

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

***Financial Statements***

***Years Ended June 30, 2014 and 2013***

# INDIANA BOARD FOR DEPOSITORIES

## (A COMPONENT UNIT OF THE STATE OF INDIANA)

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## Independent Auditor's Report

To the Board of Directors of Indiana Board for Depositories

We have audited the accompanying financial statements of Indiana Board for Depositories (A Component Unit of the State of Indiana), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenditures, and changes in net position, and cash flows for the years 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.

### *Auditor's Responsibility*

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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditor's 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 auditor considers 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 significant accounting estimates made by management as well as evaluating the overall presentation of financial statements.

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

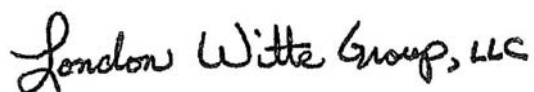
### *Opinion*

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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

Accounting principles generally accepted in the United States of America require that that management's discussion and analysis information on pages 3-5 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 the 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 responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we have issued our report dated October 13, 2014 on our consideration of Indiana Board for Depositories' internal control over financial reporting and 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.

A handwritten signature in black ink that reads "London Witte Group, LLC". The signature is written in a cursive, flowing style.

London Witte Group, LLC  
Indianapolis, Indiana  
October 13, 2014

# **INDIANA BOARD FOR DEPOSITORIES**

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## **Management Discussion and Analysis**

**June 30, 2014 and 2013**

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This section of the Indiana Board for Depositories' (the Board) annual financial report presents Management's discussion and analysis of the Board's financial performance during the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Board's financial statements and accompanying notes.

### **FINANCIAL HIGHLIGHTS**

- The Board generated operating income of \$393,100 for fiscal year 2014 and \$156,600 for fiscal year 2013.
- The Board made transfers to the police and firefighter pension relief fund in the amounts of \$0 and \$431,300 during the fiscal years ended June 30, 2014 and 2013, 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position provide information about the Board's financial status. The Statement of Net Position includes all of the Board's assets and liabilities and the Statement of Revenues, Expenses, and Changes in Net Position report all of the revenues and expenses during the time period. The Statement of Cash Flows reports the cash provided and used by operating activities as well as other cash sources and uses. The financial statements also include notes that explain and support the information in the financial statements.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Management Discussion and Analysis

June 30, 2014 and 2013

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### FINANCIAL ANALYSIS OF THE BOARD

The following table is a condensed summary of financial information for the year ended June 30, 2014, 2013 and 2012:

|                               | <u>2014</u>        | <u>2013</u>        | <u>2012</u>        |
|-------------------------------|--------------------|--------------------|--------------------|
| <b>Net position</b>           |                    |                    |                    |
| <b>Total assets</b>           | 300,551,900        | 300,158,800        | 300,468,900        |
| <b>Total liabilities</b>      | 18,000             | 18,100             | 53,400             |
| <b>Total net position</b>     | <u>300,533,900</u> | <u>300,140,700</u> | <u>300,415,500</u> |
| <b>Change in net position</b> |                    |                    |                    |
| Operating revenues            | 741,500            | 557,700            | 703,100            |
| Operating expenses            | <u>348,400</u>     | <u>401,100</u>     | <u>278,500</u>     |
| <b>Operating income</b>       | 393,100            | 156,600            | 424,600            |
| <b>Transfers</b>              | <u>-</u>           | <u>(431,300)</u>   | <u>(481,900)</u>   |
| <b>Change in net position</b> | <u>\$393,100</u>   | <u>(\$274,700)</u> | <u>(\$57,300)</u>  |

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

The largest components of assets are cash, investments and loan receivable. Also included in assets are interest receivable, prepaid expenses and capital assets. Assets for 2014 have increased approximately \$393,100 with the largest increases occurring in cash and cash equivalents and investments of approximately \$2,289,600 and \$3,247,400, respectively. These increases were offset by a decrease in the loan receivable of \$5,000,000. Comparing 2013 to 2012, assets decreased approximately \$310,100 with the largest decrease occurring in cash and cash equivalents, which decreased approximately \$1,139,800 and offset by an increase in investments of approximately \$1,123,300.

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 loan receivable. On June 13<sup>th</sup>, 2011, the Board adopted Public Law 229-2011, Section 227 extending the interest free loan from 2013 to 2023. Public Law 93-2013, Section 4 stipulates that the loan shall be paid in ten (10) equal installment payments of \$5,000,000 made each July, beginning July 2013 and ending July 2022.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Management Discussion and Analysis

June 30, 2014 and 2013

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Similarly, liabilities are comprised of accounts payable and accrued payroll liabilities. During the fiscal year 2014, liabilities marginally decreased from the prior year.

Net position is reported in two categories and as of June 30, 2014 and 2013, \$12,500 and \$23,200, respectively, is invested in capital assets, and \$300,521,400 and \$300,117,500, respectively, are unrestricted.

Operating revenues consist of interest income earned on investments and income from securities lending transactions. Investment income increased \$157,000 in 2014 and decreased \$177,300 in 2013. Income from security lending increased approximately \$26,900 in 2014 and increased approximately \$31,800 in 2013. The increase in investment income is largely due to an increase in fair market value (FMV) of investments. FMV for 2014 and 2013 was \$262,100 and \$36,100, respectively. The largest of operating expenses includes professional fees and payroll. For 2014, the largest change was a decrease of approximately \$78,200 in professional fees. The decrease in professional fees is attributed to the risk assessment actuarial study performed in 2013. This risk assessment study resulted in an increase in profession fees of approximately \$90,900 for the 2013 fiscal year.

The transfers made to the police and firefighter pension fund during the fiscal years ended June 30, 2014 and 2013 were \$0 and \$431,300, respectively. As of July 1, 2013, no further transfers were made to the police and firefighter pension relief fund. The total that has been transferred to aid Indiana communities for police and firefighter pensions since June 30, 2001 is \$98,356,000.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Statements of Net Position

June 30, 2014 and 2013

### ASSETS

|                           | <u>2014</u>        | <u>2013</u>        |
|---------------------------|--------------------|--------------------|
| Cash and cash equivalents | \$ 2,991,052       | \$ 701,455         |
| Other accounts receivable | 848                | -                  |
| Interest receivable       | 189,991            | 324,369            |
| Prepaid expense           | 6,473              | 6,145              |
| Investments               | 252,351,016        | 249,103,615        |
| Loan receivable           | 45,000,000         | 50,000,000         |
| Capital assets, net       | <u>12,496</u>      | <u>23,235</u>      |
| <b>TOTAL ASSETS</b>       | <u>300,551,876</u> | <u>300,158,819</u> |

### LIABILITIES

|                          |               |               |
|--------------------------|---------------|---------------|
| Accounts payable         | 17,318        | 17,402        |
| Accrued expenses         | <u>683</u>    | <u>673</u>    |
| <b>TOTAL LIABILITIES</b> | <u>18,001</u> | <u>18,075</u> |

### NET POSITION

|                                  |                       |                       |
|----------------------------------|-----------------------|-----------------------|
| Net investment in capital assets | 12,496                | 23,235                |
| Unrestricted                     | <u>300,521,379</u>    | <u>300,117,509</u>    |
| <b>TOTAL NET POSITION</b>        | <u>\$ 300,533,875</u> | <u>\$ 300,140,744</u> |

The accompanying notes are an integral part of these statements.



# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Statements of Revenue, Expenditures, and Changes in Net Position

Years Ended June 30, 2014 and 2013

|  | Amount                |                       | Percent      |               |
|--|-----------------------|-----------------------|--------------|---------------|
|  | 2014                  | 2013                  | 2014         | 2013          |
| <b>OPERATING REVENUES</b>                  |                       |                       |              |               |
| Investment income                          | \$ 677,346            | \$ 520,350            | 91.3         | 93.3          |
| Securities lending income                  | 64,200                | 37,301                | 8.7          | 6.7           |
| <b>TOTAL OPERATING REVENUE</b>             | <u>741,546</u>        | <u>557,651</u>        | <u>100.0</u> | <u>100.0</u>  |
| <b>OPERATING EXPENSES</b>                  |                       |                       |              |               |
| Securities lending fees                    | 57,025                | 34,054                | 7.7          | 6.1           |
| Salaries and wages                         | 106,774               | 94,827                | 14.4         | 17.0          |
| Employee benefits                          | 39,847                | 36,205                | 5.4          | 6.5           |
| Maintenance contracts                      | 34,718                | 33,902                | 4.7          | 6.1           |
| Depreciation                               | 13,850                | 15,014                | 1.9          | 2.7           |
| Professional fees                          | 64,978                | 143,162               | 8.8          | 25.7          |
| Office supplies                            | 9,684                 | 15,912                | 1.3          | 2.9           |
| Travel                                     | 5,847                 | 5,155                 | 0.7          | 0.9           |
| Rent                                       | 12,063                | 11,762                | 1.6          | 2.1           |
| Other                                      | 3,629                 | 11,098                | 0.5          | 2.1           |
| <b>TOTAL OPERATING EXPENSES</b>            | <u>348,415</u>        | <u>401,091</u>        | <u>47.0</u>  | <u>72.1</u>   |
| <b>OPERATING INCOME</b>                    | 393,131               | 156,560               | 53.0         | 27.9          |
| <b>TRANSFERS</b>                           |                       |                       |              |               |
| Police and firefighter pension relief fund | <u>-</u>              | <u>(431,285)</u>      | <u>0.0</u>   | <u>(77.3)</u> |
| <b>CHANGE IN NET POSITION</b>              | 393,131               | (274,725)             | <u>53.0</u>  | <u>(49.4)</u> |
| <b>NET POSITION, BEGINNING OF YEAR</b>     | <u>300,140,744</u>    | <u>300,415,469</u>    |              |               |
| <b>NET POSITION, END OF YEAR</b>           | <u>\$ 300,533,875</u> | <u>\$ 300,140,744</u> |              |               |

The accompanying notes are an integral part of these statements.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Statements of Cash Flows

Years Ended June 30, 2014 and 2013

|   | <u>2014</u>         | <u>2013</u>        |
|---|---------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                     |                    |
| Cash received from customers  | \$ 63,352           | \$ 37,301          |
| Cash paid to suppliers and vendors  | (334,967)           | (420,333)          |
| Interest received   | 876,016             | 1,011,765          |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>                     | <u>604,401</u>      | <u>628,733</u>     |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>                         |                     |                    |
| Purchase of furniture and equipment   | (3,111)             | (5,294)            |
| <b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b> | <u>(3,112)</u>      | <u>(5,294)</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                     |                    |
| Purchase of investments   | (75,000,000)        | (81,000,000)       |
| Repayment from State of Indiana General Fund                                | 5,000,000           | -                  |
| Proceeds from redemption of investments                                     | 65,632,858          | 100,025,004        |
| (Purchases)/proceeds from short-term investments, net                       | 6,055,450           | (20,356,926)       |
| Transfer to the police and firefighter pension fund                         | -                   | (431,285)          |
| <b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>                     | <u>1,688,308</u>    | <u>(1,763,207)</u> |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                 | 2,289,597           | (1,139,768)        |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                         | <u>701,455</u>      | <u>1,841,223</u>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                               | <u>\$ 2,991,052</u> | <u>\$ 701,455</u>  |

The accompanying notes are an integral part of these statements.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Statements of Cash Flows

Years Ended June 30, 2014 and 2013

|  | <u>2014</u>       | <u>2013</u>       |
|--|-------------------|-------------------|
| <b>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> |                   |                   |
| Operating income   | \$ 393,131        | \$ 156,560        |
| Non-cash items   |                   |                   |
| Depreciation   | 13,850            | 15,014            |
| Change in FMV of investments   | 64,292            | 208,615           |
| Loss on disposal of equipment  | -                 | 455               |
| Decrease (increase) in assets  |                   |                   |
| Accounts receivable  | (848)             | -                 |
| Interest receivable  | 134,378           | 282,800           |
| Prepaid expenses   | (328)             | 661               |
| Increase (decrease) in liabilities   |                   |                   |
| Accounts payable   | (84)              | (32,424)          |
| Accrued expenses   | 10                | (2,948)           |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>  | <u>\$ 604,401</u> | <u>\$ 628,733</u> |

The accompanying notes are an integral part of these statements.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

**Years Ended June 30, 2014 and 2013**

### **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 (the “Board”) is 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 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 Board'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, 2014 and 2013.

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.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

**Years Ended June 30, 2014 and 2013**

### **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 \$500 and an estimated useful life of at least 3 years. The Board depreciates capital assets on the straight-line method. Office furniture is depreciated over 7 years, office and camera equipment are depreciated over 5 years; and computer equipment and software are 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 became 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, which matured 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 were reported at cost in the financial statements.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

**Years Ended June 30, 2014 and 2013**

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

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, 2014 and 2013, the amount that was receivable from the state general fund was \$45,000,000 and \$50,000,000, respectively.

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 \$538 and \$329 were made during 2014 and 2013, respectively.

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 - Resources resulting from capital acquisition, net of accumulated depreciation and related debt.

Unrestricted - Net position which is available for the use of the Board.

Operating and Non-operating Revenues- Revenues are classified as either operating or non-operating. Operating revenues consists of income from investments and security lending. All other items are considered non-operating.

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 13, 2014, the date of which these financial statements were available for distribution. Effective August 29, 2014, State Treasurer Richard Mourdock resigned, being replaced in an interim capacity by Daniel Huge. As a result, Daniel Huge replaced Richard Mourdock as the Secretary-Investment Manager of the Board.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2014 and 2013

### 2) Investments

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

As of June 30, 2014, the Board had the following investments and maturities:

| <u>Investment Type</u>            | <u>Total</u>          | <u>Investment Maturities (In Years)</u> |                      |             |
|-----------------------------------|-----------------------|---|----------------------|-------------|
|                                   |                       | <u>Less Than 1</u>                      | <u>1-5</u>           | <u>6-10</u> |
| U.S. agencies                     | \$ 252,351,016        | \$ 162,074,016                          | \$ 90,277,000        | \$ -        |
| State of Indiana agency bond      | -                     | -                                       | -                    | -           |
| Total fair value                  | 252,351,016           | 162,074,016                             | 90,277,000           | -           |
| Difference in cost and fair value | -                     | -                                       | -                    | -           |
| Total carrying amount             | \$ <u>252,351,016</u> | \$ <u>162,074,016</u>                   | \$ <u>90,277,000</u> | \$ <u>-</u> |

As of June 30, 2013, the Board had the following investments and maturities:

| <u>Investment Type</u>            | <u>Total</u>          | <u>Investment Maturities (In Years)</u> |                      |             |
|-----------------------------------|-----------------------|---|----------------------|-------------|
|                                   |                       | <u>Less Than 1</u>                      | <u>1-5</u>           | <u>6-10</u> |
| U.S. agencies                     | 249,103,615           | \$ 168,130,865                          | \$ 80,972,750        | \$ -        |
| State of Indiana agency bond      | -                     | -                                       | -                    | -           |
| Total fair value                  | 249,103,615           | 168,130,865                             | 80,972,750           | -           |
| Difference in cost and fair value | -                     | -                                       | -                    | -           |
| Total carrying amount             | \$ <u>249,103,615</u> | \$ <u>168,130,865</u>                   | \$ <u>80,972,750</u> | \$ <u>-</u> |

The following table provides information on the credit ratings, as of June 30, 2014, associated with the Board's investments that are not an investment in or guaranteed by U.S. government debt.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

**Years Ended June 30, 2014 and 2013**

### 2) Investments (continued)

|               | Fair Value     | S&P<br>Rating | Fitch<br>Rating | Moody's<br>Rating |
|---------------|----------------|---------------|-----------------|-------------------|
| U.S. agencies | \$ 252,351,016 | AA+           | 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. Additionally, for investments other than a 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, 2014:

|   | Balance    | Increases  | Decreases   | Balance    |
|---|------------|------------|-------------|------------|
| Cost                                    |            |            |             |            |
| Computer equipment                      | \$ 208,226 | \$ 8,047   | \$ (10,588) | \$ 205,685 |
| Office equipment                        | 6,729      | -          | -           | 6,729      |
|   |            |            |             |            |
| Total, capital assets being depreciated | 214,955    | 8,047      | (10,588)    | 212,414    |
| Less accumulated depreciation           | 191,720    | 13,849     | (5,652)     | 199,918    |
|   |            |            |             |            |
| Total capital assets, net               | \$ 23,235  | \$ (5,802) | \$ (4,936)  | \$ 12,496  |

Capital assets, net consist of the following for the year ending June 30, 2013:

|   | Balance    | Increases  | Decreases   | Balance    |
|---|------------|------------|-------------|------------|
| Cost                                    |            |            |             |            |
| Computer equipment                      | \$ 225,037 | \$ 5,293   | \$ (22,104) | \$ 208,226 |
| Office equipment                        | 12,052     | -          | (5,323)     | 6,729      |
|   |            |            |             |            |
| Total, capital assets being depreciated | 237,089    | 5,293      | (27,427)    | 214,955    |
| Less accumulated depreciation           | 203,679    | 15,014     | (26,973)    | 191,720    |
|   |            |            |             |            |
| Total capital assets, net               | \$ 33,410  | \$ (9,721) | \$ (454)    | \$ 23,235  |

Depreciation expense charged to operations was \$13,850 for 2014 and \$15,014 for 2013. The depreciation policies followed were described in Note 1.



# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2014 and 2013

### 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, 2014 and 2013 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 2 investments are determined by observing the value of similar investments as of the date of the financial statements. Level 3 investments are carried at amortized cost which approximates fair value:

|      | <u>Description</u>   | <u>Total</u>  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|------|----------------------|---------------|----------------|----------------|----------------|
| 2014 | Investments at value | \$252,351,016 | \$0            | \$252,351,016  | \$0            |
| 2013 | Investments at value | \$249,103,615 | \$0            | \$249,103,615  | \$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.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2014 and 2013

### 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 the outstanding principal became due on March 12, 2013.

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 final amount of \$431,300 was transferred to the pension distribution fund occurred during December 2012. As of July 1, 2013, no further transfers were made to the police and firefighter pension relief fund per Indiana Code 5-13-12-4, Section C.

### 7) Pension plan

The Board is a member of the Indiana Public Retirement System ("INPRS"), which is a defined benefit plan covering employees meeting certain eligibility requirements. The INPRS 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.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2014 and 2013

### 7) Pension plan (continued)

Employer contributions for the years ended June 30, 2014 and 2013 were \$15,034 and \$12,759, 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. INPRS retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled INPRS 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 INRPS-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 State contributes the employee portion of 3% of the compensation to an annuity savings account. These accumulated employee contributions and allocated interest income are maintained by INPRS 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 aggregate rental expense charged to operations is \$12,063 for 2014 and \$11,762 for 2013. The minimum rental payment remaining under the lease is \$24,729, for the fiscal year end of June 30, 2015.

### 9) 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.

October 13, 2014

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, 2014, and have issued our report thereon dated October 13, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether Indiana Board for Depositories' 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 that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit we considered Indiana Board for Depositories' internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Indiana Board for Depositories' internal control. Accordingly, we do not express an opinion on the effectiveness of the Indiana Board for Depositories 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This report is intended for the information of the audit committee, management, 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