

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

Financial Statements

Years Ended June 30, 2010 and 2009

INDIANA BOARD FOR DEPOSITORIES

(A COMPONENT UNIT OF THE STATE OF INDIANA)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
INDIANA BOARD FOR DEPOSITORIES

We have audited the statements of net assets of the

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as of June 30, 2010 and 2009, and the related statements of revenues, expenditures and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Board for Depositories as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

London Witte Group, LLC

October 22, 2010

INDIANA BOARD FOR DEPOSITORIES

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Management Discussion and Analysis

June 30, 2010 and 2009

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, 2010 and 2009. Please read it in conjunction with the Board's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The Board generated operating income of \$2,369,600 for fiscal year 2010 and \$8,238,600 for fiscal year 2009.
- The Board made a transfer to the police and firefighter pension relief fund in the amount of \$8,238,600 and \$14,616,700 during the fiscal years ended June 30, 2010 and 2009, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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Management Discussion and Analysis

June 30, 2010 and 2009

FINANCIAL ANALYSIS OF THE BOARD

The following table is a condensed summary of financial information for the year ended June 30, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net assets			
Current assets	\$202,143,700	\$273,538,200	\$322,411,900
Noncurrent assets	101,169,400	157,434,700	142,380,000
Total assets	303,313,100	430,972,900	464,791,900
Current liabilities	959,300	122,750,200	150,191,000
Noncurrent liabilities	0	0	0
Total liabilities	959,300	122,750,200	150,191,000
Total net assets	302,353,800	308,222,700	314,600,900
Change in net assets			
Operating revenues	2,796,200	10,035,800	23,491,200
Operating expenses	426,600	1,797,200	8,874,500
Operating income	2,369,600	8,238,600	14,616,700
Transfers	(8,238,600)	(14,616,700)	(13,514,400)
Change in net assets	(\$5,869,000)	(\$6,378,100)	\$1,102,300

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

The largest components of current assets are cash, collateral for securities lending and investments that will be maturing during the upcoming fiscal year. Also included in current assets is interest receivable and accounts receivable. Current assets for 2010 have decreased approximately \$71,394,500 with the largest decrease occurring in collateral from securities lending which decreased approximately \$121,751,200, followed by a decrease in cash which decreased approximately \$29,758,600 and a decrease in interest receivable of \$243,300. The offsetting increase was in short term investments, which increased approximately \$80,359,700. Comparing 2009 to 2008, current assets decreased approximately \$48,873,700 with the largest decrease occurring in cash which decreased approximately \$34,862,300, followed by a decrease in collateral from securities lending which decreased approximately \$27,112,200, and a decrease in interest receivable of approximately \$1,042,300. The offsetting increase of \$14,153,400 was in short term investments.

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Noncurrent assets consist of long-term investments, a loan receivable and capital assets. Long-term investments have decreased during 2010 by \$56,265,300. During fiscal year 2009, long term investments had increased approximately \$15,054,700. The fluctuations noted above are primarily a result of the change in the composition of the investments made through the Board's account with the Bank of New York. During fiscal year 2004, the Board transferred \$50,000,000 to the State of Indiana's general fund in compliance with Public Law 224-2003 Section 116 (a) for an interest free loan. This has been recorded as a long term loan receivable.

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

Net assets are reported in three categories and as of June 30, 2010 and 2009, \$27,300 and \$20,900 respectively is invested in capital assets, \$2,369,600 and \$8,238,600 respectively of net assets are restricted for the future transfer to the police and firefighter pension relief fund and \$299,956,900 and \$299,963,200 respectively are unrestricted net assets.

Operating revenues consist of interest income earned on investments and income from securities lending transactions. Investment income decreased \$5,585,600 in 2010 and decreased approximately \$5,970,000 in 2009. Income from security lending has decreased approximately \$1,654,000 in 2010 and decreased approximately \$7,485,400 in 2009. Both decreases in 2010 and 2009 are in large part a result of the falling interest rates. The largest operating expenses include the borrower's rebate on securities lending, as well as, professional fees and payroll and payroll related expenses. The borrower's rebate on security lending has decreased approximately \$1,174,300 in 2010 and decreased \$7,043,200 in 2009.

The transfers made to the police and firefighter pension fund during the fiscal years ended June 30, 2010 and 2009 were \$8,238,600 and \$14,616,700, respectively and the amount that will be transferred to the fund in December 2010 based upon the current year earnings will be \$2,369,600. Once that transfer is made, the total that will have been transferred to aid Indiana communities for police and firefighter pensions since June 30, 2001 will be \$97,442,700.

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Statements of Net Assets

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,153,140	\$ 31,911,785
Accounts receivable	0	1,049
Investments maturing in one year	198,461,768	118,102,051
Interest receivable	604,740	848,026
Collateral from securities lending	924,081	122,675,250
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	202,143,729	273,538,161
INVESTMENTS	51,139,060	107,402,797
LOAN RECEIVABLE	50,000,000	50,000,000
PREPAID EXPENSES	3,001	11,019
CAPITAL ASSETS, NET	<hr/> 27,274	<hr/> 20,946
	<hr/>	<hr/>
TOTAL ASSETS	303,313,064	430,972,923
	<hr/>	<hr/>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	32,208	71,917
Accrued expenses	3,034	3,014
Securities lending transactions	924,081	122,675,250
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	959,323	122,750,181
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Invested in capital assets	27,274	20,946
Restricted for police and firefighter pension fund distribution	2,369,557	8,238,558
Unrestricted	<hr/> 299,956,910	<hr/> 299,963,238
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ <u>302,353,741</u>	\$ <u>308,222,742</u>

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

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Statements of Revenue, Expenditures, and Changes in Net Assets

Years Ended June 30, 2010 and 2009

	Amount		Percent	
	2010	2009	2010	2009
OPERATING REVENUES				
Investment income	\$ 2,721,413	\$ 8,307,028	97.3	82.8
Securities lending income	74,781	1,728,766	2.7	17.2
TOTAL OPERATING REVENUE	<u>2,796,194</u>	<u>10,035,794</u>	<u>100.0</u>	<u>100.0</u>
OPERATING EXPENSES				
Securities lending fees	41,285	1,215,617	1.5	12.1
Salaries and wages	157,784	170,247	5.6	1.7
Employee benefits	40,392	51,584	1.4	0.5
Maintenance contracts	35,143	29,934	1.3	0.3
Depreciation	3,845	15,198	0.1	0.2
Professional fees	95,634	245,240	3.4	2.4
Office supplies	13,491	7,794	0.5	0.1
Travel	4,145	7,681	0.1	0.1
Rent	23,341	23,413	0.8	0.2
Other	11,577	30,528	0.4	0.3
TOTAL OPERATING EXPENSES	<u>426,637</u>	<u>1,797,236</u>	<u>15.1</u>	<u>17.9</u>
OPERATING INCOME	2,369,557	8,238,558	84.9	82.1
TRANSFERS				
Police and firefighter pension relief fund	<u>(8,238,558)</u>	<u>(14,616,724)</u>	<u>(294.6)</u>	<u>(145.6)</u>
CHANGE IN NET ASSETS	<u>(5,869,001)</u>	<u>(6,378,166)</u>	<u>(209.7)</u>	<u>(63.5)</u>
NET ASSETS, BEGINNING OF YEAR	<u>308,222,742</u>	<u>314,600,908</u>		
NET ASSETS, END OF YEAR	<u>\$ 302,353,741</u>	<u>\$ 308,222,742</u>		

The accompanying notes are an integral part of these statements.

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Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 75,830	\$ 1,739,021
Cash paid to suppliers and vendors	(454,463)	(2,115,641)
Interest received	4,157,983	9,098,858
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>3,779,350</u>	<u>8,722,238</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of furniture and equipment	(10,173)	(1,963)
Proceeds from sale of equipment	0	0
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(10,173)</u>	<u>(1,963)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(28,300,000)	(38,000,000)
Proceeds from redemption of investments	83,370,453	23,187,504
Purchases/proceeds from short-term investments, net	(80,359,717)	(14,153,388)
Transfer to the police and firefighter pension fund	(8,238,558)	(14,616,724)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(33,527,822)</u>	<u>(43,582,608)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(29,758,645)	(34,862,333)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>31,911,785</u>	<u>66,774,118</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,153,140</u>	<u>\$ 31,911,785</u>

The accompanying notes are an integral part of these statements.

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Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 2,369,557	\$ 8,238,558
Non-cash items		
Depreciation	3,845	15,198
Change in FMV of investments	1,193,284	(250,474)
Decrease (increase) in assets		
Accounts receivable	1,049	10,255
Interest receivable	243,286	1,042,304
Prepaid expenses	8,018	(4,965)
Increase (decrease) in liabilities		
Accounts payable	(39,709)	(328,617)
Accrued expenses	20	(21)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 3,779,350</u>	<u>\$ 8,722,238</u>

The accompanying notes are an integral part of these statements.

INDIANA BOARD FOR DEPOSITORIES

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Notes to Financial Statements

Years Ended June 30, 2010 and 2009

1) Summary of significant accounting policies

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

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

The financial statements of the Indiana Board for Depositories are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The aspect of financial statements content and format as prescribed by GASB Statement 34, have been implemented in the financial statements, effective for the year ended June 30, 2005.

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, 2010 and 2009.

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.

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Notes to Financial Statements

Years Ended June 30, 2010 and 2009

1) Summary of significant accounting policies (continued)

Indiana Code 5-13-9-2 authorizes the Board to invest or reinvest in securities fully guaranteed or issued by (1) the United States Treasury (2) a federal agency (3) a federal instrumentality and (4) a federal government sponsored enterprise. The Board also may invest or reinvest in money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940. Such investment company or investment trust must be limited to direct obligations of the United States, a federal agency, a federal instrumentality, a federal government sponsored enterprise, or repurchase agreements fully collateralized by obligations described in number (1) through (4) above. The statute also states the securities of or interests in an investment company or investment trust must be rated as one of the following (1) AAA, or its equivalent, by Standard & Poor's Corporation or its successor (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

Cash and cash equivalents - The Board considers cash and cash equivalents to be cash on hand, in bank accounts, and highly liquid investments with an original maturity of three months or less. At times, such cash may be in excess of the FDIC insurance limit.

Capital assets- Capital assets are defined as assets with an initial, individual cost of more than \$300 and an estimated useful life in excess of 3 years. The Board depreciates capital assets on the straight-line method. Office equipment, furniture, camera equipment, and computer software is depreciated over 5 years and computer equipment is depreciated over 3 years.

Investments - Investments are reported at fair value based upon quoted market prices for those or similar investments. Investments that do not have an established market are reported at estimated fair value. Gains and losses are determined using the specific identification method.

The Board entered into a bond purchase and pledge agreement with the Indiana Housing Finance Authority (IHFA) pursuant to Public Law 69-1989 and Indiana Code Sec. 5-13-12-7. The agreement provides that IHFA may borrow funds from the Board by issuing one or more bonds having an aggregate principal sum of not more than \$5,000,000. The bonds do not bear interest, pursuant to Indiana Code Sec. 5-20-4-9, and any outstanding principal will become due on March 12, 2013. As security for the bonds, the IHFA assigned to the Board a zero-coupon U.S. Treasury STRIP in the amount of \$5,000,000 maturing February 15, 2013. In accordance with Accounting Practice Bulletin 21, (APB) transactions where interest rates are affected by legal restrictions prescribed by a governmental agency are not subject to the discounting provisions of APB 21. Accordingly, the IHFA bonds are reported at cost in the financial statements.

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Notes to Financial Statements

Years Ended June 30, 2010 and 2009

1) Summary of significant accounting policies (continued)

During 2004, the Board was required to cause \$50,000,000 to the state general fund under Section 116(a) of Public Law 224-2003. Under Public Law 224, the transfer constitutes an interest free loan from the Board and the loan is to be repaid prior to January 1, 2013. As of June 30, 2010 and 2009, the amount that was receivable from the state general fund was \$50,000,000.

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 \$542 and \$1,496 were made during 2010 and 2009, respectively.

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

Invested in Capital Assets, Net of Related Debt- Resources resulting from capital acquisition, net of accumulated depreciation and related debt.

Restricted- Net assets which are restricted for the transfer to the police and firefighter pension distribution fund. The transfer occurs on the last business day of the calendar year.

Unrestricted- Net assets which are available for the use of the Board.

Operating and Nonoperating Revenues- Revenues are classified as either operating or nonoperating. Operating revenues consists of income on investments and security lending income. All other items are considered nonoperating.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events – Subsequent events have been evaluated through October 22, 2010, the date of which these financial statements were available for distribution.

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Notes to Financial Statements

Years Ended June 30, 2010 and 2009

2) Investments

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

As of June 30, 2010, 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. Treasuries	\$ 19,670,037	\$ 19,670,037	\$ 0	\$ 0
U.S. agencies	224,931,399	178,791,731	46,139,668	0
State of Indiana agency bond	<u>4,889,400</u>	<u>0</u>	<u>4,889,400</u>	<u>0</u>
Total fair value	249,490,836	198,461,768	51,029,068	0
Difference in cost and fair value	<u>109,992</u>	<u>0</u>	<u>109,992</u>	<u>0</u>
Total carrying amount	<u>\$ 249,600,828</u>	<u>\$ 198,461,768</u>	<u>\$ 51,139,060</u>	<u>\$ 0</u>

As of June 30, 2009, 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. Treasuries	\$ 83,891,654	\$ 83,891,654	\$ 0	\$ 0
U.S. agencies	113,324,848	10,921,443	102,403,405	0
Short term investments	23,288,954	23,288,954	0	0
State of Indiana agency bond	<u>4,639,650</u>	<u>0</u>	<u>4,639,650</u>	<u>0</u>
Total fair value	225,145,106	118,102,051	107,043,055	0
Difference in cost and fair value	<u>359,742</u>	<u>0</u>	<u>359,742</u>	<u>0</u>
Total carrying amount	<u>\$ 225,504,848</u>	<u>\$ 118,102,051</u>	<u>\$ 107,402,797</u>	<u>\$ 0</u>

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2) Investments (continued)

The following table provides information on the credit ratings, as of June 30, 2010, associated with the Board's investments that are not an investment in or guaranteed by U.S. government debt. Investments in the U.S. Government are not considered to have credit risk and therefore a credit rating does not need to be disclosed. The State of Indiana agency bond is secured by a U.S. Treasury STRIP as described in Note 1.

	<u>Fair Value</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>	<u>Moody's Rating</u>
U.S. agencies	\$ 224,931,399	AAA	AAA	Aaa

As a means of limiting its exposure to credit risk, the Board cannot deposit funds in any one depository in an amount aggregating at any one time more than 50% of the combined capital, surplus, and undivided profits of that depository by its last published statement of condition filed with the Treasurer of State. Also, for investments other than the State of Indiana agency bond, the following is the criteria for maturities on investments.

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

3) Capital assets, net

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

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

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3) Capital assets, net (continued)

Capital assets, net consist of the following for the year ending June 30, 2009:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Cost				
Computer equipment	\$ 192,953	\$ 1,703	\$ 0	\$ 194,656
Office equipment	<u>7,457</u>	<u>260</u>	<u>0</u>	<u>7,717</u>
Total, capital assets being depreciated	200,410	1,963	0	202,373
Less accumulated depreciation	<u>166,229</u>	<u>15,198</u>	<u>0</u>	<u>181,427</u>
Total capital assets, net	<u>\$ 34,181</u>	<u>\$ (13,235)</u>	<u>\$ 0</u>	<u>\$ 20,946</u>

Depreciation expense charged to operations was \$3,845 for 2010 and \$15,198 for 2009. The depreciation policies followed were described in Note 1.

4) Fair value measurement

Effective July 1, 2008, the Board adopted 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, 2010 in valuing the Pool's assets and liabilities. Level 1 investments consist of money market funds valued at the current day's closing net assets value per share. Level 3 investments are carried at amortized cost which approximates fair value:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments at value	\$249,490,835	\$19,670,037	\$229,820,779	\$0

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Years Ended June 30, 2010 and 2009

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 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities.

Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. The collateral securities cannot be pledged or sold by the Board unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. At year-end, the Board had no credit risk exposure to borrowers because the amount the Board owes the borrowers exceeds the amounts the borrowers owe the Board.

Below are the investment types and values for securities lending transactions:

<u>Investment Type</u>	<u>Collateral Value</u>	<u>Market Value</u>
U.S. agencies	\$ <u>924,081</u>	\$ <u>901,783</u>
Total	\$ <u>924,081</u>	\$ <u>901,783</u>

6) Commitments

During 1994, the Board entered into a bond purchase and pledge agreement with the IHFA pursuant to Public Law 69-1989 and Indiana Code Sec. 5-13-12-7. The agreement provides that IHFA may borrow funds from the Board by issuing one or more bonds having an aggregate principal sum of not more than \$5,000,000. The bonds do not bear interest, pursuant to Indiana Code Sec. 5-20-4-9, and any outstanding principal will become due on March 12, 2013. As security for the bonds, the IHFA assigned to the Board a zero-coupon U.S. Treasury STRIP in the amount of \$5,000,000 maturing February 15, 2013. At June 30, 2010, the Board held IHFA bonds of approximately \$5,000,000.

INDIANA BOARD FOR DEPOSITORIES

(A Component Unit of the State of Indiana)

Notes to Financial Statements

Years Ended June 30, 2010 and 2009

6) Commitments (continued)

During May 2001, Senate Enrolled Act 524 was signed into law. The act provides that the interest earned from the investment of the Public Deposit Insurance Fund (PDIF) be distributed to communities facing police and fire pension liabilities. On or before the last business day of November of each year, beginning in 2001 and ending in 2021, a computation shall be made based upon the interest earned on the PDIF during the fiscal year ending June 30 after deducting certain expenses for the Board for Depositories and the Indiana Education Savings Authority. The payment must be made by the PDIF to the pension distribution fund by the last business day of December. The amount that was transferred to the pension distribution fund during December 2010 and 2009 was \$8,238,558 and \$14,616,724, respectively and the amount expected to be transferred during December 2010 is \$2,369,558.

7) Pension plan

The Board is a member of the Public Employee Retirement Fund (PERF), which is a defined benefit plan covering employees meeting certain eligibility requirements. The PERF Retirement Plan is a multi-employer plan, which acts as a common investment and administrative agent for State of Indiana employees of the various subdivisions and instrumentalities of the State of Indiana. All employees of the Board participate in this plan.

Employer contributions for the years ended June 30, 2010 and 2009 were \$14,944 and \$15,598, respectively. Separate information concerning the accumulated benefit obligation and actuarially determined benefit obligation is not material to the financial position of the Board and, accordingly, is not presented.

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

INDIANA BOARD FOR DEPOSITORIES

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Notes to Financial Statements

Years Ended June 30, 2010 and 2009

7) Pension plan (continued)

In addition, the employees may contribute 3% of the compensation to an annuity savings account. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system-wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive their balance in the savings account.

8) Operating lease

The Board leases office space under a non-cancelable lease with terms to expire in 2015. The following is a schedule of the future minimum rentals under the lease as of June 30, 2010.

Year ended June 30		
	2011	\$ 22,407
	2012	22,988
	2013	23,568
	2014	24,149
	Thereafter	<u>24,729</u>
Total minimum lease payments		\$ <u>117,841</u>

The aggregate rental expense charged to operations is \$23,341 for 2010 and \$23,413 for 2009.

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

The Board is allowed through legislation to pay expenses of the Indiana Education Savings Authority (the "Authority") through the year 2021. The Board currently pays the salary of the executive director of the CollegeChoice 529 Investment Plan, the entire lease payment for the office space that the Board and the Authority share, as well as, some of the Authority's legal fees. These expenses were \$99,732 for 2010 and \$108,679 for 2009.

10) Income taxes

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

INDIANA BOARD FOR DEPOSITORIES

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Notes to Financial Statements

Years Ended June 30, 2010 and 2009

11) Subsequent event

On September 23, 2010, in response to House Enrolled Act 1336 allowing the Board to require collateral deposits for state and local funds held in deposit accounts for institutions with an elevated risk of failure, the Board enacted new rules. These rules adopt a system where institutions will be required to post deposits, ranging from 25% to 100% of their total public fund balance depending on their individual rating from an independent rating service, with the Board.

October 22, 2010

To the Board of Directors
of Indiana Board for Depositories

In planning and performing our audit of the financial statements of Indiana Board for Depositories for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered its 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 our an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A control deficiency 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 combination of deficiencies, in internal control, that there is a reasonable possibility that a material misstatement of the 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This report is intended for the information of management.



London Witte Group, LLC