

INDIANA BOARD FOR DEPOSITORIES

(A Component Unit of the State of Indiana)

Financial Statements

Years Ended June 30, 2005 and 2004

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

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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, 2005 and 2004, 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 audits 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, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

London Witte Group, LLC

September 13, 2005

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

Management Discussion and Analysis

June 30, 2005 and 2004

This section of the Indiana Board for Depositories' (the Board) annual financial report presents our discussion and analysis of the Board's financial performance during the fiscal years ended June 30, 2005 and 2004. Please read it in conjunction with the Board's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The Board generated operating income of \$5,211,035 for 2005 and \$3,829,785 for 2004
- The Board made a transfer to the police and firefighter pension relief fund in the amount of \$3,829,785 and \$6,887,659 during the fiscal year ended June 30, 2005 and 2004, 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 statements.

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Management Discussion and Analysis

June 30, 2005 and 2004

FINANCIAL ANALYSIS OF THE BOARD

The following table is a condensed summary of financial information for the year ended June 30, 2005, 2004 and 2003:

	2005	2004	2003
Net assets			
Current assets	\$ 389,961,617	\$ 290,371,367	\$ 501,875,714
Noncurrent assets	124,203,092	148,571,258	108,235,400
Total assets	514,164,709	438,942,625	610,111,114
Liabilities			
Current liabilities	208,969,490	135,128,656	303,239,270
Noncurrent liabilities	-	-	-
Total liabilities	208,969,490	135,128,656	303,239,270
Total net assets	305,195,219	303,813,969	306,871,844
Change in net assets			
Operating revenues	9,361,831	6,207,983	11,477,360
Operating expenses	4,150,796	2,378,198	4,589,701
Operating income	5,211,035	3,829,785	6,887,659
Transfers	(3,829,785)	(6,887,659)	(11,872,558)
Change in net assets	\$ 1,381,250	\$ (3,057,874)	\$ (4,984,899)

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 2005 have increased approximately \$99,600,000 with the largest increase occurring in collateral from securities lending which increased approximately \$73,600,000. The current portion of investments had an increase of \$40,400,000 and was offset somewhat by a \$14,700,000 decrease in cash. Comparing 2004 to 2003, current assets decreased approximately \$211,500,000 with the largest decrease occurring in collateral from securities lending which decreased approximately \$168,000,000. The current portion of investments decreased \$44,300,000.

Noncurrent assets consist of long-term investments, a loan receivable and capital assets. Long-term investments have decreased during 2005 by \$24,300,000. During fiscal year 2004, long term investments had decreased approximately \$9,600,000. 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.

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Management Discussion and Analysis

June 30, 2005 and 2004

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, 2005 and 2004 \$13,268 and \$46,664 respectively is invested in capital assets, \$5,211,035 and \$3,829,785 respectively of net assets are restricted for the future transfer to the police and firefighter pension relief fund and \$299,970,916 and \$299,937,520 respectively are unrestricted net assets

Operating revenues consist of interest income earned on investments and income from securities lending transactions. Investment income increased \$1,700,000 in 2005 and decreased approximately \$2,750,000 in 2004. Income from security lending has increased approximately \$1,500,000 in 2005 and decreased approximately \$2,500,000 in 2004. Both increases in 2005 are in large part a result of the increase in 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 increased approximately \$1,700,000 in 2005 and decreased \$2,300,000 in 2004. The 2005 increase is related to the increase in interest rates.

The transfers made to the police and firefighter pension fund during the fiscal years ended June 30, 2005 and 2004 were \$3,829,785 and \$6,887,659, respectively and the amount that will be transferred to the fund in December 2005 based upon the current year earnings will be \$5,211,035. 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 \$50,298,402.

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

Statements of Net Assets

June 30, 2005 and 2004

ASSETS

	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	\$ 74,914,879	\$ 89,643,138
Investments maturing in one year	105,134,433	64,751,766
Interest receivable	1,389,920	1,019,017
Collateral from securities lending	208,522,385	134,957,446
TOTAL CURRENT ASSETS	389,961,617	290,371,367
INVESTMENTS	74,189,824	98,524,594
LOAN RECEIVABLE	50,000,000	50,000,000
CAPITAL ASSETS, NET	13,268	46,664
TOTAL ASSETS	514,164,709	438,942,625

LIABILITIES

CURRENT LIABILITIES		
Accounts payable	441,180	165,739
Accrued expenses	5,925	5,471
Securities lending transactions	208,522,385	134,957,446
TOTAL CURRENT LIABILITIES	208,969,490	135,128,656

NET ASSETS

Invested in capital assets, net of related debt	13,268	46,664
Restricted for police and firefighter pension fund distribution	5,211,035	3,829,785
Unrestricted	299,970,916	299,937,520
TOTAL NET ASSETS	\$ 305,195,219	\$ 303,813,969

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, 2005 and 2004

	Amount		Percent	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
OPERATING REVENUE				
Investment income	\$ 5,367,907	\$ 3,665,571	57.3	59.0
Securities lending income	<u>3,993,924</u>	<u>2,542,412</u>	<u>42.7</u>	<u>41.0</u>
TOTAL OPERATING REVENUE	<u>9,361,831</u>	<u>6,207,983</u>	<u>100.0</u>	<u>100.0</u>
 OPERATING EXPENSES				
Securities lending fees	3,684,630	1,942,097	39.4	31.3
Salaries and wages	120,595	111,932	1.3	1.8
Employee benefits	31,474	34,062	0.3	0.5
Maintenance contracts	28,349	29,075	0.3	0.5
Depreciation	37,279	39,720	0.4	0.6
Professional fees	201,200	176,722	2.1	2.8
Office supplies	9,726	7,666	0.1	0.1
Travel	6,075	3,892	0.1	0.1
Rent	21,190	22,622	0.2	0.4
Other	<u>10,278</u>	<u>10,410</u>	<u>0.1</u>	<u>0.2</u>
TOTAL OPERATING EXPENSES	<u>4,150,796</u>	<u>2,378,198</u>	<u>44.3</u>	<u>38.3</u>
 OPERATING INCOME	<u>5,211,035</u>	<u>3,829,785</u>	<u>55.7</u>	<u>61.7</u>
 TRANSFERS				
Police and firefighter pension relief fund	<u>(3,829,785)</u>	<u>(6,887,659)</u>	<u>(40.9)</u>	<u>(110.9)</u>
 CHANGE IN NET ASSETS	<u>1,381,250</u>	<u>(3,057,874)</u>	<u>14.8</u>	<u>(49.2)</u>
 NET ASSETS, BEGINNING OF YEAR	<u>303,813,969</u>	<u>306,871,843</u>		
 NET ASSETS, END OF YEAR	<u>\$ 305,195,219</u>	<u>\$ 303,813,969</u>		

The accompanying notes are an integral part of these statements

INDIANA BOARD FOR DEPOSITORIES
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Statements of Cash Flows

Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 3,993,924	\$ 2,542,412
Cash paid to suppliers and vendors	(3,837,622)	(2,495,616)
Interest received	3,204,289	4,044,109
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>3,360,591</u>	<u>4,090,905</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of furniture and equipment	(3,883)	(22,985)
Proceeds from sale of equipment	0	0
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,883)</u>	<u>(22,985)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(615,995,827)	(918,965,652)
Loan to State of Indiana General Fund	0	(50,000,000)
Proceeds from redemption of investments, net	601,740,645	972,498,286
Transfer to the police and firefighter pension fund	(3,829,785)	(6,887,659)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(18,084,967)</u>	<u>(3,355,025)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,728,259)	712,895
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>89,643,138</u>	<u>88,930,243</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 74,914,879</u>	<u>\$ 89,643,138</u>

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES
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Statements of Cash Flows

Years Ended June 30, 2005 and 2004

	2005	2004
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 5,211,035	\$ 3,829,785
Non-cash items		
Depreciation	37,279	39,720
Change in FMV of investments	(1,792,715)	447,993
Decrease (increase) in assets		
Interest receivable	(370,903)	(69,455)
Increase (decrease) in liabilities		
Accounts payable	275,441	(158,665)
Accrued expenses	454	1,527
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 3,360,591	\$ 4,090,905

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

Notes to Financial Statements

June 30, 2005 and 2004

(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.

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 5-13-10-3 also states that the Board may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Treasurer.

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.

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.

INDIANA BOARD FOR DEPOSITORIES

Notes to Financial Statements

June 30, 2005 and 2004

(1) Summary of significant accounting policies (continued)

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 \$917 and \$2,069 were made during 2005 and 2004, 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, 2005, 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	\$ 26,731,497	\$ 17,330,325	\$ 9,401,172	\$ 0	\$ 0
U.S. agencies	142,593,368	87,804,108	54,789,260	0	0
State of Israel bond	5,000,000	0	5,000,000	0	0
State of Indiana agency bond	4,802,266	0	0	4,802,266	0
Total fair value	179,127,131	105,134,433	69,190,432	4,802,266	0
Difference in cost and fair value	197,126	0	0	197,126	0
Total carrying amount	\$ <u>179,324,257</u>	\$ <u>105,134,433</u>	\$ <u>69,190,432</u>	\$ <u>4,999,392</u>	\$ <u>0</u>

INDIANA BOARD FOR DEPOSITORIES

Notes to Financial Statements

June 30, 2005 and 2004

(2) Investments (continued)

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 considered to have no 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.

	<u>Fair Value</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>	<u>Moody's Rating</u>
State of Israel bond	\$ 5,000,000	unrated	unrated	unrated
U.S. agencies	\$ 142,593,368	AAA	AAA	Aaa

The State of Israel bond is denominated in U.S. dollars so there is no foreign currency credit risk for this or any of the other 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.

<u>Maturity</u>	<u>Maximum Investment</u>
Two to five years	25%

(3) Capital assets, net

Capital assets, net consist of the following for the year ending June 30, 2005:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Cost				
Computer equipment	\$ 475,013	\$ 3,883	\$ 0	\$ 478,896
Office equipment	8,006	0	0	8,006
Total, capital assets being depreciated	483,019	3,883	0	486,902
Accumulated depreciation	436,355	37,279	0	473,634
Total capital assets, net	\$ 46,664	\$ (33,396)	\$ 0	\$ 13,268

Capital assets, net consist of the following for the year ending June 30, 2004:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Cost				
Computer equipment	\$ 452,028	\$ 22,985	\$ 0	\$ 475,013
Office equipment	8,006	0	0	8,006
Total, capital assets being depreciated	460,034	22,985	0	483,019
Accumulated depreciation	396,635	39,720	0	436,355
Total capital assets, net	\$ 63,399	\$ (16,735)	\$ 0	\$ 46,664

Depreciation expense charged to operations was \$37,279 for 2005 and \$39,720 for 2004. The depreciation policies followed were described in Note 1.

INDIANA BOARD FOR DEPOSITORIES

Notes to Financial Statements

June 30, 2005 and 2004

(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	\$ 25,060,599	\$ 24,765,500
U.S. agencies	<u>183,461,786</u>	<u>180,174,894</u>
Total	<u>\$ 208,522,385</u>	<u>\$ 204,940,394</u>

INDIANA BOARD FOR DEPOSITORIES

Notes to Financial Statements

June 30, 2005 and 2004

(5) 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, 2005 and 2004 were \$8,273 and \$9,446, 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 1/2% 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.

(6) Operating lease

The Board leases office space under a non-cancelable lease with original terms in excess of one year. The following is a schedule of the future minimum rentals under the lease as of June 30, 2005.

Year ended June 30		
	2006	\$ 20,434
	2007	20,434
	2008	<u>20,434</u>
Total minimum lease payments		\$ <u>61,302</u>

The aggregate rental expense charged to operations is \$21,190 for 2005 and \$22,680 for 2004.

INDIANA BOARD FOR DEPOSITORIES

Notes to Financial Statements

June 30, 2005 and 2004

(7) 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, 2005, 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 2004 and 2003 was \$3,829,785 and \$6,887,659, respectively and the amount expected to be transferred during December 2005 is \$5,211,035.

Indiana Code section 5-13-12-7(d)(7) and (e) permits the Board to invest in guarantees of bonds or notes issued under Indiana Code section 5-1.5-4-1. During December 2003, the Board authorized a guarantee not to exceed \$20,000,0000 related to the Indiana Bond Bank Special Program Notes, Series 2004. The actual amount guaranteed by the Board as of June 30, 2005 and 2004 was \$0 and \$6,220,000, respectively.

September 13, 2005

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, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We noted no matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the information of management.

London Witte Group, LLC

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