INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

Financial Statements

Years Ended June 30, 2011 and 2010

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

CONTENTS

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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, 2011 and 2010, 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2011 and 2010, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. Additional information is presented for purposes of further analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2011, on our consideration of the Indiana Board for Depositories's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

London Witte Group, LLC

October 15, 2011

Management Discussion and Analysis

June 30, 2011 and 2010

This section of the Indiana Board for Depositories' (the Board) annual financial report presents Management's discussion and analysis of the Board's financial performance during the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Board's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The Board generated operating income of $488,600 for fiscal year 2011 and $2,369,600 for fiscal year 2010.
- The Board made a transfer to the police and firefighter pension relief fund in the amount of $2,369,600 and $8,238,600 during the fiscal years ended June 30, 2011 and 2010, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL ANALYSIS OF THE BOARD

The following table is a condensed summary of financial information for the year ended June 30, 2011, 2010 and 2009:

	2011	2010	2009
Net assets			
Current assets	$144,663,300	$202,143,700	$273,538,200
Noncurrent assets	155,840,600	101,169,400	157,434,700
Total assets	300,503,900	303,313,100	430,972,900
Current liabilities	31,200	959,300	122,750,200
Noncurrent liabilities	-	-	-
Total liabilities	31,200	959,300	122,750,200
Total net assets	300,472,700	302,353,800	308,222,700
Change in net assets			
Operating revenues	985,800	2,796,200	10,035,800
Operating expenses	497,200	426,600	1,797,200
Operating income	488,600	2,369,600	8,238,600
Transfers	(2,369,600)	(8,238,600)	(14,616,700)
Change in net assets	($1,881,000)	($5,869,000)	($6,378,100)

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

The largest components of current assets are cash, and investments that will be maturing during the upcoming fiscal year. Also included in current assets is interest receivable and accounts receivable. Current assets for 2011 have decreased approximately $57,480,400 with the largest decrease occurring in short term investments which decreased approximately $55,360,800, followed by a decrease in cash which decreased approximately $1,184,500. Comparing 2010 to 2009, current assets decreased approximately $71,394,500 with the largest decrease occurring in collateral from securities lending which decreased approximately $121,751,200, followed by a decrease in cash which decreased approximately $29,758,600. The offsetting increase of $80,359,700 was in short term investments.

Noncurrent assets consist of long-term investments, a loan receivable and capital assets. Long-term investments have increased during 2011 by $54,671,200. During fiscal year 2010, long term investments had decreased approximately $56,265,300. The fluctuations noted above are primarily a result of the change in the composition of the investments made through the Board's account with the Bank of New York. During fiscal year 2004, the Board transferred $50,000,000 to the State of Indiana's general fund in compliance with Public Law 224-2003 Section 116 (a) for an interest free loan. This has been recorded as a long term loan receivable.

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

Net assets are reported in three categories and as of June 30, 2011 and 2010, $16,100 and $27,300 respectively is invested in capital assets, $488,600 and $2,369,600 respectively of net assets are restricted for the future transfer to the police and firefighter pension relief fund and $299,968,000 and $299,956,900 respectively are unrestricted net assets.

Operating revenues consist of interest income earned on investments and income from securities lending transactions. Investment income decreased $1,774,400 in 2011 and decreased approximately $5,585,600 in 2010. Income from security lending has decreased approximately $36,000 in 2011 and decreased approximately $1,654,000 in 2010. Both decreases in 2011 and 2010 are in large part a result of the falling interest rates. The largest operating expenses include professional fees, payroll, and the borrower's rebate on securities lending. For 2011, the largest change was an increase of approximately $73,400 which was in professional fees. For 2010, the largest change was a decrease of approximately $1,174,300 in the borrower's rebate on securities lending.

The transfers made to the police and firefighter pension fund during the fiscal years ended June 30, 2011 and 2010 were $2,369,600 and $8,238,600, respectively and the amount that will be transferred to the fund in December 2011 based upon the current year earnings will be $488,600. 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 $97,931,300.

INDIANA BOARD FOR DEPOSITORIES

(A Component Unit of the State of Indiana)

Statements of Net Assets

June 30, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 968,689	$ 2,153,140
Accounts receivable	70	0
Investments maturing in one year	143,100,980	198,461,768
Interest receivable	593,567	604,740
Collateral from securities lending	0	924,081
TOTAL CURRENT ASSETS	144,663,306	202,143,729
INVESTMENTS	105,820,082	51,139,060
LOAN RECEIVABLE	50,000,000	50,000,000
PREPAID EXPENSES	4,380	3,001
CAPITAL ASSETS, NET	16,147	27,274
TOTAL ASSETS	300,503,915	303,313,064

LIABILITIES

	2011	2010
CURRENT LIABILITIES		
Accounts payable	27,675	32,208
Accrued expenses	3,492	3,034
Securities lending transactions	0	924,081
TOTAL CURRENT LIABILITIES	31,167	959,323

NET ASSETS

	2011	2010
Invested in capital assets	16,147	27,274
Restricted for police and firefighter pension fund distribution	488,564	2,369,557
Unrestricted	299,968,037	299,956,910
TOTAL NET ASSETS	$ 300,472,748	$ 302,353,741

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, 2011 and 2010

	Amount		Percent	
	2011	2010	2011	2010
OPERATING REVENUES				
Investment income	$ 947,021	$ 2,721,413	96.1	97.3
Securities lending income	38,749	74,781	3.9	2.7
TOTAL OPERATING REVENUE	985,770	2,796,194	100.0	100.0
OPERATING EXPENSES				
Securities lending fees	35,595	41,285	3.6	1.5
Salaries and wages	156,862	157,784	15.9	5.6
Employee benefits	43,168	40,392	4.4	1.4
Maintenance contracts	30,103	35,143	3.1	1.3
Depreciation	20,613	3,845	2.1	0.1
Professional fees	169,005	95,634	17.1	3.4
Office supplies	7,860	13,491	0.8	0.5
Travel	959	4,145	0.1	0.1
Rent	20,005	23,341	2.0	0.8
Other	13,036	11,577	1.3	0.4
TOTAL OPERATING EXPENSES	497,206	426,637	50.4	15.1
OPERATING INCOME	488,564	2,369,557	49.6	84.9
TRANSFERS				
Police and firefighter pension relief fund	(2,369,557)	(8,238,558)	(240.4)	(294.6)
CHANGE IN NET ASSETS	(1,880,993)	(5,869,001)	(190.8)	(209.7)
NET ASSETS, BEGINNING OF YEAR	302,353,741	308,222,742		
NET ASSETS, END OF YEAR	$ 300,472,748	$ 302,353,741		

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

(A Component Unit of the State of Indiana)

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 38,679	$ 75,830
Cash paid to suppliers and vendors	(482,047)	(454,463)
Interest received	2,138,212	4,157,983
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,694,844	3,779,350
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of furniture and equipment	0	(10,173)
Proceeds from sale of equipment	(9,486)	0
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(9,486)	(10,173)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(93,635,000)	(28,300,000)
Proceeds from redemption of investments	37,773,960	83,370,453
Purchases/proceeds from short-term investments, net	55,360,788	(80,359,717)
Transfer to the police and firefighter pension fund	(2,369,557)	(8,238,558)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,869,809)	(33,527,822)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,184,451)	(29,758,645)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,153,140	31,911,785
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 968,689	$ 2,153,140

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

(A Component Unit of the State of Indiana)

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$ 488,564	$ 2,369,557
Non-cash items		
Depreciation	20,613	3,845
Change in FMV of investments	1,180,018	1,193,284
Decrease (increase) in assets		
Accounts receivable	(70)	1,049
Interest receivable	11,173	243,286
Prepaid expenses	(1,379)	8,018
Increase (decrease) in liabilities		
Accounts payable	(4,533)	(39,709)
Accrued expenses	458	20
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 1,694,844	$ 3,779,350

The accompanying notes are an integral part of these statements.

1) Summary of significant accounting policies

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

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

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

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of these notes is organized to provide explanations, including required disclosure, of the Board's financial activities for the years ended June 30, 2011 and 2010.

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 5-13-10.5-10 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.

1) Summary of significant accounting policies (continued)

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.

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. Office equipment, furniture, camera equipment, and computer software is depreciated over 5 years and computer equipment is depreciated over 3 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.

1) Summary of significant accounting policies (continued)

During 2004, the Board was required to cause $50,000,000 to the state general fund under Section 116(a) of Public Law 224-2003. Under Public Law 224, the transfer constitutes an interest free loan from the Board and the loan is to be repaid prior to January 1, 2013. Public Law 229-2011 extended the repayment date of the loan to January 1, 2023. As of June 30, 2011 and 2010, the amount that was receivable from the state general fund was $50,000,000.

Collateralization – Effective September 23, 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 25% to 100% of their total public fund balance.

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 $829 and $542 were made during 2011 and 2010, 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.

Subsequent Events – Subsequent events have been evaluated through October 15, 2011, the date of which these financial statements were available for distribution.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

2) Investments

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

As of June 30, 2011, the Board had the following investments and maturities:

		Investment Maturities (In Years)		
Investment Type	Total	Less Than 1	1-5	6-10
U.S. agencies	$ 243,951,062	$ 143,100,980	$ 100,850,082	$ 0
State of Indiana agency bond	4,970,000	0	4,970,000	0
Total fair value	248,921,062	143,100,980	105,820,082	0
Difference in cost and fair value	0	0	0	0
Total carrying amount	$ 248,921,062	$ 143,100,980	$ 105,820,082	$ 0

As of June 30, 2010, the Board had the following investments and maturities:

		Investment Maturities (In Years)		
Investment Type	Total	Less Than 1	1-5	6-10
U.S. Treasuries	$ 19,670,037	$ 19,670,037	$ 0	$ 0
U.S. agencies	224,931,399	178,791,731	46,139,668	0
State of Indiana agency bond	4,889,400	0	4,889,400	0
Total fair value	249,490,836	198,461,768	51,029,068	0
Difference in cost and fair value	109,992	0	109,992	0
Total carrying amount	$ 249,600,828	$ 198,461,768	$ 51,139,060	$ 0

The following table provides information on the credit ratings, as of June 30, 2011, associated with the Board's investments that are not an investment in or guaranteed by U.S. government debt. Investments in the U.S. Government are not considered to have credit risk and therefore a credit rating does not need to be disclosed. The State of Indiana agency bond is secured by a U.S. Treasury STRIP as described in Note 1.

2) Investments (continued)

	Fair Value	S&P Rating	Fitch Rating	Moody's Rating
U.S. agencies	$ 243,951,062	AAA	AAA	Aaa

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 maximum investment is 25% for investment with maturities two to five years.

3) Capital assets, net

Capital assets, net consist of the following for the year ending June 30, 2011:

	Beginning Balance	Increases	Decreases	Ending Balance
Cost				
Computer equipment	$ 203,344	$ 10,541	$ (15,003)	$ 198,882
Office equipment	9,202	1,125	0	10,327
Total, capital assets being depreciated	212,546	11,666	(15,003)	209,209
Less accumulated depreciation	185,272	20,613	(12,823)	193,062
Total capital assets, net	$ 27,274	$ (8,947)	$ (2,180)	$ 16,147

Capital assets, net consist of the following for the year ending June 30, 2010:

	Beginning Balance	Increases	Decreases	Ending Balance
Cost				
Computer equipment	$ 194,656	$ 8,688	$ 0	$ 203,344
Office equipment	7,717	1,485	0	9,202
Total, capital assets being depreciated	202,373	10,173	0	212,546
Less accumulated depreciation	181,427	3,845	0	185,272
Total capital assets, net	$ 20,946	$ 6,328	$ 0	$ 27,274

Depreciation expense charged to operations was $20,613 for 2011 and $3,845 for 2010. The depreciation policies followed were described in Note 1.

4) Fair value measurement

The Board follows generally accepted accounting principles relating to accounting for fair value measurements and disclosures. These principles define fair value, establish a framework for measuring fair value and expand disclosures on fair value measurement. The required disclosure surrounding the various inputs that are used in determining the fair value of the Pool's investments are summarized into the three broad levels listed below.

- Level 1 — quoted prices in active markets for identical securities
- Level 2 — other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 — significant unobservable inputs (including the Pool's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used as of June 30, 2011 and 2010 in valuing the Pool's assets and liabilities. Level 1 investments consist of money market funds valued at the current day's closing net assets value per share. Level 3 investments are carried at amortized cost which approximates fair value:

	Description	Total	Level 1	Level 2	Level 3
2011	Investments at value	$248,921,062	$0	$248,921,062	$0
2010	Investments at value	$249,490,835	$19,670,037	$229,820,779	$0

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

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.

5) Securities lending transactions (continued)

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 mismatch of maturities generally 0-15 days. 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.

6) 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, 2011 and 2010, 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 2021, 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 2011 and 2010 was $2,369,558 and $8,238,558, respectively and the amount expected to be transferred during December 2011 is $488,564.

7) 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.

7) Pension plan (continued)

Employer contributions for the years ended June 30, 2011 and 2010 were $16,341 and $14,944, respectively. Separate information concerning the accumulated benefit obligation and actuarially determined benefit obligation is not material to the financial position of the Board and, accordingly, is not presented.

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

In addition, the employees may 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.

8) Operating lease

The Board leases office space under a non-cancelable lease with terms to expire in 2015. The following is a schedule of the future minimum rentals under the lease as of June 30, 2011.

Year ended June 30			
	2012	$	22,988
	2013		23,568
	2014		24,149
	2015		24,729
Total minimum lease payments		$	95,434

The aggregate rental expense charged to operations is $20,005 for 2011 and $23,341 for 2010.

9) Payments made on behalf of the Indiana Education Savings Authority

The Board is allowed through legislation to pay expenses of the Indiana Education Savings Authority (the "Authority") through the year 2021. The Board currently pays the salary of the executive director of the CollegeChoice 529 Investment Plan, the entire lease payment for the office space that the Board and the Authority share, as well as, some of the Authority's legal fees. These expenses were $96,360 for 2011 and $99,732 for 2010.

10) Income taxes

The Board is not subject to federal, state, or local income taxes, and accordingly, no provision has been made. No interest or penalties have been included in these statements.

LWG | LONDON WITTE GROUP

October 15, 2011

To the Board of Directors of
Indiana Board for Depositories

We have audited the financial statements of Indiana Board for Depositories as of and for the year ended June 30, 2011, and have issued our report thereon, dated October 15, 2011. We conducted our audits in accordance with generally accepted auditing standards and the government auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Indiana Board for Depositories's financial statements are free of material misstatement, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of Indiana Board for Depositories's compliance with such provisions of laws, regulations, contracts, and grants.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Indiana Board for Depositories's internal control over financial reporting 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 over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Indiana Board for Depositories's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

> There is an absence of appropriate segregation of duties in certain accounting areas consistent with control objectives. However, the hiring of additional employees in order to segregate the duties may not be economically practical for the benefit to be derived.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting would not necessarily disclose all matters in the internal control that might have reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information of the audit committee, management, the Rural Utilities Service, and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

London Witte Group, LLC

London Witte Group, LLC