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December 1, 2015

Victor P. Smith, Secretary of Commerce  
Indiana Economic Development Corporation  
One North Capitol, Suite 700  
Indianapolis, Indiana 46204

Dear Mr. Smith:

We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Ports of Indiana as of June 30, 2014, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the Single Audit Report on pages 31-32. Finding 2014-001 describes a material weakness in internal control over financial reporting that was required to be reported in accordance with Government Auditing Standards. It is referenced in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

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

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

**INDIANA ECONOMIC DEVELOPMENT  
CORPORATION**  
**(A Component Unit of the State of Indiana)**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
WITH SUPPLEMENTARY AND OTHER INFORMATION

June 30, 2014

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**  
**(A Component Unit of the State of Indiana)**

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*Independent Auditors' Report*

Board of Directors  
Indiana Economic Development Corporation

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Indiana Economic Development Corporation, a component unit of the State of Indiana, and the Indiana Economic Development Foundation, Inc. (collectively, the IEDC) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the IEDC's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the IEDC as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States.

## **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 4 through 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Report on Other Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the IEDC's basic financial statements. The schedule of expenditures of federal awards on pages 27 and 28 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of the IEDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the IEDC's internal control over financial reporting and compliance.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
November 6, 2014

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year Ended June 30, 2014**

As management of the Indiana Economic Development Corporation (the Corporation), we offer readers of the Corporation's basic financial statements this narrative overview and analysis of the financial activities of the Corporation and the Indiana Economic Development Foundation, Inc. (the Foundation) (together, the IEDC) for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Independent Auditors' Report at the beginning of this report and the financial statements, which follow this section.

This management's discussion and analysis (MD&A) is an opportunity for management to make information concerning the IEDC meaningful and understandable. In addition to describing the IEDC and its work, this MD&A briefly analyzes, discusses or presents:

- Basic financial statements
- Condensed financial information
- Overall financial position and results of operations
- Significant transactions within individual funds
- Significant capital and long-term debt activity
- Currently known facts

**BACKGROUND**

The Corporation is a component unit of the State of Indiana (the State) and is the State's lead economic development agency. In order to respond quickly to the needs of businesses, the Corporation operates like a business. The Corporation is organized as a public-private partnership governed by a twelve-member board. The Corporation Board of Directors is chaired by the Governor of Indiana and reflects the geographic and economic diversity of Indiana. The Corporation focuses its efforts on growing and retaining businesses in Indiana and attracting new business to the State of Indiana. Economic development is the main objective of the Corporation, and it has incorporated most state entities with economic development responsibilities into its organizational structure. The Corporation is also responsible for the development and implementation of the State's strategic plan for economic development.

The Foundation was established under Indiana Code 5-28 to solicit and accept private sector funding, gifts, donations, bequests, devises, and contributions. The Foundation's purpose is to assist the Governor and the Corporation in reaching their economic development goals by raising funds from the general public and nonprofit foundations and organizations.

The accompanying financial statements of the IEDC conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles.

**FINANACIAL HIGHLIGHTS**

Key financial highlights for the 2014 fiscal year include the following:

- Total revenues were \$57.3 million as compared to total expenditures of \$56.4 million.
- Total net position increased by \$879,000 for the fiscal year ended 2014. Revenues grew slightly and expenses increased over prior year, mainly due to grants expense, which increased approximately \$19.5 million.

# INDIANA ECONOMIC DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) Year Ended June 30, 2014

### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include the kinds of statements required by the GASB that present different financial views of the IEDC:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the IEDC's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the IEDC, reporting the IEDC's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

#### Government-Wide Statements

The government-wide statements are designed to provide readers with a broad overview of the IEDC's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the IEDC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the IEDC is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the IEDC that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

In the government-wide financial statements, the activities of the IEDC are shown in two categories:

- **Governmental Activities:** The Corporation's activities are included here.
- **Business-type Activities:** The IEDC maintains a proprietary fund for the Foundation, which is included here.

# INDIANA ECONOMIC DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) Year Ended June 30, 2014

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The IEDC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the IEDC can be divided into two categories: governmental funds or proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The IEDC maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the following funds, which are considered to be major funds: General, 21<sup>st</sup> Century Research & Technology, Training & Economic Development, State Small Business Credit Initiative, Industrial Development Grant, Indiana Biosciences Research, and Indiana Promotion Fund. Data from the other funds are combined into a single, aggregated presentation.

The IEDC maintains a proprietary fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Foundation.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**Year Ended June 30, 2014**

**FINANCIAL ANALYSIS OF THE IEDC AS A WHOLE**

**Net Position**

The following is condensed from the Statement of Net Position:

	<b>Governmental Activities (Corporation)</b>		<b>Business-type Activities (Foundation)</b>	
	<b>June 30, 2014</b>	<b>June 30, 2013</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Current Assets	\$147,629,099	\$151,716,870	\$1,528,995	\$ 873,254
Capital and Noncurrent Assets	<u>37,267,309</u>	<u>35,386,015</u>	<u>                  </u>	<u>                  </u>
<b>Total Assets</b>	<b><u>\$185,396,408</u></b>	<b><u>\$187,102,885</u></b>	<b><u>\$1,528,995</u></b>	<b><u>\$ 873,254</u></b>
Current Liabilities	<u>\$ 16,887,052</u>	<u>\$ 19,318,623</u>	<u>\$ 24,890</u>	<u>\$ 23,166</u>
<b>Total Liabilities</b>	<b><u>\$ 16,887,052</u></b>	<b><u>\$ 19,318,623</u></b>	<b><u>\$ 24,890</u></b>	<b><u>\$ 23,166</u></b>
Net Investment in Capital Assets	\$ 153,732	\$ 96,976		
Restricted			\$ 569,389	\$ 316,539
Unrestricted	<u>167,855,624</u>	<u>167,687,286</u>	<u>934,716</u>	<u>533,549</u>
<b>Total Net Position</b>	<b><u>\$168,009,356</u></b>	<b><u>\$167,784,262</u></b>	<b><u>\$1,504,105</u></b>	<b><u>\$ 850,088</u></b>

The total net position at June 30 was as follows:

	<b><u>2014</u></b>	<b><u>2013</u></b>
Assets	\$186,425,403	\$187,976,139
Liabilities	<u>16,911,942</u>	<u>19,341,789</u>
Net Position	<b><u>\$169,513,461</u></b>	<b><u>\$168,634,350</u></b>

The IEDC's total net position was \$169.5 million at June 30, 2014, compared to total net position of \$168.6 million at June 30, 2013.

Total assets decreased \$1.55 million during fiscal year 2014. The primary change in assets is due to a decrease in cash related to additional convertible notes issued in the current year. Loans receivable increased for the additional convertible notes, but the allowance for doubtful accounts also increased due to convertible notes issued in prior years that may not be collectible. Total liabilities decreased \$2.43 million during fiscal year 2014. The liabilities decrease is mainly from a decrease in unearned revenue due to allocating State Small Business Credit Initiative (SSBCI) funding to the Indiana High Growth Fund, LLC and Indiana Angel Network Fund, LLC.

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**Year Ended June 30, 2014**

**Change in Net Position**

The following is condensed from the Statement of Activities:

	<b>Change in Net Position</b>			
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>(Corporation)</b>		<b>(Foundation)</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Program Revenues				
Charges for services	\$ 188,675	\$ 160,810		
Operating grants, appropriations and contributions	54,398,138	49,428,029	\$1,202,185	\$ 175,000
General Revenues				
Gaming taxes	835,081	1,203,255		
Special events			540,938	270,808
Other income			1,272	7,409
Investment earnings	100,699	206,733	1,250	1,116
<b>Total Revenues</b>	<u>55,522,593</u>	<u>50,998,827</u>	<u>1,745,645</u>	<u>454,333</u>
General government	55,297,499	30,780,382		
Travel, meals and entertainment			934,531	471,846
Other expense			157,097	112,945
<b>Total Expenses</b>	<u>55,297,499</u>	<u>30,780,382</u>	<u>1,091,628</u>	<u>584,791</u>
<b>Change in Net Position</b>	225,094	20,218,445	654,017	(130,458)
Beginning Net Position	<u>167,784,262</u>	<u>147,565,817</u>	<u>850,088</u>	<u>980,546</u>
Ending Net Position	<u>\$168,009,356</u>	<u>\$167,784,262</u>	<u>\$1,504,105</u>	<u>\$ 850,088</u>

The changes in net position for the years ended June 30 were as follows:

	<u><b>2014</b></u>	<u><b>2013</b></u>
Revenues	\$57,268,238	\$51,453,160
Expenses	<u>56,389,127</u>	<u>31,365,173</u>
Change in Net Position	<u>\$ 879,111</u>	<u>\$20,087,987</u>

Revenue increased \$5.81 million during fiscal year 2014, while expense increased \$25 million. Increases in revenues are mainly due to increases in grants, appropriations and contributions while expenses increased mainly due to grants provided during the year. The increase in grant expense was approximately \$19.5 million.

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**Year Ended June 30, 2014**

**CAPITAL ASSETS**

By the end of fiscal year 2014, the IEDC had invested \$440,412 in capital assets. Current year depreciation on these assets was \$64,110.

	<u>2014</u>	<u>2013</u>		
Capital assets	\$ 440,412	\$ 426,833		
Less: Accumulated depreciation	<u>(286,680)</u>	<u>(329,857)</u>		
 Total	 <u>\$ 153,732</u>	 <u>\$ 96,976</u>		
	<b>Balance at July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance at June 30, 2014</b>
Depreciable capital assets:				
Furniture and equipment	\$215,488	\$ 22,643		\$238,131
Computer software and hardware	191,289	42,180	\$ 107,287	126,182
Automobiles	<u>20,056</u>	<u>56,043</u>	<u>          </u>	<u>76,099</u>
Total depreciable capital assets	426,833	120,866	107,287	440,412
Less: Accumulated depreciation	<u>329,857</u>	<u>64,110</u>	<u>107,287</u>	<u>286,680</u>
Total Capital Assets, net	<u>\$ 96,976</u>	<u>\$ 56,756</u>	<u>          </u>	<u>\$153,732</u>

**CONTACTING IEDC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the IEDC's finances and to demonstrate the IEDC's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact the Indiana Economic Development Corporation, One North Capitol, Suite 700, Indianapolis, IN 46204.

## **BASIC FINANCIAL STATEMENTS**

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**

**STATEMENT OF NET POSITION**  
**June 30, 2014**

**ASSETS**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
<b>CURRENT ASSETS</b>			
Cash		\$ 1,372,995	\$ 1,372,995
Funds held by State of Indiana	\$ 146,940,486		146,940,486
Accounts receivable	230,225		230,225
Pledges receivable		156,000	156,000
Grants receivable	418,971		418,971
Interest receivable	39,417		39,417
Total Current Assets	<u>147,629,099</u>	<u>1,528,995</u>	<u>149,158,094</u>
<b>NONCURRENT ASSETS</b>			
Loans receivable, net	37,113,577		37,113,577
Capital assets, net	153,732		153,732
Total Noncurrent Assets	<u>37,267,309</u>		<u>37,267,309</u>
<b>TOTAL ASSETS</b>	<u>\$ 184,896,408</u>	<u>\$ 1,528,995</u>	<u>\$ 186,425,403</u>

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 3,390,913	\$ 24,890	\$ 3,415,803
Accrued expenses	345,833		345,833
Unearned revenue	12,892,674		12,892,674
Accrued liability for compensated absences	257,632		257,632
Total Current Liabilities	<u>16,887,052</u>	<u>24,890</u>	<u>16,911,942</u>
Total Liabilities	<u>16,887,052</u>	<u>24,890</u>	<u>16,911,942</u>
<b>NET POSITION</b>			
Net investment in capital assets	153,732		153,732
Restricted		569,389	569,389
Unrestricted	167,855,624	934,716	168,790,340
Total Net Position	<u>168,009,356</u>	<u>1,504,105</u>	<u>169,513,461</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 184,896,408</u>	<u>\$ 1,528,995</u>	<u>\$ 186,425,403</u>

See accompanying notes.

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014**

<b>FUNCTIONS/PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</b>						
General government	\$ 55,297,499	\$ 188,675	\$ 54,398,138	\$ (710,686)		\$ (710,686)
Total Governmental Activities	<u>55,297,499</u>	<u>188,675</u>	<u>54,398,138</u>	<u>(710,686)</u>		<u>(710,686)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Foundation	1,091,628		1,745,645		\$ 654,017	654,017
Total Business-Type Activities	<u>1,091,628</u>		<u>1,745,645</u>		<u>654,017</u>	<u>654,017</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 56,389,127</u>	<u>\$ 188,675</u>	<u>\$ 56,143,783</u>	<u>\$ (710,686)</u>	<u>\$ 654,017</u>	<u>\$ (56,669)</u>
<b>GENERAL REVENUES</b>						
Gaming taxes				\$ 835,081		\$ 835,081
Investment earnings				100,699		100,699
Total General Revenues				<u>935,780</u>		<u>935,780</u>
<b>CHANGE IN NET POSITION</b>				225,094	\$ 654,017	879,111
<b>NET POSITION - BEGINNING OF YEAR</b>				<u>167,784,262</u>	<u>850,088</u>	<u>168,634,350</u>
<b>NET POSITION - END OF YEAR</b>				<u>\$ 168,009,356</u>	<u>\$ 1,504,105</u>	<u>\$ 169,513,461</u>

See accompanying notes.

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014**

**ASSETS**

	<b>General</b>	<b>21st Century Research &amp; Technology</b>	<b>Training &amp; Economic Development</b>	<b>State Small Business Credit Initiative</b>	<b>Industrial Development Grant</b>	<b>Indiana Biosciences Research</b>	<b>Indiana Promotion Fund</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
<b>ASSETS</b>									
Funds held by State of Indiana	\$ 724,003	\$ 43,150,349	\$ 52,574,108	\$ 12,892,674	\$ 14,858,324	\$ -	\$ 8,657,564	\$ 14,083,464	\$ 146,940,486
Accounts receivable			608					229,617	230,225
Grants receivable								418,971	418,971
Interest receivable			35,389					4,028	39,417
Loans receivable, net		17,365,000		8,650,299	4,862,577			6,235,701	37,113,577
<b>TOTAL ASSETS</b>	<b>\$ 724,003</b>	<b>\$ 60,515,349</b>	<b>\$ 52,610,105</b>	<b>\$ 21,542,973</b>	<b>\$ 19,720,901</b>	<b>\$ -</b>	<b>\$ 8,657,564</b>	<b>\$ 20,971,781</b>	<b>\$ 184,742,676</b>

**LIABILITIES AND FUND BALANCES**

<b>LIABILITIES</b>									
Accounts payable	\$ 138,271	\$ 25,839	\$ 1,049,961	\$ 665	\$ 17,258	\$ -	\$ 81,385	\$ 2,077,534	\$ 3,390,913
Accrued expenses	289,961	11,158	10,446					34,268	345,833
Unearned revenue				12,892,674					12,892,674
Total Liabilities	428,232	36,997	1,060,407	12,893,339	17,258		81,385	2,111,802	16,629,420
<b>FUND BALANCES</b>									
Assigned	295,771	60,478,352	51,549,698	8,649,634	19,703,643		8,576,179	18,859,979	168,113,256
Total Fund Balances	295,771	60,478,352	51,549,698	8,649,634	19,703,643		8,576,179	18,859,979	168,113,256
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 724,003</b>	<b>\$ 60,515,349</b>	<b>\$ 52,610,105</b>	<b>\$ 21,542,973</b>	<b>\$ 19,720,901</b>	<b>\$ -</b>	<b>\$ 8,657,564</b>	<b>\$ 20,971,781</b>	<b>\$ 184,742,676</b>

**Total Fund Balances of Governmental Funds** \$ 168,113,256

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 153,732

The liability for compensated absences for employees who have not left active service by June 30, 2014 and are due pending payouts. (257,632)

**Net Position of Governmental Activities** \$ 168,009,356

See accompanying notes.

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2014**

	<u>General</u>	<u>21st Century Research &amp; Technology</u>	<u>Training &amp; Economic Development</u>	<u>State Small Business Credit Initiative</u>	<u>Industrial Development Grant</u>	<u>Indiana Biosciences Research</u>	<u>Indiana Promotion Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>REVENUES</b>									
Gaming taxes								\$ 835,081	\$ 835,081
Current service charges	\$ 142							188,533	188,675
Investment income		\$ 14,357	\$ 22,471					63,871	100,699
State appropriation and grants	6,840,633	1,651,350	15,771,473	\$ 3,329,491	\$ 2,811,946	\$ 10,000,000	\$ 8,536,192	5,073,440	54,014,525
Other funding	775							382,838	383,613
<b>Total Revenues</b>	<u>6,841,550</u>	<u>1,665,707</u>	<u>15,793,944</u>	<u>3,329,491</u>	<u>2,811,946</u>	<u>10,000,000</u>	<u>8,536,192</u>	<u>6,543,763</u>	<u>55,522,593</u>
<b>EXPENDITURES</b>									
Current:									
General government	6,585,504	5,936,315	10,457,673	207,918	1,042,937	10,000,000	1,584,122	19,397,701	55,212,170
Capital outlay:									
Capital outlay	78,686							42,180	120,866
<b>Total Expenditures</b>	<u>6,664,190</u>	<u>5,936,315</u>	<u>10,457,673</u>	<u>207,918</u>	<u>1,042,937</u>	<u>10,000,000</u>	<u>1,584,122</u>	<u>19,439,881</u>	<u>55,333,036</u>
<b>NET CHANGE IN FUND BALANCES</b>	177,360	(4,270,608)	5,336,271	3,121,573	1,769,009		6,952,070	(12,896,118)	189,557
<b>FUND BALANCES - BEGINNING OF YEAR</b>	118,411	64,748,960	46,213,427	5,528,061	17,934,634		1,624,109	31,756,097	167,923,699
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 295,771</u>	<u>\$60,478,352</u>	<u>\$ 51,549,698</u>	<u>\$ 8,649,634</u>	<u>\$19,703,643</u>	<u>\$ -</u>	<u>\$8,576,179</u>	<u>\$ 18,859,979</u>	<u>\$ 168,113,256</u>
<b>Net Change in Fund Balances of Governmental Funds</b>									\$ 189,557
Amounts reported for governmental activities in the statement of activities are different because:									
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.									
									56,756
The change in the liability for compensated absences reported in the statement of net position that does not require the use of current financial resources is not reported as an expenditure in the funds.									
									(21,219)
<b>Change in Net Position of Governmental Activities</b>									<u>\$ 225,094</u>

See accompanying notes.

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**June 30, 2014**

	<u>Foundation</u>
<b>ASSETS</b>	
Current Assets	
Cash	\$ 1,372,995
Pledges receivable	<u>156,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,528,995</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	<u>\$ 24,890</u>
Total Liabilities	<u>24,890</u>
<b>NET POSITION</b>	
Restricted	569,389
Unrestricted	<u>934,716</u>
Total Net Position	<u>1,504,105</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 1,528,995</u>

See accompanying notes.

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2014**

	<b>Foundation</b>
<b>OPERATING REVENUES</b>	
Contributions	\$ 1,202,185
Investment earnings	1,250
Special events	540,938
Other income	1,272
Total Operating Revenues	1,745,645
<b>OPERATING EXPENSES</b>	
Travel, meals and entertainment	934,531
Other expense	157,097
Total Operating Expenses	1,091,628
<b>CHANGE IN NET POSITION</b>	654,017
<b>NET POSITION - BEGINNING OF YEAR</b>	850,088
<b>NET POSITION - END OF YEAR</b>	\$ 1,504,105

See accompanying notes.

# INDIANA ECONOMIC DEVELOPMENT CORPORATION

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS Year Ended June 30, 2014

	<u>Foundation</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Contributions	\$ 1,046,185
Investment earnings	1,250
Special events	540,938
Other income	1,272
Other operating expenses	<u>(1,089,904)</u>
Net Cash Provided by Operating Activities	<u>499,741</u>
<b>NET INCREASE IN CASH</b>	499,741
<b>CASH</b>	
Beginning of Year	<u>873,254</u>
End of Year	<u><u>\$ 1,372,995</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 654,017
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in certain assets:	
Pledges receivable	(156,000)
Changes in certain liabilities:	
Accounts payable	<u>1,724</u>
Net Cash Provided by Operating Activities	<u><u>\$ 499,741</u></u>

See accompanying notes.

# INDIANA ECONOMIC DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity:** By Indiana Code 5-28, the Indiana General Assembly created the Indiana Economic Development Corporation (the Corporation), a component unit of the State of Indiana (the State), as a separate corporation. The Corporation is the lead economic development agency for the State. The Corporation is organized as a public-private partnership governed by a twelve-member board. The Corporation's Board of Directors is chaired by the Governor of Indiana and reflects the geographic and economic diversity of Indiana. The Corporation focuses its efforts on growing and retaining businesses in Indiana and attracting new business to the State of Indiana. The Corporation is also responsible for the development and implementation of Indiana's strategic plan for economic development. The Corporation along with its blended component unit (collectively, the IEDC) is a component unit to be included in the State's Comprehensive Annual Financial Report, because it was established as a separate body, corporate and politic (not a state agency). A component unit is defined as a legally separate organization for which the elected officials of the primary government are financially accountable.

**Blended Component Unit:** Indiana Code 5-28, also authorized the Indiana Economic Development Foundation, Inc. (the Foundation) as a nonprofit under common control of the Corporation to solicit and accept private sector funding, gifts, donations, bequests, devises, and contributions. The Foundation's purpose is to assist the Governor and the Corporation in reaching their economic development goals by raising funds from the general public and nonprofit foundations and organizations. The Corporation is considered to be financially accountable for the Foundation and, in substance, the Foundation is part of the Corporation's operations even though the Foundation is a legally separate entity. The Foundation is therefore presented as a blended component unit of the Corporation.

**Basis of Presentation:** The accompanying financial statements of the IEDC conforms with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB codification) document these principles.

**Government-Wide Financial Statements:** The government-wide financial statements (i.e., the Statement of Net Position and Statement of Activities) report information on all activities of the IEDC. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**Fund Financial Statements:** Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The IEDC reports seven major governmental funds, and the descriptions of these funds are noted below:

**General:** The primary operating fund for the Corporation that supports the administrative functions of the IEDC.

**21<sup>st</sup> Century Research & Technology:** Facilitates the operation of the 21<sup>st</sup> Century Research & Technology Fund. This Fund was created in 1999 by the General Assembly to stimulate diversification of the State's economy by developing and commercializing advanced technologies in Indiana. The goal of this fund is to support the resolution of next stage capital formation issues by co-investing with institutional investors in order to further build innovative, high impact, high growth companies.

**Training & Economic Development:** Funds the Training 2000 Program, also known as the Skills Enhancement Fund (SEF). The SEF is a tool to encourage companies to invest in their existing workforce and to train new employees. This fund provides reimbursement for eligible training expenses over a two year term and is important for job creation and the continued improvement of the Hoosier workforce skills. Training funds are obligated at the time the corporation makes a preliminary offer, but there are still reporting requirements that must be met to receive reimbursement of training costs. The fund balance of \$51,549,698 had obligations of \$47,933,094 (92.9%) as of June 30, 2014.

**State Small Business Credit Initiative:** This fund facilitates the implementation of the federal State Small Business Credit Initiative (SSBCI), which was created by the Small Business Jobs Act of 2010 and focuses on providing capital to small businesses.

**Industrial Development Grant:** This fund finances the Industrial Development Grant Fund (IDGF). The IDGF provides financial support for infrastructure improvements in conjunction with projects creating jobs and generating capital investment in Indiana. This grant provides money to local governments for off-site infrastructure projects associated with an expansion of an existing Indiana company or the location of a new facility in Indiana. IDGF was established by Indiana Code 5-28-25 and is one of the IEDC's core economic development tools.

**Indiana Biosciences Research:** This fund is a biennium allocation up to \$25 million from the general fund as one of the State's advocacy to support Indiana BioSciences Research Institute initiatives.

**Indiana Promotion Fund:** This fund supports the IEDC's mission, allows the IEDC to operate in a business like manner, and offers the flexibility necessary to drive economic development in Indiana. Indiana Code 5-28-5-12 specifies the basis for the Indiana Promotion Fund. The IEDC Board of Directors approved a resolution which authorizes the President and other officers of the Corporation to use the financial resources of the Indiana Promotion Fund for all proper corporate purposes, and for economic development activities with the approval of the Director of the State Budget Agency.

The IEDC reports one proprietary fund for the Foundation operations.

**Basis of Accounting:** The government-wide financial statements and the proprietary fund financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated non-exchange revenues and voluntary non-exchange revenues and certain grants and entitlements are recognized in the period when all applicable eligibility requirements have been met.

## NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (that is, 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. Expenditures are recorded when the related fund liability is incurred. The governmental funds recognize expenditures for these liabilities to the extent they will be matured or liquidated with expendable financial resources.

Interfund activity between funds included in governmental activities is eliminated within the governmental activities column.

**Estimates:** Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from those estimates.

**Net Position and Fund Balances:** Net position is displayed in three components:

- The Net Investment in Capital Assets component consists of property that the IEDC acquired, net of any related debt.
- The Restricted Net Position component represents net position with constraints placed on their use that are either (i) externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or (ii) imposed by law through constitutional provisions or enabling legislation, as defined in the GASB Codification.
- The Unrestricted Net Position component consists of net position that does not meet the definition of the preceding two components.

Governmental Funds: Fund balances can be displayed in five components:

- Non-spendable fund balance includes amounts not in spendable form.
- Amounts listed in restricted fund balance are subject to constraints imposed by external organizations. For purposes of determining the ending fund balance, restricted funds are considered to be spent first when expenditure occurs for which both restricted and unrestricted amounts are available.
- Committed fund balance amounts are designated by the IEDC's Board resolution to be used for a specific purpose. If expenditure occurs for which committed, assigned or unassigned amounts are available, committed amounts are considered to be spent first, followed by assigned and then unassigned funds.
- Assigned fund balance amounts are available for commitment by the IEDC's Board resolution, to projects.
- Unassigned fund balance is the residual classification for the general fund.

When both restricted and unrestricted resources are available for use, the IEDC's policy is to use restricted resources first, then unrestricted resources as they are needed.

**NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash** is maintained in bank deposit accounts which, at times, may exceed federally insured limits. There have been no losses in such accounts. Custodial credit risk is the risk that in the event of bank failure, the IEDC deposits may not be returned to it. As of June 30, 2014, there are no deposit balances exposed to custodial credit risk as amounts held at each institution do not exceed federally insured limits.

**Funds Held by the State of Indiana** are maintained and invested by the State for the IEDC.

**Grants and Accounts Receivable** consist of amounts billed or billable for services provided, net of an allowance for doubtful accounts, if determined to be necessary. Grants and accounts receivable are recorded at net realizable value when earned. Grant revenue is recognized as earned as the eligible expenses are incurred or activities are completed.

Payments from the State were \$51,789,996 during fiscal year June 30, 2014.

An allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances, and general economic conditions. Periodically, management reviews grants and accounts receivable and considers the need for an allowance based on current circumstances. Management has estimated that no allowance was necessary at June 30, 2014.

**Loans Receivable** are carried at the principal amount outstanding, net of an allowance for doubtful accounts. Interest income is accrued on the principal balance of the loans, when deemed to be collectible. The IEDC's source of funding for loans is from State appropriations and grants. Because there are a small number of loans outstanding, management estimates the allowance for loan loss by identifying specific troubled loans. The determination of the adequacy of the allowance for loan loss is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. At June 30, 2014, the allowance for loan loss was \$7,897,569. Management believes that as of June 30, 2014, the allowance for loan losses is adequate based on information currently available.

**Capital Assets:** Capital assets are recorded at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The IEDC provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

Furniture and equipment	5-7 years
Automobiles	8 years
Computer software and hardware	3 years

**Compensated Absences:** Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absences are based generally on length of service. Vacation leave, which has been earned but not paid, has been accrued in the accompanying financial statements. Compensation for holiday and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or vest.

**Subsequent Events:** The IEDC has evaluated the financial statements for subsequent events occurring through November 6, 2014, the date the financial statements were available to be issued.

## **NOTE 2 - RELATED PARTIES**

Indiana 21<sup>st</sup> Century Fund, LP (the 21 Fund) was formed on August 25, 2011. The 21 Fund was formed for the purpose of encouraging the formation and growth of investor groups and investments across the State, including a focus on Indiana's distressed regions and populations, in order to foster and promote the development of entrepreneurs and emerging companies within Indiana in support of Indiana's economy and its creation and retention of jobs. The 21 Fund will give the charitable and governmental purposes of its partners priority over maximizing profits and any other commercial interests which may arise as a result of its investments in awardees.

The Foundation is a limited partner that holds a 45% interest in the 21 Fund. The general partner is Elevate Advisors, LLC, which has a 10% interest, and the other limited partner is Elevate Ventures, Inc., which has a 45% interest. The Foundation is not liable for any loss of the 21 Fund as a limited partner. The Foundation's capital account is not in a deficit position at June 30, 2014, however management does not believe equity of the fund has material value at June 30, 2014. Therefore, no asset or liability is recorded in the statement of net position for this interest.

Under the SSBCI Program, the Department of Treasury awarded certain funds to the State for allocation and investment within its 21 Fund State venture capital program with administration by the IEDC. The contract is not considered federal funding for the purposes of the Office of Management and Budget Circular A-133 requirements. These funds have been allocated for investment within each of the LLCs referenced below which are all wholly owned by the 21 Fund.

- Indiana Angel Network Fund, LLC (the IAN Fund) is a source of seed capital dedicated to discovering and nurturing emerging, high-potential, innovation-based companies within the State. The IAN Fund supports direct seed and early-stage investment in Indiana companies alongside qualified angel and other investors.
- Indiana Seed Fund Holdings, LLC (the ISFH Fund) is a source of capital for the formation and growth of angel, seed, and venture capital funds for making investments in startup and early-stage, high-potential companies in the State. The ISFH Fund is a fund of funds and supports investment in earlier-stage Indiana companies.
- Indiana High Growth Fund, LLC (the IHG Fund) is a source of capital for the building of high-growth capital pools or funds dedicated to making investments in emerging, high-potential companies within the State. The IHG Fund is a fund of funds and supports investments in growing Indiana companies.

## **NOTE 3 - LOANS RECEIVABLE**

The IEDC has convertible loans receivable from the 21 Fund, with a maturity date of the dissolution date of the 21 Fund. At any time before the maturity date, the IEDC can convert the outstanding principal and interest of the loans into a limited partner interest in the 21 Fund. The loans accrue interest at a simple rate of 1% per year. No payments are due until the maturity date, at which time all accrued interest will be paid first, followed by any outstanding principal of the loan. Prepayments of the loans are not allowed without the IEDC's approval.

The loans receivable have been used by the 21 Fund to issue notes to Indiana companies. The notes have stated interest rates ranging from 0% to 8% that compound annually or do not compound. The notes are generally unsecured and usually can be converted into shares of stock of the respective companies. Notes issued to these companies have maturity dates ranging from October 2014 to March 2022. Generally, principal and interest payments are not allowed on the notes until the maturity date.

Additionally, for any note that becomes impaired, the IEDC will forgive a portion of the loans receivable equal to the principal of the note receivable and accrued interest up to 1% per year of the principal balance, less any proceeds received from the note receivable. In addition, an allowance for uncollectible accounts is determined by management based upon specific circumstances, knowledge of Indiana companies that hold notes and general economic conditions. At June 30, 2014, the allowance was \$7,897,569.

### NOTE 3 - LOANS RECEIVABLE (CONTINUED)

The IAN Fund has a loan agreement in place for available principal of \$9,500,000 that is a convertible note payable to the IEDC with a maturity date of August 2, 2025. At any time before the maturity date, the IEDC can convert the outstanding principal and interest of the note into shares of the IAN Fund. The note accrues interest at a simple rate of 1% per year. No payments are required until September 30, 2017. At June 30, 2014, the IAN Fund had drawn \$5,835,974 on this note.

The IHG Fund has a loan agreement in place for available principal of \$6,000,000 that is a convertible note payable to the IEDC with a maturity date of December 20, 2025. At any time before the maturity date, the IEDC can convert the outstanding principal and interest of the note into shares of the IHG Fund. The note accrues interest at a simple rate of 1% per year. No payments are required until September 30, 2017. At June 30, 2014, the IHG Fund had drawn \$3,114,325 on this note.

The ISFH Fund has a loan agreement in place for available principal of \$5,500,000 that is a convertible note payable to the IEDC with a maturity date of December 20, 2025. At any time before the maturity date, the IEDC can convert the outstanding principal and interest of the note into shares of the ISFH Fund. The note accrues interest at a simple rate of 1% per year. No payments are required until September 30, 2017. At June 30, 2014, the ISFH Fund had not yet drawn on this note.

### NOTE 4 - CAPITAL ASSETS

Capital assets used in governmental activities for the year ended June 30, 2014, were as follows:

	<b>Balance at July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance at June 30, 2014</b>
Depreciable capital assets:				
Furniture and equipment	\$215,488	\$ 22,643		\$238,131
Computer software and hardware	191,289	42,180	\$ 107,287	126,182
Automobiles	<u>20,056</u>	<u>56,043</u>		<u>76,099</u>
Total depreciable capital assets	426,833	120,866	107,287	440,412
Less: Accumulated depreciation	<u>329,857</u>	<u>64,110</u>	<u>107,287</u>	<u>286,680</u>
Total Capital Assets, net	<u>\$ 96,976</u>	<u>\$ 56,756</u>	<u>\$</u>	<u>\$153,732</u>

### NOTE 5 - NET POSITION RESTRICTED

Restricted net position at June 30, 2014, consisted of the following:

Conferences and sales trips	\$ 399,941
Promote meetings and opportunities in Indiana	91,529
Defense study	53,000
China and United States Training Program	<u>24,919</u>
Total Restricted Net Position	<u>\$ 569,389</u>

## **NOTE 6 - PENSION PLANS**

### ***Plan Description***

The IEDC is a participating employer in the Indiana Public Retirement System (INPRS). The IEDC contributes to INPRS, a cost sharing employer public employee retirement system, which acts as a common investment and administrative agent for units of state and local government in Indiana. The IEDC participates as a component unit of the State. INPRS is governed by State statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under the Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all of the IEDC's employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit 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 and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

In addition, the participants are required to contribute to an annuity savings account. Legislation permits an INPRS employer to make the participant's contributions on behalf of the participants. Participants may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described above. The participant's balance in the annuity savings account may be withdrawn at any time with interest should a participant terminate employment.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

### ***Funding Policy***

The IEDC is required to contribute to the Plan at an actuarially determined rate. The current rate is 9.7% (8.6% in prior year) of annual covered payroll. The IEDC contributed 3% of the participant's annual salary to the annuity savings account. The contribution requirements of participants are determined by State statute.

### ***Annual Pension Cost***

For the 2014 plan year, the IEDC's annual contribution was \$621,862. The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2013 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 6.75% in 2014 and 2013 per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual postretirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

## NOTE 7 - OPERATING LEASES

The IEDC leases office space under non-cancelable leases with terms in excess of one year. The following is a schedule of the future minimum rentals under the leases as of June 30, 2014:

2015	\$283,719
2016	276,519
2017	265,588
2018	<u>44,264</u>
Total	<u>\$870,090</u>

In addition to the minimum lease payments, the IEDC is required to pay a proportional share of operating costs. The aggregate rental expense was \$283,593 for the year ended June 30, 2014.

## **OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

*Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards*

Board of Directors  
Indiana Economic Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Indiana Economic Development Corporation, a component unit of the State of Indiana, and the Indiana Economic Development Foundation, Inc. (collectively, the IEDC) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the IEDC's basic financial statements, and have issued our report thereon dated November 6, 2014.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the IEDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IEDC's internal control. Accordingly, we do not express an opinion on the effectiveness of the IEDC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the IEDC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The IEDC's Response to Findings**

The IEDC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The IEDC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
November 6, 2014

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2014**

<b>Federal Grantor</b>	<b><u>Federal CFDA Number</u></b>	<b><u>Amount Passed- Through to Subrecipients</u></b>	<b><u>IEDC's Expenditures</u></b>	<b><u>Total Federal Expenditures</u></b>
<b>U.S. DEPARTMENT OF COMMERCE</b>				
Manufacturing Extension Partnership	11.611	\$ 585,511		\$ 585,511
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>				
Small Business Development Centers	59.037		\$ 2,088,115	<u>2,088,115</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u><u>\$ 2,673,626</u></u>

*See accompanying notes to schedule of expenditures of federal awards.*

## INDIANA ECONOMIC DEVELOPMENT CORPORATION

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2014

#### NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Indiana Economic Development Corporation (the IEDC). The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the IEDC, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the IEDC.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Expenditures** reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

*Independent Auditors' Report on Compliance for  
Each Major Program and on Internal Control over Compliance  
Required by OMB Circular A-133*

Board of Directors  
Indiana Economic Development Corporation

**Report on Compliance for Each Major Federal Program**

We have audited the Indiana Economic Development Corporation's, a component unit of the State of Indiana, and the Indiana Economic Development Foundation, Inc.'s (collectively, the IEDC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the IEDC's major federal programs for the year ended June 30, 2014. The IEDC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the IEDC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about IEDC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the IEDC's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, the IEDC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## **Report on Internal Control Over Compliance**

Management of the IEDC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the IEDC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the IEDC's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
November 6, 2014

INDIANA ECONOMIC DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

**Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

yes  no

Identification of major programs:

CFDA

Numbers Name of Federal Program

59.037 Small Business Development Centers

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes  no

**INDIANA ECONOMIC DEVELOPMENT CORPORATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2014**

**Financial Statement Findings**

**2014-001: Loans Receivable Adjustments – Material Weakness in Financial Reporting**

*Criteria:* Loans receivable activity should be communicated and reconciled to appropriately record and maintain accurate financial reporting.

*Condition and Context:* There were several loans to companies that were dissolved during the current year or developments occurred that warranted an increase in the allowance for doubtful accounts. The trial balance had not been adjusted for the various transactions that occurred.

*Cause and Effect:* The IEDC records an asset for loans made to various funds as convertible notes. A third party monitors investments that are made by the funds to various companies. As transactions occur that could affect the valuation of those assets that the IEDC has recorded, the IEDC needs to be aware of the transactions and appropriately record any impact that the transaction has on the asset recorded by the IEDC.

*Recommendation:* We recommend management of the IEDC consider meeting with the third party on a recurring basis throughout the year so that activity can be discussed and appropriate accounting treatment can be determined. The communication improved during fiscal year 2014, but there is still room for improvement in the communication process.

*Management Response:* Management agrees with this finding and will continue to have discussions with the third party administrator to determine the most effective and efficient way to improve communication on a regular basis so that the IEDC has better information for accurate financial reporting.

**Major Federal Award Programs Audit Findings and Questioned Costs**

None