

**INDIANA BOARD FOR DEPOSITORIES
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

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

June 30, 2018 and 2017

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

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Independent Auditors' Report

Board of Directors
Indiana Board for Depositories

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana Board for Depositories, a component unit of the State of Indiana, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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 of America; 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Uniform Compliance Guidelines for Audit of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards and guidelines 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Indiana Board for Depositories as of June 30, 2018, and the changes in its net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2017 Financial Statements

The financial statements of Indiana Board for Depositories as of and for the year ended June 30, 2017, were audited by other auditors whose report dated October 23, 2017, expressed an unmodified opinion on those financial statements prepared in accordance with accounting principles generally accepted in the United States.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the schedules of the Board's proportionate share of the net pension liability and Board contributions and the related notes on pages 24 through 26 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018, on our consideration of Indiana Board for Depositories' 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 Indiana Board for Depositories' internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
December 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018 and 2017

This section of the Indiana Board for Depositories' (the Board) annual financial report provides management's discussion and analysis of the financial performance during the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the Board's financial statements and accompanying notes.

The Board was established by Indiana Code 5-13-12 to ensure the safekeeping and prompt payment of all public funds deposited in any depository, to the extent they are not covered by insurance of any federal deposit insurance agency, by maintaining and operating in its own name the Public Deposit Insurance Fund. The Board of Directors consists of the Governor, the Treasurer of State, the Auditor of State, the Chairman of the Department of Financial Institutions, the Chief Examiner of the State Board of Accounts and four directors appointed by the Governor.

FINANCIAL HIGHLIGHTS

- The Board generated net operating income of \$2,673,300 in 2018 and \$964,700 in 2017.
- Total operating revenues were \$3,861,800 in 2018 and \$1,794,400 in 2017. Total operating revenues were made up of investment income and securities lending income.
- Investment income generated was \$2,916,500 in 2018 and \$1,233,000 in 2017.
- Securities lending income was \$945,300 in 2018 and \$561,400 in 2017.
- Total operating expenses were \$1,188,500 in 2018 and \$829,700 in 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and notes, as well as, required supplementary information. The Board 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 Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide information about the Board's financial status and the change in financial status. The Statements of Net Position includes all of the Board's assets, liabilities, deferred outflows, deferred inflows and net position. Assets and liabilities are classified as either current or noncurrent. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time period. The Statements of Cash Flows report the cash provided and used by operating activities as well as other cash sources and uses.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10 through 23 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information including the Schedule of the Board's Proportionate Share of the Net Pension Liability, the Schedule of the Board's Contributions and the related notes on pages 24 through 26.

FINANCIAL ANALYSIS

Statements of Net Position

Below are the condensed statements of net position relating to the Board at June 30, 2018, 2017, and 2016.

Indiana Board for Depositories Condensed Statements of Net Position

	June 30, 2018	June 30, 2017	June 30, 2016
Current assets	\$201,072,200	\$ 91,110,600	\$101,781,700
Noncurrent Assets	<u>104,844,400</u>	<u>214,170,800</u>	<u>200,465,600</u>
Total Assets	<u>305,916,600</u>	<u>305,281,400</u>	<u>302,247,300</u>
Deferred Outflows of Resources	<u>21,700</u>	<u>33,100</u>	<u>34,700</u>
Current liabilities	62,200	2,109,400	34,800
Noncurrent liabilities	<u>80,700</u>	<u>79,400</u>	<u>83,100</u>
Total Liabilities	<u>142,900</u>	<u>2,188,800</u>	<u>117,900</u>
Deferred Inflows of Resources	<u>6,200</u>	<u>9,800</u>	<u>12,900</u>
Net Position	<u>\$305,789,200</u>	<u>\$303,115,900</u>	<u>\$302,151,200</u>

2018 to 2017 Comparative Statements of Net Position

As of June 30, 2018, total assets increased by approximately \$.64 million and liabilities decreased by approximately \$2.0 million. Total assets were consistent as the State's \$5 million loan repayment was used to purchase additional investments. Total liabilities decreased due to no outstanding securities lending transactions at June 30, 2018. Net position increased by approximately \$2.7 million or .8% during fiscal year 2018, which was driven by an increase in investment income.

2017 to 2016 Comparative Statements of Net Position

As of June 30, 2017, total assets increased by approximately \$3.0 million and liabilities increased by approximately \$2.0 million. The increase in assets and liabilities was due to securities lending activity at June 30, 2017. Net position increased by approximately \$1.0 million or 3% during fiscal year 2017, which was driven by investment income.

FINANCIAL ANALYSIS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Position

Below are the condensed statements of revenues, expenses and changes in net position relating to the Board for the years ended June 30, 2018, 2017, and 2016.

Indiana Board for Depositories Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016
Operating Revenues			
Investment income	\$ 2,916,500	\$ 1,233,000	\$ 1,457,000
Securities lending income	<u>945,300</u>	<u>561,400</u>	<u>245,200</u>
Total Operating Revenues	<u>3,861,800</u>	<u>1,794,400</u>	<u>1,702,200</u>
Operating Expenses			
Securities lending fees	926,400	534,600	220,400
General and administrative	<u>262,100</u>	<u>295,100</u>	<u>287,100</u>
Total Operating Expenses	<u>1,188,500</u>	<u>829,700</u>	<u>507,500</u>
Increase in Net Position	2,673,300	964,700	1,194,800
Net Position:			
Beginning of Year	<u>303,115,900</u>	<u>302,151,200</u>	<u>300,956,400</u>
End of Year	<u>\$305,789,200</u>	<u>\$303,115,900</u>	<u>\$302,151,200</u>

2018 to 2017 Comparative Statements of Revenue, Expenses and Changes in Net Position

Total revenues for the fiscal year ended June 30, 2018, were \$3.9 million, which was a \$2.1 million increase from the prior year. Investment income increased due to raising interest rates and a shift in the allocation of investment types and maturities, which helped to mitigate losses in the fair market value of the investments.

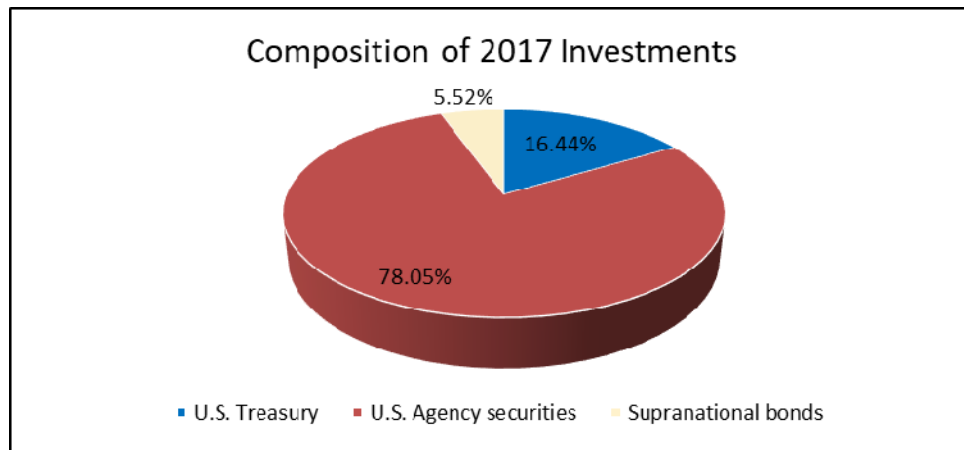
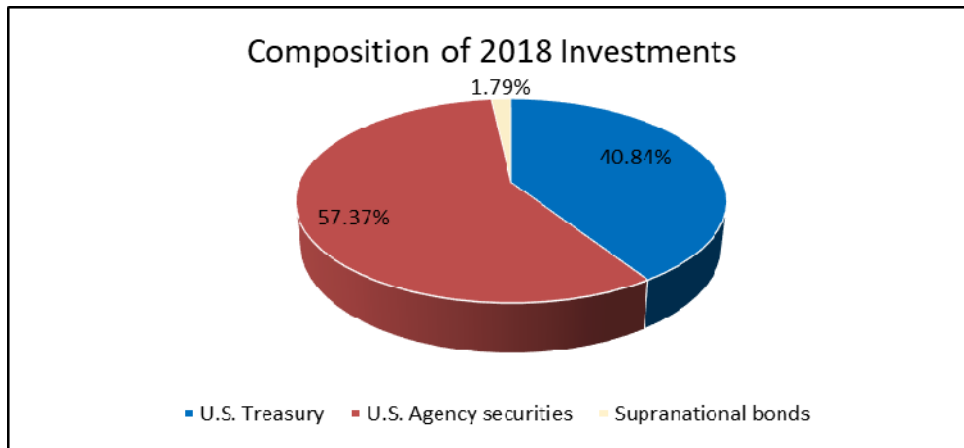
Expenses for the fiscal year ended June 30, 2018, were \$1.2 million, which was a \$.39 million increase from the prior year. Securities lending fees increased due to an increase in rebates from raising interest rates. The general and administrative expenses remained consistent and comparable.

2017 to 2016 Comparative Statements of Revenue, Expenses and Changes in Net Position

Total revenues for the fiscal year ended June 30, 2017, were \$1.8 million, which was a \$.1 million increase from fiscal year ended June 30, 2016. Securities lending income increased due to an increase on the return of invested collateral from raising interest rates. Investment income decreased even though investments increased due to an increase in realized and unrealized losses in fair market value of investments as securities held were at a lower stated interest rate than current market interest rates.

Expenses for the fiscal year ended June 30, 2017, were \$.8 million, which was a \$.3 million increase from fiscal year ended June 30, 2016. Securities lending income and fees increased due to increased activity of securities lending transactions and higher investment returns from raising interest rates. The general and administrative expenses remained consistent and comparable.

FINANCIAL ANALYSIS (CONTINUED)



CAPTIAL ASSET ADMINISTRATION

The Board’s investment in capital assets was \$31,300, \$55,400, and \$36,900 (net of accumulated depreciation) at June 30, 2018, 2017, and 2016 respectively. The investment in capital assets includes computer and office equipment.

	Capital Assets		
	June 30, 2018	June 30, 2017	June 30, 2016
Capital assets	\$276,200	\$305,600	\$262,300
Less: Accumulated Depreciation	<u>244,900</u>	<u>250,200</u>	<u>225,400</u>
Net	<u>\$ 31,300</u>	<u>\$ 55,400</u>	<u>\$ 36,900</u>

Additional information on the Board’s capital assets can be found in Note 4 to the financial statements on page 16 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Board’s finances. Questions concerning any of the information should be addressed to Indiana Board for Depositories, One North Capitol Ave., Suite 900, Indianapolis, IN 46204.

FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	2018	2017
CURRENT ASSETS		
Cash	\$ 1,774,529	\$ 720,241
Interest receivable	1,010,212	736,038
Prepaid expenses	11,514	10,695
Investments	193,275,962	82,608,628
Collateral from securities lending		2,035,000
Loan receivable	5,000,000	5,000,000
Total Current Assets	<u>201,072,217</u>	<u>91,110,602</u>
NONCURRENT ASSETS		
Investments	84,813,131	189,115,450
Loan receivable	20,000,000	25,000,000
Capital assets, net	31,293	55,368
Total Noncurrent Assets	<u>104,844,424</u>	<u>214,170,818</u>
TOTAL ASSETS	<u>305,916,641</u>	<u>305,281,420</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>21,659</u>	<u>33,148</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	62,175	74,398
Securities lending transactions		2,035,000
Total Current Liabilities	<u>62,175</u>	<u>2,109,398</u>
NONCURRENT LIABILITIES		
Pension liability	80,669	79,391
Total Noncurrent Liabilities	<u>80,669</u>	<u>79,391</u>
TOTAL LIABILITIES	<u>142,844</u>	<u>2,188,789</u>
DEFERRED INFLOWS OF RESOURCES	<u>6,218</u>	<u>9,815</u>
NET POSITION		
Net investment in capital assets	31,293	55,368
Unrestricted	305,757,945	303,060,596
TOTAL NET POSITION	<u>\$ 305,789,238</u>	<u>\$ 303,115,964</u>

See accompanying notes.

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

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUE		
Investment income	\$ 2,916,533	\$ 1,232,990
Securities lending income	945,233	561,405
Total Operating Revenue	<u>3,861,766</u>	<u>1,794,395</u>
OPERATING EXPENSES		
Securities lending fees	926,425	534,559
Salaries and wages	67,281	82,747
Employee benefits	25,131	40,577
Maintenance contracts	34,535	33,762
Depreciation	29,174	24,787
Professional fees	72,764	74,834
Office supplies	8,898	16,626
Travel	8,752	6,805
Rent	8,778	9,550
Other	6,754	5,365
Total Operating Expenses	<u>1,188,492</u>	<u>829,612</u>
INCREASE IN NET POSITION	2,673,274	964,783
NET POSITION		
Beginning of Year	<u>303,115,964</u>	<u>302,151,181</u>
End of Year	<u>\$ 305,789,238</u>	<u>\$ 303,115,964</u>

See accompanying notes.

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

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest	\$ 3,125,940	\$ 2,151,603
Cash received from securities lending	945,233	561,405
Cash payments to suppliers and employees	(1,163,190)	(770,648)
Net Cash Provided by Operating Activities	<u>2,907,983</u>	<u>1,942,360</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment from State of Indiana general fund	5,000,000	5,000,000
Purchase of investments	(305,184,631)	(157,772,959)
Proceeds from redemption of investments	298,330,936	150,041,294
Purchase of capital assets	(5,099)	(43,295)
Net Cash Used by Investing Activities	<u>(1,853,695)</u>	<u>(2,774,960)</u>
NET INCREASE (DECREASE) IN CASH	1,054,288	(832,600)
CASH		
Beginning of Year	<u>720,241</u>	<u>1,552,841</u>
End of Year	<u>\$ 1,774,529</u>	<u>\$ 720,241</u>
RECONCILIATION OF INCREASE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in net position	\$ 2,673,274	\$ 964,783
Adjustments to reconcile increase in net position to net cash provided by operating activities:		
Depreciation	29,174	24,787
Change in fair market value of investments	481,262	1,095,077
(Increase) decrease in certain assets and deferred outflows:		
Interest receivable	(274,174)	(196,408)
Prepaid expenses	(819)	(183)
Deferred outflows of resources related to pension	11,489	1,550
Increase (decrease) in certain liabilities and deferred inflows:		
Accounts payable and accrued expenses	(12,223)	39,623
Pension liability	1,278	(3,721)
Deferred inflows of resources related to pension	(3,597)	(3,092)
Net Cash Provided by Operating Activities	<u>\$ 2,907,983</u>	<u>\$ 1,922,416</u>

See accompanying notes.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Indiana Board for Depositories (the Board), a component unit of the State of Indiana (the State), was established by Indiana Code (IC) 5-13-12 to ensure 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 (PDIF). Effective December 13, 2010, the Board adopted a framework of collateralization requirements for institutions requiring collateral deposits for state and local funds held in deposit accounts for institutions with an elevated risk of failure. This collateral is based upon the financial condition of each institution, which requires the institutions to post deposits ranging from 0%, 50%, or 100% of their total public fund balance.

The Board of Directors consists of the Governor, the Treasurer of State, the Auditor of State, the Chairman of the Department of Financial Institutions, the Chief Examiner of the State Board of Accounts and four directors appointed by the Governor.

Basis of Presentation: The Board prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as applied to enterprise fund activities of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Board applies all applicable GASB pronouncements.

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. 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.

Cash includes cash on hand and bank deposit accounts. The Board maintains a cash balance in bank deposit accounts which, at times, may exceed federally insured limits. The Public Deposit Insurance Fund (PDIF) provides coverage for public funds in excess of the federally insured limit. To date, there have been no losses in such accounts.

Investments: Investments are recorded at fair value based on quoted market prices of the investment or similar investments. See Note 3. Change in the fair value of investments, including interest, amortization of premiums and discounts, and realized and unrealized gains and losses, are included in the statements of revenues, expenses and changes in net position. Investments traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Investments traded in the over-the-counter market, and listed investments for which no sale was reported on that date, are valued at the last reported bid price.

Loan Receivable: During 2004, the Board was required to transfer \$50,000,000 to the state general fund under Section 116(a) of Public Law 224-2003. Under Public Law 224-2003, the transfer constitutes an interest free loan from the Board. Under Public Law 93-2013 Sec. 4, the loan is to be repaid in annual increments of \$5,000,000, to be paid each July beginning July 2013. As of June 30, 2018 and 2017, the amount that was receivable from the state general fund was \$25,000,000 and \$30,000,000, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets are recorded at cost. Capital assets are defined as assets with an initial, individual cost or value of more than \$500 and an estimated useful life in excess of three years. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 7 years.

Deferred Outflows of Resources: The Board reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its statements of net position. Deferred outflows of resources reported at June 30, 2018, related to the defined benefit pension plan, including contributions made to the plan between the measurement date of the net pension liability and the end of the Board's fiscal year, changes in the Board's allocated proportion from the previous year, and differences between the Board's contributions to the plan and its proportionate share. The amounts related to changes in the Board's allocated proportion from the previous year and differences between the Board's contributions to the plan and its proportionate share are being amortized into pension expense over the average expected remaining service lives, except for the difference between expected and actual investment earnings, which is being amortized over five years.

Deferred Inflows of Resources: The Board's statement of net position reports a separate section for deferred inflows of resources, which reflects an increase in net assets that applies to future periods. Deferred inflows of resources reported at June 30, 2018, related to the defined benefit pension plan, including actual pension plan investment earnings in excess of the expected amounts and the difference between expected and actual experience on the pension plan included in determining pension expense. These amounts are being amortized into pension expense over the average expected remaining service lives, except for the difference between expected and actual investment earnings, which is being amortized over five years.

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

- **Net Investment in Capital Assets** includes capital assets net of the accumulated depreciation.
- **Unrestricted Net Position** reports the remaining difference between assets and liabilities.

Retirement Plan: The employees of the Board participate in the Indiana Public Retirement System (INPRS). The Board recognizes its proportionate share of the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense. See Note 7.

Advertising Costs are expensed as incurred. Advertising expenses amounted to \$524 in 2018 and \$394 in 2017.

Reclassifications: Certain amounts in the 2017 financial statements have been reclassified to conform to the presentation of the 2018 financial statements.

Subsequent Events: The Board has evaluated the financial statements for subsequent events occurring through December 12, 2018, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

According to IC 5-13-13-7(d), the Board may invest, reinvest, and exchange investments of the insurance fund in excess of the cash working balance in any of the following:

- 1) In bonds, notes, certificates, and other valid obligations of the United States.
- 2) In bonds, notes, debentures, and other securities issued by a federal agency or a federal instrumentality and fully guaranteed by the United States.
- 3) In bonds, notes, certificates, and other valid obligations of a state or of an Indiana political subdivision that are issued under law.
- 4) In bonds or other obligations of the Indiana Finance Board issued under IC 5-1.2.
- 5) In investments permitted the state under IC 5-13-10.5.
- 6) In guarantees of economic development obligations or credit enhancement obligations, or both.
- 7) In guarantees of bonds or notes issued under IC 5-1.5-4-1.
- 8) In bonds, notes, or other valid obligations of the Indiana Finance Board that have been issued in conjunction with the Board's acquisition, development, or improvement of property or other interests for an economic development project (as defined in IC 5-1.2-2).
- 9) In notes or other debt obligations of counties, cities, and towns that have been issued under IC 6-1.1-39 for borrowings from the industrial development fund under IC 5-28-9.
- 10) In bonds or other obligations of the Indiana Housing and Community Development Board.

IC 5-13-12-3 (a)(8) authorizes the Board to deposit all invested funds of the PDIF in a separate account or accounts in financial institutions that are designated as depositories to receive state funds under IC 5-13-9.5. The Board's deposits and investments at June 30, 2018 and 2017 are summarized as follows:

	2018	
	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 1,774,529	\$ 1,774,529
U.S. Treasury	113,565,371	113,571,130
U.S. Agency Securities	160,843,305	159,552,130
Supranational bonds	<u>4,965,833</u>	<u>4,965,833</u>
 Total Deposits and Investments	 <u>\$ 281,149,038</u>	 <u>\$ 279,863,622</u>
	 2017	
	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 720,241	\$ 720,241
U.S. Treasury	44,659,063	44,659,063
U.S. Agency Securities	213,079,575	212,076,865
Supranational bonds	<u>14,996,263</u>	<u>14,988,150</u>
 Total Deposits and Investments	 <u>\$ 273,455,142</u>	 <u>\$ 272,444,319</u>

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

Custodial risk is the risk that in the event of bank failure, the Board's deposits may not be returned to it. The Board's cash is insured by Federal Deposit Insurance Board (FDIC). From time to time, certain cash balances maintained by the Board exceed federally insured limits. The PDIF provides coverage for public funds in excess of the federally insured limit.

Investments

Investments are used to support the PDIF, which insures the safekeeping and prompt payment of all public funds deposited in any depository, to the extent they are not covered by insurance of any deferral depository insurance agency.

Interest Rate Risk

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

As of June 30, 2018 and 2017, the Board had investments with maturities as follows:

<u>Investment Type</u>	<u>2018</u> <u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>
U.S. Treasury	\$113,571,130	\$113,571,130	
U.S. Agency Securities	159,552,130	74,738,999	\$ 84,813,131
Supranational bonds	4,965,833	4,965,833	
Totals	<u>\$278,089,093</u>	<u>\$193,275,962</u>	<u>\$ 84,813,131</u>

<u>Investment Type</u>	<u>2017</u> <u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>
U.S. Treasury	\$ 44,659,063	\$ 44,659,063	
U.S. Agency Securities	212,076,865	32,957,965	\$179,118,900
Supranational bonds	14,988,150	4,991,600	9,996,550
Totals	<u>\$271,724,078</u>	<u>\$ 82,608,628</u>	<u>\$189,115,450</u>

Custodial Credit Risk of Investments

Custodial credit risk is the risk that the Board will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of the Board, and are held by either the counterparty or the counterparty's trust department or agent but not in the Board's name. The Board has no custodial risk on investments.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk Disclosure

The following table provides information on the credit ratings associated with the Board's investments as of June 30, 2018:

Credit Ratings	S & P	Fitch	Moody's	Fair Value
U.S. Agency Securities	AA+	AAA	Aaa	\$ 159,552,130
Supranational bonds	AAA	AAA	AAA	<u>4,965,833</u>
Total Rated Investments				<u>\$ 164,517,963</u>

Concentration of Credit Risk

As a means of limiting its exposure to credit risk, the Board cannot deposit funds in any one designated depository in an amount aggregating at any one time more than 50% of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the Treasurer of State. Additionally, for investments other than a State of Indiana agency bond, the maximum investment is 25% for investment with maturities two to five years.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Board has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Board has the ability to access.

Level 2 – Inputs to the valuation methodology may include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and/or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the Board makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used by the Board for assets and liabilities that are measured at fair value on a recurring basis. There have been no changes in the methodologies used at June 30, 2018.

U.S. Agency Securities and U.S. Treasury: Valued using pricing models maximizing the use of observable inputs for similar securities.

Supranational Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issues with similar credit ratings.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Board's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of these assets and liabilities could result in a different fair value measurement at the reporting date.

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of the Board's assets that are measured at fair value on a recurring basis as of June 30, 2018 and 2017:

2018	Level 2	Total
U.S. Treasury	\$ 113,571,130	\$ 113,571,130
U.S. Agency securities	159,552,130	159,552,130
Supranational bonds	<u>4,965,833</u>	<u>4,965,833</u>
Investments at Fair Value	<u>\$ 278,089,093</u>	<u>\$ 278,089,093</u>
2017	Level 2	Total
U.S. Treasury	\$ 44,659,063	\$ 44,659,063
U.S. Agency securities	212,076,865	212,076,865
Supranational bonds	<u>14,988,150</u>	<u>14,988,150</u>
Investments at Fair Value	<u>\$ 271,724,078</u>	<u>\$ 271,724,078</u>

At June 30, 2018 and 2017, the Board had no other assets or liabilities that are measured at fair value on a recurring basis.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2018 and 2017 was as follows:

2018	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets:				
Computer equipment	\$ 299,442	\$ 5,099	\$ (34,468)	\$ 270,073
Office equipment	6,104			6,104
Total Depreciable Capital Assets	305,546	5,099	(34,468)	276,177
Less: Accumulated depreciation	250,178	29,174	(34,468)	244,884
Total Capital Assets, net	<u>\$ 55,368</u>	<u>\$ (24,075)</u>	<u>\$ -</u>	<u>\$ 31,293</u>
2017	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets:				
Computer equipment	\$ 256,147	\$ 43,295	\$ -	\$ 299,442
Office equipment	6,104			6,104
Total Depreciable Capital Assets	262,251	43,295		305,546
Less: Accumulated depreciation	225,391	24,787		250,178
Total Capital Assets, net	<u>\$ 36,860</u>	<u>\$ 18,508</u>	<u>\$ -</u>	<u>\$ 55,368</u>

NOTE 5 - 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 ten million dollars, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50% of the combined capital, surplus, and undivided profits of that depository as determined by the last published statement.

IC 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) non-cash collateral if the State is indemnified by the custodian holding the non-cash collateral; in excess of the total market value of the loaned securities.

Collateral securities and cash are initially pledged at 102% 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 difference of maturities generally 0-15 days. At December 31, 2016, the Board had no credit risk exposure to borrowers because the amount the Board owes the borrowers was exceeded by the amounts the borrowers owe the Board due to the requirement for 102% collateral. At December 31, 2017, there were no securities lent out.

NOTE 6 - OPERATING LEASE COMMITMENTS

The Board leases office space under a non-cancelable operating lease which expires in March 2021. The rent expense charged to operations is \$8,778 and \$9,550 for 2018 and 2017, respectively. Future minimum rental payments required under this lease is as follows at June 30, 2018:

Year Ended June 30,	Rentals
2019	\$11,264
2020	11,489
2021	<u>8,745</u>
Total	<u>\$31,498</u>

NOTE 7 - BENEFIT PLAN

Plan Description

The Board contributed to the Public Employees' Retirement Fund (PERF), which is administered by INPRS as a cost-sharing, multiple-employer defined benefit plan. PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, or township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two tiers to PERF. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the My Choice: Retirement Savings Plan for Public Employees (My Choice), formerly known as the Public Employees' Annuity Savings Account Only Plan. The Board does not participate in MyChoice.

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. There are two aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at 3% of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10% of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' ASA are self-directed and controlled by plan participants who direct the investment of their account balances among eight investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may make changes to their investment directions daily and investments are reported at fair value.

NOTE 7 - BENEFIT PLAN (CONTINUED)

Funding Policy

The State is obligated by statute to make contributions to the PERF Hybrid Plan or My Choice. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the Plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During the fiscal year ended June 30, 2017, all participating employers were required to contribute 11.2% of covered payroll for members employed by the State and Political Subdivisions.

For My Choice, the State was also required to contribute 11.2% of covered payroll. In accordance with IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than three percent and not be greater than the normal cost of the fund which was 2.2% for the State for the fiscal year ended June 30, 2017 and any amount not credited to the member's account shall be applied to the pooled assets of PERF Hybrid Plan. The political subdivisions were required to contribute a supplemental cost of 5.4% of covered payroll as of July 1, 2016, which increased to 7.2% as of January 1, 2017. In addition, for political subdivisions, the amount credited to the member's account for the normal cost ranged up to 5.8% as of July 1, 2016, and up to four percent as of January 1, 2017.

The PERF Hybrid Plan and My Choice members contribute three percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The State pays the member's contributions on behalf of the member employed by the State that participate in My Choice. Political subdivisions may choose to pay part or all of the member's contributions on behalf of the member for My Choice. In addition, members of PERF Hybrid and My Choice may elect to make additional voluntary contributions, under certain criteria, of up to 10% of their compensation into their annuity savings accounts. Political subdivisions that participate in My Choice may elect to match voluntary contributions at a rate of 50%.

Retirement Benefits – Defined Benefit Pension

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's ASA. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six months in a covered position may reclaim his/her forfeited creditable service.

NOTE 7 - BENEFIT PLAN (CONTINUED)

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1% times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four consecutive calendar quarters. The same calendar quarter may not be included in two different groups. For PERF members who serve as an elected official, the highest one year (total of four consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100% of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89%. This amount is reduced five percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44%.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2017; however, eligible members received a one-time check (a.k.a. 13th check) in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.inprs.in.gov/>. Detailed information about the Plan's fiduciary net position is included in the INPRS financial report.

NOTE 7 - BENEFIT PLAN (CONTINUED)

Investment Valuation and Benefit Payment Policies

The pooled and non-pooled investments are reported at fair value by INPRS.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

Significant Actuarial Assumptions

The total pension liability is determined by INPRS actuaries as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. In 2017, the following actuarial assumptions and methods were changed: updated the mortality tables to include both a healthy and disabled table for each plan, implemented changes due to the actuarial audits for consistency across all plans, and added a load on final average salary of \$400 to reflect unused sick leave accumulated at termination of employment for active and inactive PERF members.

The accompanying Schedule of Contributions in the Required Supplementary Information presents trend information about the amounts contributed to the plan by employers and a nonemployer contributing entity in comparison to the Actuarially Determined Contribution (ADC). The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and the amortization of any unfunded actuarial accrued liability (or funding excess).

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly-hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

NOTE 7 - BENEFIT PLAN (CONTINUED)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

Asset valuation date:	June 30, 2017
Liability valuation date and method:	June 30, 2017 - Member census data as of June 30, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Standard actuarial roll forward techniques were then used to project the liability computed as of June 30, 2016 to the June 30, 2017 measurement date.
Actuarial cost method:	Entry age normal - level percent of payroll
Experience study date:	Computed April 2015 and reflects the experience period from July 1, 2010 to June 30, 2014
Investment rate of return:	6.75%
COLA:	1.0%
Future salary increases, including inflation:	2.50% - 4.25%
Inflation:	2.25%
Mortality - Healthy:	RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2006
Mortality - Disabled:	RP-2014 Disabled Mortality Table, with Social Security Administration generational improvement scale from 2006

The long-term return expectation for the defined benefit retirement plan has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

	Target Allocation	Geometric Basis Long-term Expected Real Rate of Return
Public Equity	22.0%	4.9%
Private equity	14.0%	5.7%
Fixed income – Ex inflation-linked	20.0%	2.3%
Fixed income – Inflation-linked	7.0%	0.6%
Commodities	8.0%	2.2%
Real estate	7.0%	3.7%
Absolute return	10.0%	3.9%
Risk parity	12.0%	5.1%

NOTE 7 - BENEFIT PLAN (CONTINUED)

Total pension liability for the Plan was calculated using the discount rate of 6.75%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75%). Based on those assumptions, the Plan's fiduciary net position were projected to be available to make all projected future benefit payments of current Plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for the Plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of the Plan calculated using the discount rate of 6.75%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75 percent), or one percentage point higher (7.75%) than the current rate:

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
<u>\$117,653</u>	<u>\$80,669</u>	<u>\$49,926</u>

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

At June 30, 2018, the Board reported a liability of \$80,669 for its proportionate share of the net pension liability. The Board's proportionate share of the net pension liability was based on the Board's wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2017 measurement date was 0.00181%.

For the year ended June 30, 2018, the Board recognized pension expense of \$14,702, which includes expenses from the net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of (\$1,244). At June 30, 2018 and 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,533	\$ 63	\$ 1,779	\$ 146
Net differences between project and actual earnings on pension plan investments	12,762	4,045	17,462	4,467
Changes of assumptions	1,296		3,503	
Changes in proportion and differences between the Board's contributions and proportionate share of contributions	<u>3,132</u>	<u>2,110</u>	<u>364</u>	<u>5,202</u>
Total that will be recognized in pension expense based on table below	18,723	6,218	23,108	9,815
Pension contribution subsequent to measurement date	<u>2,936</u>		<u>10,040</u>	
Total	<u>\$21,659</u>	<u>\$6,218</u>	<u>\$33,148</u>	<u>\$9,815</u>

NOTE 7 - BENEFIT PLAN (CONTINUED)

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

Year Ending June 30,	Amount
2018	\$ 4,262
2019	6,719
2020	1,955
2021	<u>(434)</u>
	<u>\$12,502</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (UNAUDITED)**

**PUBLIC EMPLOYEES' RETIREMENT FUND
Last 10 Fiscal Years***

	2017	2016	2015	2014	2013
Board's proportion of the net pension liability	0.00181%	0.00175%	0.00204%	0.00215%	0.00223%
Board's proportionate share of the net pension liability	\$ 80,669	\$ 79,391	\$ 83,112	\$ 56,511	\$ 76,530
Board's covered-employee payroll	\$ 89,277	\$ 83,948	\$ 102,000	\$ 104,863	\$ 107,366
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	90.36%	94.57%	81.48%	53.89%	71.28%
Plan fiduciary net position as a percentage of the total pension liability	76.65%	75.35%	77.35%	84.30%	78.80%

*The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2013 for GASB Statement No. 68 purposes.

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

SCHEDULE OF BOARD CONTRIBUTIONS (UNAUDITED)

**PUBLIC EMPLOYEES' RETIREMENT FUND
Last 10 Fiscal Years***

	2017	2016	2015	2014	2013
Contractually required contribution	\$ 10,040	\$ 9,402	\$ 11,424	\$ 11,745	\$ 12,759
Contributions in relation to the contractually required contribution	<u>\$ 10,040</u>	<u>\$ 9,402</u>	<u>\$ 11,424</u>	<u>\$ 11,745</u>	<u>\$ 12,759</u>
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered-employee payroll	\$ 89,278	\$ 83,948	\$ 102,000	\$ 104,863	\$ 107,366
Contributions as a percentage of covered-employee payroll	11.2%	11.2%	11.2%	11.2%	11.9%

*The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2013 for GASB Statement No. 68 purposes.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2018 and 2017

SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)

Plan Amendments: In 2017, there were no changes to the Plan that impacted the pension benefits during the fiscal year.

Assumption Changes: In 2017, there were no significant changes to the assumptions that impacted the Net Position Liability during the fiscal year.

SCHEDULE OF THE BOARD'S CONTRIBUTIONS (UNAUDITED) (a)

Methods and Assumptions Used in Calculating Actuarially Determined Contributions: The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution Rates:

Asset valuation date and method:	June 30, 2016 - Four year smoothing of gains and losses on the Fair Value of assets subject to a 20% corridor
Liability valuation date and method:	June 30, 2014 - Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial roll forward techniques were then used to project the liability computed as of June 30, 2014 to the June 30, 2015 measurement date.
Actuarial cost method:	Entry age normal - level percent of payroll
Actuarial amortization method and period:	Level dollar - 30 years, closed
Remaining amortization period (weighted):	26 years
Investment rate of return:	6.75%
COLA:	1.0%
Future salary increases, including inflation:	2.50% - 4.25%
Inflation:	2.25%

(a) Differs from Note 7 schedule as this table is for funding purposes and Note 7 is for financial reporting purposes. The Actuarially Determined Contributions in a given year are determined based on the actuarial valuation dated two fiscal years prior.

Trends: In 2015, an experience study was performed resulting in an update to several assumptions. These assumption changes included a change in the mortality assumptions, retirement assumptions, withdrawal assumptions, disability assumptions, ASA annuitization assumptions, dependent assumptions, future salary increase assumptions, inflation assumptions and COLA assumptions.

OTHER REPORT

*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 Board for Depositories

We have audited, in accordance with the auditing standards generally accepted in the United States of America, 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 Indiana Board for Depositories (the Board), a component unit of the State of Indiana, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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. 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of 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*.

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.

Katy, Sapper & Miller, LLP

Indianapolis, Indiana
December 12, 2018