

NOTES TO THE FINANCIAL STATEMENTS



STATE OF INDIANA

Notes to the Financial Statements
June 30, 2015

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STATE OF INDIANA
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June 30, 2015
(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, 2014, 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 by state law 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 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, 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 to improve the quality of life for the citizens of Indiana by encouraging the diversification of Indiana's economy, by 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 is composed of 12 members, none of whom may be members of the general assembly. These members consist of the governor and 11 individuals appointed by the governor. At least five members must belong to the same political party as the governor. At least three members must belong to a major political party other than the party of which the governor is a member. 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.

Formed on May 15, 2005, the Indiana Finance Authority (IFA) combined five formerly independent bodies under one entity. The entities combined included the Indiana Development Finance Authority, State Office Building Commission, Indiana Transportation Finance Authority, Recreational Development Commission and the State Revolving Fund. Effective July 1, 2005, all records, money, and other property held by the Auditor of State with respect to the Supplemental Drinking Water and Wastewater Assistance Programs were transferred to the IFA as the successor entity. The IFA is 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 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 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, public employees' retirement, 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.

Effective May 15, 2005, the Indiana Stadium and Convention Building Authority was established pursuant to House Bill 1120, which has now been codified at 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 in 1984, 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 2980, Indianapolis, IN 46204.

The Indiana Housing and Community Development Authority was created in 1978 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 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 444, Indianapolis, IN 46204.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the Governor to purchase education loans in the secondary market. 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., 11595 North Meridian Street, Suite 200, Carmel, IN 46032.

The White River State Park Development Commission 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. 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 Commission, 801 West Washington Street, Indianapolis, IN 46204.

The Ports of Indiana is created under 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 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 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 State Fair Commission, 1202 East 38th Street, Indianapolis, IN 46205.

The Indiana Comprehensive Health Insurance Association was created by the State of Indiana 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 twelve State Historic Sites including the Indiana State Museum. The twelve 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, Whitewater Canal and the Indiana State Museum. 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.

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, Poplar's Room 500, 107 S. Indiana Ave., Bloomington, IN 47405-1202; Purdue University, Accounting Services, 401 South Grant Street, West Lafayette, IN 47907-2024; Ball State University, Administration Bldg., 301, 2000 West University Avenue, Muncie, IN 47306; Indiana State University, Office of the Controller, 210 N. 7th Street, Terre Haute, IN 47809; Ivy Tech Community College, 50 West Fall Creek Parkway, North Drive, Indianapolis, IN 46208; University of Southern Indiana, 8600 Boulevard, Evansville, IN 47712; and Vincennes University, 1002 North 1st Street, Vincennes, IN 47591.

Fiduciary in Nature Component Unit

Effective July 1, 2011, the Indiana Public Retirement System (INPRS) was established 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 and fees and 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 funds are 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 *Major Moves Construction Fund* distributes money received from the Toll Road lease. This

money is used for new construction and major preservation of highways and bridges throughout Indiana. Interest income 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 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 loans 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. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost, which approximates fair value. Fair value is determined by quoted market prices which approximate 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; AAA rated commercial paper, 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 (INPRS) 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, 2015, 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.

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 \$1.0 billion, of which \$0.5 billion is permanent funds principal, \$0.4 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. In accordance with GASB Statement No. 34, all infrastructure assets have been capitalized retroactively.

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 Safety (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-two (382) 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 estimated fair 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.

Employees of the legislative and judicial branches as well as those of the separately elected officials (i.e., Auditor of State) may 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. Employees of the legislative branch of government participated in this program in FY 2015 and have elected to participate in this program for FY 2016.

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.

In the governmental fund financial statements, bond issuance costs and bond discounts are treated as period costs in the year of issue. Proceeds of long term debt, issuance premiums or discounts and certain payments to escrow agents for bond refundings are reported as other financing sources and uses.

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 inventories, 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.

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, 2015, 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	(208,372)	(78,637)
US Department of Labor	(4,404)	(2,707)
US Department of Education	-	(33,126)
S&S Children Home Construction	(709)	-

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, 2015 is as follows:

	General Fund	Major Special Revenue Funds		
		Public Welfare - Medicaid Assistance Fund	Major Moves Construction Fund	Non-Major Funds
Fund Balances:				
Nonspendable:				
Permanent fund principal	-	-	-	519,036
Prepaid expense	98,712	-	-	496
Restricted:				
Administration	380,348	-	-	-
Committed:				
Administration	-	-	-	7,682
Public Health	-	-	-	284,504
Economic Development	5,339	-	-	9,911
Environmental	-	-	-	537
Natural Resources	-	-	-	1,195
Higher Education	-	-	-	4
Secondary Education	-	-	-	572,710
Roads & Bridges	-	-	-	194,812
Other Purposes	-	-	-	14,277
Assigned:				
Administration	102,189	-	-	131,920
Corrections	9,150	-	-	13,430
Police & Protection	14,622	-	-	229,991
Mental Health	-	-	-	51,328
Public Health	22	484,172	-	249,868
Child Services	638,815	-	-	183,925
Disability & Aging	4	-	-	8,455
Economic Development	623	-	-	51,685
Environmental	364	-	-	113,272
Natural Resources	149	-	-	137,390
Higher Education	-	-	-	35,764
Secondary Education	304,236	-	-	20,612
Roads & Bridges	33	-	703,599	390,703
Capital Outlay	175,810	-	-	63,059
Other Purposes	207,258	-	-	72,366
Encumbrances	931,194	-	-	-
Unassigned:	1,017,013	-	-	(327,955)
Total	\$ 3,885,881	\$ 484,172	\$ 703,599	\$ 3,030,977

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, 2015:

Investment Type	Fair Value Totals	Investment Maturities (in Years)		
		Less than 1	1 - 5	5 - 10
U.S. Treasuries	\$ 2,515,540	\$ 2,465,056	\$ 50,484	\$ -
U.S. Agencies	1,245,404	949,300	296,104	-
Supranationals	32,004	32,004	-	-
Municipal Bonds	43,512	34,353	-	9,159
Local Govt Investment Pool	280,019	280,019	-	-
Non-U.S. Fixed Income	50,143	5,011	45,132	-
Certificate of Deposits	160,704	160,704	-	-
Money Market Mutual Funds	1,207,015	1,207,015	-	-
Total	\$ 5,534,341	\$ 5,133,462	\$ 391,720	\$ 9,159

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, 2015, 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, 2015. 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:

Primary Government		
<u>Investment Type</u>	<u>Greatest Risk Rating</u>	<u>Fair Value</u>
U.S. Treasuries	AA	\$ 2,515,540
U.S. Agencies	AA	1,245,404
Supranationals	AAA	32,004
Certificate of Deposits	NR	160,704
Municipal Bonds	NR	43,512
Non-US Fixed Income Bonds	A	50,143
Local Govt Investment Pool	NR	280,019
Money Market Mutual Funds	AAA	1,207,015
Total		\$ 5,534,341

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.

Investments in any one issuer, other than securities issued or guaranteed by the US government, that represent 5% or more of the total investments are:

FHLB	11.81%	\$781,573
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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, 2015,

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, 2015, was 34 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, 2015, the fair values of the underlying securities on loan were:

Security Type	Fair Value
U.S. Governments	\$1,822,482
U.S. Agencies	15,347
Total	\$1,837,829

The fair values of the collateral received for investment type:

Security Type	Fair Value
U.S. Governments	\$1,859,592
U.S. Agencies	15,764
Total	\$1,875,356

The percentage of collateral received for underlying securities on loan was 102.04%.

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

Collateral Type	Fair Value
Fair value of non-cash collateral	\$ 449,184
Fair value of cash collateral (liability to borrowers)	1,426,172
Total	\$1,875,356

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, 2015, the fair value of the cash collateral reinvestment pool was 95.5% of the fair value of the cash collateral received from the borrowers.

Fair Value of reinvested cash collateral by type:

Collateral Type	Fair Value
Commercial paper	\$ 6,000
Certificate of deposit	-
Repurchase agreements	58,099
Asset backed securities	458,571
Floating rate notes	817,318
MMMF's	21,504
Receivable	139
Total	\$1,361,631

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2015 is as follows:

S&P Rating	Fair Value of Cash Collateral	% of Portfolio
AAA	\$ 412,271	30.3
AAA	514,274	37.8
A	294,811	21.7
CCC	10,673	0.8
NR	129,602	9.4
Total	\$1,361,631	100.0

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, 2015:

Major Moves/Next Generation Funds		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S Treasuries	\$ 144,244	\$ 7,413	\$ 93,730	\$ 34,455	\$ 8,646
U.S. Agencies	25,184	1,408	17,057	6,237	482
Government Asset and Mortgage Backed Collateralized Mortgage Obligations	21,510	-	1,600	3,220	16,690
Government CMOs	26,583	-	8,575	6,591	11,417
Corp CMOs	24,948	-	783	883	23,282
Corporate Bonds	537,796	55,721	420,961	48,044	13,070
Corporate Asset Backed	94,503	-	31,037	4,092	59,374
Private Placements	121,392	7,121	65,556	23,872	24,843
Municipal Bonds	22,716	3,008	14,697	3,250	1,761
Non US Government/Corp Bonds	110,692	812	10,441	14,736	84,703
Total	\$ 1,129,568	\$ 75,483	\$ 664,437	\$ 145,380	\$ 244,268

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, 2015, 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, 2015. 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.

Major Moves/Next Generation Funds		
Investment Type	Greatest Risk Ratings	Fair Value
U.S. Treasuries	AA	\$ 144,244
U.S. Agencies	AA	25,184
Government Asset And Mortgage Backed Collateralized Mortgage Obligations	AA	21,510
Government CMO's	AA	26,583
Corporate CMO's	AAA	4,752
	AA	556
	A	547
	BBB	1,253
	BB	413
	B	3,738
	CCC&Below	13,689
Non US Gov/Corp Bonds	AAA	131
	A	7,520
	BBB	5,337
	BB	1,764
	B	19,258
	CCC&Below	1,274
	NR	75,408
Corporate Bonds	AAA	3,342
	AA	28,479
	A	232,340
	BBB	32,715
	BB	5,132
	B	232,122
	CCC&Below	1,576
	NR	2,090
Corporate Asset and Mortgage Backed	AAA	68,924
	AA	6,104
	A	3,449
	BBB	74
	B	1,154
	CCC&Below	14,798
Private Placements	AAA	27,620
	AA	14,898
	A	24,661
	BBB	4,628
	BB	1,565
	B	37,295
	CCC&Below	9,496
	NR	1,229
Municipal Bonds	AAA	861
	AA	9,446
	A	10,622
	BBB	858
	BB	845
	B	81
	NR	3
Total		\$ 1,129,568

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, 2015, 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:

<u>Currency</u>	<u>Combined Total</u>	<u>% of Total Market Value</u>
Australia	\$ (1,088)	(0.09)
Brazil	1,798	0.15
Canada	(179)	(0.02)
Columbian Peso	1,271	0.11
Euro	(8,447)	(0.70)
Ghana	154	0.01
Hungary	259	0.02
India	1,104	0.09
Indonesia	1,872	0.16
Japan	(3,306)	(0.28)
Malaysia	1,121	0.09
Mexico New Peso	7,393	0.62
New Turkish Lira	1,645	0.14
New Zealand	0	-
Norwegian Krone	0	-
Philippines Peso	236	0.02
Polish Zloty	1,645	0.14
Singapore Dollar	(538)	(0.05)
South African Comm Rand	898	0.08
South Korean Won	(1,781)	(0.15)
Switzerland Franc	(34)	-
United Kingdom	100	0.01
Uruguayan Peso	590	0.05
Total	\$ 4,714	0.40

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.

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

Consistent with the provisions of a 2a-7 like pool as defined by GASB Statement No. 31, TrustIndiana securities are valued at amortized cost, which approximates market value.

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, 2015:

TrustIndiana - Local Government Investment Pool		
Investment Type	Amortized Cost	Investment Maturities (in Years)
		Less than 1
U.S Treasuries	\$ 6,627	\$ 6,627
U.S. Agencies	13,251	13,251
Commercial Paper	58,246	58,246
Money Market Mutual Funds	4,894	4,894
Total	\$ 83,018	\$ 83,018

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, 2015, 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:

TrustIndiana - Local Government Investment Pool		
Investment Type	Greatest Risk	Fair Value
	Ratings	
U.S Treasuries	AA+	\$ 6,627
U.S. Agencies	AA+	13,251
Commercial Paper	A1	58,246
Money Market Mutual Funds	AAA	4,894
Total		\$ 83,018

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 to 40% of net assets if the issuer is rated A1+/P1 and 25% of net assets if the issuer is rated A1/P1. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

At June 30, 2015, 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, 2015, there were no securities on loan and therefore, no credit risk exposure.

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

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 10-12-2-2 (c-e), established the prudent investor standard as the primary statutory provision governing the investment of the Trust's assets. IC 10-12-2-2 (c-e) 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 similar capacity and familiar with such matters would use in the conduct of an enterprise of a like character with similar 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 SPRF's adopted asset allocation policy as of June 30, 2015:

Asset Class	Target	Long-Term
	Allocation (%)	Expected Real Rate of Return (%)
Broad domestic equity	29.0	7.7
Global ex U.S. equity	13.0	7.9
Defensive fixed income	4.0	2.8
Domestic fixed income	17.0	3.0
High yield fixed income	5.0	5.1
Hedge funds - alternatives	30.0	5.1
Cash and equivalents	2.0	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.

State Police Pension Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Treasuries	AA	\$ 5,065
U.S. Agencies	AA	511
U.S. Agencies Assets and Mortgage Backed Securities	AA	8,422
Collateralized Mortgage Obligations		
Corporate CMOs	AAA	228
	A	52
	BBB	17
U.S. Agencies CMOs	AA	891
	NR	565
Corporate Bonds	AA	637
	A	6,494
	BBB	1,603
	BB	164
	B	12,204
	CCC & Below	129
Corporate Asset Backed	AAA	1,633
	AA	218
	A	3,172
Private Placements	A	486
	BBB	202
	BB	603
Municipal Bonds	AAA	225
	AA	1,517
	A	1,241
	BBB	257
Mutual/Commingled Funds	NR	29,886
Total		\$ 76,422

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, 2015, 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) custodian's 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. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

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, 2015, 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:

State Police Pension					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasuries	\$ 5,065	\$ 197	\$ 650	\$ 2,297	\$ 1,921
U.S. Agencies					
Bonds	511	304	-	207	-
Mortgage Backed	8,422	4	21	775	7,622
Government CMO's	1,456	-	-	277	1,179
Collateralized Mortgage Obligations					
Corporate CMO's	297	-	54	-	243
Corporate Bonds	21,231	1,702	7,277	9,636	2,616
Corporate Asset Backed	5,023	-	2,562	161	2,300
Foreign Bonds	-	-	-	-	-
Private Placements	1,291	-	1,070	214	7
Municipal Bonds	3,240	319	1,199	968	754
Money Market Mutual Funds	29,886	29,886	-	-	-
Total	\$ 76,422	\$ 32,412	\$ 12,833	\$ 14,535	\$ 16,642

Rate of Return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -0.26%. 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. 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	% of Total	
	Market Value	Market Value
Australia	\$ 440	0.10
Canada	1,425	0.32
Denmark	619	0.14
Euro	1,905	0.43
Hong Kong	1,391	0.31
Mexico	9	-
Japan	3,767	0.84
South Africa	182	0.04
Sweden	1,200	0.27
Switzerland	710	0.16
United Kingdom	3,096	0.69
Total	\$ 14,744	3.30

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, and agency of the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise. 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, 2015, the State Police Pension Trust did not have any securities on loan and therefore, no credit risk exposure.

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, the SPD OPEB Trust Fund, the DNR OPEB Trust Fund, and the ATC/Excise OPEB Trust Fund.

The State Police Retiree Health Benefit Trust Fund consists of sections 401(h) and 115 established pursuant to the Internal Revenue Service that are separate accounts established within the State Police Pension Fund 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 this Fund, since it is to be invested in the same manner as the State Police Pension Fund, is established

under Indiana Code IC 10-12-2-2(c). There is no formal deposit policy other than compliance to State statute.

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.

The SPD, DNR, and the ATC/Excise OPEB Trust Funds were established pursuant to HEA 1123 of the 2012 Indiana General Assembly. The State Personnel Department administers the SPD OPEB Trust Fund. The Department of Natural Resources administers the DNR OPEB Trust Fund. The ATC/Excise OPEB Trust Fund is administered by the Alcohol and Tobacco Commission. These trust funds were created to provide for the prefunding of annual required contributions and for covering the OPEB liability of covered individuals. 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. 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 the State

Retiree Health Benefit Trust Fund - DB:

State Employee Retiree Health Benefit Trust Funds - DB		
Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Agencies	AA+	\$ 85,834
Supranationals	AAA	16,001
Total		\$ 101,835

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, 2015, 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	51.79%	\$ 56,169
FHLMC	13.06%	14,163
FFCB	14.29%	15,502
IBRD	14.75%	16,001

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) interest bearing obligations that are issued by, fully insured by, or guaranteed by the united states, an agency of the United State, an agency of the united States government, 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.

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, 2015:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Agencies	85,834	77,314	8,520
Supranationals	16,001	16,001	-
Total	\$ 101,835	\$ 93,315	\$ 8,520

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	Fair Value
	Ratings	
U.S. Treasuries	AA	\$ 22,481
U.S. Agencies	AA	176,103
Supranationals	AAA	5,008
Local Government Investment Pool	NR	10,001
Total		\$213,593

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, 2015, 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	37.30%	\$ 100,956
Federal Home Loan Mortgage Corporation	9.25%	25,042
Federal Agriculture Mortgage Corporation	16.66%	45,091

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) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, an agency of the United States government, 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.

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, 2015:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Treasuries	\$ 22,481	\$ 22,481	\$ -
U.S. Agencies	176,103	115,033	61,070
Supranationals	5,008	5,008	-
Local Government Investment Pool	10,001	10,001	-
Total	\$ 213,593	\$ 152,523	\$ 61,070

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 statute (IC 5-10.3-5-3(a)) for PERF and (IC 5-10.4-3-10(a)) for TRF, 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 also is 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 plans. The INPRS Board of Trustees utilizes external investment managers, each with specific mandates to collectively achieve the investment objectives of the retirement funds. Depending on the mandate and 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 periodically.

In October 2011, the INPRS Board of Trustees adopted a new Investment Policy Statement effective January 1, 2012, and the new strategic asset allocation for the Consolidated Defined Benefit Assets is as follows:

Asset Classes	Target Allocation - %	Allowable Ranges - %
Public Equity	22.5	20-25
Private Equity	10	7-13
Fixed Income - Ex Inflation - Linked	22	19-25
Fixed Income - Inflation - Linked	10	7-13
Commodities	8	6-10
Real Estate	7.5	4-11
Absolute Return	10	6-14
Risk Parity	10	5-15

Contributions and asset reallocation in the PERF, TRF Pre-1996 and TRF 1996 Annuity Savings Accounts and the Legislators' Defined Contribution Plan (LEDC) are directed by the members in each plan and as such, the asset allocation will differ from that of the Consolidated Defined Benefit Assets.

The Pension Relief Fund (PR Fund) is invested 100 percent in a money market fund.

The State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund are 100 percent invested in short-term and fixed income investments.

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the fiscal year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense is as follows:

Pension Trust Funds (1)	2015 Annual Money Weighted Rate of Return
Public Employees' Retirement Fund	0.32%
Teachers' Retirement Fund Pre-1996 Account (2)	0.57%
Teachers' Retirement Fund 1996 Account (2)	0.57%
1977 Police Officers' and Firefighters' Pension and Disability Fund	(0.07%)
Judges' Retirement System	(0.06%)
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	(0.09%)
Prosecuting Attorneys' Retirement Fund	(0.08%)
Legislators' Defined Benefit Plan	(0.13%)
Total (3)	0.44%

(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 deposits and short-term investment funds as of June 30, 2015.

Cash Deposits	Total
Demand Deposit Account – Bank Balances (Insured by FDIC up to \$250 thousand per financial institution)	\$ 6,472
Held with Treasurer of State (Fully insured)	554
Demand Deposit - Outstanding Check Flot	(40,632)
Held with Custodian Bank (Uncollateralized)	219,000
Short-term Investment Funds held at Bank (Collateralized)	943,432
Total	\$ 1,128,826

Summary of Investments Held

A summary of investments held as of June 30, 2015, exclusive of operational cash and the securities lending program is as follows:

<u>Investment Type (1)</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Short Term Investments (2)	\$ 70,988	0.2%
Short Term		
Cash at Brokers	219,000	0.7
Money Market Sweep Vehicle	872,444	2.9
Commercial Paper	1,250	0.0
U.S. Treasury Obligations	120,528	0.4
U.S. Agencies	37,726	0.1
Non-U.S. Governments	16,219	0.1
Subtotal	<u>1,267,167</u>	<u>4.2</u>
Fixed Income		
U.S. Governments	4,039,049	13.5
Non-U.S. Governments	2,650,291	8.8
U.S. Agencies	600,841	2.0
Corporate Bonds	2,912,785	9.7
Asset-Backed Securities	760,515	2.5
Commingled Fixed Income Funds	832,407	2.8
Subtotal	<u>11,795,888</u>	<u>39.3</u>
Equity		
Domestic Equities	3,095,918	10.3
International Equities	2,854,181	9.5
Commingled Equity Funds	1,345,359	4.5
Subtotal	<u>7,295,458</u>	<u>24.3</u>
Alternative Investments		
Private Equity	4,755,395	15.8
Absolute Return	1,564,922	5.2
Private Real Estate	797,717	2.7
Risk Parity	2,506,380	8.3
Subtotal	<u>9,624,414</u>	<u>32.0</u>
Derivatives		
	<u>2,711</u>	<u>0.0</u>
Total	<u>\$30,056,626</u>	<u>100.0%</u>
<p>(1) The amounts disclosed above differ from the Asset Allocation Summary. The investment type disclosure groups 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.</p> <p>(2) Short-Term investments include highly liquid assets, both non-pooled and pooled, that are an integral part of the pension investments.</p>		

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, are not registered in the name of INPRS and are held by either the counterparty or the counterparty trust department's agent, but not in INPRS' name.

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, 2015, there were no investment or collateral securities subject to custodial credit risk and \$225,472 thousand of cash on deposit which was uninsured and uncollateralized and therefore exposed to credit risk as disclosed under cash in bank and deposits.

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

Method Used to Value Investments

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

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

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

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes. The INPRS Investment Policy Statement recognizes interest rate risk as a market risk factor that is monitored on an absolute and relative basis.

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As of June 30, 2015 the debt securities had the following duration information:

Debt Security Type	Fair Value 6/30/2015	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Short Term Investments			
Money Market Sweep Vehicle	\$ 902,800	6.9	0.01
Commercial Paper	1,250	0.0	0.79
U.S. Treasury Obligations	120,528	0.9	0.14
U.S. Agencies	37,726	0.3	0.05
Non-U.S. Government	11,172	0.1	0.33
Duration Not Available	264,679	2.0	N/A
Subtotal	1,338,155	10.2	
Fixed Income Investments			
U.S. Governments	4,039,049	30.7	7.90
Non-U.S. Government	2,650,443	20.2	7.24
U.S. Agencies	599,121	4.6	2.93
Corporate Bonds	2,692,460	20.5	4.77
Asset-Backed Securities	682,887	5.2	1.22
Duration Not Available	1,131,928	8.6	N/A
Subtotal	11,795,888	89.8	
Total	\$13,134,043	100.0	

The \$1,397 million, 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 that the issuer will default and not meet their obligations.

The INPRS Investment Policy Statement recognizes credit (quality) risk as a market and strategic risk factor that is monitored on an absolute and relative basis.

The quality rating of investments in debt securities as described by using Standard and Poor's as the primary rating, followed by Moody's next, if Standard and Poor's did not have a rating, and Fitch last, if Standard and Poor's and Moody's did not have ratings, at June 30, 2015 is as follows:

Credit Rating	Short-Term Investments	Fixed Income Securities	Total	Percentage of All Debt Securities
AAA	\$ -	\$ 1,021,392	\$ 1,021,392	7.9
U.S. Government Guaranteed	-	4,639,890	4,639,890	35.9
AA	158,253	1,373,919	1,532,172	11.9
A	10,146	1,608,462	1,618,608	12.5
BBB	1,250	1,418,765	1,420,015	11.0
BB	-	337,491	337,491	2.6
B	-	139,966	139,966	1.1
Below B	-	246,587	246,587	1.9
Unrated	949,506	1,009,416	1,958,922	15.2
Total	\$ 1,119,155	\$11,795,888	\$ 12,915,043	100.0

The \$1,959 million not rated is primarily in 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 that 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.

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

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

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

passively managed portfolios without Board approval

No investment manager shall manage more than 25 percent of the system's assets in a combination of actively and passively managed portfolios.

At June 30, 2015, single issuer exposure in the portfolio did not exceed 5 percent of the total net 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. INPRS' foreign currency exposure is focused primarily in international fixed income and equity holdings.

At June 30, 2015, 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. INRPS monitors currency risk at the total fund level, portfolio level, and asset class level.

INPRS has exposure to foreign currency risk at June 30, 2015 as follows:

Foreign Currency Held at June 30, 2015						
Currency	Short Term	Fixed Income	Equity	Other Investments	Grand Total	% of Total
Australian Dollar	\$ 379	\$ 63,857	\$ 79,350	\$ (78,626)	\$ 64,960	0.2%
Brazilian Real	664	54,592	27,562	(29,304)	53,514	0.2
Canadian Dollar	1,340	118,860	111,845	(109,899)	122,146	0.4
Chilean Peso	-	(20)	-	3,081	3,061	-
Chinese R Yuan HK	-	-	-	(9,567)	(9,567)	-
Colombian Peso	422	20,623	-	(1,455)	19,590	0.1
Czech Koruna	-	547	537	(526)	558	-
Danish Krone	298	17,196	45,768	(14,501)	48,761	0.2
Dominican Rep Peso	-	3,063	-	3	3,066	-
Egyptian Pound	-	-	924	-	924	-
Euro Currency Unit	14,158	1,090,236	559,133	(985,475)	678,052	2.3
German Mark	-	167	-	-	167	-
Hong Kong Dollar	404	-	165,918	(143)	166,179	0.6
Hungarian Forint	16	3,326	1,858	9,223	14,423	-
Indian Rupee	168	45	26,179	2,119	28,511	0.1
Indonesian Rupiah	24	28,124	2,657	(322)	30,483	0.1
Israeli Shekel	56	-	5,633	-	5,689	-
Japanese Yen	5,251	310,441	504,603	(331,598)	488,697	1.6
Malaysian Ringgit	18	18,099	-	7,005	25,122	0.1
Mexican Peso	17,532	61,591	1,209	(9,571)	70,761	0.2
Taiwan New Dollar	81	-	53,563	(4,935)	48,709	0.2
Turkish Lira	260	25,870	20,900	(343)	46,687	0.2
New Zealand Dollar	132	8,456	3,143	(8,591)	3,140	-
Nigerian Naira	-	-	-	1,385	1,385	-
Norwegian Krone	362	4,301	11,329	15,012	31,004	0.1
Peruvian Nuevo Sol	-	2,366	-	350	2,716	-
Philippines Peso	17	-	2,904	1,294	4,215	-
Polish Zloty	87	24,616	3,657	6,123	34,483	0.1
British Pound Sterling	8,738	584,614	356,961	(581,868)	368,445	1.2
Qatari Riyal	90	-	1,010	(90)	1,010	-
Romania Leu	6	1,707	-	6,416	8,129	-
Russian Ruble	2	17,016	-	(4,683)	12,335	-
South African Rand	243	28,852	32,003	(558)	60,540	0.2
Singapore Dollar	231	8,352	23,014	(18,491)	13,106	-
South Korean Won	94	(224)	79,473	(21,787)	57,556	0.2
Swedish Krona	464	64,204	82,073	(58,243)	88,498	0.3
Swiss Franc	1,917	4,033	148,299	(9,525)	144,724	0.5
Thai Baht	6	14,734	8,051	(1,248)	21,543	0.1
UAE Dirham	-	-	4,366	-	4,366	-
Zambia Kwacha	-	150	-	-	150	-
Total	\$ 53,460	\$ 2,579,794	\$ 2,363,922	\$ (2,229,338)	\$ 2,767,838	9.2%

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.

Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the INPRS Board of Trustees may authorize a 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 that collateral initially in excess of the total fair value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total fair value of the loaned securities.

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 at one time. 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 cannot be pledged or sold unless the borrower defaults.

At June 30, 2015, INPRS had no credit risk exposure since the collateral value held exceeded the fair value of securities on loan. Securities lending as of June 30, 2015 is as follows:

Security Type	Fair Value of Securities on Loan	Collateral Value (Securities and Cash)
U.S. Governments	\$ 1,183,756	\$ 1,214,189
Corporate Bonds	120,349	123,581
International Bonds	24,443	25,576
Domestic Equities	594,077	608,724
International Equities	111,797	119,988
Total	\$ 2,034,422	\$ 2,092,058

Cash collateral can be reinvested. The reinvested assets are subject to the investment guidelines specified by the INPRS Investment Policy Statement. It states that the maximum weighted average days to maturity may not exceed 60. The securities lending agent matches the maturities of the cash collateral investments with stated

securities loans' termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities. INPRS retains the fair value risk with respect to the investment of the cash collateral.

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2015 is as follows:

Credit Rating	Commercial Paper	Repurchase Agreements	Floating Rate Notes	Money Funds	Fair Value of Reinvested Cash Collateral	Percent of Portfolio
A-1	\$ 141,853	\$ -	\$ -	\$ -	\$ 141,853	11.5
AA-	-	-	419,963	-	419,963	34.0
A	-	-	115,366	-	115,366	9.3
Unrated	-	472,533	14,997	70,275	557,805	45.2
Total	\$ 141,853	\$ 472,533	\$ 550,326	\$ 70,275	\$ 1,234,987	100.0

The majority of the unrated reinvested cash collateral investments consist of repurchase agreements that are not rated by any of the rating agencies.

Repurchase Agreements

A repurchase agreement is an agreement in which

INPRS transfers cash to a broker-dealer or financial institution. The broker-dealer or financial institution transfer 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.

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 with INPRS' security collateral held at the broker dealer or financial institution's custodian bank.

Cash received and reinvested in securities are not required to match the maturities of the securities posted as collateral.

At June 30 2015, INPRS did not have a repurchase agreement or an obligation under reverse repurchase agreement program at the total fund level. However, at the manager level, repurchase agreements and obligations under reverse repurchase agreements are allowable investments.

There were no repurchase agreements held at June 30, 2015 outside of the securities lending collateral holdings. The amounts held at June 30, 2015 for obligations under reverse repurchase agreements, exclusive of securities lending reinvested cash collateral, are as follows:

Obligations Under Reverse Repurchase Agreements by Collateral Type	Cash Collateral Posted	Market Value
U.S. Treasury	\$ 187,635	\$ 190,010

At June 30, 2015, INPRS had no credit risk exposure related to obligations under reverse repurchase agreements since the collateral value posted exceeded the fair value of the liability held.

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 held by INPRS 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 INPRS' 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.

INPRS' 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, INPRS' 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.

The fund enters into foreign currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

Derivative Contracts

The tables below summarize INPRS' derivative contracts for the year ending June 30, 2015:

Investment Derivatives	Changes in Fair Value		
	Fair Value	Fair Value	Notional
Futures			
Index Futures - Long	\$ 4,746	\$ 4,746	\$ 634,840
Commodity Futures - Long	(227)	(227)	1,217,244
Fixed Income Futures - Long	(1,939)	(1,939)	466,368
Fixed Income Futures - Short	115	115	(535,520)
Subtotal	2,695	2,695	1,782,932
Options			
Currency Spot Options Bought	(628)	574	201,005
Currency Spot Options Written	646	(689)	126,004
Interest Rate Options Bought	(1,006)	6,983	2,329,410
Interest Rate Options Written	1,117	(7,285)	931,800
Fixed Income Options Bought	(214)	400	400
Fixed Income Options Written	75	(52)	(52)
Inflation Rate Swaptions Bought	(12)	2	6,955
Subtotal	(22)	(67)	3,595,522
Swaps			
Interest Rate Swaps - Pay Fixed Receive Variable	(2,237)	(2,238)	1,157,707
Interest Rate Swaps - Pay Variable Receive Fixed	3,379	(3,322)	484,488
Inflation Swaps - Pay Fixed Receive Variable	655	632	36,500
Inflation Swaps - Pay Variable Receive Fixed	(106)	(102)	3,036
Currency Swaps	(254)	(251)	16,819
Total Return Swaps	(18)	(18)	6,323,000
Credit Default Swaps Single Name - Buy Protection	(182)	865	50,543
Credit Default Swaps Single Name - Sell Protection	(401)	1,406	68,480
Credit Default Swaps Index - Buy Protection	(849)	1,479	7,917
Credit Default Swaps Index - Sell Protection	(56)	1,632	54,766
Subtotal	(69)	83	8,203,256
Total	\$ 2,604	\$ 2,711	\$ 13,581,710

The table below summarizes the swap maturity profile as of June 30, 2015.

Swap Type	Swap Maturity Profile at June 30, 2015					
	< 1 yr	1 - 5 yrs	5 - 10 yrs	10 - 20 yrs	20 + yrs	Total
Interest Rate Swaps - Pay Fixed Receive Variable	\$ 124	\$ (2,202)	\$ (1,226)	\$ 821	\$ 245	\$ (2,238)
Interest Rate Swaps - Pay Variable Receive Fixed	(210)	(560)	(3,565)	1,014	(1)	(3,322)
Inflation Swaps - Pay Fixed Receive Variable	-	632	-	-	-	632
Inflation Swaps - Pay Variable Receive Fixed	-	-	-	(64)	(38)	(102)
Currency Swaps	(62)	(37)	(152)	-	-	(251)
Total Return Swaps	(18)	-	-	-	-	(18)
Credit Default Swaps Single Name - Buy Protection	-	(462)	745	-	582	865
Credit Default Swaps Single Name - Sell Protection	16	1,390	-	-	-	1,406
Credit Default Swaps Index - Buy Protection	-	-	-	-	1,479	1,479
Credit Default Swaps Index - Sell Protection	91	1,551	-	-	(10)	1,632
Total	\$ (59)	\$ 312	\$ (4,198)	\$ 1,771	\$ 2,257	\$ 83

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 Fund 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, 2015, was \$17,514 thousand, of which \$13,519 thousand was uncollateralized.

The tables below summarize the counterparty positions as of June 30, 2015:

Swaps Counterparty	S&P Rating	Fair Value		Total Fair Value	Collateral	
		Receivable/ Unrealized Gain	Payable/ (Unrealized Loss)		Posted	Received
Bank of America	A-	\$ 689	\$ (942)	\$ (98)	\$ 1,720	\$ (100)
Banque Nationale De Paris	A+	98	(164)	(49)	660	-
Barclays	BBB	67	(58)	(49)	-	-
Citibank	A-	662	(1,824)	1,564	1,442	(3,170)
CME Central	AA-	11,902	(6,243)	(1,888)	-	-
Credit Suisse	BBB+	28	(318)	(241)	877	(2)
Deutsche Bank	BBB+	2,396	(3,149)	(658)	650	(3,909)
Goldman Sachs	A-	492	(761)	1,441	-	(1,590)
HSBC Securities Inc	A	23	(348)	(337)	910	-
Intercontinental Exchange, Inc.	A	1	(181)	2,262	830	-
JPMorgan Chase Bank	A	245	(229)	(20)	300	(1,000)
London Clearing House	BBB+	911	(3,378)	(1,842)	-	-
Total		\$ 17,514	\$ (17,595)	\$ 85	\$ 7,389	\$ (9,771)

Interest Rate Risk

The System has exposure to interest rate risk due

to investments in interest rate and inflation swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule.

The table below summarizes INPRS's 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 3.75%	3M USD LIBOR	\$ (2,349)	\$1,027,376
Indian Rupee	7.35% to 7.66%	INR MIBOR OIS COMPOUND	45	30,444
British Pound Sterling	0.65% to 2.75%	6M GBP LIBOR BBA	(211)	20,791
Brazilian Real	12.00% to 13.16%	1D BRL CDI	168	19,276
Euro Currency Unit	0.75% to 2.10%	6M EURIBOR REUTERS	557	19,181
Mexican Peso	3.57% to 5.66%	28D MXN TIIE BANXICO	7	14,310
Chilean Peso	3.64% to 5.36%	6M CLP CLICP BLOOMBERG	(20)	6,751
Swedish Krona	0.75%	3M SEK STIBOR SIDE	22	4,906
South Korean Won	3.47% to 3.56%	3M KRW KWCDC COD	(433)	4,246
Malaysian Ringgit	0.00% to 4.52%	3M MYR KLIBOR	(24)	4,164
Japanese Yen	0.75% to 1.00%	6M JPY LIBOR BBA	-	3,587
Colombian Peso	4.85% to 5.35%	1D COP COOVIBR	(2)	1,036
South African Rand	7.89% to 8.55%	3M ZAR JIBAR SAFEX	10	636
Colombian Peso	5.11% to 5.92%	DTF90 COP	(1)	568
Australian Dollar	3.50%	6M AUD BBR BBSW	(3)	300
New Zealand Dollar	4.25%	3M NZD BBR FRA	(4)	135
Total			\$ (2,238)	\$1,157,707
Interest Rate Swap - Pay Variable Receive Fixed:				
Brazilian Real	1D BRL CDI	8.86% to 13.95%	\$ (1,590)	\$ 128,911
U.S. Dollar	3M USD LIBOR	1.00% to 3.00%	(1,645)	127,270
Euro Currency Unit	6M EURIBOR REUTERS	0.50% to 1.85%	654	79,849
Mexican Peso	28D MXN TIIE BANXICO	3.51% to 7.64%	(564)	53,543
Thailand Baht	6M THBFIX REUTERS	1.80% to 1.99%	103	22,836
Brazilian Real	1M BRL CDI	11.12% to 13.87%	(43)	21,942
Canadian Dollar	3M CAD BA CDOR	1.00%	25	12,964
South Korean Won	3M KRW CD KSDA	2.17% to 2.88%	107	8,065
Norwegian Krone	6M NOK NIBOR BBG	1.00%	(42)	7,742
South African Rand	3M ZAR JIBAR SAFEX	6.55% to 7.64%	(255)	7,292
South Korean Won	3M KRW KWCDC COD	2.03% to 2.94%	103	6,664
Swedish Krona	3M SEK STIBOR SIDE	1.50% to 1.75%	(197)	4,304
British Pound Sterling	6M GBP LIBOR BBA	2.25%	8	1,541
Japanese Yen	6M JPY LIBOR BBA	1.50%	(1)	1,253
Canadian Dollar	6M CAD BA CDOR	2.75%	15	312
Total			\$ (3,322)	\$ 484,488

Foreign Currency Risk

The Fund 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.

At June 30, 2015, INPRS' investments included the following currency forwards balances:

Forward Currency Contract Receivable	\$ 5,798,575
Forward Currency Contract Payable	(5,819,991)

The aggregate realized gain/loss recognized for the year ended June 30, 2015 due to foreign currency

transactions was \$132.1 million realized gain.

Long Term Commitments for Alternative Investments

INPRS enters into long term commitments for funding other investments in private equity and private real estate. These amounts include Euro currency, Norwegian Krone and British Pound Sterling denominated commitments to limited liability partnerships. The remaining amount of unfunded commitments, converted to U.S. dollars using the closing exchange rate, as of June 30, 2015, is as follows:

<u>Currency</u>	<u>Total Unfunded Commitments</u>
U.S. Dollar	\$ 2,030,629
Euro Currency Unit	37,957
Norwegian Krone	5,949
British Pound Sterling	1,078
Total	<u>\$ 2,075,613</u>

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, 2015, the following funds had temporary cash overdrafts covered by loans from the General Fund: U.S. Department of Health and Human Services Fund, \$208.4 million, U.S. Department of Labor Fund,

\$4.4 million, and S&S Children’s Home Construction Fund, \$0.7 million. Also, reported is 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.

The following is a summary of the Interfund Loans as of June 30, 2015:

	<u>Loans To Governmental Funds</u>	<u>Loans From Governmental Funds</u>
Governmental Funds		
General Fund	\$ 213,485	\$ -
Nonmajor Governmental Funds	8,000	221,485
Total	<u>\$ 221,485</u>	<u>\$ 221,485</u>

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.

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The following is a schedule of Interfund Services Provided/Used as of June 30, 2015:

	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
Governmental Funds		
General Fund	\$ -	\$ 5,677
Nonmajor Governmental Funds	-	4,231
Total Governmental Funds	<u>-</u>	<u>9,908</u>
Proprietary Funds		
Internal Service Funds	<u>9,908</u>	<u>-</u>
Total Proprietary Funds	<u>9,908</u>	<u>-</u>
Total	<u><u>\$ 9,908</u></u>	<u><u>\$ 9,908</u></u>

Due From/Due To

The \$40.0 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 \$13.1 million represents the accrued distribution amount from the

State Lottery Commission to the Build Indiana Fund. The amounts due to Indiana University of \$9.6 million, Purdue University for \$7.2 million, and the nonmajor universities of \$12.4 million are from FY 2015 state appropriations. \$2.5 million of the \$12.4 million due to the nonmajor universities is due from nonmajor governmental funds of the Indiana Commission for Higher Education.

The following is the schedule of Due From/Due To of component units, as of June 30, 2015:

	Due From Primary Government	Due To Component Units	Due From Component Units	Due To Primary Government
Governmental Funds				
General Fund	\$ -	\$ 66,712	\$ -	\$ -
Nonmajor Governmental Funds	-	2,498	13,143	-
Total Governmental Funds	<u>-</u>	<u>69,210</u>	<u>13,143</u>	<u>-</u>
Component Units				
Indiana University	9,600	-	-	-
Purdue University	7,181	-	-	-
Nonmajor Universities	12,429	-	-	-
Board for Depositories	40,000	-	-	-
State Lottery Commission	-	-	-	13,143
Total Component Units	<u>69,210</u>	<u>-</u>	<u>-</u>	<u>13,143</u>
Total	<u><u>\$ 69,210</u></u>	<u><u>\$ 69,210</u></u>	<u><u>\$ 13,143</u></u>	<u><u>\$ 13,143</u></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 – \$389.5 million was transferred in from the Medicaid Assistance Fund of which \$159.7 million was unused State match appropriations from prior fiscal years, \$182.9 million was the State's share of hospital assessment fees, and \$46.9 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. \$446.8 million was transferred in from the State Gaming Fund which was wagering taxes from riverboats and slot machines at horse tracks. The Build Indiana Fund transferred in \$236.2 million as Motor Vehicle Excise Tax Cut Replacement distributions. \$135.2 million was received from the Fund 6000 Programs Fund of which \$84.8 million was distribution of financial institutions tax per IC 6-5.5; \$19.9 million was transferred in for Indiana Veterans' Home administration from the Comfort-Welfare Fund's receipts of resident fees and Medicaid reimbursements; \$18.1 million was distributed from the Standard and Poor's settlement per IC 4-12-1-14.7(d) of which \$14.6 million was transferred to the adjustments to surplus fund and \$3.5 million was transferred to the securities and enforcement fund belonging to the Secretary of State; \$3.8 million was transferred in from consumer and non-consumer settlements, unclaimed property litigation, the telephone solicitation fund, and real estate appraiser licensing for the Office of the Indiana Attorney General; \$3.2 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; \$3.6 million was transferred in from permit fees collected from business that sell alcoholic beverages per IC 7.1-4-9-4; and \$1.8 million was transferred to the Indiana Department of Toxicology's administrative fund. \$43.9 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 Addition.

The following were transfers out from the General Fund: The Public Welfare Medicaid Assistance Fund received \$2.2 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 service's needs. \$281.2 million was transferred to the U.S. Department of Health and Human Services Fund in support of: \$109.2 million for Department of Child Services programs including adoption services grants, adoption assistance, special needs adoption, family and children services, administration (for case management, state, and county), Social Security Title IV-D services to needy families with children, the Indiana Support Enforcement Tracking System, child welfare services state grants and training, child welfare administration, independent living, and healthy families Indiana; \$96.1 million for the Family and Social Services' Division of Family Resources for local offices, state administration, child care services, information systems, and the temporary assistance for needy families program; \$51.0 million for the State Medicaid program; \$10.3 million to the FSSA divisions of Aging and Disability and Rehabilitative Services for developmental disabled client and aging services, \$8.0 million for county prosecutors' and local judges' salaries; \$6.4 million for FSSA's central office; and \$0.2 million for the Department of Health including the cancer registry and state match for the children with special health care needs program. \$200.0 million was transferred to the Major Moves Construction Fund pursuant to Indiana Code 8-14-14.1-4. \$281.5 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. The Mental Health Center Fund received appropriation transfers in totaling \$99.7 million to fund services to adults who are seriously mentally ill in comprehensive community health centers and for the administration of services by the Department of Mental Health. The Build Indiana Fund received

\$65.3 million from riverboat (\$65.2 million) and pari-mutuel (\$0.1 million) wagering taxes which went to the Lottery and Gaming Surplus Account. \$57.0 million was transferred to the Hospital Care for the Indigent Fund for the Hospital Care for the Indigent Program. \$59.5 million was transferred to the U.S. Department of Agriculture Fund as the State's match of which \$50.4 million was for the FSSA Division of Family Resources' local offices, state administration, information systems, TANF, 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, \$2.5 million was for the FSSA central office fund, \$1.4 million was for Board of Animal Health and administration and their meat and poultry inspection program, and \$0.3 million was for DNR administration and capital projects. \$40.7 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 had a transfer in of \$2.2 billion from the General Fund to support the state Medicaid program administered through the Office of Medicaid Policy and Planning. \$101.8 million was transferred in from the healthy Indiana plan trust fund to support the newly approved Healthy Indiana Plan (or HIP 2.0). \$57.5 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. \$48.8 million was transferred in from the Mental Health Centers Fund for reimbursement of services to the seriously mentally ill.

Transfers out included \$389.5 million to the General Fund of which \$159.7 million was the return of unused State match appropriations for Medicaid from prior fiscal years, \$182.9 million was hospital assessment fees, and \$46.9 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.

Major Moves Construction Funds – The Major Moves Construction Fund had a transfer in of \$200.0 million from the Major Moves 2020 Trust Fund which is part of the General Fund pursuant to Indiana Code 8-14-14.1-4. \$49.2 million was transferred in from the State Highway Department for the funds to be reinvested.

The Major Moves Construction Fund had a transfer out of \$147.0 million to the State Highway Department for construction and maintenance of the State's highways, roads, and bridges.

Proprietary Funds

Non-Major Enterprise Funds

The Inns and Concessions Fund – This fund had transfers out of \$2.8 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

\$3.8 million was transferred from the Institutional Industries Fund to the General Fund representing cash assets in excess of \$1.5 million pursuant to Indiana Code 11-10-6-8.

A summary of interfund transfers for the year ended June 30, 2015 is as follows:

	Operating transfers in	Operating transfers (out)	Net transfers
Governmental Funds			
General Fund	\$ 1,349,111	\$ (3,442,522)	\$ (2,093,411)
Public Welfare-Medicaid Assistance Fund	2,385,537	(389,483)	1,996,054
Major Moves Construction Fund	249,178	(146,953)	102,225
Nonmajor Governmental Fund	2,267,618	(2,265,952)	1,666
Proprietary Funds			
Nonmajor Enterprise Funds	3	(2,756)	(2,753)
Internal Service Funds	-	(3,781)	(3,781)
Total	\$ 6,251,447	\$ (6,251,447)	-

C. Receivables

Primary Government – Governmental Activities

Taxes Receivable/Tax Refunds Payable as of June 30, 2015, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>			Total Primary Government
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	
Income taxes	\$ 917,555	\$ -	\$ -	\$ 917,555
Sales taxes	756,196	8,584	-	764,780
Fuel taxes	137	79,143	-	79,280
Gaming taxes	838	12,015	-	12,853
Inheritance taxes	-	-	-	-
Alcohol and tobacco taxes	50,303	29,353	1,792	81,448
Insurance	5,342	-	-	5,342
Financial institutions taxes	-	2,409	-	2,409
Other taxes	14,314	22,891	-	37,205
Total taxes receivable	1,744,685	154,394	1,792	1,900,871
Less allowance for uncollectible accounts	(320,840)	(10,000)	(3)	(330,843)
Net taxes receivable	\$ 1,423,845	\$ 144,394	\$ 1,789	\$ 1,570,028
Tax refunds payable	\$ 48,153	\$ 6,305	\$ -	\$ 54,458

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, 2015 is as follows:

	<u>Business - Type Activities</u>
	<u>Unemployment Compensation</u>
Employer	\$ 78,083
Claimant	173,702
Total receivable	\$ 251,785

Within the last fiscal year, statutory changes have increased the time period for collecting amounts due to the state. Resources provided by the US Department of Labor have increased the tools that can be used to recover amounts. In addition, greater efforts have been made to properly identify amounts that are considered outstanding. Due to these statutory changes, additional tools, and increased efforts, the overall probability that more delinquent debt could be collected has substantially increased. Therefore, we have determined that a larger portion of funds owed to the state should be considered as collectible and reported as a receivable in the current fiscal year. However, we have determined that a major portion of the accounts receivable, \$61.5 million of employer receivables and \$155.7 million of claimant receivables for a total of \$217.2 million, will not be collected within one year.

D. Capital Assets

Capital asset activity for the year ended June 30, 2015, 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	\$ 1,951,642	\$ 77,086	\$ (4,591)	\$ 2,024,137
Infrastructure	9,831,291	1,293,583	(12,990)	11,111,884
Construction in progress	1,616,872	641,101	(1,181,268)	1,076,705
Total capital assets, not being depreciated/amortized	<u>13,399,805</u>	<u>2,011,770</u>	<u>(1,198,849)</u>	<u>14,212,726</u>
Capital assets, being depreciated/amortized:				
Land and water use rights	21,668	423	-	22,091
Buildings and improvements	2,137,545	4,749	(16,189)	2,126,105
Furniture, machinery, and equipment	566,874	48,137	(37,798)	577,213
Computer software	48,580	7,622	(9,999)	46,203
Infrastructure	22,982	116	(55)	23,043
Total capital assets, being depreciated/amortized	<u>2,797,649</u>	<u>61,047</u>	<u>(64,041)</u>	<u>2,794,655</u>
Less accumulated depreciation/amortization for:				
Land and water use rights	(8,441)	(1,101)	-	(9,542)
Buildings and improvements	(1,132,186)	(46,733)	6,548	(1,172,371)
Furniture, machinery, and equipment	(400,360)	(39,964)	31,553	(408,771)
Computer software	(31,653)	(9,588)	9,891	(31,350)
Infrastructure	(14,832)	(508)	3	(15,337)
Total accumulated depreciation/amortization	<u>(1,587,472)</u>	<u>(97,894)</u>	<u>47,995</u>	<u>(1,637,371)</u>
Total capital assets being depreciated/amortized, net	<u>1,210,177</u>	<u>(36,847)</u>	<u>(16,046)</u>	<u>1,157,284</u>
Governmental activities capital assets, net	<u>\$ 14,609,982</u>	<u>\$ 1,974,923</u>	<u>\$ (1,214,895)</u>	<u>\$ 15,370,010</u>

Primary Government – Business-Type Activities

	Balance July 1, restated	Increases	Decreases	Balance, June 30
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 233	\$ 50	\$ -	\$ 283
Furniture, machinery, and equipment	902	-	(610)	292
Total capital assets, being depreciated	<u>1,135</u>	<u>50</u>	<u>(610)</u>	<u>575</u>
Less accumulated depreciation for:				
Buildings and improvements	(162)	(18)	-	(180)
Furniture, machinery, and equipment	(438)	(12)	193	(257)
Total accumulated depreciation	<u>(600)</u>	<u>(30)</u>	<u>193</u>	<u>(437)</u>
Total capital assets being depreciated, net	<u>535</u>	<u>20</u>	<u>(417)</u>	<u>138</u>
Business-type activities capital assets, net	<u>\$ 535</u>	<u>\$ 20</u>	<u>\$ (417)</u>	<u>\$ 138</u>

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

Governmental activities:			
General government	\$	18,856	
Public safety		35,105	
Health		922	
Welfare		8,547	
Conservation, culture and development		11,569	
Education		1,406	
Transportation		21,489	
Total depreciation/amortization expense - governmental activities	\$	97,894	
Business-type activities:			
Inns and Concessions	\$	30	
Wabash Memorial Bridge		-	
Total depreciation expense - business-type activities	\$	30	

E. Leases

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2015 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	
2016	\$ 29,498	\$ 61,710	\$ 45,548	\$ 107,258
2017	26,924	62,668	43,822	106,490
2018	22,015	61,843	41,964	103,807
2019	13,300	63,074	39,487	102,561
2020	8,830	66,336	36,206	102,542
2021-2025	13,091	385,342	127,504	512,846
2026-2030	-	363,822	38,373	402,195
2031-2035	-	347	9	356
Total minimum lease payments (excluding executory costs)	\$ 113,658	1,065,142	\$ 372,913	1,438,055
Less:				
Remaining premium(discount)	-	(7,231)	-	(7,231)
Total minimum lease payments	113,658	\$ 1,057,911	\$ 372,913	\$ 1,430,824
Assets acquired through capital lease				
Land		-		
Building		\$ 5,364		
Machinery and equipment		34,011		
Infrastructure		1,020,879		
less accumulated depreciation		(3,242)		
		\$ 1,057,012		

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 \$29.5 million for the year ended June 30, 2015. 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, 2015 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	\$ 146,313	\$ 81,652	\$ (86,550)	\$ 141,415	\$ 79,299	\$ 62,116
Net pension liability	12,285,047	1,523,029	(2,172,242)	11,635,834	-	11,635,834
Other postemployment benefits	133,712	3,067	-	136,779	-	136,779
Pollution remediation	45,901	710	-	46,611	5,598	41,013
Intergovernmental payable	10,000	-	(10,000)	-	-	-
Capital leases	1,112,598	4,625	(59,312)	1,057,911	61,850	996,061
	\$ 13,733,571	\$ 1,613,083	\$(2,328,104)	\$ 13,018,550	\$ 146,747	\$ 12,871,803
Business-type activities:						
Compensated absences	\$ 580	\$ 187	\$ (215)	\$ 552	\$ 193	\$ 359
Claims liability	28,415	1,096	(2,707)	26,804	3,199	23,605
	\$ 28,995	\$ 1,283	\$(2,922)	\$ 27,356	\$ 3,392	\$ 23,964

Long term obligations of governmental activities include capital lease obligations of governmental funds 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, 2015, 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 statements for governmental funds, and the government-wide statements, there is a decrease of \$1.4 million in net position of the General Fund for Inheritance tax distributions that were not recorded in the prior year.

In the fund financial statements for the General

Fund there was an increase in fund balance of \$150.0 million and a corresponding decrease in fund balance in Special Revenue Funds for the reclassification of the State Tuition Reserve Fund from a special revenue fund to the general fund.

In the fund financial statements for the General Fund there was a decrease in fund balance of \$0.5 million and a corresponding increase in fund balance in Special Revenue Funds for revenues that were incorrectly deposited into the general fund in the prior year.

In the fund statements for the General, and the government-wide statements, net position

increased by \$1.1 million due to the reclassification of certain private purpose trust funds.

In the fund statements for Special Revenue funds, and the government-wide statements, net position increased by \$18.1 million in the Other Special Revenue fund and \$0.3 million in the Fund 6000 Programs fund due to the reclassification of certain agency funds.

In the fund statements for Special Revenue funds fund balance decreased \$6.2 million in the Medicaid Assistance fund, and in the government-wide statements, net position increased \$248.7 million due to errors in the calculation of payables and receivables in the prior year.

In the fund statements for Special Revenue funds, and in the government-wide statements, net position decreased \$4.9 million in the US Department of Labor fund and \$1.5 million in the Other Special Revenue fund due to expenses being recorded in the incorrect funds in the prior year.

For the government-wide statements, there is an increase of \$24.4 million in net position for capital assets. This was the result of not capitalizing capital assets by June 30, 2014 that were acquired prior to this date and for corrections to acquisition cost by state agencies.

For the government-wide statements, there is a decrease of \$18.7 million for software that was incorrectly reported as in development on June 30, 2014.

For the government-wide statements, there is a

The following schedule reconciles June 30, 2014 net position as previously reported, to beginning net position, as restated:

decrease of \$378.1 million in net position for infrastructure assets and Department of Administration Public Works projects that were incorrectly capitalized in prior years as construction in progress.

For the government-wide statements, there is a decrease of \$10.2 billion in net position due to the implementation of GASB 68 relating to the net pension liability.

For the Internal Service funds and the government-wide statements, there is a decrease of \$15.5 million in net position due to the implementation of GASB 68 relating to the net pension liability.

For the Fiduciary Funds, there was a decrease of \$4.1 million due to the reclassification of certain private purpose trust funds.

For the discrete proprietary component units, net position decreased by \$10.1 million due to the implementation of GASB 68. The State Fair Commissions net position increased by \$0.8 million due to an omission of a receivable in the prior year.

For the discrete governmental component unit, net position decreased by \$2.1 million due to the implementation of GASB 68.

For the colleges and universities, net position decreased by \$250.1 million due to the implementation of GASB 68. In addition, the net position of Indiana State University decreased by \$1.0 million due to a change in their method of calculating a receivable.

	Governmental Activities	Business- Type Activities	Fiduciary Funds	Discretely Presented Component Units (Non Fiduciary)
June 30, 2014, fund balance/retained earnings/net assets as reported	\$ 20,513,475	\$ (801,033)	\$ 31,321,575	\$ 13,531,582
Change in accounting principle				
Implementation of GASB 68	(10,221,039)	-	-	(262,209)
Correction of errors	(137,621)	-	-	(185)
Reclassifications of funds	19,549	-	(4,051)	-
Balance July 1, 2014 as restated	\$ 10,174,364	\$ (801,033)	\$ 31,317,524	\$ 13,269,188

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>2015</u>					
Unpaid Claims, July 1	\$ 2,762	\$ 5,230	\$ 36,266	\$ 537	\$ 44,795
Incurred Claims and Changes in Estimate	19,383	19,470	307,385	2,655	348,893
Claims Paid	(19,703)	(19,895)	(307,952)	(2,818)	(350,368)
Unpaid Claims, June 30	\$ 2,442	\$ 4,805	\$ 35,699	\$ 374	\$ 43,320
<u>2014</u>					
Unpaid Claims, July 1	\$ 3,352	\$ 4,840	\$ 34,891	\$ 391	\$ 43,474
Incurred Claims and Changes in Estimate	17,468	20,856	300,228	2,431	340,983
Claims Paid	(18,058)	(20,466)	(298,853)	(2,285)	(339,662)
Unpaid Claims, June 30	\$ 2,762	\$ 5,230	\$ 36,266	\$ 537	\$ 44,795

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 \$9.0 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2015, the State paid \$8.1 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 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The District Court entered its final judgment in 1981 holding the State responsible for most of the costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court for some school corporations and a 13-year phase out of the desegregation plan for the school corporations that had already began the desegregation plan. State expenditures will be gradually reduced as the plan is phased out.

In 2008, Plaintiffs brought a case against employees of the Indiana Department of Child Services, an Indiana State Police detective, and a doctor, alleging the Defendants engaged in a conspiracy to deprive the Plaintiffs' family members of their rights. The Plaintiff children were removed from the home after another child passed away, and the Plaintiff parents were charged with neglect of a dependent, but those charges were subsequently dropped. A jury trial was held beginning on September 16, 2015. The jury reached a verdict in the amount of \$31.3 million against the current and former state employees. A motion to alter or amend the judgment was filed on November 6, 2015; Plaintiffs' response filed December 3, 2015. Plaintiffs petitioned for attorney fees and costs on November 23, 2015 in the following amounts: \$2.7 million in attorney fees, \$22.7 thousand in costs, and \$74.3 thousand in expenses.

On August 13, 2011, the temporary structure supporting spotlights and other equipment mounted on top of the Indiana State Fair Grandstand Stage collapsed. As a result of the collapse, seven people died and more than fifty others required medical treatment. A number of lawsuits were filed as a result of this incident. Under the Indiana Tort Claims Act, Indiana Code 34-13-3, claims are capped at \$5,000,000 per event and \$700,000 per person. The State, on behalf of the Commission, settled with many of the claimants, distributing the full cap amount of \$5,000,000 in amounts determined under a formula developed for this purpose in November 2011. The General Assembly supplemented the amount with an additional \$6,000,000 during the 2012 Session, which was distributed pursuant to legislative directives. Tort claims were paid from the State General Fund and not the funds of the Commission. The remaining open litigation concerns the indemnification claims as a result of the August 13, 2011 incident. Oral Argument before the Indiana Supreme Court was held on August 23, 2015; awaiting decision. An estimate of the possible remaining loss cannot be made.

In March 2013, Plaintiffs filed a class action lawsuit against the State which alleges the Indiana Bureau of Motor Vehicles charged amounts that were not authorized by law to persons under the age of 75 who have paid a fee to obtain or renew their drivers' licenses since March 7, 2007. A settlement has been reached that provides for credits, in a total amount of about \$30 million, to be paid to class members and their attorneys. In November 2013, The Court's Order and Judgment Approving

Settlement was entered. For a period of 3 years after the Court's final approval of the Settlement, any refunds that have not been paid as advance payments will be available to class members as outlined. Settlement agreement amended to remove obligation to promulgate rules regarding certain fees. Payments are to be made under agreement until December 2017. As of June 30, 2015, \$5.9 million remained to be refunded which has been accrued as an expense and payable in the government-wide financial statements.

In May 2013, Plaintiffs filed an inverse condemnation complaint against the State seeking \$8 million in damages to their real estate which Plaintiffs allege will be caused by construction of the Illiana Expressway, which is a proposed highway to connect northwestern Indiana to the greater Chicago area. Construction of the Illiana Expressway has not yet begun. On June 3, 2015, the Court denied the State's motion to dismiss and overruled the State's objection to the Plaintiffs' complaint for inverse condemnation. The Court set the matter for an evidentiary hearing for November 17, 2015 on the issue of whether there has been a taking or not due to actions of the State regarding the Illiana Expressway. On September 8, 2015, the State filed a motion for summary judgment on the issue of whether the actions of INDOT constituted an inverse condemnation of the plaintiffs' property taking the position that there was no genuine issue of material fact and that it was purely a question of law. There was a hearing set on the State's Motion for Summary Judgment on December 10, 2015; however, the Court vacated that hearing and has indicated it will reset the hearing for some time in February 2016.

In June 2014, Plaintiffs filed a class action lawsuit against the Department of Child Services alleging they were purportedly promised monies for adoptions, but then never paid. Mediation was held on August 15, 2014, and a tentative settlement of \$15.1 million was reached. The proposed class is all individuals who entered into adoption subsidy agreements with the Department of Child Services, but have not received any payment before June 30, 2014. A settlement was reached and the settlement agreement was approved by the Court on November 3, 2014. As of June 30, 2015, \$324.1 thousand remained to be paid which has been accrued as an expense and payable in the government-wide financial statements.

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 IBM; it affirmed the trial court's denial of deferred fees to IBM; 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 IBM; and found IBM materially breached the contract. The Court of Appeals remanded the case to the trial court to determine the amount of fees IBM is entitled to for change orders and to determine the state's damages and offset damages awarded to IBM as a result of IBM'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. The next week, the Indiana Supreme Court issued an order encouraging the parties to mediate. The parties agreed to mediation, and underwent lengthy negotiations over a period of many months, which ultimately did not result in settlement.

The case is now back in the hands of the Indiana Supreme Court. The Indiana Supreme Court could do any of the following: (a) decline to rule on the merits of the matter, leaving the Court of Appeals decision intact; (b) accept the case on the merits, issue an opinion, but not change the outcome from the Court of Appeals decision; or (c) accept the case on the merits, issue an opinion, and alter the

outcome from the Court of Appeals decision. It is not possible to reasonably predict what the Indiana Supreme Court will do. But in terms of potential exposure, the State's outer bounds of potential exposure remain as follows: assignment fees (\$40 million); equipment (\$9.5 million); change orders (\$2.5 million); interest (\$10.7 million); deferred fees (\$43 million). Meanwhile, the State's potential recovery on its claims remains in excess of \$100 million, to be determined at trial if the Indiana Supreme Court so rules.

It is anticipated that a decision will be issued from the Indiana Supreme Court within the next six months. Thereafter, if further trial court proceedings are required (as contemplated by the Court of Appeals decision), the case would likely take another 6-12 months to cycle through the trial court, with appeal possible thereafter.

Indiana Bureau of Motor Vehicles (BMV)

In October 2013, an individual brought a putative class action against Indiana's Bureau of Motor Vehicles alleging overcharges ranging from \$35 to \$100 million. In September 2015, the trial court granted the plaintiff's motion for class certification and ordered the parties to mediate in an attempt to resolve the case outside of court. The original trial date of December 1, 2015 was vacated by the court on November 16, 2015 and has not been rescheduled as of December 7, 2015. Is it anticipated that trial will be rescheduled for the first half of calendar year 2016. In the event of a judgment against the BMV, the agency will seek appropriate appellate relief and believes any judgment of damages to the class will be overturned; thus, the loss contingency range for this matter is \$0 to \$100 million.

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, 2015 there was \$38.2 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.

During fiscal year 2015, Indiana's Tax Court granted summary judgment to a Plaintiff that overturned the Indiana Department of Revenue's regulations regarding the tax treatment of time and

materials contractors. A consequence of this ruling is that time-and-materials contractors will likely be harmed at the expense of those for whom they performed real property improvement services. The State anticipates that legislation to address this issue will likely be passed in the upcoming session to codify fair treatment and eliminate unnecessary transaction costs which would result in probable refunds on the markup portion only of construction contracts. \$23.6 million has been accrued as an expense and payable in the government-wide financial statements.

Construction Commitments

As of June 30, 2015, the Indiana Department of Transportation had outstanding construction commitments totaling \$1.1 billion for road and bridge projects. It is anticipated that these projects will be financed with approximately 14% State funds, 4% local funds, 61% traditional Federal funds, 6% from the Major Moves Construction Fund and 15% 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 \$349.5 million to date. This total includes \$196.5 million paid to the Indiana Finance Authority for Admin/Financial/Legal Fees, and Milestone and Annual Relief payments. The Commonwealth of Kentucky has spent approximately \$925.9 million to date.

The Indiana Department of Administration, Public Works Division, had remaining construction commitments totaling \$14.7 million for building and improvement projects of the State's agencies as of June 30, 2015. These projects are to be funded through State appropriations, the State Highway Department Fund, capital projects funds, and federal funds.

The State had \$50.5 million in total commitments for software in development as of June 30, 2015. 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, 2015 were as follows:

Governmental Funds	Encumbrances
General Fund	\$ 953,506
Non-Major Governmental Funds	2,383,073
Total	\$ 3,336,579

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, monies are deposited automatically from the reverting accounts of 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 removed automatically from the Rainy Day Fund if API declines by more than 2%. 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 surplus.

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 2015 was \$376.6 million. Total outstanding loans were \$3.7 million, resulting in total assets of \$380.3 million. Because the API did not increase or decrease by more than 2% no money was transferred between the state surplus and the Rainy Day Fund.

E. Employee Retirement Systems and Plans

The State of Indiana sponsors nine 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 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 fund)

Financial Statements - As separately issued financial statements are not available for the State Police Retirement Fund, summarized financial statements are as follows:

Combining Statement of Fiduciary Net Position	
June 30, 2015	
	State Police Pension Fund
Assets	
Cash, cash equivalents and non-pension investments	\$ 7,806
Receivables:	
Contributions	257
Interest	442
Member loans	112
From investment sales	5,020
Total receivables	5,831
Pension and other employee benefit investments at fair value:	
Equity Securities	205,971
Debt Securities	118,509
Other	111,615
Total investments at fair value	436,095
Total assets	449,732
Liabilities:	
Accounts/escrows payable	96
Securities purchased payable	457
Other	7
Total liabilities	560
Net Position	
Restricted for:	
Employees' pension benefits	449,172
Total net position	\$ 449,172

Combining Statement of Changes in Fiduciary Net Position	
For the Year Ended June 30, 2015	
	State Police Pension Fund
Additions:	
Member contributions	\$ 3,967
Employer contributions	13,451
Net investment income (loss)	386
Less investment expense	(1,381)
Other	6
Total additions	16,429
Deductions:	
Pension and disability benefits	34,955
Administrative	298
Other	2
Total deductions	35,255
Net increase (decrease) in net position	(18,826)
Net position restricted for pension and other employee benefits, July 1, as restated:	
Pension benefits	467,998
Net position restricted for pension and other employee benefits, June 30	\$ 449,172

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 does not issue a stand-alone financial report. The SPRF's financial statements are included in the State of Indiana's CAFR as part of the statements presented with fiduciary funds.

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, 2015, the following employees were covered by the benefit terms of the SPRF:

	Pre-1987 Plan	1987 Plan
Inactive employees or beneficiaries currently receiving benefits	884	723
Inactive employees entitled to but not yet receiving benefits	9	147
Active employees	36	1,148
Total	929	2,018

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. Under the terms of the Trust Agreement, in the event the Department fails to make the minimum contribution for five successive years, the Trust shall terminate and the fund shall be liquidated. 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, 2015, the State's contribution rate was 20.4 percent of 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) 36 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, 2015, the amount held by the plan pursuant to the DROP is \$0.5 million.

Net Pension Liability

The components of the net pension liability of the SPRF at June 30, 2015 were as follows:

Total pension liability	\$ 570,380
Plan fiduciary net position	(449,171)
SPRF's net pension liability	<u>\$ 121,209</u>
Plan fiduciary net position as a percentage of the total pension liability	78.7%

The SPRF's net pension liability was measured as of June 30, 2014, 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, 2014 were as follows:

Total pension liability	\$ 540,797
Plan fiduciary net position	(467,998)
SPRF's net pension liability	<u>\$ 72,799</u>
Plan fiduciary net position as a percentage of the total pension liability	86.5%

Actuarial assumptions. The total pension liability in the June 30, 2015 and June 30, 2014 actuarial valuations were 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

June 30, 2015 Actuarial Valuation. Mortality rates for healthy members were based on the RP-2014 Blue Collar Mortality Tables adjusted to 2006 with MP-2015 Mortality Improvement Scale. Mortality rates for disabled members were based on the RP-2014 Disabled Mortality Tables adjusted to 2006 with MP-2015 Mortality Improvement Scale.

June 30, 2014 Actuarial Valuation. Mortality rates for healthy members were based on the 2014 separate non-annuitant and annuitant mortality tables (separate male and female tables) as published by the IRS. Mortality rates for disabled members were based on the same tables increased by 115% for disabled retirements and disabled terminations with deferred benefits.

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

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2010. The demographic assumptions were updated as needed for the June 30, 2011 actuarial valuation based on the results of the study.

The long-term expected rate of return on pension plan investments 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	7.7
Global ex U.S. equity	13.0	7.9
Defensive fixed income	4.0	2.8
Domestic fixed income	17.0	3.0
High yield fixed income	5.0	5.1
Hedge funds - alternatives	30.0	5.1
Cash and equivalents	2.0	2.0
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 all periods of projected benefit payments 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 6/30/13	\$ 523,216	\$ 438,588	\$ 84,628
Changes for the year:			
Service cost	13,747	-	13,747
Interest	34,935	-	34,935
Changes in benefit terms	269	-	269
Differences between expected and actual experience	778	-	778
Changes of assumptions or other inputs	775	-	775
Contributions - employer	-	14,005	(14,005)
Contributions - employee	-	3,763	(3,763)
Net investment income	-	44,883	(44,883)
Benefit payments, including refunds of employee contributions	(32,923)	(32,923)	-
Administrative expense	-	(307)	307
Other changes	-	(11)	11
Net changes	17,581	29,410	(11,829)
Balances at 6/30/14	\$ 540,797	\$ 467,998	\$ 72,799

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:

June 30, 2015 Actuarial Valuation:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	192,993	121,209	61,393

June 30, 2014 Actuarial Valuation:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	139,722	72,799	16,569

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

For the year ended June 30, 2015, the State recognized pension expense of \$13.6 million for the SPRF. At June 30, 2015, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 648	\$ -
Changes of assumptions or other inputs	644	-
Net difference between projected and actual earnings on pension plan investments	-	12,677
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	10,218	-
Total	<u><u>\$ 11,510</u></u>	<u><u>\$ 12,677</u></u>

Deferred outflows of resources in the amount of \$10.2 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ended June 30:</u>	<u>Deferred Outflows of Resources/(Deferred Inflows of Resources)</u>
2016	(2,907)
2017	(2,907)
2018	(2,907)
2019	(2,907)
2020	243

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, 2015; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2014. 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, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

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 monthly 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 (12) months and not more than thirty-six (36) 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, 2015, the amount held by the plan pursuant to the DROP is \$1.2 million.

Employees covered by benefit terms. As of June 30, 2015, the EG&C plan membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	207
Terminated vested members entitled to but not yet receiving benefits	3
Terminated non-vested members entitled to a distribution of contributions	101
Active members: vested and non-vested	448
Total	759

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 fiscal year 2015, 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 (4) 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, 2014, 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, 2014 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	3.25%
Inflation	3.00%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the mortality table from the 2013 IRS Static Mortality projected five (5) years with Scale AA.

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

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as needed for the June 30, 2011 actuarial valuation based on the results of the study. The mortality assumption was further updated for the June 30, 2012 valuation.

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	22.5	5.3
Private equity	10.0	5.6
Fixed income - ex inflation - linked	22.0	2.1
Fixed income - inflation - linked	10.0	0.7
Commodities	8.0	2.0
Real estate	7.5	3.0
Absolute return	10.0	3.9
Risk parity	10.0	5.0
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	Plan Fiduciary	Net Pension
	Liability (a)	Net Position (b)	Liability (a) - (b)
Balances at 6/30/13	\$ 118,097	\$ 97,019	\$ 21,078
Changes for the year:			
Service cost	3,841	-	3,841
Interest	8,031	-	8,031
Differences between expected and actual experience	(430)	-	(430)
Contributions - employer	-	5,359	(5,359)
Contributions - employee	-	1,019	(1,019)
Net investment income	-	13,339	(13,339)
Benefit payments, including refunds of employee contributions	(5,938)	(5,938)	-
Administrative expense	-	(141)	141
Net changes	5,504	13,638	(8,134)
Balances at 6/30/14	\$ 123,601	\$ 110,657	\$ 12,944

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:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	28,722	12,944	(749)

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.

<u>Fiscal year ended June 30:</u>	<u>Deferred Outflows of Resources/(Deferred Inflows of Resources)</u>
2016	(1,247)
2017	(1,247)
2018	(1,247)
2019	(1,247)
2020	(49)
Thereafter	(132)

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

For the year ended June 30, 2015, the State recognized pension expense of \$2.4 million for the EG&C Plan. At June 30, 2015, the State reported deferred outflows of resources and deferred inflows of resources related to pensions for the EG&C Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 380
Net difference between projected and actual earnings on pension plan investments	-	4,789
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	5,215	-
Total	<u>\$ 5,215</u>	<u>\$ 5,169</u>

Deferred outflows of resources in the amount of \$5.2 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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 (8) 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 prior to July 1, 2006 must have at least ten (10) years of service.

The retirement benefit of a participant who is at least age 65 (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) 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 (8) 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 (8) 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 prior to 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 (5) 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 (8) 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, 2015, the PARF membership consisted of:

Inactive employees or beneficiaries currently receiving benefits	107
Inactive employees entitled to but not yet receiving benefits	97
Inactive employees entitled to refunds of contributions	153
Active employees	196
Total	553

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 fiscal year 2015, employer contributions were \$1.1 million.

The member contribution rate is established by statute IC 33-39-7-12 at six (6) percent of salary. 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 (8) 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, 2014, 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, 2014 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	4.00%
Inflation	3.00%
Cost of living increases	N/A

Mortality rates for healthy and disabled members were based on the mortality table from the 2013 IRS Static Mortality projected five (5) years with Scale AA.

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. The mortality assumption was further updated for the June 30, 2012 valuation and the retirement assumption was updated for the June 30, 2013 valuation due to changes in the retirement provisions of PARF enacted as part of 2013 House Bill 1057.

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	22.5	5.3
Private equity	10.0	5.6
Fixed income - ex inflation - linked	22.0	2.1
Fixed income - inflation - linked	10.0	0.7
Commodities	8.0	2.0
Real estate	7.5	3.0
Absolute return	10.0	3.9
Risk parity	10.0	5.0
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 6/30/13	\$ 61,940	\$ 47,920	\$ 14,020
Changes for the year:			
Service cost	1,587	-	1,587
Interest	4,207	-	4,207
Contributions - employer	-	1,174	(1,174)
Contributions - employee	-	1,334	(1,334)
Net investment income	-	6,582	(6,582)
Benefit payments, including refunds of employee contributions	(2,398)	(2,398)	-
Administrative expense	-	(105)	105
Net changes	3,396	6,587	(3,191)
Balances at 6/30/14	\$ 65,336	\$ 54,507	\$ 10,829

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	18,219	10,829	4,341

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, 2015, the State recognized pension expense of \$344.7 thousand for the PARF. At June 30, 2015, the State reported deferred outflows of resources and deferred inflows of resources related to pensions for the PARF from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	-	2,363
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	1,063	-
Total	\$ 1,063	\$ 2,363

Deferred outflows of resources in the amount of \$1.1 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, 2016. 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)
2016	(591)
2017	(591)
2018	(591)
2019	(590)

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 (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.

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 a month between ages 60 and 65; and (2) 5/12 percent a month between ages 55 and 60.

The monthly pension benefits for members in pay status are increased periodically as COLA. COLA increases for the LEDB Plan 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 date of retirement, and other eligibility factors. There was no COLA for the year ended June 30, 2015.

Disability and survivor benefits provided. The LEDB Plan also provides disability and survivor benefits. A member who has at least five (5) 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, 2015, the LEDB Plan membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	68
Terminated vested members entitled to but not yet receiving benefits	14
Terminated non-vested members entitled to a distribution of contributions	-
Active members: vested and non-vested	17
Total	99

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 fiscal year 2015, employer contributions were \$0.1 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, 2014, 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, 2014 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	3.00%
Inflation	3.00%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the mortality table from the 2013 IRS Static Mortality projected five (5) years with Scale AA.

The most recent comprehensive experience study was completed in 2011 and was based on member experience for a period of five years ended June 30, 2010. The demographic assumptions were updated as needed for the June 30, 2011 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	22.5	5.3
Private equity	10.0	5.6
Fixed income - ex inflation - linked	22.0	2.1
Fixed income - inflation - linked	10.0	0.7
Commodities	8.0	2.0
Real estate	7.5	3.0
Absolute return	10.0	3.9
Risk parity	10.0	5.0
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 6/30/13	\$ 4,285	\$ 3,337	\$ 948
Changes for the year:			
Service cost	3	-	3
Interest	277	-	277
Differences between expected and actual experience	(36)	-	(36)
Contributions - employer	-	138	(138)
Net investment income	-	439	(439)
Benefit payments, including refunds of employee contributions	(363)	(363)	-
Administrative expense	-	(62)	62
Net changes	(119)	152	(271)
Balances at 6/30/14	\$ 4,166	\$ 3,489	\$ 677

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	964	677	414

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, 2015, the LEDB Plan recognized pension expense of \$25.1 thousand. At

June 30, 2015, 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	\$ -	\$ 158
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	131	-
Total	\$ 131	\$ 158

Deferred outflows of resources in the amount of \$131.0 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ended June 30:</u>	<u>Deferred Outflows of Resources/(Deferred Inflows of Resources)</u>
2016	(39)
2017	(39)
2018	(39)
2019	(41)

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 (8) years of creditable service. Judges who retire at or after age 65 with eight (8) 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. Applicable salary for participants in the 1985 Judges' System is defined in IC 33-38-8-14(e). The pension benefit for participants of the 1977 Judges' System 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 System 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 System 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 System on an "ad hoc" basis. Beginning after June 30, 2010, a participant in the 1985 System 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 no COLA for the fiscal year ended June 30, 2015 for eligible participants in the 1977 System and 1985 System.

Disability and survivor benefits provided. There is no vesting requirement for permanent disability benefits. For both the 1977 System and the 1985 System, a participant is considered permanently disabled if the INPRS Board of Trustees receives a written certification by at least two (2) 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 (2) 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 (8) 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 System and the 1985 System). The 1977 System 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 System. The 1985 System covers all individuals who: (1) began service as a judge after August 31, 1985; and (2) are not participants in the 1977 System. Beginning January 1, 2011, full-time magistrates who were serving on July 1, 2010, may elect to be members of the 1985 System. The 1985 System is for all new judges, and beginning January 1, 2011, all new full-time magistrates (IC 33-38-8-10).

As of June 30, 2015, the Judges' Retirement System membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	326
Terminated vested members entitled to but not yet receiving benefits	78
Terminated non-vested members entitled to a distribution of contributions	32
Active members: vested and non-vested	368
Total	804

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 fiscal 2015, employer contributions were \$21.0 million.

The member contribution rate is established by statute IC 33-38-7-10 (1977 System) and IC 33-38-8-11 (1985 System) 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 System) and IC 33-38-8-12 (1985 System).

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, 2014, 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, 2014 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	4.00%
Inflation	3.00%
Cost of living increases	4.00%

Mortality rates for healthy and disabled members were based on the mortality table from the 2013 IRS Static Mortality projected five (5) years with Scale AA.

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. The mortality assumption was further updated for the June 30, 2012 valuation.

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

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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	22.5	5.3
Private equity	10.0	5.6
Fixed income - ex inflation - linked	22.0	2.1
Fixed income - inflation - linked	10.0	0.7
Commodities	8.0	2.0
Real estate	7.5	3.0
Absolute return	10.0	3.9
Risk parity	10.0	5.0
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 6/30/13	\$ 453,110	\$ 375,752	\$ 77,358
Changes for the year:			
Service cost	15,302	-	15,302
Interest	30,992	-	30,992
Differences between expected and actual experience	(16,026)	-	(16,026)
Contributions - employer	-	20,895	(20,895)
Contributions - employee	-	2,856	(2,856)
Net investment income	-	51,890	(51,890)
Benefit payments, including refunds of employee contributions	(18,527)	(18,527)	-
Administrative expense	-	(146)	146
Other changes	4	10	(6)
Net changes	11,745	56,978	(45,233)
Balances at 6/30/14	\$ 464,855	\$ 432,730	\$ 32,125

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	85,443	32,125	(14,742)

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

For the year ended June 30, 2015, the JRS recognized pension expense of \$4.9 million. At June 30, 2015, 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	\$ -	\$ 10,538
Net difference between projected and actual earnings on pension plan investments	-	18,659
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	21,020	-
Total	\$ 21,020	\$ 29,197

Deferred outflows of resources in the amount of \$21.0 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, 2016. 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)
2016	(10,153)
2017	(9,714)
2018	(4,665)
2019	(4,665)

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) as part of the implementation of GASB Statement No. 67 changed from an agent to a cost-sharing, multiple-employer defined benefit plan effective July 1, 2013 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 (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan). Details of the PERF Hybrid Plan and PERF ASA Only Plan 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 (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan 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 (8) 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 in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to 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 (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) 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 (5) 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, 2015; however, eligible members received a one-time check (a.k.a. 13th check) in September 2014. 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, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

Disability and survivor benefits provided. The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) 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 (2) 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 (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their

account balances among the following eight (8) investment options, with varying degrees of risk and return potential:

- **Guaranteed Fund** -- This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
- **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 make changes to their investment directions daily and investments are reported at fair market value.

ASA Only Plan

Plan description. The PERF ASA Only Plan was established by the Indiana Legislature in 2011 with an effective date of March 1, 2013 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12, and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. PERF ASA Only Plan members are full-time employees of the State of Indiana (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013 were members of the PERF Hybrid Plan or (2) on or after March 1, 2013 do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the ASA Only Plan and must offer eligible employees the ASA Only Plan option. Quasi-government agencies and State educational institutions may choose to offer the ASA-Only Plan as an option to their employees. Since inception 759 members have selected the ASA Only Plan, or approximately 8 percent of eligible new hires of the State.

Retirement account. The PERF ASA Only Plan maintains an annuity savings account for each member. Each member's account consists of two (2) subaccounts within the annuity savings account structure. There is a member contribution subaccount (which is the same as the annuity savings account in the PERF Hybrid Plan) and an employer contribution subaccount.

The member's contribution subaccount consists of the member's contributions, set by statute at three (3) 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 shall pay the member's contributions on

behalf of the member. 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.

The PERF ASA Only Plan 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 (8) 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 Plan Retirement Benefits – Annuity Savings Account section, except for the Stable Value Fund:

- Stable Value Fund (available only to PERF ASA Only members) - 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.

A member is immediately vested in the member contribution subaccount. In order to receive contributions and earnings from the employer contribution subaccount, 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, 2015, there were 1,166 participating political subdivisions in addition to the State. As of June 30, 2015, the PERF membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	79,198
Terminated vested members entitled to but not yet receiving benefits	26,681
Terminated non-vested members entitled to a distribution of contributions	43,803
Active members: vested and non-vested	138,660
Total	<u>288,342</u>

Contributions. The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During fiscal year 2015, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 11.03 percent was required from employers during the period of July 1 – December 31, 2014, and an average contribution rate of 11.19 percent was required for the period of January 1 – June 30, 2015. For the ASA Only Plan, all participating employers were also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer’s contribution rate to the member’s account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.6 percent for fiscal year 2015 and any amount not credited to the member’s account shall be applied to the pooled assets of the PERF Hybrid Plan.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on

behalf of the member. The employer shall pay the member’s contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective 7/1/2014 the PERF ASA Only Plan may also participate) 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, 2014 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	3.25% - 4.5%
Inflation	3.00%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the mortality table from the 2013 IRS Static Mortality projected five (5) years with Scale AA.

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. The interest rate and mortality assumptions were further updated for the June 30, 2012 valuation. Minor assumptions were updated for the June 30, 2013 valuation including the interest rate on member account balances. There were no updates to the actuarial assumptions for the June 30, 2014 valuation. However, the June 30, 2014 valuations are the first valuations that incorporate member census data as of a date one year prior to the valuation date. Standard actuarial techniques were used to roll forward valuation results from June 30, 2013 to June 30, 2014.

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	22.5	5.3
Private equity	10.0	5.6
Fixed income - ex inflation - linked	22.0	2.1
Fixed income - inflation - linked	10.0	0.7
Commodities	8.0	2.0
Real estate	7.5	3.0
Absolute return	10.0	3.9
Risk parity	10.0	5.0
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 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.

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	1,048,160	652,920	318,050

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.

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

At June 30, 2015, the State reported a liability of \$652.9 million for its proportionate share of the net pension liability. The PERF net pension liability was measured as of June 30, 2014, 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, 2014, the State's proportion was 24.85 percent, which was an

increase of 0.40 percentage points from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the State recognized pension expense of \$65.1 million. At June 30, 2015, 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	\$ -	\$ 2,930
Net difference between projected and actual earnings on pension plan investments	-	126,891
Changes in the employer proportion and differences between the employer's contributions and the employer's proportionate share of contributions	15,412	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	133,755	-
Total	\$ 149,167	\$ 129,821

Deferred outflows of resources in the amount of \$133.8 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, 2016. 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)
2016	(28,156)
2017	(28,156)
2018	(28,156)
2019	(29,941)

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 (2) 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 in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to 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 (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. Generally, the average annual compensation in this calculation is the average of the highest five (5) 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 (1) year of salary is used. In order for a salary year to be included as one of the five (5) years, the member must have received at least one-half (1/2) year of service credit for that year as stated in IC 5-10.4-4-2. The five (5) 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 (5) 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 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, 2015; however, eligible members did receive a one-time check (a.k.a. 13th check) in August 2014. 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, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

Disability and survivor benefits provided. TRF also provides disability and survivor benefits. A member who has at least five (5) 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 (5) years of service, have a temporary or permanent disability that continues for six (6) months or more, and applies for classroom disability benefits within one (1) 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 (5) 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 (2) 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. As of June 30, 2015, the number of participating employers was 359 in addition to the State. As of June 30, 2015, TRF 1996 Account membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	4,136
Terminated vested members entitled to but not yet receiving benefits	4,132
Terminated non-vested members entitled to a distribution of contributions	12,292
Active members: vested and non-vested	<u>52,424</u>
Total	<u><u>72,984</u></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 fiscal year 2015, all participating employers in the TRF 1996 Account were required to contribute 7.5 percent of covered payroll.

TRF 1996 Account members contribute three (3) 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, 2014 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	3.0% - 12.5%
Inflation	3.00%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the mortality table from the 2013 IRS Static Mortality projected five (5) years with Scale AA.

The most recent comprehensive experience study was completed in 2012 and was based on member experience between June 30, 2007 and June 30, 2011. The demographic assumptions were updated for the June 30, 2012 actuarial valuation based on the results of the study. There were no updates to the actuarial assumptions for the June 30, 2014 valuation. However, the June 30, 2014 valuations are the first valuations that incorporate member census data as of a date one year prior to the valuation date. Standard actuarial techniques were used to roll forward valuation results from June 30, 2013 to June 30, 2014.

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	22.5	5.3
Private equity	10.0	5.6
Fixed income - ex inflation - linked	22.0	2.1
Fixed income - inflation - linked	10.0	0.7
Commodities	8.0	2.0
Real estate	7.5	3.0
Absolute return	10.0	3.9
Risk parity	10.0	5.0
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 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.

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	3,136	191	(2,250)

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.

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

At June 30, 2015, the State reported a liability of \$190.7 thousand for its proportionate share of the net pension liability. The TRF 1996 Account net pension liability was measured as of June 30, 2014, 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, 2014, the State's proportion was 0.40 percent, which was a decrease of 0.02 percentage points from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the State recognized pension expense of \$520.9 thousand. At June 30, 2015, 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	\$ 2	\$ -
Net difference between projected and actual earnings on pension plan investments	-	820
Changes in the employer proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	87
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	772	-
Total	\$ 774	\$ 907

Deferred outflows of resources in the amount of \$772.0 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, 2016. 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)
2016	69
2017	69
2018	69
2019	69
2020	274
Thereafter	(1,455)

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 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, 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 (2) 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 in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to 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 (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. Generally, the average annual compensation in this calculation is the average of the highest five (5) 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 (1) year of salary is used. In order for a salary year to be included as one of the five (5) years, the member must have received at least one-half (1/2) year of service credit for that year as stated in IC 5-10.4-4-2. The five (5) 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 (5) 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 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, 2015; however, eligible members did receive a one-time check (a.k.a. 13th check) in August 2014. 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, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

Disability and survivor benefits provided. TRF also provides disability and survivor benefits. A member who has at least five (5) 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 (5) years of service, have a temporary or permanent disability that continues for six (6) months or more, and

applies for classroom disability benefits within one (1) 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 (5) 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 (2) 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, 2015, the number of participating employers was 338 in addition to the State. The State of Indiana makes contributions as the sole non-employer contributing entity. As of June 30, 2015, TRF Pre-1996 Account membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	50,214
Terminated vested members entitled to but not yet receiving benefits	4,545
Terminated non-vested members entitled to a distribution of contributions	408
Active members: vested and non-vested	16,310
Total	71,477

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 \$845.6 million in fiscal year 2015 to TRF Pre-1996. As part of the \$845.6 million contribution, the State pre-funded a one-time check (a.k.a. 13th check) of \$20.4 million in accordance with 2014 HEA 1074 (which went into the Pension Stabilization Fund).

TRF Pre-1996 Account members contribute three (3) 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, 2015, the State reported a liability of \$10,853.3 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2014, the State's proportion was 100.00 percent, which was the same as its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the State recognized pension expense of \$695.4 million. At June 30, 2015, 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	\$ -	\$ 35,259
Net difference between projected and actual earnings on pension plan investments	-	223,208
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	845,774	-
Total	\$ 845,774	\$ 258,467

\$845.8 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, 2016. 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)
2016	(91,061)
2017	(55,802)
2018	(55,802)
2019	(55,802)

Actuarial assumptions. The total pension liability in the June 30, 2014 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	3.00% - 12.5%
Inflation	3.00%
Cost of living increases	1.00%

Mortality rates for healthy and disabled members were based on the mortality table from the 2013 IRS Static Mortality projected five (5) years with Scale AA.

The most recent comprehensive experience study was completed in 2012 and was based on member experience covering the period June 30, 2007 through June 30, 2011. The demographic assumptions were updated for the June 30, 2012 actuarial valuation based on the results of the study. There were no assumption changes applicable for the measurement of liabilities on June 30, 2014.

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	22.5	5.3
Private equity	10.0	5.6
Fixed income - ex inflation - linked	22.0	2.1
Fixed income - inflation - linked	10.0	0.7
Commodities	8.0	2.0
Real estate	7.5	3.0
Absolute return	10.0	3.9
Risk parity	10.0	5.0
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 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.

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	12,327,000	10,853,349	9,579,000

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.

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 (5) 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 rate for fiscal year 2015 is 14.2 percent. For the fiscal year ended June 30, 2015, employee contributions totaled \$368.6 thousand, and the State contributions totaled \$1.3 million.

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment

options of varying degrees of risk and return potential. There are nine (9) investment options available to LEDC Plan members: Defined Benefit Unitized 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 the LEDC Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions to the LEDC Plan. The amount available for withdrawal is the fair market 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 as purchased by the INPRS Board of Trustees, 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 the LEDC Plan, the participant's account is to be paid to the beneficiary(ies) or to 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 market 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. 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.

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, 2015				
	SPP & LP	ISPP	CEPP	Total
Assets				
Cash, cash equivalents and non-pension investments	\$ 131	\$ 26,707	\$ 561	\$ 27,399
Receivables:				
Contributions	678	115	-	793
Interest	-	27	-	27
Total receivables	678	142	-	820
Pension and other employee benefit investments at fair value:				
Debt Securities	44,002	27,119	9,903	81,024
Total investments at fair value	44,002	27,119	9,903	81,024
Total assets	44,811	53,968	10,464	109,243
Liabilities:				
Accounts/escrows payable	14	-	-	14
Benefits payable	234	1,727	125	2,086
Total liabilities	248	1,727	125	2,100
Net Position				
Restricted for:				
OPEB benefits	44,563	52,241	10,339	107,143
Total net position	\$ 44,563	\$ 52,241	\$ 10,339	\$ 107,143

State of Indiana				
Combining Statement of Changes in Fiduciary Net Position				
Pension and Other Employee Benefit Trust Funds				
For the Year Ended June 30, 2015				
	SPP & LP	ISPP	CEPP	Total
Additions:				
Member contributions	\$ 619	\$ 9,202	\$ 771	\$ 10,592
Employer contributions	5,047	27,688	2,202	34,937
Net investment income (loss)	66	75	17	158
Less investment expense	-	(1)	-	(1)
Federal reimbursements	-	533	-	533
Other	-	200	-	200
Total additions	5,732	37,697	2,990	46,419
Deductions:				
Retiree health benefits	5,008	21,356	1,482	27,846
Administrative	6	1,011	124	1,141
Total deductions	5,014	22,367	1,606	28,987
Net increase (decrease) in net position	718	15,330	1,384	17,432
Net position restricted for pension and other employee benefits, July 1, as restated:				
OPEB benefits	43,845	36,911	8,955	89,711
Net position restricted for pension and other employee benefits, June 30, as restated	\$ 44,563	\$ 52,241	\$ 10,339	\$ 107,143

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	\$ 1,839	\$ 842	\$ 29,604	\$ 3,124
Interest on net OPEB obligation	(1,457)	75	5,498	443
Amortization adjustment to ARC	<u>1,988</u>	<u>(103)</u>	<u>(7,501)</u>	<u>(605)</u>
Annual OPEB Cost	2,370	814	27,601	2,962
Contributions made	<u>(3,567)</u>	<u>(554)</u>	<u>(25,320)</u>	<u>(2,437)</u>
Change in net OPEB obligation	(1,197)	260	2,281	525
Net OPEB obligation - beginning of year	<u>(32,384)</u>	<u>1,674</u>	<u>122,184</u>	<u>9,854</u>
Net OPEB obligation - end of year	<u>\$ (33,581)</u>	<u>\$ 1,934</u>	<u>\$ 124,465</u>	<u>\$ 10,379</u>

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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 2016 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)	\$ 476.19
Family (Non-Tobacco)	1,423.89
Consumer Driven Health Plan #2	
Single (Non-Tobacco)	674.96
Family (Non-Tobacco)	1,961.57
Traditional PPO	
Single (Non-Tobacco)	1,137.37
Family (Non-Tobacco)	3,227.12
Dental	
Single	25.35
Family	66.56
Vision	
Single	3.55
Family	9.01
Indiana State Police Healthcare Plan (ISPP)	
Basic Plan - Medical Only	
Retiree Only (Pre-Medicare)	395.36
Retiree Plus One Dependent (Pre-Medicare)	508.52
Spouse Increment (Pre-Medicare)	113.16
Retiree Only (Post-Medicare)	145.16
Retiree Plus One Dependent (Post-Medicare)	174.76
Spouse Increment (Post-Medicare)	29.60
Optional Plan - Medical, Dental, & Vision	
Retiree Only (Pre-Medicare)	462.31
Retiree Plus One Dependent (Pre-Medicare)	631.65
Spouse Increment (Pre-Medicare)	169.34
Retiree Only (Post-Medicare)	169.16
Retiree Plus One Dependent (Post-Medicare)	223.02
Spouse Increment (Post-Medicare)	53.86
Conservation and Excise Police Health Care Plan (CEPP) - Medical, Dental, & Vision	
Retiree Only - (Pre-Medicare)	337.84
Retiree plus One Dependent - (Pre-Medicare)	592.25
Spouse Increment (Pre-Medicare)	254.41
Retiree Only (Post-Medicare)	134.93
Retiree plus One Dependent - (Post-Medicare)	193.64
Spouse Increment (Post-Medicare)	58.71

The State of Indiana's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for June 30, 2013 through

June 30, 2015 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	6/30/2015	\$ 2,369	150.5%	\$ (33,582)
	6/30/2014	1,513	211.5%	(32,384)
	6/30/2013	1,234	340.6%	(30,697)
Legislature's Healthcare Plan	6/30/2015	\$ 814	68.0%	\$ 1,935
	6/30/2014	787	64.6%	1,674
	6/30/2013	809	65.9%	1,396
Indiana State Police Healthcare Plan	6/30/2015	\$ 27,601	91.7%	\$ 124,466
	6/30/2014	24,013	103.4%	122,184
	6/30/2013	25,850	45.2%	123,005
Conservation and Excise Police Health Care Plan	6/30/2015	\$ 2,962	82.3%	\$ 10,379
	6/30/2014	2,663	93.2%	9,854
	6/30/2013	2,894	100.0%	9,673

Funded Status and Funding Progress The funded status of the plans as of June 30, 2015, 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)	\$ 44,263	\$ 11,964	\$ 341,219	\$ 41,831
Actuarial value of plan assets (b)	44,133	-	53,909	10,464
Unfunded actuarial accrued liability (funding excess) (a) - (b)	<u>130</u>	<u>11,964</u>	<u>287,310</u>	<u>31,367</u>
Funded ratio (b)/(a)	99.7%	0.0%	15.8%	25.0%
Covered payroll (c)	\$ 1,180,296	\$ 3,504	\$ 92,130	\$ 15,106
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c)	0.0%	341.4%	311.9%	207.6%

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, 2014 with adjustments for known experience for the period ending June 30, 2015.

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.

Actuarial Methods and Assumptions Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) 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.

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	6/30/2015	6/30/2015	6/30/2015	6/30/2015
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	3.00%	3.00%	3.00%	3.00%
Investment rate of return	4.50%	4.50%	4.50%	4.50%
Projected salary increases	4.00%	4.00%	4.00%	4.00%
Healthcare inflation rate	8.5%	8.5%	8.5%	8.5%

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, 2014 projected to June 30, 2015 with adjustments for claims experience, premium changes, and assumption changes.

Adjustments were made to the actuarial accrued liability, normal cost, and expected benefit payments for the following material events:

1. SPP – higher than expected claims experience for the CDHP 1 and 2 plans that was partially offset by lower than expected claims experience for the traditional plan. This adjustment increased the SPP's liabilities.
2. ISPP – slightly higher than expected claims experience and a lower than expected increase in retiree contributions increased the ISPP's liabilities.
3. CEPP – lower than expected claims experience and a lower than expected increase in retiree contributions resulted in a net decrease to the CEPP liabilities.

Additionally, the following assumption changes were updated since the last full valuation, which was for the fiscal year ending June 30, 2014.

1. Mortality, which caused a net increase to all four plans' liabilities. The SPP and LP plans changed from the IRS 2008 Static Mortality Table projected to 2018 using scale AA to the SS-2012 Employee and Annuitant Mortality Table fully generational using SSA scale. The ISPP and CEPP plans changed from the IRS 2008 Static Mortality Table projected to 2018 using scale AA to the SS-2012 Total Dataset Mortality Table with blue collar adjustment fully generational using SSA scale.
2. Termination rates were updated for the SPP and CEPP plans which caused a decrease to their liabilities.
3. Retirement rates were updated for the SPP, and CEPP plans which caused an increase to their liabilities.

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.

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:

Combining Statement of Fiduciary Net Position Pension and Other Employee Benefit Trust Funds June 30, 2015	
	State Employee Retiree Health Benefit Trust Fund - DC
Assets	
Cash, cash equivalents and non-pension investments	\$ 57,036
Receivables:	
Contributions	3,096
Interest	27
Total receivables	3,123
Pension and other employee benefit investments at fair value:	
Debt Securities	213,594
Total investments at fair value	213,594
Total assets	273,753
Liabilities:	
Accounts/escrows payable	23
Benefits payable	258
Total liabilities	281
Net Position	
Restricted for:	
OPEB benefits	273,472
Total net position	\$ 273,472

**Combining Statement of Changes in Fiduciary
Net Position
Pension and Other Employee Benefit Trust
Funds
For the Year Ended June 30, 2015**

	State Employee Retiree Health Benefit Trust Fund - DC
Additions:	
Employer contributions	\$ 43,466
Net investment income (loss)	588
Total additions	44,054
Deductions:	
Retiree health benefits	18,325
Administrative	309
Total deductions	18,634
Net increase (decrease) in net position	25,420
Net position restricted for pension and other employee benefits, July 1, as restated:	
OPEB benefits	248,052
Net position restricted for pension and other employee benefits, June 30	\$ 273,472

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 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 will receive 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) 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, 2015, the plan participants consisted of:

Active participants with accounts, not yet retired	26,986
Retired participants with accounts	6,396
Total	<u>33,382</u>

At June 30, 2015, plan participants' retirement medical plan account balances totaled \$311.7 million which consisted of \$172.0 million in unretired active participants' accounts and \$139.7 million in retired participants' accounts.

This plan is a defined contribution individual account for GASB 45 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, 2015 was \$43.3 million. For the fiscal year ending June 30, 2015, the State contributed \$18.1 million in cigarette tax revenues to this fund. Another \$25.4 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 fifty-three pollution sites pursuant to the State's implementation of GASB 49, Accounting and Financial Reporting for Pollution Remediation Obligations effective July 1, 2008. Obligating 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 \$46.6 million of which \$5.6 million is estimated to be payable within one year and \$41.0 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, \$0.5 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 \$4.3 million of program revenue for four sites whose realized recoveries exceeded the pollution remediation liability.