



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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October 20, 2008

Mr. Duane Jasheway, Deputy Treasurer  
Indiana Board for Depositories  
242 Statehouse  
Indianapolis, IN 46204

Dear Mr. Jasheway:

We have received the audit report prepared by London Witte Group, LLC, Certified Public Accountants, for the period July 1, 2007 to June 30, 2008. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the report present fairly the financial condition of the Indiana Board for Depositories as of June 30, 2008 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS

# **INDIANA BOARD FOR DEPOSITORIES**

*(A Component Unit of the State of Indiana)*

*Financial Statements*

*Years Ended June 30, 2008 and 2007*

# INDIANA BOARD FOR DEPOSITORIES

(A Component Unit of the State of Indiana)

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GROUP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Indiana Board for Depositories

We have audited the statements of net assets of the

Indiana Board for Depositories  
(A Component Unit of the State of Indiana)

as of June 30, 2008 and 2007, and the related statements of revenues, expenditures and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Board for Depositories as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

*London Witte Group, LLC*

September 5, 2008

*Certified Public Accountants*

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**INDIANA BOARD FOR DEPOSITORIES**  
(A Component Unit of the State of Indiana)

Management Discussion and Analysis

June 30, 2008 and 2007

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This section of the Indiana Board for Depositories' (the Board) annual financial report presents Management's discussion and analysis of the Board's financial performance during the fiscal years ended June 30, 2008 and 2007. Please read it in conjunction with the Board's financial statements and accompanying notes.

**FINANCIAL HIGHLIGHTS**

- The Board generated operating income of \$14,617,000 for 2008 and \$13,514,000 for 2007.
- The Board made a transfer to the police and firefighter pension relief fund in the amount of \$13,514,000 and \$8,405,000 during the fiscal years ended June 30, 2008 and 2007, respectively.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual financial report consists of two parts: Management's Discussion and Analysis (this section), and the basic financial statements and notes. The Board is a component unit of the State of Indiana and follows enterprise fund reporting; accordingly, the financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Board. These statements are presented in a manner similar to a private business.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the Board's financial status. The Statement of Net Assets includes all of the Board's assets and liabilities and the Statement of Revenues, Expenses, and Changes in Net Assets report all of the revenues and expenses during the time period. The Statement of Cash Flows reports the cash provided and used by operating activities as well as other cash sources and uses. The financial statements also include notes that explain and support the information in the financial statements.

**INDIANA BOARD FOR DEPOSITORIES**  
(A Component Unit of the State of Indiana)

Management Discussion and Analysis

June 30, 2008 and 2007

**FINANCIAL ANALYSIS OF THE BOARD**

The following table is a condensed summary of financial information for the year ended June 30, 2008, 2007 and 2006:

	2008	2007	2006
<b>Net assets</b>			
Current assets	\$ 322,400,600	\$ 331,804,900	\$ 329,798,500
Noncurrent assets	142,391,400	172,951,900	137,352,800
<b>Total assets</b>	464,792,000	504,756,800	467,151,300
Current liabilities	150,191,000	191,258,200	158,762,100
Noncurrent liabilities	-	-	-
<b>Total liabilities</b>	150,191,000	191,258,200	158,762,100
<b>Total net assets</b>	314,601,000	313,498,600	308,389,200
<b>Change in net assets</b>			
Operating revenues	23,491,200	23,882,100	16,859,600
Operating expenses	8,874,500	10,367,700	8,454,600
<b>Operating income</b>	14,616,700	13,514,400	8,405,000
<b>Transfers</b>	(13,514,400)	(8,405,000)	(5,211,000)
<b>Change in net assets</b>	\$ 1,102,300	\$ 5,109,400	\$ 3,194,000

Note: Amounts are rounded to the nearest one hundred (\$100) dollars.

The largest components of current assets are cash, collateral for securities lending and investments that will be maturing during the upcoming fiscal year. Also included in current assets is interest receivable. Current assets for 2008 have decreased approximately \$9,404,300 with the largest decrease occurring in collateral from securities lending which decreased approximately \$40,577,200 and was offset somewhat by a \$39,995,300 increase in cash. The current portion of investments had a decrease of \$7,545,600. Comparing 2007 to 2006, current assets increased approximately \$2,006,400 with the largest increase occurring in collateral from securities lending which increased approximately \$32,146,100. The current portion of investments decreased \$42,218,700 and was offset somewhat by an \$11,061,000 increase in cash.

**INDIANA BOARD FOR DEPOSITORIES**  
(A Component Unit of the State of Indiana)

Management Discussion and Analysis

June 30, 2008 and 2007

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Noncurrent assets consist of long-term investments, a loan receivable and capital assets. Long-term investments have decreased during 2008 by \$30,584,300. During fiscal year 2007, long term investments had increased approximately \$35,595,300. The fluctuations noted above are primarily a result of the change in the composition of the investments made through the Board's account with the Bank of New York. During fiscal year 2004, the Board transferred \$50,000,000 to the State of Indiana's general fund in compliance with Public Law 224-2003 Section 116 (a) for an interest free loan. This has been recorded as a long term loan receivable.

Similarly, current liabilities are comprised of securities lending transactions that offset the current asset collateral from securities lending. Accounts payable and accrued payroll liabilities are included in current liabilities as well.

Net assets are reported in three categories and as of June 30, 2008 and 2007, \$34,200 and \$27,700 respectively is invested in capital assets, \$14,616,800 and \$13,514,400 respectively of net assets are restricted for the future transfer to the police and firefighter pension relief fund and \$299,950,000 and \$299,956,500 respectively are unrestricted net assets.

Operating revenues consist of interest income earned on investments and income from securities lending transactions. Investment income increased \$464,800 in 2008 and increased approximately \$5,282,700 in 2007. Income from security lending has decreased approximately \$855,700 in 2008 and increased approximately \$1,739,800 in 2007. Both decreases and increases in 2008 and 2007 are in large part a result of the rising and falling of interest rates. The largest operating expenses include the borrower's rebate on securities lending, as well as, professional fees and payroll and payroll related expenses. The borrower's rebate on security lending has decreased approximately \$1,585,200 in 2008 and increased \$1,782,400 in 2007.

The transfers made to the police and firefighter pension fund during the fiscal years ended June 30, 2008 and 2007 were \$13,514,400 and \$8,405,000, respectively and the amount that will be transferred to the fund in December 2008 based upon the current year earnings will be \$14,616,700. Once that transfer is made, the total that will have been transferred to aid Indiana communities for police and firefighter pensions since June 30, 2001 will be \$86,834,500.

**INDIANA BOARD FOR DEPOSITORIES**  
**(A Component Unit of the State of Indiana)**

Statements of Net Assets

June 30, 2008 and 2007

ASSETS

	2008	2007
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 66,774,118	\$ 46,588,146
Accounts receivable	11,304	0
Investments maturing in one year	103,948,663	91,684,929
Interest receivable	1,890,330	3,167,230
Collateral from securities lending	149,787,442	190,364,639
<b>TOTAL CURRENT ASSETS</b>	322,411,857	331,804,944
<b>INVESTMENTS</b>	92,339,827	122,924,098
<b>LOAN RECEIVABLE</b>	50,000,000	50,000,000
<b>PREPAID EXPENSES</b>	6,054	0
<b>CAPITAL ASSETS, NET</b>	34,181	27,719
<b>TOTAL ASSETS</b>	464,791,919	504,756,761

LIABILITIES

<b>CURRENT LIABILITIES</b>		
Accounts payable	400,534	888,255
Accrued expenses	3,035	5,308
Securities lending transactions	149,787,442	190,364,639
<b>TOTAL CURRENT LIABILITIES</b>	150,191,011	191,258,202

NET ASSETS

Invested in capital assets	34,181	27,719
Restricted for police and firefighter pension fund distribution	14,616,723	13,514,374
Unrestricted	299,950,004	299,956,466
<b>TOTAL NET ASSETS</b>	\$ 314,600,908	\$ 313,498,559

The accompanying notes are an integral part of these statements.

**INDIANA BOARD FOR DEPOSITORIES**  
**(A Component Unit of the State of Indiana)**

Statements of Revenue, Expenditures, and Changes in Net Assets

Years Ended June 30, 2008 and 2007

	Amount		Percent	
	2008	2007	2008	2007
<b>OPERATING REVENUES</b>				
Investment income	\$ 14,277,005	\$ 13,812,221	60.8	57.8
Securities lending income	9,214,173	10,069,859	39.2	42.2
<b>TOTAL OPERATING REVENUE</b>	<b>23,491,178</b>	<b>23,882,080</b>	<b>100.0</b>	<b>100.0</b>
<b>OPERATING EXPENSES</b>				
Securities lending fees	8,258,830	9,843,998	35.2	41.2
Salaries and wages	158,241	134,333	0.7	0.6
Employee benefits	49,431	38,977	0.2	0.2
Maintenance contracts	28,100	28,005	0.1	0.1
Depreciation	23,891	11,229	0.1	0.0
Professional fees	291,511	245,682	1.2	1.0
Office supplies	12,966	11,984	0.1	0.1
Travel	7,798	10,742	0.0	0.0
Rent	21,780	22,727	0.1	0.1
Other	21,907	20,029	0.1	0.1
<b>TOTAL OPERATING EXPENSES</b>	<b>8,874,455</b>	<b>10,367,706</b>	<b>37.8</b>	<b>43.4</b>
<b>OPERATING INCOME</b>	<b>14,616,723</b>	<b>13,514,374</b>	<b>62.2</b>	<b>56.6</b>
<b>TRANSFERS</b>				
Police and firefighter pension relief fund	(13,514,374)	(8,405,049)	(57.5)	(35.2)
<b>CHANGE IN NET ASSETS</b>	<b>1,102,349</b>	<b>5,109,325</b>	<b>4.7</b>	<b>21.4</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>313,498,559</b>	<b>308,389,234</b>		
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 314,600,908</b>	<b>\$ 313,498,559</b>		

The accompanying notes are an integral part of these statements.

**INDIANA BOARD FOR DEPOSITORIES**  
**(A Component Unit of the State of Indiana)**

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 9,202,869	\$ 10,069,859
Cash paid to suppliers and vendors	(9,346,612)	(10,006,459)
Interest received	7,751,553	7,228,640
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>7,607,810</u>	<u>7,292,040</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchase of furniture and equipment	(30,353)	(14,926)
Proceeds from sale of equipment	0	0
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(30,353)</u>	<u>(14,926)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(490,240,816)	(443,218,181)
Proceeds from redemption of investments, net	516,363,705	455,407,154
Transfer to the police and firefighter pension fund	(13,514,374)	(8,405,049)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>12,608,515</u>	<u>3,783,924</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	20,185,972	11,061,038
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>46,588,146</u>	<u>35,527,108</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 66,774,118</u>	<u>\$ 46,588,146</u>

The accompanying notes are an integral part of these statements.

**INDIANA BOARD FOR DEPOSITORIES**  
**(A Component Unit of the State of Indiana)**

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	2008	2007
<b>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 14,616,723	\$ 13,514,374
Non-cash items		
Depreciation	23,891	11,229
Change in FMV of investments	(7,802,352)	(5,565,613)
Decrease (increase) in assets		
Accounts receivable	(11,304)	0
Interest receivable	1,276,900	(1,017,968)
Prepaid expenses	(6,054)	0
Increase (decrease) in liabilities		
Accounts payable	(487,721)	349,407
Accrued expenses	(2,273)	611
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 7,607,810</b>	<b>\$ 7,292,040</b>

The accompanying notes are an integral part of these statements.

# INDIANA BOARD FOR DEPOSITORIES

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

### (1) Summary of significant accounting policies

The significant policies followed by the Indiana Board for Depositories are summarized as follows:

**Nature of operations** - The Indiana Board for Depositories is a component unit of the State of Indiana. The purpose of the Indiana Board for Depositories (Board) is to insure the safekeeping and prompt payment of all public funds deposited in any depository, to the extent they are not covered by insurance of any federal deposit insurance agency, by maintaining and operating in its own name the public deposit insurance fund.

The financial statements of the Indiana Board for Depositories are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The aspect of financial statements content and format as prescribed by GASB Statement 34, have been implemented in the financial statements, effective for the year ended June 30, 2005.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of these notes is organized to provide explanations, including required disclosure, of the Board's financial activities for the years ended June 30, 2008 and 2007.

**Investing** - Indiana Code 5-13-9 authorizes the Board to invest in deposit accounts issued or offered by a designated depository; securities issued or securities backed by the full faith and credit of the United States Treasury; 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.

Indiana Code 5-13-9-2 authorizes the Board to invest or reinvest in securities fully guaranteed or issued by (1) the United States Treasury (2) a federal agency (3) a federal instrumentality and (4) a federal government sponsored enterprise. The Board also may invest or reinvest in money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940. Such investment company or investment trust must be limited to direct obligations of the United States, a federal agency, a federal instrumentality, a federal government sponsored enterprise, or repurchase agreements fully collateralized by obligations described in number (1) through (4) above. The statute also states the securities of or interests in an investment company or investment trust must be rated as one of the following (1) AAA, or its equivalent, by Standard & Poor's Corporation or its successor (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

Indiana Code 5-13-10.5-10 authorizes the Board to invest or reinvest in obligations issued or guaranteed by the International Bank for Reconstruction and Redevelopment, the African Development Bank or the State of Israel.

Indiana Code 5-13-10.5-11 authorizes the investment in Indiana Bond Bank if the obligations are secured by tax anticipation time warrants or notes that are issued by a political subdivision with a maturity date not later than the end of the calendar year following year of issuance.

**Cash and cash equivalents** - The Board considers cash and cash equivalents to be cash on hand, in bank accounts, and highly liquid investments with an original maturity of three months or less. At times, such cash may be in excess of the FDIC insurance limit.

**Capital assets**- Capital assets are defined as assets with an initial, individual cost of more than \$300 and an estimated useful life in excess of 3 years. The Board depreciates capital assets on the straight-line method over 5 years.

**Investments** - Investments are reported at fair value based upon quoted market prices for those or similar investments. Investments that do not have an established market are reported at estimated fair value. Gains and losses are determined using the specific identification method.

# INDIANA BOARD FOR DEPOSITORIES

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

**(1) Summary of significant accounting policies (continued)**

The Board entered into a bond purchase and pledge agreement with the Indiana Housing Finance Authority (IHFA) pursuant to Public Law 69-1989 and Indiana Code Sec. 5-13-12-7. The agreement provides that IHFA may borrow funds from the Board by issuing one or more bonds having an aggregate principal sum of not more than \$5,000,000. The bonds do not bear interest, pursuant to Indiana Code Sec. 5-20-4-9, and any outstanding principal will become due on March 12, 2013. As security for the bonds, the IHFA assigned to the Board a zero-coupon U.S. Treasury STRIP in the amount of \$5,000,000 maturing February 15, 2013. In accordance with Accounting Practice Bulletin 21, (APB) transactions where interest rates are affected by legal restrictions prescribed by a governmental agency are not subject to the discounting provisions of APB 21. Accordingly, the IHFA bonds are reported at cost in the financial statements.

During 2004, the Board was required to cause \$50,000,000 to the state general fund under Section 116(a) of Public Law 224-2003. Under Public Law 224, the transfer constitutes an interest free loan from the Board and the loan is to be repaid prior to January 1, 2013. As of June 30, 2008 and 2007, the amount that was receivable from the state general fund was \$50,000,000.

Revenue recognition - The Board for Depositories accounts for its operations on an accrual basis where revenues earned and expenditures made are recorded in the period earned and incurred.

Advertising - Advertising costs are expensed when incurred. Expenditures of \$1,198 and \$1,360 were made during 2008 and 2007, respectively.

Net Assets- The Board's resources are classified for accounting and financial reporting purposes into the following net asset categories:

Invested in Capital Assets, Net of Related Debt- Resources resulting from capital acquisition, net of accumulated depreciation and related debt.

Restricted- Net assets which are restricted for the transfer to the police and firefighter pension distribution fund. The transfer occurs on the last business day of the calendar year.

Unrestricted- Net assets which are available for the use of the Board.

Operating and Nonoperating Revenues- Revenues are classified as either operating or nonoperating. Operating revenues consists of income on investments and security lending income. All other items are considered nonoperating.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(2) Investments**

See Investing section in Note 1 for the Board's investment policies.

As of June 30, 2008, the Board had the following investments and maturities:

Investment Type	Total	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasuries	\$ 15,839,616	\$ 6,006,503	\$ 9,639,743	\$ 193,370	\$ 0
U.S. agencies	168,449,482	90,942,160	77,507,322	0	0
State of Israel bond	7,000,000	7,000,000	0	0	0
State of Indiana agency bond	<u>4,281,979</u>	<u>0</u>	<u>4,281,979</u>	<u>0</u>	<u>0</u>
Total fair value	195,571,077	103,948,663	91,429,044	193,370	0
Difference in cost and fair value	<u>717,413</u>	<u>0</u>	<u>717,413</u>	<u>0</u>	<u>0</u>
Total carrying amount	<u>\$ 196,288,490</u>	<u>\$ 103,948,663</u>	<u>\$ 92,146,457</u>	<u>\$ 193,370</u>	<u>\$ 0</u>

# INDIANA BOARD FOR DEPOSITORIES

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

**(2) Investments (continued)**

As of June 30, 2007, the Board had the following investments and maturities:

Investment Type	Total	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasuries	\$ 12,992,542	\$ 1,391,084	\$ 11,601,458	\$ 0	\$ 0
U.S. agencies	189,617,093	90,293,845	99,323,248	0	0
State of Israel bond	7,000,000	0	7,000,000	0	0
State of Indiana agency bond	<u>3,809,037</u>	<u>0</u>	<u>0</u>	<u>3,809,037</u>	<u>0</u>
Total fair value	213,418,672	91,684,929	117,924,706	3,809,037	0
Difference in cost and fair value	<u>1,190,355</u>	<u>0</u>	<u>0</u>	<u>1,190,355</u>	<u>0</u>
Total carrying amount	\$ <u>214,609,027</u>	\$ <u>91,684,929</u>	\$ <u>117,924,706</u>	\$ <u>4,999,392</u>	\$ <u>0</u>

The following table provides information on the credit ratings associated with the Board's investments that are not an investment in or guaranteed by U.S. government debt. Investments in the U.S. Government are not considered to have credit risk and therefore a credit rating does not need to be disclosed. The State of Indiana agency bond is secured by a U.S. Treasury STRIP as described in Note 1.

	Fair Value	S&P Rating	Fitch Rating	Moody's Rating
State of Israel bond	\$ 7,000,000	unrated	unrated	unrated
U.S. agencies	\$ 168,449,482	AAA	AAA	Aaa

The State of Israel bond is valued in U.S. dollars so there is no foreign currency credit risk for this or similar types of the Board's investments.

As a means of limiting its exposure to credit risk, the Board cannot deposit funds in any one depository in an amount aggregating at any one time more than 50% of the combined capital, surplus, and undivided profits of that depository by its last published statement of condition filed with the Treasurer of State. Also, for investments other than the State of Indiana agency bond, the following is the criteria for maturities on investments.

Maturity	Maximum Investment
Two to five years	25%

**(3) Capital assets, net**

Capital assets, net consist of the following for the year ending June 30, 2008:

	Beginning Balance	Increases	Decreases	Ending Balance
Cost				
Computer equipment	\$ 496,722	\$ 30,353	\$ (334,122)	\$ 192,953
Office equipment	<u>8,006</u>	<u>0</u>	<u>(549)</u>	<u>7,457</u>
Total, capital assets being depreciated	504,728	30,353	(334,671)	200,410
Accumulated depreciation	<u>477,009</u>	<u>23,891</u>	<u>(334,671)</u>	<u>166,229</u>
Total capital assets, net	\$ <u>27,719</u>	\$ <u>6,462</u>	\$ <u>0</u>	\$ <u>34,181</u>

# INDIANA BOARD FOR DEPOSITORIES

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

**(3) Capital assets, net (continued)**

Capital assets, net consist of the following for the year ending June 30, 2007:

Cost	Beginning Balance	Increases	Decreases	Ending Balance
Computer equipment	\$ 481,796	\$ 14,926	\$ 0	\$ 496,722
Office equipment	8,006	0	0	8,006
Total, capital assets being depreciated	489,802	14,926	0	504,728
Accumulated depreciation	465,780	11,229	0	477,009
Total capital assets, net	\$ 24,022	\$ 3,697	\$ 0	\$ 27,719

Depreciation expense charged to operations was \$23,891 for 2008 and \$11,229 for 2007. The depreciation policies followed were described in Note 1.

**(4) Securities lending transactions**

The Board is authorized by statute (IC 5-13-10.5) 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 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that 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 government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities.

Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. The collateral securities cannot be pledged or sold by the Board unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with the Board's custodians 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.

At year-end, the Board had no credit risk exposure to borrowers because the amount the Board owes the borrowers exceeds the amounts the borrowers owe the Board.

Below are the investment types and values for securities lending transactions:

<u>Investment Type</u>	<u>Collateral Value</u>	<u>Market Value</u>
U.S. Treasuries	\$ 16,242,757	\$ 15,940,125
U.S. agencies	133,544,685	132,410,875
Total	\$ 149,787,442	\$ 148,351,000

# INDIANA BOARD FOR DEPOSITORIES

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

### (5) Commitments

During 1994, the Board entered into a bond purchase and pledge agreement with the IHFA pursuant to Public Law 69-1989 and Indiana Code Sec. 5-13-12-7. The agreement provides that IHFA may borrow funds from the Board by issuing one or more bonds having an aggregate principal sum of not more than \$5,000,000. The bonds do not bear interest, pursuant to Indiana Code Sec. 5-20-4-9, and any outstanding principal will become due on March 12, 2013. As security for the bonds, the IHFA assigned to the Board a zero-coupon U.S. Treasury STRIP in the amount of \$5,000,000 maturing February 15, 2013. At June 30, 2006, the Board held IHFA bonds of approximately \$5,000,000.

During May 2001, Senate Enrolled Act 524 was signed into law. The act provides that the interest earned from the investment of the Public Deposit Insurance Fund (PDIF) be distributed to communities facing police and fire pension liabilities. On or before the last business day of November of each year, beginning in 2001 and ending in 2011, a computation shall be made based upon the interest earned on the PDIF during the fiscal year ending June 30 after deducting certain expenses for the Board for Depositories and the Indiana Education Savings Authority. The payment must be made by the PDIF to the pension distribution fund by the last business day of December. The amount that was transferred to the pension distribution fund during December 2007 and 2006 was \$13,514,374 and \$8,405,049, respectively and the amount expected to be transferred during December 2008 is \$14,616,723.

### (6) Pension plan

The Board is a member of the Public Employee Retirement Fund (PERF), which is a defined benefit plan covering employees meeting certain eligibility requirements. The PERF Retirement Plan is a multi-employer plan, which acts as a common investment and administrative agent for State of Indiana employees of the various subdivisions and instrumentalities of the State of Indiana. All employees of the Board participate in this plan.

Employer contributions for the years ended June 30, 2008 and 2007 were \$17,692 and \$11,033, respectively. Separate information concerning the accumulated benefit obligation and actuarially determined benefit obligation is not material to the financial position of the Board and, accordingly, is not presented.

The plan is a contributory defined benefit plan. PERF retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled PERF members to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. An employee may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the employee's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions are met, an employee may retire with 100% of the defined pension at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years of PERF-covered employment. The average annual salary used for calculating the pension benefit is an average of the employee's highest five years of employment earning. Employees who retire between the age of 50 and 65 with 15 or more years of service receive a pension benefit ranging from 44.0% to 98.8% of the pension benefit described above.

In addition, the employees contribute 3% of the compensation to an annuity savings account. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system-wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive their balance in the savings account.

### (7) Operating lease

The Board leases office space under a non-cancelable lease with terms to expire in 2015. The following is a schedule of the future minimum rentals under the lease as of June 30, 2008.

Year ended June 30		
	2009	\$ 21,246
	2010	21,827
	2011	22,407
	2012	22,988
	2013	23,568
	Thereafter	<u>48,878</u>
Total minimum lease payments		\$ <u>160,914</u>

The aggregate rental expense charged to operations is \$21,780 for 2008 and \$22,727 for 2007.

# INDIANA BOARD FOR DEPOSITORIES

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(8) Payments made on behalf of the Indiana Education Savings Authority

The Board is allowed through legislation to pay expenses of the Indiana Education Savings Authority (the "Authority") through the year 2011. The Board currently pays the salary of the executive director of the CollegeChoice 529 Investment Plan, the entire lease payment for the office space that the Board and the Authority share, as well as, some of the Authority's legal fees. These expenses were \$87,173 for 2008 and \$101,168 for 2007.

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LONDON  
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GROUP

September 5, 2008

To the Board of Directors of the  
Indiana Board for Depositories

In planning and performing our audit of the financial statements of the Indiana Board for Depositories for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing our an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted no matters involving the internal control and other operational matters that we are required to report to you.

This communication is intended solely for the information and use of management, the board of directors and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*London Witte Group, LLC*

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*Certified Public Accountants*

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