,958,703</u> |
| Operating income | 894,186 | 3,566,199 | 3,086,747 |
| Non-operating revenues: | 1,095,226 | 899,984 | 194,738 |
| Capital contributions | <u>-</u> | <u>881,865</u> | <u>36,478</u> |
| Change in net position | 1,989,412 | 5,348,048 | 3,317,963 |
| Net position, beginning of year | <u>139,152,426</u> | <u>133,804,378</u> | <u>130,486,415</u> |
| Total net position, end of year | <u>\$ 141,141,837</u> | <u>\$ 139,152,426</u> | <u>\$ 133,804,378</u> |

Revenues: Operating revenues from maritime services increased by \$306,055 or 2.3 percent in 2019 from 2018. In 2018, operating revenues from maritime services increased by \$553,734 and 4.4 percent compared to 2017. The increases resulted primarily from increase in property lease revenues in 2019 and 2018.

Non-operating and capital contributions decreased by \$686,623 in 2019 and increased by \$1,550,633 in 2018 compared to 2017. In 2019, this category includes \$0 from federal programs. In 2018, this category includes \$548,105 from federal programs. In 2017, this category includes \$36,478 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 2019, 2018, or 2017.

(Continued)

PORTS OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2019 and 2018

Expenses: Total operating expenses increased by \$3,264,354, or 32.9 percent, in 2019. In 2018, operating expenses decreased by \$26,985 or 0.03 percent compared to 2017. Operating expenses, not including depreciation, decreased by \$309,339, or 5.0 percent, in 2019 and increased by \$166,512, or 2.8 percent, in 2018. The increase in expense from 2018 to 2019 is primarily due to an increase in depreciation expense resulting from a change in useful life estimates for certain capital assets. Operating expenses are summarized as follows:

| <u>Expense Category</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|----------------------------------|----------------------|---------------------|---------------------|
| Labor and fringe benefits | \$ 3,391,786 | \$ 3,905,908 | \$ 3,685,694 |
| Travel and training | 93,213 | 120,034 | 100,924 |
| Security services | 298,816 | 297,814 | 274,729 |
| Legal services | 371,025 | 240,097 | 152,971 |
| Accounting services | 35,600 | 35,600 | 40,666 |
| Computer services | 150,447 | 105,048 | 98,374 |
| Other professional services | 172,180 | 241,222 | 53,920 |
| Advertising and public relations | 38,222 | 157,840 | 206,818 |
| Insurance | 320,485 | 262,550 | 289,251 |
| Property rentals | 102,446 | 101,690 | 95,427 |
| Office expenses | 66,819 | 79,355 | 75,134 |
| Business association memberships | 144,252 | 102,748 | 100,684 |
| Utilities | 252,492 | 49,701 | 147,974 |
| Maintenance | 406,432 | 453,826 | 660,915 |
| Other | 7,018 | 7,290 | 10,730 |
| Depreciation | 7,344,688 | 3,770,995 | 3,964,492 |
| Total operating expenses | <u>\$ 13,196,072</u> | <u>\$ 9,931,718</u> | <u>\$ 9,958,703</u> |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2019 and 2018, the Ports of Indiana had invested \$97,945,885 and \$101,528,401 in capital assets and related assets, net of accumulated depreciation. As compared to the prior year, this amount represents a decrease of \$3,582,516. See Note 3 for capital asset activity.

Debt Administration

There is no outstanding debt other than construction related payables of \$372,196 and \$181,641 at December 31, 2019 and 2018.

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, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ 23,683,376 | \$ 17,751,176 |
| Investments (Note 2) | 4,724,834 | 3,995,838 |
| Trade accounts receivable, net | 652,299 | 365,525 |
| Other receivables | - | 25,051 |
| Prepaid expenses | <u>294,035</u> | <u>317,852</u> |
| Total current assets | <u>29,354,544</u> | <u>22,455,442</u> |
| Noncurrent assets: | | |
| Investments (Note 2) | 22,000,000 | 22,000,000 |
| Non-depreciable capital assets (Note 3) | 37,971,782 | 37,052,011 |
| Depreciable capital assets, net (Note 3) | <u>59,974,103</u> | <u>64,476,390</u> |
| Total noncurrent assets | <u>119,945,885</u> | <u>123,528,401</u> |
| Total assets | <u>149,300,429</u> | <u>145,983,843</u> |
| Deferred outflows of resources | | |
| Pension (Note 8) | <u>294,772</u> | <u>324,159</u> |
| Total assets and deferred outflows of resources | <u>\$ 149,595,201</u> | <u>\$ 146,308,002</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and other accrued expenses | \$ 2,228,288 | \$ 1,551,600 |
| Contracts and retainage payable on capital projects | <u>372,196</u> | <u>181,641</u> |
| Total current liabilities | <u>2,600,484</u> | <u>1,733,241</u> |
| Non-current liabilities: | | |
| Net pension liability (Note 8) | <u>1,534,541</u> | <u>1,521,876</u> |
| Total liabilities | <u>4,135,025</u> | <u>3,255,117</u> |
| Deferred inflows of resources | | |
| Sale of future revenues (Note 1) | 4,078,964 | 3,654,250 |
| Pension (Note 8) | <u>239,374</u> | <u>246,209</u> |
| Total deferred inflows of resources | 4,318,338 | 3,900,459 |
| Net position | | |
| Net investment in capital assets | 97,573,689 | 101,346,760 |
| Unrestricted | <u>43,568,149</u> | <u>37,805,666</u> |
| Total net position | <u>141,141,838</u> | <u>139,152,426</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 149,595,201</u> | <u>\$ 146,308,002</u> |

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| Operating revenues | | |
| Maritime services | \$ 3,337,577 | \$ 3,513,036 |
| Facility rentals and storage | 9,134,693 | 8,677,104 |
| User fees | 843,267 | 861,342 |
| Foreign trade zone fees | 139,000 | 97,000 |
| Other | <u>635,721</u> | <u>349,435</u> |
| Total operating revenues | 14,090,258 | 13,497,917 |
| Operating expenses before depreciation | | |
| Labor and fringe benefits | 3,391,786 | 3,905,908 |
| Maintenance | 406,432 | 453,826 |
| Other | <u>2,053,166</u> | <u>1,800,989</u> |
| Total operating expenses before depreciation | <u>5,851,384</u> | <u>6,160,723</u> |
| Operating income before depreciation | 8,238,874 | 7,337,194 |
| Depreciation expense | <u>7,344,688</u> | <u>3,770,995</u> |
| Operating income | 894,186 | 3,566,199 |
| Non-operating revenues | | |
| Net investment income | 1,093,223 | 677,740 |
| Other income | <u>2,003</u> | <u>222,244</u> |
| Total non-operating revenues | <u>1,095,226</u> | <u>899,984</u> |
| Income before capital contributions | 1,989,412 | 4,486,183 |
| Capital contributions | <u>-</u> | <u>881,865</u> |
| Change in net position | 1,989,412 | 5,348,048 |
| Net position, at beginning of year | <u>139,152,426</u> | <u>133,804,378</u> |
| Net position, at end of year | <u>\$ 141,141,838</u> | <u>\$ 139,152,426</u> |

See accompanying notes to financial statements.

PORTS OF INDIANA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 13,828,535 | \$ 13,559,331 |
| Payments to suppliers | (1,637,227) | (1,866,433) |
| Payments to employees | (2,483,456) | (2,825,873) |
| Payments of benefits on behalf of employees | (994,979) | (1,304,646) |
| Net cash provided by operating activities | <u>8,712,873</u> | <u>7,562,379</u> |
| Cash flows from capital and related financing activities: | | |
| Settlement of contract and receipt of option fees | 2,003 | 222,244 |
| Receipt of capital contributions | - | 881,865 |
| Proceeds from sale of future revenues | 424,714 | - |
| Purchases for acquisitions and construction of capital assets | (3,571,617) | (3,841,781) |
| Net cash used in capital and related financing | <u>(3,144,900)</u> | <u>(2,737,672)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | - | (697) |
| Investment income received | 364,227 | 226,296 |
| Net cash provided by investing activities | <u>364,227</u> | <u>225,599</u> |
| Net change in cash and cash equivalents | 5,932,200 | 5,050,306 |
| Cash and cash equivalents, beginning of year | <u>17,751,176</u> | <u>12,700,870</u> |
| Cash and cash equivalents, end of year: | <u>\$ 23,683,376</u> | <u>\$ 17,751,176</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 894,186 | \$ 3,566,199 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 7,344,688 | 3,770,995 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (286,774) | 68,759 |
| Other receivables | 25,051 | (7,345) |
| Prepaid expenses | 23,817 | (95,500) |
| Deferred outflows – pension liability | 29,387 | 115,245 |
| Accounts payable | 676,688 | 241,942 |
| Net pension liability | 12,665 | (328,326) |
| Deferred inflows – pension liability | (6,835) | 230,410 |
| Net cash provided by operating activities | <u>\$ 8,712,873</u> | <u>\$ 7,562,379</u> |

Noncash activities: The Ports of Indiana had contracts and retainage payable on related capital assets of \$372,196 and \$181,641 at December 31, 2019 and 2018, respectively.

See accompanying notes to financial statements.

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

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.”

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 investment income in the statement of revenues, expenses, and changes in net position.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018.

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, 2019 and 2018, 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 - Pension: 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.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$1,078,964 for their share of the costs, which had not been incurred by Ports at December 31, 2019. At December 31, 2019, the construction of the bulk load-out terminal is in progress and expected to be completed during 2020.

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.

Subsequent Event: In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Ports could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018.

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 \$23,683,376 and \$17,751,176 at December 31, 2019 and 2018, respectively, while the bank balance was \$24,360,088 and \$17,833,974, respectively. The difference relates to outstanding checks at December 31, 2019 and 2018. 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 \$18,945,056 and \$24,944,006 at December 31, 2019 and 2018, 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.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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 (Level 1) of \$7,779,778 and \$1,051,832 and negotiable certificates of deposit (Level 2) of \$18,945,056 and \$24,944,006 at December 31, 2019 and 2018, 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, 2019 and 2018.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less than One Year</u> | <u>One to Five Years</u> |
|-------------------------|----------------------|---------------------------|--------------------------|
| <u>2019</u> | | | |
| Money market funds | \$ 7,779,778 | \$ 7,779,778 | \$ - |
| Certificates of deposit | <u>18,945,056</u> | <u>6,702,291</u> | <u>12,242,765</u> |
| Total | <u>\$ 26,724,834</u> | <u>\$ 14,482,069</u> | <u>\$ 12,242,765</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> |

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

NOTE 3 - CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|-----------------------|
| Non-depreciable capital assets: | | |
| Land | \$ 29,054,432 | \$ 29,054,432 |
| Construction in progress | <u>8,917,350</u> | <u>7,997,579</u> |
| | 37,971,782 | 37,052,011 |
| Depreciable capital assets: | | |
| Land improvements | 54,328,814 | 53,621,340 |
| Harbor improvements | 19,674,896 | 19,674,896 |
| Docks and mooring facilities | 46,501,428 | 45,324,900 |
| Buildings and structures | 24,845,715 | 24,149,055 |
| Machinery and equipment | 1,403,664 | 1,403,664 |
| Office furniture and equipment | 883,869 | 629,130 |
| Trucks and automobiles | <u>830,884</u> | <u>823,884</u> |
| | <u>148,469,269</u> | <u>145,626,869</u> |
| Total capital assets | 186,441,051 | 182,678,880 |
| Less: Accumulated depreciation | <u>(88,495,166)</u> | <u>(81,150,479)</u> |
| Total capital assets, net of accumulated depreciation | <u>\$ 97,945,885</u> | <u>\$ 101,528,401</u> |

Land and construction in progress are not subject to depreciation.

Capital asset activity for 2019 and 2018 included:

| | <u>Capital Assets</u> | <u>Construction in Progress</u> | <u>Total</u> | <u>Accumulated Depreciation</u> |
|-------------------|---------------------------|---|-----------------------|-------------------------------------|
| <u>2019</u> | | | | |
| Beginning balance | \$ 174,681,301 | \$ 7,997,579 | \$ 182,678,880 | \$ (81,150,479) |
| Additions | - | 3,762,177 | 3,762,177 | - |
| Retirements | - | - | - | - |
| Transfers | 2,842,399 | (2,842,399) | - | - |
| Depreciation | <u>-</u> | <u>-</u> | <u>-</u> | <u>(7,344,687)</u> |
| Ending balance | <u>\$ 177,523,701</u> | <u>\$ 8,917,350</u> | <u>\$ 186,441,051</u> | <u>\$ (88,495,166)</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> |

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

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,

| | |
|-------------|----------------------|
| 2020 | \$ 12,174,493 |
| 2021 | 11,459,376 |
| 2022 | 8,220,360 |
| 2023 | 6,463,435 |
| 2024 | 4,494,335 |
| 2025 - 2029 | 18,407,118 |
| 2030 - 2034 | 11,250,981 |
| 2035 - 2039 | 9,373,898 |
| 2040 - 2044 | 6,005,153 |
| 2045 - 2048 | <u>317,144</u> |
| | <u>\$ 88,166,293</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 \$102,446 and \$101,690 for the years ended December 31, 2019 and 2018, respectively. Minimum lease commitments are as follows:

| | |
|------------|-------------------|
| 2020 | \$ 108,342 |
| 2021 | 110,222 |
| 2022 | 112,101 |
| 2023 | 113,980 |
| 2024 | 115,859 |
| Thereafter | <u>297,634</u> |
| | <u>\$ 858,138</u> |

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

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 | \$ 3,270,686 |
| Ports of Indiana Industrial Development Revenue Bond Series 2014B (Mill Steel Project) | May 1, 2022 | \$ 1,065,699 |

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, 2019 and 2018, 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 2019 and 2018 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 Nationwide Retirement Solutions, Inc. (Nationwide) and State of Indiana Public Employee Deferred Compensation Plan (Hoosier S.T.A.R.T), 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 Nationwide investments held in custodial funds for participants was \$2,742,673 and \$2,135,413 at December 31, 2019 and 2018, respectively. The fair market value of Hoosier S.T.A.R.T investments held in custodial funds for participants was \$217,512 and \$256,575 at December 31, 2019 and 2018, respectively.

(Continued)

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

The Ports of Indiana contributes to the Public Employees' Retirement Fund (PERF), which is administered by the Indiana Public Retirement System (INPRS).

Public Employees' Retirement System - Defined Benefit Plan

Plan Description: PERF Defined Benefit (DB) is a cost-sharing, multiple-employer defined benefit fund providing retirement, disability, and survivor benefits to fulltime employees of the State of Indiana not covered by another plan and those political subdivisions (counties, cities, townships, and other governmental units) that elect to participate in the retirement fund. Administration of the fund is generally in accordance with IC 5-10.2, IC 5-10.3, and 35 IAC 1.2 and other Indiana pension law. PERF DB is a component of the Public Employees Hybrid plan (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 (see Defined Contribution Plans section), the defined contribution component. New employees hired by the State or a participating political subdivision have a one-time election to join either the PERF Hybrid or the PERF My Choice: Retirement Savings Plan for Public Employees (PERF MC DC) which is covered in the Defined Contribution Plans section. A new hire that is an existing member of PERF Hybrid and was not given the option for PERF MC DC is given the option to elect PERF MC DC or remain in PERF Hybrid.

Members who have at least one year of service in both PERF DB and the Teachers Retirement Fund (TRF Pre-'96 DB or TRF '96 DB) have the option of choosing from which of these funds they would like to retire.

Retirement benefits provided: A member is entitled to a full retirement benefit 1) at age 65 with at least 10 years of creditable service (eight years for certain elected officials), 2) at age 60 with at least 15 years of creditable service, 3) at age 55 if age and creditable service total at least 85, 4) at age 55 with 20 years of creditable service and active as an elected official in the PERF-covered position, or 5) at age 70 with 20 years of creditable service and still active in the PERF-covered position. A member is entitled to an early retirement benefit at age 50 and a minimum of 15 years of creditable service. The benefit is reduced to 44 percent of full benefit at age 50, increasing five percent per year up to 89 percent at age 59.

The lifetime annual benefit equals years of creditable service multiplied by the average highest five-year annual salary multiplied by 1.1 percent (minimum of \$180 per month). Average annual compensation is outlined in IC 5-10.2-4-3 and includes compensation of not more than \$2,000 received from the employer in severance.

Postretirement benefit increases are granted on an ad hoc basis pursuant to IC 5-10.2-12-4 and administered by the INPRS Board. Historically, eligible members receive a one-time check (13th check) with the dollar amount tied to years of service.

Disability and survivor benefits provided: An active member qualifying for Social Security disability with five years of creditable service may receive an unreduced retirement benefit for the duration of their disability (minimum of \$180 per month). If death occurs while in active service, a spouse or dependent beneficiary of a member with a minimum of 15 years of creditable service receives a benefit as if the member retired the later of age 50 or the age the day before the member's death. If death occurs while receiving a benefit, a spouse or dependent receives the benefit associated with the member's selected form of payment: Five Year Certain & Life, Joint with 100 percent Survivor Benefits, Joint with Two-Thirds Survivor Benefits, or Joint with One-Half Survivor Benefits.

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2019 and 2018

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

Contributions: Contributions are determined by the INPRS Board of Trustees based on an actuarial valuation. During fiscal year 2019, all participating employers were required to contribute 11.2 percent of covered payroll for Hybrid members. For PERF MC DC plan members, the political subdivisions were required to contribute a supplemental cost of 7.4 percent of covered payroll as of July 1, 2019, which decreased from 7.8 percent as of July 1, 2018. No member contributions are required.

During fiscal year 2018, all participating employers were required to contribute 11.2 percent of covered payroll for Hybrid members employed by the State and political subdivisions. For PERF MC DC plan members, the political subdivisions were required to contribute a supplemental cost of 7.8 percent of covered payroll as of July 1, 2018, which increased from 7.2 percent as of January 1, 2017.

The Ports made payments equal to their annual required contribution of 11.2% for the last three years as follows:

| <u>Year Ended December 31</u> | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|-----------------------------------|---|-----------------------------------|
| 2019 | \$ 268,999 | 100% |
| 2018 | 282,028 | 100% |
| 2017 | 239,203 | 100% |

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 (844) 464-6777, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

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. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

- Asset valuation date – June 30, 2019
- Liability valuation date – June 30, 2018 – Member census data as of June 30, 2018 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2018 and June 30, 2019. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2018 to the June 30, 2019 measurement date.
- Actuarial cost method (accounting) – Entry age normal (level percent of payroll)
- Experience study date – Period of 4 years ended June 30, 2014
- Investment rate of return – 6.75%, includes inflation and net of investment expenses
- COLA – In lieu of a 1% COLA occurring beginning on January 1, 2020, the COLA was replaced by a 13th check for 2020 and 2021. The COLA assumption thereafter will be 0.4% beginning on January 1, 2022, 0.5% beginning on January 1, 2034, and 0.6% beginning on January 1, 2039.
- Future salary increases, including inflation – 2.5% - 4.25%
- Inflation – 2.25%

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

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

Mortality rates for healthy members were based on the RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Table, with future mortality improvement projected generationally using future mortality improvement inherent in the Social Security Administration's 2014 Trustee report. Mortality rates for disabled members were based on the RP-2014 (with MP-2014 improvement removed) Disability Mortality Table, with future mortality improvement projected generationally using future mortality improvement inherent in the Social Security Administration's 2014 Trustee report.

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2019 actuarial valuation.

The long-term return expectation for the INPRS defined benefit retirement plan was 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 are summarized in the following table:

| | <u>Target</u> | | <u>Geometric Basis</u> | |
|------------------------------------|-------------------------|-------------|---------------------------|-------------|
| | <u>Asset Allocation</u> | | <u>Long-Term Expected</u> | |
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Public Equity | 22.0% | 22.0% | 4.9% | 4.4% |
| Private Equity | 14.0% | 14.0% | 7.0% | 5.4% |
| Fixed Income – Ex Inflation-Linked | 20.0% | 20.0% | 2.5% | 2.2% |
| Fixed Income – Inflation-Linked | 7.0% | 7.0% | 1.3% | 0.8% |
| Commodities | 8.0% | 8.0% | 2.0% | 2.3% |
| Real Estate | 7.0% | 7.0% | 6.7% | 6.5% |
| Absolute Return | 10.0% | 10.0% | 2.9% | 2.7% |
| Risk Parity | 12.0% | 12.0% | 5.3% | 5.2% |

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2019 and 2018

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

Discount rate: Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent for both 2019 and 2018. 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). Based on these assumptions, the PERF defined benefit pension plan's fiduciary net position was 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 the plan.

Sensitivity: The following presents the Port's share of the net pension liability calculated using the discount rate of 6.75% percent for 2019 and 2018, 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>2019</u> | | | |
| Proportionate share of the Collective Net Pension Liability | \$ 2,464,493 | \$ 1,534,541 | \$ 758,890 |
| <u>2018</u> | | | |
| Proportionate share of the Collective Net Pension Liability | \$ 2,395,678 | \$ 1,521,876 | \$ 793,221 |

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 (844) 464-6777, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2019 and 2018, the Ports reported a liability of \$1,534,541 and \$1,521,876, 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, 2019 measurement date was 0.0004643. This represents a slight increase from the prior measurement date. The proportionate share used at the June 30, 2018 measurement date was 0.0004480.

(Continued)

PORTS OF INDIANA
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

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

For the years ended December 31, 2019 and 2018, the Ports recognized pension expense of \$304,215 and \$299,357, respectively, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$61,345 and \$60,736, respectively. At December 31, 2019 and 2018, 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>2019</u> | | |
| Differences between expected and actual experience | \$ 40,634 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | 72,534 |
| Changes in assumptions | 342 | 166,816 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>111,026</u> | <u>24</u> |
| Total that will be recognized in pension expense (income) based on table below | 152,002 | 239,374 |
| Pension contributions subsequent to measurement date | <u>142,770</u> | <u>-</u> |
| Total | <u>\$ 294,772</u> | <u>\$ 239,374</u> |
| | | |
| | <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> | <u>-</u> |
| Total | <u>\$ 324,159</u> | <u>\$ 246,209</u> |

(Continued)

PORTS OF INDIANA
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2019 and 2018

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

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2019 and 2018 measurement dates are recognized as a reduction of net pension liability in the year ending December 31, 2020 and 2019, respectively. 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> |
|---------------------------------|--------------------|
| 2020 | \$ (8,756) |
| 2021 | (63,976) |
| 2022 | (9,008) |
| 2023 | <u>(5,632)</u> |
| Total | <u>\$ (87,372)</u> |

Public Employees' Retirement Fund - Defined Contribution Plan

PERF DC is a multiple-employer defined contribution plan and is generally administered in accordance with IC 5-10.2, IC 5-10.3, and 35 IAC 1.2. The plan provides supplemental retirement benefits to PERF DB members and serves as the primary retirement benefit for the My Choice: Retirement Savings Plan for Public Employees (My Choice) members.

New employees hired by the State, or a participating political subdivision, have a one-time election to join either the Public Employees' Defined Benefit Account (Hybrid Plan) or My Choice. A new hire that is an existing member of the Public Employees' Defined Benefit Account (Hybrid Plan), and was not given the option for My Choice, is given the option to elect My Choice or remain in the Public Employees' Defined Benefit Account (Hybrid Plan).

PERF DC consists of two tiers:

The Public Employees' Hybrid Members Defined Contribution Account (PERF Hybrid DC) is the defined contribution component of the Public Employees' Hybrid Plan. The Public Employees' Defined Benefit Account (see Defined Benefit Plans section) is the other component of the Public Employees' Hybrid Plan. Member contributions are set by statute at three percent of compensation, and the employer may choose to make these contributions on behalf of the member. Members are 100 percent vested in their account balance, which includes all contributions and earnings.

My Choice: Retirement Savings Plan for Public Employees (My Choice) is for members who are full-time employees of the State of Indiana or a participating political subdivision that elected to become members of My Choice. Member contributions are set by statute at three percent of compensation, plus these members may receive additional employer contributions in lieu of the Public Employees' Defined Benefit Account.

(Continued)

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

Members are 100 percent vested in all member contributions and are vested in employer contributions (see Contributions section), which includes all employer contributions and earnings as follows:

| | |
|----------------------------------|------|
| One (1) year of participation | 20% |
| Two (2) years of participation | 40% |
| Three (3) years of participation | 60% |
| Four (4) years of participation | 80% |
| Five (5) years of participation | 100% |

My Choice

The My Choice retirement and termination benefit is that after a 30-day separation from employment, the member is entitled to the sum total of vested contributions plus earnings. The amount may be paid in a lump sum, partial lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements). Upon providing proof of the member's qualification for social security disability benefits, the member is entitled to the sum total of vested contributions plus earnings. The amount may be paid in a lump sum, partial lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).

The survivor benefit is that the beneficiary is entitled to the sum total of vested contributions plus earnings. The amount may be paid in a lump sum, partial lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).

Investments in the members' accounts are self-directed as participants direct the investment of their account balances among several investment options of varying degrees of risk and return potential. There are eight investment options available to My Choice members: Stable Value Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Small/Mid Cap Equity Fund, Large Cap Equity Index Fund, International Equity Fund and Target Date Funds. Members may make changes to their investment directions daily, and investments of the plan are reported at fair value.

PERF Hybrid DC and My Choice members contribute three percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for PERF Hybrid. In addition, members of PERF Hybrid and My Choice may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

REQUIRED SUPPLEMENTARY INFORMATION

PORTS OF INDIANA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE PORTS' PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY - PERF
 December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|--------------|--------------|--------------|
| Ports' proportion of the net pension liability | 0.0004643 | 0.0004480 | 0.0004147 | 0.00040437 | 0.003895 |
| Ports' proportionate share of the net pension liability | \$ 1,534,541 | \$ 1,521,876 | \$ 1,850,202 | \$ 1,834,893 | \$ 1,586,395 |
| Ports' covered payroll | \$ 2,419,146 | \$ 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 | 63.43% | 66.57% | 89.94% | 94.70% | 85.18% |
| Plan fiduciary net position as a percentage of the total pension liability | 80.10% | 78.90% | 76.60% | 75.30% | 77.30% |

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

- Asset valuation date – June 30, 2019
- Liability valuation date – June 30, 2018 – Member census data as of June 30, 2018 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2018 and June 30, 2019. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2018 to the June 30, 2019 measurement date.
- Actuarial cost method (accounting) – Entry age normal (level percent of payroll)
- Experience study date – Period of 4 years ended June 30, 2014
- Investment rate of return – 6.75%
- COLA – In lieu of a 1% COLA occurring beginning on January 1, 2020, the COLA was replaced by a 13th check for 2020 and 2021. The COLA assumption thereafter will be 0.4% beginning on January 1, 2022, 0.5% beginning on January 1, 2034, and 0.6% beginning on January 1, 2039.
- Future salary increases, including inflation – 2.50% - 4.25%
- Inflation – 2.25%
- Mortality – RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table, with Social Security Administration generational improvement scale from 2006.

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.

PORTS OF INDIANA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF PORTS' CONTRIBUTIONS - PERF
 December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Statutorily required contribution | \$ 268,999 | \$ 282,028 | \$ 239,203 | \$ 220,601 | \$ 212,888 |
| Contributions in relation to the statutorily required contribution | <u>(268,999)</u> | <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> | <u>\$ -</u> |
| The Ports' contributions as a percentage of statutorily required contribution for pension | 100% | 100% | 100% | 100% | 100% |
| Port's covered payroll | \$ 2,401,800 | \$ 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% | 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 2006

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 6/30/16 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 actuarially determined contribution rate for the State for the fiscal year ended 6/30/19 was 10.03%; 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.