

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

***Financial Statements***

***Years Ended June 30, 2016 and 2015***

# 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, as a component of the State of Indiana, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenditures and changes in net position, and statements of 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 audit. 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 our 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.

#### *Certified Public Accountants*

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### *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, 2016 and 2015, and the results of its operations and its cash flows for the year 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 and the retirement plan schedule of funding progress and employer contributions on page 20-21 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 19, 2016 in 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.

*London Witte Group, LLC*

London Witte Group, LLC  
Indianapolis, Indiana  
October 19, 2016

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Management Discussion and Analysis

June 30, 2016 and 2015

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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, 2016 and 2015. Please read it in conjunction with the Board's financial statements and accompanying notes.

### FINANCIAL HIGHLIGHTS

- The Board generated operating income of \$1,194,800 and \$487,300 for fiscal years 2016 and 2015, 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 Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position provide information about the Board's financial status. The Statements of Net Position includes all of the Board's assets and liabilities and 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 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, 2016 and 2015

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### FINANCIAL ANALYSIS OF THE BOARD

The following table is a condensed summary of financial information for the years ended June 30, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Net position</b>			
Total assets	\$ 302,247,300	\$ 301,028,000	\$ 300,551,900
Deferred outflows	34,700	11,900	—
Total liabilities	117,900	70,000	18,000
Deferred inflows	12,900	13,500	—
<b>Total net position</b>	<b>302,151,200</b>	<b>300,956,400</b>	<b>300,533,900</b>
<b>Change in net position</b>			
Operating revenues	1,702,200	805,600	741,500
Operating expenses	507,400	318,300	348,400
<b>Operating income</b>	<b>1,194,800</b>	<b>487,300</b>	<b>393,100</b>
<b>Change in net position</b>	<b>\$ 1,194,800</b>	<b>\$ 487,300</b>	<b>\$ 393,100</b>

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 and deferred outflows for 2016 have increased approximately \$1,242,100 when compared with 2015. The largest increase occurred in the investments and interest receivable of \$7,216,200. These increases were offset by decreases in cash and cash equivalents and loan receivable of approximately \$6,023,400. Comparing 2015 to 2014, assets and deferred outflows increased approximately \$488,000. The largest decreases occurred in cash and cash equivalents and loan receivable, which declined approximately \$5,414,800 which were offset by an increase in investments of \$5,843,300.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Management Discussion and Analysis

June 30, 2016 and 2015

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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.

During fiscal year 2015, the Board adopted Governmental Accounting Standards Board Statement No. 68. Accounting and Financial Reporting for Pensions. Based on this, the Board recorded deferred outflows and deferred inflows related to its participation in the Indiana Public Retirement System.

Liabilities are comprised of accounts payable, accrued payroll liabilities, and the net pension liability. During the fiscal year 2016 and 2015, the net pension liability was recorded in accordance with Governmental Accounting Standards Board Statement No. 68.

Net position is reported in two categories. As of June 30, 2016 and 2015, \$36,900 and \$18,900, respectively, are invested in capital assets, and \$302,114,300 and \$300,937,500, respectively, are unrestricted.

Operating revenues consist of interest income earned on investments and income from securities lending transactions. Investment income increased \$716,500 in 2016 and \$63,200 in 2015, respectively. Income from security lending increased approximately \$180,100 in 2016 and \$900 in 2015. Fair market value for 2016 declined \$23,900 and increased \$68,300 in 2015, respectively. The largest components of operating expenses include securities lending fees, payroll and employee benefits. For 2016, the largest expense was approximately \$350,100 for securities lending fees, payroll and employee benefits; a net increase of \$167,000 from 2015 to 2016. Payroll declined as Indiana Education Savings Authority and Indiana Board for Depositories now share the payroll expense related to an office employee. Initially that expense was recognized as an expense for Indiana Board for Depositories only. This decline in payroll is offset by the increase in employee benefits due to the requirement to report pension liability and expense due to GASB 68 update. The increase in securities lending fees are directly related to the increase in investment income and the increase in the investment account balance.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Statements of Net Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 1,552,841	\$ 2,576,289
Other accounts receivable	—	399
Interest receivable	539,630	236,514
Prepaid expense	10,512	1,516
Investments	265,107,434	258,194,356
Loan receivable	35,000,000	40,000,000
Capital assets, net	<u>36,860</u>	<u>18,909</u>
TOTAL ASSETS	<u>302,247,277</u>	<u>301,027,983</u>
Deferred outflow of resources	<u>34,698</u>	<u>11,887</u>
<b><u>LIABILITIES</u></b>		
Accounts payable	33,806	12,978
Net pension liability	83,112	56,511
Accrued expenses	<u>969</u>	<u>497</u>
TOTAL LIABILITIES	<u>117,887</u>	<u>69,986</u>
Deferred inflow of resources	<u>12,907</u>	<u>13,474</u>
<b><u>NET POSITION</u></b>		
Net investment in capital assets	36,860	18,909
Unrestricted	<u>302,114,321</u>	<u>300,937,501</u>
TOTAL NET POSITION	<u>\$ 302,151,181</u>	<u>\$ 300,956,410</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 Revenues, Expenditures, and Changes in Net Position

Years Ended June 30, 2016 and 2015

	Amount		Percent	
	2016	2015	2016	2015
<b>OPERATING REVENUES</b>				
Investment income	\$ 1,457,041	\$ 740,543	85.6	91.9
Securities lending income	245,180	65,113	14.4	8.1
<b>TOTAL OPERATING REVENUE</b>	<u>1,702,221</u>	<u>805,656</u>	<u>100.0</u>	<u>100.0</u>
<b>OPERATING EXPENSES</b>				
Securities lending fees	220,358	57,714	12.9	7.2
Salaries and wages	82,347	99,114	4.8	12.3
Employee benefits	47,360	26,206	2.8	3.3
Maintenance contracts	57,423	32,860	3.4	4.1
Depreciation	14,225	11,873	0.8	1.5
Professional fees	50,797	54,180	3.0	6.7
Office supplies	15,040	13,890	0.9	1.7
Travel	5,613	5,297	0.2	0.7
Rent	9,574	12,393	0.6	1.5
Other	4,713	4,809	0.3	0.6
<b>TOTAL OPERATING EXPENSES</b>	<u>507,450</u>	<u>318,336</u>	<u>29.7</u>	<u>39.6</u>
<b>OPERATING INCOME</b>	<u>1,194,771</u>	<u>487,320</u>	<u>70.3</u>	<u>60.4</u>
<b>CHANGE IN NET POSITION</b>	\$ 1,194,771	\$ 487,320		
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>300,956,410</u>	<u>300,469,090</u>		
<b>NET POSITION, END OF YEAR</b>	<u>\$ 302,151,181</u>	<u>\$ 300,956,410</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 245,579	\$ 65,562
Cash paid to suppliers and vendors	(477,698)	(312,719)
Interest received	1,177,844	625,673
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>945,725</u>	<u>378,516</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchase of furniture and equipment	(32,175)	(18,286)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(32,175)</u>	<u>(18,286)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(100,000,000)	(75,000,000)
Repayment from State of Indiana General Fund	5,000,000	5,000,000
Proceeds from redemption of investments	71,944,470	78,008,176
(Purchases)/proceeds from short-term investments, net	21,118,532	(8,783,169)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(1,936,998)</u>	<u>(774,993)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,023,448)	(414,763)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,576,289</u>	<u>2,991,052</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,552,841</u>	<u>\$ 2,576,289</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 1,194,771	\$ 487,320
Non-cash items		
Depreciation	14,225	11,873
Change in FMV of investments	23,919	(68,347)
Decrease (increase) in assets		
Accounts receivable	399	449
Interest receivable	(303,116)	(46,523)
Prepaid expenses	(8,996)	4,957
Increase (decrease) in liabilities		
Pension liability	3,222	(6,687)
Accounts payable	20,829	(4,340)
Accrued expenses	472	(186)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 945,725</u>	<u>\$ 378,516</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, 2016 and 2015

### 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 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, 2016 and 2015.

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, 2016 and 2015

### 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 and cash equivalents may be in excess of the FDIC insurance limit. Indiana Public Deposit Insurance Fund provides coverage for public funds in excess of FDIC limits.

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.

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, 2016 and 2015, the amount that was receivable from the state general fund was \$35,000,000 and \$40,000,000, respectively.

Collateralization - 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.

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.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

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

Advertising - Advertising costs are expensed when incurred. Expenditures of \$624 and \$806 were made during 2016 and 2015, 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 are resources resulting from capital acquisition, net of accumulated depreciation and related debt.

Unrestricted net position 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 19, 2016, the date of which these financial statements were available for distribution.

### 2) Investments

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

As of June 30, 2016, 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>More Than 10</u>
U.S. agencies	\$ 265,107,434	\$ 149,742,736	\$ 115,364,698	\$ —	\$ —
State of Indiana agency bond	—	—	—	—	—
Total fair value	265,107,434	149,742,736	115,364,698	—	—
Difference in cost and fair value	—	—	—	—	—
Total carrying amount	\$ 265,107,434	\$ 149,742,736	\$ 115,364,698	\$ —	\$ —

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

### 2) Investments (continued)

As of June 30, 2015, 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>More Than 10</u>
U.S. agencies	258,194,356	\$ 170,863,426	\$ 87,330,930	\$ —	\$ —
State of Indiana agency bond	—	—	—	—	—
Total fair value	258,194,356	170,863,426	87,330,930	—	—
Difference in cost and fair value	—	—	—	—	—
Total carrying amount	<u>\$ 258,194,356</u>	<u>\$ 170,863,426</u>	<u>\$ 87,330,930</u>	<u>\$ —</u>	<u>\$ —</u>

The following table provides information on the credit ratings, as of June 30, 2016, associated with the Board's investments that are not an investment in or guaranteed by U.S. government debt.

	<u>Fair Value</u>	<u>S&amp;P Rating</u>	<u>Fitch Rating</u>	<u>Moody's Rating</u>
U.S. agencies	\$ 265,107,434	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.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

### 3) Capital assets, net

Capital assets, net consist of the following for the year ending June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Cost				
Computer equipment	\$ 223,972	\$ 32,175	\$ —	\$ 256,147
Office equipment	6,729	—	(625)	6,104
Total capital assets	230,701	32,175	(625)	262,251
Less accumulated depreciation	211,792	14,224	(625)	225,391
Net capital assets	\$ 18,909	\$ 17,951	\$ —	\$ 36,860

Capital assets, net consist of the following for the year ending June 30, 2015:

	Beginning Balance	Increases	Decreases	Ending Balance
Cost				
Computer equipment	\$ 205,685	\$ 18,287	\$ —	\$ 223,972
Office equipment	6,729	—	—	6,729
Total capital assets	212,414	18,287	—	230,701
Less accumulated depreciation	199,918	11,874	—	211,792
Net capital assets	\$ 12,496	\$ 6,413	\$ —	\$ 18,909

Depreciation expense charged to operations was \$14,225 and \$11,873 for 2016 and 2015, respectively. 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)



# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

### 4) Fair value measurement (continued)

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, 2016 and 2015 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>
2016	Investments at value	\$ 265,107,434	\$ —	\$ 265,107,434	\$ —
2015	Investments at value	\$ 258,194,356	\$ —	\$ 258,194,356	\$ —

### 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.

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.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

### 6) Pension plan

The Indiana Board for Depositories is a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employers' Retirement Fund (PERF) and the Teacher's Retirement Fund (TRF), with the merger of the funds being effective July 1, 2011. Indiana Board for Depositories contributes to the INPRS, a cost-sharing multiple-employer public employee retirement plan, which acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under the Internal Revenue Code Section 401(a) and is tax exempt. INPRS is a contributory defined benefit plan that covers substantially all of the Indiana Board for Depositories' employees.

INPRS retirement benefits vest after 10 years of service. Senate Bill 74, effective July 1, 1995, enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 55 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

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

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

Indiana Board for Depositories is required to contribute to the Plan at an actuarially determined rate. The current rate is 11.2% of annual covered payroll. Indiana Board for Depositories contributed 3% of the participant's annual salary to the annuity savings account. The contribution requirements of participants are determined by State statute.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

### 6) Pension plan (continued)

Indiana Board for Depositories reported a liability of \$83,112 and \$56,511 as of June 30, 2016 and 2015, respectively, for its proportionate share of the net pension liability. Indiana Board for Depositories' proportionate share of the net pension liability was based on a projection of long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. June 30, 2016 and 2015, Indiana Board for Depositories' proportion was 0.0000204 and 0.0000215, respectively.

For the years ended June 30, 2016 and 2015, Indiana Board for Depositories recognized pension expense of \$14,921 and \$7,522, respectively. At June 30, 2016, Indiana Board for Depositories reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 689	\$ 4,919
Differences between expected and actual experience	3,568	172
Net difference of projected and actual investment earnings	14,013	7,816
Change of assumptions	7,026	—
Contribution subsequent to the measurement date	9,402	—
Total	<u>\$ 34,698</u>	<u>\$ 12,907</u>

At June 30, 2015, Indiana Board for Depositories reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 463	\$ 2,238
Differences between expected and actual experience	—	253
Net difference of projected and actual investment earnings	—	10,983
Contribution subsequent to the measurement date	11,424	—
Total	<u>\$ 11,887</u>	<u>\$ 13,474</u>

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

### 6) Pension plan (continued)

Amounts reports as deferred outflow of resources and deferred inflows of resources related to pensions will be recognized in pension expense (income) as follows:

#### Fiscal Year Ending June 30:

2016	\$	(3,515)
2017		(3,515)
2018		(1,856)
2019		(3,503)
Total	\$	<u>(12,389)</u>

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	2.25%
Salary increases	Projected salary increases based on INPRS experience from 2005 to 2010
Investment rate of return	6.75%
Cost of living adjustment	1.00%

Mortality rates were based on the 2013 IRS Static Mortality Tables projected five years with Scale AA. Disability assumptions were based on 2000-2005 experience for males and 1995-2000 for females.

The long-term expected rate of return on pension plan investments is based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investments. INPRS' management and Board continually monitor the investment rate of return assumption and the Board formally reviews the assumption and makes changes as appropriate.

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions would be made at the actuarially calculated rate computed in accordance with the current funding policy adopted by the INPRS Board, which requires payment of the normal cost and amortization of the unfunded actuarially accrued liability in level dollar installments over 30 years utilizing a closed period approach. Since the current funding policy was adopted, the employer contribution rate has been set by the INPRS Board at a level equal to or exceeding the actuarially calculated rate. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Notes to Financial Statements

Years Ended June 30, 2016 and 2015

### 6) Pension plan (continued)

The following presents Indiana Board for Depositories' proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what Indiana Board for Depositories proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u> <u>(5.75%)</u>	<u>Current</u> <u>(6.75%)</u>	<u>1% Increase</u> <u>(7.75%)</u>
Board's proportionate share of the net pension liability	\$ 122,597	\$ 83,112	\$ 50,332

Detailed information about the pension plan's fiduciary net position is available in the separately issued INPRS Report on Allocation of Pension Amounts.

### 7) Operating lease

The Board leases office space under a non-cancelable lease with terms to expire in 2016. The aggregate rental expense charged to operations is \$9,574 and \$12,393 for 2016 and 2015, respectively. The minimum rental payment remaining under the lease is \$8,693, for the fiscal year end of June 30, 2017.

### 8) Pending litigation

The Board was named as a respondent in a civil action lawsuit regarding contract enforcement. This case is ongoing and an estimate of the possible loss or range of loss is unknown.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Retirement Plan Schedule of Proportionate Share of Pension Liability Years Ended June 30, 2016 and 2015

	<u>2016</u>		<u>2015</u>
Board's proportion of the net pension liability	0.0000204		0.0000215
Board's proportionate share of the net pension liability	\$ 83,112	\$	56,511
Board's covered-employee payroll	\$ 83,752	\$	102,210
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	99.2%		55.3%
Plan fiduciary net position as a percentage of the total pension liability	77.4%		84.3%

# INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

## Retirement Plan Schedule of Contributions

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 9,380	\$ 11,448
Contributions in relation to the statutorily required contribution	<u>9,380</u>	<u>11,448</u>
Deficit (excess)	\$ —	\$ —
Board's covered-employee payroll	\$ 83,752	\$ 102,210
Contributions as a percentage of covered-employee payroll	11.2%	11.2%



October 19, 2016

To the Management  
of Indiana Board for Depositories

We have audited the financial statements of the Indiana Board for Depositories as of and for the year ended June 30, 2016, and have issued our report thereon dated October 19, 2016. 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 of the financial statements, we considered Indiana Board for Depositories' internal control over financial reporting (internal control) to determine the audit procedures are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, not for the purpose of expressing an opinion on the effectiveness of Indiana Board for Depositories' internal control. Accordingly, we do not express an opinion on the effectiveness of Indiana Board for Depositories' 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.

*Certified Public Accountants*

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

**Purpose of the Report**

The purpose of these reports 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 Governmental Auditing Standards in considering the entity's internal control and compliance. Accordingly, the communication is not suitable for any other purpose.

*London Witte Group, LLC*

London Witte Group, LLC.

October 19, 2016

Board of Directors  
Indiana Board for Depositories  
Office of the Treasurer of State  
1 North Capitol Avenue  
Suite 900  
Indianapolis, IN 46204

We have audited the financial statements of the Indiana Board for Depositories as of and for the year ended June 30, 2016 and have issued our report thereon dated October 19, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States and Government Auditing Standards

As communicated in our engagement letter dated May 27, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility as prescribed by professional standards, is to plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial statement. Accordingly, as part of our audit, we considered the internal control of the Indiana Board for Depositories solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. In addition, as part of obtaining reasonable assurance about whether the 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. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding significant control deficiencies and other matters noted during our audit in a separate letter to you dated October 19, 2016.

#### Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

#### Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

#### Qualitative Aspects of the Entity's Significant Accounting Practices

##### Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Indiana Board for Depositories is included in Note 1 to the financial statements. During fiscal year 2016, the Board adopted Governmental Accounting Standards Board Statement No. 68. Accounting and Financial Reporting for Pensions. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

##### Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

### Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

### Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the Indiana Board for Depositories' financial statements or the auditor's report. We are pleased to report that no such disagreement arose during the course of our audit.

### Representations Requested from Management

We have requested certain written representations from management that are included in the attached letter dated October 19, 2016.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultation with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the Indiana Board for Depositories, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted on a condition to our retention as Indiana Board for Depositories' auditors.

This information is intended solely for the use of the board of directors and management of the Indiana Board for Depositories, and is not intended to be and should not be used by anyone other than these specified parties.

*London Witte Group, LLC*

London Witte Group, LLC