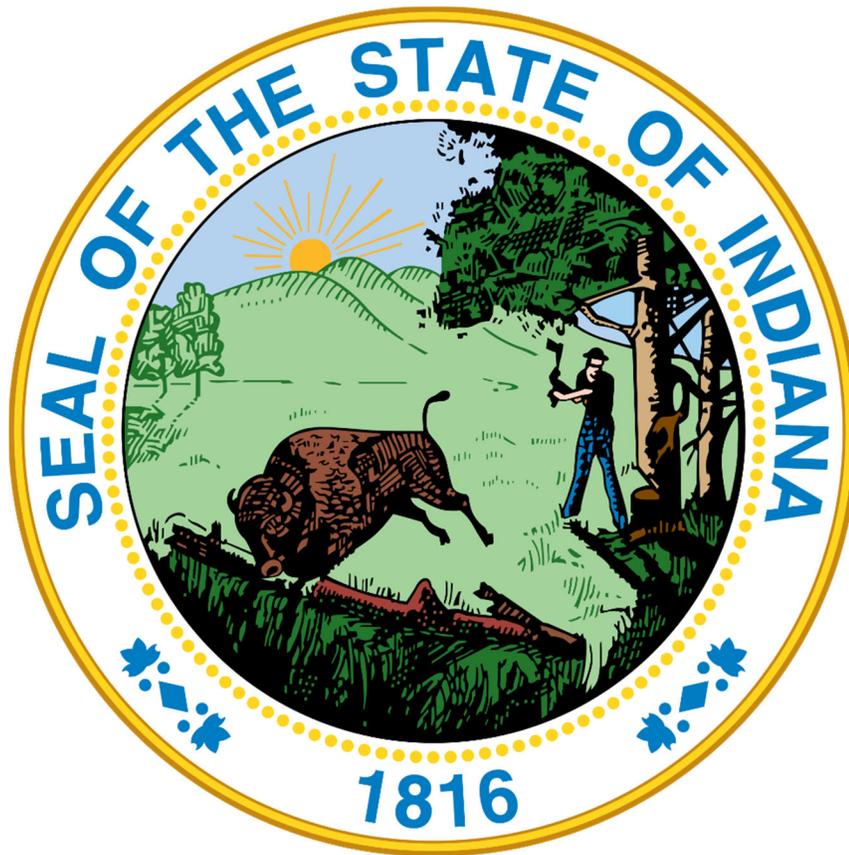


# NOTES TO THE FINANCIAL STATEMENTS



## STATE OF INDIANA

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June 30, 2019

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**STATE OF INDIANA**  
**Notes to the Financial Statements**  
**June 30, 2019**  
**(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, 2018, 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.

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

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

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

The Indiana Natural Resources Foundation was established per Indiana Code 14-12-1 to promote, support, assist, sustain and encourage charitable, educational and scientific programs, projects and policies of the Indiana Department of Natural Resources. The Indiana Natural Resources Foundation is reported as a non-major governmental fund.

The Healthy Hoosiers Foundation was established per Indiana Code 16-19-3-30 to support the purposes and programs of the Indiana State Department of Health, which may include programs intended to reduce infant mortality, increase childhood immunizations, reduce obesity, and reduce smoking rates. The Healthy Hoosiers Foundation is reported as a non-major governmental fund.

The Indiana War Memorials Foundation was established per Indiana Code 10-18-1 for the benefit of, to perform the functions of, and to carry out the purposes of the Indiana War Memorials Commission. The Foundation provides cultural and recreational services. The Indiana War Memorials Foundation is reported as a non-major governmental fund.

The Indiana State Library Foundation was established per Indiana Code 4-23-7.1-42 to support the programs of the State Library and libraries in the state. The Indiana State Library Foundation is reported as a non-major governmental fund.

*Discretely Presented Component Units*

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

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

IEDC is reported as a non-major discretely presented governmental component unit. The separately issued audited financial statements may be obtained by writing the Indiana Economic Development Corporation, One North Capital Avenue, Suite 700, Indianapolis, IN 46204.

The Indiana Finance Authority (IFA) was created per Indiana Code 5-1.2-3-1 as a body both corporate and politic, and though separate from the State of Indiana (State); the exercise by the IFA of its powers constitutes an essential governmental function. Indiana's constitution restricts State incurrence of debt. As a result, the General Assembly created the IFA and authorized it to issue revenue bonds and other obligations to finance projects for lease to the State

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

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

The State Lottery Commission of Indiana, created per Indiana Code 4-30-3, is composed of five members appointed by the Governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, local police and firefighters' pensions, and the Build Indiana Fund. A portion of the Build Indiana Fund

is then used to supplement the Motor Vehicle Excise Tax Replacement Fund. The Commission is reported as a major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the State Lottery Commission of Indiana, 1302 North Meridian Street, Indianapolis, IN 46202

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

The Indiana Bond Bank, created per Indiana Code 5-1.5-2, is controlled by a board composed of the Treasurer of State, Director of Public Finance and five appointees of the Governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of State and local governments. The Bond Bank is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Bond Bank, 10 West Market Street, Suite 2410, Indianapolis, IN 46204

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

The Indiana Board for Depositories was established per Indiana Code 5-13-12 to ensure the

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

The Indiana Secondary Market for Education Loans, Inc. (ISM), d/b/a INvestEd, was created per Indiana Code 21-16-5 to purchase education loans in the secondary market, lend money for the origination of education loans, and originate loans to consolidate education debt. The Governor appointed the original Board of Directors. ISM provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. ISM is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Secondary Market for Education Loans, Inc., d/b/a INvestEd, 11595 North Meridian Street, Suite 200, Carmel, IN 46032

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

The Ports of Indiana is a body both corporate and politic created per Indiana Code 8-10-1-3 to construct, maintain, and operate public ports with terminal facilities and traffic exchange points for all

forms of transportation on Lake Michigan and the Ohio and Wabash Rivers. The Ports of Indiana Commission consists of seven members appointed by the governor. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Ports of Indiana, 150 West Market Street, Suite 100, Indianapolis, IN 46204.

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

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

The Indiana Political Subdivision Risk Management Commission was created per Indiana Code 27-1-29 to administer the Political Subdivision Risk Management Fund (Basic fund) and the Political

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

The Indiana State Museum and Historic Sites Corporation was created per Indiana Code 4-37 and is responsible for operating and administering the Indiana State Museum and eleven Historic Sites across the State. The eleven Historic Sites include Angel Mounds, Corydon Capitol, Culbertson Mansion, J.F.D. Lanier Mansion, Levi Coffin, Limberlost, New Harmony, T.C. Steele, Gene Stratton-Porter, Vincennes, and the Whitewater Canal. The Corporation is governed by a thirty member board of trustees of which twenty-five are voting members and five are non-voting members. Of the twenty-five voting members, thirteen persons are appointed by the governor and twelve are appointed by the board. The five non-voting members include the chief executive officer, the governor or governor's designee, one member of the House of Representatives, one member of the Senate, and the director of the Department of Natural Resources or the director's designee. The Corporation is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana State Museum and Historic Sites Corporation, 650 West Washington Street, Indianapolis, IN 46204.

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

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; and Ivy Tech Community College has a fourteen-member board of trustees. Appointments to the boards of trustees are made by the Governor and by election of the alumni of the respective universities. Indiana University and Purdue University are reported as a major discretely presented component unit. The separately issued audited financial statements for the colleges and universities may be obtained by writing to: Indiana University, Poplars Room 500, 400 E. 7<sup>th</sup> St., Bloomington, IN 47405-3001; Purdue University, Kurz Purdue Technology Center, 1281 Win Hentschel Blvd., Ste. 1100, West Lafayette, IN 47906-4182; Ball State University, Administration Bldg., 301, 2000 West University Avenue, Muncie, IN 47306; Indiana State University, Office of the Controller, 200 N. 7<sup>th</sup> Street, Terre Haute, IN 47809; Ivy Tech Community College, Attn: Chief Accounting Operations Officer, 50 West Fall Creek Parkway, North Drive, Indianapolis, IN 46208-5752; University of Southern Indiana, 8600 University Boulevard, Evansville, IN 47712; and Vincennes University, 1002 North 1<sup>st</sup> Street, Vincennes, IN 47591.

#### *Fiduciary in Nature Component Unit*

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

Legislators' Retirement System Defined Contribution Plan, the Prosecuting Attorneys' Retirement Fund, the Pension Relief Fund, and one death benefit fund. 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.

#### *Related Organizations*

The primary government appoints a voting majority of the board of the Indiana Education Savings Authority (IESA) created per Indiana Code 21-9. The IESA serves as the governing board of Indiana's tax-advantaged CollegeChoice 529 Savings Plans which are CollegeChoice Direct, CollegeChoice Advisor, and CollegeChoice CD. The primary government's accountability for IESA does not extend beyond making the appointments to the board. The primary government is not able to impose its will on IESA nor is it financially accountable for IESA. The State had no related party transactions with IESA during fiscal year 2019.

The primary government appoints a voting majority of the board of the Achieving a Better Life Experience (ABLE) Authority created per Indiana Code 12-11-14-09. The authority serves as the governing board of Indiana's tax-advantaged ABLE Savings Plan, INvestABLE Indiana. The primary government's accountability for ABLE does not extend beyond making the appointments to the board. The primary government is not able to impose its will on ABLE nor is it financially accountable for IESA. ABLE expended \$246.1 thousand of state appropriations for operating expenses during fiscal year 2019.

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 appointment.

## 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 1.A. They also distinguish between governmental activities and business-type activities of the State. Governmental activities rely on taxes and intergovernmental revenues for their support. Business-type activities, on the other hand, rely on fees and charges for services provided for their support.

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. Certain indirect costs are included in the program expense reported for individual functions of government. Program revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes; even those levied for a specific purpose and are reported by type of tax. Investment income is considered general revenue in the general fund.

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

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

### Measurement Focus and Basis of Accounting

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

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

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

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

### Financial Statement Presentation

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

demonstrating compliance with finance-related legal and contractual provisions.

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

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

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

The following special revenue 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 *U.S. Department of Health and Human Services Fund* receives federal grants that are used to carry out health and human services programs. Federal grant revenues, vital record fees, child support annual fees, and other resources disclosed under interfund transfers in Note IV(B) are reported in this fund.

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

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

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

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

The State reports the following major enterprise fund:

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

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

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

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

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

*Investment trust funds* are used to report the external portion of investment pools operated by a sponsoring government. The Treasurer of State, local units of government, and quasi-governmental units in Indiana have the opportunity to invest in a common pool of investments that preserves the principal of the public's funds, remains highly-liquid, and maximizes the return on the investment of public funds. The State's investment trust fund is TrustIndiana operated by the state treasurer. The amounts reported represent the external portion of the pool.

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

#### **D. Eliminating Internal Activity**

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

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

#### **E. Assets, Liabilities and Equity**

##### **1. Deposits, Investments and Securities Lending**

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

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

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

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

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit

aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

The Indiana Public Retirement System (INPRS) Board of Trustees administers fourteen pension trust funds including eight Defined Benefit retirement plans and four Defined Contribution retirement plans, one other employment benefit fund, and one custodial 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, 2019, 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 20<sup>th</sup> day after the end of the month collected. Estimated payments are due from individuals by the 15<sup>th</sup> of the month

immediately following each quarter or the calendar year.

- Corporate income tax - Due quarterly on the 20<sup>th</sup> day of April, June, September, and December with the last payment due on April 15<sup>th</sup> for a calendar year taxpayer.
- Sales tax – Due by the 20<sup>th</sup> day after the end of the month collected.
- Fuel tax – Gasoline tax is due the 20<sup>th</sup> day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15<sup>th</sup> day after the end of the month collected or the 15<sup>th</sup> 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 20<sup>th</sup> 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 the portion of federal grants receivable not available in the current reporting period and is reported under deferred inflows of resources.

## **3. Interfund Transactions and Balances**

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

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

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

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

- Interfund loans – These are balances arising from the short-term and long-term portion of interfund transactions.
- Interfund services provided/used – These are balances arising in connection with reciprocal interfund activity or reimbursements. Balances relating to discretely presented component units are presented as 'Due from/to component units'.
- Interfund services provided and interfund loans are eliminated in the government-wide statements because they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another.

#### **4. Inventories and Prepaid Items**

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

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

#### **5. Restricted Net Position**

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

#### **6. Capital Assets**

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

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

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

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

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

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

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

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Road pavement condition assessments are

performed annually on all INDOT state routes, including interstates. Condition assessments of all bridges are determined on a bi-annual basis. Sufficiency ratings of all bridges are determined on an annual basis by the Federal Highway Administration based on annual submittal of bridge condition data.

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

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation. Capital assets are depreciated in the proprietary and similar trust funds using the straight-line method on both the fund basis and the government-wide basis. Both the government-wide statements and proprietary and similar trust funds use the following estimated useful lives:

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

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

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

The State's major collections are:

- The Commission on Public Records, State Archives Collection consists of historical and legal documents that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials,

regardless of form or characteristics.

- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

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

**7. Compensated Absences**

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment.

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

The legislative and judicial branches may elect to participate in a leave conversion program which allows their employees to convert a portion of accrued but unused vacation and sick leave into the deferred compensation plan. An employee must have at least 300 hours of vacation or sick leave accrued in order to participate in this plan. There is a sliding scale which determines how many hours are converted from those hours the employee has accrued. The hours converted are deposited into the deferred compensation program's 401(a) plan at 60% of the employee's hourly rate. The legislative branch participated in this program in FY 2019 for their employees and the legislative branch has elected to participate in this program for FY 2020 for their employees.

Matured vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the

governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long term liabilities in the government-wide, proprietary, and fiduciary fund financial statements.

### **8. Long-Term Obligations**

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

### **9. Fund Balance**

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

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

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

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

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

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

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

### **F. Use of Estimates**

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

The allowance for doubtful accounts for taxes receivable, the estimate of claims payable for the Medicaid fund, the estimate of additions for the Local Distributions fund, and the estimated useful lives of capital assets are among the most sensitive accounting estimates affecting the financial statements.

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

estimation process and cause actual results to differ.

## II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

### III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Deficit Fund Equity

At June 30, 2019, 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
<b>Governmental Funds</b>		
US Department of Health & Human Services	\$ (479,492)	\$ 62,660
US Department of Labor	(9,579)	2,401
US Department of Education	-	(62,445)

#### 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, 2019 is as follows:

	General Fund	Public Welfare - Medicaid Assistance Fund	US Department of Health and Human Services	Non-Major Funds
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Permanent fund principal	-	-	-	502,835
Prepaid expense	76,400	-	-	44
<b>Restricted:</b>				
Administration	523,189	-	-	-
Natural Resources	-	-	-	150
Other Purposes	-	-	-	3,399
<b>Committed:</b>				
Administration	70	-	-	2,662
Public Health	-	-	-	193,458
Economic Development	765	-	-	8,954
Environmental	-	-	-	355
Natural Resources	-	-	-	16,146
Higher Education	-	-	-	29
Secondary Education	-	-	-	589,220
Roads & Bridges	40,889	-	-	75,910
Other Purposes	-	-	-	16,878
<b>Assigned:</b>				
Administration	87,972	-	-	213,818
Corrections	390,131	-	-	21,191
Police & Protection	20,701	-	-	386,088
Mental Health	162,847	-	-	25,600
Public Health	13,071	550,460	-	317,575
Child Services	1,049,106	-	-	78,798
Disability & Aging	24,989	-	-	10,860
Economic Development	5,236	-	-	28,373
Environmental	25,387	-	-	99,354
Natural Resources	462	-	-	141,550
Higher Education	45,873	-	-	16,108
Secondary Education	404,072	-	-	20,555
Roads & Bridges	130,208	-	-	1,894,509
Capital Outlay	177,352	-	-	93,272
Other Purposes	108,203	-	-	111,371
<b>Unassigned:</b>	<u>1,024,754</u>	<u>-</u>	<u>(416,832)</u>	<u>(69,623)</u>
<b>Total</b>	<b><u>\$ 4,311,677</u></b>	<b><u>\$ 550,460</u></b>	<b><u>\$ (416,832)</u></b>	<b><u>\$ 4,799,439</u></b>

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits, Investments and Securities Lending**

**1. Primary Government – Other than Major Moves Construction Fund and Next Level/Generation Indiana 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 Level/Generation Indiana 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, 2019:

Investment Type	Fair Value Totals	Investment Maturities (in Years)		
		Less than 1	1 - 5	6 - 10
U.S. Treasuries	\$ 2,830,807	\$ 2,188,437	\$ 642,370	\$ -
U.S. Agencies	1,818,046	856,257	961,789	-
Supranationals	1,144,000	1,088,938	55,061	\$ -
Municipal Bonds	76,949	49,149	18,634	9,166
Local Govt Investment Pool	355,000	355,000	-	-
Non-U.S. Fixed Income	65,000	25,000	40,000	-
Certificate of Deposits	298,868	298,768	100	-
Money Market Mutual Funds	565,000	565,000	-	-
<b>Total</b>	<b>\$ 7,153,670</b>	<b>\$ 5,426,549</b>	<b>\$ 1,717,954</b>	<b>\$ 9,166</b>

*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, 2019, 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, 2019. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. 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, not exempt from disclosure:

<u>Investment Type</u>	<u>Greatest Risk Rating</u>	<u>Fair Value</u>
U.S. Agencies	AAA	\$ 33,298
	AA	1,784,748
Supranationals	AAA	1,144,000
Certificate of Deposits	NR	298,868
Municipal Bonds	NR	76,949
Non-US Fixed Income Bonds	A	65,000
Local Govt Investment Pool	NR	355,000
Money Market Mutual Funds	AAA	565,000
<b>Total</b>		<b>\$ 4,322,863</b>

*Concentration of Credit Risk*

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

At June 30, 2019, investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments (in thousands) were:

FHLB	13.55%	\$1,138,211
IFC	9.89%	\$830,644

*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, 2019, 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, 2019, was 2.85 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, 2019, the fair values of the underlying securities on loan were:

<b>Security Type</b>	<b>Fair Value</b>
U.S. Governments	\$2,004,728
U.S. Agencies	501
Private Placement	5
<b>Total</b>	<b>\$2,005,234</b>

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

<b>Security Type</b>	<b>Fair Value</b>
U.S. Governments	\$2,048,744
U.S. Agencies	512
Private Placement	5
<b>Total</b>	<b>\$2,049,261</b>

The percentage of collateral received for underlying securities on loan was 102.20%.

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

<b>Collateral Type</b>	<b>Fair Value</b>
Non-cash collateral	\$ 75,579
Cash collateral (liability to borrowers)	1,973,682
<b>Total</b>	<b>\$2,049,261</b>

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, 2019, the fair value of the cash collateral reinvestment pool was 97.91% of the fair value of the cash collateral received from the borrowers.

Fair Value of reinvested cash collateral by type:

<b>Collateral Type</b>	<b>Fair Value</b>
Commercial Paper	\$ 42,834
Repurchase agreements	292,758
Asset backed securities	279,156
Floating rate notes	1,314,483
MMMF's	80
Receivable	3,074
<b>Total</b>	<b>\$1,932,385</b>

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2019, is as follows:

<b>S&amp;P Rating</b>	<b>Fair Value of Cash Collateral</b>	<b>% of Portfolio</b>
AAA	\$ 272,860	14.1
AA	507,255	26.3
A	852,559	44.1
CC	5,932	0.3
NR	293,779	15.2
<b>Total</b>	<b>\$ 1,932,385</b>	<b>100.0</b>

### Fair Value Measurement – Primary Government

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

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

**Level 2** Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for

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

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

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

The following table summarizes the valuation of the investments by the fair value hierarchy levels as of June 30, 2019:

<b>Investment Type</b>	<b>June 30, 2019</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
U.S. Treasuries	\$ 2,830,807	\$ 2,730,528	\$ 100,279	\$ -
U.S. Agencies	1,818,046	-	1,818,046	-
Supranationals	1,144,000	-	1,144,000	-
Municipal Bonds	76,949	-	-	76,949
Non-US Govt Bonds	65,000	-	-	65,000
Corporate Asset Backed	-	-	-	-
Local Govt Investment Pool	355,000	-	355,000	-
Certificate of Deposits	298,868	-	298,868	-
Money Market Mutual Funds	565,000	-	565,000	-
<b>Total Fixed Income Securities</b>	<b>\$ 7,153,670</b>	<b>\$ 2,730,528</b>	<b>\$ 4,281,193</b>	<b>\$ 141,949</b>

**Major Moves Construction Fund/Next Level/Generation Indiana Trust Fund**

*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 Level/Generation Indiana Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and Indiana Code 8-14-15.1, respectively. The Treasurer of State shall invest the funds in the Major Moves Construction Fund 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. The Next Level/Generation Indiana Trust Fund allows for investment of not more than 50% of the money in the trust, \$250,000,000, to be invested in investments that: (a) maximize risk appropriate returns, which may include the purchase of equity or debt securities; and (b) make significant investments in Indiana funds and companies. At least 50% of the money in the trust, \$250,000,000 or greater, may be invested by the Treasurer of State in the same manner as the public employees' retirement fund, excluding investment in equity securities. An Investment Policy Statement for the Major Moves Construction Fund for the investment of this fund has been adopted by the Treasurer of State. An Investment Policy Statement for the Next Level/Generation Indiana Trust Fund for the investment of these funds has been adopted by the

Next Level/Generation Indiana Trust Fund Investment Board. 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 Level/Generation Indiana Trust Fund as of June 30, 2019:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S Treasuries	\$ 162,681	\$ 21,959	\$ 119,978	\$ 6,727	\$ 14,017
U.S. Agencies	154,481	149,985	4,496	-	-
Government Asset and Mortgage Backed Collateralized Mortgage Obligations	54,036	20,918	1,754	986	30,378
Government CMOs	9,885	3,894	962	1,699	3,330
Corp CMOs	11,757	8,017	112	-	3,628
Corporate Bonds	323,085	99,054	182,550	27,678	13,803
Corporate Asset Backed	65,054	20,441	27,296	3,126	14,191
Private Placements	124,279	37,041	50,685	21,403	15,150
Municipal Bonds	11,633	1,520	7,749	2,164	200
Trust/Indiana	2,500	2,500	-	-	-
Non US Government/Corp Bonds	38,895	2,294	15,572	8,649	12,380
Supernationals	4,475	1,907	1,576	992	-
Mutual Funds	100,057	100,057	-	-	-
<b>Total</b>	<b>\$ 1,062,818</b>	<b>\$ 469,587</b>	<b>\$ 412,730</b>	<b>\$ 73,424</b>	<b>\$ 107,077</b>

### 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, 2019, 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. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

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, 2019. 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, not exempt from disclosure, in the Major Moves/Next Level/Generation Indiana Trust Fund.

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Agencies	AA	\$ 154,481
Government Asset And Mortgage Backed	AAA	4,122
	AA	29,176
	NR	20,737
Collateralized Mortgage Obligations		
Government CMO's	AAA	1,494
	AA	7,898
	A	240
	B	252
Corporate CMO's	AAA	80
	AA	1,040
	A	198
	BBB	527
	BB	712
	B	613
	CCC&Below	7,036
NR	1,552	
Non US Gov/Corp Bonds	A	4,400
	BBB	12,541
	BB	7,667
	B	8,856
	CCC&Below	802
NR	4,630	
Corporate Bonds	AAA	3,277
	AA	15,024
	A	114,134
	BBB	155,780
	BB	20,403
	B	9,712
	CCC&Below	3,845
NR	910	
Corporate Asset and Mortgage Backed	AAA	42,701
	AA	4,935
	A	1,689
	BBB	811
	BB	1,778
	B	966
	CCC&Below	12,173
Private Placements	AAA	30,041
	AA	17,153
	A	19,097
	BBB	26,591
	BB	6,837
	B	14,256
	CCC&Below	8,172
NR	2,133	
TrustIndiana	NR	2,500
Municipal Bonds	AA	6,734
	A	3,374
	BBB	1,257
	BB	198
	CCC&Below	67
NR	3	
Supernationals	AAA	4,475
Money Market Mutual Funds	NR	100,057
<b>Total</b>		<b>\$ 900,137</b>

### 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, 2019, 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 Level/Generation Trust Fund's foreign currency exposure is focused primarily in fixed income securities. The exposure to foreign currency fluctuation is as follows:

Currency	Fair Value	% of Total Fair Value
Argentina	\$ 2,335	0.22%
Australia	(911)	-0.09%
Brazil	5,887	0.56%
Canada	3,917	0.37%
Chinese Yuan HK	(375)	-0.04%
Chinese Yuan Renminbi	(1,224)	-0.12%
Columbian Peso	1,120	0.11%
Dominican Republic Peso	410	0.04%
Euro	(4,581)	-0.43%
India	1,477	0.14%
Indonesia	1,599	0.15%
Japan	(745)	-0.07%
Malaysia	538	0.05%
Mexico Peso	5,386	0.51%
New Taiwan Dollar	(752)	-0.07%
Nigerian Naira	603	0.06%
Peruvian Sol	1,762	0.17%
Philippines Peso	(1,047)	-0.10%
Polish Zloty	928	0.09%
Pound Sterling	95	0.01%
Russian Ruble	3,931	0.37%
Singapore Dollar	(790)	-0.07%
South African Rand	1,751	0.17%
Thailand Baht	1,463	0.14%
Turkish Lira	723	0.07%
Uruguayan Peso	313	0.03%
Subtotal	23,813	2.26%
United States	1,030,424	97.74%
<b>Total Fair Value</b>	<b>\$ 1,054,237</b>	<b>100.00%</b>

### Securities Lending

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

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

### Fair Value Measurement

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

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

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

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

US Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The U.S. agencies' securities, supranationals' securities, and municipal bonds, corporate bonds, and other debt securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs other than quoted prices in an active market. The local government investment pool is valued using the fair value valuation methodology and is marked

to market daily using the most recent market bid price as obtained from one or more market makers and is thus classified in Level 2 of the fair value hierarchy. Those money market mutual funds that are valued at the daily closing price as reported by the funds and are deemed to be actively traded and

are classified in Level 1 of the fair value hierarchy. The international commingled mutual fund was not priced in an active market and had no observable inputs thus was classified in Level 3.

The following table summarizes the valuation of the investments by the fair value hierarchy levels as of June 30, 2019:

Investment Type	June 30, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasuries	\$ 162,681	\$ 162,681	\$ -	\$ -
U.S. Agencies	154,481	-	154,481	-
Govt Asset and Mortgage Backed	54,036	-	54,036	-
Supranationals	4,475	-	4,475	-
Collateralized Mortgage Obligations				
Govt CMO's	9,885	-	9,885	-
Corporate CMO's	11,757	-	11,757	-
Corporate Bonds	323,085	-	321,904	1,181
Corporate Asset Backed	65,054	-	65,054	-
Private Placements	124,279	-	124,279	-
Local Government Investment Pool	2,500	-	2,500	-
Non US Govt/Corp Bonds	38,895	-	38,895	-
Municipal Bonds	11,633	-	11,633	-
Mutual/Commingled Funds	100,057	13,341	(5,916)	92,632
<b>Total Fixed Income Securities</b>	<b>\$ 1,062,818</b>	<b>\$ 176,022</b>	<b>\$ 792,983</b>	<b>\$ 93,813</b>

### ***TrustIndiana, Local Government Investment Pool (Investment Trust Funds)***

#### *Investment Policy*

Indiana Code 5-13-9-11, established the local government investment pool within the office and custody of the Treasurer of State. The Treasurer of State shall invest the funds 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 shall be invested and to comply with state statute relating to the investment and deposit of public funds.

#### *Valuation of Investments*

Securities, other than repurchase agreements, are valued at the most recent market bid price as obtained from one or more market makers for such securities. Repurchase agreements are recorded at cost, which approximates fair value. The underlying investments of the Pool are marked-to-market on a daily basis.

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

#### *Interest Rate Risk*

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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2019:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	
<b>Fixed Income Securities</b>			
Commercial Paper	\$ 374,404	\$	374,404
Certificates of Deposit	3,388		3,388
Money Market Mutual Funds	104,117		104,117
<b>Total</b>	<b>\$ 481,909</b>	<b>\$</b>	<b>481,909</b>

*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, 2019, 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 as of June 30, 2019. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. 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 for each type of investment, not exempt from disclosure, in TrustIndiana.

Investment Type	Greatest Risk	
	Ratings	Fair Value
Certificates of Deposits	NR	\$ 3,388
Commercial Paper	A1	317,309
	NR	57,095
Money Market Mutual Funds	AAA	104,117
<b>Total</b>		<b>\$ 481,909</b>

*Concentration of Credit Risk*

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

At June 30, 2019, 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, 2019, there were no securities on loan and therefore, no credit risk exposure.

*Fair Value Measurement*

TrustIndiana categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair Value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for

valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

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

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

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

The bank deposits are valued on the rates directly negotiated with each financial institution and are quoted in an active market, thus classified as Level 1. The commercial paper classified in Level 2 of the fair value hierarchy are valued using other observable inputs other than quoted prices in an active market.

The following table summarizes the valuation of the TrustIndiana's investments by the fair value hierarchy levels as of June 30, 2019:

<b>Investment Type</b>	<b>June 30, 2019</b>	<b>Fair Value Measurements Using</b>	
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
Commercial Paper	\$ 374,404	\$ -	\$ 374,404
Certificates of Deposit	3,388	-	3,388
Money Market Mutual Funds	104,117	104,117	-
<b>Total</b>	<b>\$ 481,909</b>	<b>\$ 104,117</b>	<b>\$ 377,792</b>

## **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 10-1-2-2(c), established the prudent

investor standard as the primary statutory provision governing the investment of the Trust's assets. IC 10-1-2-2 (c) reads as follows:

The trust fund may not be commingled with any other funds and shall be invested only in accordance with Indiana laws for the investment of trust funds, together with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill

its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards.

There is no formal deposit policy other than compliance to State statute. The following was the SPPT's adopted asset allocation policy as of June 30, 2019:

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

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

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, not exempt from disclosure, in State Police Pension Trust.

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Government Mortgage Backed	AA	\$ 5,523
	NR	7
Collateralized Mortgage Obligations	NR	276
Corporate Mortgage Backed	AAA	1,810
Corporate Bonds	AAA	1,379
	AA	5,273
	A	2,053
	BBB	16,045
	BB	1,708
	B	447
	CCC & Below	217
	NR	101
Corporate Asset Backed	AAA	1,556
Private Placements	AA	252
	A	96
	BBB	507
Municipal Bonds	AAA	1,147
	AA	1,143
	A	661
	BBB	578
	BB	83
Mutual/Commingled Funds	NR	80,923
<b>Total</b>		<b>\$ 121,785</b>

*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, 2019, the balance of the State Police Pension Trust deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

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

*Method Used to Value Investments*

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fair value for the majority of fixed income securities is determined by using quoted market prices by independent pricing services. Investments that do not have an established market are reported at estimated fair value, these include commingled funds, private equity funds and hedge funds. The alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Holdings are generally valued by a general partner or investment manager on a quarterly basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of judgement.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Indiana State Police Trust has thirty 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, 2019, 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:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less than 1</b>	<b>1 - 5</b>	<b>6- 10</b>	<b>More than 10</b>
U.S. Treasuries	\$ 8,530	\$ 70	\$ 3,426	\$ 2,608	\$ 2,426
U.S. Government Mortgage Backed	5,530	-	76	389	5,065
Collateralized Mortgage Obligations	276	-	-	276	-
Corporate Bonds	27,223	861	11,287	12,882	2,193
Corporate Asset Backed	1,556	-	1,386	170	-
Municipal Bonds	3,612	100	1,521	1,708	283
Corporate Mortgage Backed	1,810	-	-	-	1,810
Private Placements	855	-	252	603	-
Commingled fixed income funds	80,923	80,923	-	-	-
<b>Total</b>	<b>\$ 130,315</b>	<b>\$ 81,954</b>	<b>\$ 17,948</b>	<b>\$ 18,636</b>	<b>\$ 11,777</b>

*Rate of Return*

For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.97%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

*Foreign Currency Risk*

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

<b>Currency</b>	<b>Fair Value</b>	<b>% of Total Fair Value</b>
Australia	\$ 2,174	0.44%
Denmark	1,170	0.24%
Euro	2,815	0.58%
Hong Kong	2,982	0.61%
Japan	3,095	0.63%
Sweden	1,929	0.39%
Switzerland	1,468	0.30%
Sterling Pound	1,741	0.36%
Total Foreign Currency	17,374	3.55%
United States	471,983	96.45%
<b>Total Fair Value:</b>	<b>\$ 489,357</b>	<b>100.00%</b>

### *Securities Lending*

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) non-cash collateral if the State is indemnified by the custodian holding the non-cash collateral, in excess of the total market value of the loaned securities. The market value of the required collateral must be in an amount at least equal to 102% of the current market value of the loaned securities.

As of June 30, 2019, the State Police Pension Trust did not have any securities on loan and therefore, no credit risk exposure.

### *Fair Value Measurement*

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

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

**Level 2** Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for

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

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

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority level input that is significant to the valuation. The Trust's assessment of significance of a particular input to the fair value measurement in its entirety required judgment, and considers factors specific to the investment. Investments measured at fair value using net asset value per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy; however, separate disclosures for these investments are required.

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

Fixed income investments classified in Level 2 of the fair value hierarchy are normally valued based on price data obtained from observed transactions and market price quotations from broker dealers and/or pricing vendors. Valuation estimates from service providers' internal models use observable inputs such as interest rates, yield curves, credit/risk spreads and default rates. Matrix pricing techniques value securities based on their relationship to benchmark quoted prices.

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

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The following table summarizes the valuation of the investments in the Trust by the fair value hierarchy levels as of June 30, 2019:

Investment Type	June 30, 2019	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Fixed Income Investments</b>			
U.S. Treasuries	\$ 8,529	\$ 8,529	\$ -
U.S. Government Mortgage Backed	5,530	-	5,530
Collateralized Mortgage Obligations	276	-	276
Corporate Bonds	27,224	-	27,224
Corporate Asset Backed	1,556	-	1,556
Municipal Bonds	3,612	-	3,612
Corporate Mortgage Backed	1,810	-	1,810
Private Placements	854	-	854
<b>Total Fixed Income Securities</b>	<b>49,391</b>	<b>8,529</b>	<b>40,862</b>
<b>Equity Investments</b>			
Domestic Equity	48,258	48,258	-
International Equity	25,333	25,333	-
Mutual Funds	138,304	138,304	-
<b>Total Equity Funds</b>	<b>211,895</b>	<b>211,895</b>	<b>-</b>
<b>Total Investments by Fair Value</b>	<b>261,286</b>	<b>\$ 220,424</b>	<b>\$ 40,862</b>
<b>Investment measured at the Net Asset Value (NAV)</b>			
Commingled Fixed Income Funds	80,923		
Multi-Strategy Hedge Funds	61,141		
Private Equity	55,186		
<b>Total Investments measured at NAV</b>	<b>197,250</b>		
<b>Total Investments measured by Fair Value</b>	<b>\$ 458,536</b>		

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

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Significant Unobservable Inputs (Level 3)	Redemption Notice Period
Commingled Fixed Income Funds	\$ 80,923	\$ -	Daily		1 day
Multi-strategy Hedge Funds	61,141	10,707	Semi-Annually		95 days
Private Equity	55,186	7,317	N/A		N/A
<b>Total investments measured at the NAV</b>	<b>\$ 197,250</b>				

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

Private Equity - Consisting of 11 private equity funds, this strategy invests across a range of strategies, geographies, and industries. These underlying portfolio company investments cannot

be redeemed with the funds, but rather the funds will make distributions of capital to the Trust as the funds sell the underlying portfolio company investments.

Multi-Strategy Hedge Funds – Consisting of 16 hedge funds that are comprised of investments across hedge fund strategies. Four broad categories are, equity hedge, event driven, macro, and relative value. “Multi” references the multiple

underlying sub-strategies within each category.

### **State Employee Retiree Health Benefit Trust Fund-DB**

#### *Investment Policy*

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

The ISPP consists of sections 401(h) and 115 established pursuant to the Internal Revenue Service that are separate accounts established 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 these funds, is established under Indiana Code IC 5-10-8-6(d)(2).and 10-12-2-2(c). There is no formal deposit policy other than compliance to State statute. In compliance to State statute, the asset allocation is 100% in fixed income investments.

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

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

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

The treasurer of state shall invest the money in these trust funds not currently needed to meet the obligations of the trust fund in the same manner as other public money may be invested.

Indiana Code, Title 5, Article 13, Chapters 9, 10,

10.5, establishes the investment powers and guidelines regarding the State of Indiana investments.

The SPP and CEPP were established pursuant to HEA 1123 of the 2012 Indiana General Assembly. The State Personnel Department administers the SPP. The CEPP is administered by the Indiana Alcohol and Tobacco Commission and the Indiana Department of Natural Resources. These trust funds were created to provide for the prefunding of annual required contributions and for covering the OPEB liability of covered individuals. The investment authority for the CEPP is established under IC 5-10-8-6(d)(2). The investment authority for the SPP is established under IC 5-10-8-7(i)(2). Both of these codes sites state: The Treasurer of State shall invest monies in these trust funds not currently needed to meet the obligations of the trust funds in the same manner as other public money may be invested. Indiana Code, Title 5, Article13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. There are no formal deposit and investment policies for the investment of these funds other than compliance to State statute. In compliance to State statute, the asset allocation is 100% in fixed income investments. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

Effective July 1, 2017, the statutory investment authority changed for all of the State Retiree Health Benefit Trust Fund – DB funds. The new investment authority, under IC 5-10-8-6(d)(2), for the ISPP and the CEPP, and the new investment authority, under IC 5-10-8-7(i)(2), for the SPP, both state, notwithstanding IC 5-13, the treasurer of state shall invest the money in these trust funds in the same manner as money may be invested by the public employees' retirement fund under IC 5-10-35-5. However, the trustee may not invest the money in the trust in equity securities. Another change to the investment authority, effective July 1, 2019, will allow for the purchase of equities. The trustee shall also comply with the prudent investor rule set forth in IC 30-4-3.5.

#### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

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

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Agencies	AA+	77,824
<b>Total</b>		<b>\$ 77,824</b>

#### *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, 2019, 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 (in thousands) were:

FHLB 37.48% \$77,824

Rate of Return - For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, for the three OPEB plans administered through trusts was:

SPP	ISPP	CEPP
2.2%	2.4%	2.3%

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

#### *Foreign Currency Risk*

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

#### *Securities Lending*

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

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

#### *Interest Rate Risk*

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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2019:

Investment Type	Fair Value	Investment Maturities (in Years)
		Less than 1
U.S. Treasuries	\$ 92,893	\$ 92,893
U.S. Agencies	77,824	77,824
<b>Total Fixed Income Securities</b>	<b>\$ 170,717</b>	<b>\$ 170,717</b>

*Fair Value Measurement*

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

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

**Level 2** Significant other observable inputs, which

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

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

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

The following table summarizes the valuation of the investments by the fair value hierarchy levels as of June 30, 2019:

Investment Type	June 30, 2019	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasuries	\$ 92,893	\$ 92,893	\$ -
U.S. Agencies	77,824	-	77,824
<b>Total Fixed Income Securities</b>	<b>\$ 170,717</b>	<b>\$ 92,893</b>	<b>\$ 77,824</b>

**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. Effective 7/1/19, the Retiree Health Benefit Trust Fund shall be administered by the Indiana Public Retirement

System (INPRS) and invested by INPRS in the same manner and with the same limitations described in IC 5-10.5-4-1 and IC 5-10.5-5-1.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The following table provides information on the credit quality ratings for investments, not exempt from disclosure, in the State Retiree Health Benefit Trust Fund:

Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Agencies	AA	46,913
<b>Total</b>		<b>\$ 46,913</b>

*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, 2019, 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 Farm Credit Bank 7.56% \$26,950,689

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of

an investment or a deposit. There was no foreign currency risk.

*Securities Lending*

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

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

*Interest Rate Risk*

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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2019:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Treasuries	\$ 84,128	\$ 84,128	\$ -
U.S. Agencies	46,914	31,998	14,916
<b>Total Fixed Income Securities</b>	<b>\$ 131,042</b>	<b>\$ 116,126</b>	<b>\$ 14,916</b>

*Fair Value Measurement*

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

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

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

**Level 3** Valuations for which one or more significant

inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

US Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. US Agency Debt securities classified in Level 2 of the fair value

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

The following table summarizes the valuation of the investments by the fair value hierarchy levels as of June 30, 2019:

Investment Type	June 30, 2019	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasuries	\$ 84,128	\$ 84,128	\$ -
U.S. Agencies	46,913	-	46,913
<b>Total Fixed Income Securities</b>	<b>\$ 131,041</b>	<b>\$ 84,128</b>	<b>\$ 46,913</b>

**3. Pension Trust Funds – Fiduciary in Nature Component Unit**

**Indiana Public Retirement System**

*Investment Guidelines and Limitations*

Oversight of INPRS assets is the fiduciary responsibility of the INPRS Board. As stated in IC 5-10.3-5-3 (a) and IC 5-10.4-3-10 (a) “The Board shall 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.” Accordingly, the INPRS Board must sufficiently diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so. Primary risk measures are volatility in the plan’s assets, funded status, and the contribution rates.

Indiana law permits the INPRS Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as a fiduciary for all assets under its control. One June 30, 2019, cash and investments were held by banks or trust companies under custodial agreements with INPRS. The Investment Policy Statement, adopted by the Board, includes target asset allocations and allowable ranges that are expected to meet rates of return over a period while minimizing risk.

The following global asset classes, target allocations, and target ranges were approved by the INPRS Board on October 23, 2015 for defined benefit funds, based on a formal asset-liability study and shall remain in place until revised by the INPRS Board. An asset-liability study is conducted every five years.

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

The defined contribution plans are structured to provide members with a choice of diverse investment options that offer a range of risk and return characteristics appropriate for members. Members can self-direct their investment options or leave their contributions invested in the default target date retirement fund. The offered investment options undergo periodic reviews by the INPRS Board.

The Local Public Safety Pension Relief Fund is invested 100 percent in high-quality, short-term money market instruments. The State Death Benefit Fund is 100 percent invested in intermediate fixed income investments in a commingled fund.

#### *Rate of Return*

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts invested. For the year ended June 30, 2019, the annual money-weighted rate of return on defined benefit pension trust fund investments, net of pension plan investment expenses is as follows:

<b>Defined Benefit Pension Trust Funds</b>	<b>Annual Money Weighted Rate of Return</b>
Public Employees' Retirement Fund - DB	7.32%
Teachers' Retirement Fund Pre-1996 - DB	7.61%
Teachers' Retirement Fund 1996 - DB	7.47%
1977 Police Officers' and Firefighters' Pension and Disability Fund	7.34%
Judges' Retirement System	7.31%
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	7.40%
Prosecuting Attorneys' Retirement Fund	7.30%
Legislators' Defined Benefit Plan	7.19%

#### *Custodial Credit Risk for Deposits*

Custodial credit risk for deposits is the risk that in the event of a bank failure, INPRS's deposits may not be returned. 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, 2019, \$198 million of cash deposits were uninsured and uncollateralized and therefore exposed to credit risk. The following table shows cash deposits and short-term investments as of June 30, 2019

<b>Cash Deposits</b>	<b>Total</b>
Demand Deposit Account – Bank Balances (Insured by FDIC up to \$250 thousand per financial institution)	\$ 2,935
Held with Custodian Bank (Uncollateralized)	192,767
Short-term Investment Funds held at Bank (Collateralized)	1,285,534
<b>Total</b>	<b>\$ 1,481,236</b>

#### *Custodial Credit Risk for Investments*

Custodial credit risk for investments is a risk if the securities are uninsured, are not registered in the name of INPRS, and are held by either the counterparty or the counterparty's trust department or agent, but not in the name of INPRS. INPRS's custody agreement with the custodian requires the custodian to segregate the securities on the custodian's books and records from the custodian's property. In addition, investment managers are not allowed, under any circumstances, to take possession, custody, title, or ownership of any managed assets.

#### *Method Used to Value Investments*

Public Equity investments are comprised of domestic and international stocks as well as commingled equity instruments. Equity securities traded on a national or international exchange are valued at the official closing price or last reported sales price of the instrument. International equities are then adjusted to reflect the exchange rate as of June 30, 2019 of the underlying currency. Commingled equities are not traded on a national security exchange and are valued at the net asset value of the units held at June 30, 2019 based on the fair value of the underlying securities.

Private Market investments are valued using current estimates of fair value obtained from the general partner or investment manager. Holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Investments in private markets are generally considered illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon sale of an asset may differ significantly from the fair value.

Fixed income securities are comprised of U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment

debt instruments. Securities traded on a national and international exchanges are valued based on published market prices and quotations.

Securities that are not traded on a national security exchange are valued using a matrix pricing approach. Commingled securities are valued at the net asset value of the units held as of June 30, 2019 based on the fair value of the securities.

Commodities including derivative instruments are reported at fair value and involve, to varying degrees, elements of market risk to the extent of future market movements in excess of amounts recognized in the financial statements. Derivative instruments are considered investments and not hedges for accounting purposes. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Position. The change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as Net Investment Income/(Loss). Gains and losses arising from this activity are recognized in the Statement of Changes in Fiduciary Net Position as incurred.

Real Estate, Absolute Return, and Risk Parity investments are valued by the manager or independent appraiser based on reported net asset values, cash flow analysis, purchases and sales of

similar investments, new financings, economic conditions, other practices used with the industry, or other information provided by the underlying investment advisors. Due to the inherent uncertainty in privately held securities, the fair value may differ from the values that would have been used if a ready market for such securities existed, and the differences can be material.

INPRS relies on third party resources to verify the methodology and calculation used for investment valuation and performance metric reported by the custodian.

*Interest Rate Risk*

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

As of June 30, 2019 the duration of the fixed income portfolio is as follows. The \$1.62 billion, for which no duration was available, is primarily made up of cash and commingled debt funds:

<b>Debt Security Type</b>	<b>Fair Vale</b>	<b>% of All Debt Securities</b>	<b>Portfolio Weighted Average Effective Duration (Years)</b>
<b>Short Term Investments</b>			
Short Term Investments	\$ 1,285,534	10.3	0.08
Corporate Bonds	6,271	0.1	0.57
Commercial Paper	3,897	0.0	0.03
Certificate of Deposits	-	0.0	-
U.S. Treasury Obligations	293,560	2.3	0.32
Non-U.S. Government	4,662	0.0	0.21
Duration Not Available	192,767	1.5	N/A
Subtotal	<u>1,786,691</u>	<u>14.2</u>	
<b>Fixed Income Investments</b>			
U.S. Governments	4,151,468	33.1	11.98
U.S. Agencies	326,325	2.6	5.01
Non-U.S. Government	3,377,699	26.9	8.51
Corporate Bonds	1,242,629	9.9	7.45
Asset-Backed Securities	238,087	1.9	2.63
Duration Not Available	1,423,017	11.4	N/A
Subtotal	<u>10,759,225</u>	<u>85.8</u>	
<b>Total</b>	<b><u>\$ 12,545,916</u></b>	<b><u>100.0</u></b>	

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the Investment Policy Statement, when building the most diversified investment portfolio, emphasis is laid on risk allocation, not capital allocation. As a result, INPRS regularly monitors success in achieving the

targeted risk diversification that is inherent in the approved asset allocation.

Credit ratings, obtained from several industry rating services for Fixed Income Securities and Short-Term Investments are shown in the table below. The most conservative rating of Standard and Poor's, Moody's, and Fitch are utilized in the schedule below.

<b>Credit Rating</b>	<b>Short-Term Investments</b>	<b>Fixed Income Securities</b>	<b>Total</b>	<b>Percentage of All Debt Securities</b>
AAA	\$ -	\$ 778,383	\$ 778,383	6.2
U.S. Government Guaranteed	-	4,477,749	4,477,749	35.7
AA	293,559	1,295,742	1,589,301	12.7
A	-	899,033	899,033	7.1
BBB	3,897	997,124	1,001,021	8.0
BB	-	272,407	272,407	2.2
B	-	279,264	279,264	2.2
Below B	-	201,937	201,937	1.6
Unrated	1,489,235	1,557,586	3,046,821	24.3
<b>Total</b>	<b>\$ 1,786,691</b>	<b>\$ 10,759,225</b>	<b>\$ 12,545,916</b>	<b>100.0</b>

The above table does not include cash with custodian of \$193 million.

The \$3.05 billion unrated primarily consists of the following security types: money market sweep vehicles, private placement, term loans and asset-backed securities, commercial mortgages, CMO/REMIC's and commingled debt funds.

Concentration of credit risk is the risk of loss which may arise in the event of default by a single issuer. The INPRS Investment Policy Statement recognizes issuer risk as a strategic risk factor that is monitored on an absolute and relative basis. At June 30, 2019, single issuer exposure in the portfolio did not exceed 5 percent of the Fiduciary Net Position.

INPRS Investment Policy Statement places concentration limits on assets placed with an investment manager.

No investment manager will manage more than 10 percent of the INPRS assets in actively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager will be allowed to manage more than 15 percent of the system's assets in

actively managed portfolios without Board approval.

No investment manager will manage more than 15 percent of the INPRS assets in passively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager will be allowed to manage more than 20 percent of the system's assets in passively managed portfolios without Board approval

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

*Foreign Currency Risk*

Foreign currency risk is the risk changes in exchange rates will adversely affect the fair value of an investment. INPRS has defined a foreign exchange risk management policy to effectively manage the Fund's performance volatility associated with foreign currency risk.

INPRS exposure to foreign currency risk at June 30, 2019, is as follows:

Investment Held in Foreign Currency						
Currency	Short Term	Fixed Income	Equity	Other Investments	Total	% of Total <sup>1</sup>
Argentina Peso	\$ (59)	\$ 3,638	\$ -	\$ 9,767	\$ 13,346	0.0%
Australian Dollar	1,758	98,737	105,799	(104,658)	101,636	0.3
Brazilian Real	(320)	18,901	33,201	27,477	79,259	0.2
Canadian Dollar	2,341	151,901	148,619	(155,491)	147,370	0.4
Chilean Peso	-	16,146	-	1,531	17,677	-
Chinese R Yuan HK	-	-	-	1,410	1,410	-
China Yuan Renminbi	547	8	45,469	(141)	45,883	0.1
Colombian Peso	427	23,774	-	2,409	26,610	0.1
Czech Koruna	43	8,009	-	15,096	23,148	0.1
Danish Krone	2,033	17,720	42,168	(18,349)	43,572	0.1
Dominican Rep Peso	-	4,784	-	-	4,784	-
Egyptian Pound	8,867	-	777	(40)	9,604	-
Euro Currency Unit	6,952	1,399,117	758,330	(1,377,676)	786,723	2.2
Hong Kong Dollar	1,202	(22)	177,405	142	178,727	0.5
Hungarian Forint	(43)	6,708	4,323	6,856	17,844	0.1
Indian Rupee	3	273	34,062	5,548	39,886	0.1
Indonesian Rupiah	-	43,338	2,256	(4,030)	41,564	0.1
Israeli Shekel	10	52	4,910	-	4,972	-
Japanese Yen	13,774	517,309	498,247	(526,277)	503,053	1.4
Malaysian Ringgit	861	20,984	-	(7,624)	14,221	-
Mexican Peso	1,541	37,471	7,847	(7,022)	39,837	0.1
Taiwan New Dollar	-	-	59,113	(635)	58,478	0.2
New Zealand Dollar	328	6,431	3,204	(6,379)	3,584	-
Norwegian Krone	800	4,836	13,438	(1,967)	17,107	0.1
Peruvian Nuevo Sol	76	16,285	-	(1,429)	14,932	-
Polish Zloty	1,040	41,490	5,616	(3,078)	45,068	0.1
British Pound Sterling	6,014	595,632	337,833	(602,510)	336,969	0.9
Romania Leu	-	1,476	-	2,708	4,184	-
Russian Ruble	35	32,391	-	(3,103)	29,323	0.1
Singapore Dollar	1,468	7,996	24,036	(10,440)	23,060	0.1
South African Rand	1,213	53,788	32,335	(21,125)	66,211	0.2
South Korean Won	702	18	100,777	180	101,677	0.3
Swedish Krona	1,049	85,490	59,696	(86,310)	59,925	0.2
Swiss Franc	6,563	-	208,715	(462)	214,816	0.6
Thai Baht	58	33,060	15,346	(11,729)	36,735	0.1
Turkish Lira	28	7,418	8,010	8,757	24,213	0.1
UAE Dirham	-	-	1,298	-	1,298	-
Ukraine Hryvana	2,196	-	-	-	2,196	-
Uruguayan Peso	-	596	-	-	596	-
<b>Total</b>	<b>\$ 61,507</b>	<b>\$ 3,255,755</b>	<b>\$ 2,732,830</b>	<b>\$ (2,868,594)</b>	<b>\$ 3,181,498</b>	<b>8.8%</b>

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

### Securities Lending

The INPRS Board has authorized the custodian to enter into a securities lending program agreement under which securities held by the custodian on behalf of INPRS may be loaned. The purpose of such a program is to provide additional revenue. The policy requires that securities are loaned in exchange for cash or securities collateral equal to approximately 102 percent of the market value of domestic securities on loan and 105 percent of the market value of international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. In no event

shall the acceptable collateral be less than the total market value of loaned securities. Securities shall not be loaned in excess of 40% of the market value. The custodian and/or securities lending sub-agent is required to provide agreed upon indemnification to INPRS from and against any losses, damages, costs, and expenses which arise from a borrower defaulting on a loan or filing for bankruptcy. In addition, a maximum of 25% of the cash collateral may be invested with a single counterparty and all collateral investments have a maturity of the next business day.

At June 30, 2019, INPRS had no security lending credit risk exposure as the collateral pledged of

\$792 million exceeded the fair value of securities on loan, as shown below.

<b>Security Type</b>	<b>Fair Value of Securities on Loan</b>
U.S. Governments	\$ 330,597
Corporate Bonds	7,909
International Bonds	17,037
Domestic Equities	360,248
International Equities	56,973
<b>Total</b>	<b>\$ 772,764</b>

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

#### *Repurchase Agreements*

A repurchase agreement is an agreement in which cash is transferred to a broker-dealer or financial institution in return for transfer of security to the custodian and promise to repay cash plus interest. An obligation under a 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 whereby security collateral is held at the broker dealer or financial institution's custodian.

INPRS's Investment Policy Statement allows prudent use of securities lending, repurchase, and reverse repurchase agreements. Repurchase agreements that may create explicit leverage in the portfolio are prohibited; however, repurchase transactions (including tri-party repurchase transactions) collateralized with U.S. government securities are permitted. Repurchase transactions are required to be collateralized at 102 percent at time of purchase and market to market on each business day.

Investments under Repurchase Agreements (exclusive of Securities Lending) at June 30, 2019, are as follows:

<b>Repurchase Agreements by Collateral Type</b>	<b>Cash Collateral Received</b>	<b>Fair Value</b>
U.S. Treasury	\$ 5,858	\$ 5,858

<b>Obligations Under Reverse Repurchase Agreements by Collateral Type</b>	<b>Cash Collateral Posted</b>	<b>Fair Value</b>
U.S. Treasury	\$ 634,592	\$ 702,440

At June 30, 2019, INPRS had no reverse repurchase agreement credit risk exposure since the cash collateral value posted was less than the fair value of the liability held.

#### *Fair Value Measurement*

INPRS investments are measured at fair value with the fair value hierarchy established by GASB Statement No. 72. The categorization of the investments within the hierarchy is based upon the valuation transparency of the instrument and should not be perceived as the risk of the particular investment. The three-tier hierarchy is summarized as follows:

**Level 1** – Unadjusted quoted prices for identical instruments in active markets.

**Level 2** – Quoted prices in active markets; quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

**Level 3** – Valuations reflect practices where significant inputs are unobservable.

U.S. Treasury Obligations generally include investments in money market securities that are reported at either fair value or at cost plus accrued interest, which approximates market or fair value.

Equity, U.S. corporate obligations, U.S. government and derivative securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt and derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix based pricing technique. Bid evaluations are typically based on market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Index linked debt securities are valued by multiplying the external market price by the applicable day's index ratio. Level 2 debt securities have non-proprietary information that is readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Equity and equity derivatives classified in Level 2 are securities whose values are derived daily from associated traded securities.

Investments classified as Level 3 are valued using best available sources such as property appraisals, discounted cash flow models, and public market comparisons of similar assets where applicable. The values are supplied by advisors or general partners who hold those or similar assets in investment vehicles they oversee. These pricing sources may or may not be indicative of realizable exit values attainable for the assets.

Investments that are measured at fair value using the Net Asset Value (NAV) are not classified in the fair value hierarchy. The NAV for these investments is provided by the investee and may be sold at an amount different than NAV. To manage risk relating to Absolute Return investments, assets are placed in limited liability vehicles to protect INPRS from losing more than its invested capital.

At June 30, 2019, the fair value of investments categorized by Level 1, 2 and 3 is as follows:

Investment Type (1)	June 30, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments Measured at Amortized Cost</b>				
Cash at Brokers	\$ 192,767			
Repurchase Agreements	5,858			
Pooled Short Term Investments (2)	1,252,949			
<b>Total Investments Measured at Amortized Cost</b>	<b>1,451,574</b>			
<b>Investments by Fair Value Level</b>				
Pooled Short Term Investments (2)				
BNY - Mellon Cash Reserves	5,228	\$ -	\$ 5,228	\$ -
Certificate of Deposit	-	-	-	-
Commercial Paper	3,897	-	3,897	-
Corporate Bonds (Short Term)	3,731	-	3,731	-
U.S. Treasury Obligations	293,559	293,559	-	-
Non-U.S. Governments	7,202	-	7,202	-
<b>Total Pooled Short Term Investments</b>	<b>313,617</b>	<b>293,559</b>	<b>20,058</b>	<b>-</b>
Fixed Income Investments				
U.S. Governments	4,145,318	4,145,049	269	-
Non-U.S. Governments	3,708,058	653	3,702,498	4,907
U.S. Agencies	294,577	-	294,577	-
Corporate Bonds	1,122,203	5,405	913,789	203,009
Asset-Backed Securities	261,964	-	261,964	-
<b>Total Fixed Income Investments</b>	<b>9,532,120</b>	<b>4,151,107</b>	<b>5,173,097</b>	<b>207,916</b>
Equity Investments				
Domestic Equities	4,006,632	4,005,247	1,385	-
International Equities	3,356,894	3,355,050	1,844	-
<b>Total Equity Investments</b>	<b>7,363,526</b>	<b>7,360,297</b>	<b>3,229</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>17,209,263</b>	<b>\$ 11,804,963</b>	<b>\$ 5,196,384</b>	<b>\$ 207,916</b>
<b>Investments Measured at the Net Asset Value (NAV)</b>				
Commingled Short Term Funds	11,360			
Commingled Fixed Income Funds	1,227,106			
Commingled Equity Funds	1,837,420			
Private Markets	4,105,253			
Absolute Return	3,006,984			
Real Estate	1,511,614			
Risk Parity	3,998,139			
<b>Total Investments Measured at the Net Asset Value (NAV)</b>	<b>15,697,876</b>			
<b>Investment Derivatives</b>				
Total Futures	30,236	\$ 30,236	\$ -	\$ -
Total Options	(145)	-	(145)	-
Total Swaps	(12,623)	-	(12,623)	-
<b>Total Investment Derivatives</b>	<b>17,468</b>	<b>\$ 30,236</b>	<b>\$ (12,768)</b>	<b>\$ -</b>
<b>Total Investments (less Securities Lending Collateral)</b>	<b>\$ 34,376,181</b>			

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

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

The valuation method for investments measured at the net asset value (NAV) per share or equivalent, at June 30, 2019, is presented as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled Short Term Funds (1)	\$ 11,360	\$ -	Daily	1 day
Commingled Fixed Income Funds (1)	1,227,106	-	Daily	1 day
Commingled Equity Funds (1)	1,837,420	-	Daily	1 day
Private Markets (2)	4,105,253	2,275,009	Not Eligible	N/A
Real Estate Funds (3)	1,511,614	616,566	Quarterly	N/A
Absolute Return (4)	3,006,984	-	Monthly, Quarterly, Semi-Annually	30-120 days
Risk Parity (5)	3,998,139	-	Daily, Weekly, Monthly	3-5 days
<b>Total</b>	<b><u>\$ 15,697,876</u></b>	<b><u>\$ 2,891,575</u></b>		

(1) *Commingled Short Term, Fixed Income and Equity Funds* - There are three short term funds, fifteen fixed income funds and three equity funds, which are considered to be commingled in nature. These investments are valued at the net asset value of the units held at June 30, 2019, based upon fair value of the underlying securities.

(2) *Private Markets* - Consisting of 269 private market funds that invest across a range of strategies, geographies, and industries within private equity and private credit. The underlying portfolio investments cannot be redeemed with each fund, but rather the fund will make distributions of capital as the fund liquidates the underlying portfolio investments over the typical 10 year term in the case of private equity, and the typical 7 year term in the case of private credit.

(3) *Real Estate Funds* - Consisting of 43 real estate funds that invest primarily in U.S. commercial real estate. There are 37 real estate funds classified as illiquid, or approximately 56 percent of the value of the real estate fund investments. These funds have underlying portfolio investments that cannot be redeemed with the funds, but rather these funds will make distributions of capital as the funds liquidate their underlying portfolio investments over the average 10 year life of the funds. There are six real estate funds that have been classified as liquid due to the open-end structure of the fund. Open-end funds generally offer periodic distributions of net cash flow, which can be reinvested, as well as quarterly redemption windows.

(4) *Absolute Return* - The portfolio consists of 32 fund holdings that cover a broad spectrum of investment strategies and investment horizons which results in distinct fund redemption terms to prevent asset-liability mismatches. These funds attempt to generate returns in excess of the plan's target actuarial rate of return over a full market

cycle with minimal beta to the plan's primary long-only market exposures (equities, credit, rates, and commodities). Fund redemption periods range from weeks (alternative beta) to years (drawdown vehicles), but as a whole, on a weighted-average basis, the portfolio maintains a liquidity profile of less than one year. The valuation process for the funds is comparable to private market valuations, with quarterly valuations.

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

As of June 30, 2019, it is probable \$4.1 billion and \$1.5 billion of the investments in the private market and real estate funds type, respectively, will be sold at an amount different from the NAV of the INPRS' ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments (one quarter in arrears plus current quarter cash flows). As of June 30, 2019, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve the buyer before the sale of the investments can be completed.

*Derivative Financial Instruments - Activity*

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (similar to a security) or set of assets (similar to an index). Common underlying instruments include bonds, commodities, currencies, interest rates, market indexes, and stocks. The following derivative instruments are included in Investments:

**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.

**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.

**Swaps**

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

**Currency Exchange Forwards**

A currency exchange forward 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.

The following table summarizes INPRS' derivative instruments outstanding as of June 30, 2019:

<b>Investment Derivatives</b>	<b>Change in Fair Value</b>	<b>Fair Value</b>	<b>Notional</b>
<b>Futures</b>			
Index Futures - Long	\$ 36,551	\$ 36,551	\$ 898,684
Commodity Futures - Long	(13,057)	(13,057)	1,600,713
Fixed Income Futures - Long	23,137	23,137	964,213
Fixed Income Futures - Short	(16,395)	(16,395)	(1,056,430)
Total Futures	30,236	30,236	2,407,180
<b>Options</b>			
Interest Rate Options Bought	(1,335)	60	106,700
Interest Rate Options Written	1,352	(31)	245,900
Fixed Income Options Written	18	(171)	(171)
Credit Default Index Swaptions Written	29	(3)	24,100
Total Options	64	(145)	376,529
<b>Swaps</b>			
Interest Rate Swaps - Pay Fixed Receive Variable	(10,720)	(17,363)	555,344
Interest Rate Swaps - Pay Variable Receive Fixed	3,837	4,304	382,985
Overnight Index Interest Rate Swaps - Pay Variable Receive Fixed	10	10	1,508
Inflation Swaps - Pay Fixed Receive Variable	(5)	(4)	2,900
Inflation Swaps - Pay Variable Receive Fixed	-	-	-
Total Return Swaps	15	15	4,445
Credit Default Swaps Single Name - Buy Protection	(452)	58	27,086
Credit Default Swaps Single Name - Sell Protection	132	(417)	32,895
Credit Default Swaps Index - Buy Protection	(129)	(739)	26,773
Credit Default Swaps Index - Sell Protection	749	1,513	78,350
Total Swaps	(6,563)	(12,623)	1,112,286
<b>Total Derivatives</b>	<b>\$ 23,737</b>	<b>\$ 17,468</b>	<b>\$ 3,895,995</b>

The table below summarizes the swap maturity profile of derivative instruments as of June 30, 2019.

Swap Type	Swap Maturity Profile at June 30, 2018					Total
	< 1 yr	1 - 5 yrs	5 - 10 yrs	10 - 20 yrs	20 + yrs	
Interest Rate Swaps - Pay Fixed Receive Variable	\$ (88)	\$ (1,762)	\$ (3,267)	\$ (3,069)	\$ (9,177)	\$ (17,363)
Interest Rate Swaps - Pay Variable Receive Fixed	-	3,771	98	435	-	4,304
Overnight Index Interest Rate Swaps - Pay Variable Receive Fixed	10	-	-	-	-	10
Inflation Swaps - Pay Fixed Receive Variable	-	-	-	(4)	-	(4)
Total Return Swaps	15	-	-	-	-	15
Credit Default Swaps Single Name - Buy Protection	(2)	60	-	-	-	58
Credit Default Swaps Single Name - Sell Protection	16	(433)	-	-	-	(417)
Credit Default Swaps Index - Buy Protection	-	(739)	-	-	-	(739)
Credit Default Swaps Index - Sell Protection	7	1,486	-	-	20	1,513
<b>Total Swap Fair Value</b>	<b>\$ (42)</b>	<b>\$ 2,383</b>	<b>\$ (3,169)</b>	<b>\$ (2,638)</b>	<b>\$ (9,157)</b>	<b>\$ (12,623)</b>

### Derivative Financial Instruments – Risk Management

INPRS's Investment Policy Statement allows derivatives transactions by investment managers who possess recognized expertise in derivative overlay strategies to offset, or hedge, unintended market exposures in underlying funds that remain in a lock-up period. Direct purchases of physical commodities is prohibited; however, swaps and instruments that constitute a security or authorized derivatives are permitted.

INPRS effectively manages credit risk relating to derivative instruments by following these guidelines:

- 1) To avoid counterparty risk, derivative transactions are executed through the use of listed options and futures traded on registered exchanges, whenever possible. Non-exchange traded options, forwards, or swaps are executed only if the counterparty is rated "A" or better by at least one of the Nationally Recognized Statistical Rating Organizations ("NSRSOs"),
- 2) Exchange-traded commodity futures, options, and other instruments are traded on any exchange regulated by the Commodities Futures Trading Commission ("CFTC") of the United States and/or the Financial Services Authority ("FSA") of the United Kingdom.
- 3) For non-exchange traded derivatives, counterparty creditworthiness is at a minimum of "A3" as defined by Moody's Investor Service, "A-" by Standard & Poor's, and/or "A-" by Fitch. Unrated counterparties are not selected unless such counterparty is a wholly-owned affiliate of a parent

organization that guarantees payment and meets the above counterparty creditworthiness standards.

- 4) Derivative instruments are standardized and exchange-traded (e.g., futures) and/or privately-negotiated and over-the counter (e.g., swap agreements). Underlying risk exposures may be to cash commodities and/or commodity derivatives. Risk exposures for exchange-traded instruments shall lie with exchange clearinghouses and with approved counterparties for non-exchange traded transactions.
- 5) The market value of commodities collateral is maintained at 100 percent or greater of the net option-adjusted notional value of any commodities overlay exposure at the consummation of any new commodities overlay position. If the collateral market value falls below the net option-adjusted value of the overlay, the investment manager(s) adjust their portfolio at the earliest feasible opportunity to bring the collateral value up to the notional value of the overlay.

### Derivative Financial Instruments – Counterparty Credit Risk

This risk exists on all open over-the-counter derivatives, such as swaps and currency forwards. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment. As of June 30, 2019, the aggregate fair value of investment derivatives in an asset position subject to counterparty credit risk was approximately \$15 million.

The table below summarizes the counterparty positions as of June 30, 2019:

Swaps Counterparty	S&P Rating	Fair Value			Collateral	
		Receivable/ Unrealized Gain	Payable/ (Unrealized Loss)	Fair Value	Posted	Received
Bank of America	A-	\$ 67	\$ (50)	\$ 60	\$ 250	\$ (490)
Banque Nationale De Paris	A+	4	-	1	-	(150)
Barclays	BBB	53	(21)	(8)	-	(90)
Citigroup, Inc.	BBB+	311	(7)	252	200	(260)
CME Group	AA-	4,708	(7,870)	(11,539)	1,080	-
Deutsche Bank	BBB+	795	(1,148)	(581)	-	(10)
Goldman Sachs	BBB+	210	(312)	(205)	1,160	(140)
HSBC Securities Inc	A	19	(10)	(6)	490	(130)
Intercontinental Exchange, Inc.	A	2,024	(1,387)	1,130	455	-
JPMorgan Chase Bank	A-	4,360	(4,410)	(21)	420	-
London Clearing House	A	2,143	(6,100)	(1,764)	-	-
Morgan Stanley	BBB+	58	-	58	420	(510)
<b>Total</b>		<b>\$ 14,752</b>	<b>\$ (21,315)</b>	<b>\$ (12,623)</b>	<b>\$ 4,475</b>	<b>\$ (1,780)</b>

#### *Derivative Financial Instruments – Foreign Currency Risk*

Foreign currency forward contracts and futures contracts are exposed to foreign currency risk. At June 30, 2019, INPRS's investments included a foreign currency contract receivable balance of \$8.4 billion and an offsetting foreign currency contract payable of \$8.4 billion. The net gain recognized for the year ended June 30, 2019, due to foreign currency transactions was \$43 million.

#### *Derivative Financial Instruments – Synthetic Guaranteed Investment Contracts (GICs)*

The Defined Contribution Stable Value Fund consists of fully benefit-responsive synthetic

guaranteed investment contracts (GICs). The Stable Value Fund is an investment option that seeks to provide safety of principal and a stable credited rate of interest, while generating competitive returns over time compared to other comparable investments. As of June 30, 2019, the Stable Value Fund portfolio of well diversified high-quality investment grade fixed income securities had a fair value of \$2.6 billion, which was \$39 million above the fair value protected by the wrap contract.

#### *Derivative Financial Instruments – Interest Risk*

IINPRS has exposure to interest rate risk due to investments in interest rate swaps, inflation swaps, and forward mortgage-backed securities (TBAs).

Derivative instruments as of June 30, 2019, subject to interest rate risk are:

Reference Currency	Pays	Receives	Fair Value	Notional
<b>Interest Rate Swap - Pay Fixed Receive Variable:</b>				
U.S. Dollar	1.50% to 3.25%	3M USD LIBOR	\$ (14,549)	\$ 355,940
Mexican Peso	5.66% to 8.36%	28D MXN TIIE BANXICO	(187)	70,142
Pound Sterling	1.25% to 2.00%	6M GBP LIBOR BBA	(1,061)	63,126
Japanese Yen	0.30% to 0.45%	6M JPY LIBOR BBA	(848)	24,782
Czech Koruna	1.75% to 2.13%	6M CZK PRIBOR PRBO	(242)	19,568
Euro Currency Unit	0.25% to 1.50%	6M EURIBOR REUTERS	(309)	6,935
Polish Zloty	2.50%	6M PLN WIBOR WIBO	(146)	4,781
South Korean Won	1.50%	3M KRW KWDCD COD	-	4,684
Hong Kong Dollar	1.75% to 2.00%	3M HIBOR BLOOMBERG	(21)	2,588
South Korean Won	1.25	3M KRW CD KSDA BLOOMBERG	-	1,812
Indian Rupee	5.75%	INR FBIL MIBOR OIS COM	-	986
<b>Total</b>			<b>\$ (17,363)</b>	<b>\$ 555,344</b>
<b>Interest Rate Swap - Pay Variable Receive Fixed:</b>				
U.S. Dollar		3M USD LIBOR BBA	2.25% to 2.7%	\$ 3,133 \$ 86,300
South Korean Won		3M KRW CD KSDA BLOOMBERG	1.25% to 1.75%	- 67,711
Thailand Baht		6M THB THBFIX REUTERS	1.50% to 1.75%	188 59,955
South Korean Won		3M KRW KWDCD COD	1.75%	- 36,061
Mexican Peso		28D MXN TIIE BANXICO	7.35% to 8.25%	154 25,583
South African Rand		3M ZAR JIBAR SAFEX	6.75% to 8.00%	25 20,382
Czech Koruna		6M CZK PRIBOR PRBO	2.20%	127 20,198
Hungarian Forint		6M HUF BUBOR REUTERS	0.6% to 2.50%	111 15,919
Indian Rupee		INR FBIL MIBOR OIS COM	6.75%	4 14,255
Chilean Peso		CLP CLICP BLOOMBERG	3.15% to 3.6%	186 9,275
Brazilian Real		1D BRL CDI	6.66%	18 6,690
Chinese Yuan Renminbi		7D CHINA FIXING REPO RATES	3.00%	3 4,960
Israeli Shekel		3M ILS TELBOR REFERENCE BANKS	1.75%	52 4,410
Euro Currency Unit		6M EURIBOR REUTERS	1.00%	264 3,257
Mexican Peso		1M MXN TIIE BANXICO	7.50%	11 3,216
Brazilian Real		1M BRL CDI	6.85%	26 3,157
Singapore Dollar		6M SGD SIBOR REUTERS	2.00%	2 1,656
<b>Total</b>			<b>\$ 4,304</b>	<b>\$ 382,985</b>

## B. Interfund Transaction

### 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, 2019, the following funds had temporary cash overdrafts covered by loans from the General Fund: U.S. Department of Health and Human Services Fund, \$479.5 million, and U.S. Department of Labor, \$9.6

million. There is also reported an \$8.0 million loan from the Motor Vehicle Highway Fund to the State Highway Fund, which is not expected to be repaid within the next fiscal year. Also, reported is an interfund loan of \$3.0 million to the Fish and Wildlife Fund from the Fund 6000 Programs Fund for \$2.3 million and from the Deer Research and Management Fund for \$0.7 million for game and deer licenses.

The following is a summary of the Interfund Loans as of June 30, 2019:

	<b>Loans To Governmental Funds</b>	<b>Loans From Governmental Funds</b>
<b>Governmental Funds</b>		
General Fund	\$ 489,071	\$ -
US Department of Health and Human Services		479,492
Nonmajor Governmental Funds	11,047	20,626
<b>Total</b>	<b>\$ 500,118</b>	<b>\$ 500,118</b>

**Interfund Services Provided/Used**

Interfund Services Provided of \$10.0 million represents amounts owed by various governmental

funds to the Institutional Industries Fund and the Administrative Services Revolving Funds, both internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2019:

	<b>Interfund Services Provided To Governmental Funds</b>	<b>Interfund Services Used By Governmental Funds</b>
<b>Governmental Funds</b>		
General Fund	\$ -	\$ 5,580
Public Welfare - Medicaid Assistance	-	9
U.S. Department of Health & Human Services	-	1,624
Nonmajor Governmental Funds	-	2,801
Total Governmental Funds	-	10,014
<b>Proprietary Funds</b>		
Internal Service Funds	10,014	-
Total Proprietary Funds	10,014	-
<b>Total</b>	<b>\$ 10,014</b>	<b>\$ 10,014</b>

**Due From/Due To**

The \$20.0 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 \$15.4 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund. The amounts due to the nonmajor universities of \$2.7 million are from FY 2019 state appropriations.

The following is the schedule of Due From/Due To of component units, as of June 30, 2019:

	<u>Due From Primary Government</u>	<u>Due To Component Units</u>	<u>Due From Component Units</u>	<u>Due To Primary Government</u>
<b>Governmental Funds</b>				
General Fund	\$ -	\$ 22,744	\$ -	\$ -
Nonmajor Governmental Funds	-	-	15,384	-
Total Governmental Funds	<u>-</u>	<u>22,744</u>	<u>15,384</u>	<u>-</u>
<b>Component Units</b>				
Nonmajor Universities	2,744	-	-	-
Board for Depositories	20,000	-	-	-
State Lottery Commission	-	-	-	15,384
Total Component Units	<u>22,744</u>	<u>-</u>	<u>-</u>	<u>15,384</u>
<b>Total</b>	<u><b>\$ 22,744</b></u>	<u><b>\$ 22,744</b></u>	<u><b>\$ 15,384</b></u>	<u><b>\$ 15,384</b></u>

**Interfund Transfers**

*Major Governmental Funds*

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

**General Fund** – \$431.4 million was transferred in from the State Gaming Fund which was wagering taxes from riverboats and slot machines at horse tracks. \$452 million was transferred in from the Medicaid Assistance Fund of which \$182 million was the return of unused State match appropriations for Medicaid from prior fiscal years, \$221.3 million was hospital assessment fees, and \$48.4 million was quality assessment fees. The hospital assessment fees and quality assessment fees can only be used for the State's share of Medicaid services under Title XIX of the federal Social Security Act. The Build Indiana Fund transferred in \$236.2 million as Motor Vehicle Excise Tax Cut Replacement distributions, and an additional \$5.4 million which was for various projects from the budget bill including for I-Light Network Operations, the Southern Indiana Education Alliance, workforce centers, the GigaPoP project, and Degree Link. \$154.4 million was received from the Fund 6000 Programs Fund of

which \$121.9 million was distribution of financial institutions tax per IC 6-5.5; \$21 million was transferred in for Indiana Veterans' Home administration from the Comfort-Welfare Fund's and IVH Medicaid Reimbursement Fund's receipts of resident fees and Medicaid reimbursements; \$4 million was transferred in from permit fees collected from business that sell alcoholic beverages per IC 7.1-4-9-4; \$3.9 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; \$1.7 million was transferred in for data projects by the Management Performance Hub; and \$.7 million was transferred in from consumer and non-consumer settlements, and real estate appraiser licensing for the Office of the Indiana Attorney General. \$105 million was transferred in from the Welfare-Work Incentive Fund to support state matching of federal medical assistance funds. \$63 million was transferred in from the Tobacco Master Settlement Fund for various health and welfare purposes including developmental disabilities services provided by the FSSA's Division of Disability and Rehabilitative Services, the Children's with Special Health Care Needs program administered by the Indiana State Department of Health, and substance abuse prevention and treatment services through the FSSA's Division of Mental Health and Addiction. \$33.4 million was transferred in from the Mental Institutions fund to be support the state's mental health institutions.

The following were transfers out from the General Fund: The Public Welfare Medicaid Assistance Fund received \$2.5 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 needs. \$323 million was transferred to the U.S. Department of Health and Human Services Fund from the General Fund in support of: \$150.9 million for Department of Child Services programs including child welfare services training and state grants, case management services, special needs adoption, Social Security Title IV-D services to needy families with children, adoption services, family and children services, and Healthy Families Indiana; \$50.9 million for the Family and Social Services' Division of Family Resources for local offices, state administration, information systems, and the temporary assistance for needy families program; \$37.3 million for the FSSA Early Child Learning division for child care services and the Pre-K education pilot program. \$46.4 million for the State Medicaid program; \$23.3 to the FSSA Central Office, Mental Health and Addiction, Disability and Rehabilitative Services, and Aging divisions for assisting developmentally disabled clients, child psychiatric services, and mental health and aging services, \$10.4 million for county prosecutors' and local judges' salaries; and \$1.4 million for the Department of Health and Attorney General's Office for Medicaid related services. \$109.7 million was transferred to the Welfare-Work Incentive fund to support the state share of FSSA administration of the Medicaid program. \$75.2 million was transferred to the U.S. Department of Agriculture Fund as the State's match of which \$68.3 million was for the FSSA Division of Family Resources' local offices, state administration, information systems, TANF, Electronic Benefits Transfer administration, and IMPACT, \$5.1 million was for the National School Lunch program administered by the Indiana Department of Education's Division of School and Community Nutrition Programs, \$1.6 million was for the meat and poultry inspection program and the public health data communication infrastructure system of the Board of Animal Health, \$0.1 million was for DNR capital projects, and \$0.1 million was for food assistance and the Women, Infants, and Children (WIC) supplement program of the Indiana State Department of Health. \$29.5 million was transferred to the Hospital Care for the Indigent fund to support FSSA hospital care for the indigent.

**Medicaid Assistance Fund** – The Medicaid Assistance Fund received a transfer of \$2.5 billion from the General Fund to support the state Medicaid program administered through the Office of Medicaid Policy and Planning. \$112.6 million

was transferred in from the Healthy Indiana Plan trust fund and \$185.4 million was transferred in from the Incremental Hospital Assessment Fee fund both to support the Healthy Indiana Plan (or HIP 2.0). \$26.5 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.

Transfers out included \$452 million to the General Fund of which \$182 million was the return of unused State match appropriations for Medicaid from prior fiscal years, \$221.3 million was hospital assessment fees, and \$48.4 million was quality assessment fees. The hospital assessment fees and quality assessment fees can only be used for the State's share of Medicaid services under Title XIX of the federal Social Security Act. \$0.3 million was transferred to the General Fund for Medicaid's share of state fiscal year 2018 indirect costs in accordance with FSSA's approved public assistance cost allocation plan.

**U.S. Department of Health and Human Services Fund** – \$323 million was transferred to the U.S. Department of Health and Human Services Fund from the General Fund in support of: \$150.9 million for Department of Child Services programs including child welfare services training and state grants, case management services, special needs adoption, Social Security Title IV-D services to needy families with children, adoption services, family and children services, and Healthy Families Indiana; \$50.9 million for the Family and Social Services' Division of Family Resources for local offices, state administration, information systems, and the temporary assistance for needy families program; \$37.3 million for the FSSA Early Child Learning division for child care services and the Pre-K education pilot program. \$46.4 million for the State Medicaid program; \$23.3 to the FSSA Central Office, Mental Health and Addiction, Disability and Rehabilitative Services, and Aging divisions for assisting developmentally disabled clients, child psychiatric services, and mental health and aging services, \$10.4 million for county prosecutors' and local judges' salaries; and \$1.4 million for the Department of Health and Attorney General's Office for Medicaid related services. \$26.5 million was transferred in from the Hospital Care for the Indigent Fund for indigent hospital care.

The U.S. Department of Health and Human Services Fund transferred \$26.5 million to the Medicaid Assistance Fund to reimburse indigent supplement payments for hospital care. \$2.1

million was transferred to the General Fund to support the state match, indirect costs, and other costs of federal programs.

**Proprietary Funds**

**Non-Major Enterprise Funds**

**The Inns and Concessions Fund** – This fund had transfers out of \$2.0 million, representing cash contributions to the Department of Natural Resources (DNR) which are to be used for repayments of bonds made by the Indiana Finance Authority.

**Internal Service Funds**

\$1.3 million was transferred to the Administrative Services Revolving Fund, Information Technology Services, from the General Fund for the transition of the Department of Workforce Development’s Indiana Network of Knowledge (INK) to the Management and Performance Hub. \$467 thousand was transferred into the Institutional Industries fund from the General Fund per Administrative Actions. \$766 thousand in excess net income was transferred out of the Institutional Industries fund into the General Fund per statute.

A summary of interfund transfers for the year ended June 30, 2019 is as follows:

	<u>Transfers in</u>	<u>Transfers out</u>	<u>Net transfers</u>
<b>Governmental Funds</b>			
General Fund	\$ 1,537,453	\$ (3,200,691)	\$ (1,663,238)
Public Welfare-Medicaid Assistance Fund	2,816,204	(452,012)	<b>2,364,192</b>
US Department of Health and Human Services Fund	360,935	(28,903)	<b>332,032</b>
Nonmajor Governmental Funds	2,126,664	(3,158,647)	<b>(1,031,983)</b>
<b>Proprietary Funds</b>			
Nonmajor Enterprise Funds	-	(1,986)	<b>(1,986)</b>
Internal Service Funds	1,749	(766)	<b>983</b>
<b>Total</b>	<b><u>\$ 6,843,005</u></b>	<b><u>\$ (6,843,005)</u></b>	<b><u>\$ -</u></b>

**C. Receivables****Primary Government – Governmental Activities**

Taxes Receivable/Tax Refunds Payable as of June 30, 2019, including the applicable allowances for uncollectible accounts, are as follows:

	<b>Governmental Activities</b>			<b>Total Primary Government</b>
	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	
Income taxes	\$ 962,195	\$ -	-	\$ 962,195
Sales taxes	792,788	8,332	-	801,121
Fuel taxes	170	127,291	-	127,461
Gaming taxes	1,019	16,676	-	17,695
Alcohol and tobacco taxes	43,172	25,855	1,128	70,155
Insurance	163	-	-	163
Financial institutions taxes	-	12,135	-	12,135
Other taxes	7,621	204	-	7,824
<b>Total taxes receivable</b>	<b>1,807,128</b>	<b>190,494</b>	<b>1,128</b>	<b>1,998,750</b>
Less allowance for uncollectible accounts	(415,734)	(9,695)	-	(425,429)
<b>Net taxes receivable</b>	<b>\$ 1,391,394</b>	<b>\$ 180,799</b>	<b>\$ 1,128</b>	<b>\$ 1,573,321</b>
<b>Tax refunds payable</b>	<b>\$ 36,065</b>	<b>\$ 8,321</b>	<b>\$ -</b>	<b>\$ 44,386</b>

**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, 2019 is as follows:

	<b>Business - Type Activities</b>
	<b>Unemployment Compensation</b>
Employer	\$ 45,992
Claimant	117,916
<b>Total receivable</b>	<b>\$ 163,908</b>

A major portion of the accounts receivable, \$33.5 million of employer receivables and \$94.9 million of claimant receivables for a total of \$128.4 million, will not be collected within one year.

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2019, was as follows:

**Primary Government – Governmental Activities**

	Balance, July 1,			Balance,
	As restated	Increases	Decreases	June 30
<b>Governmental Activities:</b>				
Capital assets, not being depreciated/amortized:				
Land	\$ 2,374,464	\$ 67,783	\$ (3,124)	\$ 2,439,123
Infrastructure	12,570,096	150,882	(2,812)	12,718,166
Construction in progress	684,813	467,027	(263,292)	888,548
Total capital assets, not being depreciated/amortized	<u>15,629,373</u>	<u>685,692</u>	<u>(269,228)</u>	<u>16,045,837</u>
Capital assets, being depreciated/amortized:				
Buildings and improvements	2,396,286	8,848	(7,622)	2,397,512
Furniture, machinery, and equipment	630,455	53,894	(35,850)	648,499
Computer software	267,302	50,824	(25,228)	292,898
Infrastructure	34,931	54	(500)	34,485
Total capital assets, being depreciated/amortized	<u>3,328,974</u>	<u>113,620</u>	<u>(69,200)</u>	<u>3,373,394</u>
Less accumulated depreciation/amortization for:				
Buildings and improvements	(1,422,480)	(51,433)	4,228	(1,469,685)
Furniture, machinery, and equipment	(420,093)	(51,437)	33,222	(438,308)
Computer software	(198,005)	(49,391)	23,249	(224,147)
Infrastructure	(28,421)	(488)	435	(28,474)
Total accumulated depreciation/amortization	<u>(2,068,999)</u>	<u>(152,749)</u>	<u>61,134</u>	<u>(2,160,614)</u>
Total capital assets being depreciated/amortized, net	<u>1,259,975</u>	<u>(39,129)</u>	<u>(8,066)</u>	<u>1,212,780</u>
<b>Governmental activities capital assets, net</b>	<b>\$ 16,889,348</b>	<b>\$ 646,563</b>	<b>\$ (277,294)</b>	<b>\$ 17,258,617</b>

**Primary Government – Business-Type Activities**

	Balance July 1, restated	Increases	Decreases	Balance, June 30
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 34	\$ 26	\$ (60)	\$ -
Total capital assets, not being depreciated	<u>34</u>	<u>26</u>	<u>(60)</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings and improvements	353	154	-	507
Furniture, machinery, and equipment	361	151	(26)	486
Total capital assets, being depreciated	<u>714</u>	<u>305</u>	<u>(26)</u>	<u>993</u>
Less accumulated depreciation for:				
Buildings and improvements	(230)	(28)	-	(258)
Furniture, machinery, and equipment	(324)	(29)	23	(330)
Total accumulated depreciation	<u>(554)</u>	<u>(57)</u>	<u>23</u>	<u>(588)</u>
Total capital assets being depreciated, net	<u>160</u>	<u>248</u>	<u>(3)</u>	<u>405</u>
<b>Business-type activities capital assets, net</b>	<b>\$ 194</b>	<b>\$ 274</b>	<b>\$ (63)</b>	<b>\$ 405</b>

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

<b>Governmental activities:</b>	
General government	\$ 25,830
Public safety	39,578
Health	1,725
Welfare	38,319
Conservation, culture and development	12,384
Education	4,042
Transportation	<u>30,871</u>
<b>Total depreciation/amortization expense - governmental activities</b>	<b><u>\$ 152,749</u></b>
<b>Business-type activities:</b>	
Inns and Concessions	<u>\$ 57</u>
<b>Total depreciation expense - business-type activities</b>	<b><u>\$ 57</u></b>

**E. Leases**

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2019 and the assets acquired through capital leases are as follows:

<b>Future minimum lease payments</b>				
<b>Year ending June 30,</b>	<b>Operating Leases</b>	<b>Capital Leases</b>		
		<b>Governmental Activities</b>		<b>Future Minimum Lease Payments</b>
		<b>Principal</b>	<b>Interest</b>	
2020	\$ 30,337	\$ 68,061	\$ 42,110	\$ 110,171
2021	26,538	67,588	38,911	106,499
2022	22,549	70,199	35,412	105,611
2023	19,849	72,926	31,782	104,708
2024	17,858	76,616	28,057	104,673
2025-2029	30,159	426,226	85,106	511,332
2030-2034	-	53,872	17,971	71,843
2035-2039	<u>-</u>	<u>38,775</u>	<u>3,941</u>	<u>42,716</u>
Total minimum lease payments (excluding executory costs)	147,290	874,263	283,290	1,157,553
Less:				
Remaining premium(discount)	<u>-</u>	<u>30,546</u>	<u>-</u>	<u>30,546</u>
<b>Total minimum lease payments</b>	<b><u>\$ 147,290</u></b>	<b><u>\$ 904,809</u></b>	<b><u>\$ 283,290</u></b>	<b><u>\$ 1,188,099</u></b>
<b>Assets acquired through capital lease</b>				
Building		\$ 5,364		
Machinery and equipment		29,722		
Infrastructure		880,341		
less accumulated depreciation		<u>(11,509)</u>		
		<b><u>\$ 903,918</u></b>		

*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 \$32.9 million for the year ended June 30, 2019. 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, 2019 were as follows:

<b>Changes in Long-Term Obligations</b>	<b>Balance, July 1, as Restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance, June 30</b>	<b>Amounts Due Within One Year</b>	<b>Amounts Due Thereafter</b>
<b>Governmental activities:</b>						
Compensated absences	\$ 169,999	\$ 90,193	\$ (82,340)	\$ 177,852	\$ 90,112	\$ 87,740
Net pension liability	13,385,805	1,355,655	(2,704,460)	12,037,000	-	12,037,000
Other postemployment benefits	602,453	52,770	(319,466)	335,757	-	335,757
Pollution remediation	36,784	753	(2,186)	35,351	4,786	30,565
Capital leases	974,346	5,933	(75,470)	904,809	68,061	836,748
	<b>\$ 15,169,387</b>	<b>\$ 1,505,304</b>	<b>\$ (3,183,922)</b>	<b>\$ 13,490,769</b>	<b>\$ 162,959</b>	<b>\$ 13,327,810</b>
<b>Business-type activities:</b>						
Compensated absences	\$ 762	\$ 215	\$ (198)	\$ 779	\$ 218	\$ 561
Claims liability	24,546	466	(1,634)	23,378	1,689	21,689
	<b>\$ 25,308</b>	<b>\$ 681</b>	<b>\$ (1,832)</b>	<b>\$ 24,157</b>	<b>\$ 1,907</b>	<b>\$ 22,250</b>

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

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

**G. Prior Period Adjustments and Reclassification**

For the fiscal year ended June 30, 2019, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These prior period adjustments and restatements are reflected in the beginning net position in the government-wide statement of activities.

In the fund financial statements for the General Fund there was an increase in fund balance of \$4.2 million and a corresponding decrease in fund balance in Special Revenue Funds due to the reclassification of the Auto Rental Excise Tax fund that was recorded incorrectly in the prior year.

In the fund statements for the Special Revenue funds, and the government-wide statements, net position increased by \$7.2 million due to the addition of the several foundations as blended component units.

In the fund statements for Permanent funds, and the government-wide statements, net position increased by \$2 million for the addition of the Natural Heritage Trust as a permanent fund.

In the fund statements for the Special Revenue funds, and the government-wide statements, net position increased by \$53 million due to a prior year receivable written off in error, and decreased by \$166.4 million due to the overstatement of grants receivable in the prior year.

For the government-wide statements, there is an increase of \$107.3 million in net position for capital assets. This was the result of not capitalizing capital

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assets by June 30, 2018 that were acquired prior to this date and for corrections to acquisition cost by state agencies. Net position decreased \$8.9 million for software projects that were incorrectly recorded to construction in progress in the prior year. Government wide net position also decreased \$99.2 million due to an OPEB DC liability that had not previously been reported.

position increased by \$17.9 million due to the addition of the Muncie Schools as a discrete component unit of Ball State University.

For the fiduciary funds, net position increased \$5.2 million due to a fiscal year 2018 transfer not made until fiscal year 2019.

For the discrete proprietary component units, net

The following schedule reconciles June 30, 2018 net position as previously reported, to beginning net position, as restated:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Discretely Presented Component Units (Non Fiduciary)</u>
<b>June 30, 2018, fund balance/retained earnings/net position as reported</b>	\$ 11,832,334	\$ 36,311,852	\$ 15,963,945
Correction of errors	(113,483)	5,237	-
Reclassifications of funds	<u>\$ 9,281</u>	<u>-</u>	<u>17,850</u>
<b>Balance July 1, 2018 as restated</b>	<u><b>\$ 11,728,132</b></u>	<u><b>\$ 36,317,089</b></u>	<u><b>\$ 15,981,795</b></u>

**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
<b><u>2019</u></b>					
Unpaid Claims, July 1	\$ 3,520	\$ 3,183	\$ 34,975	\$ 840	\$ 42,518
Incurred Claims and Changes in Estimate	31,234	16,382	341,394	6,089	395,099
Claims Paid	(31,120)	(15,547)	(332,318)	(6,100)	(385,085)
<b>Unpaid Claims, June 30</b>	<b><u>\$ 3,634</u></b>	<b><u>\$ 4,018</u></b>	<b><u>\$ 44,051</u></b>	<b><u>\$ 829</u></b>	<b><u>\$ 52,532</u></b>
<b><u>2018</u></b>					
Unpaid Claims, July 1	\$ 2,581	\$ 4,303	\$ 37,855	\$ 603	\$ 45,342
Incurred Claims and Changes in Estimate	29,608	16,058	314,201	4,692	364,559
Claims Paid	(28,669)	(17,178)	(317,081)	(4,455)	(367,383)
<b>Unpaid Claims, June 30</b>	<b><u>\$ 3,520</u></b>	<b><u>\$ 3,183</u></b>	<b><u>\$ 34,975</u></b>	<b><u>\$ 840</u></b>	<b><u>\$ 42,518</u></b>

## 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 \$10.5 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2019, the State paid \$5.1 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 2014, Plaintiff, a man convicted of murder twice, overturned twice on appeal, and then found not guilty, sued government actors including city police officers, State Police troopers, prosecutors, and Floyd County alleging various civil rights violations and state law tort claims. Plaintiff demanded \$30,000,000 from the defendants. Defendant Floyd County settled with the plaintiff for \$450,000 in August 2016. State Defendants' Motions for Summary judgment were filed on May 23, 2017. The State's position is that the claims against the prosecutors are absolutely barred by prosecutorial immunity and the claims against the Indiana State Police defendants fail based on defendants' qualified immunity and the existence of probable cause that plaintiff committed the underlying crimes. On January 29, 2018, the Court granted the State

Defendants' Motions for Summary Judgment, entered judgment in favor of the State Defendants and against Plaintiff, and dismissed the case with prejudice. On February 2, 2018, State Defendants filed a Bill of Costs to recoup their costs in the amount of \$9,077.70. The Plaintiff filed a Notice of Appeal on February 26, 2018. On March 1, 2018, the Court issued an Order staying a ruling on the Bill of Costs pending appeal. Plaintiff-Appellant filed his Appellant Brief on June 7, 2018. State Defendants-Appellees Brief was filed September 13, 2018; Appellant filed a Reply Brief. Oral argument was held at the U.S. Court of Appeals for the Seventh Circuit on October 30, 2018. On September 10, 2019, the Seventh Circuit remanded two of the Plaintiffs claims concerning 4th Amendment and Brady issues to the District Court. Any petition for rehearing en banc was due by October 8, 2019. No petition for rehearing was filed. Order reopening the case was issued on October 18, 2019. The parties filed their position statements on November 6, 2019. On December 6, 2019, the State Defendants filed a proposed revised case management plan. The parties attended a status conference on December 10, 2019.

In 2016, a charter school brought a claim against the State Superintendent of Public Education and the Department of Education, seeking damages under a breach of contract theory. The State defendants filed a counterclaim for recovery of overpayments against the school and an affiliated school. The court denied both motions to dismiss both the initial complaint and counterclaim. Two other charter schools subsequently intervened in the case. The charter schools are schools that did not take out low-interest loans from the Common School fund to help with start-up costs. The charter schools in this lawsuit argue that they were entitled to direct tuition support from the Common School Fund, and the State's failure to pay that constitutes a breach of the schools' charters. The schools seek over \$9 million for the tuition support and have asked for interest. After extensive discovery, the parties filed cross-motions for summary judgment. The court on October 2, 2018, granted the charter schools' motions for summary judgment and denied the State defendants' motion for summary judgment. The court found the defendants responsible for unpaid tuition support, for a total of \$8,645,759.24, but denied the charter schools' requests for prejudgment interest. On November 14, 2018, the Court clarified its order, denying the charter school's request for restitution for the school's payment of a growth loan received from the State. On November 1, 2018, the defendants filed a notice of appeal. Following briefing by the parties, the Court of Appeals heard argument on

September 9, 2019. On September 24, 2019, the Court of Appeals reversed and remanded the case to the trial court with instructions to enter judgment in favor of the State. The charter school companies filed a petition to transfer on November 12, 2019, seeking Indiana Supreme Court review.

In 2017, a coalition of transportation businesses filed a class action lawsuit against the Department of Revenue, challenging the authority of the Department to register and collect fees under the Unified Carrier Registration Plan. The plaintiffs have asked for refunds of \$1 billion, but the Department of Revenue is merely a pass through and collector of fees. Any refund of the fees would have to come from all of the states for which these fees are collected. While the plaintiffs have asked for a refund of all fees collected by the Department, these funds go to the states participating in the Unified Carrier Registration Plan. Accordingly, in the unlikely event that a refund is ordered, any refund would be spread out among the forty-some participating states. Counsel filed motions to dismiss and a Motion for Summary Judgment on April 30, 2018. The Court granted all of the defendant's motions. The plaintiffs subsequently appealed the case, and the parties are briefing the appeal before the Indiana Court of Appeals.

In 2017, Plaintiff filed a complaint against Indiana Department of Environmental Management, Indiana State Department of Health and the State of Indiana. There are over 100 individual plaintiffs alleging negligence and negligent and intentional infliction of emotional distress against Indiana Department of Environmental Management, the Indiana Department of Health, and the State of Indiana (hereinafter collectively, "State Defendants") and the City of East Chicago, the East Chicago Housing Authority, and the East Chicago Department of Public and Environmental Health, seeking damages for alleged physical and emotional harms caused by their alleged exposure to lead, arsenic, and other contamination while residents at the West Calumet Housing Complex and/or while students at Carrie Gosch Elementary School in East Chicago, Indiana since the late 1990's. On February 12, 2018, outside counsel entered an appearance on behalf of the State Defendants along with a motion to extend time to respond. On March 5, 2018, an answer on behalf of the State Defendants was filed along with a motion to dismiss the Indiana State Department of Health. This motion was later found to be moot. Outside counsel has filed a motion staying discovery pending the outcome of the "to be" filed motion for judgment on the pleadings. That motion has been granted. The Motion for Judgment on the Pleadings

was filed July 9, 2018. Plaintiff filed a response to the Motion for Judgment on the Pleadings on August 18, 2018. A Reply in Support of the Motion for Judgment was filed and a hearing held. The Motion for Judgment on the Pleadings was denied November 9, 2018. The Order denying the Motion to Dismiss required additional discovery. Initial discovery deadlines are set over the course of the next 6 months. The State's Motion to Certify for Interlocutory Appeal was filed on December 10, 2018. Notice of Appeal was filed April 25, 2019. The parties have completed briefing of the matter on appeal. No oral argument has been requested.

In 2019, an interstate trucking association and several trucking companies filed a class action lawsuit against the Governor, the Indiana Finance Authority, the INDOT Commissioner, and the Indiana Toll Road operator. The plaintiffs challenge the toll increase for heavy vehicles on the toll road that took effect in October 2018. The plaintiffs seek to invalidate the toll increase, refunds of the tolls paid with interest, and attorneys' fees. The defendants filed a joint motion to dismiss, which the district court judge referred for recommendation to the magistrate judge. The magistrate judge recommended on August 13, 2019, that the case be dismissed with prejudice. The magistrate judge granted the motion to stay the case pending final determination of the motion to dismiss. The plaintiffs filed an objection to the recommendation, and the parties have briefed that objection.

#### *Other Litigation*

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

#### Indiana Family and Social Services Agency (FSSA)

In May 2010, the State of Indiana, on behalf of the FSSA, and counterclaim Plaintiff sued each other regarding counterclaim Plaintiff's state welfare system contract entered into in 2006. In October 2009, the State announced its intention to terminate the 10-year contract early effective December 2009 due to counterclaim Plaintiff's deficient performance. The trial court issued rulings in July and August of 2012 awarding the counterclaim Plaintiff \$62.7 million. This amount included \$9.5 million for equipment retained by the state, \$2.5 million in early termination close-out payments, \$40.0 million in subcontractor assignment fees (previously granted to the counterclaim Plaintiff on summary judgment), and \$10.7 million in prejudgment interest. The trial court also ruled that the counterclaim Plaintiff was not entitled to recover \$43.0 million claimed for deferred fees. The trial

court further ruled that there was no material breach of the contract, so the State could not recover damages from the counterclaim Plaintiff for breach of contract.

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

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

The trial court issued its order on August 4, 2017, granting damages to the State in the amount of \$128 million. The trial court offset this judgment by the approximately \$50 million previously awarded to counterclaim Plaintiff and affirmed by the Indiana Supreme Court, resulting in a net award to the State of \$78 million. Counterclaim Plaintiff filed its Notice of Appeal on September 5, 2017, and the State cross-appealed. Oral argument for the case occurred on August 21, 2018 with the Indiana Court of Appeals. The Indiana Court of Appeals affirmed the award on damages in a net award to the State of \$78 million with the Counterclaim Plaintiff to get post-judgment interest on its \$49.5 million award. The Appeals Court also remanded the case to trial court for calculation of the post-judgment interest.

The State filed its Petition to Transfer the case to the Indiana Supreme Court and counterclaim Plaintiff filed its Petition to Transfer as well. The Indiana Supreme Court heard oral arguments in the case on February 21, 2019, and rendered its decision on June 26, 2019, finding that counterclaim Plaintiff is only owed post-judgment interest from the date of the judgment on remand, and not the original 2012 judgment. The Indiana Supreme Court affirmed the Court of Appeals on all other issues. Counterclaim Plaintiff filed a Petition for Rehearing with the Indiana Supreme Court on July 25, 2019. The State filed its Brief in Response on July 31, 2019.

The Indiana Supreme Court issued its decision on the Petition for Rehearing on October 11, 2019, amending its order to clarify that post-judgment interest due to counterclaim Plaintiff runs from March 14, 2018 at an annual rate of six percent (6%). Under the final judgment in this case, the State owes counterclaim Plaintiff approximately \$49.5 million, and counterclaim Plaintiff owes the State approximately \$128 million, resulting in a net award to the State of approximately \$78 million, plus applicable interest. The parties are exchanging proposed post-judgment interest calculations in order to finalize the net payment amount due to the State. If agreement cannot be reached, the parties may petition the trial court for a determination of post-judgment interest calculations.

#### Indiana Bureau of Motor Vehicles (BMV)

In June 2017, plaintiffs and the State of Indiana entered into a settlement agreement for the March and October 2013 class action lawsuits brought against the Bureau of Motor Vehicles (BMV), which alleged amounts were charged to persons for drivers' licenses that were not authorized by law and overcharges. The court approved this settlement agreement in August 2017. The settlement agreement was amended in August 2018 to place remaining customer claims under the March 2013 case on customer BMV accounts to be claimed as credits. Credits not claimed by August 2021 will be transferred to the Attorney General's Unclaimed Property Fund. \$2.7 million was payable to claimants under the March 2013 case as of June 30, 2019.

Under the October 2013 lawsuit, \$7.4 million was payable to claimants as of June 30, 2019 related to summer of 2016 claims and another \$1.9 million was estimated to be payable for additional claims from 2002 through 2006 and other associated time periods. Any summer of 2016 related claims that were not paid by June 30, 2019 were transferred to the Attorney General's Unclaimed Property Fund in

July 2019. BMV was obligated under the settlement agreement to continue paying claims for the 2002 through 2006 time period through September 30, 2019. From July 1 through September 30, 2019, an additional \$28,149 was paid out for the 2002 through 2006 time period. No additional claims will be paid out or transferred for the 2002 through 2006 time period. \$10.2 million has been accrued as an expense and payable in the government-wide financial statements for remaining refunds to be paid.

*Other Loss Contingencies*

The U.S. Office of Inspector General (USOIG) has issued multiple audit reports on Indiana’s Medicaid Assistance Program. The State has worked with the Centers for Medicare and Medicaid Services (CMS) to resolve the findings. As of June 30, 2019 there were \$39 million in findings which the Family and Social Services Administration (FSSA) believes to be probable for having to be repaid and therefore, has been accrued as an expense and payable in the government-wide financial statements. FSSA management is continuing to work with CMS on a settlement of these findings.

*Construction Commitments*

As of June 30, 2019, the Indiana Department of Transportation had outstanding construction commitments totaling \$1.4 billion for road and bridge projects. It is anticipated that these projects will be financed with approximately 21% Traditional State funds, 8% Toll Road Lease Amendment Proceeds funds, 4% local funds, 66% traditional Federal funds, and 1% 2020 Construction Funds.

The Indiana Department of Administration, Public Works Division, had remaining construction commitments totaling \$47.8 million for building and improvement projects of the State’s agencies as of June 30, 2019. These projects are to be funded through State appropriations, the State Highway Department Fund, capital projects funds, and federal funds.

The State had \$366.1 million in total commitments for software in development as of June 30, 2019. 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, 2019 were as follows:

<b>Governmental Funds</b>	<b>Encumbrances</b>
General Fund	\$ 1,302,013
Public Welfare - Medicaid Assistance	18,278
US Department of Health & Human Services	875,480
Non-Major Governmental Funds	2,646,844
<b>Total</b>	<b>\$ 4,842,615</b>

**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**

Indiana Code (IC) 4-10-18 establishes the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund") within the state’s General Fund to assist in stabilizing revenue during periods of economic recession. The fund receives funding through calculated transfers as prescribed by Indiana Code.

The State Budget Director is required to annually calculate State of Indiana Adjusted Personal Income (API) and its growth rate over the previous year. API growth rates exceeding 2% trigger an appropriation from the General Fund into the Rainy Day Fund. API growth rates less than 2% trigger an appropriation from the Rainy Day Fund to the General Fund. Additionally, any balance in the Rainy Day Fund at the end of the fiscal year exceeding 7% of total General Fund revenues for the same period is transferred from the Rainy Day Fund to the General Fund.

In fiscal year 2019, the API growth rate did not trigger a transfer into or out of the Rainy Day Fund. Also, the Rainy Day Fund did not exceed 7% of total General Fund revenues for fiscal year 2019.

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 2019 was \$523.2 million. There were no outstanding loans as of fiscal year end.

**E. Employee Retirement Systems and Plans**

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

Summary of Significant Accounting Policies (Pensions)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to or deductions from fiduciary net position have been determined on the same basis as they are reported for all of the plans by their respective trustees. The Indiana Public Retirement System is the trustee for all of the plans except for the State Police Retirement Fund and the State Police Supplemental Trust Fund which is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

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

The SPRF includes the Pre-1987 Benefit System and the 1987 Benefit System. The term "Pre-1987 Benefit System" shall refer to the plan and the benefits provided to employee beneficiaries who are first employed as employees by the Department before July 1, 1987, and who did not elect to be

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

*Retirement benefits provided.*

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

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

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

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

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

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

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

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

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

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

A member who meets the conditions listed in IC 5-10-13 has a presumption that a total or partial disability or death resulting from a health condition caused by AIDS, anthrax, hepatitis, HIV, meningococcal meningitis, smallpox, or tuberculosis is a disability or death incurred in the line of duty. In addition, a member who meets the conditions listed in IC 5-10-15 has a presumption that a total or partial disability resulting from an exposure-related cancer, or heart or lung disease is a disability incurred in the line of duty. These presumptions may be rebutted by competent evidence. A meeting or hearing held to rebut a presumption may be held as an executive session under IC 5-14-1.5-6.1(b) (1). A presumption affects only the determination as to whether a disability or death was incurred in the line of duty and does not change the requirements for determining eligibility for disability benefits.

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

monthly pension amount paid to retirees or, upon a retiree's death, one-half of the deceased officer's monthly benefit.

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

**Employees covered by benefit terms.** As of June 30, 2019, the following employees were covered by the benefit terms of the SPRF:

	Pre-1987 Plan	1987 Plan
Inactive employees or beneficiaries currently receiving benefits	777	795
Inactive employees entitled to but not yet receiving benefits	5	171
Active employees	19	1,209
<b>Total</b>	<b>801</b>	<b>2,175</b>

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

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal cost actuarial method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is being funded over a thirty-year closed period which commenced July 1, 2010. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level dollar of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis. For the year ended June 30, 2019, the State's contribution rate was 26.0 percent of covered payroll.

**Deferred Retirement Option Program** The Deferred Retirement Option (DROP) for the State Police Retirement Fund was established in 2001 pursuant to the Pension Trust Agreement and is governed by the Department of the State Police and the Treasurer of the State of Indiana (Trustee). Members of the Pre-1987 and 1987 plans that are eligible to retire may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable

election to retire on a DROP retirement date and remain in active service, but the member does not contribute to the fund during the DROP period. For the Pre-87 Plan, when an employee has completed 20 years of service or more, he/she may irrevocably elect to enter the DROP for a period ending the earlier of (1) 60 consecutive months, (2) completion of 34 years of service, or (3) attainment of age 65. An employee on disability cannot enter the DROP. From the date the employee enters the DROP, he/she will not be credited with any additional years of service. The employees DROP accrual will be equal to the basic monthly retirement benefit. At the end of the DROP period, the employee must separate from employment and retire. Upon separation, the employee will receive their accumulated DROP benefit in the form of a lump sum payment, a rollover to another retirement program, or a combination of both. For the 1987 Plan, all DROP requirements are the same as the Pre-87 plan, except that the employee must have completed 25 years of service or more. The DROP and future retirement monthly benefit is calculated as of the member's DROP entry date. At the time retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2019, the amount held by the plan pursuant to the DROP is \$1.2 million.

**Net Pension Liability**

The SPRF's net pension liability was measured as of June 30, 2018, 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, 2018 were as follows:

Total pension liability	\$ 670,358
Plan fiduciary net position	(476,089)
<b>SPRF's net pension liability</b>	<b>\$ 194,269</b>
Plan fiduciary net position as a percentage of the total pension liability	71.0%

*Actuarial assumptions.* The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates for healthy members were based on the RP-2014 Total Dataset Mortality Tables adjusted from 2006 using MP-2017 Mortality Improvement Scale. Mortality rates for disabled members were based on the RP-2014 Mortality tables for disabled members adjusted from 2006 using MP-2017 Mortality Improvement Scale.

The most recent comprehensive experience study was completed in February 2011 and was based on member experience between June 30, 2005 and June 30, 2010. The demographic assumptions were updated as needed for the June 30, 2018 actuarial valuation.

The SPRF is a pre-funded plan and utilizes a long-term expected rate of return on pension plan investments of 6.75 percent, which was determined using a building-block method in which best estimates of expected future rates of return (expected returns, net of pension plan investment expense) were developed for each major asset class. These estimated returns were combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Development of the long-term investment return is shown below:

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
Broad domestic equity	29.0	6.9
Global ex U.S. equity	13.0	7.1
Short duration fixed income	4.0	2.6
Domestic fixed income	17.0	3.0
High yield fixed income	5.0	4.8
Hedge funds - alternatives	25.0	5.1
Real Estate	5.0	5.8
Cash and equivalents	2.0	2.3
<b>Total</b>	<b>100.0</b>	

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

projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to

determine the total pension liability.

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at 6/30/17</b>	\$ 644,229	\$ 458,766	\$ 185,463
<b>Changes for the year:</b>			
Service cost	15,926	-	15,926
Interest	43,156	-	43,156
Differences between expected and actual experience	(5,963)	-	(5,963)
Changes of assumptions or other inputs	8,070	-	8,070
Contributions - employer	-	25,002	(25,002)
Contributions - employee	-	4,683	(4,683)
Net investment income	-	23,078	(23,078)
Benefit payments, including refunds of employee contributions	(35,060)	(35,060)	-
Administrative expense	-	(380)	380
<b>Net changes</b>	<b>26,129</b>	<b>17,323</b>	<b>8,806</b>
<b>Balances at 6/30/18</b>	<b>\$ 670,358</b>	<b>\$ 476,089</b>	<b>\$ 194,269</b>

*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:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability	279,875	194,269	122,936

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

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

For the year ended June 30, 2019, the State recognized pension expense of \$43.2 million for the SPRF. At June 30, 2019, 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	\$ 29,408	\$ 5,216
Changes of assumptions or other inputs	9,902	4,079
Net difference between projected and actual earnings on pension plan investments	20,544	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	29,901	-
<b>Total</b>	<b>\$ 89,755</b>	<b>\$ 9,295</b>

Deferred outflows of resources in the amount of \$29.9 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, 2020. 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)
2020	22,356
2021	15,728
2022	5,404
2023	6,782
2024	289

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

*Plan description.* The State Police Supplemental Trust (SPST) is a defined benefit, single-employer pension plan and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-4 and 10-12-2-5 grant authority to the Department of the State Police to establish and operate a fund for death and disability benefits. The SPST is funded using annual appropriations on a pay-as-you-go basis. There are no assets accumulated in a trust for these benefits. The amount paid for pensions as the benefits came due during fiscal year 2019 was \$4.0 million.

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

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

- The SPST does not include active SPRF members who elected a DROP

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

*Retirement benefits provided.*

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

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

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

Catastrophic Injury Disability Benefits. For the Pre-1987 Plan, the benefit value is 100 percent of current salary. Benefits are assumed to increase with salary increases and are payable until the participant has earned 34 years of service. The

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

*Employees covered by benefit terms.* As of June 30, 2019, the following employees were covered by the benefit terms of the SPST:

	<b>Pre-1987 Plan</b>	<b>1987 Plan</b>
Inactive employees or beneficiaries currently receiving benefits	15	38
Active employees	18	1,192
<b>Total</b>	<b>33</b>	<b>1,230</b>

**Total Pension Liability**

The SPST Plan’s total pension liability was measured as of June 30, 2018.

*Actuarial assumptions.* The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<b>Pre-1987 Plan</b>	<b>1987 Plan</b>
Interest rate/investment return	2.98%	2.98%
Future salary increases, which includes inflation and cost of living increases	3.50%	9% age 26 & younger; reduced 0.5% through age 35; 4% age 36 and older
Inflation	2.25%	2.25%

Mortality rates were based on the RP-2014 Total Dataset Mortality Tables adjusted from 2006 using MP-2017 Mortality Improvement Scale. Mortality rates for disabled members were based on the RP-2014 Mortality tables for disabled members adjusted from 2006 using MP-2017 Mortality Improvement Scale.

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, 2018 actuarial valuation.

*Discount rate.* Total pension liability was calculated using the discount rate of 2.98 percent. This rate was chosen in accordance with GASB #73, which requires that the discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). The 2.98% is the June 30, 2018 value of the S&P Municipal Bond 20 Year High Grade Rate Index.

**Changes in the Total Pension Liability**

	<b>Increase (Decrease) Total Pension Liability (a)</b>
<b>Balances at 6/30/17</b>	\$ 17,084
<b>Changes for the year:</b>	
Service cost	4,112
Interest	664
Assumption changes	(63)
Differences between expected and actual experience	(881)
Benefit payments, including refunds of employee contributions	(4,343)
<b>Net changes</b>	<b>(511)</b>
<b>Balances at 6/30/18</b>	<b>\$ 16,573</b>

*Sensitivity of the total pension liability to changes in the discount rate.* The following presents the total pension liability of the SPST, calculated using the discount rate of 2.98%, as well as what the SPST's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.98%) or 1-percentage-point higher (3.98%) than the current rate:

	<u>1% Decrease (1.98%)</u>	<u>Current Rate (2.98%)</u>	<u>1% Increase (3.98%)</u>
Total pension liability	18,131	16,573	15,317

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

For the year ended June 30, 2019, the State recognized pension expense of \$4.9 million for the SPST. At June 30, 2019, 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	\$ -	\$ 1,211
Changes of assumptions or other inputs	3,081	594
<b>Total</b>	<b>\$ 3,081</b>	<b>\$ 1,805</b>

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>
2020	169
2021	169
2022	169
2023	169
2024	169
Thereafter	431

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, participants are eligible for full retirement benefits 1) at age 65 if members were employed by age 50 with 15 years of creditable services (retirement is mandatory. 2) at age 65 if employed after age 50 with 10 years of services. Mandatory retirement occurs on the first day of the month after age 65 or 15 years of creditable service 3) at age 55 if age and creditable service total at least 85 or 4) at age 50 with 25 years of service. Participants are eligible for early retirement benefit at age 45 and 15 years of creditable service but benefit is reduced by .25 percent for each month less than age 60. The annual benefit is equal to 25 percent times the average annual salary. The average annual salary equals the average annual salary of the five highest years in the 10 years immediately preceding an officer's retirement dates. Percentage is increased by 1.66 percent for each completed year of creditable service after 10 years. Total percentage may not exceed 75 percent. Postretirement benefit increases are granted on an ad hoc basis pursuant to IC 5-10.2-12-4 and administered by the INPRS board. For the year ended June 30, 2019, postretirement benefits of \$94 thousand were issued to members as a 13<sup>th</sup> check.

*Disability and survivor benefits provided.* If a participant becomes disabled in the line of duty, the benefit is the member's salary times the degree of impairment without a reduction for early commencement. If not in the line of duty, the member's salary used to calculate the benefit is reduced 50 percent. A minimum benefit may apply.

While in active service, a spouse or dependent beneficiary of a member with 15+ years of creditable services receivables a monthly annuity. For less than 15 years of creditable service the benefit consists of contributions plus interest. While

receiving a benefit, a spouse or parent (for their lifetime), or dependents(s) (until age 18) receives 50 percent of the member's benefit. If the spouse is more than five years younger than the member, the benefit is actuarially adjusted.

*Deferred Retirement Option Plan.* In accordance with IC 5-10-5.5-22, members eligible to retire with an unreduced benefit may elect to earn a DROP benefit while continuing to work. Members execute an irrevocable election to retire on a DROP retirement date and remain in active service while contributing to the fund until that date. The DROP retirement date must be not less than 12 months and not more than 36 months after their DROP entry date, and cannot be after the member reaches mandatory retirement age. The DROP and future retirement monthly benefit are calculated as of the members' DROP entry date. At retirement, members must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2019, the amount held by the fund under the DROP is \$0.8 million.

*Employees covered by benefit terms.* As of June 30, 2019, the EG&C plan membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	240
Inactive vested members entitled to but not yet receiving benefits	4
Inactive non-vested members entitled to a distribution of contributions	137
Active members: vested and non-vested	436
<b>Total</b>	<b>817</b>
Based on census data as of June 30, 2018 used for the June 30, 2019 actuarial valuation.	

*Contributions.* Contributions are determined by the INPRS Board based on an actuarial valuation. Employers contribute 20.75 percent, with 0.73 percent funding a supplemental reserve account for postretirement benefits administered by the INPRS Board. Members are required to contribute 4 percent of annual salary. Employers may pay all or part of the member contribution for the member.

*Financial report.* INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing

[questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

**Net Pension Liability**

The EG&C Plan's net pension liability was measured as of June 30, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Interest on member balances	3.50%
Future salary increases	2.50%
Inflation	2.25%
Cost of living increases	2019-2021 - 13th check, Beginning Jan. 1, 2022 - 0.40% Beginning Jan. 1, 2034 - 0.50% Beginning Jan. 1, 2039 - 0.60%

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

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2018 actuarial 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 Allocation (%)	Long-Term Expected Real Rate of Return (%)
Public equity	22.0	4.4
Private equity	14.0	5.4
Fixed income - ex inflation - linked	20.0	2.2
Fixed income - inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	12.0	5.2
<b>Total</b>	<b>100.0</b>	

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 the plan.

*Discount rate.* Total pension liability was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at 6/30/17</b>	\$ 142,603	\$ 120,016	\$ 22,587
<b>Changes for the year:</b>			
Service cost	3,369	-	3,369
Interest	9,619	-	9,619
Differences between expected and actual experience	(587)	-	(587)
Changes of assumptions or other inputs	(8,015)	-	(8,015)
Contributions - employer	-	6,175	(6,175)
Contributions - employee	-	1,171	(1,171)
Net investment income	-	11,189	(11,189)
Benefit payments, including refunds of employee contributions	(6,935)	(6,935)	-
Administrative expense	-	(136)	136
Other changes	2	12	(10)
<b>Net changes</b>	<b>(2,547)</b>	<b>11,476</b>	<b>(14,023)</b>
<b>Balances at 6/30/18</b>	<b>\$ 140,056</b>	<b>\$ 131,492</b>	<b>\$ 8,564</b>

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

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability	26,831	8,564	(6,486)

*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 (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://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, 2019, the State recognized pension expense of \$3.3 million for the EG&C Plan. At June 30, 2019, the State reported deferred outflows of resources and deferred inflows of resources related to pensions for the EG&C Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 674	\$ 670
Changes of assumptions or other inputs	1,101	8,423
Net difference between projected and actual earnings on pension plan investments	838	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	6,982	-
<b>Total</b>	<b>\$ 9,595</b>	<b>\$ 9,093</b>

Deferred outflows of resources in the amount of \$7.0 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, 2020. 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)
2020	708
2021	(960)
2022	(2,282)
2023	(2,470)
2024	(1,476)
Thereafter	-

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. Members serve as a: (1) prosecuting attorney or a chief deputy prosecuting attorney; or (2) deputy prosecuting attorney, (3) executive director, or (4) assistant executive director of the Indiana Prosecuting Attorneys Council Administration of the fund is generally in accordance with IC 33-39-7 and other Indiana pension law. PARF members are also members of

the PERF Hybrid Plan. According to statute, benefits payable from PARF are reduced by any benefits payable from the PERF DB fund.

*Retirement benefits provided.* A participant is entitled to a full retirement benefit if the participant is: (1) age 65 with at least 8 years of creditable service; or (2) age 55 if age and creditable service total at least 85. A participant is eligible for early retirement benefits at age 62 and 8 years of creditable service with a reduction in the full benefit by 0.25 percent for each month less than age 65. Annual benefit equals highest 12 consecutive months of salary (state-paid portion only) before separation from services times percentage for years of service. 24 percent at eight years of service; increased by three percent per year for years nine through 11; 50 percent at year 12; increased by one percent per year for years 13 through 22 with a maximum of 60 percent, and reduced for any PERF DB benefit. There is no postretirement benefit adjustment provided under this plan.

*Disability and survivor benefits provided.* PARF also provides disability and survivor benefits. A member with 22+ years of creditable service receives full benefit. Less than 22 years of creditable service receives the full benefit reduced by one percent for each year under 22 (benefit to be no lower than 50 percent).

While in active service, a spouse or dependent children receives the greater of \$12,000 annually or 50 percent of benefit for the later of age 62 or the age the day before death. If death occurs while the participant is receiving a benefit, a spouse (for their lifetime), or dependent children (until age 18 unless disabled) receives the greater of \$12,000 annually or 50 percent of the member's benefit.

*Employees covered by benefit terms.* As of June 30, 2019, the PARF membership consisted of:

Inactive employees or beneficiaries currently receiving benefits	152
Inactive employees entitled to but not yet receiving benefits	92
Inactive employees entitled to refunds of contributions	132
Active employees	203
<b>Total</b>	<b>579</b>
Based on census data as of June 30, 2018 used for the June 30, 2019 actuarial valuation.	

*Contributions.* Employer contributions are determined by the INPRS Board based on an

actuarial valuation and appropriations are received from the state's general fund. For fiscal year 2019, the appropriation from the state's General Fund totaled \$3.2 million and the Actuarially Determined Contribution (ADC) was \$3.5 million.

Members are required to contribute six percent of the state-paid portion of salary for a maximum period of 22 years of creatable service. In addition, members are required to contribute three percent as participants of the PERF DC plan. Employers may pay all or part of the member contributions for the member..

*Financial report.* INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

**Net Pension Liability**

The PARF's net pension liability was measured as of June 30, 2018, 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, 2018 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	4.00%
Inflation	2.25%
Cost of living increases	N/A

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

Social Security Administration's 2014 Trustee report.

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2018 actuarial 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 Allocation (%)	Long-Term Expected Real Rate of Return (%)
Public equity	22.0	4.4
Private equity	14.0	5.4
Fixed income - ex inflation - linked	20.0	2.2
Fixed income - inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	12.0	5.2
<b>Total</b>	<b>100.0</b>	

*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 the plan.

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at 6/30/17</b>	\$ 96,655	\$ 55,575	\$ 41,080
<b>Changes for the year:</b>			
Service cost	1,947	-	1,947
Interest	6,521	-	6,521
Differences between expected and actual experience	2,156	-	2,156
Contributions - employer	-	3,014	(3,014)
Contributions - employee	-	1,295	(1,295)
Net investment income	-	5,218	(5,218)
Benefit payments, including refunds of employee contributions	(3,995)	(3,995)	-
Administrative expense	-	(88)	88
<b>Net changes</b>	<u>6,629</u>	<u>5,444</u>	<u>1,185</u>
<b>Balances at 6/30/18</b>	<u>\$ 103,284</u>	<u>\$ 61,019</u>	<u>\$ 42,265</u>

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

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability	55,290	42,265	31,528

*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 (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,108	\$ -
Changes of assumptions or other inputs	-	2
Net difference between projected and actual earnings on pension plan investments	456	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	3,216	-
<b>Total</b>	<u>\$ 4,780</u>	<u>\$ 2</u>

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

For the year ended June 30, 2019, the State recognized pension expense of \$5.9 million for the PARF. At June 30, 2019, 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 in the amount of \$3.2 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, 2020. 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)
2020	2,077
2021	197
2022	(421)
2023	(291)

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

*Plan description.* The Legislators' Retirement System is governed by the INPRS Board of Trustees. The Legislators' Defined Benefit Plan (LEDB) is a single-employer (the State of Indiana) defined benefit plan, providing retirement, disability, and survivor benefits to members of the General Assembly who were serving on April 30, 1989, and filed an election under IC 2-3.5-3-1(b). The fund is closed to new entrants. Administration of the fund is generally in accordance with IC 2-3.5 and other Indiana pension law.

*Retirement benefits provided.* A participant is entitled to an unreduced monthly retirement benefit (1) at age 65 with at least 10 years of creditable service; (2) at age 60 with at least 15 years of creditable service, or (3) at age 55 if age and creditable service total at least 85. A participant is entitled to early retirement at age 55 and 10 years of creditable service (reduce full benefit by 0.1 percent per month between ages 60 and 65, and by 5/12 percent per month between ages 55 and 60). Early retirement benefits are applicable when the member is no longer serving in the General Assembly and is not receiving, nor entitled to receive, compensation from the state for work in any capacity

The annual retirement benefit equals the lesser of: \$40 multiplied by 12 months multiplied by years of service before November 8, 1989, or the highest consecutive three-year average annual salary.

Postretirement adjustments are granted by the Indiana General Assembly on an ad hoc basis pursuant to IC 5-10.2-12-4 and administered by the Board. No postretirement adjustment occurred in the year ended June 30, 2019.

*Disability and survivor benefits provided.* The LEDB Plan also provides disability and survivor benefits. Any active member that qualifies for social security disability with at least five years of creditable service may receive an unreduced benefit for the duration of their disability. If death occurs while in active service, a spouse or

dependent children receives 50 percent of the benefit for the later of age 55 or age the day before the member's death. If death occurs while receiving a benefit, a spouse (for their lifetime), or dependents (until age 18 unless disabled) receives 50 percent of the member's benefit.

*Employees covered by benefit terms.* As of June 30, 2019, the LEDB Plan membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	78
Inactive vested members entitled to but not yet receiving benefits	9
Active members: vested and non-vested	8
<b>Total</b>	<b>95</b>
Based on census data as of June 30, 2018 used for the June 30, 2019 actuarial valuation.	

*Contributions.* Employer contributions are actuarially determined and derive from the state's General Fund, a portion of which will be allocated to fund a supplemental reserve account for postretirement benefits administered by the Board. For the year ended June 30, 2019, the State of Indiana appropriated \$0.3 million for employer contributions. The Actuarially Determined Contribution (ADC) for LEDB was \$0.2 million.

*Financial report.* INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

**Net Pension Liability**

The LEDB Plan's net pension liability was measured as of June 30, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Future salary increases	2.25%
Inflation	2.25%
Cost of living increases	2020-2021 - 13th check, Beginning Jan. 1, 2022 - 0.40% Beginning Jan. 1, 2034 - 0.50% Beginning Jan. 1, 2039 - 0.60%

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

The most recent comprehensive experience study was completed in 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2018 actuarial 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 Allocation (%)	Long-Term Expected Real Rate of Return (%)
Public equity	22.0	4.4
Private equity	14.0	5.4
Fixed income - ex inflation - linked	20.0	2.2
Fixed income - inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	12.0	5.2
<b>Total</b>	<b>100.0</b>	

*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 defined benefit pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for the plan.

## Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at 6/30/17</b>	\$ 3,804	\$ 2,865	\$ 939
<b>Changes for the year:</b>			
Interest	245	-	245
Assumption changes	(121)	-	(121)
Differences between expected and actual experience	(85)	-	(85)
Contributions - employer	-	237	(237)
Net investment income	-	263	(263)
Benefit payments, including refunds of employee contributions	(359)	(359)	-
Administrative expense	-	(64)	64
<b>Net changes</b>	<b>(320)</b>	<b>77</b>	<b>(397)</b>
<b>Balances at 6/30/18</b>	<b>\$ 3,484</b>	<b>\$ 2,942</b>	<b>\$ 542</b>

*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	781	542	331

*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 (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://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, 2019, the LEDB Plan recognized pension income of \$59 thousand. At June 30, 2019, 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	\$ 43	\$ -
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	269	-
<b>Total</b>	<b>\$ 312</b>	<b>\$ -</b>

Deferred outflows of resources in the amount of \$269 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, 2020. 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)
2020	65
2021	15
2022	(22)
2023	(15)

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 (State of Indiana) defined benefit plan providing retirement, disability, and survivor benefits to members. Membership consists of individuals who served, are 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. Administration of the fund is generally in accordance with IC 33-38 and other Indiana pension law. JRS is governed through the INPRS Board of Trustees

*Retirement benefits provided.* A member is entitled to a full benefit 1) at age 65 with at least eight years of creditable service, or 2) at age 55 if age and creditable service total at least 85. A member is entitled to an early retirement benefit at age 62 and at least eight years of creditable service but the full benefit is reduced by 0.1 percent for each month less than age 65.

The annual retirement benefit equals individual salary, or salary of office at retirement multiplied by percentage for years of service: 24 percent at eight years of service; increased by three percent per year for years nine through 11; 50 percent at year 12; increased by one percent per year for years 13 through 22 with a maximum of 60 percent.

Postretirement benefit increases for members (not survivors or disabled members) are equal to the change in the salary of the office at retirement. For the year ended June 30, 2019, a postretirement benefit adjustment of 2.1 percent occurred and was administered by the INPRS Board.

*Disability and survivor benefits provided.* A qualified member with 22+ years of creditable services receivables an unreduced disability benefit. Members with less than 22 years of creditable service receive the full benefit reduced by one percent for each year under 22 years of creditable service with the benefit to be no lower than 50 percent. If death occurs while in active service with 8+ years of service, or while receiving a benefit, a spouse or dependent children (for their lifetime) receive the greater of \$12,000 annually or 50 percent of benefit entitled at the date of death.

*Employees covered by benefit terms.* As of June 30, 2019, the Judges' Retirement System membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	375
Inactive vested members entitled to but not yet receiving benefits	22
Inactive non-vested members entitled to a distribution of contributions	36
Active members: vested and non-vested	453
<b>Total</b>	<b>886</b>

Based on census data as of June 30, 2018 used for the June 30, 2019 actuarial valuation.

*Contributions.* Employer contributions are determined by the INPRS Board based on an actuarial valuation and are received from the state general fund and certain court and docket fees. For the year ended June 30, 2019, the State of Indiana paid \$16.0 million in employer contributions, with appropriations of \$8.9 million and \$7.1 million in docket and court fees. The Actuarially Determined Contribution (ADC) was \$14.9 million.

Members are required to contribute six percent of the member's salary for a maximum period of 22 years of creditable service. Employers may pay all or part of the member contribution for the member.

*Financial report.* INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

**Net Pension Liability**

The JRS' net pension liability was measured as of June 30, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2018 actuarial 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	22.0	4.4
Private equity	14.0	5.4
Fixed income - ex inflation - linked	20.0	2.2
Fixed income - inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	12.0	5.2
<b>Total</b>	<b>100.0</b>	

*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 the plan.

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at 6/30/17</b>	\$ 523,735	\$ 475,055	\$ 48,680
<b>Changes for the year:</b>			
Service cost	14,886	-	14,886
Interest	35,567	-	35,567
Differences between expected and actual experience	(3,090)	-	(3,090)
Contributions - employer	-	15,117	(15,117)
Contributions - employee	-	3,199	(3,199)
Net investment income	-	44,104	(44,104)
Benefit payments, including refunds of employee contributions	(23,622)	(23,622)	-
Administrative expense	-	(119)	119
Other changes	219	219	-
<b>Net changes</b>	<u>23,960</u>	<u>38,898</u>	<u>(14,938)</u>
<b>Balances at 6/30/18</b>	<u><b>\$ 547,695</b></u>	<u><b>\$ 513,953</b></u>	<u><b>\$ 33,742</b></u>

*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:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	96,481	33,742	(18,955)

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

For the year ended June 30, 2019, the JRS recognized pension expense of \$15.9 million. At June 30, 2019, 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	\$ 1,113	\$ 3,507
Changes of assumptions or other inputs	-	520
Net difference between projected and actual earnings on pension plan investments	3,165	-
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	16,031	-
<b>Total</b>	<u><b>\$ 20,309</b></u>	<u><b>\$ 4,027</b></u>

Deferred outflows of resources in the amount of \$16.0 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, 2020. 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)
2020	6,797
2021	(226)
2022	(3,877)
2023	(2,443)

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

Public Employees' Defined Benefit Account (Presented as part of INPRS – a fiduciary in nature component unit)

*Plan description.* PERF DB is a cost-sharing,

multiple-employer defined benefit fund providing retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan and those political subdivisions (counties, cities, townships, and other governmental units) that elect to participate in the retirement fund. Administration of the fund is generally in accordance with IC 5-10.2, IC 5-10.3, and 35 IAC 1.2 and other Indiana pension law. PERF DB is a component of the Public Employees Hybrid plan (PERF Hybrid).

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

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

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

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

Postretirement benefit increases are granted on an ad hoc basis pursuant to IC 5-10.2-12-4 and administered by the INPRS Board. For the year ended June 30, 2019, postretirement benefits of \$29.6 million were issued to members as a 13<sup>th</sup> check.

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

Employees covered by benefit terms. As of June 30, 2019, there were 1,186 participating political subdivisions in addition to the State. As of June 30, 2019, PERF membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	89,932
Inactive vested members entitled to but not yet receiving benefits	33,062
Active members: vested and non-vested	<u>129,099</u>
<b>Total</b>	<b><u>252,093</u></b>
Based on census data as of June 30, 2018 used for the June 30, 2019 actuarial valuation.	

*Contributions.* Contributions are determined by the INPRS Board of Trustees based on an actuarial valuation. Employers contribute 11.2 percent of covered payroll, with 0.43 percent funding a supplemental reserve account for postretirement benefits. Contributions from employers with PERF MC DC plan members, who either currently offer or have offered PERF Hybrid, fund PERF DB's unfunded liability at 8.2 percent of covered payroll for the State and 7.4 percent for political subdivisions. No member contributions are required.

*Financial report.* INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be

obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

*Actuarial assumptions.* The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Future salary increases	2.50% - 4.25%
Inflation	2.25%
Cost of living increases	2019-2021 - 13th check, Beginning Jan. 1, 2022 - 0.40% Beginning Jan. 1, 2034 - 0.50% Beginning Jan. 1, 2039 - 0.60%

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

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2018 actuarial 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.

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

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
State's proportionate share of the net pension liability	1,367,652	868,814	452,837

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:

<b>Asset Class</b>	<b>Target Allocation (%)</b>	<b>Long-Term Expected Real Rate of Return (%)</b>
Public equity	22.0	4.4
Private equity	14.0	5.4
Fixed income - ex inflation - linked	20.0	2.2
Fixed income - inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	12.0	5.2
<b>Total</b>	<u><u>100.0</u></u>	

*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 the plan.

*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 (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

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

At June 30, 2019, the State reported a liability of \$868.8 million for its proportionate share of the net pension liability. The PERF net pension liability was measured as of June 30, 2018, 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, 2018, the State's proportion was 25.58 percent, which was a decrease of 0.16 percentage points from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the State recognized pension expense of \$147.7 million. At June 30, 2019, 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	\$ 11,362	\$ 59
Changes of assumptions or other inputs	2,070	139,500
Net difference between projected and actual earnings on pension plan investments	25,731	-
Changes in the employer proportion and differences between the employer's contributions and the employer's proportionate share of contributions	12,255	6,089
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	145,930	-
<b>Total</b>	<b>\$ 197,348</b>	<b>\$ 145,648</b>

Deferred outflows of resources in the amount of \$145.9 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, 2020. 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>
2020	22,575
2021	(36,124)
2022	(65,294)
2023	(15,387)

Teachers' 1996 Defined Benefit Account (Presented as part of INPRS – a fiduciary in nature component unit)

*Plan description.* TRF '96 DB is a cost-sharing, multiple-employer defined benefit fund providing retirement, disability, and survivor benefits. Membership in TRF '96 DB is required for all legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees. Faculty members and professional employees at Ball State University and Vincennes University have the option of selecting membership in the Fund or an alternate University plan not administered by INPRS. Membership in TRF '96 DB is optional for teachers employed by charter schools, employees and officials of the Indiana State Board of Education who were Indiana licensed teachers before their employment with the Board, and teachers employed by special management teams as defined under IC 20-31. Administration of the fund is generally in accordance with IC 5-10.2, IC 5-10.4, and 35 IAC 14, and other Indiana pension law. TRF '96 DB is a component of the Teachers' Hybrid Plan. The Teachers Hybrid Plan consists of two components: TRF '96 DB: the monthly employer-funded defined benefit component, along with TRF DC, a member-funded account.

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

The lifetime annual benefit equals the years of creditable service multiplied by the average highest five year annual salary multiplied by 1.1 percent (minimum of \$185 per month). Average annual compensation is outlined in IC 5-10.2-4-3 and includes compensation of not more than \$2,000 received from the employer in severance.

Postretirement benefit increases are granted on an ad hoc basis pursuant to IC 5-10.2-12-4 and administered by the INPRS Board. For the year ended June 30, 2019, postretirement benefits of \$2.3 million were issued to members as a 13<sup>th</sup> check.

**Disability and survivor benefits provided.** An active member qualifying for Social Security disability with five years of creditable service may receive an unreduced retirement benefit for the duration of their disability (minimum of \$185 per month). Under certain conditions, active TRF members may qualify for a classroom disability benefit of at least \$125 per month. If death occurs while in active service, a spouse or dependent beneficiary of a member with a minimum of 15 years of creditable services receives a benefit as if the member retired the later of age 50 or the age the day before the member's death. If death occurs while receiving a benefit, a spouse or dependent receives the benefit associated with the member's selected form of payment: Five Year Certain & Life, Joint with 100% Survivor Benefits, Joint with Two-Thirds Survivor Benefits, or Joint with One-Half Survivor Benefits.

**Employees covered by benefit terms.** As of June 30, 2019, the number of participating employers was 372 in addition to the State. As of June 30, 2019, TRF 1996 Account membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	7,041
Inactive vested members entitled to but not yet receiving benefits	5,778
Active members: vested and non-vested	<u>58,308</u>
<b>Total</b>	<b><u>71,127</u></b>
Based on census data as of June 30, 2018 used for the June 30, 2019 actuarial valuation.	

**Contributions.** Contributions are determined by the INPRS Board based on an actuarial valuation. Employers contribute 7.5 percent of covered payroll, with 0.14 percent funding a supplemental reserve account for future postretirement benefit increases. No member contributions are required.

**Financial report.** INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

**Actuarial assumptions.** The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Future salary increases	2.5% - 12.5%
Inflation	2.25%
Cost of living increases	2019-2021 - 13th check, Beginning Jan. 1, 2022 - 0.40% Beginning Jan. 1, 2034 - 0.50% Beginning Jan. 1, 2039 - 0.60%

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

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2011 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2018 actuarial 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 Allocation (%)	Long-Term Expected Real Rate of Return (%)
Public equity	22.0	4.4
Private equity	14.0	5.4
Fixed income - ex inflation - linked	20.0	2.2
Fixed income - inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	12.0	5.2
<b>Total</b>	<b>100.0</b>	

*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

*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	3,758	389	(2,336)

*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 (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

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

At June 30, 2019, the State reported a liability of \$388 thousand for its proportionate share of the net pension liability. The TRF 1996 Account net pension liability was measured as of June 30, 2018, 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

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 '96 defined benefit pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for the plan.

pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the State's proportion was 0.35 percent, which was a decrease of 0.04 percentage points from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the State recognized pension expense of \$1.0 million. At June 30, 2019, 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	\$ 223	\$ 558
Changes of assumptions or other inputs	661	1,260
Net difference between projected and actual earnings on pension plan investments	48	-
Changes in the employer proportion and differences between the employer's contributions and the employer's proportionate share of contributions	103	294
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	150,833	-
<b>Total</b>	<b>\$ 151,868</b>	<b>\$ 2,112</b>

Deferred outflows of resources in the amount of \$150.8 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, 2020. 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)
2020	122
2021	(72)
2022	(231)
2023	(193)
2024	(106)
Thereafter	(597)

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 providing retirement, disability, and survivor benefits for teachers, administrators, and certain INPRS personnel hired before July 1, 1996. Membership in TRF Pre-'96 DB is closed to new entrants. Administration of the fund is generally in accordance with IC 5-10.2, IC 5-10.4, 35 IAC 14, and other Indiana pension law. TRF Pre-'96 DB is a component of the Teachers' Hybrid Plan. The Teachers' Hybrid Plan consists of two components: TRF Pre-'96 DB: the monthly employer-funded defined benefit component, along with TRF DC, a member-funded account.

*Retirement benefits provided.* A member is entitled to a full retirement benefit 1) at age 65 with at least 10 years of creditable service, 2) at age 60 with at least 15 years of creditable service, 3) at age 55 if age and creditable service total at least 85, 4) at age 55 with 20 years of creditable service and active as an elected official in the TRF-covered position, or 5) at age 70 with 20 years of creditable service and still active in the TRF-covered position. A member is entitled to an early retirement benefit at age 50 and minimum of 15 years of creditable service. The benefit is 44 percent of full benefit at

age 50, increasing five percent per year up to 89 percent at age 59.

The lifetime annual benefit equals the years of creditable service multiplied by the average highest five year annual salary multiplied by 1.1 percent (minimum of \$185 per month). The average annual compensation is outlined in IC 5-10.2-4-3 and includes compensation of not more than \$2,000 received from the employer in severance.

Postretirement benefit increases are granted on an ad hoc basis pursuant to IC 5-10.2-12-4 and administered by the INPRS Board. For the year ended June 30, 2019, postretirement benefits of \$21.8 million were issued to members as a 13<sup>th</sup> check..

*Disability and survivor benefits provided.* An active member qualifying for Social Security disability with five years of creditable service may receive an unreduced retirement benefit for the duration of their disability (minimum of \$185 per month). Under certain conditions, active TRF members may qualify for a classroom disability benefit of at least \$125 per month. If death occurs while in active service, a spouse or dependent beneficiary of a member with a minimum of 15 years of creditable service receives a benefit as if the member retired the later of age 50 or the age the day before the member's death. If death occurs while receiving a benefit, a spouse or dependent receives the benefit associated with the member's selected form of payment: Five Year Certain & Life, Joint with 100% Survivor Benefits, Joint with Two-Thirds Survivor Benefits, or Joint with One-Half Survivor Benefits.

*Employees covered by benefit terms.* As of June 30, 2019, the number of participating employers was 344 in addition to the State. The State of Indiana makes contributions as the sole nonemployer contributing entity. As of June 30, 2019, TRF Pre-1996 Account membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	53,498
Inactive vested members entitled to but not yet receiving benefits	2,382
Active members: vested and non-vested	10,497
<b>Total</b>	<b>66,377</b>
Based on census data as of June 30, 2018 used for the June 30, 2019 actuarial valuation.	

**Contributions.** According to statute, the TRF Pre-'96 DB fund is funded primarily by appropriations from the state general fund and lottery proceeds. The Actuarially Determined Contribution (ADC) for TRF Pre-'96 DB was \$947.4 million. This includes a base appropriation of \$892.2 million, a special appropriation of \$21.7 million for 13<sup>th</sup> checks, \$30.0 million of lottery proceeds to fund the supplemental reserve account for postretirement benefits, and \$3.5 million of employer contributions from grant monies. No member contributions are required.

**Financial report.** INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

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

At June 30, 2019, the State reported a liability of \$10,871.8 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the State's proportion was 100.00 percent, which was the same as its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the State recognized pension income of \$5.8 million. At June 30, 2019, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	-	1,297
Employer's contributions to the pension plan subsequent to the measurement date of the net pension liability	944,027	-
<b>Total</b>	<b>\$ 944,027</b>	<b>\$ 1,297</b>

\$944.0 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, 2020. 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)
2020	54,548
2021	4,357
2022	(36,066)
2023	(24,136)

**Actuarial assumptions.** The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate/investment return	6.75%
Future salary increases	2.5% - 12.5%
Inflation	2.25%
Cost of living increases	2019-2021 - 13th check, Beginning Jan. 1, 2022 - 0.40% Beginning Jan. 1, 2034 - 0.50% Beginning Jan. 1, 2039 - 0.60%

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

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2018 actuarial 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 Allocation (%)	Long-Term Expected Real Rate of Return (%)
Public equity	22.0	4.4
Private equity	14.0	5.4
Fixed income - ex inflation - linked	20.0	2.2
Fixed income - inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	12.0	5.2
<b>Total</b>	<b>100.0</b>	

*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-'96 defined benefit pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for the plan.

*Sensitivity 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	12,228,232	10,871,842	9,706,327

*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 (844) 464-6777, by emailing [questions@inprs.in.gov](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

Pension Amounts Summary – Defined Benefit Plans

A summary of the pension amounts disclosed in the notes for the defined benefit plans is provided in the following table.

<b>Plan</b>	<b>Total Pension Liability</b>	<b>Fiduciary Net Position</b>	<b>Net Pension Liability</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Pension Expense</b>
SPRF	\$ 670,358	\$ 476,089	\$ 194,269	\$ 89,755	\$ 9,295	\$ 43,229
SPST	16,573	-	16,573	3,081	1,805	4,945
EG&C	140,056	131,492	8,564	9,595	9,093	3,344
PARF	103,284	61,019	42,265	4,780	2	5,932
LE DB	3,484	2,942	542	312	-	(59)
JRS	547,695	513,953	33,742	20,309	4,027	15,881
PERF	4,115,461	3,246,647	868,814	197,348	145,648	147,696
TRF 1996	19,472	19,083	389	151,868	2,112	1,034
TRF Pre-1996	14,583,189	3,711,347	10,871,842	944,027	1,297	(5,802)
<b>Total</b>	<b>\$ 20,199,572</b>	<b>\$ 8,162,572</b>	<b>\$ 12,037,000</b>	<b>\$ 1,421,075</b>	<b>\$ 173,279</b>	<b>\$ 216,200</b>

*The State contributes to the following defined contribution plans:*

My Choice (PERF MC DC) – State Employees' Defined Contribution Plan (Presented as part of INPRS – a fiduciary in nature component unit)

PERF MC DC is a multiple-employer defined contribution fund providing retirement benefits to full-time employees of the State of Indiana not covered by another plan and those political subdivisions (counties, cities, townships, and other governmental units) that elected to participate in the retirement fund. PERF MC DC is the primary defined contribution benefit plan for members making this election. Administration of the account is generally in accordance with other Indiana pension law.

First time new employees hired by the State of Indiana or a political subdivision who offer a choice have a one-time election to join either PERF Hybrid or PERF My Choice. A state hire that is an existing member of PERF Hybrid plan and was not given the option for PERF My Choice is given the option to elect PERF My Choice or remain in PERF Hybrid.

The PERF MC DC plan may be funded with an employer variable rate contribution. The variable rate contribution is three percent for state employees and up to 3.8 percent for political subdivision members. Political subdivisions may match 50 percent of a member's voluntary contributions.

Member contributions under the PERF MC DC are

set by statute and the INPRS Board at three percent of covered payroll. The employer may choose to make these contributions on behalf of the member. Under certain limitations, voluntary member contributions up to 10 percent can be made solely by the member.

The state contributed 3.0% to My Choice members' accounts during the fiscal year ended June 30, 2019. My Choice members totaled 3,335 as of June 30, 2018.

Members are entitled to the sum total of vested contributions plus earnings 30 days after separation from employment (retirement, termination, disability, or death). The amount may be paid in a lump sum, partial lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements). PERF MC DC members are 100 percent vested in member and voluntary contributions, and vested in employer variable rate contributions at 20 percent after one year of service and increases in 20 percent increments for each year of service thereafter until 100 percent vested after five years of service.

Upon providing proof of the member's qualification for social security disability benefits, the member is entitled to the sum total of vested contributions plus earnings. The amount may be paid in a lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).

The survivor benefit is that the beneficiary is entitled to the sum total of vested contributions plus earnings. The amount may be paid in a lump sum,

direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).

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

The Legislators' Defined Contribution plan is a single-employer (State of Indiana) defined contribution fund that provides retirement benefits to members of the General Assembly. Administration of the fund is generally in accordance with IC 2-3.5 and other Indiana pension law. Effective January 1, 2019, members of the fund can no longer invest in the Consolidated Defined Benefit Assets.

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

If a participant dies their beneficiary is entitled to the sum total of contributions plus earnings. The amount can be paid in a lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).

Contributions are determined by the INPRS Board and confirmed by the State Budget Agency. The employer contribution rate is 14.2 percent of covered payroll. This rate may not exceed the sum contribution rates for State of Indiana employer and member PERF Hybrid plans. The member contribution is five percent of member's salary. The employer may choose to make contributions on behalf of the member.

**F. Other Postemployment Benefits**

**Defined Benefit Plans**

*Plan Descriptions.* The State of Indiana sponsors and contributes to four single-employer defined benefit healthcare plans: State Personnel Plan (SPP); Legislature Plan (LP); Indiana State Police Plan (ISPP); and the Conservation and Excise Police Plan (CEPP). The SPP and LP are administered by the State Personnel Department. The Indiana State Police administer the ISPP. The CEPP is administered by the Indiana State Excise Police and Indiana Conservation Officers Health Insurance Committee. The SPP, ISPP, and CEPP are administered through trusts that meet the

criteria in GASB 74. The LP is not administered through a trust that meets the requirements of GASB 74 and is not accumulating assets.

*Benefits Provided.* All four plans provide medical plan health care benefits to eligible State employee retirees and beneficiaries. The medical benefits provided to retirees are the same benefit options afforded active employees. Benefit provisions for each plan are established and may be amended by Indiana Code 5-10-8 *et seq.* Separate financial reports are not issued for these plans.

*Employees covered by benefit terms.* As of June 30, 2018, membership in the plans consisted of:

	SPP	ISPP	CEPP	LP
Inactive employees or beneficiaries currently receiving benefit payments	725	1,120	191	38
Active employees	23,617	1,665	262	112
<b>Total</b>	<b>24,342</b>	<b>2,785</b>	<b>453</b>	<b>150</b>

Based on census data as of June 30, 2017 used for the June 30, 2018 actuarial valuation.

As of June 30, 2019, membership in the plans consisted of:

	SPP	ISPP	CEPP	LP
Inactive employees or beneficiaries currently receiving benefit payments	552	1,076	198	34
Active employees	25,659	1,688	244	113
<b>Total</b>	<b>26,211</b>	<b>2,764</b>	<b>442</b>	<b>147</b>

Based on census data as of June 30, 2019

*Contributions.* Actuarially determined contributions (ADC) are determined for these plans by the actuary. The state determines the contributions to make for these plans after considering its other needs and the OPEB participants' needs.

For the SPP, the state contributes at least the ADC annually.

The ISPP has established a 401(h) and section 115 trust for the purpose of funding retiree OPEB. Contributions to the 401(h) and section 115 trust are made from the following sources: 1) Medicare Part D retiree drug subsidy reimbursement; 2) excess long-term disability fund; 3) retiree premiums 4) state contributions for ISP active employees in accordance with the OPEB DC plan (501 plan); and 5) discretionary contributions from the ISP healthcare fund up to \$1 million. Additionally, active ISP employees contribute \$20 per paycheck towards the 401(h) trust account. This ISP funding policy is expected to continue for the foreseeable future.

The annual cost of the CEPP is financed on a pay-as-you-go basis from state subsidies, active/retiree

contributions, and a discretionary contribution from the CEPP reserve fund.

Retiree participants pay the full premium rate as determined by the administrators of these plans.

Financial Statements: As separately issued financial statements are not available for the State Employee Retiree Health Benefit Trust Fund-DB, summarized financial statements are as follows:

<b>State of Indiana Combining Statement of Fiduciary Net Position Pension and Other Employee Benefit Trust Funds June 30, 2019</b>				
	<u>SPP</u>	<u>ISPP</u>	<u>CEPP</u>	<u>Total</u>
<b>Assets</b>				
Cash, cash equivalents and non-pension investments	\$ 200	\$ 35,889	\$ 854	\$ 36,943
Receivables:				
Contributions	172			172
Interest	93	739	29	861
Total receivables	265	739	29	1,033
Pension and other employee benefit investments at fair value:				
Debt Securities	45,866	101,923	22,928	170,717
Total investments at fair value	45,866	101,923	22,928	170,717
<b>Total assets</b>	<b>46,331</b>	<b>138,551</b>	<b>23,811</b>	<b>208,693</b>
<b>Liabilities:</b>				
Benefits payable	128	582	88	798
<b>Total liabilities</b>	<b>128</b>	<b>582</b>	<b>88</b>	<b>798</b>
<b>Net Position</b>				
Restricted for:				
OPEB benefits	46,203	137,969	23,723	207,895
<b>Total net position</b>	<b>\$ 46,203</b>	<b>\$ 137,969</b>	<b>\$ 23,723</b>	<b>\$ 207,895</b>

<b>State of Indiana Combining Statement of Changes in Fiduciary Net Position Pension and Other Employee Benefit Trust Funds For the Year Ended June 30, 2019</b>				
	<u>SPP</u>	<u>ISPP</u>	<u>CEPP</u>	<u>Total</u>
<b>Additions:</b>				
Member contributions				\$ -
Employer contributions	3,337	23,018	4,021	30,376
Net investment income (loss)	1,007	2,966	493	4,466
Federal reimbursements	-	618	-	618
Other	-	300	-	300
<b>Total additions</b>	<b>4,344</b>	<b>26,902</b>	<b>4,514</b>	<b>35,760</b>
<b>Deductions:</b>				
Retiree health benefits	3,276	5,804	943	10,023
Administrative	354	492	84	930
<b>Total deductions</b>	<b>3,630</b>	<b>6,296</b>	<b>1,027</b>	<b>10,953</b>
Net increase (decrease) in net position	714	20,606	3,487	24,807
Net position restricted for pension and other employee benefits, July 1, as restated:				
OPEB benefits	45,489	117,363	20,236	183,088
<b>Net position restricted for pension and other employee benefits, June 30, as restated</b>	<b>\$ 46,203</b>	<b>\$ 137,969</b>	<b>\$ 23,723</b>	<b>\$ 207,895</b>

**Net OPEB Liability**

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the three plans administered through trusts at June 30, 2018 were as follows:

	SPP	ISPP	CEPP
Total OPEB liability	\$47,525	\$324,517	\$60,903
Plan fiduciary net position	45,489	117,363	20,236
Net OPEB liability	<u>\$ 2,036</u>	<u>\$207,154</u>	<u>\$40,667</u>
Plan fiduciary net position as a percentage of the total OPEB liability	95.7%	36.2%	33.2%

The components of the net OPEB liability for the three OPEB plans administered through trusts at June 30, 2019 was:

	SPP	ISPP	CEPP
Total OPEB liability	\$57,424	\$198,445	\$76,899
Plan fiduciary net position	46,203	137,969	23,723
Net OPEB liability	<u>\$11,221</u>	<u>\$ 60,476</u>	<u>\$53,176</u>
Plan fiduciary net position as a percentage of the total OPEB liability	80.5%	69.5%	30.8%

*Actuarial assumptions.* For the 2019 actuarial valuation, update procedures were used to roll forward the total OPEB liability to the plans' fiscal year end. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Description	SPP	ISPP	CEPP	LP
Valuation Date	6/30/2018 and 6/30/2019	6/30/2018 and 6/30/2019	6/30/2018 and 6/30/2019	6/30/2018 and 6/30/2019
Inflation	2.25%	2.25%	2.25%	2.25%
Salary increases	2.25% for general wage inflation plus merit and productivity increases as follows: Ages 20 and 30, 2.0%; age 40, 1.5%, and age 50, 1.0%	2.25% for general wage inflation plus 0.25% for merit and productivity increases	2.25% for general wage inflation plus 0.25% for merit and productivity increases	2.25% for general wage inflation plus merit and productivity increases as follows: Ages 20 and 30, 2.0%; age 40, 1.5%, and age 50, 1.0%
Investment rate of return	3.25%	3.25%	3.25%	3.25%
Healthcare cost trend rates	<u>For 2018 valuation:</u> 8.5% for 2018 decreasing 0.5% per year to an ultimate rate of 4.5%.  <u>For 2019 valuation:</u> 8.0% for 2019 decreasing 0.5% per year to an ultimate rate of 4.5%	8.5% for 2018 decreasing 0.5% per year to an ultimate rate of 4.5%.  8.0% for 2019 decreasing 0.5% per year to an ultimate rate of 4.5%	8.5% for 2018 decreasing 0.5% per year to an ultimate rate of 4.5%.  8.0% for 2019 decreasing 0.5% per year to an ultimate rate of 4.5%	8.5% for 2018 decreasing 0.5% per year to an ultimate rate of 4.5%.  8.0% for 2019 decreasing 0.5% per year to an ultimate rate of 4.5%
Mortality	SS-2012 Employee and Annuitant Mortality Table fully generational using SSA scale	SS-2012 Total Dataset Mortality Table with blue collar adjustment fully generational using SSA scale	SS-2012 Total Dataset Mortality Table with blue collar adjustment fully generational using SSA scale	SS-2012 Employee and Annuitant Mortality Table fully generational using SSA scale
Experience study	Based on the results of an actuarial experience study for the period from June 30, 2010 to June 30, 2014	Based on the results of an actuarial experience study for the period from July 1, 2005 through June 30, 2010	Based on the results of an actuarial experience study for the period from June 30, 2010 to June 30, 2014	Based on professional judgment and limited experience through 2008

**Discount Rate.** For June 30, 2018 and June 30, 2019, the asset allocation for the three plans administered through trusts is 100% to fixed income securities. The long-term expected rate of return for these plans' investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. The long-term expected rate of return on OPEB plan investments for the three plans administered through trusts is 3.25%. Since this rate of return is lower than the yield for 20 year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), the discount rate used to measure the total OPEB liability was based on a range of indices for 20 year tax exempt general obligation municipal bonds. The discount rate used to measure the total OPEB liability for these was 3.87 percent as of June 30, 2018 and applied to all periods of projected benefit payments to determine the total OPEB liability. The change in the discount rate from the 2018 to the 2019 actuarial valuations was .36%, lowering the rate to 3.51%. The projection of cash flows used to determine the discount rate assumed that the State's contributions to these plans will be made at rates equal to the actuarially determined rates. The discount rate of 4.5% was used in calculating the actuarially determined contribution for these plans.

**Changes in the Net/Total OPEB Liability**

State Personnel Plan	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
<b>Balances at 6/30/17</b>	\$ 53,040	\$ 44,998	\$ 8,042
<b>Changes for the year:</b>			
Service cost	2,113	-	2,113
Interest	1,910	-	1,910
Differences between expected and actual experience	(5,332)	-	(5,332)
Changes of assumptions or other inputs	(1,164)	-	(1,164)
Contributions - employer	-	3,384	(3,384)
Net investment income	-	547	(547)
Benefit payments, including refunds of employee contributions	(3,042)	(3,042)	-
Administrative expense	-	(398)	398
<b>Net changes</b>	<b>(5,515)</b>	<b>491</b>	<b>(6,006)</b>
<b>Balances at 6/30/18</b>	<b>\$ 47,525</b>	<b>\$ 45,489</b>	<b>\$ 2,036</b>

Indiana State Police	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
<b>Balances at 6/30/17</b>	\$ 539,736	\$ 97,323	\$ 442,413
<b>Changes for the year:</b>			
Service cost	17,811	-	17,811
Interest	19,725	-	19,725
Changes in benefit terms	(196,574)	-	(196,574)
Differences between expected and actual experience	(21,242)	-	(21,242)
Changes of assumptions or other inputs	(27,946)	-	(27,946)
Contributions - employer	-	25,813	(25,813)
Contributions - employee	-	404	(404)
Net investment income	-	1,423	(1,423)
Benefit payments, including refunds of employee contributions	(6,994)	(6,994)	-
Administrative expense	-	(607)	607
<b>Net changes</b>	<b>(215,220)</b>	<b>20,039</b>	<b>(235,259)</b>
<b>Balances at 6/30/18</b>	<b>\$ 324,516</b>	<b>\$ 117,362</b>	<b>\$ 207,154</b>

Conservation & Excise Police Plan	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
<b>Balances at 6/30/17</b>	\$ 56,024	\$ 15,176	\$ 40,848
<b>Changes for the year:</b>			
Service cost	1,795	-	1,795
Interest	2,035	-	2,035
Differences between expected and actual experience	5,739	-	5,739
Changes of assumptions or other inputs	(3,387)	-	(3,387)
Contributions - employer	-	6,241	(6,241)
Net investment income	-	213	(213)
Benefit payments, including refunds of employee contributions	(1,303)	(1,303)	-
Administrative expense	-	(91)	91
<b>Net changes</b>	<b>4,879</b>	<b>5,060</b>	<b>(181)</b>
<b>Balances at 6/30/18</b>	<b>\$ 60,903</b>	<b>\$ 20,236</b>	<b>\$ 40,667</b>

Legislature Plan	Increase (Decrease)	
	Total OPEB Liability (a)	
<b>Balances at 6/30/17</b>	\$ 11,987	
<b>Changes for the year:</b>		
Service cost		120
Interest		420
Differences between expected and actual experience		(1,527)
Changes of assumptions or other inputs		(385)
Benefit payments, including refunds of employee contributions		(620)
<b>Net changes</b>		<b>(1,992)</b>
<b>Balances at 6/30/18</b>	<b>\$ 9,995</b>	

Changes since last year's valuation, which was for the fiscal year ending June 30, 2017 are as follows:

For ISP: Effective January 1, 2019, all post-65 Medicare eligible retirees will be removed from the ISP's traditional health plan. They will be covered under a Medicare Advantage Plan through Anthem and a Medicare Part D plan with premiums paid fully by the retiree. These members will now also be given a flat HRA contribution of \$57.92 per eligible person for life while participating in the Medicare Advantage plan. This will continue to be available to surviving spouses of deceased retirees. The aggregate HRA contribution for all members is capped at \$1 million annually going forward. All post -65 non-Medicare eligible retirees will continue to be covered under ISP's traditional health plan. All retirees (pre and post-Medicare eligible will continue to have dental and vision coverage with premiums paid fully by the retiree. This change caused a significant decrease in the total OPEB liability.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.** The following presents the net OPEB liability for the three OPEB plans administered through trusts calculated using a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current discount rate:

June 30, 2018 valuation:

	Net OPEB Liability		
	1% Decrease (2.87%)	Current Rate (3.87%)	1% Increase (4.87%)
SPP	5,914	2,036	(1,490)
ISP	255,835	207,154	166,935
CEPP	52,631	40,667	31,352

June 30, 2019 valuation:

	Net OPEB Liability		
	1% Decrease (2.51%)	Current Rate (3.51%)	1% Increase (4.51%)
SPP	16,137	11,221	6,746
ISP	85,664	60,476	39,138
CEPP	67,927	53,176	41,641

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate.* The following presents the total OPEB liability for the LP OPEB plan that is not administered through a trust calculated using a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current discount rate:

	1% Decrease (2.87%)	Current Rate (3.87%)	1% Increase (4.87%)
Total OPEB liability	11,330	9,995	8,899

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates.* The following presents the net OPEB liability for the three OPEB plans administered through trusts calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

June 30, 2018 valuation:

	Net OPEB Liability		
	1% Decrease (7.5% decreasing to 3.5%)	Current Rate (8.5% decreasing to 4.5%)	1% Increase (9.5% decreasing to 5.5%)
SPP	(2,700)	2,036	7,589
ISP	162,577	207,154	261,652
CEPP	30,024	40,667	54,807

June 30, 2019 valuation:

	Net OPEB Liability		
	1% Decrease (7.0% decreasing to 3.5%)	Current Rate (8.0% decreasing to 4.5%)	1% Increase (9.0% decreasing to 5.5%)
SPP	5,606	11,221	17,832
ISP	37,992	60,476	87,375
CEPP	40,366	53,176	70,114

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.* The following presents the total OPEB liability for the LP OPEB plan that is not administered through a trust calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease (7.5% decreasing to 3.5%)	Current Rate (8.5% decreasing to 4.5%)	1% Increase (9.5% decreasing to 5.5%)
Total OPEB liability	8,829	9,995	11,398

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

**State Personnel Plan** - For the year ended June 20, 2019 the State recognized OPEB expense of \$2.2 million. At June 30, 2019, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 4,570
Changes of assumptions or other inputs	-	998
Net difference between projected and actual earnings on OPEB plan investments	732	-
Employer's contributions to the OPEB plan subsequent to the measurement date of the net OPEB liability	3,337	-
<b>Total</b>	<b>\$ 4,069</b>	<b>\$ 5,568</b>

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

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2020	(745)
2021	(745)
2022	(745)
2023	(745)
2024	(928)
Thereafter	(928)

**Indiana State Police Plan** - For the year ended June 20, 2019 the State recognized OPEB income of \$168.9 million. At June 30, 2019, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 18,207
Changes of assumptions or other inputs	-	23,954
Net difference between projected and actual earnings on OPEB plan investments	1,632	-
Employer's contributions to the OPEB plan subsequent to the measurement date of the net OPEB liability	23,018	-
<b>Total</b>	<b>\$ 24,650</b>	<b>\$ 42,161</b>

Amounts reported as deferred outflows of resources

and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2020	(6,619)
2021	(6,619)
2022	(6,619)
2023	(6,619)
2024	(7,027)
Thereafter	(7,026)

**Conservation & Excise Police Plan** - For the year ended June 20, 2019 the State recognized OPEB expense of \$3.7 million. At June 30, 2019, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,022	\$ -
Changes of assumptions or other inputs	-	2,964
Net difference between projected and actual earnings on OPEB plan investments	286	-
Employer's contributions to the OPEB plan subsequent to the measurement date of the net OPEB liability	4,021	-
<b>Total</b>	<b>\$ 9,329</b>	<b>\$ 2,964</b>

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

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2020	366
2021	366
2022	366
2023	366
2024	294
Thereafter	586

**Legislature Plan** - For the year ended June 20, 2019 the State recognized OPEB expense of \$.2 million. At June 30, 2019, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,222
Changes of assumptions or other inputs	-	308
Employer's contributions to the OPEB plan subsequent to the measurement date of the total OPEB liability	535	-
<b>Total</b>	<b>\$ 535</b>	<b>\$ 1,530</b>

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

Fiscal year ended June 30:	Deferred Outflows of Resources/(Deferred Inflows of Resources)
2020	(383)
2021	(383)
2022	(383)
2023	(381)

A summary of the OPEB amounts disclosed in the notes for the defined benefit plans is provided in the following table.

Plan	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
SPP	\$ 47,525	\$ 45,489	\$ 2,036	\$ 4,069	\$ 5,568	\$ 2,214
ISP	324,516	117,362	207,154	24,650	42,161	(168,917)
CEPP	60,903	20,236	40,667	9,329	2,964	3,715
LP	9,995	-	9,995	535	1,530	158
<b>Total</b>	<b>\$ 442,939</b>	<b>\$ 183,087</b>	<b>\$ 259,852</b>	<b>\$ 38,583</b>	<b>\$ 52,223</b>	<b>\$ (162,830)</b>

**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 trust meets the requirements of a qualified OPEB trust. The trust is qualified under section 115 of the Internal Revenue Code. 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:

	<b>State Employee Retiree Health Benefit Trust Fund - DC</b>
<b>State of Indiana</b>	
<b>Combining Statement of Fiduciary Net Position</b>	
<b>Pension and Other Employee Benefit Trust Funds</b>	
<b>June 30, 2019</b>	
<b>Assets</b>	
Cash, cash equivalents and non-pension investments	\$ 225,454
Receivables:	
Contributions	2,644
Interest	1,194
Securities lending	270
Total receivables	4,108
Pension and other employee benefit investments at fair value:	
Debt Securities	131,042
Total investments at fair value	131,042
<b>Total assets</b>	<b>360,604</b>
<b>Liabilities:</b>	
Accounts/escrows payable	24
Securities lending payable	270
Benefits payable	263
<b>Total liabilities</b>	<b>557</b>
<b>Net Position</b>	
Restricted for:	
OPEB benefits	360,047
<b>Total net position</b>	<b>\$ 360,047</b>

<b>State of Indiana</b>	
<b>Combining Statement of Changes in Fiduciary</b>	
<b>Net Position</b>	
<b>Pension and Other Employee Benefit Trust</b>	
<b>Funds</b>	
<b>For the Year Ended June 30, 2019</b>	
<small>(amounts expressed in thousands)</small>	
	<b>State Employee Retiree Health Benefit Trust Fund - DC</b>
<b>Additions:</b>	
Employer contributions	\$ 29,929
Net investment income (loss)	10,677
Other	208
<b>Total additions</b>	<b>40,814</b>
<b>Deductions:</b>	
Retiree health benefits	18,171
Administrative	2,828
Other	207
<b>Total deductions</b>	<b>21,206</b>
<b>Net increase (decrease) in net position</b>	<b>19,608</b>
Net position restricted for pension and other employee benefits, July 1, as restated:	
OPEB benefits	340,439
<b>Net position restricted for pension and other employee benefits, June 30</b>	<b>\$ 360,047</b>

*Benefit terms.* 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.

*Regular Contributions.* The State makes regular annual contributions to the account based on the following schedule:

<b>Attained Age</b>	<b><u>Annual State Contributions</u></b>
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.

*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, 2019, the plan participants consisted of:

Active participants with accounts, not yet retired	28,242
Retired participants with accounts	7,643
<b>Total</b>	<b><u>35,885</u></b>

At June 30, 2019, plan participants' retirement medical plan account balances totaled \$436.0 million which consisted of \$272.0 million in unretired active participants' accounts and \$164.0 million in retired participants' accounts.

This plan is a defined contribution individual account for GASB 74 and 75 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 amount of OPEB expense recognized during the fiscal year ending June 30, 2019 was \$6.9 million. The employers liability outstanding at the end of June 30, 2019 was \$75.9 million.

*Forfeitures.* Forfeitures for the fiscal year ending June 30, 2019 totaled \$12.9 million.

### 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 pollution sites. 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 \$35.4 million of which \$4.8 million is estimated to be payable within one year and \$30.6 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 \$14.2 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 \$2.4 million of program revenue for six sites whose realized recoveries exceeded the pollution remediation liability.

## H. Tax Abatements

The State provides tax abatements through eight programs which are the (1) Coal Gasification Technology Investment Credit, (2) Community Revitalization Enhancement District Credit, (3) Economic Development for a Growing Economy (EDGE) Credit, (4) Hoosier Business Investment Credit, (5) Industrial Recovery Credit, (6) Research Expense Credit, (7) Venture Capital Investment Credit, and (8) Neighborhood Assistance Program Credit. The Indiana Economic Development Corporation (IEDC) approves the tax credits for programs (1) through (7). The Indiana Housing and Community Development Authority (IHEDA) approves the tax credits for the Neighborhood Assistance Program Credit. The following is a summary of these programs where the taxes abated exceeded \$1 million individually or in the aggregate.

### *Coal Gasification Technology Investment Credit*

The Coal Gasification Technology Investment Credit is created by IC 6-3.1-29. This program was created to foster job creation and higher wages, reduce air pollution as a result of the generation of electricity through fossil fuels, and promote investment in integrated coal gasification power plants and fluidized bed combustion technology. This program provides a credit against a taxpayer's adjusted gross income tax, financial institutions tax, insurance premiums tax liability, or utility receipts tax. The credit must be claimed on the taxpayer's annual state income tax return or returns filed with the Indiana Department of Revenue. The credit is administered by the Indiana Economic Development Corporation (IEDC) and is for a qualified investment in an integrated coal gasification power plant equal to the sum of 10% of the taxpayer's qualified investment for the first \$500,000,000 invested; 5% of the taxpayer's qualified investment that exceeds \$500,000,000, only if the facility is dedicated primarily to serving Indiana retail electric or gas utility consumers. For qualified investment in fluidized bed combustion

technology, the credit is equal to the sum of 7% of the taxpayer's qualified investment for the first \$500,000,000 invested; 3% of the taxpayer's qualified investment that exceeds \$500,000,000. Qualified investment is defined as a taxpayer's expenditures for all real and tangible personal property incorporated in and used as part of an integrated coal gasification power plant or a fluidized bed combustion technology and transmission equipment and other real and personal property located at the site of an integrated coal gasification power plant or a fluidized bed combustion technology that is employed specifically to serve the integrated coal gasification power plant or fluidized bed combustion technology. In order to award a tax credit under this program, the IEDC must determine the taxpayer's proposed investment satisfies the requirements of IC 6-3.1-29. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-29. The State has made no other commitments other than to reduce the applicable taxes as part of this program.

### *Community Revitalization Enhancement District Credit*

The Community Revitalization Enhancement District Credit is created by IC 6-3.1-19. This program was created to incentivize the redevelopment and revitalization of property located within a community revitalization enhancement district. This program provides a credit against a taxpayer's adjusted gross income tax, county adjusted gross income tax, county option income tax, county economic development income tax, financial institutions tax, or insurance premiums tax liability. The credit is administered by the Indiana Economic Development Corporation (IEDC) and may not exceed 25% of the taxpayer's qualified investment. To receive the credit provided by this program, a taxpayer must claim the credit on the taxpayer's annual state tax return or returns in the manner prescribed by the Indiana Department of State Revenue (IDOR). The taxpayer shall submit to the IDOR all information that the department determines is necessary for the calculation of the credit provided by this chapter and for the determination of whether an expenditure was for a qualified investment. Qualified investment is defined as the amount of a taxpayer's expenditures for redevelopment or rehabilitation of property located within a community revitalization enhancement district designated under IC 36-7-13, made under a plan adopted by an advisory commission on industrial development under IC 36-

7-13, and approved by the IEDC prior to the credit being made. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or any of the provisions within IC 6-3.1-19. The State has made no other commitments other than to reduce the applicable taxes as part of this program.

*Economic Development for a Growing Economy (EDGE) Credit*

The Economic Development for a Growing Economy Credit is created by IC 6-3.1-13. This program was created to foster job creation in Indiana, job retention in Indiana, and to foster employment in Indiana of students who participate in a course of study that includes a cooperative arrangement between an educational institution and an employer for the training of students in high wage, high demand jobs that require an industry certification. This program provides a credit against a taxpayer's adjusted gross income tax, financial institutions tax, or insurance premiums tax liability. The credit must be claimed on the taxpayer's annual state income tax return filed with the Indiana Department of Revenue. The credit is administered by the Indiana Economic Development Corporation (IEDC). The amount and duration of this tax credit shall be determined by the IEDC. The credit may be stated as a percentage of the incremental income tax withholdings attributable to the applicant's project and may include a fixed dollar limitation. In the case of a credit awarded for a project to create new jobs in Indiana, the credit amount may not exceed the incremental income tax withholdings. However, the credit amount claimed for a taxable year may exceed the taxpayer's state tax liability for the taxable year, in which the excess may, at the discretion of the IEDC, be refunded to the taxpayer. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-13. The State has made no other commitments other than to reduce the applicable taxes as part of this program. In order to receive a tax credit, the taxpayer must commit to the creation or retention of full-time, permanent jobs for Indiana residents at the project location and new capital investment in Indiana.

*Hoosier Business Investment Credit*

The Hoosier Business Investment Credit is created by IC 6-3.1-26. This program was created to foster job creation and create higher wages in Indiana. This program provides a credit against a taxpayer's adjusted gross income tax, financial institutions tax, or insurance premiums tax liability. The credit must

be claimed on the taxpayer's annual state income tax return filed with the Indiana Department of Revenue. The credit is administered by the Indiana Economic Development Corporation (IEDC) and may not exceed 10% of the taxpayer's qualified investment in a taxable year for qualified investment that is not a logistics investment and 25% of the qualified investment made in a taxable year if the qualified investment is a logistics investment. Qualified investment is defined as the amount of the taxpayer's expenditures in Indiana for the purchase of new telecommunications, production, manufacturing, fabrication, assembly, extraction, mining, processing, refining, finishing, distribution, transportation, or logistical distribution equipment; the purchase of new computers and related equipment; costs associated with the modernization of existing telecommunications, production, manufacturing, fabrication, assembly, extraction, mining, processing, refining, finishing, distribution, transportation, or logistical distribution facilities; onsite infrastructure improvements; the construction of new telecommunications, production, manufacturing, fabrication, assembly, extraction, mining, processing, refining, finishing, distribution, transportation, or logistical distribution facilities; costs associated with retooling existing machinery and equipment; costs associated with the construction of special purpose building and foundations for use in the computer, software, biological sciences, or telecommunications industry; costs associated with the purchase of machinery, equipment or special purpose buildings used to make motion pictures or audio productions; and a logistics investment as further described in IC 6-3.1-26-8.5 that are certified by the IEDC under this chapter as being eligible for the credit. The term does not include property that can be readily moved outside Indiana. In order to award a tax credit under this program, the IEDC must determine the following conditions exist, the applicant's project will raise the total earnings of employees of the applicant in Indiana or substantially enhance the logistics industry by creating new jobs, preserving existing jobs that otherwise would be lost, increasing wages in Indiana, or improving the overall Indiana economy, in the case of a logistics investment being claimed by the applicant; the applicant's project is economically sound and will benefit the people of Indiana by increasing opportunities for employment and strengthening the economy of Indiana; receiving the tax credit is a major factor in the applicant's decision to go forward with the project and not receiving the tax credit will result in the applicant not raising the total earnings of the applicant's employees in Indiana, or other employees in Indiana in the case of a logistics investment being claimed by the applicant;

awarding the tax credit will result in an overall positive fiscal impact to the state, as certified by the budget agency using the best available data; the credit is not prohibited by the relocation of jobs from one location in Indiana to another location in Indiana; in the case of a qualified investment that is not being claimed as a logistics investment by the applicant, the average wage that will be paid by the taxpayer to its employees (excluding highly compensated employees) at the location after the credit is given will be at least equal to one hundred fifty percent (150%) of the hourly minimum wage under IC 22-2-2-4 or its equivalent. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-26. The State has made no other commitments other than to reduce the applicable taxes as part of this program. In order to receive a tax credit, the taxpayer must commit to the creation or retention of full-time, permanent jobs for Indiana residents at the project location and new capital investment in Indiana.

#### *Industrial Recovery Credit*

The Industrial Recovery Credit is created by IC 6-3.1-11. This program was created to foster the rehabilitation of property located within an industrial recovery site. This program provides a credit against a taxpayer's adjusted gross income tax, financial institutions tax, or insurance premiums tax liability. The credit must be claimed on the taxpayer's annual state income tax return filed with the Indiana Department of Revenue. The credit is administered by the Indiana Economic Development Corporation (IEDC) and may not exceed 15% for a plant that was in service at least fifteen years ago but less than thirty years ago, 20% for a plant that was placed in service at least thirty years ago but less than forty years ago, and 25% if a plant was placed in service at least forty years ago. Qualified investment is defined as the amount of the taxpayer's expenditures for rehabilitation of property located within an industrial recovery site. Rehabilitation is defined as the remodeling repair, or betterment of real property in any manner or enlargement or extension of real property. Plant is defined as a building or complex of buildings used, or designed and constructed for use, in production, manufacturing, fabrication, assembly, processing, refining, finishing, or warehousing of tangible personal property, whether the tangible personal property is or was for sale to third parties or for use by the owner in the owner's business. In order to award a tax credit under this program, the IEDC must consider the following factors; the level of distress in the surrounding community caused by

the loss of jobs at the vacant industrial facility; evidence of support for the designation by residents, businesses, and private organizations in the surrounding community; evidence of a commitment by private or governmental entities to assist in the financing of improvements or redevelopment activities benefiting the vacant industrial facility; whether the industrial recovery site is within an economic revitalization area designated under IC 6-1.1-12.1. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-11. The State has made no other commitments other than to reduce the applicable taxes as part of this program. In order to receive a tax credit, the taxpayer must commit to new capital investment in Indiana within the statutory parameters.

#### *Research Expense Credit*

The Research Expense Credit is created by IC 6-3.1-4. The program was created to incentivize research investment in Indiana. This program provides a credit against a taxpayer's adjusted gross income tax liability. The credit must be claimed on the taxpayer's annual state income tax return filed with the Indiana Department of Revenue. The program is administered by the Indiana Economic Development Corporation (IEDC), and the credit may be calculated one of two ways, listed below, as elected by the taxpayer. For Indiana qualified research expense incurred after December 31, 2007, the credit is equal to 15% of the Indiana qualified research expense less the taxpayer's base amount of Indiana qualified research expense, up to \$1,000,000. For qualified research expense in excess of \$1,000,000, the credit amount is equal to 10%. For Indiana qualified research expense incurred after December 31, 2009, the taxpayer's research expense tax credit is equal to 10% of the part of the taxpayer's Indiana qualified research expense for the taxable year that exceeds 50% of the taxpayer's average Indiana qualified research expense for the 3 taxable years preceding the taxable year for which the credit is being determined. If the taxpayer did not have Indiana qualified research expense in any 1 of the 3 taxable years preceding the taxable year for which the credit is being determined, the amount of the research expense tax credit is equal to 5% of the taxpayer's Indiana qualified research expense for the taxable year. Indiana qualified research expense is defined as qualified research expense that is incurred for research conducted in Indiana. Qualified research expense means qualified research expense as defined in Section 41(b) of the Internal Revenue Code. The tax credit will be

recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-4. The State has made no other commitments other than to reduce the applicable taxes as part of this program.

#### *Venture Capital Investment Credit*

The Venture Capital Investment Credit is created by IC 6-3.1-24. This credit was created to improve access to capital for fast growing Indiana companies by providing individual and corporate investors an incentive to invest in early stage firms. This program provides a credit against a taxpayer's adjusted gross income tax, financial institutions tax, insurance premiums tax, or state gross retail and use tax liability. The credit must be claimed on the taxpayer's state income tax return or returns filed with the Indiana Department of Revenue. The credit is administered by the Indiana Economic Development Corporation (IEDC) and is equal to 20% of the taxpayer's qualified investment capital provided to the qualified Indiana business or \$1,000,000, whichever is less. Qualified Indiana business is defined as an independently owned and operated business that is certified as a qualified Indiana business by the IEDC. Qualified investment capital is defined as debt or equity capital that is provided to a qualified Indiana business. However, the term does not include debt that is provided by a financial institution (as defined in IC 5-13-4-10) after May 15, 2005 and is secured by a valid mortgage, security agreement, or other agreement or document that establishes a collateral or security position for the financial institution that is senior to all collateral or security interests of other taxpayers that provide debt or equity capital to the qualified Indiana business. In order to award a tax credit under this program, the IEDC must certify the taxpayer's proposed investment plan. The proposed investment plan must include the name and address of the taxpayer, the name and address

of each proposed recipient of the taxpayer's proposed investment; the amount of the proposed investment; a copy of the certification issued by the IEDC stating the business being invested in is a qualified Indiana business, and any other information required by the IEDC. The IEDC must determine that the proposed investment would qualify for the taxpayer credit under this program, and the amount of proposed investment would not result in the total amount of tax credits certified for the calendar year exceeding \$12,500,000. The total amount of credits that may be approved by the IEDC for a calendar year may not exceed \$12,500,000. The tax credit will be recaptured if the IEDC determines the taxpayer is noncompliant with the requirements of the tax credit agreement or all of the provisions of IC 6-3.1-24. The State has made no other commitments other than to reduce the applicable taxes as part of this program.

#### *Neighborhood Assistance Program Credit*

The Neighborhood Assistance Program (NAP) Credit is created by IC 6-3.1-9. The IHCDA distributes state tax credits to eligible non-profit organizations through an application approval process that they use to raise funds for their activities of community services, crime prevention, education, job training, and neighborhood assistance in economically disadvantaged areas or households. Each fiscal year, NAP State tax credits are capped at \$2.5 million and the maximum credit per donor is \$25,000. NAP tax credits are distributed to donors at 50% of the contribution amount and are subtracted from a donor's adjusted gross income or financial institutions tax liability on their annual state income tax returns. Unused portions of the credit may not be carried forward or carried back and the credit is nonrefundable. The State has made no other commitments other than to reduce the applicable taxes as part of this program.

The state tax abatements for the fiscal year ended June 30, 2019 are:

<b>Tax Abatement Program</b>	<b>Amount of Taxes Abated</b>
Coal Gasification Technology Investment Credit	
Corporate Income Tax	15,000
Community Revitalization Enhancement District Credit	
Individual Income Tax	1,059
Corporate Income Tax	(D)
Economic Development for a Growing Economy (EDGE) Credit	
Individual Income Tax	7,747
Corporate Income Tax	58,413
Hoosier Business Investment Credit	
Individual Income Tax	807
Corporate Income Tax	1,844
Industrial Recovery Credit	
Individual Income Tax	70
Corporate Income Tax	(D)
Neighborhood Assistance Credit	
Individual Income Tax	1,895
Corporate Income Tax	(D)
Research Expense Credit	
Individual Income Tax	24,922
Corporate Income Tax	52,019
Venture Capital Investment Credit	
Individual Income Tax	4,922
Corporate Income Tax	(D)
<i>(D) - Non-disclosable per Indiana Code 6-8.1-7-2.</i>	