

NOTES TO THE FINANCIAL STATEMENTS



STATE OF INDIANA

Notes to the Financial Statements
June 30, 2017

I. Summary of Significant Accounting Policies	51
A. Reporting Entity	51
B. Government-Wide and Fund Financial Statements	55
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	56
D. Eliminating Internal Activity	57
E. Assets, Liabilities and Equity	57
1. Deposits, Investments and Securities Lending	57
2. Receivables and Payables	58
3. Interfund Transactions and Balances	59
4. Inventories and Prepaid Items	59
5. Restricted Net Position	59
6. Capital Assets	59
7. Compensated Absences	60
8. Long-Term Obligations	61
9. Fund Balance	61
F. Use of Estimates	62
II. Reconciliation of Government-Wide and Fund Financial Statements	63
A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .	63
B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	63
III. Stewardship, Compliance and Accountability	64
A. Deficit Fund Equity	64
B. Fund Balance	64
IV. Detailed Notes on All Funds	65
A. Deposits, Investments and Securities Lending	65
1. Primary Government – Other than Major Moves and Next Generation Funds, Investment Trust Funds, and Pension and Other Employee Benefit Trust Funds	65
2. Pension and Other Employee Benefit Trust Funds – Primary Government	75
3. Pension Trust Funds – Fiduciary in Nature Component Unit	84
B. Interfund Transactions	99
C. Receivables	103
D. Capital Assets	104
E. Leases	105
F. Long-Term Obligations	106
G. Prior Period Adjustments and Reclassifications	106
V. Other Information	107
A. Risk Management	107
B. Contingencies and Commitments	108
C. Other Revenue	111
D. Economic Stabilization Fund	111
E. Employee Retirement Systems and Plans	111
F. Other Postemployment Benefits – Defined Benefit and Defined Contribution Plans	145
G. Pollution Remediation Obligations	154
H. Tax Abatements	155

STATE OF INDIANA
Notes to the Financial Statements
June 30, 2017
(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units. Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in one column in the government-wide financial statements. This column contains the governmental fund types, proprietary fund types, and colleges and universities. This is to emphasize that, as well as being legally separate from the government; they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Indiana Housing and Community Development Authority, Ports of Indiana, Indiana State Fair Commission, Indiana Comprehensive Health Insurance Association, and the Indiana Political Subdivision Risk Management Commission have a December 31, 2016, fiscal year-end.

Blended Component Units

The following component units are reported under the blended method as the primary government appoints a voting majority of the board and is able to impose its will. These units, although legally separate from the State, are reported as part of the State because they provide services entirely or almost entirely to the State. These component units are audited by the State Board of Accounts.

The Bureau of Motor Vehicle Commission (BMVC) was established per Indiana Code 9-14-9 to develop and update Bureau of Motor Vehicles (BMV) policy, establish standards for the operation and maintenance of license branches, and submit budget proposals for the BMVC, BMV, and license branches. The BMVC has significant interrelated operations with the BMV and license branches. The BMV is responsible for the accurate and timely distribution of the fees and taxes (excise and wheel) collected at the license branches for driver licenses, auto and watercraft registrations, and license plates.

The BMVC consists of four individuals appointed by the governor and the chairperson who is the commissioner of the BMV. No more than three of the members may be of the same political party. The BMVC is reported as a non-major governmental fund

The Indiana Homeland Security Foundation was established per Indiana Code 10-15-2-1 to assist the Indiana Department of Homeland Security (IDHS) in developing projects that benefit public safety in local communities. The foundation administers the Indiana Homeland Security fund which funds these IDHS projects. The foundation has significant interrelated operations with the IDHS. Foundation funds are aligned with the Indiana Strategy for Homeland Security of the IDHS. The Indiana Homeland Security Foundation is reported as a non-major governmental fund

Discretely Presented Component Units

The following are discretely presented component units of the State of Indiana. The component units that are included in the State's reporting entity because the primary government appoints a voting majority of their governing bodies and is able to impose its will on each organization are: Indiana Economic Development Corporation, Indiana Finance Authority, State Lottery Commission of Indiana, Indiana Stadium Convention and Building Authority, Indiana Bond Bank, Indiana Housing and Community Development Authority, Indiana Secondary Market for Education Loans, Inc., White River State Park Development Commission, Ports of Indiana, Indiana Comprehensive Health Insurance Association, Indiana Political Subdivision Risk Management Commission, Indiana State Museum and Historic Sites Corporation, Indiana Motorsports Commission, and each of the seven colleges and universities. The following component units are included in the State's reporting entity because the primary government appoints a voting majority of their governing bodies and is financially accountable for each organization: Indiana Board for Depositories, Indiana State Fair Commission, and the Indiana Public Retirement System.

All governmental, proprietary, and fiduciary in nature component units are audited by outside auditors. The State Board of Accounts audits the colleges and universities. College and university foundations are audited by outside auditors.

The Indiana Economic Development Corporation (IEDC) was created per Indiana Code 5-28-3 to improve the quality of life for the citizens of Indiana by encouraging the diversification of Indiana's economy and the orderly economic development and growth of Indiana, the creation of new jobs, the retention of existing jobs, the growth and modernization of existing industry, and the promotion of Indiana. The IEDC leads the state of Indiana's economic development efforts, helping businesses launch, grow, and locate in the state. The IEDC manages many initiatives, including performance-based tax credits, workforce training grants, innovation and entrepreneurship resources, public infrastructure assistance, and talent attraction and retention efforts. The IEDC Board of Directors is composed of 12 members, consisting of the Governor and 11 individuals appointed by the Governor. At least five members of the board must belong to the same political party as the Governor, and at least three members must belong to another major political party, but none may be members of the general assembly. The IEDC is reported as a non-major discretely presented governmental component unit. The separately issued audited financial statements may be obtained by writing the Indiana Economic Development Corporation, One North Capital Avenue, Suite 700, Indianapolis, IN 46204.

The Indiana Finance Authority (IFA) was created per Indiana Code 4-4-11-4 as a body both corporate and politic, and though separate from the State of Indiana (State); the exercise by the IFA of its powers constitutes an essential governmental function. Indiana's constitution restricts State incurrence of debt. As a result, the General Assembly created the IFA and authorized it to issue revenue bonds and other obligations to finance projects for lease to the State

The IFA finances and refines state hospitals, state office buildings, state garages, correctional facilities, recreational facilities, highways, bridges, airport facilities, and other related facilities for the benefit of the State. The IFA also provides low interest loans to Indiana communities for environmental improvements. It also promotes business and employment opportunities by issuing tax-exempt financing for industrial development projects, rural development projects, childcare financing, and educational facility projects.

The IFA's revenue bonds and notes are special and limited obligations of the IFA, payable from lease rental revenue, bond or note proceeds and investment income. The IFA's revenue bonds are not general obligations of the IFA nor are they State debt within the meaning of any constitutional provision or limitation. The IFA cannot compel the General Assembly to make appropriations to pay lease rentals. The authority is composed of five members, consisting of the budget director or their designee, who serves as chairman, the Treasurer of State or their designee, and three members appointed by the governor of which no more than two may be from the same political party. The Authority is reported as a major discretely presented proprietary component unit. IFA's separately issued audited financial statements may be obtained by writing the Indiana Finance Authority, One North Capital Avenue, Suite 900, Indianapolis, IN 46204

The State Lottery Commission of Indiana, created per Indiana Code 4-30-3, is composed of five members appointed by the Governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, local police and firefighters' pensions, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement the Motor Vehicle Excise Tax Replacement Fund. The Commission is reported as a major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the State Lottery Commission of Indiana, 1302 North Meridian Street, Indianapolis, IN 46202

The Indiana Stadium and Convention Building Authority was established per Indiana Code 5-1-17, as an entity of the State to finance, design, construct, and own the new Indiana Stadium in Indianapolis and the expansion of the adjacent Indiana Convention Center. The Building Authority is governed by a seven member board, comprised of four appointments by the Governor, two appointments by the Mayor of the City of Indianapolis and one appointment by the Governor following nomination from one of the counties surrounding Marion County. The Authority is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Stadium and Convention Building Authority, One North Capital Avenue, Suite 900, Indianapolis, IN 46204.

The Indiana Bond Bank, created per Indiana Code 5-1.5-2, is controlled by a board composed of the Treasurer of State, Director of Public Finance and

five appointees of the Governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of State and local governments. The Bond Bank is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Bond Bank, 10 West Market Street, Suite 2410, Indianapolis, IN 46204

The Indiana Housing and Community Development Authority was created per Indiana Code 5-20-1-3 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority's board consists of the Public Finance Director of the Indiana Finance Authority, the Lieutenant Governor, the State Treasurer and four persons appointed by the Governor. The Lieutenant Governor chairs the board. The Authority is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Housing and Community Development Authority, 30 South Meridian Street, Suite 1000, Indianapolis, IN 46204.

The Indiana Board for Depositories was established per Indiana Code 5-13-12 to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the Federal Deposit Insurance Corporation limit. The Board is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Board for Depositories, One North Capitol Avenue, Suite 900, Indianapolis, IN 46204 or at www.in.gov/tos/deposit/2374.htm.

The Indiana Secondary Market for Education Loans, Inc. (ISM), d/b/a INvestEd, was created per Indiana Code 21-16-5 to purchase education loans in the secondary market, lend money for the origination of education loans, and originate loans to consolidate education debt. The Governor appointed the original Board of Directors. ISM provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. ISM is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Secondary Market for Education

Loans, Inc., d/b/a INvestEd, 11595 North Meridian Street, Suite 200, Carmel, IN 46032

The White River State Park Development Commission created per Indiana Code 14-13-1-5 has the responsibility to design and implement a plan for the establishment and development of park, exposition, educational, athletic, and recreational projects to be located within one mile from the banks of the Indiana White River in a consolidated first-class city and county, and is authorized to acquire additional land and property. The Commission has 10 voting members which consist of the director or their designee, the executive of the city of Indianapolis or their designee, the president of Indiana University or their designee, and seven members appointed by the governor. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana White River State Park Development Commission, 801 West Washington Street, Indianapolis, IN 46204

The Ports of Indiana is a body both corporate and politic created per Indiana Code 8-10-1-3 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 Ports of Indiana Commission consists of seven members appointed by the governor. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Ports of Indiana, 150 West Market Street, Suite 100, Indianapolis, IN 46204.

The State Fair Commission was established per Indiana Code 15-13-2 as the trustee for and on behalf of the people of the State of Indiana to administer the State Fairgrounds as trust property of the State of Indiana. The Commission is responsible for holding the annual Indiana State Fair in August, as well as providing accessible, cost-effective, secure, and modern facilities for the variety of events held at the Fairgrounds and other properties it owns. The Commission consists of eight members; five of which are appointed by the governor, and three are ex officio members. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana State Fair Commission, 1202 East 38th Street, Indianapolis, IN 46205.

The Indiana Comprehensive Health Insurance Association was created per Indiana Code 27-8-10-2.1 to assure that health insurance is made available throughout the year to each eligible Indiana resident applying to the Association for coverage. The board of directors of the Association consists of nine members whose principal residence is in Indiana. Four members are appointed by the insurance commissioner from the members of the Association, one of which must be a representative of a health maintenance organization. Two members are appointed by the commissioner and shall be consumers representing policyholders. Other members are the state budget director or designee and the commissioner of the department of insurance or designee. One member appointed by the commissioner must be a representative of health care providers. The Association is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Comprehensive Health Insurance Association, 9465 Counselors Row, Suite 200, Indianapolis, IN 46240

The Indiana Political Subdivision Risk Management Commission was created per Indiana Code 27-1-29 to administer the Political Subdivision Risk Management Fund (Basic fund) and the Political Subdivision Catastrophic Liability Fund (Catastrophic fund). These funds aid political subdivisions in protecting themselves against liabilities. The Commission consists of eleven members appointed by the governor. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Political Subdivision Risk Management Commission, c/o Indiana Department of Insurance, 311 West Washington Street, Suite 300, Indianapolis, IN 46204.

The Indiana State Museum and Historic Sites Corporation was created per Indiana Code 4-37 and is responsible for operating and administering the Indiana State Museum and eleven Historic Sites across the State. The eleven Historic Sites include Angel Mounds, Corydon Capitol, Culbertson Mansion, J.F.D. Lanier Mansion, Levi Coffin, Limberlost, New Harmony, T.C. Steele, Gene Stratton-Porter, Vincennes, and the Whitewater Canal. The Corporation is governed by a thirty member board of trustees of which twenty-five are voting members and five are non-voting members. Of the twenty-five voting members, thirteen persons are appointed by the governor and twelve are appointed by the board. The five non-

voting members include the chief executive officer, the governor or governor's designee, one member of the House of Representatives, one member of the Senate, and the director of the Department of Natural Resources or the director's designee. The Corporation is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana State Museum and Historic Sites Corporation, 650 West Washington Street, Indianapolis, IN 46204.

The Indiana Motorsports Commission was established per Indiana Code 5-1-17.5-15 as a separate body corporate and politic, as an instrumentality of the state, to finance and lease real and personal property improvements for the benefit of an owner of a qualified motorsports facility within a motorsports investment district. The commission is governed by a board of directors composed of five directors of which one is the budget director, or the budget director's designee, and four directors appointed by the governor. The commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Motorsports Commission, One North Capital Avenue, Suite 900, Indianapolis, IN 46204.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; and Ivy Tech Community College has a fourteen-member board of trustees. Appointments to the boards of trustees are made by the Governor and by election of the alumni of the respective universities. Indiana University and Purdue University are reported as a major discretely presented component unit. The separately issued audited financial statements for the colleges and universities may be obtained by writing to: Indiana University, Poplars Room 500, 400 E. 7th St., Bloomington, IN 47405-3001; Purdue University, Kurz Purdue Technology Center, 1281 Win Hentschel Blvd., Ste. 1100, West Lafayette, IN 47906-4182; Ball State University, Administration Bldg., 301, 2000 West University Avenue, Muncie, IN 47306; Indiana State University, Office of the Controller, 200 N. 7th Street, Terre Haute, IN 47809; Ivy Tech Community

College, Attn: Chief Accounting Operations Officer, 50 West Fall Creek Parkway, North Drive, Indianapolis, IN 46208-5752; University of Southern Indiana, 8600 University Boulevard, Evansville, IN 47712; and Vincennes University, 1002 North 1st Street, Vincennes, IN 47591.

Fiduciary in Nature Component Unit

The Indiana Public Retirement System (INPRS) was established per Indiana Code 5-10.5-2-1 as an independent body corporate and politic. INPRS is not a department or agency for the State, but is an independent instrumentality exercising essential government functions. The INPRS board is composed of nine trustees appointed by the Governor which includes the director of the budget agency or the director's designee as an ex officio voting member of the board. The board of trustees administers the following plans: Public Employees' Retirement Fund, Teachers' Retirement Fund, Judges' Retirement System, State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Plan, the

Legislators' Retirement System Defined Contribution Plan, the Prosecuting Attorneys' Retirement Fund, the Pension Relief Fund, and two death benefit funds. For more information on the plans see Note V(E) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation from INPRS' financial statements. INPRS is included as a component unit because the primary government appoints a voting majority of its governing body and has financial accountability. The Indiana Public Retirement System was determined to be significant for note disclosure purposes involving the fiduciary in nature component units. The separately issued audited financial statements may be obtained by writing the Indiana Public Retirement System, One North Capitol Avenue, Suite 001, Indianapolis, IN 46204.

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information about the overall government. They exclude information about fiduciary activities, including component units, which are fiduciary in nature, such as the public employee retirement systems. They distinguish between the primary government and its discretely presented component units as disclosed in Note I.A. They also distinguish between governmental activities and business-type activities of the State. Governmental activities rely on taxes and intergovernmental revenues for their support. Business-type activities, on the other hand, rely on fees and charges for services provided for their support.

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. Certain indirect costs are included in the program expense reported for individual functions of government. Program

revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes; even those levied for a specific purpose and are reported by type of tax. Investment income is considered general revenue in the general fund.

Separate financial statements are presented for the State's governmental, proprietary and fiduciary funds. Governmental fund financial statements are the balance sheet and the statement of revenues, expenditures, and changes in fund balances. Major governmental funds are presented in separate columns and non-major funds are aggregated in a separate column. Proprietary and fiduciary funds are reported using the statement of net position and the statement of changes in net position. In addition proprietary funds include a statement of cash flows.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting

The government-wide statements and the proprietary and fiduciary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities, and deferrals resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues, including federal government mandates on the State, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the State of Indiana, "available" means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual and corporate income tax, sales tax, cigarette tax, alcoholic beverage tax, motor fuel tax, fines, and penalties are accrued using one month's revenues.

Gaming taxes are accrued based on the gaming day. Vehicle licenses are received daily via electronic funds transfer with a one to three working day delay, so revenues for the first several working days in July are reviewed for materiality and accrued accordingly.

Financial Statement Presentation

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in

demonstrating compliance with finance-related legal and contractual provisions.

Governmental funds are used to account for the government's general government activities. Governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds and permanent funds.

The *General Fund* is the State's primary operating fund. It is maintained to account for resources obtained and used for those services traditionally provided by State government, which are not required to be accounted for in another fund. The General Fund is a major fund.

The *special revenue* funds account for specific revenue sources that are legally restricted or committed to expenditure for specific purposes except for major capital projects.

The following special revenue fund is presented as major.

- The *Public Welfare-Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid program. Federal grant revenues, hospital assessment fees, quality assessment fees, Intermediate Care Facility for Individuals with Disabilities fees, and other resources disclosed under interfund transfers in Note IV (B) are reported in this fund.

The *capital projects funds* account for financial resources that are restricted, committed, or assigned to expenditures for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or fiduciary funds. There are no major capital project funds.

The *permanent funds* are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for the benefit of the government or its citizens. There are no major permanent funds.

Proprietary funds focus on the determination of operating income, changes in net position, financial position and cash flows. Operating revenues and expenses are the revenues and expenses that pertain to the fund's principal operations. Nonoperating revenues and expenses are those revenues and expenses resulting from secondary or auxiliary activities of the fund. Nonoperating items include investment revenue and expense. Proprietary funds include both enterprise funds and internal service funds.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where it has been decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The State reports the following major enterprise fund:

- The *Unemployment Compensation Fund* collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals.

Internal service funds account for operations that provide goods and services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The goods and services provided include fleet management, information technology and communication, aviation, printing, products of correctional industries, self-insurance, and centralized accounting. Major fund reporting requirements do not apply to internal service funds. Combined totals for all internal service funds are reported as a separate column on the face of the proprietary fund financial statements.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others. They cannot be used to support the State's own programs. Fiduciary funds include pension (and other employee benefit) trust funds, private-purpose trust funds, investment trust funds, and agency funds.

Pension (and other employee benefit) trust funds are used to report resources held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other postemployment benefit plans. Pension and other employee benefits trust funds include the Indiana Public Retirement System, State Police Pension Fund, State Employee Retiree Health Benefit Trust Fund – DB, and the State Employee Retiree Health Benefit Trust Fund – DC.

Private-purpose trust funds are used to account for trust arrangements in which both the principal and interest may be spent for the benefit of individuals, private organizations or other governments. Private Purpose funds include the Abandoned Property Fund and the Private Purpose Trust Fund.

Investment trust funds are used to report the external portion of investment pools operated by a sponsoring government. The Treasurer of State, local units of government, and quasi-governmental

units in Indiana have the opportunity to invest in a common pool of investments that preserves the principal of the public's funds, remains highly-liquid, and maximizes the return on the investment of public funds. The State's investment trust fund is TrustIndiana operated by the state treasurer. The amounts reported represent the external portion of the pool.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity. Agency Funds include Employee Payroll Withholding and Benefits, Local Distributions, Child Support and Department of Insurance.

D. Eliminating Internal Activity

Interfund activity including those from cash overdrafts in funds, interfund services provided or used, interfund loans and prepaid expenditures of internal service funds are eliminated as internal balances in the government-wide statement of net position. This is to minimize the "grossing-up" effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, interfund loans and interfund services provided and/or used reported in the governmental funds balance sheet has been eliminated in the government-wide statement of net position.

Eliminations were made in the statement of activities to remove the "doubling-up" effect of internal service fund activity. The effect of similar internal events that are, in effect, allocations of overhead expenses from one function to another or within the same function have also been eliminated, so that the allocated expenses are reported only by the function to which they were allocated. The effect of interfund services provided and used between functions has not been eliminated in the statement of activities since to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function.

E. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition).

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. Money market investments and participating interest-earning investment contracts that mature within one year of purchase are reported at cost, which approximates fair value. Fair value is determined by quoted market prices which approximates fair value. Investments that do not have an established market are reported at estimated fair value.

Indiana Code 5-13-9 and 5-13-10.5 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; securities issued by any U.S. government agency; AAA money market mutual funds with a portfolio limited to direct obligations of the U.S., obligations of any federal agency, and/or repurchase agreements fully collateralized with U.S. government obligations or U.S. agency obligations; highest rated commercial paper, highest rated supranational issues, and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

The Indiana Public Retirement System (INRPS) Board of Trustees administers nine pension trust funds including eight Defined Benefit retirement plans and one Defined Contribution retirement plan, two other employment benefit funds, and one

agency fund. Indiana law requires the Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as fiduciary for all assets under its control. The INPRS Board of Trustees is required to diversify investments in accordance with the prudent investor standards. At June 30, 2017, cash and investments of the funds were held by banks or trust companies under custodial agreements with INPRS. The INPRS Board of Trustees contracts with investment counsel, trust companies or banks to assist INPRS in its investment program. The Investment Policy Statement adopted by the INPRS Board of Trustees and the asset allocation approved by the Board of Trustees contains target allocations and allowable ranges that are expected to meet target rates of return over a long period of time while minimizing risk. The investments of INPRS are subject to the provisions of IC 5-10.3-5-3(a) and IC 5-10.4-3-10(a). See Note IV(A)(3) for more information.

Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage pool investments, and repurchase agreements. The investments of the State Police Retirement fund are subject to the provisions of IC 10-12-2-2. See Note IV(A)(2) for more information.

2. Receivables and Payables

In the government-wide and proprietary fund financial statements, revenues are recognized on the flow of economic resources measurement focus. Material receivables are recognized as follows. Uncollected taxes due in the following periods are subject to accrual.

Individual income tax – Individual withholding tax is due from employers by the 20th day after the end of the month collected. Estimated payments are due from individuals by the 15th of the month immediately following each quarter or the calendar year.

Corporate income tax - Due quarterly on the 20th day of April, June, September, and December with the last payment due on April 15th for a calendar year taxpayer.

Sales tax – Due by the 20th day after the end of the month collected.

Fuel tax – Gasoline tax is due the 20th day after the end of the month collected. Special

fuel tax, depending on the status of the taxpayer, is due by the 15th day after the end of the month collected or the 15th day after the end of the quarter collected. Motor carrier surtax is due at the end of the month following the end of the quarter.

Financial institutions tax – same laws as corporate income taxes (see above) for making payments.

Alcohol and tobacco taxes – Cigarette distributors must purchase tax stamps within 6 days after they accept delivery of the cigarettes. Cigarette tax is due within 30 days of the issuance of the tax stamp. Alcoholic beverage tax is due by the 20th day after the end of the month collected.

In the governmental fund financial statements, revenue is recognized on the flow of current financial resources. Material receivables are subject to accrual for receipts collected in the month of July. The State of Indiana does not collect property tax, which is collected by local units of government.

Unavailable revenue is the liability for the full accrual income taxes receivable net of the allowance for doubtful accounts and is reported under deferred inflows of resources.

3. Interfund Transactions and Balances

The State has the following types of interfund transactions in the governmental fund and proprietary financial statements:

Interfund services provided and used (reciprocal interfund activity) – Charges for goods or services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Interfund Transfers (non-reciprocal interfund activity) – Legally authorized transfers whereby the two parties do not receive equivalent cash, goods or services are reported as transfers.

The types of assets and liabilities resulting from these transactions are:

Interfund loans – These are balances arising from the short-term and long-term portion of interfund transactions.

Interfund services provided/used – These are balances arising in connection with reciprocal interfund activity or reimbursements. Balances

relating to discretely presented component units are presented as 'Due from/to component units'.

Interfund services provided and interfund loans are eliminated in the government-wide statements because they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another.

4. Inventories and Prepaid Items

Inventories for the Inns & Concessions, Institutional Industries and Administrative Services Revolving funds are valued at cost. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The consumption rather than the purchases method is used for prepaids as expenditures or expenses are recorded for the cost of prepaid items when consumed rather than when purchased.

5. Restricted Net Position

Certain net positions are classified as restricted net position because their use is completely restricted by bond indentures, contracts, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation. Net position restricted by enabling legislation for governmental activities totals \$1.1 billion, of which \$0.5 billion is permanent funds principal, \$0.5 billion is for the Economic Stabilization Fund as discussed in Note V (D), and \$0.1 billion is prepaid expenses.

6. Capital Assets

Capital outlays are reported as expenditures in the governmental funds and as assets in the government-wide statements to the extent the State's \$20,000 capitalization threshold for external financial reporting is met.

The Indiana Department of Transportation (INDOT) uses the modified approach for reporting its infrastructure. The Department of Natural Resources (DNR) uses the depreciation approach for reporting its infrastructure.

Under the modified approach, the State has determined that the condition level for INDOT infrastructure assets to be maintained is:

- a network average International Roughness Index based on the right wheel path (IRI RWP) of no more than 101 and no more than 12.5% of all pavements in the unacceptable range for Interstates, National Highway System (NHS) Non-Interstate roads, and Non-NHS roads,
- an average sufficiency rating of 87% for interstate bridges,
- an average sufficiency rating of 85% for NHS Non-Interstate bridges, and
- an average sufficiency rating of 83% for Non-NHS bridges.

The Bridge Division, Program Engineering, and Road Inventory Division of INDOT are responsible for determining the appropriate condition level of the infrastructure assets.

No amounts are capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential.

INDOT projects are capitalized based on capitalization and preservation percentages assigned to three hundred eight-six (386) work types. For example, the cost for constructing a new bridge would likely be 100% capitalized; whereas, the cost for adding travel lanes to a road would likely be assigned a work type code resulting in capitalization at 50% and preservation at 50%.

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Road pavement condition assessments are performed annually on all INDOT state routes, including interstates. Condition assessments of all bridges are determined on a bi-annual basis. Sufficiency ratings of all bridges are determined on an annual basis by the Federal Highway Administration based on annual submittal of bridge condition data.

The State makes annual estimates of the amounts that must be expended to preserve and maintain these infrastructure assets at the predetermined condition levels.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation.

Capital assets are depreciated in the proprietary and similar trust funds using the straight-line method on both the fund basis and the government-wide basis. Both the government-wide statements

and proprietary and similar trust funds use the following estimated useful lives:

<u>Assets</u>	<u>Months</u>
Buildings and other structures including improvements to buildings and other structures	240-480
Computer software	36
Infrastructure (not using modified approach)	240-720
Furniture, machinery and equipment	12-168
Motor pool vehicles	96-168

The State of Indiana maintains several collections of works of art, historical treasures, and similar assets that are not capitalized. While the collections are maintained by different agencies, each collection is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organizational policy that either prohibits sale or requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State's major collections are:

- The Commission on Public Records, State Archives Collection consists of historical and legal documents that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics.
- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

Other collections include the Historical Bureau's Indiana Governors' Portrait Collection, the Department of Administration's Statehouse Collection, and the Indiana Arts Commission's Collection. These collections consist primarily of art objects.

7. Compensated Absences

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and

sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment.

Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days. In addition, qualifying retiring employees are paid an additional payment up to a maximum of \$5,000, which is made up of unused vacation leave over 30 days, unused personal leave, and unused sick leave.

The legislative and judicial branches may elect to participate in a leave conversion program which allows their employees to convert a portion of accrued but unused vacation and sick leave into the deferred compensation plan. An employee must have at least 300 hours of vacation or sick leave accrued in order to participate in this plan. There is a sliding scale which determines how many hours are converted from those hours the employee has accrued. The hours converted are deposited into the deferred compensation program's 401(a) plan at 60% of the employee's hourly rate. The legislative and judicial branches participated in this program in FY 2017 for their employees and the legislative branch has elected to participate in this program for FY 2018 for their employees.

Matured vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long term liabilities in the government-wide, proprietary, and fiduciary fund financial statements.

8. Long-Term Obligations

Long-term debt and other obligations are reported in the government-wide statements and the proprietary funds statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund.

9. Fund Balance

In the fund financial statements, fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned. A brief description of each category is as follows:

Nonspendable – represents amounts that are either not in spendable form, such as prepaid expenditures, and activity that is legally or contractually required to be maintained intact, such as a principal balance in a permanent fund.

Restricted – represents amounts restricted to specific purposes because of constraints placed on their use that are either externally imposed such as by grantors or imposed by law through constitutional provisions or enabling legislation.

Committed – represents amounts that can only be used for a specific purpose pursuant to constraints imposed by the government's highest level of decision making authority. The State of Indiana's highest level of decision making authority is the General Assembly. The formal action necessary would be the enactment of a State law that specifically establishes, modifies, or rescinds a fund balance commitment.

Assigned – represents amounts that are constrained by the government's intent to be used for specific purposes as expressed by the governing body itself or the official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The State Budget Agency has the authority per the biennial budget bill to make assignments of fund balances for specific purposes except for those restricted by law. The State Board of Finance comprised of the Governor, Auditor of State and Treasurer of State is empowered to make assignments of funds except for trust funds per I.C. 4-9.1-1-7.

Unassigned – represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Only the general fund may report a positive unassigned fund balance; whereas, other governmental funds may need to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

Funds on the State's accounting system are assigned one of the five fund balance classifications. If a fund has resources that are both restricted and unrestricted, then expenditures are applied first to restricted fund balance and then unrestricted amounts. A fund's unrestricted fund balance would have committed amounts reduced first, assigned amounts second, and unassigned amounts third when expenditures are incurred for purposes for which amounts in any of these

unrestricted fund balance classifications could be used.

F. Use of Estimates

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 inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The allowance for doubtful accounts for taxes receivable, the estimate of claims payable for the Medicaid fund, the estimate of additions for the Local Distributions fund, and the estimated useful

lives of capital assets are among the most sensitive accounting estimates affecting the financial statements.

The additions for the Local Distributions fund, an agency fund, are estimated using the most recent actual known local option income tax collections which are for the calendar year two years prior to the current fiscal year. Adjustments to the estimate are made for units of local government that have changed their local income tax rates during the following two calendar years, for actual collections during the six months prior to the end of the current fiscal year, and for interest earned. The economy, any rate changes that are made in the current calendar year after preparation of the financial statements, and any unknown errors can impact the estimation process and cause actual results to differ.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

As described in Note I, Summary of Significant Accounting Policies, differences exist between the government-wide and the governmental fund financial statements. These differences are summarized in the reconciliations that follow the governmental fund financial statements.

A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

In the government-wide financial statements, capital assets are considered economic resources and are capitalized at cost or estimated historical cost at time of acquisition. Where applicable these costs are offset by accumulated depreciation or amortization.

The government-wide statements use the flow of economic resources and accrue receivables that are not available soon enough in the subsequent period to pay for the current period's expenditures. Also under the flow of economic resources, expenses reported in the statement of activities do not require the use of current financial resources. Both these receivables and payables are accrued in the government-wide statements, but not in the fund financial statements.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the assets and liabilities of internal service funds are included in governmental activities in the statement of net position. In the proprietary fund financial statements, internal service fund balances are segregated and reported as their own fund type.

B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

In the government-wide financial statements, the cost for capital outlays, except for governmental infrastructure, is allocated over the assets' useful lives and is reported as depreciation or amortization expense.

The government-wide statements use the flow of economic resources and therefore do not report revenues and expenses dependent on the availability of financial resources, as is reported in the fund financial statements. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the fund financial statements. Net pension liabilities and other postemployment benefits do not require the use of current financial resources and are not reported as expenditures in the fund financial statements.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the expenses of internal service funds are included in governmental activities in the statement of activities. In the proprietary fund financial statements, internal service fund balances are segregated and reported as their own fund type.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

At June 30, 2017, various funds had a deficit fund balance caused by overdrafts from pooled cash and investments and the posting of accruals to the

balance sheet. Temporary cash overdrafts are reported as interfund loans from the general fund.

Fund	Overdraft from pooled cash	Accrual deficits
Governmental Funds		
US Department of Health & Human Services	\$ (563,372)	\$ -
US Department of Agriculture	-	(7,158)
US Department of Education	(4,369)	(42,056)

B. Fund Balance

The State of Indiana reports its fund balances for governmental funds as nonspendable, restricted, committed, assigned, and unassigned. The detail

of the fund balance classifications at June 30, 2017 is as follows:

	General Fund	Public Welfare - Medicaid Assistance Fund	Non-Major Funds
Fund Balances:			
Nonspendable:			
Permanent fund principal	-	-	501,125
Prepaid expense	77,546	-	163
Restricted:			
Administration	550,460	-	-
Committed:			
Administration	-	-	9,296
Public Health	-	-	188,728
Economic Development	3,539	-	6,464
Environmental	-	-	1,412
Natural Resources	-	-	16,759
Higher Education	-	-	5
Secondary Education	-	-	580,199
Roads & Bridges	-	-	59,176
Other Purposes	-	-	14,431
Assigned:			
Administration	210,696	-	160,421
Corrections	730,327	-	21,762
Police & Protection	19,138	-	321,085
Mental Health	38,485	-	50,493
Public Health	18,732	567,808	299,931
Child Services	877,534	-	85,919
Disability & Aging	15,839	-	8,751
Economic Development	4,028	-	15,196
Environmental	12,260	-	121,565
Natural Resources	1,151	-	139,624
Higher Education	3,516	-	208,830
Secondary Education	412,918	-	21,507
Roads & Bridges	54,355	-	1,331,272
Capital Outlay	144,880	-	84,245
Other Purposes	90,029	-	74,504
Unassigned:	296,411	-	(616,955)
Total	\$ 3,561,844	\$ 567,808	\$ 3,705,908

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits, Investments and Securities Lending

1. Primary Government – Other than Major Moves Construction Fund and Next Generation Trust Fund, Investment Trust Funds, and Pension and Other Employee Benefit Trust Funds.

Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Major Moves Construction Fund and the Next Generation Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and Indiana Code 8-14-15, respectively. The Treasurer of State shall invest these funds in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5 with the exception that monies may not be invested in equity securities. For more information, please see the PERF policy in note IV(A)3. There are no formal deposit investment policies for the investment of these funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

Indiana Code 5-13-9 and Indiana Code 5-13-10.5 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; municipal securities issued by an

Indiana local governmental entity if the issuer has not defaulted on any obligation within the twenty years preceding the date of the purchase; AAA rated money market mutual funds with a portfolio made up of direct obligations of the United States, obligations issued by any federal agency, instrumentality, or federal government sponsored enterprise or repurchase agreements fully collateralized by the same obligations allowed to be owned within the money market mutual fund; commercial paper rated in the highest rating category by one nationally recognized rating service with a stated final maturity of 270 days; securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States; obligations issued by United States agencies and instrumentalities, or federal government sponsored enterprises; supranational issuers having the highest investment credit rating by at least two nationally recognized credit rating agencies; repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency; and the State's local government investment pool.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statute does not establish any parameters or guidelines related to interest rate risk.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2017:

Investment Type	Fair Value Totals	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Treasuries	\$ 1,722,473	\$ 1,677,605	\$ 44,868
U.S. Agencies	1,357,727	929,142	428,585
Supranationals	727,899	727,899	-
Municipal Bonds	16,404	5,671	10,733
Local Govt Investment Pool	330,000	330,000	-
Non-U.S. Fixed Income	65,000	15,000	50,000
Certificate of Deposits	192,268	192,268	-
Money Market Mutual Funds	700,000	700,000	-
Total	\$ 5,111,771	\$ 4,577,585	\$ 534,186

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2017, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. The Treasurer of State is authorized by statute (IC 5-13-10.5-5) to accept safekeeping receipts or other reporting for securities from: (1) a duly designated depository as prescribed in this article; or (2) a financial institution located either in or out of Indiana having physical custody of securities with a combined capital and surplus of at least ten million dollars (\$10,000,000) according to the last statement of condition filed by the financial institution with its governmental supervisory body. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Indiana Code 5-13-9, IC 5-13-10, and IC 5-13-10.5 authorizes the State Treasurer to invest or reinvest in securities fully guaranteed and issued by (1) the United States Treasury, (2) a federal agency, (3) a federal instrumentality, or (4) a federal government sponsored enterprise, as well

as, other securities that are AAA rated or insured through the Public Deposit Insurance Fund or the FDIC. The allowable investments are noted above under the Investment Policy Statement section in more detail. The State Treasurer recognizes credit (quality) risk as a market and strategic risk factor in all investments.

The following table provides information on the credit quality ratings for investments in debt securities as well as investments in external investment pools, and money market funds, as of June 30, 2017. The following table reflects the greatest risk rating (the credit rating reflecting the greatest degree of risk) as set by three nationally recognized rating organizations (S&P, Moody, and Fitch) for each type of investment

<u>Investment Type</u>	<u>Greatest Risk Rating</u>	<u>Fair Value</u>
U.S. Treasuries	AA	\$ 1,722,473
U.S. Agencies	AA	1,357,727
Supranationals	AAA	103,087
	AA	24,998
	NR	599,814
Certificate of Deposits	NR	192,268
Municipal Bonds	NR	16,404
Non-US Fixed Income Bonds	A	65,000
Local Govt Investment Pool	NR	330,000
Money Market Mutual Funds	AAA	700,000
Total		\$ 5,111,771

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Indiana Code 5-13-10-3 states that the State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Board for Depositories.

At June 30, 2017, investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments (in thousands) were:

FHLB	11.33%	\$693,589
IFC	8.15%	\$498,860
FHLMC	5.8%	\$355,022

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2017, there were no deposits or investments denominated in foreign currencies, thus there was no foreign currency risk.

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities, to broker-dealers and other entities (borrowers), for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Securities may be lent under this section only if the agreement under which the securities are lent is collateralized by: (1) cash; or (2) non-cash collateral; in excess of the total market value of the loaned securities.

The State's custodial banks manage the securities lending programs and receive cash or securities as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. Cash received as collateral is reported as an asset and a liability on the balance sheet. Securities received as non-cash collateral are not reported on the balance sheet, because the State does not have the ability to pledge or sell them without a borrower default. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees' Retirement Fund and the State Teachers' Retirement Fund (discretely presented component units), which allow no more than 40% to be lent at one time.

Cash collateral received is invested by the custodian banks. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-35 days. The weighted average maturity gap at June 30, 2017, was 27 days.

At year end, the State had no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State. The contracts with the State's custodian requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the

securities are on loan.

As of June 30, 2017, the fair values of the underlying securities on loan were

Security Type	Fair Value
U.S. Governments	\$1,158,643
U.S. Agencies	194,124
Total	\$1,352,767

The fair values of the collateral received for each investment type were:

Security Type	Fair Value
U.S. Governments	\$1,182,394
U.S. Agencies	198,084
Total	\$1,380,478

The percentage of collateral received for underlying securities on loan was 102.05%.

The fair values of the cash and non-cash collateral received were:

Collateral Type	Fair Value
Non-cash collateral	\$ 33,662
Cash collateral (liability to borrowers)	1,346,816
Total	\$1,380,478

Events of the market crisis of late 2008 negatively impacted the value of the State's securities lending cash collateral reinvestment pool. Since that time, the State, with the agreement of its' custodial bank, has been injecting capital into the pool using securities lending revenues to restore the value of the cash collateral reinvestment pool. As of June 30, 2017, the fair value of the cash collateral reinvestment pool was 96.24% of the fair value of the cash collateral received from the borrowers.

Fair Value of reinvested cash collateral by type:

Collateral Type	Fair Value
Time Deposits	\$ 10,740
Commercial Paper	14,998
Repurchase agreements	135,362
Asset backed securities	232,068
Floating rate notes	882,171
MMMF's	21,779
Receivable	1,002
Total	\$1,298,120

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2017, is as follows:

S&P Rating	Fair Value of Cash Collateral	% of Portfolio
AAA	\$ 154,030	11.9
AA	376,701	29.0
A	568,766	43.8
CCC	8,103	0.6
NR	190,520	14.7
Total	\$1,298,120	100.0

Fair Value Measurement

The Primary Government categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

Level 1 Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.

Level 2 Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3 Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

US Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The U.S. Agencies' securities, Supranationals' securities, and municipal bonds classified in Level 2 of the fair value hierarchy are valued using other observable inputs other than quoted prices in an active market. The certificate of deposits are valued at cost-based measures and are classified as Level 2. The Non-US Government Bonds and municipal bonds classified in Level 3 have no observable inputs and there is no market activity regarding those investments, so they have been valued using cost-based measures. The local government investment pool is valued using the fair value valuation methodology and is marked to market daily using the most recent market bid price as obtained from one or more market makers and is thus classified in Level 2 of the fair value hierarchy. The money market mutual funds are valued at the daily closing price as reported by the funds and are deemed to be actively traded and are classified in Level 1 of the fair value hierarchy.

The following table summarizes the valuation of the investments by the fair value hierarchy levels as of June 30, 2017:

Investment Type	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasuries	\$ 1,722,473	\$ 1,722,473	\$ -	\$ -
U.S. Agencies	1,357,727	-	1,357,727	-
Supranationals	727,899	-	727,899	-
Municipal Bonds	16,404	-	1,133	15,271
Non-US Govt Bonds	65,000	-	-	65,000
Local Govt Investment Pool	330,000	-	330,000	-
Certificate of Deposits	192,268	-	192,268	-
Money Market Mutual Funds	700,000	700,000	-	-
Total investments by fair value level	\$ 5,111,771	\$ 2,422,473	\$ 2,609,027	\$ 80,271

Major Moves Construction Fund/Next Generation Trust Funds

Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Major Moves Construction Fund and the Next Generation Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and Indiana Code 8-14-15, respectively. The Treasurer of State shall invest these funds in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5, except the funds may not be invested in equity securities. Investment Policy Statements for the investment of these two funds has been adopted by the Treasurer of State. The Investment Policy Statements are written in conformity with the applicable investment statutes and in accordance with prudent investor standards. There is no formal deposit policy other than compliance to State Statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment

credit risk, nor interest rate risk. The Investment Policy Statements establish asset allocations and investment structures for both Funds. These asset allocations and investment structures were established with consideration given to each Fund's objectives, time horizons, risk tolerances, performance expectations, and liquidity requirements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Fund's policy for controlling its exposure to interest rate fluctuations should be viewed with the appropriate perspective. The MMCF manager's long-term strategy was employed to achieve the Fund's objectives, but there was consideration given to the short-term liquidity needs to meet disbursements required by the Fund. The asset allocation and investment manager structure was designed to tolerate some interim fluctuations in market value while maintaining a long-term return objective of 5.25%.

The following table provides the interest rate risk disclosure for the Major Moves/Next Generation Trust Fund as of June 30, 2017:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6- 10	More than 10
U.S Treasuries	\$ 201,775	\$ 18,380	\$ 121,989	\$ 45,203	\$ 16,203
U.S. Agencies	8,364	3,192	5,172	-	-
Government Asset and Mortgage Backed Collateralized Mortgage Obligations	44,201	521	1,189	3,371	39,120
Government CMOs	28,532	5,491	16,705	2,887	3,449
Corp CMOs	17,003	11,020	95	-	5,888
Corporate Bonds	361,508	114,035	197,690	32,032	17,751
Corporate Asset Backed	71,596	20,641	16,759	1,214	32,982
Private Placements	91,956	21,824	46,129	14,109	9,894
Municipal Bonds	21,430	7,225	12,644	1,296	265
Trust/Indiana	20,000	20,000	-	-	-
Non US Government/Corp Bonds	31,480	857	17,447	7,729	5,447
Mutual Funds	108,244	108,244	-	-	-
Total	\$ 1,006,089	\$ 331,430	\$ 435,819	\$ 107,841	\$ 130,999

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2017, the balance of the State of Indiana’s deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty’s trust department or agent, but not in the name of the State of Indiana. None of the State’s investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian’s operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian’s failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

All investment managers must adhere to the following guideline related to the specific limitation on holdings:

The purchase of securities in the maximum amount invested in any single issuer of a non-agency mortgage-backed, asset-backed, or corporate security shall be limited to an initial cost of 2.5% of the market value of an Investment Manager’s portfolio. This limit shall not apply to U.S. Government securities, or mortgage-back securities that are issued by an agency of the U.S. Government. Through capital appreciation, no such holding should exceed 3.5% of the market value of the total holdings of such Investment Manager’s portfolio.

The following table provides information on the credit quality ratings for investments in debt securities, short-term money market funds, bond mutual funds and bond commingled funds, municipal securities, asset-backed, and mortgage-backed securities as of June 30, 2017. The following table below reflects the “greatest risk” rating (the credit rating reflecting the greatest degree of risk) as set by three nationally recognized rating organizations (S&P, Moody, and Fitch) for each type of investment.

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Treasuries	AA	\$ 201,775
U.S. Agencies	AA	8,364
Government Asset And Mortgage Backed	AA	19,127
	NR	25,074
Collateralized Mortgage Obligations		
Government CMO's	AA	28,532
Corporate CMO's	AAA	631
	AA	47
	A	533
	BBB	2,339
	BB	732
	B	292
	CCC&Below	12,429
Non US Govt/Corp Bonds	A	4,128
	BBB	20,254
	B	2,041
	CCC&Below	441
	NR	4,616
Corporate Bonds	AAA	2,418
	AA	22,263
	A	128,268
	BBB	158,864
	BB	16,694
	B	26,004
	CCC&Below	5,117
	NR	1,880
Corporate Asset and Mortgage Backed	AAA	47,554
	AA	3,847
	A	1,732
	BBB	809
	BB	866
	B	1,208
	CCC&Below	15,164
	NR	416
Private Placements	AAA	15,389
	AA	9,983
	A	21,819
	BBB	15,171
	BB	5,480
	B	13,828
	CCC&Below	8,045
	NR	2,241
Trust/Indiana	NR	20,000
Municipal Bonds	AAA	1,298
	AA	11,210
	A	7,271
	BBB	1,142
	CCC&Below	506
	NR	3
Money Market Mutual Funds	NR	108,244
Total		\$ 1,006,089

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools. For Intermediate and Core Fixed Income Managers, securities in any one issuer should be limited to not more than 5% of the investment manager's portion of the Fund portfolio measured at market value. For Core Plus Fixed Income Managers, the exposure of each manager's portfolio should be limited to not more than 10% of the manager's portion of the Fund portfolio measured at market value.

As of June 30, 2017, there were no investments in any one issuer that represent 5% or more of the total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Major Moves/Next Generation Trust Fund's foreign currency exposure is focused primarily in fixed income securities. The exposure to foreign currency fluctuation is as follows:

Currency	Fair Value	% of Total Fair Value
Argentina	\$ 907	0.1%
Australia	25	0.0%
Brazil	5,493	0.5%
Canada	1,047	0.1%
Chinese Yuan	(2,134)	-0.2%
Columbian Peso	896	0.1%
Euro	411	0.0%
Ghana	677	0.1%
India	2,967	0.3%
Indonesia	4,680	0.5%
Japan	(1,990)	-0.2%
Malaysia	1,499	0.1%
Mexico New Peso	4,544	0.4%
New Taiwan Dollar	(1,898)	-0.2%
Nigerian Naira	391	0.0%
Peruvian Sol	(7)	0.0%
Philippines Peso	205	0.0%
Polish Zloty	1,763	0.2%
Pound Sterling	777	0.1%
Russian Ruble	3,102	0.3%
Singapore Dollar	(879)	-0.1%
South African Rand	1,480	0.1%
South Korean Won	(283)	0.0%
Turkish Lira	1,602	0.2%
Uruguayan Peso	192	0.0%
Total	\$ 25,467	2.49%

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise, in excess of the total market value of the loaned securities.

At year end, there were no securities on loan and therefore, no credit risk exposure.

Fair Value Measurement

The Major Moves Construction Fund and Next Generation Trust Fund categorizes investments measured at fair value within the fair value

hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

Level 1 Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.

Level 2 Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3 Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the

asset or liability.

US Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The U.S. agencies' securities, supranationals' securities, and municipal bonds, corporate bonds, and other debt securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs other than quoted prices in an active market. The local government investment pool is valued using the fair value valuation methodology and is marked to market daily using the most recent market bid price as obtained from one or more market makers and is thus classified in Level 2 of the fair value hierarchy. Those money market mutual funds that are valued at the daily closing price as reported by the funds and are deemed to be actively traded and are classified in Level 1 of the fair value hierarchy. The international commingled mutual fund was not priced in an active market and had no observable inputs thus was classified in Level 3.

The following table summarizes the valuation of the investments by the fair value hierarchy levels as of June 30, 2017:

Investment Type	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasuries	\$ 201,775	\$ 201,775	\$ -	\$ -
U.S. Agencies	8,364	-	8,364	-
Govt Asset and Mortgage Backed Collateralized Mortgage Obligations	44,201	-	44,201	-
Govt CMO's	28,532	-	28,532	-
Corporate CMO's	17,003	-	17,003	-
Corporate Bonds	361,508	-	358,946	2,562
Corporate Asset Backed	71,596	-	71,596	-
Private Placements	91,956	-	91,956	-
Local Government Investment Pool	20,000	-	20,000	-
Non US Govt/Corp Bonds	31,480	-	31,480	-
Municipal Bonds	21,430	-	21,430	-
Mutual/Commingled Funds	108,244	17,786	175	90,283
Total Fixed Income Securities	\$ 1,006,089	\$ 219,561	\$ 693,683	\$ 92,845

TrustIndiana, Local Government Investment Pool (Investment Trust Funds)

Investment Policy

Indiana Code, Title 5, Article 13, Chapter 9, Section 11 established the local government investment pool (TrustIndiana) within the office and custody of

the Treasurer of State. The Treasurer of State shall invest the funds in TrustIndiana in the same manner, in the same type of instruments, and subject to the same limitations provided for the deposit and investment of state funds by the Treasurer of State under Indiana Code 5-13-10.5. State statute does not establish any parameters or guidelines related to the concentration of

investment risk, investment credit risk, nor interest rate risk. However, pursuant to IC 5-13-9-11(g)(7), no less than fifty percent of funds available for investment shall be deposited in banks qualified to hold deposits of participating local government entities. Investment criteria have been established to create the principles and procedures by which the funds of TrustINDiana shall be invested and to comply with state statute relating to the investment and deposit of public funds.

Valuation of Investments

Securities, other than repurchase agreements, are valued at the most recent market bid price as obtained from one or more market makers for such securities. Repurchase agreements are recorded at

cost, which approximates fair value. The underlying investments of the Pool are marked-to-market on a daily basis.

Security transactions are recorded on a settlement-date basis. Realized gains and losses on sales of investments are calculated on an identified cost basis. Interest income, including any amortization of premium or accretion of discount, is recorded on the accrual basis.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2017:

Investment Type	Fair Value	Investment Maturities (in Years)
		Less than 1
U.S Treasuries	\$ 6,722	\$ 6,722
U.S. Agencies	3,360	3,360
Commercial Paper	330,917	330,917
Money Market Mutual Funds	7,092	7,092
Total	\$ 348,091	\$ 348,091

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2017, the balance of all bank deposits were covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust

department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. TrustINDiana limits its investments in any one issuer to the highest rating category issued by one nationally recognized statistical rating organization.

The following table provides information on the credit quality ratings for investments in TrustIndiana:

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S Treasuries	AA+	\$ 6,722
U.S. Agencies	AA+	3,360
Commercial Paper	A1	307,391
	NR	23,526
Money Market Mutual Funds	AAA	7,092
Total		\$ 348,091

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. As noted above, TrustIndiana is required to be comprised of no less than 50% of deposits in banks from an approved list maintained by the State of Indiana. In addition, TrustIndiana limits its investments in any one issuer of commercial paper to a maximum of 5% of assets per commercial paper issuer and 10% of assets per ultimate commercial paper issuer. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

At June 30, 2017, there were no investments in any one issuer, not exempt from disclosure that represents 5% or more of the total investments.

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent under an agreement which requires the loaned securities to be collateralized in the form of (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise, in an amount at least equal to 102% of the current market value of the loaned securities. The net income earned through securities lending is recorded as additional income to the Pool. As of June 30, 2017, there were no securities on loan and therefore, no credit risk exposure.

Fair Value Measurement

TrustIndiana categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair Value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

Level 1 Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.

Level 2 Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3 Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

US Treasury securities and the money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The U.S. Agencies' securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs other than quoted prices in an active market. The bank deposits are valued on the rates directly negotiated with each financial institution and are quoted in an active market, thus classified as Level 1. The commercial paper classified in Level 2 of the fair value hierarchy are valued using other observable inputs other than quoted prices in an active market.

The following table summarizes the valuation of the TrustIndiana’s investments by the fair value hierarchy levels as of June 30, 2017:

Investment Type	June 30, 2017	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S Treasuries	\$ 6,722	\$ 6,722	\$ -
U.S. Agencies	3,360	-	3,360
Commercial Paper	330,917	-	330,917
Bank Deposits	406,237	406,237	-
Money Market Mutual Funds	7,092	7,092	-
Total	\$ 754,328	\$ 420,051	\$ 334,277

2. Pension and Other Employee Benefit Trust Funds – Primary Government

SPPT’s adopted asset allocation policy as of June 30, 2017:

State Police Pension Fund

Investment Policy

The Indiana State Police Pension Trust was established in 1937 to provide pension, death, survivor, and other benefits to present and former employees of the department and their beneficiaries who meet the statutory requirement for such benefits.

Indiana Code 10-1-2-2(c), established the prudent investor standard as the primary statutory provision governing the investment of the Trust’s assets. IC 10-1-2-2 (c) reads as follows:

The trust fund may not be commingled with any other funds and shall be invested only in accordance with Indiana laws for the investment of trust funds, together with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards. There is no formal deposit policy other than compliance to State statute. The following was the

Asset Class	Target Allocation (%)
Broad domestic equity	29.0
Global ex U.S. equity	13.0
Short duration fixed income	4.0
Domestic fixed income	17.0
High yield fixed income	5.0
Hedge funds - alternatives	25.0
Real estate	5.0
Cash and equivalents	2.0
Total	100.0

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in debt securities, short term money market funds, bond mutual/commingled funds, municipal securities, asset-backed, and mortgage backed securities for the State Police Pension Trust. The table reflects the “greatest risk” rating (the credit rating reflecting the greatest degree of risk) as set by three nationally recognized rating organizations (S&P, Moody, and Fitch) for each investment type.

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Treasuries	AA	\$ 8,668
U.S. Agencies	AA	6,161
Collateralized Mortgage Obligations Corporate CMO's	AAA NR	1,860 400
Corporate Bonds	AA A BBB BB B	1,016 5,323 2,430 10,662 1,512
Corporate Asset Backed	AAA BBB B	3,784 597 93
Municipal Bonds	AAA AA A BBB	212 1,990 1,118 363
Mutual/Commingled Funds	NR	86,531
Total		\$ 132,720

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2017, the balance of the State Police Pension Trust deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the customer. None of the Indiana State Police Pension Trust's investments are exposed to custodial credit risk because they are held in the name of the Indiana State Police Pension Trust. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Method Used to Value Investments

Investments are reported at fair value. Short-term

investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fair value for the majority of fixed income securities is determined by using quoted market prices by independent pricing services. Investments that do not have an established market are reported at estimated fair value, these include commingled funds, private equity funds and hedge funds. The alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Holdings are generally valued by a general partner or investment manager on a quarterly 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 judgement.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Indiana State Police Trust has eighteen different investments managers. Each investment manager is retained by the Trust to implement a specific investment style and strategy and shall adhere to the specific limitations on holdings outlined in each investment manager's securities guidelines. The securities guidelines for each investment manager is negotiated and agreed upon in writing on a case-by-case basis and referenced in Appendix D of the Investment Policy Statement.

At June 30, 2017, there were no investments in any one issuer that represents 5% or more of the total investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Fund's policy for controlling its exposure to interest rate fluctuations should be viewed with the appropriate perspective. A long-term strategy was employed to achieve the Fund's objectives, but there was consideration given to the short-term liquidity needs to meet disbursements required by the Fund. The asset allocation and investment manager structure was designed to tolerate some interim fluctuations in market value while maintaining a long-term return objective to exceed the actuarial assumed interest rate of 6.75%.

The following table provides the interest rate risk disclosure for the Indiana State Police Pension Fund:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6- 10	More than 10
U.S. Treasuries	\$ 8,668	\$ -	\$ 2,646	\$ 4,079	\$ 1,943
U.S. Agencies	\$ 6,161	-	73	1,062	5,026
Collateralized Mortgage Obligations	2,260	-	-	-	2,260
Corporate Bonds	20,943	1,092	8,645	8,825	2,381
Corporate Asset Backed	4,474	531	3,675	260	8
Municipal Bonds	3,683	371	1,505	1,180	627
Mutual/Commingled Funds	86,531	86,531	-	-	-
Total Fixed Income Securities	\$ 132,720	\$ 88,525	\$ 16,544	\$ 15,406	\$ 12,245

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.85%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State Police Pension Trust’s foreign currency exposure is focused primarily in international and global equity holdings. The exposure to foreign currency fluctuation is as follows:

Currency	Fair Value	% of Total Fair Value
Australia	\$ 1,204	0.26
Canada	742	0.16
Denmark	421	0.09
Euro	6,008	1.32
Hong Kong	2,091	0.46
Japan	1,850	0.40
Sweden	923	0.20
Switzerland	594	0.13
Sterling Pound	1,796	0.39
Total	\$ 15,629	3.41

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) non-cash collateral if the State is indemnified by the custodian holding the non-cash collateral, in excess of the total market value of the loaned securities. The market value of the required collateral must be

in an amount at least equal to 102% of the current market value of the loaned securities.

As of June 30, 2017, the State Police Pension Trust did not have any securities on loan and therefore, no credit risk exposure.

Fair Value Measurement

The Trust categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2 and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

Level 1 Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.

Level 2 Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3 Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority level input that is significant to the valuation. The Trust’s assessment of significance of a particular input to the fair value measurement in

its entirety required judgment, and considers factors specific to the investment. Investments measured at fair value using net asset value per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy; however, separate disclosures for these investments are required.

Fixed income and equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical investments, to the extent these securities are traded.

Fixed income investments classified in Level 2 of the fair value hierarchy are normally valued based on price data obtained from observed transactions and market price quotations from broker dealers

The following table summarizes the valuation of the investments in the Trust by the fair value hierarchy levels as of June 30, 2017:

<u>Investment Type</u>	<u>June 30, 2017</u>	<u>Fair Value Measurements Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Fixed Income Investments			
U.S. Treasuries	\$ 8,668	\$ 8,668	\$ -
U.S. Agencies	6,161	-	6,161
Collateralized Mortgage Obligations	2,260	-	2,260
Corporate Bonds	20,943	-	20,943
Corporate Asset Backed	4,474	-	4,474
Municipal Bonds	3,683	-	3,683
Total Fixed Income Securities	46,189	8,668	37,521
Equity Investments			
Domestic Equity	26,374	26,374	-
International Equity	15,642	15,642	-
Commingled Equity Funds	69,966	69,966	-
Total Equity Funds	111,982	111,982	-
Total Investments by Fair Value	158,171	120,650	37,521
Investment measured at the Net Asset Value (NAV)			
Commingled Fixed Income Funds	86,531		
Commingled Equity Funds	28,214		
Hedged Equity/Long/Short Funds	393		
Multi-strategy Hedge Funds	88,092		
Private Equity	32,291		
Total Investments measured at NAV	235,521		
Total Investments measured by Fair Value	\$ 393,692		

and/or pricing vendors. Valuation estimates from service providers' internal models use observable inputs such as interest rates, yield curves, credit/risk spreads and default rates. Matrix pricing techniques value securities based on their relationship to benchmark quoted prices.

Fixed income investments classified in Level 3 include valuations using significant unobservable inputs, valuations using proprietary information, inputs that cannot be corroborated by observable market data and securities valued with last trade date due to limited trading volume.

The valuation methods for investments measured at the NAV per share (or its equivalent) are described below:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled Fixed Income Funds	\$ 86,531	\$ -	Daily	1 day
Commingled Equity Funds	28,214	-	Daily	1 day
Hedged Equity/Long/Short Funds	393	-	Monthly	90 days
Multi-strategy Hedge Funds	88,092	-	Semi-Annually	95 days
Private Equity	32,291	3,017	N/A	N/A
Total investments measured at the NAV	\$235,521			

Commingled Fixed Income and Equity Funds – There are 2 fixed income funds and 3 equity funds considered to be commingled in nature. Each are valued at the net asset value of the units held at the end of the period based upon fair value of the underlying securities.

Private Equity - Consisting of 6 private equity funds, this strategy invests across a range of strategies, geographies, and industries. These underlying portfolio company investments cannot be redeemed with the funds, but rather the funds will make distributions of capital to the Trust as the funds sell the underlying portfolio company investments.

Hedged Equity/Long/Short Equity – This type invests in 2 hedge funds which managers employ bottom-up stock picking, seeking returns in excess of public markets. Some of these managers have the ability to employ dedicated exposure to a particular sector in which they exhibit expertise.

Multi-Strategy Hedge Funds – This type invest in 1 hedge fund that are comprised of investments across hedge fund strategies. Four broad categories are, equity hedge, event driven, macro, and relative value. “Multi” references the multiple underlying sub-strategies within each category.

State Employee Retiree Health Benefit Trust Fund-DB

Investment Policy

The State Retiree Health Benefit Trust Fund – DB fund is comprised of the State Police Retiree Health Benefit Trust Fund (ISPP), the State Personnel Plan Trust Fund (SPP), the Conservation and Excise Police Trust Fund (CEPP).

The ISPP consists of sections 401(h) and 115 established pursuant to the Internal Revenue Service that are separate accounts established for the purpose of paying benefits for sickness, accident, hospitalization, and medical expenses. The assets in this account may be commingled for investment purposes only with the other accounts of the Indiana State Police Pension Fund. The investment authority for these funds, is established under Indiana Code IC 5-10-8-6(d)(2).and 10-12-2-2(c).. There is no formal deposit policy other than compliance to State statute. In compliance to State statute, the asset allocation is 100% in fixed income investments.

IC 10-12-2-2(c) reads as follows:

The trust fund shall be invested only in accordance with Indiana laws for the investment of trust funds, together with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards.

IC 5-10-8-6(d)(2) reads as follows:

The treasurer of state shall invest the money in these trust funds not currently needed to meet the

obligations of the trust fund in the same manner as other public money may be invested.

Indiana Code, Title 5, Article 13, Chapters 9, 10, 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments.

The SPP and CEPP were established pursuant to HEA 1123 of the 2012 Indiana General Assembly. The State Personnel Department administers the SPP. The CEPP is administered by the Indiana State Excise Police and Indiana Conservation Officers Health Insurance Committee. These trust funds were created to provide for the prefunding of annual required contributions and for covering the OPEB liability of covered individuals. The investment authority for the CEPP is established under IC 5-10-8-6(d)(2). The investment authority for the SPP is established under IC 5-10-8-7(i)(2). Both of these codes sites state: The Treasurer of State shall invest monies in these trust funds not currently needed to meet the obligations of the trust funds in the same manner as other public money may be invested. Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. There are no formal deposit and investment policies for the investment of these funds other than compliance to State statute. In compliance to State statute, the asset allocation is 100% in fixed income investments. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

Effective July 1, 2017, the statutory investment authority changed for all of the State Retiree Health Benefit Trust Fund – DB funds. The new investment authority, under IC 5-10-8-6(d)(2), for the ISPP and the CEPP, and the new investment authority, under IC 5-10-8-7(i)(2), for the SPP, both state, notwithstanding IC 5-13, the treasurer of state shall invest the money in these trust funds in the same manner as money may be invested by the public employees' retirement fund under IC 5-10-35-5. However, the trustee may not invest the money in the trust in equity securities. The trustee shall also comply with the prudent investor rule set forth in IC 30-4-3.5.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in the State Retiree Health Benefit Trust Fund - DB:

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Treasuries	AA+	\$ 65,321
U.S. Agencies	AA+	71,215
Supranationals	AAA	11,308
	NR	2,996
Total		\$150,840

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2017, the balance of any bank deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

Investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments were:

FHLB	19.05%	\$30,140
FFCB	8.97%	14,190
FAMC	13.83%	21,890
IADB	7.15%	11,308

Rate of Return For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, for the three OPEB plans administered through trusts was:

SPP	ISPP	CEPP
0.7%	0.6%	0.6%

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There was no foreign currency risk.

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) non-cash collateral if the State is indemnified by the custodian holding the non-cash collateral, in excess of the total market value of the loaned securities..

At year end, there were no securities on loan and therefore, no credit risk exposure.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2017:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Treasuries	\$ 65,321	\$ 65,321	\$ -
U.S. Agencies	71,215	69,226	1,989
Suprationals	14,304	14,304	-
Total Fixed Income Securities	\$ 150,840	\$ 148,851	\$ 1,989

Fair Value Measurement

The State Retiree Health Benefit Trust – DB funds categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

Level 1 Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.

Level 2 Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3 Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

US Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The debt securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs other than quoted prices in an active market.

The following table summarizes the valuation of the investments by the fair value hierarchy levels as of June 30, 2017:

Investment Type	June 30, 2017	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasuries	\$ 65,321	\$ 65,321	\$ -
U.S. Agencies	71,215	-	71,215
Supranationals	14,304	-	14,304
Total Fixed Income Securities	\$ 150,840	\$ 65,321	\$ 85,519

State Employee Retiree Health Benefit Trust Fund-DC

Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Retiree Health Benefit Trust Fund has separate investment authority as established under Indiana Code 5-10-8-8.5 (c). The Treasurer of State shall invest the money in the trust fund not currently needed to meet the obligations of the trust fund in the same manner as other public money may be invested. There are no formal deposit and investment policies for the investment of these funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in State Retiree Health Benefit Trust Fund:

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Treasuries	AA	\$ 34,738
U.S. Agencies	AA	219,272
Supranationals	AAA	14,897
Local Government Investment Pool	NR	10,000
Total		\$ 278,907

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2017, the balance of any bank deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all

custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

Investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments were:

Federal Home Loan Banks	24.80%	\$ 79,881
Federal Home Loan Mortgage Corporation	20.10%	64,744
Federal Farm Credit Bank	16.98%	54,694

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There was no foreign currency risk.

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) non-cash collateral if the State is indemnified by the custodian holding the non-cash collateral, in excess of the total market value of the loaned securities.

At year end, there were no securities on loan and therefore, no credit risk exposure.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2017:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Treasuries	\$ 34,738	\$ 34,738	\$ -
U.S. Agencies	219,272	124,464	94,808
Supranationals	14,897	9,900	4,997
Local Government Investment Pool	10,000	10,000	-
Total Fixed Income Securities	\$ 278,907	\$ 179,102	\$ 99,805

Fair Value Measurement

The State Retiree Health Benefit Trust – DC fund categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

Level 1 Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.

Level 2 Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3 Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

US Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. US Agency Debt securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs other than quoted prices in an active market. The local government investment pool is valued using the fair value valuation methodology and is marked to market daily using the most recent market bid price as obtained from one or more market makers and is thus classified in Level 2 of the fair value hierarchy.

The following table summarizes the valuation of the investments by the fair value hierarchy levels as of June 30, 2017:

Investment Type	June 30, 2017	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasuries	\$ 34,738	\$ 34,738	\$ -
U.S. Agencies	219,272	-	219,272
Supranationals	14,897	-	14,897
Local Government Investment Pool	10,000	-	10,000
Total Fixed Income Securities	\$ 278,907	\$ 34,738	\$ 244,169

3. Pension Trust Funds – Fiduciary in Nature Component Unit

Indiana Public Retirement System

Investment Guidelines and Limitations

The Indiana General Assembly enacted the prudent investor standard to apply to the INPRS Board of Trustees and govern all its investments. Under statutes (IC 5-10.3-5-3(a)) and (IC 5-10.4-3-10(a)), the Board of Trustees must “invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.” The Board of Trustees is also required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the INPRS Board of Trustees has broad authority to invest the assets of the funds. The INPRS Board of Trustees contracts with external investment managers, to collectively achieve the investment objectives of the fiduciary funds. Depending on the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the INPRS Board of Trustees. An asset allocation review is conducted every five years.

The INPRS Board of Trustees adopted a revised Investment Policy Statement (IPS), effective December 16, 2016. The Board approved a revision to the asset allocation incorporating changes to the asset allocation targets. A new

asset class, private markets, includes the existing private equity target allocation of 10.0 percent and the private credit target allocation of 4.0 percent previously included in fixed income – ex inflation-linked asset class.

The new strategic asset allocation for the consolidated defined benefit asset unit trust is as follows:

Global Asset Classes	Target Allocation - %	Target Range - %
Public Equity	22	19.5-24.5
Private Markets	14	10-18
Fixed Income - Ex Inflation - Linked	20	17-23
Fixed Income - Inflation - Linked	7	4-10
Commodities	8	6-10
Real Estate	7	3.5-10.5
Absolute Return	10	6-14
Risk Parity	12	7-17

The asset allocations shown above will differ for the ASA investments for PERF, TRF Pre-'96, TRF '96 and LE DC, as these plan allocations are self-directed by the members.

The Pension Relief Fund (PR Fund) is invested in high-quality, short-term money market instruments, including, but not limited to, high-quality commercial paper and securities issued or guaranteed by the U.S. government.

The State Employees' Death Benefit Fund and Public Safety Officers' Special Death Benefit Fund are invested in short-term and fixed income investments in a commingled fund.

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses is as follows:

Pension Trust Funds (1)	2017 Annual Money Weighted Rate of Return
Public Employees' Retirement Fund	7.60%
Teachers' Retirement Fund Pre-1996 Account (2)	8.14%
Teachers' Retirement Fund 1996 Account (2)	8.14%
1977 Police Officers' and Firefighters' Pension and Disability Fund	7.97%
Judges' Retirement System	7.96%
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	7.97%
Prosecuting Attorneys' Retirement Fund	7.94%
Legislators' Defined Benefit Plan	7.91%
Total (3)	<u>7.85%</u>

(1) Excludes the Legislators' Defined Contribution Plan.
 (2) The Teachers' Retirement Fund Accounts are combined for investment purposes.
 (3) Rate of return also includes Legislators' Defined Contribution Plan, State Employees' Death Benefit Fund, Public Safety Officers' Special Death Benefit Fund and Pension Relief Fund.

Cash in Bank and Deposits

Cash balances represent both operational demand deposit accounts held at the bank and, investment related cash and short-term investments, both pooled and non-pooled, on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested in a short-term investment account, thus causing a possible negative book balance. Negative book balances are reflected in the liabilities section of the Statement of Fiduciary Net Position.

The table below presents the INPRS total cash deposits, which includes short-term investment funds as of June 30, 2017.

Cash Deposits	Total
Demand Deposit Account – Bank Balances (Insured by FDIC up to \$250 thousand per financial institution)	\$ 7,312
Held with Treasurer of State (Fully insured)	843
Demand Deposit - Outstanding Check Float	(31,899)
Held with Custodian Bank (Uncollateralized)	261,585
Short-term Investment Funds held at Bank (Collateralized)	1,139,697
Total	<u>\$ 1,377,538</u>

Custodial Credit Risk

Deposits, investment securities, and collateral securities are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, INPRS will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to risk if the securities are uninsured and held by either the counterparty or the counterparty trust department's agent, and are not registered in the name of INPRS.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. At June 30, 2017, there was \$268.9 million of cash on deposit which was uninsured and uncollateralized and therefore exposed to credit risk as disclosed in the Cash and Bank Deposits section above.

Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5, IC 5-10.4-3-14(a) and IC 5-10.4-3-13, securities are required to be held for the fund under custodial agreements. INPRS' custody agreement with the custodian requires the custodian to segregate the securities on the custodian's books and records from the custodian's own property. In addition, investment managers are not allowed, under any circumstances, to take possession, custody, title, or ownership of any managed assets.

Method Used to Value Investments

Investments are generally reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

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 generally reported using cost-based measures, which approximates fair value.

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 security pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs. Commingled funds are valued using the net asset value (NAV) of the entity.

Alternative investments include limited partnership interests in private market, absolute return, 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 fair values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. 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 market or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ significantly from the fair value.

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

Fully benefit-responsive synthetic guaranteed investment contracts are reported at contract value.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The longer a fixed-income investment is to maturity, the more susceptible the value of the fixed-income investment is to market interest rate changes. INPRS does not have a formal stated policy regarding interest rate risk. The Investment Policy Statement recognizes interest rate risk as a market risk factor. INPRS reviews and monitors market risk factors within investment mandates regularly as part of achieving the actuarial long-term rate of return.

As of June 30, 2017 debt security duration is as follows:

Debt Security Type	Fair Vale	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Short Term Investments			
Short Term Investments	\$ 1,050,848	9.9	0.01
Certificate of Deposits	3,806	0.0	0.24
U.S. Treasury Obligations	193,486	1.8	0.22
Non-U.S. Government	7,880	0.1	0.21
Duration Not Available	289,678	2.7	N/A
Subtotal	1,545,698	14.5	
Fixed Income Investments			
U.S. Governments	3,746,994	35.2	12.35
Non-U.S. Government	2,729,545	25.7	7.93
U.S. Agencies	239,279	2.3	6.90
Corporate Bonds	1,172,924	11.0	9.57
Asset-Backed Securities	199,301	1.9	1.74
Duration Not Available	998,184	9.4	N/A
Subtotal	9,086,227	85.5	
Total	\$10,631,925	100.0	

The \$1.29 billion, for which no duration was available, is primarily made up of cash and commingled debt funds.

Credit Risk

The credit risk of investments is the risk the issuer will default and will no longer meet their obligations. INPRS does not have a formal stated policy regarding credit (quality) risk. The Investment Policy Statement recognizes credit (quality) risk as a market risk factor. INPRS reviews and monitors

market risk factors within investment mandates regularly as part of achieving the actuarial long-term rate of return.

Three rating investment services are used in priority order, Standard and Poor's, Moody's, and Fitch.

Credit Rating	Short-Term Investments	Fixed Income Securities	Total	Percentage of All Debt Securities
AAA	\$ -	\$ 657,009	\$ 657,009	6.4
U.S. Government Guaranteed	-	3,994,764	3,994,764	38.5
AA	139,039	1,169,325	1,308,364	12.6
A	-	819,727	819,727	7.9
BBB	-	902,996	902,996	8.7
BB	-	248,999	248,999	2.4
B	-	219,112	219,112	2.1
Below B	-	176,815	176,815	1.7
Unrated	1,147,577	897,480	2,045,057	19.7
Total	\$ 1,286,616	\$ 9,086,227	\$ 10,372,843	100.0

The above table does not include cash with brokers of \$259.1 million.

The \$2.05 billion unrated primarily consists of the following security types: money market sweep vehicles, private placement, term loans and asset-backed securities, commercial mortgages, CMO/REMIC's and commingled debt funds.

Concentration of credit risk is the risk of loss which may arise in the event of default by a single issuer. The INPRS Investment Policy Statement recognizes issuer risk as a strategic risk factor that is monitored on an absolute and relative basis. At June 30, 2017, single issuer exposure in the portfolio did not exceed 5 percent of the Fiduciary Net Position.

INPRS Investment Policy Statement has placed a limit on the concentration of assets placed with an investment manager.

No investment manager will manage more than 10 percent of the INPRS assets in actively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager will be allowed to manage in excess of 15 percent of the system's assets in actively managed portfolios without Board approval.

No investment manager will manage more than 15 percent of the INPRS assets in passively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager will be allowed to manage in excess of 20 percent of the system's assets in

passively managed portfolios without Board approval

No investment manager will manage more than 25 percent of the INPRS assets in a combination of actively and passively managed portfolios.

.Foreign Currency Risk

Foreign currency risk is the risk changes in exchange rates may adversely affect the fair value of an investment or a deposit. INPRS' foreign currency exposure is focused primarily in international fixed income and equity holdings.

At June 30, 2017, INPRS did not have a currency hedging program at the total fund level. However, at the manager level, hedging currency risk is allowed and certain managers actively manage currency exposure. INPRS monitors currency risk at the total fund level, portfolio level, and asset class level.

The foreign currency exposure consists of unhedged assets within the investment portfolio. The short term investment, debt securities and equity securities include accruals. Other investments include foreign holdings of other investments, derivatives and receivables/payables.

INPRS exposure to foreign currency risk at June 30, 2017, is as follows:

Foreign Currency Held at June 30, 2017						
Currency	Short Term	Fixed Income	Equity	Other Investments	Grand Total	% of Total ¹
Argentina Peso	\$ 395	\$ 7,016	\$ -	\$ (754)	\$ 6,657	0.0%
Australian Dollar	509	96,666	111,205	(102,076)	106,304	0.3
Brazilian Real	25	33,561	25,054	11,773	70,413	0.2
Canadian Dollar	1,583	136,366	170,577	(135,185)	173,341	0.5
Chilean Peso	-	5,488	837	1,219	7,544	-
Chinese R Yuan HK	-	-	-	(3,034)	(3,034)	-
China Yuan Renminbi	-	(358)	-	910	552	-
Colombian Peso	588	26,199	-	1,877	28,664	0.1
Czech Koruna	(110)	5,350	728	22,834	28,802	0.1
Danish Krone	833	18,397	58,584	(16,140)	61,674	0.2
Dominican Rep Peso	-	742	-	-	742	-
Egyptian Pound	3,744	2,188	689	1,262	7,883	-
Euro Currency Unit	9,102	1,095,906	726,732	(1,045,145)	786,595	2.5
Hong Kong Dollar	718	(341)	161,629	(25,725)	136,281	0.4
Hungarian Forint	388	12,656	5,633	(1,725)	16,952	0.1
Indian Rupee	766	(34)	17,404	19,449	37,585	0.1
Indonesian Rupiah	185	33,878	2,058	2,439	38,560	0.1
Israeli Shekel	20	(112)	3,611	-	3,519	-
Japanese Yen	12,429	361,365	576,328	(374,476)	575,646	1.8
Malaysian Ringgit	265	21,011	-	(1,269)	20,007	0.1
Mexican Peso	(370)	51,106	795	(7,140)	44,391	0.1
Taiwan New Dollar	-	-	82,285	(20,580)	61,705	0.2
Turkish Lira	2	25,461	13,357	7,427	46,247	0.2
New Zealand Dollar	102	24,818	4,917	(29,227)	610	-
Norwegian Krone	210	3,729	9,277	12,806	26,022	0.1
Peruvian Nuevo Sol	-	9,801	-	(3,148)	6,653	-
Philippines Peso	15	-	-	4,733	4,748	-
Polish Zloty	469	42,575	6,869	10,416	60,329	0.2
British Pound Sterling	2,876	508,535	374,954	(514,443)	371,922	1.2
Romania Leu	-	-	-	5,180	5,180	-
Russian Ruble	29	29,467	-	(4,039)	25,457	0.1
South African Rand	314	41,992	31,508	(15,525)	58,289	0.2
Singapore Dollar	446	4,932	23,425	(9,710)	19,093	0.1
South Korean Won	576	(58)	118,098	4,724	123,340	0.4
Swedish Krona	401	77,310	87,499	(49,667)	115,543	0.4
Swiss Franc	3,547	2,937	187,130	(3,355)	190,259	0.6
Thai Baht	16	14,519	14,526	3,083	32,144	0.1
UAE Dirham	-	-	2,939	-	2,939	-
Uruguayan Peso	-	619	-	1,164	1,783	-
Total	\$ 40,073	\$ 2,693,687	\$ 2,818,648	\$ (2,251,067)	\$ 3,301,341	10.4%

(1) Total of foreign currency risk, as a percentage of all pooled investments.

Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the INPRS Board of Trustees' may authorize its custodian bank to enter into a securities lending program agreement under which certain securities held by the custodian on behalf of INPRS may be loaned. The statute requires collateral pledged to be in excess of the total fair value of the loaned securities at all times.

The purpose of such a program is to provide

additional revenue for the consolidated defined benefits assets. The INPRS Investment Policy Statement requires that collateral securities and/or cash be initially pledged at 102 percent of the fair value of the securities lent for domestic securities and 105 percent for international securities. No more than 40 percent of the consolidated defined benefit assets may be lent in aggregate. The custodian bank and/or its securities lending sub-agents provide 100 percent indemnification of the consolidated defined benefit assets against borrower default, overnight market risk and failure to return loaned securities. Securities received as

collateral by INPRS cannot be pledged or sold unless the borrower defaults.

\$959 million exceeded the fair value of securities on loan, as shown below.

At June 30, 2017, INPRS had no security lending credit risk exposure as the collateral pledged of

<u>Security Type</u>	<u>Fair Value of Securities on Loan</u>
U.S. Governments	\$ 597,687
Corporate Bonds	12,185
International Bonds	5,888
Domestic Equities	289,566
International Equities	32,529
Total	\$ 937,855

Cash collateral can be reinvested and is subject to the investment guidelines specified by the Investment Policy Statement. All collateral investments will have a maturity of the next business day. INPRS retains the fair value risk with respect to the investment of the cash collateral. However, the custodian bank provides 100.0 percent indemnification of all collateral invested in repurchase agreements against borrower default and overnight market risk.

required to match the maturities of the securities posted as collateral.

All reinvested cash collateral investments consist of repurchase agreements which are not rated by any of the rating agencies.

Repurchase agreements and obligations and reverse repurchase agreements are considered allowable investments. Moreover, investment managers that possess recognized expertise in managing these types of investments will be permitted to utilize these investment tools as part of the overall investment mandate for the benefit of INPRS.

Repurchase Agreements

The amounts held at June 30, 2017, exclusive of securities lending reinvested cash collateral, are as follows:

A repurchase agreement is an agreement in which INPRS transfers cash to a broker-dealer or financial institution. The broker-dealer or financial institution transfers securities to INPRS and promises to repay the cash plus interest in exchange for the same securities. Repurchase agreements are assets with the security collateral held at INPRS' custodian bank.

<u>Repurchase Agreements by Collateral Type</u>	<u>Cash Collateral Received</u>	<u>Market Value</u>
U.S. Treasury	\$ 1,881	\$ 1,881

An obligation under reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Obligations under reverse repurchase agreements are liabilities of INPRS' whereby security collateral is held at the broker dealer or financial institution's custodian bank.

<u>Obligations Under Reverse Repurchase Agreements by Collateral Type</u>	<u>Cash Collateral Posted</u>	<u>Fair Value</u>
U.S. Treasury	\$ 276,792	\$ 279,962

Cash received and reinvested in securities is not

At June 30, 2017, INPRS had no reverse repurchase agreement credit risk exposure since the cash collateral value posted was less than the fair value of the liability held.

Fair Value Measurement

In accordance with GASB Statement No. 72, INPRS' investments are measured and generally reported at fair value and are classified according to the following hierarchy:

Level 1 – Investments reflect prices quoted in active markets for identical assets.

Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly in an active market, and inputs in markets that are not considered to be active for identical or similar assets.

Level 3 – Investments reflect prices based upon unobservable inputs.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Short term investment funds (STIF's) are classified at amortized cost.

Equity and fixed income securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity and fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Corporate bonds classified in Level 3 are valued using discounted cash flow techniques. International equities classified in Level 3 are not traded in an active market and are valued using internally generated unobservable inputs.

Derivative instruments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Derivative instruments classified as Level 2 are valued using a market approach that considers benchmarks.

92 - State of Indiana - Comprehensive Annual Financial Report

At June 30, 2017, the fair value of investments categorized by Level 1, 2 and 3 is as follows:

Investment Type (1)	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments Measured at Amortized Cost				
Short Term Investments (2)	\$ 62,758			
Cash at Brokers	257,779			
Repurchase Agreements	1,881			
Pooled Short Term Investments (2)	989,056			
Total Investments Measured at Amortized Cost	1,311,474			
Investments by Fair Value Level				
Pooled Short Term Investments (2)				
BNY - Mellon Cash Reserves	22,343	\$ -	\$ 22,343	\$ -
Certificate of Deposit	3,806	-	3,806	-
Corporate Bonds (Short Term)	3,744	-	3,744	-
U.S. Treasury Obligations	193,486	193,486	-	-
Non-U.S. Governments	4,136	-	4,136	-
Total Pooled Short Term Investments	227,515	193,486	34,029	-
Fixed Income Investments				
U.S. Governments	3,747,283	3,746,994	289	-
Non-U.S. Governments	3,043,740	-	3,043,740	-
U.S. Agencies	228,832	-	228,832	-
Corporate Bonds	1,129,583	-	1,128,623	960
Asset-Backed Securities	226,709	-	226,709	-
Total Fixed Income Investments	8,376,147	3,746,994	4,628,193	960
Equity Investments				
Domestic Equities	3,473,186	3,472,155	1,031	-
International Equities	3,420,144	3,419,343	794	7
Total Equity Investments	6,893,330	6,891,498	1,825	7
Total Investments by Fair Value Level	15,496,992	\$ 10,831,978	\$ 4,664,047	\$ 967
Investments Measured at the Net Asset Value (NAV)				
Commingled Short Term Funds	8,590			
Commingled Fixed Income Funds	710,080			
Commingled Equity Funds	1,460,136			
Private Markets	3,450,039			
Absolute Return	2,597,143			
Real Estate	1,599,209			
Risk Parity	2,914,620			
Total Investments Measured at the Net Asset Value (NAV)	12,739,817			
Investment Derivatives				
Total Futures	(6,023)	(6,023)	-	-
Total Options	13	-	13	-
Total Swaps	2,925	-	2,925	-
Total Investment Derivatives	(3,085)	\$ (6,023)	\$ 2,938	\$ -
Total Investments (less Securities Lending Collateral)	\$ 29,545,198			

(1) The amounts disclosed above will differ from the Asset Allocation Summary. The investment type combines assets according to the security type assigned to each investment by the Custodian. The Asset Allocation Summary groups assets according to the investment objective of each investment manager.

(2) Short Term Investments include highly liquid assets, both pooled and non-pooled that are an integral part of the pension investments.

The valuation method for investments measured at the net asset value (NAV) per share or equivalent, at June 30, 2017, is presented as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Commingled Short Term Funds (1)	\$ 8,590	\$ -	Daily	1 day
Commingled Fixed Income Funds (1)	710,080	-	Daily	1 day
Commingled Equity Funds (1)	1,460,136	-	Daily	1 day
Private Markets (2)	3,450,039	1,720,159	Not Eligible	N/A
Real Estate Funds (3)	1,599,209	549,401	Quarterly	30-90 days
Absolute Return (4)	2,597,143	-	Monthly, Quarterly, Semi-Annually	30-120 days
Risk Parity (5)	2,914,620	-	Daily, Weekly, Monthly	3-5 days
Total	<u>\$12,739,817</u>	<u>\$ 2,269,560</u>		

(1) *Commingled Short Term, Fixed Income and Equity Funds* - There are three short term funds, sixteen fixed income funds and three equity funds, which are considered to be commingled in nature. Comingled fund strategies include short term, fixed income, and equity fund investments. These investments are valued at the net asset value of the units held at June 30, 2017, based upon fair value of the underlying securities.

(2) *Private Markets*- Consisting of 265 private market funds that invests across a range of strategies, geographies, and industries. Portfolio strategies include venture capital, buyout, special situations, real assets, and growth capital fund investments. The underlying portfolio investments cannot be redeemed with each fund, but rather the fund will make distributions of capital as the fund liquidates the underlying portfolio investments over the average ten year life of the fund.

(3) *Real Estate Funds* - Consisting 32 real estate funds that invest primarily in U.S. commercial real estate. There are 26 real estate funds classified as illiquid as these investments cannot be redeemed directly with those real estate funds. Distributions of capital from illiquid real estate funds will be received as the underlying real estate assets are liquidated over the average 10 year life of the fund. There are six real estate funds that have been classified as liquid real estate funds due to the open-end structure of the fund. Open-end funds generally offer periodic distributions of net cash flow which can be reinvested, as well as quarterly redemption windows. Illiquid real estate funds represent approximately 48.0 percent of the value of the real estate fund investments.

(4) *Absolute Return* - The absolute return strategy portfolio attempts to generate returns in excess of the plan's target actuarial rate of return over a full

market cycle with minimal beta to the plan's primary long-only market exposures (equities, credit, rates, and commodities). The portfolio tends to rely less heavily on traditional long/short equity and event-driven strategies, but instead focuses on relative value/arbitrage and tactical trading strategies. The portfolio consists of 35 fund holdings that cover a broad spectrum of investment strategies and investment horizons, which results in distinct fund redemption terms to prevent asset-liability mismatches. Fund redemption periods range from weeks (alternative beta) to years (drawdown vehicles), but as a whole, on a weighted-average basis, the portfolio maintains a liquidity profile of less than one year. Most of the funds' investments are classified as fair value level 1 and 2 assets, which allow for independent verification of NAV's/fair values by the funds' administrators. Funds with a drawdown strategy represent 7.8 percent of the absolute return portfolio and the majority of the fund's investments consists of level 3 assets. The valuation process for the funds are comparable to private market valuations, with quarterly valuations.

(5) *Risk Parity* - Consisting of three fund investments, this portfolio is constructed to accrue various asset class risk premiums, including equity, without long-term dominance from any single asset class. The structure of these investments provides a reasonable level of liquidity and investments may be redeemed in accordance to the terms set forth by each investment management agreement. The risk parity fund investments are considered to be liquid, market-priced instruments, and 100 percent of the NAV is independently calculated by the fund administrators. Fair values are reported as NAV per share.

As of June 30, 2017, it is probable \$3.5 billion and \$1.6 billion of the investments in the private market

and real estate funds type, respectively, will be sold at an amount different from the NAV of the INPRS' ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments (one quarter in arrears plus current quarter cash flows). As of June 30, 2017, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve the buyer before the sale of the investments can be completed.

Synthetic GIC's

PERF, TRF Pre-'96, TRF '96 and LE DC members are able to participate in a stable value fund investment option that consists of fully benefit-responsive synthetic guaranteed investment contracts (GIC's). The stable value fund is an investment option that seeks to provide safety of principal and a stable credited rate of interest, while generating competitive returns over time compared to other comparable investments. As of June 30, 2017, the stable value fund portfolio of well diversified high quality investment grade fixed income securities had a fair value of \$2.6 billion that was \$12.8 million in excess of the fair value protected by the wrap contract.

Derivative Financial Instruments

Overview of Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Position as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as investment income. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an "OTC contract" (Over the Counter) such as swaps and forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded." Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial

statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

The derivative instruments are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Position.

All investment derivatives discussed below are included within the investment risk schedules, which precede this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio. INPRS holds investments in limited partnership and commingled investment funds, which may utilize derivatives from time to time for hedging purposes, and any derivatives held by these types of investment vehicles are not included in the information describing the derivatives.

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date. Investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, investment managers use futures contracts to adjust the portfolio risk exposure. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities. No short sales of equity securities or equity index derivatives are permitted.

As the fair value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a

call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. An interest rate swaption is the option to enter into an interest rate swap based off a set of predetermined conditions. Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange-traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services, using various proprietary methods, based upon the type of option.

Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value is determined by external pricing services using various proprietary methods.

An inflation swap is a derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI) or an inflation bond.

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk. The fair value is determined by external pricing services using various proprietary methods.

Forwards

A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Position. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Position.

Foreign currency forwards are used to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

Derivative Contracts

The table below summarizes INPRS' derivative contracts for the fiscal year ended June 30, 2017:

Investment Derivatives	Change in		
	Fair Value	Fair Value	Notional
Futures			
Index Futures - Long	\$ 1,404	\$ 1,404	\$ 761,901
Commodity Futures - Long	(8,757)	(8,757)	1,432,867
Fixed Income Futures - Long	(267)	(267)	450,047
Fixed Income Futures - Short	1,596	1,596	(614,485)
Total Futures	<u>(6,024)</u>	<u>(6,024)</u>	<u>2,030,330</u>
Options			
Currency Spot Options Bought	(15)	22	5,785
Currency Spot Options Written	9	(9)	4,545
Interest Rate Options Bought	(1,476)	3,335	709,400
Interest Rate Options Written	821	(3,280)	546,940
Fixed Income Options Bought	(60)	14	14
Fixed Income Options Written	35	(13)	(13)
Total Options	<u>(686)</u>	<u>69</u>	<u>1,266,671</u>
Swaps			
Interest Rate Swaps - Pay Fixed Receive Variable	3,580	5,699	487,349
Interest Rate Swaps - Pay Variable Receive Fixed	(31)	(654)	492,341
Overnight Index Interest Rate Swaps - Pay Fixed Receive Variable	(888)	(888)	66,774
Overnight Index Interest Rate Swaps - Pay Variable Receive Fixed	798	798	50,535
Inflation Swaps - Pay Fixed Receive Variable	40	(61)	2,428
Inflation Swaps - Pay Variable Receive Fixed	38	35	6,775
Currency Swaps	(1,688)	(1,680)	43,237
Total Return Swaps	2,489	2,489	4,162
Credit Default Swaps Single Name - Buy Protection	(1,147)	(810)	59,200
Credit Default Swaps Single Name - Sell Protection	166	(29)	8,069
Credit Default Swaps Index - Buy Protection	(203)	(369)	27,679
Credit Default Swaps Index - Sell Protection	(598)	(1,660)	47,235
Total Swaps	<u>2,556</u>	<u>2,870</u>	<u>1,295,784</u>
Total Derivatives	<u>\$ (4,154)</u>	<u>\$ (3,085)</u>	<u>\$ 4,592,785</u>

The table below summarizes the swap maturity profile as of June 30, 2017.

Swap Type	Swap Maturity Profile at June 30, 2017					Total
	< 1 yr	1 - 5 yrs	5 - 10 yrs	10 - 20 yrs	20 + yrs	
Interest Rate Swaps - Pay Fixed Receive Variable	\$ (203)	\$ (331)	\$ 5,973	\$ (52)	\$ 312	\$ 5,699
Interest Rate Swaps - Pay Variable Receive Fixed	105	2	527	71	(1,359)	(654)
Overnight Index Interest Rate Swaps - Pay Fixed Receive Variable	(110)	(778)	-	-	-	(888)
Overnight Index Interest Rate Swaps - Pay Variable Receive Fixed	4	828	(34)	-	-	798
Inflation Swaps - Pay Fixed Receive Variable	-	-	(3)	(51)	(7)	(61)
Inflation Swaps - Pay Variable Receive Fixed	1	(5)	13	(48)	74	35
Currency Swaps	(1,529)	(54)	(97)	-	-	(1,680)
Total Return Swaps	2,489	-	-	-	-	2,489
Credit Default Swaps Single Name - Buy Protection	-	(810)	-	-	-	(810)
Credit Default Swaps Single Name - Sell Protection	1	(8)	(22)	-	-	(29)
Credit Default Swaps Index - Buy Protection	-	(369)	-	-	-	(369)
Credit Default Swaps Index - Sell Protection	-	(1,605)	-	-	(55)	(1,660)
Total Swap Fair Value	<u>\$ 758</u>	<u>\$ (3,130)</u>	<u>\$ 6,357</u>	<u>\$ (80)</u>	<u>\$ (1,035)</u>	<u>\$ 2,870</u>

Credit Risk

Counterparty credit risk exists on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract.

INPRS' investment managers use International Swaps and Derivative Association Master Agreements to further reduce counterparty risk by specifying credit protection mechanisms and providing standardization that improves legal certainty, thereby reducing the probability of unforeseen losses. Furthermore, the master agreements can provide additional credit protection through the requirement of collateral exchange and

certain event of default and mutual termination provisions. Securities eligible as collateral are typically United States government bills and U.S. dollar cash.

The maximum amount of loss due to credit risk that the agency would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements, is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in an unrealized gain position at June 30, 2017, was \$18.1 million, of which \$16.4 million was uncollateralized.

The table below summarizes the counterparty positions as of June 30, 2017:

Swaps Counterparty	S&P Rating	Fair Value			Collateral	
		Receivable/ Unrealized Gain	Payable/ (Unrealized Loss)	Fair Value	Posted	Received
Bank of America	BBB+	\$ 423	\$ (257)	\$ 215	\$ 640	\$ (540)
Banque Nationale De Paris	A	3	-	-	710	-
Barclays	BBB	63	(155)	(145)	-	-
Citigroup, Inc.	BBB+	2,730	(705)	1,914	707	(1,070)
CME Group	AA-	5,012	(2,853)	2,394	-	-
Credit Suisse	BBB+	-	(91)	(90)	2,324	(51)
Deutsche Bank	A-	2,546	(3,333)	(644)	750	(110)
Goldman Sachs	BBB+	85	(77)	(77)	730	(570)
HSBC Securities Inc	A	60	(54)	(54)	1,520	(10)
Intercontinental Exchange, Inc.	A	2,079	(2,851)	(2,038)	1,135	-
JPMorgan Chase Bank	A-	127	(2,303)	(2,007)	1,829	-
London Clearing House	A-	4,619	(2,201)	3,690	376	-
Morgan Stanley	BBB+	349	(660)	(288)	50	-
Total		\$ 18,096	\$ (15,540)	\$ 2,870	\$ 10,771	\$ (2,351)

Interest Rate Risk

INPRS has exposure to interest rate risk due to investments in interest rate and inflation swaps and

forward mortgage-backed securities (TBAs). The required risk disclosures are included in the Interest Rate Risk schedule.

The table below summarizes INPRS' investments that are highly sensitive to interest rate changes:

Reference Currency	Pays	Receives	Fair Value	Notional
Interest Rate Swap - Pay Fixed Receive Variable:				
U.S. Dollar	1.25% to 2.79%	3M USD LIBOR	\$ 7,131	\$ 329,560
Pound Sterling	0.74% to 2.00%	6M GBP LIBOR BBA	(204)	32,558
Euro Currency Unit	0.00% to 1.50%	6M EURIBOR REUTERS	191	25,286
Israeli Shekel	0.65%	3M ILS TELBOR REFERENCE BANKS	(112)	14,385
Hong Kong Dollar	2.25%	3M HIBOR BLOOMBERG	(336)	12,930
Brazilian Real	8.77% to 13.93%	1D BRL CDI	(855)	10,850
Japanese Yen	0.30% to 0.75%	6M JPY LIBOR BBA	(75)	10,780
Mexican Peso	7.25%	1M MXN TIIE BANXICO	(5)	10,338
Australian Dollar	1.80%	3M AUD BBR BBSW	34	9,404
Czech Koruna	0.37% to 1.04%	6M CZK PRIBOR PRBO	189	8,067
Hungarian Forint	1.38% to 2.42%	6M BUBOR REUTERS	(294)	7,289
Brazilian Real	8.77% to 9.97%	1M BRL CDI	(15)	6,643
Indian Rupee	6.20% to 6.50%	INR MIBOR OIS COMPOUND	(34)	6,204
Mexican Peso	5.18% to 5.86%	28D MXN TIIE BANXICO	75	1,811
Colombian Peso	5.11%	90 DAYS DTF RATE	(1)	406
Polish Zloty	1.77%	6M PLN WIBOR WIBO	8	402
Australian Dollar	1.80%	6M AUD BBR BBSW	3	222
Colombian Peso	5.19%	1D COP COOVIBR	(1)	214
Total			\$ 5,699	\$ 487,349
Interest Rate Swap - Pay Variable Receive Fixed:				
U.S. Dollar	3M USD LIBOR BBA	1.50% to 2.68%	\$ (781)	\$ 99,140
Pound Sterling	3M GBP LIBOR BBA	0.59%	2	70,676
Euro Currency Unit	6M EURIBOR REUTERS	0.01% to 1.33%	(95)	67,224
Canadian Dollar	3M CAD BA CDOR	1.25% to 1.50%	(169)	66,216
Mexican Peso	28D MXN TIIE BANXICO	5.43% to 7.74%	582	34,663
South Korean Won	3M KRW CD KSDA	1.23% to 1.50%	(36)	24,021
Brazilian Real	1D BRL CDI	11.45% to 14.56%	385	21,281
Thailand Baht	6M THB THBFIX REUTERS	1.52% to 1.90%	1	18,899
South Korean Won	3M KRW KWCDC COD	1.21% to 2.06%	(22)	17,897
Swedish Krona	3M SEK STIBOR SIDE	0.05% to 0.33%	(73)	17,037
Chinese Yuan Renminbi	7D CHINA FIXING REPO RATES	2.80% to 4.00%	(358)	15,686
Swiss Franc	6M SWISS LIBOR BBA	0.55%	(7)	15,329
Brazilian Real	1M BRL CDI	9.12% to 11.15%	(81)	9,009
Pound Sterling	6M GBP LIBOR BBA	1.40% to 1.60%	(52)	8,515
Mexican Peso	1M MXN TIIE BANXICO	5.50% to 7.73%	64	4,583
Norwegian Krone	6M NOK NIBOR BBG CM	1.00%	(6)	1,763
Polish Zloty	6M WIBOR WIBO	1.77%	(8)	402
Total			\$ (654)	\$ 492,341

Foreign Currency Risk

INPRS is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule.

foreign currency contract receivable balance of \$7.4 billion and an off-setting foreign currency contract payable of \$7.4 billion

The net gain recognized for the fiscal year ended June 30, 2017 due to foreign currency transactions was \$380 thousand.

At June 30, 2017, INPRS' investments included a

B. Interfund Transactions

Interfund Loans

As explained in Note III(A), temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2017, the following funds had temporary cash overdrafts covered by loans from the General Fund: U.S. Department of Education, \$4.4 million and U.S. Department of Health and Human Services Fund, \$648.6 million. There is also reported an \$8.0 million loan from the Motor Vehicle Highway Fund

to the State Highway Fund, which is not expected to be repaid within the next fiscal year. Also, reported is an interfund loan of \$1.1 million from the Fish and Wildlife Fund to the Fund 6000 Programs Fund for \$0.9 million and to the Deer Research and Management Fund for \$0.2 million for game and deer licenses.

The following is a summary of the Interfund Loans as of June 30, 2017:

	Loans To Governmental Funds	Loans From Governmental Funds
Governmental Funds		
General Fund	\$ 652,949	\$ -
Nonmajor Governmental Funds	9,110	662,059
Total	\$ 662,059	\$ 662,059

Interfund Services Provided/Used

Interfund Services Provided of \$9.9 million represents amounts owed by various governmental funds to the Institutional Industries Fund and the Administrative Services Revolving Funds, both

internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2017:

	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
Governmental Funds		
General Fund	\$ -	\$ 5,501
Public Welfare - Medicaid Assistance	-	13
Nonmajor Governmental Funds	-	4,345
Total Governmental Funds	-	9,859
Proprietary Funds		
Internal Service Funds	9,859	-
Total Proprietary Funds	9,859	-
Total	\$ 9,859	\$ 9,859

Due From/Due To

The \$30.0 million represents funds the General Fund borrowed in June 2004, interest free, from the Indiana Board for Depositories, a discretely presented component unit. Per Public Law 93-2013, Section 4, repayments to the Indiana Board for Depositories are to be made in annual increments of \$5.0 million each July beginning July 2013. The interfund balance of \$24.1 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana

Fund. The amounts due to Indiana University of \$3.4 million, Purdue University for \$60.0 thousand, the nonmajor universities of \$671.0 thousand, and the Indiana State Fair Commission for \$224 thousand are from FY 2017 state appropriations. \$2.5 million of the \$3.4 million due to Indiana University is due from nonmajor governmental funds.

The following is the schedule of Due From/Due To of component units, as of June 30, 2017:

	<u>Due From Primary Government</u>	<u>Due To Component Units</u>	<u>Due From Component Units</u>	<u>Due To Primary Government</u>
Governmental Funds				
General Fund	\$ -	\$ 31,794	\$ -	\$ -
Nonmajor Governmental Funds	-	2,520	24,068	-
Total Governmental Funds	<u>-</u>	<u>34,314</u>	<u>24,068</u>	<u>-</u>
Component Units				
Indiana University	3,359	-	-	-
Purdue University	60	-	-	-
Nonmajor Universities	671	-	-	-
Board for Depositories	30,000	-	-	-
State Lottery Commission	-	-	-	24,068
Indiana State Fair Commission	224	-	-	-
Total Component Units	<u>34,314</u>	<u>-</u>	<u>-</u>	<u>24,068</u>
Total	<u>\$ 34,314</u>	<u>\$ 34,314</u>	<u>\$ 24,068</u>	<u>\$ 24,068</u>

Interfund Transfers

Major Governmental Funds

Transfers constitute the movement of money from the fund that receives the resources to the fund that utilizes them. These numerous transfers generally result from legislation passed by the Indiana General Assembly that directs how the transfers are made. In the case of the General Fund, many appropriations are made in the General Fund and then transferred during the year to the funds where these appropriations are used. Also in the case of the General Fund, various taxes and other revenues are collected in other funds and transferred to the General Fund. Following are the principal purposes of the State's interfund transfers:

General Fund – \$431.6 million was transferred in from the State Gaming Fund which was wagering taxes from riverboats and slot machines at horse tracks. \$428.2 million was transferred in from the

Medicaid Assistance Fund of which \$218.6 million was unused State match appropriations from prior fiscal years, \$160.0 million was the State's share of hospital assessment fees, and \$49.4 million was quality assessment fees. The hospital assessment fees and qualifying assessment fees can only be used for the State's share of Medicaid services under Title XIX of the Social Security Act. The Build Indiana Fund transferred in \$236.2 million as Motor Vehicle Excise Tax Cut Replacement distributions. The Build Indiana Fund transferred in additional \$4.5 million to the General Fund which was for various projects from the budget bill including for I-Light Network Operations, the Southern Indiana Education Alliance, workforce centers, the GigaPoP project, and Degree Link. \$83.6 million was received from the Fund 6000 Programs Fund of which \$54.2 million was distribution of financial institutions tax per IC 6-5.5; \$19.0 million was transferred in for Indiana Veterans' Home administration from the Comfort-Welfare Fund's and IVH Medicaid Reimbursement

Fund's receipts of resident fees and Medicaid reimbursements; \$3.8 million was transferred in from permit fees collected from business that sell alcoholic beverages per IC 7.1-4-9-4; \$3.4 million was transferred to the Office of Medicaid Policy and Planning's State Medicaid General Fund which was appropriation transfers from Indiana Veterans' Home Medicaid reimbursements; and \$3.2 million was transferred in from consumer and non-consumer settlements, unclaimed property litigation, and real estate appraiser licensing for the Office of the Indiana Attorney General. \$45.8 million was transferred in from the Tobacco Master Settlement Fund for various health and welfare purposes including developmental disabilities services provided by the FSSA's Division of Disability and Rehabilitative Services, the Children's with Special Health Care Needs program administered by the Indiana State Department of Health, and substance abuse prevention and treatment services through the FSSA's Division of Mental Health and Addiction. \$44.9 million was transferred in from the Indiana Department of Child Services' Welfare Child Service Fund of which \$29.2 million was Supplemental Security Income revenues from Wards and \$15.7 million was unused appropriations from prior fiscal years to be used to aide in the delivery of services to children. \$44.3 million was transferred in from the Indiana Department of Child Services' Local Office Administrative Fund which was unused appropriations from prior fiscal years to be used to aide in the delivery of services to children.

The following were transfers out from the General Fund: The Public Welfare Medicaid Assistance Fund received \$2.4 billion in transfers for Medicaid current obligations and for Medicaid administration to enable the Office of Medicaid Policy and Planning to carry out all services under IC 12-8-6. These services include, but may not be limited to the provision of care and treatment for individuals with mental illness, developmental disability, long term care needs, and family and child services needs. \$335.3 million was transferred to the State Highway Department (IC 8-23-9-54) for operation of the department and construction and maintenance of the state's highways, roads, and bridges. \$320.8 million was transferred to the Indiana Commission for Higher Education's Division of Student Financial Aid mostly for the awarding of the State's grants and scholarships for Hoosier students to attend colleges. \$291.7 million was transferred to the U.S. Department of Health and Human Services Fund in support of: \$111.9 million for Department of Child Services programs including child welfare services training and state grants, case management services, special needs adoption, Social Security

Title IV-D services to needy families with children, adoption services, family and children services, and healthy families Indiana; \$63.1 million for the Family and Social Services' Division of Family Resources for local offices, state administration, information systems, and the temporary assistance for needy families program; \$51.1 million for the State Medicaid program; \$40.8 million for FSSA's central office and child care services; \$15.6 million to the FSSA divisions of Aging and Disability and Rehabilitative Services for developmental disabled client and aging services, \$7.9 million for county prosecutors' and local judges' salaries; \$1.1 million for the FSSA's Division of Mental Health and Addiction for child psychiatric services, quality assurance and research, and child assessment needs survey; and \$0.2 million for the Department of Health's cancer registry. \$83.9 million was transferred to the U.S. Department of Agriculture Fund as the State's match of which \$74.3 million was for the FSSA Division of Family Resources' local offices, state administration, information systems, TANF, Electronic Benefits Transfer administration, and IMPACT, \$4.9 million was for the National School Lunch program administered by the Indiana Department of Education's Division of School and Community Nutrition Programs, \$3.0 million was for the FSSA central office fund, \$1.4 million was for the meat and poultry inspection program and the public health data communication infrastructure system of the Board of Animal Health, \$0.2 million was for DNR capital projects, and \$0.1 million was for food assistance and the Women, Infants, and Children (WIC) supplement program of the Indiana State Department of Health. \$42.7 million was received by the Indiana Department of Transportation for the Public Mass Transportation Fund, which is used for the promotion and development of public transportation.

Medicaid Assistance Fund – The Medicaid Assistance Fund received a transfer of \$2.4 billion from the General Fund to support the state Medicaid program administered through the Office of Medicaid Policy and Planning. \$112.7 million was transferred in from the Healthy Indiana Plan trust fund and \$50.1 million was transferred in from the Incremental Hospital Assessment Fee fund both to support the Healthy Indiana Plan (or HIP 2.0). \$44.0 million was transferred in from the Medicaid Indigent Care Trust Fund which is part of the U.S. Department of Health and Human Services Fund, for reimbursement of hospital care for the indigent supplement payments made from the Medicaid Assistance Fund.

Transfers out included \$428.2 million to the General Fund of which \$218.6 million was the return of

102 - State of Indiana - Comprehensive Annual Financial Report

unused State match appropriations for Medicaid from prior fiscal years, \$160.0 million was hospital assessment fees, and \$49.4 million was quality assessment fees. The hospital assessment fees and quality assessment fees can only be used for the State's share of Medicaid services under Title XIX of the federal Social Security Act. \$0.2 million was transferred to the General Fund for Medicaid's share of state fiscal year 2016 indirect costs in accordance with FSSA's approved public assistance cost allocation plan.

Proprietary Funds

Non-Major Enterprise Funds

The Inns and Concessions Fund – This fund had transfers out of \$2.2 million, representing cash contributions to the Department of Natural Resources (DNR) which are to be used for repayments of bonds made by the Indiana Finance Authority.

Internal Service Funds

\$1.3 million was transferred to the Administrative Services Revolving Fund, Information Technology Services, from the General Fund for the transition of the Department of Workforce Development's Indiana Network of Knowledge (INK) to the Management and Performance Hub.

A summary of interfund transfers for the year ended June 30, 2017 is as follows:

	<u>Operating transfers in</u>	<u>Operating transfers (out)</u>	<u>Net transfers</u>
Governmental Funds			
General Fund	\$ 1,384,306	\$ (3,701,163)	\$ (2,316,857)
Public Welfare-Medicaid Assistance Fund	2,619,489	(428,200)	2,191,289
Nonmajor Governmental Fund	2,806,642	(2,680,132)	126,510
Proprietary Funds			
Nonmajor Enterprise Funds	-	(2,242)	(2,242)
Internal Service Funds	1,300	-	1,300
Total	<u>\$ 6,811,737</u>	<u>\$ (6,811,737)</u>	<u>-</u>

C. Receivables

Primary Government – Governmental Activities

Taxes Receivable/Tax Refunds Payable as of June 30, 2017, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities			Total Primary Government
	General Fund	Special Revenue Funds	Capital Projects Funds	
Income taxes	\$ 905,783	\$ -	-	\$ 905,783
Sales taxes	771,157	6,131	-	777,288
Fuel taxes	80	77,120	-	77,200
Gaming taxes	1,950	9,419	-	11,369
Alcohol and tobacco taxes	48,717	30,192	2,138	81,047
Insurance	5,479	-	-	5,479
Financial institutions taxes	-	3,653	-	3,653
Other taxes	4,647	920	-	5,567
Total taxes receivable	1,737,813	127,436	2,138	1,867,387
Less allowance for uncollectible accounts	(258,623)	(9,339)	(3)	(267,965)
Net taxes receivable	\$ 1,479,190	\$ 118,097	\$ 2,135	\$ 1,599,422
Tax refunds payable	\$ 50,845	\$ 4,571	\$ -	\$ 55,416

Primary Government – Business-Type Activities

The accounts receivable amount reported on the financial statements of the Unemployment Compensation fund is comprised of funds due from Indiana employers (employer receivables) and from overpayments made to Unemployment Insurance recipients (claimant receivables). Accounts receivable as of June 30, 2017 is as follows:

	Business - Type Activities
	Unemployment Compensation
Employer	\$ 62,224
Claimant	142,254
Total receivable	\$ 204,478

A major portion of the accounts receivable, \$49.1 million of employer receivables and \$105.7 million of claimant receivables for a total of \$154.8 million, will not be collected within one year.

D. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

Primary Government – Governmental Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Governmental Activities:				
Capital assets, not being depreciated/amortized:				
Land	\$ 2,134,850	\$ 44,135	\$ (12,123)	\$ 2,166,862
Infrastructure	11,756,250	552,963	(4,996)	12,304,217
Construction in progress	833,193	487,281	(730,836)	589,638
Total capital assets, not being depreciated/amortized	<u>14,724,293</u>	<u>1,084,379</u>	<u>(747,955)</u>	<u>15,060,717</u>
Capital assets, being depreciated/amortized:				
Land and water use rights	26,028	-	(912)	25,116
Buildings and improvements	2,266,397	15,107	(59,688)	2,221,816
Furniture, machinery, and equipment	609,586	70,975	(47,762)	632,799
Computer software	129,687	97,989	(2,146)	225,530
Infrastructure	34,849	600	(400)	35,049
Total capital assets, being depreciated/amortized	<u>3,066,547</u>	<u>184,671</u>	<u>(110,908)</u>	<u>3,140,310</u>
Less accumulated depreciation/amortization for:				
Land and water use rights	(10,953)	(1,256)	242	(11,967)
Buildings and improvements	(1,286,713)	(47,823)	25,923	(1,308,613)
Furniture, machinery, and equipment	(426,876)	(48,878)	43,489	(432,265)
Computer software	(107,772)	(15,950)	1,725	(121,997)
Infrastructure	(27,481)	(802)	325	(27,958)
Total accumulated depreciation/amortization	<u>(1,859,795)</u>	<u>(114,709)</u>	<u>71,704</u>	<u>(1,902,800)</u>
Total capital assets being depreciated/amortized, net	<u>1,206,752</u>	<u>69,962</u>	<u>(39,204)</u>	<u>1,237,510</u>
Governmental activities capital assets, net	<u>\$ 15,931,045</u>	<u>\$ 1,154,341</u>	<u>\$ (787,159)</u>	<u>\$ 16,298,227</u>

Primary Government – Business-Type Activities

	Balance July 1, restated	Increases	Decreases	Balance, June 30
Business-Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 63	\$ 7	\$ (70)	\$ -
Total capital assets, not being depreciated	<u>63</u>	<u>7</u>	<u>(70)</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings and improvements	283	70	-	353
Furniture, machinery, and equipment	361	-	-	361
Total capital assets, being depreciated	<u>644</u>	<u>70</u>	<u>-</u>	<u>714</u>
Less accumulated depreciation for:				
Buildings and improvements	(193)	(16)	-	(209)
Furniture, machinery, and equipment	(276)	(26)	-	(302)
Total accumulated depreciation	<u>(469)</u>	<u>(42)</u>	<u>-</u>	<u>(511)</u>
Total capital assets being depreciated, net	<u>175</u>	<u>28</u>	<u>-</u>	<u>203</u>
Business-type activities capital assets, net	<u>\$ 238</u>	<u>\$ 35</u>	<u>\$ (70)</u>	<u>\$ 203</u>

Depreciation/amortization expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 22,627
Public safety	35,910
Health	938
Welfare	13,475
Conservation, culture and development	14,997
Education	1,781
Transportation	<u>24,981</u>
Total depreciation/amortization expense - governmental activities	<u>\$ 114,709</u>
Business-type activities:	
Inns and Concessions	<u>\$ 42</u>
Total depreciation expense - business-type activities	<u>\$ 42</u>

E. Leases

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2017 and the assets acquired through capital leases are as follows:

Year ending June 30,	Operating leases	Capital leases		
		Governmental Activities		Future Minimum Lease Payments
		Principal	Interest	
2018	\$ 33,542	\$ 54,578	\$ 39,349	\$ 93,927
2019	23,990	65,671	39,242	104,913
2020	16,505	62,698	36,958	99,656
2021	13,173	60,558	33,787	94,345
2022	9,934	63,082	30,721	93,803
2023-2027	20,923	353,660	88,455	442,115
2028-2032	<u>49</u>	<u>163,298</u>	<u>12,362</u>	<u>175,660</u>
Total minimum lease payments (excluding executory costs)	<u>118,116</u>	<u>823,545</u>	<u>280,874</u>	<u>1,104,419</u>
Less:				
Remaining premium(discount)	-	(1,101)	-	(1,101)
Total minimum lease payments	<u>\$ 118,116</u>	<u>\$ 822,444</u>	<u>\$ 280,874</u>	<u>\$ 1,103,318</u>
Assets acquired through capital lease				
Building		\$ 5,364		
Machinery and equipment		30,127		
Infrastructure		791,519		
less accumulated depreciation		<u>(5,288)</u>		
		<u>\$ 821,722</u>		

Operating Leases

The State leases building and office facilities and other equipment under operating leases. Total payments for such leases with aggregate payments of \$20,000 or more were \$33.5 million for the year ended June 30, 2017. A table of future minimum lease payments (excluding executory costs) is presented above.

Capital Leases Liabilities

The State has entered into various lease agreements with aggregate payments of \$20,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the government-wide statements.

F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2017 were as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Compensated absences	\$ 145,771	\$ 80,196	\$ (76,438)	\$ 149,529	\$ 83,814	\$ 65,715
Net pension liability	13,122,718	2,814,941	(2,446,851)	13,490,808	-	13,490,808
Other postemployment benefits	130,261	42,172	(39,108)	133,325	-	133,325
Pollution remediation	35,609	3,239	(465)	38,383	4,887	33,496
Capital leases	1,000,258	476,505	(654,319)	822,444	54,578	767,866
	\$ 14,434,617	\$ 3,417,053	\$(3,217,181)	\$ 14,634,489	\$ 143,279	\$ 14,491,210
Business-type activities:						
Compensated absences	\$ 689	\$ 238	\$ (214)	\$ 713	\$ 207	\$ 506
Claims liability	25,440	635	(1,075)	25,000	2,097	22,903
	\$ 26,129	\$ 873	\$ (1,289)	\$ 25,713	\$ 2,304	\$ 23,409

Long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Note IV(E), net pension liabilities as presented in Note V(E) (employee retirement systems and plan), other postemployment benefits, pollution remediation, intergovernmental payables, and compensated absence obligations. The General Fund typically has been used to liquidate any other long-term liabilities.

Long-term obligations of the business-type activities consist of claims liability of the Indiana Residual Malpractice Insurance Authority and compensated absences of the Inns and Concessions Fund.

G. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2017, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These prior period adjustments and restatements are reflected in the beginning net position in the government-wide statement of activities.

In the fund financial statements for the General Fund there was an increase in fund balance of \$1.5 million and a corresponding decrease in fund

balance in Special Revenue Funds due to the reclassification of a fund and a required transfer that was not made in the prior year.

In the fund statements for the Special Revenue funds, and the government-wide statements, net position decreased by \$0.4 million due to the duplicate recording of a deposit in the prior year.

In the fund statements for the Special Revenue funds, and the government-wide statements, net

position decreased by \$7.5 million for the correction of liability balances.

For the Internal Service fund and the government-wide statements, there is an increase of \$5.1 million in net position due to the omission of vehicle inventory in the prior year for the Administration Services Revolving fund.

For the government-wide statements, there is an increase of \$29.0 million in net position for capital assets. This was the result of not capitalizing capital assets by June 30, 2016 that were acquired prior to this date and for corrections to acquisition cost by state agencies. There is a net increase of \$0.2

million in net position for infrastructure assets and software projects that were incorrectly recorded to construction in progress in the prior year. Net position decreased \$13.2 million due to an error in the net pension liability.

For the discrete proprietary component units, net position increased by \$14.1 million due to not capitalizing assets by June 30, 2016 that were acquired prior to this date and decreased \$0.4 million for corrections to liability balances.

The following schedule reconciles June 30, 2016 net position as previously reported, to beginning net position, as restated:

	Governmental Activities	Discretely Presented Component Units (Non Fiduciary)
June 30, 2016, fund balance/retained earnings/net position as reported	\$ 10,873,292	\$ 14,489,407
Correction of errors	13,213	13,719
Balance July 1, 2016 as restated	\$ 10,886,505	\$ 14,503,126

V. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State purchases commercial insurance coverage for certain DNR Inns properties. The State also purchases immaterial amounts of commercial insurance related to errors, omissions, and theft by employees. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the State employees' disability, certain State employees' health benefits, Conservation and Excise Officers' health benefits, and certain health,

disability and death benefits for State Police officers. These are reported in four individual Internal Service Funds.

The State employees' disability program is financed partially by State employees through payroll withholdings and by the funds from which employees are paid. The employees' health benefits, the Conservation and Excise health benefits, and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.)

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service

dates incurred during a prior fiscal year. The surplus retained earnings in these funds are reserved for future catastrophic losses.

	State Police Health Insurance Fund	State Employee Disability Fund	State Employees' Health Insurance Fund	Conservation and Excise Officers Health Insurance Fund	Total
<u>2017</u>					
Unpaid Claims, July 1	\$ 3,009	\$ 4,510	\$ 38,419	\$ 391	\$ 46,329
Incurred Claims and Changes in Estimate	24,885	18,043	329,607	3,982	376,517
Claims Paid	(25,313)	(18,250)	(330,171)	(3,770)	(377,504)
Unpaid Claims, June 30	\$ 2,581	\$ 4,303	\$ 37,855	\$ 603	\$ 45,342
<u>2016</u>					
Unpaid Claims, July 1	\$ 2,442	\$ 4,805	\$ 35,699	\$ 374	\$ 43,320
Incurred Claims and Changes in Estimate	24,926	18,936	319,574	2,607	366,043
Claims Paid	(24,359)	(19,231)	(316,854)	(2,590)	(363,034)
Unpaid Claims, June 30	\$ 3,009	\$ 4,510	\$ 38,419	\$ 391	\$ 46,329

B. Contingencies and Commitments

Litigation

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any.

With respect to tort claims only, the State's liability is limited to: (A) \$300,000 for a cause of action that accrues before January 2006; (B) \$500,000 for a cause of action that accrues between 2006 and 2008; or (C) \$700,000 for a cause of action that accrues on or after January 2008, for injury to or death of one person in any one occurrence and \$5 million for injury to or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a total payment for liabilities and litigation expenses of \$18.0 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2017, the State paid \$32.5 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

The following is a summary of certain significant

litigation and claims currently pending against the State involving amounts exceeding \$5 million individually or in the aggregate. This summary is not exhaustive, either as to the description of the specific litigation or claims described, or as to all of the litigation or claims currently pending or threatened against the State.

The Indiana Attorney General's office is currently handling the following cases that could result in significant liabilities to the State:

In 2015, Plaintiff filed a complaint against a State Trooper, the Indiana State Police, and The City of Bloomington alleging negligence and negligent design of the roadway. On September 8, 2015, outside counsel appeared for the Indiana State Police. On the same day, outside counsel filed a motion for enlargement of time to respond to the complaint. On September 10, 2015, outside counsel filed an appearance to represent the State Trooper. On September 21, 2015, an answer was filed on behalf of the State defendant. On the same day, a Motion to Dismiss the State Trooper was filed. Plaintiff objected to this dismissal on October 15, and on October 16 a hearing on the Motion to Dismiss was set. After a motion to continue hearing was filed by Plaintiff's counsel, a hearing occurred on December 11, 2015. The court granted the

Motion to Dismiss the State Trooper. On September 30, 2016, Plaintiff obtained new counsel. After the change of counsel, Plaintiff filed a motion for leave to amend complaint for damages to rejoin necessary defendant and restate allegations on December 5, 2016. Outside counsel filed a motion for enlargement of time to respond. On January 1, 2017, an Objection to Plaintiff's Motion for Leave to Amend Complaint for Damages was filed. The court set a hearing for March 21, 2017, to hear arguments on all pending motions, and on March 23, 2017, the court granted Plaintiff's Motion For Leave to Amend. On March 23, 2017, Plaintiff filed an amended complaint naming the State Trooper and The City of Bloomington as defendants. On May 11, 2017, outside counsel filed an appearance and answered this complaint on behalf of the State Trooper. A joint case management plan was established on August 22, 2017. This plan sets the projected trial date for July 30, 2018. State Defendant's Witness and Exhibit list was filed on September 21, 2017. Written discovery has occurred. Numerous depositions have occurred. On November 1, 2017, the State's Motion for Summary Judgment was filed. The hearing is scheduled for January 8, 2018.

In 2014, Plaintiff, a man convicted of murder twice, overturned twice on appeal, and then found not guilty, sued government actors including city police officers, State Police troopers, prosecutors, and Floyd County alleging various civil rights violations and state law tort claims. Plaintiff demanded \$30,000,000 from the defendants. Defendant Floyd County settled with the plaintiff for \$450,000 in August, 2016. State Defendants' Motions for Summary judgment were filed on May 23, 2017. The State's position is that the claims against the prosecutors are absolutely barred by prosecutorial immunity and the claims against the Indiana State Police defendants fail based on defendants' qualified immunity and the existence of probable cause that plaintiff committed the underlying crimes. If said motions are granted, it will extinguish all claims against the state defendants. Trial is set to commence on February 12, 2018.

Other Litigation

The State on behalf of the following state agencies is currently involved in the following cases that could result in significant liability to the State:

Indiana Family and Social Services Agency (FSSA)

In May 2010, the State of Indiana, on behalf of the FSSA, and counterclaim Plaintiff sued each other regarding counterclaim Plaintiff's state welfare system contract entered into in 2006. In October

2009, the State announced its intention to terminate the 10-year contract early effective December 2009 due to counterclaim Plaintiff's deficient performance. The trial court issued rulings in July and August of 2012 awarding the counterclaim Plaintiff \$62.7 million. This amount included \$9.5 million for equipment retained by the state, \$2.5 million in early termination close-out payments, \$40.0 million in subcontractor assignment fees (previously granted to the counterclaim Plaintiff on summary judgment), and \$10.7 million in prejudgment interest. The trial court also ruled that the counterclaim Plaintiff was not entitled to recover \$43.0 million claimed for deferred fees. The trial court further ruled that there was no material breach of the contract, so the State could not recover damages from the counterclaim Plaintiff for breach of contract.

The State appealed. In February 2013, the Court of Appeals affirmed the trial court's award of \$40.0 million in assignment fees and \$9.5 million in equipment fees to counterclaim Plaintiff; it affirmed the trial court's denial of deferred fees to counterclaim Plaintiff; it reversed the trial court's award of \$2.5 million in early termination close-out payments and \$10.7 million in prejudgment interest to counterclaim Plaintiff; and found counterclaim Plaintiff materially breached the contract. The Court of Appeals remanded the case to the trial court to determine the amount of fees counterclaim Plaintiff is entitled to for change orders and to determine the state's damages and offset damages awarded to counterclaim Plaintiff as a result of counterclaim Plaintiff's material breach of contract. Both parties sought review from the Indiana Supreme Court.

The Indiana Supreme Court heard oral arguments in the case on October 30, 2014, and rendered its decision on March 22, 2016. Like the Indiana Court of Appeals, the Indiana Supreme Court: affirmed the trial court's award of \$40.0 million in assignment fees and \$9.5 million in equipment fees to counterclaim Plaintiff; it affirmed the trial court's denial of deferred fees to counterclaim Plaintiff; it reversed the trial court's award of \$2.5 million in early termination close-out payments and \$10.7 million in prejudgment interest to counterclaim Plaintiff; and found counterclaim Plaintiff materially breached the contract. The court remanded the case to the trial court for a determination of State's multi-million dollar damages claim, and calculation of change order fees due to counterclaim Plaintiff (approximately \$500,000).

The trial court issued its order on August 4, 2017, granting damages to the State in the amount of \$128 million. The trial court offset this judgment by

the approximately \$50 million previously awarded to IBM and affirmed by the Indiana Supreme Court, resulting in a net award to the State of \$78 million. IBM announced on August 7, 2017 that it would appeal the trial court decision to the Indiana Court of Appeals, and filed its Notice of Appeal on September 5, 2017.

Indiana Bureau of Motor Vehicles (BMV)

In June of 2017, plaintiffs and the State of Indiana entered into a settlement agreement for the March and October 2013 class action lawsuits brought against the Bureau of Motor Vehicles (BMV), which alleged amounts were charged to persons for drivers' licenses that were not authorized by law and overcharges. The court approved this settlement agreement in August 2017. \$4.1 million was payable to claimants under the March 2013 case as of June 30, 2017. In October 2017, the BMV transferred remaining balance of \$3.9 million to the Attorney General's Unclaimed Property Fund for persons due a refund from the March 2013 suit. Under the October 2013 lawsuit, \$14 million was payable to claimants as of June 30, 2017 related to summer of 2016 claims and another \$2 million to \$15 million is estimated to be payable for additional claims from 2002 through 2006. Any summer of 2016 related claims and claims that are not paid by June 30, 2019 will be transferred to the Attorney General's Unclaimed Property Fund. Claims from 2002 through 2006 will be closed out at June 30, 2019 at which time no additional claims will be processed or transferred. \$20.1 million has been accrued as an expense and payable in the government-wide financial statements for remaining refunds to be paid.

Other Loss Contingencies

The U.S. Office of Inspector General (USOIG) has issued multiple audit reports on Indiana's Medicaid Assistance Program. The State has worked with the Centers for Medicare and Medicaid Services (CMS) to resolve the findings. As of June 30, 2017 there was \$39.3 million in findings in which FSSA believes to be probable for having to be repaid and therefore, has been accrued as an expense and payable in the government-wide financial statements. FSSA management is continuing to work with CMS on a settlement of these findings.

Construction Commitments

As of June 30, 2017, the Indiana Department of Transportation had outstanding construction commitments totaling \$1.2 billion for road and bridge projects. It is anticipated that these projects

will be financed with approximately 28% State funds, 5% local funds, 54% traditional Federal funds, 3% from the Major Moves Construction Fund and 10% Major Moves 20/20 Construction Funds. These amounts do not include the LSIORBP project described below.

The State of Indiana and the Commonwealth of Kentucky have entered into a legal agreement known as the "Bi-State Development Agreement" which governs "The Louisville- Southern Indiana Ohio River Bridges Project (LSIORBP)." The project consists of the construction of the East End Bridge and highway connections that will complete an outer loop around the greater Louisville area; a Downtown Crossing including a new I-65 bridge for northbound traffic; a revamped John F. Kennedy Memorial Bridge for southbound traffic, and rebuilding of the downtown interchanges on both sides of the Ohio River. Kentucky is responsible for the financing, reconstruction and operational improvements of the Downtown Crossing Bridges; and, Indiana is responsible for financing and constructing the East End Crossing.

The Ohio River Bridge Project structures will be ultimately owned 50% by Indiana and 50% by Kentucky and is expected to cost \$2.6 billion. Kentucky's portion of the total project cost is estimated to be \$1.3 billion and Indiana's portion is estimated to be \$1.3 billion.

The State of Indiana has spent approximately \$495 million to date. This total includes \$296.3 million paid to the Indiana Finance Authority for Admin/Financial/Legal Fees, Milestone Payments, Annual Relief Event Reserve Account payments, and Annual Availability Payments. Indiana entered into a 35-year Public-Private Partnership with a Developer to design, build, finance, operate, and maintain the East End Crossing. Indiana's Annual Availability Payment to the Developer covers the financing costs of the East End Crossing as well as ongoing operation, maintenance, and preservation of the facility. The Commonwealth of Kentucky has spent approximately \$1.2 billion to date.

The new I-65 bridge (Lincoln Bridge) opened to foot traffic on December 5, 2015 and vehicular traffic on December 6, 2015. Tolling for the bridges commenced on December 30, 2016.

The Indiana Department of Administration, Public Works Division, had remaining construction commitments totaling \$18.2 million for building and improvement projects of the State's agencies as of June 30, 2017. These projects are to be funded through State appropriations, the State Highway

Department Fund, capital projects funds, and federal funds.

The State had \$54.0 million in total commitments for software in development as of June 30, 2017. These commitments are to be funded through the General Fund, federal funds and state dedicated funds.

Encumbrances

Significant encumbrances by major funds and non-major funds in the aggregate as of June 30, 2017 were as follows:

Governmental Funds	Encumbrances
General Fund	\$ 1,204,016
Public Welfare - Medicaid Assistance	6,778
Non-Major Governmental Funds	2,791,178
Total	\$ 4,001,972

C. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

D. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund").

This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year, the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general per IC 4-10-18-5, monies are transferred in from the State General Fund, also known as the state surplus, into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are transferred out from the Rainy Day Fund if API declines by more than 2%. Because the API increased by more than 2%, \$77.5 million was transferred from the General Fund to the Rainy Day Fund at the start of fiscal year 2018.

Per IC 4-10-18-8, if the balance in the fund at the end of the fiscal year exceeds 7% of total General Fund revenues for the same period, the excess is

transferred from the Rainy Day Fund to the State General Fund. The Rainy Day Fund did not exceed 7% of the total General Fund revenues for fiscal year 2017, so there was no transfer from the Rainy Day Fund to the state surplus.

During fiscal year 2018, \$125.5 million was transferred from the Rainy Day Fund to the General Fund per IC 4-10-18-9 because General Fund revenues for fiscal year 2017 were less than the level estimated in the budget report from April 2015 and the shortfall was not attributable to legislative changes.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2017 was \$549.4 million. Total outstanding loans were \$1.5 million, resulting in total assets of \$550.9 million.

E. Employee Retirement Systems and Plans

The State of Indiana sponsors ten public employee retirement systems (PERS) that are included in the State's financial statements. They are reported and administered as described in Note I (A).

Summary of Significant Accounting Policies (Pensions)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to or deductions from fiduciary net position have been determined on the same basis as they are reported for all of the plans by their respective trustees. The Indiana Public Retirement System is the trustee for all of the plans except for the State Police Retirement Fund and the State Police Supplemental Trust Fund which is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. 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.

The State sponsors the following defined benefit single-employer plans:

State Police Retirement Fund (Presented as a pension trust fund)

Plan description. The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS,

and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-2 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust. It also authorizes the Department to make annual contributions as necessary to prevent any deterioration in the actuarial status of the trust. The State Police Retirement Fund issues a publicly available financial report that can be obtained by writing the State Police Retirement Fund, c/o Treasurer of State, 200 W. Washington Street, Room 242 State House, Indianapolis, IN 46204.

The SPRF includes the Pre-1987 Benefit System and the 1987 Benefit System. The term "Pre-1987 Benefit System" shall refer to the plan and the benefits provided to employee beneficiaries who are first employed as employees by the Department before July 1, 1987, and who did not elect to be covered by the 1987 Benefit System in accordance with the provisions of Section 31 of the Trust Agreement. Any benefits provided to former employees who qualified for such benefits under the terms of the Trust Agreement as in effect prior to July 1, 1987, shall also be deemed part of the Pre-1987 Benefit System. The term "1987 Benefit System" shall refer to the plan and the benefits provided to employee beneficiaries who are first employed as employees by the Department on or after July 1, 1987, and to those employee beneficiaries who were first employed before July 1, 1987, provided they elected to be covered by the 1987 Benefit System in accordance with the provisions of Section 31 of the Trust Agreement.

Retirement benefits provided.

Pre-1987 Plan The Pre-1987 Plan provides that the basic monthly pension amount may not exceed by more than \$20 an amount equal to one-half of the member's average monthly wages (not including overtime) received during the highest paid consecutive 12 months prior to retirement. However, this amount may not exceed the monthly salary of a sixth year trooper.

In addition to the basic retirement benefit described above, a plan member with over 20 years of service will receive the following incremental increases:

- 2% of the basic amount for each of the next 2 years over 20 years;
- 3% of the basic amount for each of the next 2 years over 22 years;
- 4% of the basic amount for each of the next 2 years over 24 years;
- 5% of the basic amount for each of the next 2 years over 26 years;
- 6% of the basic amount for each of the next 2 years over 28 years;
- 7% of the basic amount for each of the next 2 years over 30 years;
- 8% of the basic amount for each of the next 2 years over 32 years.

However, the total of these additional amounts may not exceed 70% of the basic pension amount, according to IC 10-12-3-7 (c).

1987 Plan The 1987 Plan provides that the basic monthly pension amount may not exceed one-half of the member's average monthly salary received during the member's highest-paid three years before retirement. Members retiring from July 1, 1987, through June 30, 1988, may not receive a basic monthly benefit greater than 50% of the maximum salary of a first sergeant. Members retiring from July 1, 1988, through June 30, 1989, may not receive a basic monthly benefit greater than 50% of the maximum salary of a captain.

In addition to the basic retirement benefit described above, a Plan member with over 25 years of service will receive the following incremental increases:

- 5% of basic amount for each of the next 3 years over 25 years;
- 6% of basic amount for each of the next 2 years over 28 years;
- 7% of basic amount for each of the next 2 years over 30 years;
- 8% of basic amount for each of the next 2 years over 32 years.

However, the total of these additional amounts may not exceed 70% of the basic pension amount, according to IC 10-12-4-7(e).

Disability and survivor benefits provided. The regular disability benefit for a disabled member may not exceed the maximum basic pension amount. If the member's disability was incurred in the line of duty, the member is entitled to an additional \$40 per month for each dependent parent and dependent child under age 18.

If a member is permanently and totally disabled by a catastrophic personal injury that: (1) is sustained in the line of duty after January 1, 2001; and (2) permanently prevents the member from performing any gainful work; the member is entitled to a disability benefit equal to the member's salary at the commencement of the disability in lieu of the regular disability benefit. The member is also entitled to increases in the disability benefit equal to the salary increases that the member would have received had the member remained in active service.

A member who meets the conditions listed in IC 5-10-13 has a presumption that a total or partial disability or death resulting from a health condition caused by AIDS, anthrax, hepatitis, HIV, meningococcal meningitis, smallpox, or tuberculosis is a disability or death incurred in the line of duty. In addition, a member who meets the conditions listed in IC 5-10-15 has a presumption that a total or

partial disability resulting from an exposure-related cancer, or heart or lung disease is a disability incurred in the line of duty. These presumptions may be rebutted by competent evidence. A meeting or hearing held to rebut a presumption may be held as an executive session under IC 5-14-1.5-6.1(b)(1). A presumption affects only the determination as to whether a disability or death was incurred in the line of duty and does not change the requirements for determining eligibility for disability benefits.

A member's survivor is entitled to a supplemental death benefit of not more than \$14,500 for employee beneficiaries who die before July 1, 2013. For employee beneficiaries who die after June 30, 2013, the amount of supplemental death benefits may not exceed \$20,000. The maximum monthly pension payable to surviving spouses or a dependent mother and father of a member killed in the line of duty may not exceed the current basic monthly pension amount paid to retirees or, upon a retiree's death, one-half of the deceased officer's monthly benefit.

A dependent child entitled to survivor benefits may receive a maximum of 30% of the basic monthly pension currently being paid to retirees. Total benefits paid to all of a member's surviving dependent children may not exceed the basic monthly pension currently being paid to retirees.

Employees covered by benefit terms. As of June 30, 2017, the following employees were covered by the benefit terms of the SPRF:

	Pre-1987 Plan	1987 Plan
Inactive employees or beneficiaries currently receiving benefits	824	765
Inactive employees entitled to but not yet receiving benefits	7	160
Active employees	34	1,183
Total	865	2,108

Contributions. Members of the Pre-1987 Plan contribute 5% of the member's wages (not including overtime and limited to sixth-year trooper pay). Members of the 1987 Plan contribute 6% of the member's wages (not including overtime). A member who receives a disability pension does not make contributions to the member's fund.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal cost actuarial method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is being funded over a thirty-year

closed period which commenced July 1, 2010. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level dollar of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis. For the year ended June 30, 2017, the State's contribution rate was 23.5 percent of covered payroll.

Deferred Retirement Option Program The Deferred Retirement Option (DROP) for the State Police Retirement Fund was established in 2001 pursuant to the Pension Trust Agreement and is governed by the Department of the State Police and the Treasurer of the State of Indiana (Trustee). Members of the Pre-1987 and 1987 plans that are eligible to retire may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable election to retire on a DROP retirement date and remain in active service, but the member does not contribute to the fund during the DROP period. For the Pre-87 Plan, when an employee has completed 20 years of service or more, he/she may irrevocably elect to enter the DROP for a period ending the earlier of (1) 60 consecutive months, (2) completion of 34 years of service, or (3) attainment of age 65. An employee on disability cannot enter the DROP. From the date the employee enters the DROP, he/she will not be credited with any additional years of service. The employees DROP accrual will be equal to the basic monthly retirement benefit. At the end of the DROP period, the employee must separate from employment and retire. Upon separation, the employee will receive their accumulated DROP benefit in the form of a lump sum payment, a rollover to another retirement program, or a combination of both. For the 1987 Plan, all DROP requirements are the same as the Pre-87 plan, except that the employee must have completed 25 years of service or more. The DROP and future retirement monthly benefit is calculated as of the member's DROP entry date. At the time retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2017, the amount held by the plan pursuant to the DROP is \$867.3 thousand.

Net Pension Liability

The SPRF's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the SPRF

at June 30, 2016 were as follows:

Total pension liability	\$ 588,603
Plan fiduciary net position	(426,851)
SPRF's net pension liability	\$ 161,752
Plan fiduciary net position as a percentage of the total pension liability	72.5%

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Pre-1987	
	Plan	1987 Plan
Interest rate/investment return	6.75%	6.75%
Interest on member balances	3.00%	3.00%
Future salary increases, which includes inflation and cost of living increases	3.50%	9% age 26 & younger; reduced 0.5% through age 35; 4% age 36 and older

Mortality rates for healthy members were based on the RP-2014 Blue Collar Mortality Tables adjusted from 2006 with MP-2016 Mortality Improvement Scale. Mortality rates for disabled members were based on the RP-2014 Disabled Mortality Tables adjusted from 2006 with MP-2016 Mortality Improvement Scale.

The most recent comprehensive experience study was completed in February 2011 and was based on member experience between June 30, 2005 and June 30, 2010.

The SPRF is a pre-funded plan and utilizes a long-term expected rate of return on pension plan investments of 6.75 percent, which was determined using a building-block method in which best estimates of expected future rates of return (expected returns, net of pension plan investment

expense) were developed for each major asset class. These estimated returns were combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Development of the long-term investment return is shown below:

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
Broad domestic equity	29.0	7.4
Global ex U.S. equity	13.0	7.6
Short duration fixed income	4.0	2.6
Domestic fixed income	17.0	3.0
High yield fixed income	5.0	5.0
Hedge funds - alternatives	30.0	5.3
Cash and equivalents	2.0	2.3
Total	100.0	

Discount rate. The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the 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 determine the total pension liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/15	\$ 570,380	\$ 449,172	\$ 121,208
Changes for the year:			
Service cost	14,537	-	14,537
Interest	37,930	-	37,930
Differences between expected and actual experience	(562)	-	(562)
Changes of assumptions or other inputs	(5)	-	(5)
Contributions - employer	-	18,073	(18,073)
Contributions - employee	-	4,043	(4,043)
Net investment income	-	(10,454)	10,454
Benefit payments, including refunds of employee contributions	(33,677)	(33,677)	-
Administrative expense	-	(307)	307
Other changes	-	1	(1)
Net changes	<u>18,223</u>	<u>(22,321)</u>	<u>40,544</u>
Balances at 6/30/16	<u>\$ 588,603</u>	<u>\$ 426,851</u>	<u>\$ 161,752</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the SPRF, calculated using the discount rate of 6.75%, as well as what the SPRF's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	235,571	161,752	100,223

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued stand-alone financial report of the State Police Retirement Fund. This report may be obtained by writing the State Police Retirement Fund, c/o Treasurer of State, 200 W. Washington Street, Room 242 State House, Indianapolis, IN 46204.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the State recognized pension expense of \$32.6 million for the SPRF. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,569	\$ 469
Changes of assumptions or other inputs	6,550	4
Net difference between projected and actual earnings on pension plan investments	45,089	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	20,556	-
Total	\$ 75,764	\$ 473

Deferred outflows of resources in the amount of \$20.6 million related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	13,775
2019	13,775
2020	16,922
2021	10,295
2022	(29)
Thereafter	(3)

State Police Supplemental Trust Fund (Presented as a pension trust fund)

Plan description. The State Police Supplemental Trust (SPST) is a defined benefit, single-employer pension plan and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-2 and 10-12-2-5 grant authority to the Department of the State Police to establish and operate a fund for death and disability benefits. The SPST is funded using annual appropriations on a pay-as-you-go basis. There are no assets accumulated in a trust for these benefits. The amount paid for pensions as the benefits came due during fiscal year 2017 was \$4.1 million.

The SPST includes the Pre-1987 Benefit System and the 1987 Benefit System. The term "Pre-1987 Benefit System" shall refer to the plan and benefits provided employee beneficiaries who are first employed as employees by the Department before July 1, 1987, and who did not elect to be covered by the 1987 Benefit System in accordance with provision of Section 31 of the State Police Retirement Fund (SPRF). Any benefits provided to

former employees who qualified for such benefits under the terms of the Trust Agreement as in effect prior to July 1, 1987, shall also be deemed part of the Pre-1987 Benefit System. The term "1987 Benefit System" shall refer to the plan and the benefits provided to employee beneficiaries who are first employed as employees by the Department on or after July 1, 1987 and to those employee beneficiaries who were first employed before July 1, 1987, provided they elect to be covered by the 1987 Benefit System in accordance with the provision of Section 31 of the SPRF Trust Agreement.

In relation to the SPRF, the membership of the SPST is generally made up of active members and disabled members of the SPRF with the following exceptions:

- The SPST does not include active SPRF members who elected a DROP
- The SPST does not include inactive SPRF members who are currently receiving SPRF retirement benefits.

Retirement benefits provided.

Line of Duty Death Benefits. For the Pre-1987 plan, the benefit value is 50 percent of current salary (but in no event greater than the sixth year trooper rate), plus \$20. Benefits are assumed to increase with the sixth year trooper rate. Dependent children are paid 30 percent of the beneficiary's benefit until they reach age 18 or 23 if enrolled in school full time. For the 1987 plan, the benefit value is 50 percent of the average of the highest 36 consecutive months of salary. Dependent children are paid 30 percent of the beneficiary's benefit until they reach age 18 or 23 if enrolled in school full time.

Line of Duty Disability Benefits. For the Pre-1987 Plan, the benefit value is 50 percent of current salary (but in no event greater than the sixth year trooper pay), plus \$20. Benefits are assumed to increase with the sixth year trooper rate and are payable until the participant has earned 34 years of service. The plan also pays medical expenses. Benefits are increased by \$40 for each dependent child under 18. For the 1987 Plan, the benefit value is 50 percent of the average of the highest 36 consecutive months of salary. Benefits are assumed to increase with assumed salary increases and are payable for a minimum of two years and until the participant has earned 25 years of service. The plan also pays medical expenses. Benefits are increased by \$40 for each dependent child under 18.

Non-Line of Duty Disability Benefits. For the Pre-1987 Plan, the benefit value is 50 percent of current salary (but in no event greater than the sixth year trooper pay), plus \$20. Benefits are assumed to increase with the sixth year trooper rate and are payable until the participant has earned 34 years of service, but not for a period longer than the accrued service at date of disability. For the 1987 Plan, the benefit value is 50 percent of the average of the highest 36 consecutive months of salary. Benefits are assumed to increase with assumed salary increases and are payable for a minimum of two years and until the participant has earned 25 years of service.

Catastrophic Injury Disability Benefits. For the Pre-1987 Plan, the benefit value is 100 percent of current salary. Benefits are assumed to increase with salary increases and are payable until the participant has earned 34 years of service. The plan also pays medical expenses. Benefits are increased by \$40 for each dependent child until they reach the age of 18 or 23 if enrolled in school full time. For the 1987 Plan, the benefit value is 100 percent of current salary. Benefits are assumed to increase with salary increases and are payable until the participant has earned 25 years of service. The Plan also pays medical expenses. Benefits are increased by \$40 for each dependent child until they reach the age of 18 or 23 if enrolled in school full time.

Employees covered by benefit terms. As of June 30, 2017, the following employees were covered by the benefit terms of the SPST:

	Pre-1987 Plan	1987 Plan
Inactive employees or beneficiaries currently receiving benefits	17	43
Active employees	33	1,168
Total	50	1,211

Total Pension Liability

The SPST Plan's total pension liability was measured as of June 30, 2016.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was

Sensitivity of the total pension liability to changes in the discount rate. The following presents the total pension liability of the SPST, calculated using the discount rate of 2.71%, as well as what the SPST's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.71%) or 1-percentage-point higher (3.71%) than the current rate:

determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Pre-1987 Plan	1987 Plan
Interest rate/investment return	2.71%	2.71%
Interest on member balances	3.00%	3.00%
Future salary increases, which includes inflation and cost of living increases	3.50%	9% age 26 & younger; reduced 0.5% through age 35; 4% age 36 and older
Inflation	2.25%	2.25%

Mortality rates were based on the RP-2014 Blue Collar mortality table adjusted to 2006 with MP-2015 Mortality.

The most recent comprehensive experience study was completed in 2011 and was based on member experience between June 30, 2005 and June 30, 2010. The demographic assumptions were updated as needed for the June 30, 2011 actuarial valuation based on the results of the study.

Discount rate. Total pension liability was calculated using the discount rate of 2.71 percent. This rate was chosen in accordance with GASB #73, which requires that the discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). The 2.71% is the June 30, 2016 value of the S&P Municipal Bond 20 Year High Grade Rate Index.

Changes in the Total Pension Liability

	Increase (Decrease) Total Pension Liability (a)
Balances at 6/30/15	\$ 13,152
Changes for the year:	
Service cost	3,776
Interest	1,143
Differences between expected and actual experience	(476)
Changes of assumptions or other inputs	4,125
Benefit payments, including refunds of employee contributions	(4,677)
Net changes	3,891
Balances at 6/30/16	\$ 17,043

	<u>1% Decrease (1.71%)</u>	<u>Current Rate (2.71%)</u>	<u>1% Increase (3.71%)</u>
Total pension liability	18,713	17,043	15,705

Change in assumptions. For the July 1, 2016 actuarial valuation, the inflation assumption was reduced from 3.5% to 2.25%. Due to the adoption of GASB #73, the basis for the determination of the discount rate changed, resulting in a decrease in the discount rate from 6.75% to 2.71%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the State recognized pension expense of \$5.2 million for the SPST. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 436
Changes of assumptions or other inputs	3,777	-
Total	\$ 3,777	\$ 436

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	308
2019	308
2020	308
2021	308
2022	308
Thereafter	1,801

State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (Presented as part of INPRS – a fiduciary in nature component unit)

Plan description. The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to certain employees of the (1) Indiana Department of Natural Resources, (2) Indiana Alcohol and

Tobacco Commission and (3) any Indiana State excise police officer, Indiana State conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties. The EG&C Plan was established in 1972 and is governed by the INPRS Board of Trustees in accordance with IC 5-10-5.5.

Retirement benefits provided. Generally, pension benefits vest after 15 years of creditable service. Officers becoming participants after age 50 are vested after completion of 10 years of service. A participant is entitled to an annual pension benefit, paid in equal monthly installments beginning on the participant's normal retirement date, equal to 25 percent of the participant's average annual salary. A participant who completes more than 10 years of creditable service is entitled to receive an additional amount equal to 1.67 percent of the participant's average annual salary for each completed year of creditable service over 10 years. However, a participant's annual pension benefit may not exceed 75 percent of the participant's average annual salary.

Each participant is required to retire on or before the first day of the month following the participant's 65th birthday. However, a participant who is hired after age 50 must retire upon the earlier of: (1) the first day of the month following the participant's 65th birthday; or (2) the first day of the month following the date the participant completes 15 years of creditable service. A participant, who is at least 55 years of age and the sum of the participant's years of creditable service and age in years, equals at least 85, may retire and become eligible for full retirement benefits. In addition, a participant may elect full retirement benefits at age 50 with 25 years of service. A reduced benefit is provided for early retirements that are elected upon attainment of age 45 with at least 15 years of creditable service. The monthly benefit is reduced by 0.25 percent for each full month by which the participant's early retirement date precedes the participant's 60th birthday.

Any participant who terminates service before accumulating 15 years of creditable service may become a member of the Public Employees' Retirement Fund (PERF). Upon payment of contributions and interest required by the INPRS

Board of Trustees, the withdrawing participant shall be entitled to transfer creditable service to PERF.

The monthly pension benefits for members in pay status may be increased periodically as COLA. Such increases are not guaranteed by statute and have historically been provided on an “ad hoc” basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2017; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2016. The amount of the one-time check ranged from \$125 to \$400, depending upon a member’s years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

Disability and survivor benefits provided. A participant who becomes permanently or temporarily disabled from performing all suitable and available work “on the force” for which the participant is or may be capable of becoming qualified, considering reasonable accommodation to the extent required by the Americans and Disability Act, is entitled to receive a disability benefit. The amount of the disability benefit paid to a participant depends on whether the disability arose in the line of duty, the degree of impairment as determined by INPRS Board of Trustees’ medical authority, and the participant’s salary. A participant is entitled to receive creditable service for the time the participant receives disability benefits under a State disability plan established under IC 5-10-8-7.

If a participant has more than 15 years of creditable service at the time of death, survivor benefits are payable to the surviving spouse, parents, or dependent children, as nominated by the participant’s written direction, acknowledged, and filed with the INPRS Board of Trustees. The surviving spouse or the parent(s) is entitled to an annual survivor’s allowance for life equal to 50 percent of the amount the participant would have been entitled to if he/she had retired on the date of death. If nominated and eligible, surviving unmarried minor child(ren) are entitled to an annual survivor’s allowance equal to 50 percent of the amount the participant would have been entitled to if he/she had retired, divided equally between or among all nominated and eligible children. This benefit will continue until the child reaches 18 years of age or marries, whichever occurs first.

Deferred Retirement Option Plan. The DROP for

the EG&C Plan was established by the Indiana Legislature in 2008 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10-5.5-22. Members of the EG&C Plan that are eligible to retire at an unreduced annual retirement allowance, may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable election to retire on a DROP retirement date and remains in active service contributing to the plan until that date. The DROP retirement date must be not less than twelve months and not more than thirty-six months after their DROP entry date, and not after the date they reach any mandatory retirement age that may apply. The member may make an election to enter the DROP only once in their lifetime. The DROP and future retirement monthly benefit is calculated as of the member’s DROP entry date. At the time of retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2017, the amount held by the plan pursuant to the DROP is \$1.8 million.

Employees covered by benefit terms. As of June 30, 2017, the EG&C plan membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	223
Inactive vested members entitled to but not yet receiving benefits	6
Inactive non-vested members entitled to a distribution of contributions	120
Active members: vested and non-vested	440
Total	789

Contributions. The funding policy for the EG&C Plan is in accordance with statute IC 5-10-5.5-8.5. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation. During the year ended June 30, 2017, the State of Indiana was required to contribute 20.75 percent of covered payroll.

The member contribution rate is established by statute IC 5-10-5.5-8 at four percent of a participant’s salary to be contributed to the participant’s savings account. The employer may pay all or a part of the contribution for the participant. Member contributions are used to fund a portion of the defined benefit payment. Any

participant who terminates employment before accumulating 15 years of creditable service and before attaining the age of 45 shall be entitled to a lump sum refund of all contributions in the participant's savings account plus accumulated interest as determined by the INPRS Board of Trustees in accordance with IC 5-10-5.5-17.

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.

Net Pension Liability

The EG&C Plan's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Interest on member balances	3.50%
Future salary increases	2.50%
Inflation	2.25%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the RP-2014 Blue Collar mortality table with Social Security Administration generational improvement scale from 2006.

The most recent comprehensive experience study was completed in 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, 2016 actuarial valuation based on the results of the study.

The long-term return expectation for this 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:

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

Discount rate. Total pension liability 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 of Indiana 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 EG&C 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 each plan.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/15	\$ 132,796	\$ 110,038	\$ 22,758
Changes for the year:			
Service cost	3,011	-	3,011
Interest	8,955	-	8,955
Differences between expected and actual experience	470	-	470
Contributions - employer	-	5,367	(5,367)
Contributions - employee	-	1,016	(1,016)
Net investment income	-	1,313	(1,313)
Benefit payments, including refunds of employee contributions	(6,267)	(6,245)	(22)
Administrative expense	-	(139)	139
Other changes	-	(21)	21
Net changes	<u>6,169</u>	<u>1,291</u>	<u>4,878</u>
Balances at 6/30/16	<u>\$ 138,965</u>	<u>\$ 111,329</u>	<u>\$ 27,636</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the EG&C Plan, calculated using the discount rate of 6.75%, as well as what the EG&C Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability	46,676	27,636	12,008

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued stand-alone financial report of the Indiana Public Retirement System. 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.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the State recognized pension expense of \$5.9 million for the EG&C Plan. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions for the EG&C Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 992	\$ 281
Changes of assumptions or other inputs	1,885	-
Net difference between projected and actual earnings on pension plan investments	7,503	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	5,691	-
Total	<u>\$ 16,071</u>	<u>\$ 281</u>

Deferred outflows of resources in the amount of \$5.7 million related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	(2,236)
2019	(2,236)
2020	(3,433)
2021	(1,765)
2022	(444)
Thereafter	15

Prosecuting Attorneys' Retirement Fund (Presented as part of INPRS – a fiduciary in nature component unit)

Plan description. The Prosecuting Attorneys' Retirement Fund (PARF) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to prosecuting attorneys. PARF was established in 1989 and is governed through the INPRS Board of Trustees by IC 33-39-7. Coverage is for individuals who: (1) serve as a prosecuting attorney or a chief deputy prosecuting attorney; or (2) serve as the executive director or assistant executive director of the Indiana Prosecuting Attorneys Council or as a State-paid deputy prosecuting attorney. These individuals' salaries are paid from the General Fund of the State of Indiana.

Retirement benefits provided. A participant is entitled to a retirement benefit if the participant: (1) is at least age 62 and has at least eight years of service credit; (2) is at least age 55 and whose years of service as a member of PARF plus years of age equal at least 85; and (3) is not receiving salary for services currently performed. A member whose service ended before July 1, 2006 must have at least 10 years of service. The retirement benefit of a participant who is at least age 65 (or age at least 55 years of age and the participant's age in years plus the participant's years of service total 85 or more) is calculated by multiplying: (1) the highest annual salary paid to the participant before the participant's separation from service; by (2) a percentage based on the participant's years of service. The percentages range from 24 percent for eight years of service to 60 percent for 22 or more years of service. If a participant is at least 62 years of age with at least eight years of creditable service, a participant is entitled to receive a reduced annual retirement benefit that equals the benefit, as calculated above, reduced by 0.25 percent per month for each month the participant retires before age 65.

In addition, a PARF participant is a member of PERF. A PARF participant's retirement benefit is

reduced by the amount of the employer-financed pension benefit that would be payable to the participant had the participant retired from PERF on the date of the participant's retirement from the fund. However, the benefits payable to a participant from the fund are not reduced by any payments made to the participant from the participant's PERF annuity savings account. The employer may elect to make the contributions on behalf of the member.

Disability and survivor benefits provided. PARF also provides disability and survivor benefits. A participant who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for social security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from 40 percent for 5 to 10 years of service to 50 percent for 20 or more years of service. These benefits are reduced by any benefits payable to the participant from PERF.

The surviving spouse or designated beneficiary of a participant is entitled to a benefit if, on the date of the participant's death, the participant: (1) was receiving benefits; (2) has completed at least eight years of service and was in service as a prosecuting attorney or chief deputy prosecuting attorney, executive director or assistant executive director of the Indiana Prosecuting Attorneys Council, or as a State-paid deputy prosecuting attorney; or (3) had met the requirements for a disability benefit.

Regardless of the participant's age at death, the surviving spouse's benefit is equal to the greater of: (1) \$7,000 annually; or (2) 50 percent of the amount of retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death. Survivor benefits are not subject to reduction for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits

Employees covered by benefit terms. As of June 30, 2017, the PARF membership consisted of:

Inactive employees or beneficiaries currently receiving benefits	138
Inactive employees entitled to but not yet receiving benefits	87
Inactive employees entitled to refunds of contributions	138
Active employees	209
Total	572

determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Interest on member balances	3.50%
Future salary increases	2.50%
Inflation	2.25%
Cost of living increases	1.00%

Contributions. The funding policy for PARF is in accordance with statute IC 33-39-7-23 that requires an appropriation, determined by the INPRS Board of Trustees from the State of Indiana General Fund, for each biennium to PARF computed on an actuarially funded basis and the recommendation of the actuary. For the year ended June 30, 2017, the State of Indiana appropriated \$1.5 million for employer contributions. The Actuarially Determined Contribution (ADC) for PARF was \$2.2 million.

The member contribution rate is established by statute IC 33-39-7-12 at six percent of salary for their first 22 years of service. The employer may elect to pay the contributions for a member. Members receive interest earnings at a rate specified by the INPRS Board of Trustees in accordance with IC 33-39-7-14. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the member completes eight years of creditable service. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest as determined by the INPRS Board of Trustees in accordance with IC 33-39-7-13.

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.

Net Pension Liability

The PARF's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was

Mortality rates for healthy and disabled members were based on the RP-2014 White Collar mortality table, with Social Security Administration generational improvement scale from 2006.

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, 2016 actuarial valuation based on the results of the study.

The long-term return expectation for this 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:

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

Discount rate. Total pension liability 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 of Indiana 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 PARF 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 each plan.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/15	\$ 77,861	\$ 53,424	\$ 24,437
Changes for the year:			
Service cost	1,626	-	1,626
Interest	5,239	-	5,239
Experience (gains)/losses	4,058	-	4,058
Contributions - employer	-	1,440	(1,440)
Contributions - employee	-	1,279	(1,279)
Net investment income	-	589	(589)
Benefit payments, including refunds of employee contributions	(3,747)	(3,747)	-
Administrative expense	-	(193)	193
Other changes	(3)	-	(3)
Net changes	<u>7,173</u>	<u>(632)</u>	<u>7,805</u>
Balances at 6/30/16	<u>\$ 85,034</u>	<u>\$ 52,792</u>	<u>\$ 32,242</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the PARF, calculated using the discount rate of 6.75%, as well as what the PARF's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability	42,865	32,242	23,483

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued stand-alone financial report of the Indiana Public Retirement System. 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.

For the year ended June 30, 2017, the State recognized pension expense of \$9.8 million for the PARF. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions for the PARF from the following sources:

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,136	\$ -
Changes of assumptions or other inputs	77	-
Net difference between projected and actual earnings on pension plan investments	3,655	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	1,486	-
Total	\$ 7,354	\$ -

Deferred outflows of resources in the amount of \$1.5 million related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	(2,956)
2019	(902)
2020	(1,413)
2021	(597)

Legislators' Retirement System – Legislators' Defined Benefit Plan (Presented as part of INPRS – a fiduciary in nature component unit)

Plan description. The Legislators' Retirement System was established in 1989 by IC 2-3.5 and accordingly is governed by the INPRS Board of Trustees. The retirement system is for certain members of the General Assembly of the State of Indiana as specified by the provisions of the statute.

The Legislators' Retirement System is comprised of two separate and distinct plans. The Legislators' Defined Benefit Plan (LE DB) (IC 2-3.5-4), a single-employer (the State of Indiana) defined benefit plan, applies to members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (LE DC) (IC 2-3.5-5) applies to: (1) members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b); (2) members of the General Assembly who are first elected or appointed after April 30, 1989; and (3) members of the General Assembly who: (a) served before April 30, 1989; (b) were not serving on April 20, 1989; and (c) are subsequently reelected or reappointed to the General Assembly.

Retirement benefits provided. A participant is

entitled to an unreduced monthly retirement benefit if the participant is: (1) at least age 65 and has at least 10 years of service as a member of the General Assembly; (2) at least age 55 and whose years of service as a member of the General Assembly plus years of age equal at least 85; or (3) at least age 60 and has at least 15 years of service as a member of the General Assembly. To qualify for a monthly retirement benefit, the member: (1) must have terminated service as a member of the General Assembly; (2) has at least 10 years of service as a member of the General Assembly; and (3) is not receiving and is not entitled to receive a salary from the State.

The monthly retirement benefit is equal to the lesser of: (1) \$40 multiplied by the number of years of service in the General Assembly completed before November 8, 1989, or (2) the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the General Assembly is terminated, divided by 12.

A participant who has reached at least age 55, has terminated service as a member of the General Assembly, has at least 10 years of service as a member of the General Assembly, and is not receiving, nor is entitled to receive, a salary from the State of Indiana, is eligible for early retirement with a reduced benefit. The reduction in the benefit is equal to: (1) 0.1 percent per month between ages 60 and 65; and (2) 5/12 percent per month between ages 55 and 60.

The monthly pension benefits for members in pay status are increased periodically as a COLA. COLA increases for LE DB are equal to the increase for the PERF Plan in accordance with IC 2-3.5-4-13 on an "ad hoc" basis and are generally based on the date of retirement, and other eligibility factors. There was no COLA for the year ended June 30, 2017.

Disability and survivor benefits provided. The LEDB 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 may retire for the duration of the disability if the member has qualified for social security disability 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. If a participant dies while receiving retirement benefits, or had completed at least 10 years of service as a member of the General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are

equal to 50 percent of the amount of retirement benefits that the participant was receiving at the time of death or that the participant would have been entitled to receive at 55 years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

Employees covered by benefit terms. As of June 30, 2017, the LEDB Plan membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	72
Inactive vested members entitled to but not yet receiving benefits	12
Inactive non-vested members entitled to a distribution of contributions	-
Active members: vested and non-vested	11
Total	95

Contributions. For the LEDB Plan, the funding policy is in accordance with statute IC 2-3.5-4-9 and IC 2-3.5-4-10. The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendation of the actuary, is to be appropriated from the State of Indiana General Fund for each biennium. For the year ended June 30, 2017, the State of Indiana appropriated \$0.1 million for employer contributions. The Actuarially Determined Contribution (ADC) for LEDB was \$0.2 million.

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.

Net Pension Liability

The LEDB Plan's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Interest on member balances	N/A
Future salary increases	2.25%
Inflation	2.25%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the RP-2014 White Collar mortality table, with Social Security Administration generational improvement scale from 2006.

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, 2016 actuarial valuation based on the results of the study.

The long-term return expectation for this 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:

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

Discount rate. Total pension liability 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 of Indiana 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 LEDB 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 each plan.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/15	\$ 4,325	\$ 3,174	\$ 1,151
Changes for the year:			
Service cost	2	-	2
Interest	280	-	280
Differences between expected and actual experience	(233)	-	(233)
Contributions - employer	-	138	(138)
Net investment income	-	27	(27)
Benefit payments, including refunds of employee contributions	(359)	(359)	-
Administrative expense	-	(61)	61
Net changes	(310)	(255)	(55)
Balances at 6/30/16	\$ 4,015	\$ 2,919	\$ 1,096

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the LEDB Plan, calculated using the discount rate of 6.75%, as well as what the LEDB Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability	1,398	1,096	832

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued stand-alone financial report of the Indiana Public Retirement System. 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.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the LEDB Plan recognized pension expense of negative \$50.7

thousand. At June 30, 2017, the LEDB Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 218	\$ -
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	135	-
Total	\$ 353	\$ -

Deferred outflows of resources in the amount of \$135.0 thousand related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a

reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	(48)
2019	(48)
2020	(87)
2021	(35)

Judges' Retirement System (Presented as part of INPRS – a fiduciary in nature component unit)

Plan description. The Judges' Retirement System (JRS) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to judges and magistrates. JRS was established in 1985, and is governed through the INPRS Board of Trustees by IC 33-38-6, IC 33-38-7 (judges beginning service before September 1, 1985) and IC 33-38-8 (judges beginning service after August 31, 1985). Coverage is for any person who has served, is serving, or shall serve, as a regular judge, magistrate or justice of the (1) Supreme Court of the State of Indiana, (2) Court of Appeals, (3) Indiana Tax Court, (4) Circuit Court of a Judicial Circuit, or (5) county courts including: Superior, Criminal, Probate, Juvenile, Municipal and County.

Retirement benefits provided. A member vests after eight years of creditable service. Judges who retire at or after age 65 with eight years of creditable service (or are at least 55 years of age and the participant's age in years plus the participant's years of service total 85 or more) are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated in accordance with the statute.

The annual retirement benefit for a participant equals the product of the salary that was paid to the participant at the time of separation from service, multiplied by a percentage for years of service as defined in the statute. The salary for participants in the Judges' 1985 Fund is defined in IC 33-38-8-14(e). The pension benefit for participants of the Judges' 1977 Fund is based on the salary being paid for the office that the participant held at the time of separation from service [IC 33-38-7-11(d)]. The statute provides for the percentage to be prorated for partial years of service. If the annual retirement benefit of a participant who began service as a judge before July 1, 1977, as

computed per IC 33-38-7-11, is less than the benefit the participant would have received under IC 33-38-6 as in effect on June 30, 1977, the participant is entitled to receive the greater amount as the participant's annual retirement benefit.

A member may retire at age 62 with the requisite years of service, however the participant's benefit is reduced by 0.1 percent for each month the member's age on the date the participant begins receiving a retirement benefit precedes the participant's 65th birthday.

The monthly pension benefits of the retired judges that were former participants in the 1977 Fund receive benefit increases whenever the salary of the position the retiree held at separation from service increases. Before fiscal year 2011, benefits of judges who are members of the 1985 Fund were tied to the salary of the position at the time the participant separated from service and did not increase if the salary of the position increased after the participant separated from service. Before fiscal year 2011, the General Assembly provided COLA increases to participants in the 1985 Fund on an "ad hoc" basis. Beginning after June 30, 2010, a participant in the 1985 Fund receives an increase in the monthly benefit of the same percentage by which the salary of the office of the participant held at separation from service increases. The percentage increase to the monthly benefit takes effect at the same time the salary increase takes effect (IC 33-38-8-25). There was a COLA increase of 3.1 percent effective July 1, 2016, for eligible participants in the 1977 Fund and 1985 Fund.

Disability and survivor benefits provided. There is no vesting requirement for permanent disability benefits. For both the 1977 Fund and the 1985 Fund, a participant is considered permanently disabled if the INPRS Board of Trustees receives a written certification by at least two licensed and practicing physicians appointed by the INPRS Board of Trustees. A participant receiving disability benefits must be reexamined at least once a year by at least two physicians appointed by the INPRS Board of Trustees.

Surviving spouses or dependent child(ren) are entitled to benefits if the participant had qualified to receive a retirement or disability benefit, or had completed at least eight years of service and was in service as a judge. The minimum survivor benefit is \$12,000.

Employees covered by benefit terms. The Judges' Retirement System consists of two classes of members (the 1977 Fund and the 1985 Fund). The 1977 Fund includes all individuals who began

service as a judge before September 1, 1985, unless the individual, within twenty days after becoming a judge, filed an irrevocable election not to participate in the 1977 Fund. The 1985 Fund covers all individuals who: (1) began service as a judge after August 31, 1985; and (2) are not participants in the 1977 Fund. Beginning January 1, 2011, full-time magistrates who were serving on July 1, 2010, may elect to be members of the 1985 Fund. The 1985 Fund is for all new judges, and beginning January 1, 2011, all new full-time magistrates (IC 33-38-8-10).

As of June 30, 2017, the Judges' Retirement System membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	350
Inactive vested members entitled to but not yet receiving benefits	67
Inactive non-vested members entitled to a distribution of contributions	39
Active members: vested and non-vested	402
Total	858

Contributions. The funding policy for the Judges' Retirement System is in accordance with statute IC 33-38-6-17 that requires an appropriation by the Indiana General Assembly, determined by the INPRS Board of Trustees from the State of Indiana General Fund, for each biennium to the Judges' Retirement System computed on an actuarially funded basis and the recommendation of the actuary. The statute also provides for remittance of docket fees and court fees which are considered employer contributions. For the year ended June 30, 2017, the State of Indiana paid \$16.8 million in employer contributions. The Actuarially Determined Contribution (ADC) for JRS was \$13.3 million.

The member contribution rate is established by statute IC 33-38-7-10 (1977 System) and IC 33-38-8-11 (1985 Fund) at six (6) percent of salary. Each fund member shall contribute during the period of the fund member's employment, or for 22 years, whichever is shorter. The employer may pay all or a part of the contributions for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before being eligible for a retirement benefit. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest at a rate specified by the INPRS

Board of Trustees in accordance with IC 33-38-7-13 (1977 Fund) and IC 33-38-8-12 (1985 Fund).

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.

Net Pension Liability

The JRS' net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Interest on member balances	3.50%
Future salary increases	2.50%
Inflation	2.25%
Cost of living increases	2.50%

Mortality rates for healthy and disabled members were based on the RP-2014 White Collar mortality table with Social Security Administration generational improvement scale from 2006.

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, 2015 actuarial valuation based on the results of the study.

The long-term return expectation for this 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:

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

Discount rate. Total pension liability 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 of Indiana 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 JRS 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 each plan.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/15	\$ 468,945	\$ 437,352	\$ 31,593
Changes for the year:			
Service cost	13,870	-	13,870
Interest	31,889	-	31,889
Experience (gains)/losses	7,182	-	7,182
Contributions - employer	-	16,946	(16,946)
Contributions - employee	-	3,239	(3,239)
Net investment income	-	5,323	(5,323)
Benefit payments, including refunds of employee contributions	(20,922)	(20,922)	-
Administrative expense	-	(148)	148
Other changes	162	-	162
Net changes	32,181	4,438	27,743
Balances at 6/30/16	\$ 501,126	\$ 441,790	\$ 59,336

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the JRS, calculated using the discount rate of 6.75%, as well as what the JRS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability	117,520	59,336	10,549

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the JRS recognized pension expense of \$10.1 million. At June 30, 2017, the JRS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,593	\$ -
Changes of assumptions or other inputs	-	13,035
Net difference between projected and actual earnings on pension plan investments	29,592	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	16,824	-
Total	\$ 55,009	\$ 13,035

Deferred outflows of resources in the amount of \$16.8 million related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	(1,764)
2019	(6,077)
2020	(12,475)
2021	(4,834)

The State sponsors the following cost-sharing multiple-employer plans:

Public Employees' Retirement Fund (Presented as part of INPRS – a fiduciary in nature component unit)

Plan description. The Public Employees' Retirement Fund (PERF) is a cost-sharing, multiple-employer defined benefit plan based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, or township, and

any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two tiers to PERF. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid) and the second is the My Choice: Retirement Savings Plan for Public Employees (My Choice), formerly known as the Public Employees' Annuity Savings Account Only Plan. Details of PERF Hybrid and My Choice are described below.

PERF Hybrid Plan

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

Retirement benefits – Defined Benefit Pension provided. 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. 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 annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, 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 annuity savings account 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 to withdraw the annuity savings account. A non-vested member who terminates employment before retirement may withdraw his/her annuity savings account 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 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 is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four consecutive calendar quarters. The same calendar quarter may not be included in two different groups. For PERF members who serve as an elected official, the highest one year (total of four consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

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

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

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

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

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

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

Investments in the members' annuity savings accounts are self-directed, as participants direct the investment of their account balances among the following eight investment options, with varying degrees of risk and return potential:

- Stable Value Fund -- This fund's objective is to provide a market rate of return

consistent with the preservation of principal through a shorter maturity, high quality portfolio. Effective January 1, 2017, the Guaranteed Fund was replaced by the Stable Value Fund (IC 5-10.2-2-3).

- Large Cap Equity Index Fund – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
- Small/Mid Cap Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
- International Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
- Fixed Income Fund – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
- Inflation-Linked Fixed Income Fund – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
- Target Date Funds – The funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.

- Money Market Fund – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.

Members may direct changes to their investment fund allocations daily and investments are reported at fair value.

My Choice

Plan description. Retirement Savings Plan for Public Employees (My Choice) was formerly known as the PERF ASA Only Plan. My Choice was established by the Indiana Legislature in 2011 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12, and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. My Choice members are full-time employees of the State of Indiana (as defined in IC 5-10.3-7-1(d)), or a political subdivision who elected to participate in My Choice, and 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 the My Choice option. Quasi-government agencies (created by statute and are separate from the State in their corporate and sovereign capacity) and State educational institutions may choose to offer My Choice as an option to their employees.

Retirement account. My Choice maintains an annuity savings account for each member. Each member's account consists of a member and an employer contribution subaccount within the annuity savings account structure.

The member's contribution subaccount consists of the member's contributions, set by statute at three percent of covered payroll as defined by IC 5-10.3-12-23 plus the interest/earnings or losses credited to the member's contribution subaccount. The State pays the member's contributions on behalf of their employees. Political subdivisions may elect to match 50% of a member's voluntary contributions, and these matching contributions are subject to the vesting schedule later in the note. The employer contribution subaccount consists of the employer's contributions and the earnings on the employer's contributions. The employer contribution rate is set

by INPRS Board of Trustees in accordance with IC 5-10.2-2-11.

My Choice allows members to actively participate in managing their retirement benefits through self-directed investment options. 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. The members can direct their investments among the following aforementioned eight investment options: Large Cap Equity Index Fund, Small/Mid Cap Equity Fund, International Equity Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Stable Value Fund, and Target Date Funds. A description of each of these Funds is earlier in this note in the PERF Hybrid Retirement Benefits – Annuity Savings Account section.

A member is immediately vested in the member contribution subaccount except for the voluntary match contributions. To receive contributions and earnings from the employer contribution subaccount or the voluntary contribution match, a member must meet vesting requirements (full years of participation) to qualify for a distribution. The vesting schedule is 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%

A member who terminates service with their employer is entitled to withdraw the total amount in the member contribution subaccount. In addition, the member is entitled to withdraw amounts in the employer contribution subaccount to the extent the member is vested in this account. The member must be separated from employment for at least 30 days before the member may take a withdrawal from the member's account. The amount available for withdrawal is the fair value of the participant's account on the processing date. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees as a monthly annuity provided through INPRS.

If a member becomes disabled while in active service, subject to the member providing proof of the member's qualification for social security disability benefits to the Board of Trustees, a member may withdraw the total amount in the member contribution subaccount. To the extent that the member is vested, the member may make a withdrawal from the member's employer subaccount. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or a monthly annuity provided through INPRS if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees.

If a member dies while in active service or after terminating service in a position covered by the Plan, but before withdrawing the member's account, all of the member's contribution subaccount, and to the extent that the member is vested, the employer contribution subaccount, will be paid to the beneficiary or beneficiaries designated by the member. The amount available for payment is the fair value of the participant's account. The beneficiary may elect to have member's account paid as a lump sum, a direct rollover to another eligible retirement plan, or as a monthly annuity in accordance with the rules of the INPRS Board of Trustees. The monthly annuity is an option only on or after the beneficiary attains normal retirement age and meets other criteria established by the INPRS Board of Trustees. If a member dies in the line of duty while in active service, the designated beneficiary or beneficiaries or surviving spouse or dependents, are entitled to payment of the member's account as described above. In addition, if the member was not fully vested in the employer contribution subaccount, the account is deemed to be fully vested for purposes of withdrawal.

Employees covered by benefit terms. As of June 30, 2017, there were 1,182 participating political subdivisions in addition to the State. As of June 30, 2017, PERF membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	85,130
Inactive vested members entitled to but not yet receiving benefits	30,816
Inactive non-vested members entitled to a distribution of contributions	50,312
Active members: vested and non-vested	134,909
Total	<u>301,167</u>

Contributions. The State of Indiana is obligated by statute to make contributions to PERF Hybrid or My Choice. Any political subdivision that elects to participate in PERF Hybrid is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During the year ended June 30, 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 with 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 three percent and not be greater than the normal cost of the fund which was 3.3 percent for the State for the year ended June 30, 2017 and any amount not credited to the member's account shall be applied to the pooled assets of PERF Hybrid. The political subdivisions were required to contribute a supplemental cost of 5.4 percent of covered payroll as of July 1, 2016, which increased to 7.2 percent as of January 1, 2017. In addition, for political subdivisions, the amount credited to the member's account for the normal cost ranged up to 5.8 percent as of July 1, 2016, and up to 4 percent as of January 1, 2017

PERF Hybrid 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. For PERF Hybrid, the employer may elect to make the contributions on behalf of the member. The State pays the member's contributions on behalf of the member employed by the State that participate in 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 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. Political subdivisions that participate in My Choice may elect to match voluntary contributions at a rate of 50 percent.

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.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Future salary increases	2.50% - 4.25%
Inflation	2.25%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the RP-2014 Total Data Set mortality table, with Social Security Administration generational improvement scale from 2006.

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, 2015 actuarial valuation based on the results of the study.

The long-term return expectation for this 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:

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

with the current funding policy adopted by the INPRS Board, and contributions required by the State of Indiana 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 each plan.

Discount rate. Total pension liability 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

Sensitivity of the State’s proportionate share of the net pension liability to changes in the discount rate. The following presents the State’s proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what the State’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
State's proportionate share of the net pension liability	1,631,986	1,136,293	724,297

Pension plan fiduciary net position. Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued stand-alone financial report of the Indiana Public Retirement System. 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.

At June 30, 2017, the State reported a liability of \$1.1 billion for its proportionate share of the net pension liability. The PERF net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State’s proportion of the net pension liability was based on a projection of the State’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the State’s proportion was 25.04 percent, which was an increase of 0.77 percentage points from its proportion measured as of June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the State recognized pension expense of \$219,7 million. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,457	\$ 2,097
Changes of assumptions or other inputs	50,134	-
Net difference between projected and actual earnings on pension plan investments	185,988	-
Changes in the employer proportion and differences between the employer's contributions and the employer's proportionate share of contributions	25,246	14,405
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	140,631	-
Total	\$ 427,456	\$ 16,502

Deferred outflows of resources in the amount of \$140.6 million related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	99,321
2019	66,894
2020	73,866
2021	30,242

State Teachers' Retirement Fund 1996 Account (Presented as part of INPRS – a fiduciary in nature component unit)

Plan description. The Indiana State Teachers' Retirement 1996 Account (TRF 1996) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school teachers and administrators, regularly employed licensed teachers at certain State universities and other educational institutions, and certain INPRS employees (hired before July 1, 2011) hired after

June 30, 1995. Members who were hired before July 1, 1995, were members of TRF Pre-1996. However, pursuant to the law in place prior to July 1, 2005, if a member of TRF Pre-1996 left employment and re-employed after June 30, 1995, the member and the liability were transferred to TRF 1996. There are two aspects to the TRF 1996 defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the TRF 1996 benefit structure is the annuity savings account that supplements the defined benefit at retirement and was described in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section. Investment options are similar to the PERF Hybrid Plan.

Retirement benefits. The TRF 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 as described earlier in this note above. Pension benefits (non ASA) vest after 10 years of creditable service. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity provided through INPRS, or leave the contributions invested with INPRS. Vested TRF members terminating service with an employer, who wait 30 days after termination, may

withdraw their annuity savings account and will not forfeit creditable service or a future 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 to withdraw the annuity savings account. A non-vested member who terminates employment before retirement may withdraw his/her annuity savings account after 30 days, but by doing so forfeit his/her creditable service. A member who returns to covered service and works no less than six 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. Generally, the average annual compensation in this calculation is the average of the highest five years of annual compensation in a covered position. For TRF members who take a leave of absence to serve as an elected official, the highest one year of salary is used. For a salary year to be included as one of the five years, the member must have received at least one-half year of service credit for that year as stated in IC 5-10.4-4-2. The five years do not have to be continuous. 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 salary.

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.

Monthly pension benefits for members in pay status

may be increased as 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 year ended June 30, 2017; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

Disability and survivor benefits provided. TRF 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.

Members are eligible for a classroom disability benefit once they have earned five years of service, have a temporary or permanent disability that continues for six months or more, and applies for classroom disability benefits within one year of the disability. Classroom disability refers to a medically confirmed inability to continue classroom teaching due to a mental or physical condition that is not necessarily of sufficient severity to meet social security disability guidelines. The eligible members may receive \$125 per month plus \$5 for each additional year of service credit over five years.

Upon the death in service of a member with 15 or more years of creditable service, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after March 31, 1990, 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

Employees covered by benefit terms. Membership in TRF 1996 is required for all legally qualified and

regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees. Additionally, faculty members and professional employees at Ball State University and Vincennes University have the option of selecting membership in the Fund or the alternate University Plan not administered by INPRS. Membership in TRF 1996 is optional for teachers employed by charter schools, employees and officials of the Indiana State Board of Education who were Indiana licensed teachers prior to their employment with the Board, and teachers employed by special management teams as defined under IC 20-31.

As of June 30, 2017, the number of participating employers was 367 in addition to the State. As of June 30, 2017, TRF 1996 Account membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	5,796
Inactive vested members entitled to but not yet receiving benefits	4,252
Inactive non-vested members entitled to a distribution of contributions	12,494
Active members: vested and non-vested	58,097
Total	<u>80,639</u>

Contributions. 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 the TRF 1996 Account is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During the year ended June 30, 2017, all participating employers in the TRF 1996 Account were required to contribute 7.5 percent of covered payroll.

TRF 1996 Account members contribute three percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their

annuity savings accounts.

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.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Future salary increases	2.5% - 12.5%
Inflation	2.25%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the RP-2014 White Collar mortality table, with Social Security Administration generational improvement scale from 2006.

The most recent comprehensive experience study was completed in April 2015 and was based on member experience covering the period July 1, 2011 to June 30, 2014. The demographic assumptions were updated for the June 30, 2016 actuarial valuation based on the results of the study.

The long-term return expectation for this 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:

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

determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State of Indiana 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 TRF 1996 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 each plan.

Discount rate. Total pension liability 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

Sensitivity of the State's proportionate share of the net pension liability to changes in the discount rate. The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
State's proportionate share of the net pension liability	6,098	2,739	54

Pension plan fiduciary net position. Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued stand-alone financial report of the Indiana Public Retirement System. 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.

determined. At June 30, 2016, the State's proportion was 0.35 percent, which was a decrease of 0.03 percentage points from its proportion measured as of June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the State reported a liability of \$2.7 million for its proportionate share of the net pension liability. The TRF 1996 Account net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially

For the year ended June 30, 2017, the State recognized pension expense of \$969.0 thousand. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 99	\$ 123
Changes of assumptions or other inputs	794	-
Net difference between projected and actual earnings on pension plan investments	859	-
Changes in the employer proportion and differences between the employer's contributions and the employer's proportionate share of contributions	2	185
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	879	-
Total	\$ 2,633	\$ 308

Deferred outflows of resources in the amount of \$879.2 thousand related to pensions resulting from

employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	221
2019	221
2020	401
2021	206
2022	48
Thereafter	349

The State is a non-employer contributing entity in a special funding situation for the following pension plan:

State Teachers' Retirement Fund Pre-1996 Account (Presented as part of INPRS – a fiduciary in nature component unit)

Plan description. The Indiana State Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996) is a pay-as-you-go cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits. Membership consists of public school teachers and administrators, regularly employed licensed teachers at certain State universities and other educational institutions, and certain INPRS employees hired before July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date to June 30, 2005. There are two aspects to the TRF Pre-1996 defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the State of Indiana. The second portion of the TRF Pre-1996 benefit structure is the annuity savings account that supplements the defined benefit at retirement and was described in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section. Investment options are similar to the PERF Hybrid Plan.

Retirement benefits – Defined Benefit Pension provided. The TRF 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 as described earlier in this note above. Pension benefits (non ASA) vest after 10 years of creditable service. At

retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity provided through INPRS, or leave the contributions invested with INPRS. Vested TRF members terminating service with an employer, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a future 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 to withdraw the annuity savings account. A non-vested member who terminates employment before retirement may withdraw his/her annuity savings account after 30 days, but by doing so forfeit his/her creditable service. A member who returns to covered service and works no less than six 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. Generally, the average annual compensation in this calculation is the average of the highest five years of annual compensation in a covered position. For TRF members who take a leave of absence to serve as an elected official, the highest one year of salary is used. For a salary year to be included as one of the five years, the member must have received at least one-half year of service credit for that year as stated in IC 5-10.4-4-2. The five years do not have to be continuous. 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 salary.

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.

Monthly pension benefits for members in pay status may be increased as 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 year ended June 30, 2017; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member’s years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

Disability and survivor benefits provided. TRF 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.

Members are eligible for a classroom disability benefit once they have earned five years of service, have a temporary or permanent disability that continues for six months or more, and applies for classroom disability benefits within one year of the disability. Classroom disability refers to a medically confirmed inability to continue classroom teaching due to a mental or physical condition that is not necessarily of sufficient severity to meet social security disability guidelines. The eligible members may receive \$125 per month plus \$5 for each additional year of service credit over five years.

Upon the death in service of a member with 15 or more years of creditable service, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also

entitled to a survivor benefit upon the death in service after March 31, 1990, 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.

Employees covered by benefit terms. Membership in TRF Pre-1996 is closed to new entrants. Legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees hired before July 1, 2011, are required to participate in TRF as a condition of employment. Generally, members hired prior to 1996 participate in the TRF Pre-1996 Account and members hired after 1996 participate in the TRF 1996 Account (IC 5-10.2-2-2; IC 5-10.4-4-1; IC 5-10.4-7-1; 35 IAC 14-4-16(a)).

As of June 30, 2017, the number of participating employers was 340 in addition to the State. The State of Indiana makes contributions as the sole nonemployer contributing entity. As of June 30, 2017, TRF Pre-1996 Account membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	53,240
Inactive vested members entitled to but not yet receiving benefits	2,504
Inactive non-vested members entitled to a distribution of contributions	400
Active members: vested and non-vested	13,128
Total	<u>69,272</u>

Contributions. State appropriations are made in accordance with IC 5-10.4-2-4 for each fiscal year. Currently, a three (3) percent year-over-year increase is being provided through State appropriations. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund as part of the assets of the TRF Pre-1996, which was established according to IC 5-10.4-2-5. As a nonemployer contributing entity, the State of Indiana contributed \$871.0 million in fiscal year 2017 to TRF Pre-1996. The Actuarially Determined Contribution (ADC) for TRF Pre-1996 was \$2,728 million. In fiscal year 2016, the State pre-funded one-time checks (a.k.a.13th check) in accordance with 2016 HEA 1161 for \$20.7 million (which went into the Pension Stabilization Fund). Employers contributed \$4.5

million in fiscal year 2017.

TRF Pre-1996 Account members contribute three percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

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.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the State reported a liability of \$12,052.7 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the State's proportion was 100.00 percent, which was the same as its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the State recognized pension expense of \$860.1 million. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred inflows of Resources
Net difference between projected and actual earnings on pension plan investments	200,663	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	871,141	-
Total	\$ 1,071,804	\$ -

\$871.1 million reported as deferred outflows of resources resulting from employer contributions

subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2018	34,813
2019	34,813
2020	90,614
2021	40,423

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Future salary increases	2.5% - 12.5%
Inflation	2.25%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the RP-2014 White Collar mortality table, with Social Security Administration generational improvement scale from 2006.

The most recent comprehensive experience study was completed in April 2015 and was based on member experience covering the period July 1, 2011 to June 30, 2014. The demographic assumptions were updated for the June 30, 2015 actuarial valuation based on the results of the study.

The long-term return expectation for this 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:

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

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 of Indiana 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 TRF Pre-1996 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 each plan.

Discount rate. Total pension liability 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,

Sensitivity of the State's proportionate share of the net pension liability to changes in the discount rate. The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
State's proportionate share of the net pension liability	13,630,767	12,052,671	10,707,809

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued stand-alone financial report of the Indiana Public Retirement System. 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.

Pension Amounts Summary – Defined Benefit Plans

A summary of the pension amounts disclosed in the notes for the defined benefit plans is provided in the following table.

Plan	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
SPRF	\$ 588,603	\$ 426,851	\$ 161,752	\$ 75,764	\$ 473	\$ 32,620
SPST	17,043	-	17,043	3,777	436	5,227
EG&C	138,965	111,329	27,636	16,071	281	5,893
PARF	85,034	52,792	32,242	7,354	-	9,826
LE DB	4,015	2,919	1,096	353	-	(51)
JRS	501,126	441,790	59,336	55,009	13,035	10,048
PERF	4,609,059	3,472,766	1,136,293	427,456	16,502	219,655
TRF 1996	22,430	19,691	2,739	2,633	308	969
TRF Pre-1996	16,840,200	4,787,529	12,052,671	1,071,804	-	860,081
Total	\$ 22,806,475	\$ 9,315,667	\$ 13,490,808	\$ 1,660,221	\$ 31,035	\$ 1,144,268

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of INPRS – a fiduciary in nature component unit)

The Legislators' Retirement System was established in 1989 by IC 2-3.5 and accordingly is governed by the INPRS Board of Trustees. The retirement system is for certain members of the General Assembly of the State of Indiana as specified by the provisions of the statute.

The Legislators' Retirement System is comprised of two (2) separate and distinct plans. The Legislators' Defined Benefit Plan (LEDB Plan) (IC 2-3.5-4), a single-employer (the State of Indiana) defined benefit plan, applies to members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (LEDC Plan) (IC 2-3.5-5) applies to: (1) members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b); (2) members of the General Assembly who are first elected or appointed after April 30, 1989; and (3) members of the General Assembly who: (a) served before April 30, 1989; (b) were not serving on April 20, 1989; and (c) are subsequently reelected or reappointed to the General Assembly.

For the LEDC Plan, each participant is required to contribute five percent of annual salary in accordance with statute IC 2-3.5-5-4. In addition, the State of Indiana is required by statute IC 2-3.5-5-5.5 to contribute a percentage of the member's annual salary on behalf of the participant as determined by INPRS Board of Trustees and confirmed by the State Budget Agency each year. This rate, by statute, cannot exceed the total contribution rate paid that year by the State to PERF for State employees. The State contribution rate is the sum of: (1) the State's employer contribution rate for State employees, and (2) the rate the State pays on behalf of State employees to their annuity savings accounts (3.0 percent). The contribution rate for the calendar year 2016 was 14.2 percent and the rate for the calendar year 2017 is 14.2 percent.

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 nine investment options available to

LE DC members: Consolidated Defined Benefit Assets, 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.

A participant of LE DC who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions to LE DC. The amount available for withdrawal is the fair value of the participant's account on the processing date. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum, a partial lump sum, a monthly annuity, or a series of monthly installment payments over 60, 120, or 180 months as elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member, but prior to withdrawing from LE DC, the participant's account is to be paid to the beneficiary(ies) or the survivor(s) if there is no properly designated beneficiary, or if no beneficiary survives the participant. The amount to be paid is the fair value of the participant's account (employer and employee contributions) on the processing date.

F. Other Postemployment Benefits

Defined Benefit Plans

Plan Descriptions The State of Indiana sponsors and contributes to four single-employer defined benefit healthcare plans: State Personnel Plan (SPP); Legislature Plan (LP); Indiana State Police Plan (ISPP); and the Conservation and Excise Police Plan (CEPP). The SPP and LP are administered by the State Personnel Department. The Indiana State Police administer the ISPP. The CEPP is administered by the Indiana State Excise Police and Indiana Conservation Officers Health Insurance Committee. The SPP, ISPP, and CEPP are administered through trusts that meet the criteria in GASB 74. The LP is not administered through a trust that meets the requirements of GASB 74 and is not accumulating assets.

Benefits Provided All four plans provide medical plan health care benefits to eligible State employee retirees and beneficiaries. The medical benefits provided to retirees are the same benefit options

afforded active employees. Benefit provisions for each plan are established and may be amended by Indiana Code 5-10-8 *et seq.* Separate financial reports are not issued for these plans.

Contributions Actuarially determined contributions (ADC) are determined for these plans by the actuary. The state determines the contributions to make for these plans after considering its other needs and the OPEB participants' needs.

For the SPP, the state contributes at least the ADC annually.

The ISPP has established a 401(h) and section 115 trust for the purpose of funding retiree OPEB since the fiscal year end June 30, 2011. Contributions to the 401(h) and section 115 trust are made from the following sources: 1) Medicare Part D retiree drug subsidy reimbursement; 2) excess long-term disability fund; 3) a percentage of retiree premiums according to the following schedule: a) Starting

January 1, 2012 through June 30, 2014, 0%; b) July 1, 2014 through June 30, 2016, 25%; c) July 1, 2016 through June 30, 2018, 50%, and d) July 1, 2018 onwards, 100%; 4) state contributions for ISP active employees in accordance with the OPEB DC plan (501 plan); and 5) discretionary contributions from the ISP healthcare fund up to \$1 million. Additionally, active ISP employees contribute \$20 per paycheck towards the 401(h) trust account. This ISP funding policy is expected to continue for the foreseeable future.

The annual cost of the CEPP is financed on a pay-as-you-go basis from state subsidies, active/retiree contributions, and a discretionary contribution from the CEPP reserve fund.

Retiree participants pay the full premium rate as determined by the administrators of these plans.

Financial Statements As separately issued financial statements are not available for the State Employee Retiree Health Benefit Trust Fund-DB, summarized financial statements are as follows:

State of Indiana				
Combining Statement of Fiduciary Net Position				
Pension and Other Employee Benefit Trust Funds				
June 30, 2017				
	<u>SPP</u>	<u>ISPP</u>	<u>CEPP</u>	<u>Total</u>
Assets				
Cash, cash equivalents and non-pension investments	\$ 579	\$ 6,022	\$ 797	\$ 7,398
Receivables:				
Contributions	515	-	64	579
Interest	87	215	44	346
Total receivables	602	215	108	925
Pension and other employee benefit investments at fair value:				
Debt Securities	43,948	92,448	14,446	150,842
Total investments at fair value	43,948	92,448	14,446	150,842
Total assets	45,129	98,685	15,351	159,165
Liabilities:				
Benefits payable	131	1,362	175	1,668
Total liabilities	131	1,362	175	1,668
Net Position				
Restricted for:				
OPEB benefits	44,998	97,323	15,176	157,497
Total net position	\$ 44,998	\$ 97,323	\$ 15,176	\$ 157,497

State of Indiana Combining Statement of Changes in Fiduciary Net Position Pension and Other Employee Benefit Trust Funds For the Year Ended June 30, 2017				
	<u>SPP</u>	<u>ISPP</u>	<u>CEPP</u>	<u>Total</u>
Additions:				
Member contributions	\$ 6,624	\$ 4,931	\$ 776	\$ 12,331
Employer contributions	4,802	26,135	3,718	34,655
Net investment income (loss)	291	507	79	877
Less investment expense	-	(1)	-	(1)
Federal reimbursements	-	537	-	537
Other	-	201	-	201
Total additions	11,717	32,310	4,573	48,600
Deductions:				
Retiree health benefits	11,029	13,115	2,081	26,225
Administrative	417	588	83	1,088
Total deductions	11,446	13,703	2,164	27,313
Net increase (decrease) in net position	271	18,607	2,409	21,287
Net position restricted for pension and other employee benefits, July 1, as restated:				
OPEB benefits	44,727	78,716	12,767	136,210
Net position restricted for pension and other employee benefits, June 30, as restated	\$ 44,998	\$ 97,323	\$ 15,176	\$ 157,497

Funding Policy and Annual OPEB Cost The contribution funding policy for each of the four plans is on a pay-as-you-go cash basis. However, trust funds as authorized by the Indiana General Assembly were created to start pre-funding the SPP, ISPP, and CEPP plans. The State of Indiana's annual other postemployment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution (ARC) of the employer,

an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The State of Indiana's annual OPEB cost for the current year and the related information for each plan are as follows:

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
Contribution rates:				
State of Indiana	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Plan members (monthly premium)	See next chart	See next chart	See next chart	See next chart
Annual required contribution	\$ 1,577	\$ 748	\$ 32,614	\$ 2,948
Interest on net OPEB obligation	(1,551)	95	5,319	448
Amortization adjustment to ARC	2,117	(130)	(7,256)	(611)
Annual OPEB Cost	2,143	713	30,677	2,785
Contributions made	(4,802)	(522)	(26,871)	(3,718)
Change in net OPEB obligation	(2,659)	191	3,806	(933)
Net OPEB obligation - beginning of year	(34,471)	2,121	118,193	9,947
Net OPEB obligation - end of year	\$ (37,130)	\$ 2,312	\$ 121,999	\$ 9,014

148 - State of Indiana - Comprehensive Annual Financial Report

The plan administrators (see plan descriptions above) establish the contribution requirements of plan members. Plan members (retirees and eligible dependents) who participate in these healthcare plans must pay the full 2018 monthly premiums (except for grandfathered LP current retirees) as shown in the following chart.

	<u>Monthly Premium</u>
State Personnel Healthcare Plan (SP) and Legislature's Healthcare Plan (LP)	
Consumer Driven Health Plan #1	
Single (Non-Tobacco)	\$ 534.04
Family (Non-Tobacco)	1,598.74
Consumer Driven Health Plan #2	
Single (Non-Tobacco)	759.85
Family (Non-Tobacco)	2,207.53
Consumer Driven Health Plan Wellness	
Single (Non-Tobacco)	484.34
Family (Non-Tobacco)	1,469.78
Traditional PPO	
Single (Non-Tobacco)	1,301.30
Family (Non-Tobacco)	3,691.61
Indiana State Police Healthcare Plan (ISPP)	
Basic Plan - Medical Only	
Retiree Only (Without Medicare)	439.95
Retiree Plus One Dependent (Without Medicare)	587.54
Retiree Only (With Medicare)	161.53
Retiree Plus One Dependent (With Medicare)	201.95
Optional Plan - Medical, Dental, & Vision	
Retiree Only (Withou Medicare)	514.45
Retiree Plus One Dependent (Without Medicare)	729.80
Retiree Only (With Medicare)	188.24
Retiree Plus One Dependent (With Medicare)	257.67
Conservation and Excise Police Health Care Plan (CEPP) - Medical, Dental, & Vision	
Retiree Only - (Pre-Medicare)	369.03
Retiree plus One Dependent - (Pre-Medicare)	701.16
Retiree Only (Post-Medicare)	147.39
Retiree plus One Dependent - (Post-Medicare)	235.82

The State of Indiana's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for June 30, 2015 through

June 30, 2017 for each of the plans were as follows:

	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
State Personnel Healthcare Plan	6/30/2017	\$ 2,142	224.2%	\$ (37,130)
	6/30/2016	2,088	142.6%	(34,471)
	6/30/2015	2,369	150.5%	(33,582)
Legislature's Healthcare Plan	6/30/2017	\$ 713	73.2%	\$ 2,312
	6/30/2016	648	71.2%	2,121
	6/30/2015	814	68.0%	1,935
Indiana State Police Healthcare Plan	6/30/2017	\$ 30,677	87.6%	\$ 121,999
	6/30/2016	28,590	121.9%	118,193
	6/30/2015	27,601	91.7%	124,466
Conservation and Excise Police Health Care Plan	6/30/2017	\$ 2,785	133.5%	\$ 9,014
	6/30/2016	3,143	113.8%	9,947
	6/30/2015	2,962	82.3%	10,379

Funded Status and Funding Progress The funded status of the plans as of June 30, 2017, was as follows:

	<u>State Personnel Healthcare Plan</u>	<u>Legislature's Healthcare Plan</u>	<u>Indiana State Police Healthcare Plan</u>	<u>Conservation and Excise Police Health Care Plan</u>
Actuarial accrued liability (a)	\$ 41,078	\$ 10,734	\$ 430,337	\$ 42,009
Actuarial value of plan assets (b)	44,998	-	97,323	15,176
Unfunded actuarial accrued liability (funding excess) (a) - (b)	<u>\$ (3,920)</u>	<u>\$ 10,734</u>	<u>\$ 333,014</u>	<u>\$ 26,833</u>
Funded ratio (b)/(a)	109.5%	0.0%	22.6%	36.1%
Covered payroll (c)	\$ 1,245,383	\$ 5,540	\$ 98,693	\$ 15,602
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c)	-0.3%	193.8%	337.4%	172.0%

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. The State elected to use the actuarial results for the period ending June 30, 2016 for the period ending June 30, 2017. The actuarial results for the period ending June 30, 2016 is based on a June 30, 2017 actuarial valuation which is actuarially rolled back on a no gain/loss basis.

Actuarial valuations involve estimates of the value

of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or

decreasing over time relative to the actuarial accrued liability for benefits.

and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Actuarial Methods and Assumptions Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members)

Significant methods and assumptions were as follows:

	<u>State Personnel Healthcare Plan</u>	<u>Legislature's Healthcare Plan</u>	<u>Indiana State Police Healthcare Plan</u>	<u>Conservation and Excise Police Health Care Plan</u>
Actuarial valuation date	6/30/2017	6/30/2017	6/30/2017	6/30/2017
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar amount, open	Level dollar amount, open	Level dollar amount, open	Level dollar amount, open
Remaining amortization period	30 years	30 years	30 years	30 years
Asset valuation method	Market Value of Assets	N/A	Market Value of Assets	Market Value of Assets
Actuarial assumptions:				
Inflation rate	2.25%	2.25%	2.25%	2.25%
Investment rate of return	4.50%	4.50%	4.50%	4.50%
Projected salary increases	N/A; benefits are not payroll related	N/A; benefits are not payroll related	N/A; benefits are not payroll related	N/A; benefits are not payroll related
Healthcare inflation rate	9.0%	9.0%	9.0%	9.0%

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. The State elected to use the actuarial results for the period ending June 30, 2016 with changes made as follows:

1. For ISPP:
 - a. Employees hired on/after July 1, 2016 are only eligible for retiree health benefits until Medicare eligibility. This change caused a decrease in the liability.
 - b. ISP is expected to increase the maximum out-of-pocket for the retiree health plan from \$2,750 (single) /\$5,500 (family) currently to \$4,000 (single) /\$8,000 (family) on January 1, 2018. This change caused a decrease in the liability.
2. For CEPP:
 - a. CEPP is expected to increase, effective January 1, 2018, the deductible from \$500 (single) / \$1,000 (family) to \$750

(single) / \$1,500 (family) and the maximum out-of-pocket from \$2,050 (single) / \$4,100 (family) to \$2,550 (single) / \$5,100 (family). In addition the prescription deductible is expected to increase from \$300 to \$300 (single) \$900 (family). These changes caused a decrease in the liability.

3. For all plans, trend rates for medical and prescription drug benefits have been reset to an initial rate of 9.00% decreasing by 0.50% annually to an ultimate rate of 4.50%. Dental trend rates have been modified from an initial rate of 4.50% decreasing by 0.25% to 3.50% to a flat 3.00%. This change caused an increase in liabilities.

Plan Membership At June 30, 2017 membership for the three OPEB plans administered through trusts was:

	<u>SPP</u>	<u>ISPP</u>	<u>CEPP</u>
Inactive plan members			
currently receiving benefit	725	1,120	191
payments			
Active plan members	<u>23,617</u>	<u>1,665</u>	<u>262</u>
Total	<u>24,342</u>	<u>2,785</u>	<u>453</u>

	<u>SPP</u>	<u>ISPP</u>	<u>CEPP</u>
Total OPEB liability	\$53,040	\$539,736	\$56,024
Plan fiduciary net position	<u>44,998</u>	<u>97,323</u>	<u>15,176</u>
Net OPEB liability	<u>\$ 8,042</u>	<u>\$442,413</u>	<u>\$40,848</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.8%	18.0%	27.1%

Net OPEB Liability The components of the net OPEB liability for the three OPEB plans administered through trusts at June 30, 2017 was:

Actuarial Assumptions The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Description	SPP	ISPP	CEPP
Valuation Date	6/30/2017	6/30/2017	6/30/2017
Actuarial cost method	Entry Age Normal (Level Percent of Payroll)	Entry Age Normal (Level Percent of Payroll)	Entry Age Normal (Level Percent of Payroll)
Actuarial amortization method for unfunded liability	Level Dollar	Level Dollar	Level Dollar
Actuarial amortization period for unfunded liability	30 years, closed	30 years, closed	30 years, closed
Remaining amortization period for unfunded liability	30	30	30
Asset valuation method	Market Value of Assets	Market Value of Assets	Market Value of Assets
Inflation	2.25%	2.25%	2.25%
Salary increases	2.25% for general wage inflation plus merit and productivity increases as follows: Ages 20 and 30, 2.0%; age 40, 1.5%, and age 50, 1.0%	2.25% for general wage inflation plus 0.25% for merit and productivity increases	2.25% for general wage inflation plus 0.25% for merit and productivity increases
Investment rate of return	3.25%	3.25%	3.25%
Healthcare cost trend rates	9.0% for 2018 decreasing 0.5% per year to an ultimate rate of 4.5% for 2027 and later years	9.0% for 2018 decreasing 0.5% per year to an ultimate rate of 4.5% for 2027 and later years	9.0% for 2018 decreasing 0.5% per year to an ultimate rate of 4.5% for 2027 and later years
Mortality	SS-2012 Employee and Annuitant Mortality Table fully generational using SSA scale	SS-2012 Total Dataset Mortality Table with blue collar adjustment fully generational using SSA scale	SS-2012 Total Dataset Mortality Table with blue collar adjustment fully generational using SSA scale
Experience study	Based on the results of an actuarial experience study for the period from June 30, 2010 to June 30, 2014	Based on the results of an actuarial experience study for the period from July 1, 2005 through June 30, 2010	Based on the results of an actuarial experience study for the period from June 30, 2010 to June 30, 2014

Discount Rate The asset allocation for the three plans administered through trusts is 100% to fixed income securities. The long-term expected rate of return for these plans' investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. The long-term expected rate of return on OPEB plan investments for the three plans administered through trusts is 3.25%. Since this rate of return is lower than the yield for 20 year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), the discount rate used to measure the total OPEB liability was based on a range of indices for 20 year tax exempt general obligation municipal bonds. The discount rate used to measure the total OPEB liability for these was 3.56 percent as of June 30, 2017 and applied to all periods of projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the discount rate assumed that the State's contributions to these plans will be made at rates equal to the actuarially determined rates. The discount rate of 4.5% was used in calculating the actuarially determined contribution for these plans.

	1% Decrease (8.0% decreasing to 3.5%)	Healthcare Cost Trend Rates (9.0% decreasing to 4.5%)	1% Increase (10.0% decreasing to 5.5%)
SPP	\$ 3,194	\$ 8,042	\$ 13,704
ISPP	354,219	442,413	557,098
CEPP	31,235	40,848	53,635

Defined Contribution Plan

Plan Description The State of Indiana sponsors one single employer defined contribution OPEB plan established as a trust fund, the Retiree Health Benefit Trust Fund, in IC 5-10-8-8.5. The State established this trust fund to provide funding for the retiree health benefit plan developed under IC 5-10-8.5. The plan is a benefit to employees who retire and are eligible for and have received a normal, unreduced or disability retirement benefit (as determined by statutes and codes governing a State public employee retirement fund). Qualified retirees of the State are eligible to receive retirement medical benefits from this Plan. Retirees' and/or covered dependents' qualifying health insurance and medical costs are eligible for reimbursement from their reimbursement account, subject to Plan conditions and limitations.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate The following presents the net OPEB liability for the three OPEB plans administered through trusts calculated using a discount rate that is 1 percentage point lower (2.6%) or 1 percentage point higher (4.6%) than the current discount rate:

Financial Statements As separately issued financial statements are not available for the State Employee Retiree Health Benefit Trust Fund-DC, summarized financial statements are as follows:

	1% Decrease (2.6%)	Discount Rate (3.6%)	1% Increase (4.6%)
SPP	\$ 12,394	\$ 8,042	\$ 4,074
ISPP	548,081	442,413	359,433
CEPP	52,130	40,848	32,105

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates The following presents the net OPEB liability for the three OPEB plans administered through trusts calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

State of Indiana Combining Statement of Fiduciary Net Position Pension and Other Employee Benefit Trust Funds June 30, 2017	
	State Employee Retiree Health Benefit Trust Fund - DC
Assets	
Cash, cash equivalents and non-pension investments	\$ 43,179
Receivables:	
Contributions	3,098
Interest	298
Securities lending	64
Total receivables	3,460
Pension and other employee benefit investments at fair value:	
Debt Securities	278,907
Total investments at fair value	278,907
Total assets	325,546
Liabilities:	
Accounts/escrows payable	28
Securities lending payable	64
Benefits payable	543
Total liabilities	635
Net Position	
Restricted for:	
OPEB benefits	324,911
Total net position	\$ 324,911

state government to pay for participants' medical insurance after retirement. Legislation passed by the 2012 Indiana General Assembly removed from eligibility in the DC plan all Conservation Officers, all Excise Officers, and employees of the Indiana State Police who did not previously waive coverage under the agency's DB plan. Benefits are entitled to be received from this account for a participant who: a) is eligible for and has applied to receive a normal, unreduced or disability retirement benefit under the Public Employees' Retirement Fund; or b) has completed at least 10 years of service as an elected or appointed officer; or c) has completed at least 15 years of service with the state for an employee. A surviving spouse or IRS dependent of a retired participant is allowed to receive the benefit from this account. Amounts credited to a retired participant are forfeited if the participant dies without a surviving spouse or IRS dependent.

The trust meets the requirements of a qualified OPEB trust. The trust is qualified under section 115 of the Internal Revenue Code.

Regular Contributions The State makes regular annual contributions to the account based on the following schedule:

Attained Age	Annual State Contributions
Less than 30	\$500
At least 30, but less than 40	\$800
At least 40, but less than 50	\$1,100
At least 50	\$1,400

Attained age is determined as of the last day of the calendar year falling within the plan year for which the contribution is made. To receive the regular contribution, an employee must be an eligible employee on the preceding December 31 and must be continuously employed through the date on which the contribution is made.

Employees who meet the eligibility requirements for bonus contributions by June 30, 2017 received their last regular contribution on June 30, 2017.

Bonus Contributions

Employees receive the bonus contributions if by June 30, 2017 they are (1) eligible for an unreduced pension benefit from PERF and (2) have completed at least 15 years of service or 10 years of service as an elected or appointed officer. The bonus contribution is equal to the employee's total years of service (rounded down to the nearest whole year)

State of Indiana Combining Statement of Changes in Fiduciary Net Position Pension and Other Employee Benefit Trust Funds For the Year Ended June 30, 2017	
	State Employee Retiree Health Benefit Trust Fund - DC
Additions:	
Employer contributions	\$ 43,915
Net investment income (loss)	2,111
Other	15
Total additions	46,041
Deductions:	
Retiree health benefits	19,713
Administrative	1,301
Other	15
Total deductions	21,029
Net increase (decrease) in net position	25,012
Net position restricted for pension and other employee benefits, July 1, as restated:	
OPEB benefits	299,899
Net position restricted for pension and other employee benefits, June 30	\$ 324,911

Plan Provisions Benefit provisions for this plan are established or may be amended by the State legislature. The State Budget Agency of the State of Indiana is the administrator of the plan pursuant to Indiana Code 5-10-8-8.5. The plan establishes a retirement medical benefits account for elected officers, appointed officers, and most employees of the executive, legislative, and judicial branches of

calculated as of the last day of employment or June 30, 2017 (whichever is earlier) multiplied by one thousand dollars (\$1,000).

At June 30, 2017, the plan participants consisted of:

Active participants with accounts, not yet retired	27,603
Retired participants with accounts	6,987
Total	<u>34,590</u>

At June 30, 2017, plan participants' retirement medical plan account balances totaled \$342.3 million which consisted of \$191.0 million in unretired active participants' accounts and \$151.3 million in retired participants' accounts.

This plan is a defined contribution individual account for GASB 45 and 74 purposes. The employer subsidy is defined in terms of an annual contribution to an individual account. Plan assets are maintained in the Retiree Health Benefit Trust Fund created by the State as a dedicated trust fund.

The trust fund consists of cigarette tax revenues deposited in the fund under IC 6-7-1-28.1(7) and other appropriations, revenues, or transfers to the trust fund under IC 4-12-1. The plan benefits satisfy the condition of being a defined contribution OPEB benefit and by definition, there is no unfunded liability.

The annual required contribution for the fiscal year ending June 30, 2017 was \$44.9 million. For the fiscal year ending June 30, 2017, the State contributed \$17.1 million in cigarette tax revenues to this fund. Another \$26.8 million was contributed by state agencies that are funded by federal or dedicated funds for their portion of funding. The retiree contribution includes the bonus contributions of \$1,000 per year of service to employees retiring after July 1, 2007 who also met certain minimum age and service requirements.

G. Pollution Remediation Obligations

Nature and source of pollution remediation obligations:

Five state agencies have identified themselves as responsible or potentially responsible parties to remediate forty-six pollution sites pursuant to the State's implementation of GASB 49, Accounting and Financial Reporting for Pollution Remediation

Obligations effective July 1, 2008. Obligor events for the cleanup of these sites include being compelled to take action because the pollution creates an imminent danger to public health or welfare or the environment, being named by a regulator to remediate hazardous wastes and contamination, and voluntarily assuming responsibility because of imminent threats to human health and the environment.

Amount of the estimated liability, methods and assumptions used for the estimate, and the potential for changes:

The State's total estimated liability is \$38.4 million of which \$4.9 million is estimated to be payable within one year and \$33.5 million estimated to be payable in more than one year. State agencies calculated their estimated liabilities using various approaches including existing agreements, contractor bids/surveys, records of decisions from regulators, matching requirements under the Superfund law, previous actual costs to cleanup similar sites, investigation activities, well known and recognized estimation methods, and through the sampling and knowing the size and volume of existing contamination at a site. Superfund site estimated liabilities also applied a rolling thirty year liability as this was the number of years determined to be reasonably estimable. The estimated liabilities of state agencies are subject to annual review and adjustment for changes in agreements, laws, regulations, court decisions, price increases or decreases for goods and services used in cleanup, and other relevant changes that come to light.

Estimated recoveries reducing the liability:

The estimated recoveries total \$18.4 million. Of this total, \$0.4 million is unrealizable or has not yet been realized and has been applied to reduce the State's total estimated liability. Estimated recoveries include the proceeds from the sale of stock, bankruptcy court settlements, coverage of allowable costs by the State's Excess Liability Trust Fund (ELTF), credits received for work performed on Superfund sites, and federal funds. The ELTF state law states that if insufficient funds exist to pay claims neither the State nor the Fund are liable for unpaid claims. The State recognized \$6.2 million of program revenue for seven sites whose realized recoveries exceeded the pollution remediation liability.

Note H. Tax Abatements

The State provides tax abatements through four programs which are the (1) Economic Development for a Growing Economy (EDGE) Credit, (2) Hoosier Business Investment Credit, (3) Research Expense Credit, and (4) Venture Capital Investment Credit. The Indiana Economic Development Corporation (IEDC) approves the tax credits for these programs. The following is a summary of these programs where the taxes abated exceeded \$1 million individually or in the aggregate.

Economic Development for a Growing Economy (EDGE) Credit

The Economic Development for a Growing Economy Credit is created by IC 6-3.1-13. This program was created to foster job creation in Indiana, job retention in Indiana, and to foster employment in Indiana of students who participate in a course of study that includes a cooperative arrangement between an educational institution and an employer for the training of students in high wage, high demand jobs that require an industry certification. This program provides a credit against a taxpayer's adjusted gross income tax, financial institutions tax, or insurance premiums tax liability. The credit must be claimed on the taxpayer's annual state income tax return filed with the Indiana Department of Revenue. The credit is administered by the Indiana Economic Development Corporation (IEDC). The amount and duration of this tax credit shall be determined by the IEDC. The credit may be stated as a percentage of the incremental income tax withholdings attributable to the applicant's project and may include a fixed dollar limitation. In the case of a credit awarded for a project to create new jobs in Indiana, the credit amount may not exceed the incremental income tax withholdings. However, the credit amount claimed for a taxable year may exceed the taxpayer's state tax liability for the taxable year, in which the excess may, at the discretion of the IEDC, be refunded to the taxpayer.

EDGE for Job Creation:

In order to award a credit for job creation, the IEDC must determine the following conditions exist, the applicant's project will create new jobs that were not jobs previously performed by employees of the applicant in Indiana; the applicant's project is economically sound and will benefit the people of Indiana by increasing opportunities for employment in Indiana and strengthening the economy of Indiana; receiving the tax credit is a major factor in the applicant's decision to go forward with the project and not receiving the tax credit will result in the applicant not creating new jobs in Indiana;

awarding the tax credit will result in an overall positive fiscal impact to the state, as certified by the budget agency using the best available data; the credit is not prohibited by the relocation of jobs from one location in Indiana to another location in Indiana; if the business is located in a community revitalization enhancement district established under IC 36-7-13 or a certified technology park established under IC 36-7-32, the legislative body of the political subdivision establishing the district or park has adopted an ordinance recommending the granting of a credit amount that is at least equal to the credit amount provided in the agreement. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-13. The State has made no other commitments other than to reduce the applicable taxes as part of this program. In order to receive a tax credit, the taxpayer must commit to the creation of full-time, permanent jobs for Indiana residents at the project location and new capital investment in Indiana.

EDGE for Job Retention:

In order to award a credit for job retention, the IEDC must determine the following conditions exist, the applicant's project will retain existing jobs performed by the employees of the applicant in Indiana; the applicant is engaged in research and development, manufacturing, or business services, according to the NAICS Manual of the United States Office of Management and Budget; the average compensation (including benefits) provided to the applicant's employees during the applicant's previous fiscal year exceeds the greater of 105% of the average wage paid during that same period to all employees working in that NAICS industry sector in that county, if there is more than one business in the same NAICS industry sector as the applicant's business in Indiana, 105% of the average compensation paid during that same period to all employees working in that NAICS industry sector throughout Indiana, 200% of the federal minimum wage during that same time period. For taxable years beginning before January 1, 2010, the applicant must employ at least 35 employees in Indiana. The applicant has prepared a plan for the use of the credits for investment in facility improvements or equipment and machinery upgrades, repairs, or retrofits, or other direct business related investments, including, but not limited to, training. Receiving a tax credit is a major factor in the applicant's decision to go forward with the project, and not receiving the tax credit will increase the likelihood of the applicant reducing jobs in Indiana; awarding the tax credit will result in an overall positive fiscal impact to the state, as

certified by the budget agency using the best available data; the applicant's business and project are economically sound and will benefit the people of Indiana by increasing or maintaining opportunities for employment and strengthening the economy of Indiana; the communities affected by the potential reduction in jobs or relocation of jobs to another site outside Indiana have committed local incentives with respect to the retention of jobs in an amount determined by the corporation; the credit is not prohibited by the relocation of jobs from one location in Indiana to another location in Indiana; if the business is located in a community revitalization enhancement district established under IC 36-7-13 or a certified technology park established under IC 36-7-32, the legislative body of the political subdivision establishing the district or park has adopted an ordinance recommending the granting of a credit amount that is at least equal to the credit amount provided in the agreement. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-13. The State has made no other commitments other than to reduce the applicable taxes as part of this program. In order to receive a tax credit, the taxpayer must commit to the retention of full-time, permanent jobs for Indiana residents at the project location and new capital investment in Indiana.

EDGE for Cooperative Arrangements for Training Students:

In order to award a credit for cooperative arrangements for training students, the IEDC must determine the applicant participates in at least one cooperative arrangement with an educational institution for the training of students in high wage, high demand jobs that require an industry certification and meets any additional eligibility conditions established by the IEDC. The IEDC may consult with the Indiana career council to develop eligibility and performance conditions that an applicant must meet to qualify for a credit award to which this section applies. The aggregate amount of tax credits awarded under this section for a state fiscal year may not exceed \$2,500,000. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-13.

Hoosier Business Investment Credit

The Hoosier Business Investment Credit is created by IC 6-3.1-26. This program was created to foster job creation and create higher wages in Indiana. This program provides a credit against a taxpayer's adjusted gross income tax, financial institutions tax,

or insurance premiums tax liability. The credit must be claimed on the taxpayer's annual state income tax return filed with the Indiana Department of Revenue. The credit is administered by the Indiana Economic Development Corporation (IEDC) and may not exceed 10% of the taxpayer's qualified investment in a taxable year for qualified investment that is not a logistics investment and 25% of the qualified investment made in a taxable year if the qualified investment is a logistics investment. Qualified investment is defined as the amount of the taxpayer's expenditures in Indiana for the purchase of new telecommunications, production, manufacturing, fabrication, assembly, extraction, mining, processing, refining, finishing, distribution, transportation, or logistical distribution equipment; the purchase of new computers and related equipment; costs associated with the modernization of existing telecommunications, production, manufacturing, fabrication, assembly, extraction, mining, processing, refining, finishing, distribution, transportation, or logistical distribution facilities; onsite infrastructure improvements; the construction of new telecommunications, production, manufacturing, fabrication, assembly, extraction, mining, processing, refining, finishing, distribution, transportation, or logistical distribution facilities; costs associated with retooling existing machinery and equipment; costs associated with the construction of special purpose building and foundations for use in the computer, software, biological sciences, or telecommunications industry; costs associated with the purchase of machinery, equipment or special purpose buildings used to make motion pictures or audio productions; and a logistics investment as further described in IC 6-3.1-26-8.5 that are certified by the IEDC under this chapter as being eligible for the credit. The term does not include property that can be readily moved outside Indiana. In order to award a tax credit under this program, the IEDC must determine the following conditions exist, the applicant's project will raise the total earnings of employees of the applicant in Indiana or substantially enhance the logistics industry by creating new jobs, preserving existing jobs that otherwise would be lost, increasing wages in Indiana, or improving the overall Indiana economy, in the case of a logistics investment being claimed by the applicant; the applicant's project is economically sound and will benefit the people of Indiana by increasing opportunities for employment and strengthening the economy of Indiana; receiving the tax credit is a major factor in the applicant's decision to go forward with the project and not receiving the tax credit will result in the applicant not raising the total earnings of the applicant's employees in Indiana, or other employees in Indiana in the case of a logistics

investment being claimed by the applicant; awarding the tax credit will result in an overall positive fiscal impact to the state, as certified by the budget agency using the best available data; the credit is not prohibited by the relocation of jobs from one location in Indiana to another location in Indiana; in the case of a qualified investment that is not being claimed as a logistics investment by the applicant, the average wage that will be paid by the taxpayer to its employees (excluding highly compensated employees) at the location after the credit is given will be at least equal to one hundred fifty percent (150%) of the hourly minimum wage under IC 22-2-2-4 or its equivalent. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-26. The State has made no other commitments other than to reduce the applicable taxes as part of this program. In order to receive a tax credit, the taxpayer must commit to the creation or retention of full-time, permanent jobs for Indiana residents at the project location and new capital investment in Indiana.

Research Expense Credit

The Research Expense Credit is created by IC 6-3.1-4. The program was created to incentivize research investment in Indiana. This program provides a credit against a taxpayer's adjusted gross income tax liability. The credit must be claimed on the taxpayer's annual state income tax return filed with the Indiana Department of Revenue. The program is administered by the Indiana Economic Development Corporation (IEDC), and the credit may be calculated one of two ways, listed below, as elected by the taxpayer. For Indiana qualified research expense incurred after December 31, 2007, the credit is equal to 15% of the Indiana qualified research expense less the taxpayer's base amount of Indiana qualified research expense, up to \$1,000,000. For qualified research expense in excess of \$1,000,000, the credit amount is equal to 10%. For Indiana qualified research expense incurred after December 31, 2009, the taxpayer's research expense tax credit is equal to 10% of the part of the taxpayer's Indiana qualified research expense for the taxable year that exceeds 50% of the taxpayer's average Indiana qualified research expense for the 3 taxable years preceding the taxable year for which the credit is being determined. If the taxpayer did not have Indiana qualified research expense in any 1 of the 3 taxable years preceding the taxable year for which the credit is being determined, the amount of the research expense tax credit is equal to 5% of the taxpayer's Indiana qualified research expense for the taxable year. Indiana qualified research

expense is defined as qualified research expense that is incurred for research conducted in Indiana. Qualified research expense means qualified research expense as defined in Section 41(b) of the Internal Revenue Code. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-4. The State has made no other commitments other than to reduce the applicable taxes as part of this program.

Venture Capital Investment Credit

The Venture Capital Investment Credit is created by IC 6-3.1-24. This credit was created to improve access to capital for fast growing Indiana companies by providing individual and corporate investors an incentive to invest in early stage firms. This program provides a credit against a taxpayer's adjusted gross income tax, financial institutions tax, insurance premiums tax, or state gross retail and use tax liability. The credit must be claimed on the taxpayer's state income tax return or returns filed with the Indiana Department of Revenue. The credit is administered by the Indiana Economic Development Corporation (IEDC) and is equal to 20% of the taxpayer's qualified investment capital provided to the qualified Indiana business or \$1,000,000, whichever is less. Qualified Indiana business is defined as an independently owned and operated business that is certified as a qualified Indiana business by the IEDC. Qualified investment capital is defined as debt or equity capital that is provided to a qualified Indiana business. However, the term does not include debt that is provided by a financial institution (as defined in IC 5-13-4-10) after May 15, 2005 and is secured by a valid mortgage, security agreement, or other agreement or document that establishes a collateral or security position for the financial institution that is senior to all collateral or security interests of other taxpayers that provide debt or equity capital to the qualified Indiana business. In order to award a tax credit under this program, the IEDC must certify the taxpayer's proposed investment plan. The proposed investment plan must include the name and address of the taxpayer, the name and address of each proposed recipient of the taxpayer's proposed investment; the amount of the proposed investment; a copy of the certification issued by the IEDC stating the business being invested in is a qualified Indiana business, and any other information required by the IEDC. The IEDC must determine that the proposed investment would qualify for the taxpayer credit under this program, and the amount of proposed investment would not result in the total amount of tax credits certified for the calendar year exceeding \$12,500,000. The

158 - State of Indiana - Comprehensive Annual Financial Report

total amount of credits that may be approved by the IEDC for a calendar year may not exceed \$12,500,000. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-24. The State has made no other commitments other than to reduce the applicable taxes as part of this program.

Tax Abatement Program	Amount of Taxes Abated
Economic Development for a Growing Economy (EDGE) Credit	
Individual Income Tax	\$ 5,721
Corporate Income Tax	58,901
Hoosier Business Investment Credit	
Individual Income Tax	830
Corporate Income Tax	5,072
Research Expense Credit	
Individual Income Tax	20,906
Corporate Income Tax	41,893
Venture Capital Investment Credit	
Individual Income Tax	5,366
Corporate Income Tax	188