

NOTES TO THE FINANCIAL STATEMENTS



STATE OF INDIANA

Notes to the Financial Statements
June 30, 2013

I. Summary of Significant Accounting Policies	51
A. Reporting Entity	51
B. Government-Wide and Fund Financial Statements	55
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	55
D. Eliminating Internal Activity	57
E. Assets, Liabilities and Equity	57
1. Deposits, Investments and Securities Lending	57
2. Receivables and Payables	58
3. Interfund Transactions and Balances	59
4. Inventories and Prepaid Items	59
5. Restricted Net Position	59
6. Capital Assets	59
7. Compensated Absences	60
8. Long-Term Obligations	61
9. Fund Balance	61
II. Reconciliation of Government-Wide and Fund Financial Statements	62
A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .	62
B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	62
III. Stewardship, Compliance and Accountability	63
A. Deficit Fund Equity	63
B. Fund Balance	63
IV. Detailed Notes on All Funds	64
A. Deposits, Investments and Securities Lending	64
1. Primary Government – Other than Major Moves and Next Generation Funds, Investment Trust Funds, and Pension and Other Employee Benefit Trust Funds	64
2. Pension and Other Employee Benefit Trust Funds – Primary Government	71
3. Pension Trust Funds – Fiduciary in Nature Component Unit	76
B. Interfund Transactions	86
C. Taxes Receivable/Tax Refunds Payable	90
D. Capital Assets	90
E. Leases	92
F. Long-Term Obligations	93
G. Prior Period Adjustments and Reclassifications	93
V. Other Information	95
A. Risk Management	95
B. Contingencies and Commitments	96
C. Other Revenue	98
D. Economic Stabilization Fund	98
E. Employee Retirement Systems and Plans	98
F. Other Postemployment Benefits – Defined Benefit and Defined Contribution Plans	106
G. Pollution Remediation Obligations	114

STATE OF INDIANA
Notes to the Financial Statements
June 30, 2013
(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units. Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in one column in the government-wide financial statements. This column contains the governmental fund types, proprietary fund types and colleges and universities. This is to emphasize that, as well as being legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Indiana Housing and Community Development Authority, Ports of Indiana, Indiana State Fair Commission, Indiana Comprehensive Health Insurance Association, and the Indiana Political Subdivision Risk Management Commission have a December 31, 2012, fiscal year-end.

Blended Component Units

The following component units are reported under the blended method as the primary government appoints a voting majority of the board and is able to impose its will. These units, although legally separate from the State, are reported as part of the State because they provide services entirely or almost entirely to the State. These component units are audited by the State Board of Accounts.

The Bureau of Motor Vehicle Commission (BMVC) was established by state law to develop and update Bureau of Motor Vehicles (BMV) policy, establish standards for the operation and maintenance of license branches, and submit budget proposals for the BMVC, BMV, and license branches. The BMVC has significant interrelated operations with the BMV and license branches. The BMV is responsible for the accurate and timely distribution of the fees and taxes (excise and wheel) collected at the license branches for driver licenses, auto and watercraft registrations, and license plates.

The BMVC consists of four individuals appointed by the governor and the chairperson who is the commissioner of the BMV. No more than three of the members may be of the same political party. The BMVC is reported as a non-major governmental fund.

The Indiana Homeland Security Foundation was established to assist the Indiana Department of Homeland Security (IDHS) in developing projects that benefit public safety in local communities. The foundation administers the Indiana homeland security fund which funds these IDHS projects. The foundation has significant interrelated operations with the IDHS. Foundation funds are aligned with the Indiana Strategy for Homeland Security of the IDHS. The Indiana Homeland Security Foundation is reported as a non-major governmental fund.

Discretely Presented Component Units

The following are discretely presented component units of the State of Indiana. These component units are included in the State's reporting entity because the primary government appoints a voting majority of their governing bodies and is able to impose its will on each organization: Indiana Economic Development Corporation, Indiana Finance Authority, State Lottery Commission of Indiana, Indiana Stadium Convention and Building Authority, Indiana Bond Bank, Indiana Housing and Community Development Authority, Indiana Secondary Market for Education Loans, Inc., White River State Park Development Commission, Ports of Indiana, Indiana Comprehensive Health Insurance Association, Indiana Political Subdivision Risk Management Commission, Indiana State Museum and Historic Sites Corporation, and each of the seven colleges and universities. These component units are included in the State's reporting entity because the primary government appoints a voting majority of their governing bodies and is financially accountable for each organization: Indiana Board for Depositories, Indiana State Fair Commission, and the Indiana Public Retirement System.

All governmental and proprietary component units are audited by outside auditors except for the State Fair Commission which is audited by the State Board of Accounts. The State Board of Accounts audits the colleges, universities, and the fiduciary in nature component unit. College and university foundations are audited by outside auditors.

The Indiana Economic Development Corporation (IEDC) was created to improve the quality of life for the citizens of Indiana by encouraging the diversification of Indiana's economy, by the orderly economic development and growth of Indiana, the creation of new jobs, the retention of existing jobs, the growth and modernization of existing industry and the promotion of Indiana. The IEDC is composed of 12 members, none of whom may be members of the general assembly. These members consist of the governor and 11 individuals appointed by the governor. At least five members must belong to the same political party as the governor. At least three members must belong to a major political party other than the party of which the governor is a member. The IEDC is reported as a non-major discretely presented governmental component unit. The separately issued audited financial statements may be obtained by writing the Indiana Economic Development Corporation, One North Capital Avenue, Suite 700, Indianapolis, IN 46204.

Formed on May 15, 2005, the Indiana Finance Authority (IFA) combined five formerly independent bodies under one entity. The entities combined included the Indiana Development Finance Authority, State Office Building Commission, Indiana Transportation Finance Authority, Recreational Development Commission and the State Revolving Fund. Effective July 1, 2005, all records, money, and other property held by the Auditor of State with respect to the Supplemental Drinking Water and Wastewater Assistance Programs were transferred to the IFA as the successor entity. The IFA is a body both corporate and politic, and though separate from the State of Indiana (State); the exercise by the IFA of its powers constitutes an essential governmental function. Indiana's constitution restricts State incurrence of debt. As a result, the General Assembly created the IFA and authorized it to issue revenue bonds and other obligations to finance projects for lease to the State.

The IFA finances and refines state hospitals, state office buildings, state garages, correctional facilities, recreational facilities, highways, bridges, airport facilities, and other related facilities for the benefit of the State. The IFA also provides low

interest loans to Indiana communities for environmental improvements. It also promotes business and employment opportunities by issuing tax-exempt financing for industrial development projects, rural development projects, childcare financing, and educational facility projects.

The IFA's revenue bonds and notes are special and limited obligations of the IFA, payable from lease rental revenue, bond or note proceeds and investment income. The IFA's revenue bonds are not general obligations of the IFA nor are they State debt within the meaning of any constitutional provision or limitation. The IFA cannot compel the General Assembly to make appropriations to pay lease rentals. The Authority is reported as a major discretely presented proprietary component unit. IFA's separately issued audited financial statements may be obtained by writing the Indiana Finance Authority, One North Capital Avenue, Suite 900, Indianapolis, IN 46204.

The State Lottery Commission of Indiana is composed of five members appointed by the Governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, public employees' retirement, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement the Motor Vehicle Excise Tax Replacement Fund. The Commission is reported as a major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the State Lottery Commission of Indiana, 1302 North Meridian Street, Indianapolis, IN 46202.

Effective May 15, 2005, the Indiana Stadium and Convention Building Authority was established pursuant to House Bill 1120, which has now been codified at Indiana Code 5-1-17, as an entity of the State to finance, design, construct and own the new Indiana Stadium in Indianapolis and the expansion of the adjacent Indiana Convention Center. The Building Authority is governed by a seven member board, comprised of four appointments by the Governor, two appointments by the Mayor of the City of Indianapolis and one appointment by the Governor following nomination from one of the counties surrounding Marion County. The Authority is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Stadium and Convention Building Authority, 425 West South Street, Indianapolis, IN 46225.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of Public Finance and five appointees of the Governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of State and local governments. The Bond Bank is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Bond Bank, 10 West Market Street, Suite 2980, Indianapolis, IN 46204.

The Indiana Housing and Community Development Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority's board consists of the Public Finance Director of the Indiana Finance Authority, the Lieutenant Governor, the State Treasurer and four persons appointed by the Governor. The Lieutenant Governor chairs the board. The Authority is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Housing and Community Development Authority, 40 South Meridian Street, Suite 1000, Indianapolis, IN 46204.

The Indiana Board for Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the Federal Deposit Insurance Corporation limit. The Board is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Board for Depositories, One North Capitol Avenue, Suite 444, Indianapolis, IN 46204.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the Governor to purchase education loans in the secondary market. The Governor appointed the original Board of Directors. ISM provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. ISM is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Secondary Market for Education

Loans, Inc., Capital Center, Suite 400, 251 North Illinois Street, Indianapolis, IN 46204.

The White River State Park Development Commission has the responsibility to design and implement a plan for the establishment and development of park, exposition, educational, athletic, and recreational projects to be located within one mile from the banks of the Indiana White River in a consolidated first-class city and county. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana White River State Park Commission, 801 West Washington Street, Indianapolis, IN 46204.

The Ports of Indiana is created under Indiana Code 8-10-1-3 to construct, maintain, and operate public ports with terminal facilities and traffic exchange points for all forms of transportation on Lake Michigan and the Ohio and Wabash Rivers. The Commission consists of seven members appointed by the governor. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Ports of Indiana, 150 West Market Street, Suite 100, Indianapolis, IN 46204.

The State Fair Commission was established per Indiana Code 15-13-2 as the trustee for and on behalf of the people of the State of Indiana to administer the State Fairgrounds as trust property of the State of Indiana. The Commission is responsible for holding the annual Indiana State Fair in August, as well as providing accessible, cost-effective, secure and modern facilities for the variety of events held at the Fairgrounds and other properties it owns. The Commission consists of eight members appointed by the governor. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana State Fair Commission, 1202 East 38th Street, Indianapolis, IN 46205.

The Indiana Comprehensive Health Insurance Association was created by the State of Indiana to assure that health insurance is made available throughout the year to each eligible Indiana resident applying to the Association for coverage. The board of directors of the Association consists of nine members whose principal residence is in Indiana. Four members are appointed by the insurance commissioner from the members of the Association, one of which must be a representative

of a health maintenance organization. Two members are appointed by the commissioner and shall be consumers representing policyholders. Other members are the state budget director or designee and the commissioner of the department of insurance or designee. One member appointed by the commissioner must be a representative of health care providers. The Association is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Comprehensive Health Insurance Association, 9465 Counselors Row, Suite 200, Indianapolis, IN 46240.

The Indiana Political Subdivision Risk Management Commission was created per Indiana Code 27-1-29 to administer the Political Subdivision Risk Management Fund (Basic fund) and the Political Subdivision Catastrophic Liability Fund (Catastrophic fund). These funds aid political subdivisions in protecting themselves against liabilities. The Commission consists of eleven members appointed by the governor. The Commission is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana Political Subdivision Risk Management Commission, c/o Indiana Department of Insurance, 311 West Washington Street, Suite 300, Indianapolis, IN 46204.

The Indiana State Museum and Historic Sites Corporation was created per Indiana Code 4-37 and is responsible for operating and administering the twelve State Historic Sites including the Indiana State Museum. The twelve Historic Sites include Angel Mounds, Corydon Capitol, Culbertson Mansion, J.F.D. Lanier Mansion, Levi Coffin, Limberlost, New Harmony, T.C. Steele, Gene Stratton-Porter, Vincennes, Whitewater Canal and the Indiana State Museum. The Corporation is governed by a thirty member board of trustees of which twenty-five are voting members and five are non-voting members. Of the twenty-five voting members, thirteen persons are appointed by the governor and twelve are appointed by the board. The five non-voting members include the chief executive officer, the governor or governor's designee, one member of the House of Representatives, one member of the Senate, and the director of the Department of Natural Resources or the director's designee. The Corporation is reported as a non-major discretely presented proprietary component unit. The separately issued audited financial statements may be obtained by writing the Indiana State Museum and Historic Sites

Corporation, 650 West Washington Street, Indianapolis, IN 46204.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Ivy Tech Community College has a fourteen-member board of trustees. Appointments to the boards of trustees are made by the Governor and by election of the alumni of the respective universities. Indiana University and Purdue University are reported as a major discretely presented component unit. The separately issued audited financial statements for the colleges and universities may be obtained by writing to: Indiana University, Poplar's Room 500, 107 S. Indiana Ave., Bloomington, IN 47405-1202; Purdue University, Accounting Services, 401 South Grant Street, West Lafayette, IN 47907-2024; Ball State University, Administration Bldg., 301, 2000 West University Avenue, Muncie, IN 47306; Indiana State University, Office of the Controller, 210 N. 7th Street, Terre Haute, IN 47809; Ivy Tech Community College, 50 West Fall Creek Parkway, north Drive, Indianapolis, IN 46208; University of Southern Indiana, 8600 Boulevard, Evansville, IN 47712; and Vincennes University, 1002 North 1st Street, Vincennes, IN 47591.

Fiduciary in Nature Component Unit

Effective July 1, 2011, the Indiana Public Retirement System (INPRS) was established as an independent body corporate and politic. INPRS is not a department or agency for the State, but is an independent instrumentality exercising essential government functions. The INPRS board is composed of nine trustees appointed by the Governor which includes the director of the budget agency or the director's designee as an ex officio voting member of the board. The board of trustees administers the following plans: Public Employees' Retirement Fund, Teachers' Retirement Fund, Judges' Retirement System, State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Plan, the Legislators' Retirement System Defined Contribution Plan, the Prosecuting Attorneys'

Retirement Fund, the Pension Relief Fund, and two death benefit funds. For more information on the plans see Note V(E) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation from INPRS' financial statements. INPRS is included as a component unit because the primary government appoints a voting majority of its governing body and has financial accountability. The Indiana Public Retirement System was determined to be significant for note disclosure purposes involving the fiduciary in nature component units. The separately issued audited

financial statements may be obtained by writing the Indiana Public Retirement System, One North Capitol Avenue, Suite 001, Indianapolis, IN 46204.

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information about the overall government. They exclude information about fiduciary activities, including component units, which are fiduciary in nature, such as the public employee retirement systems. They distinguish between the primary government and its discretely presented component units as disclosed in Note I.A. They also distinguish between governmental activities and business-type activities of the State. Governmental activities rely on taxes and intergovernmental revenues for their support. Business-type activities, on the other hand, rely on fees and charges for services provided for their support.

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. Certain indirect costs are included in the program expense reported for individual functions of government. Program revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes, even those levied for a specific purpose and are reported by type of tax. Investment income is also a general revenue.

Separate financial statements are presented for the State's governmental, proprietary and fiduciary

funds. Governmental fund financial statements are the balance sheet and the statement of revenues, expenditures, and changes in fund balances. Major governmental funds are presented in separate columns and non-major funds are aggregated in a separate column. Proprietary and fiduciary funds are reported using the statement of net position and the statement of changes in net position. In addition proprietary funds include a statement of cash flows.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting

The government-wide statements and the proprietary and fiduciary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues, including federal government mandates on the State, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For the State of Indiana, “available” means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual and corporate income tax, sales tax, inheritance tax, cigarette tax, alcoholic beverage tax, motor fuel tax, fines, and penalties are accrued using one month’s revenues.

Gaming taxes and fees and vehicle licenses are received daily via electronic funds transfer with a one to three working day delay, so revenues for the first several working days in July are reviewed for materiality and accrued accordingly.

Financial Statement Presentation

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Governmental funds are used to account for the government's general government activities. Governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds and permanent funds.

The *General Fund* is the State's primary operating fund. It is maintained to account for resources obtained and used for those services traditionally provided by State government, which are not required to be accounted for in another fund. The General Fund is a major fund.

The *special revenue* funds account for specific revenue sources that are legally restricted or committed to expenditure for specific purposes except for major capital projects.

The following special revenue funds are presented as major.

- The *Public Welfare-Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid program. Federal grant revenues, hospital assessment fees, quality assessment fees, Intermediate Care Facility for the Individuals with Disabilities fees, and other resources disclosed under interfund transfers in Note IV(B) are reported in this fund.

- The *Major Moves Construction Fund* distributes money received from the Toll Road lease. This money is used for new construction and major preservation of highways and bridges throughout Indiana. Interest income and other resources disclosed under interfund transfers in Note IV(B) are reported in this fund.

The *capital projects funds* account for financial resources that are restricted, committed, or assigned to expenditures for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or fiduciary funds. There are no major capital project funds.

The *permanent funds* are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for the benefit of the government or its citizens. There are no major permanent funds.

Proprietary funds focus on the determination of operating income, changes in net position, financial position and cash flows. Operating revenues and expenses are the revenues and expenses that pertain to the fund's principal operations. Nonoperating revenues and expenses are those revenues resulting from secondary or auxiliary activities of the fund. Nonoperating items include investment revenue and expense. Proprietary funds include both enterprise funds and internal service funds.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where it has been decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The State reports the following major enterprise fund:

- The *Unemployment Compensation Fund* collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals.

Internal service funds account for operations that provide goods and services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The goods and services provided include fleet management, information technology and communication, aviation, printing, products of correctional industries, self-insurance, and centralized accounting. Major fund reporting requirements do not apply to internal service funds. Combined totals for all internal service funds are

reported as a separate column on the face of the proprietary fund financial statements.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others. They cannot be used to support the State's own programs. Fiduciary funds include pension (and other employee benefit) trust funds, private-purpose trust funds, investment trust funds, and agency funds.

Pension (and other employee benefit) trust funds are used to report resources held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other postemployment benefit plans. Pension and other employee benefits trust funds include the Indiana Public Retirement System, State Police Pension Fund, State Employee Retiree Health Benefit Trust Fund – DB, and the State Employee Retiree Health Benefit Trust Fund – DC.

Private-purpose trust funds are used to account for trust arrangements in which both the principal and interest may be spent for the benefit of individuals, private organizations or other governments. Private Purpose funds include the Abandoned Property Fund and the Private Purpose Trust Fund.

Investment trust funds are used to report the external portion of investment pools operated by a sponsoring government. The Treasurer of State, local units of government, and quasi-governmental units in Indiana have the opportunity to invest in a common pool of investments that preserves the principal of the public's funds, remains highly-liquid, and maximizes the return on the investment of public funds. The State's investment trust fund is TrustINdiana operated by the state treasurer. The amounts reported represent the external portion of the pool.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity. Agency Funds include Employee Payroll Withholding and Benefits, Local Distributions, Child Support and Department of Insurance.

D. Eliminating Internal Activity

Interfund loans including those from cash overdrafts in funds, interfund services provided or used, and prepaid expenditures of internal service funds are eliminated as internal balances in the government-wide statement of net position. This is to minimize the "grossing-up" effect on assets and liabilities

within the governmental and business-type activities columns of the primary government. As a result, interfund loans and interfund services provided and/or used reported in the governmental funds balance sheet have been eliminated in the government-wide statement of net position.

Eliminations were made in the statement of activities to remove the "doubling-up" effect of internal service fund activity. The effect of similar internal events that are, in effect, allocations of overhead expenses from one function to another or within the same function have also been eliminated, so that the allocated expenses are reported only by the function to which they were allocated. The effect of interfund services provided and used between functions has not been eliminated in the statement of activities since to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function.

E. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition).

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost, which approximates fair value. Fair value is determined by quoted market prices which approximate fair value.

Indiana Code 5-13-9 and 5-13-10.5 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; securities issued by any U.S. government agency; AAA money market mutual funds with a portfolio limited to direct obligations of the U.S., obligations of any federal agency, and/or

repurchase agreements fully collateralized with U.S. government obligations or U.S. agency obligations; AAA rated commercial paper, 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.

The Treasurer of State is authorized by statute 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.

The Indiana Public Retirement System (INPRS) Board of Trustees administers eight pension trust funds including seven Defined Benefit retirement plans and one Defined Contribution retirement plan, two other employment benefit trust funds, and one investment trust fund. Indiana law requires the Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as fiduciary for all assets under its control. The INPRS Board of Trustees is required to diversify investments in accordance with the prudent investor standards. At June 30, 2013, cash and investments of the funds were held by banks or trust companies under custodial agreements with INPRS. The INPRS Board of Trustees contracts with investment counsel, trust companies or banks to assist INPRS in its investment program. The Investment Policy Statement adopted by the INPRS Board of Trustees and the asset allocation approved by the Board of Trustees contains target allocations and allowable ranges that are expected to meet target rates of return over a long period of time while minimizing risk. The investments of INPRS are subject to the provisions of IC 5-10.3-5-3(a) and IC 5-10.4-3-10(a). See Note IV(A)(3) for more information.

Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage pool investments, and

repurchase agreements. The investments of the State Police Retirement fund are subject to the provisions of IC 10-12-2-2. See Note IV(A)(2) for more information.

2. Receivables and Payables

In the government-wide and proprietary fund financial statements, revenues are recognized on the flow of economic resources measurement focus. Material receivables are recognized as follows. Uncollected taxes due in the following periods are subject to accrual.

Individual income tax – Individual withholding tax is due from employers by the 20th day after the end of the month collected. Estimated payments are due from individuals by the 15th of the month immediately following each quarter or the calendar year.

Corporate income tax - Due quarterly on the 20th day of April, June, September, and December with the last payment due on April 15th for a calendar year taxpayer.

Sales tax – Due by the 20th day after the end of the month collected.

Fuel tax – Gasoline tax is due the 20th day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15th day after the end of the month collected or the 15th day after the end of the quarter collected. Motor carrier surtax is due at the end of the month following the end of the quarter.

Financial institutions tax – same laws as corporate income taxes (see above) for making payments.

Alcohol and tobacco taxes – Cigarette distributors must purchase tax stamps within 6 days after they accept delivery of the cigarettes. Cigarette tax is due within 30 days of the issuance of the tax stamp. Alcoholic beverage tax is due by the 20th day after the end of the month collected.

Inheritance tax – except as otherwise provided in IC 6-4.1-6-6(b), the inheritance tax imposed as a result of a decedent's death is due twelve (12) months after the person's date of death.

In the governmental fund financial statements, revenue is recognized on the flow of current financial resources. Material receivables are subject to accrual for receipts collected in the month of July.

The State of Indiana does not collect property tax, which is collected by local units of government.

Unearned revenue is the liability for the full accrual income taxes receivable net of the allowance for doubtful accounts plus cash on hand from federal grant programs.

3. Interfund Transactions and Balances

The State has the following types of interfund transactions in the governmental fund and proprietary financial statements:

Interfund services provided and used (reciprocal interfund activity) – Charges for goods or services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Interfund Transfers (non-reciprocal interfund activity) – Legally authorized transfers whereby the two parties do not receive equivalent cash, goods or services are reported as transfers.

The types of assets and liabilities resulting from these transactions are:

Interfund loans – These are balances arising from the short-term and long-term portion of interfund transactions.

Interfund services provided/used – These are balances arising in connection with reciprocal interfund activity or reimbursements. Balances relating to discretely presented component units are presented as 'Due from/to component units'.

Interfund services provided and interfund loans are eliminated in the government-wide statements because they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another.

4. Inventories and Prepaid Items

Inventories for the Inns & Concessions, Institutional Industries and Administrative Services Revolving funds are valued at cost. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Net Position

Certain net positions are classified as restricted net position because their use is completely restricted by bond indentures, contracts, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation. Net position restricted by enabling legislation for governmental activities totals \$0.9 billion, of which \$0.5 billion is permanent funds principal and \$0.4 billion is for the Economic Stabilization Fund as discussed in Note V(D).

6. Capital Assets

Capital outlays are reported as expenditures in the governmental funds and as assets in the government-wide statements to the extent the State's \$20,000 capitalization threshold for external financial reporting is met. In accordance with GASB Statement No. 34, all infrastructure assets have been capitalized retroactively.

The Indiana Department of Transportation (INDOT) uses the modified approach for reporting its infrastructure. The Department of Natural Resources (DNR) uses the depreciation approach for reporting its infrastructure.

Under the modified approach, the State has determined that the condition level for INDOT infrastructure assets to be maintained is:

- a network average International Roughness Index (IRI) of no more than 95 and no more than 10% of all pavements in the unacceptable range for Interstates, National Highway Safety (NHS) Non-Interstate roads, and Non-NHS roads,
- an average sufficiency rating of 87% for interstate bridges,
- an average sufficiency rating of 85% for NHS Non-Interstate bridges, and
- an average sufficiency rating of 83% for Non-NHS bridges.

The Bridge Division, Program Engineering, and Road Inventory Division of INDOT is responsible for determining the appropriate condition level of the infrastructure assets.

No amounts are capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential.

INDOT projects are capitalized based on capitalization and preservation percentages assigned to three hundred seventy-seven (377)

work types. For example, the cost for constructing a new bridge would likely be 100% capitalized; whereas, the cost for adding travel lanes to a road would likely be assigned a work type code resulting in capitalization at 50% and preservation at 50%.

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Road pavement condition assessments are performed annually on all INDOT state routes, including interstates. Condition assessments of all bridges are determined on a bi-annual basis. Sufficiency ratings of all bridges are determined on an annual basis by the Federal Highway Administration based on annual submittal of bridge condition data.

The State makes annual estimates of the amounts that must be expended to preserve and maintain these infrastructure assets at the predetermined condition levels.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Capital assets are depreciated in the proprietary and similar trust funds using the straight-line method on both the fund basis and the government-wide basis. Both the government-wide statements and proprietary and similar trust funds use the following estimated useful lives:

<u>Assets</u>	<u>Months</u>
Buildings and other structures including improvements to buildings and other structures	240-480
Computer software	36
Infrastructure (not using modified approach)	240-720
Furniture, machinery and equipment	12-168
Motor pool vehicles	96-168

The State of Indiana maintains several collections of works of art, historical treasures, and similar assets that are not capitalized. While the collections are maintained by different agencies, each collection is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organizational policy that either

prohibits sale or requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State’s major collections are:

- The Commission on Public Records, State Archives Collection consists of historical and legal documents, that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics.
- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

Other collections include the Historical Bureau’s Indiana Governors’ Portrait Collection, the Department of Administration’s Statehouse Collection, and the Indiana Arts Commission’s Collection. These collections consist primarily of art objects.

7. Compensated Absences

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment.

Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days. In addition, qualifying retiring employees are paid an additional payment up to a maximum of \$5,000, which is made up of unused vacation leave over 30 days, unused personal leave, and unused sick leave.

Employees of the legislative and judicial branches as well as those of the separately elected officials (i.e., Auditor of State) may convert a portion of accrued but unused vacation and sick leave into the deferred compensation plan. An employee must have at least 300 hours of vacation or sick leave accrued in order to participate in this plan. There is a sliding scale which determines how many hours are converted from those hours the employee has accrued. The hours converted are deposited into

the deferred compensation program's 401(a) plan at 60% of the employee's hourly rate. Employees of the legislative branch of government have elected to participate in this program for FY 2013.

Matured vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long term liabilities in the government-wide, proprietary, and fiduciary fund financial statements.

8. Long-Term Obligations

Long-term debt and other obligations are reported in the government-wide statements and the proprietary funds statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund.

In the governmental fund financial statements, bond issuance costs and bond discounts are treated as period costs in the year of issue. Proceeds of long term debt, issuance premiums or discounts and certain payments to escrow agents for bond refundings are reported as other financing sources and uses.

9. Fund Balance

In the fund financial statements, fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned. A brief description of each category is as follows:

Nonspendable – represents amounts that are either not in spendable form, such as inventories, and activity that is legally or contractually required to be maintained intact, such as a principal balance in a permanent fund.

Restricted – represents amounts restricted to specific purposes because of constraints placed on their use that are either externally imposed such as by grantors or imposed by law through constitutional provisions or enabling legislation.

Committed – represents amounts that can only be used for a specific purpose pursuant to constraints imposed by the government's highest level of decision making authority. The State of Indiana's highest level of decision making authority is the General Assembly. The formal action necessary would be the enactment of a State law that specifically establishes, modifies, or rescinds a fund balance commitment.

Assigned – represents amounts that are constrained by the government's intent to be used for specific purposes as expressed by the governing body itself or the official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The State Budget Agency has the authority per the biennial budget bill to make assignments of fund balances for specific purposes except for those restricted by law. The State Board of Finance comprised of the Governor, Auditor of State and Treasurer of State is empowered to make assignments of funds except for trust funds per I.C. 4-9.1-1-7.

Unassigned – represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Only the general fund may report a positive unassigned fund balance; whereas, other governmental funds may need to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

Funds on the State's accounting system are assigned one of the five fund balance classifications. If a fund has resources that are both restricted and unrestricted, then expenditures are applied first to restricted fund balance and then unrestricted amounts. A fund's unrestricted fund balance would have committed amounts reduced first, assigned amounts second, and unassigned amounts third when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

As described in Note I, Summary of Significant Accounting Policies, differences exist between the government-wide and the governmental fund financial statements. These differences are summarized in the reconciliations that follow the governmental fund financial statements.

A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

In the government-wide financial statements, capital assets are considered economic resources and are capitalized at cost or estimated historical cost at time of acquisition. Where applicable these costs are offset by accumulated depreciation or amortization.

The government-wide statements use the flow of economic resources and accrue receivables that are not available soon enough in the subsequent period to pay for the current period's expenditures. Also under the flow of economic resources, expenses reported in the statement of activities do not require the use of current financial resources. Both these receivables and payables are accrued in the government-wide statements, but not in the fund financial statements.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the assets and liabilities of internal service funds are included in governmental activities in the statement of net position. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

In the government-wide financial statements, the cost for capital outlays, except for governmental infrastructure, is allocated over the assets' useful lives and is reported as depreciation or amortization expense. In the fund financial statements, capital outlays are reported as expenditures in the functional line items.

The government-wide statements use the flow of economic resources and therefore do not report revenues and expenses dependent on the availability of financial resources, as is reported in the fund financial statements. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the fund financial statements. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces long-term liabilities in the statement of net position.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the expenses of internal service funds are included in governmental activities in the statement of activities. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

At June 30, 2013, various funds had a deficit fund balance caused by overdrafts from pooled cash and investments and the posting of accruals to the

balance sheet. Temporary cash overdrafts are reported as interfund loans from the general fund.

Fund	Overdraft from pooled cash	Accrual deficits
Governmental Funds		
US Department of Transportation	\$ -	\$ (26,924)
US Department of Health & Human Services	(80,620)	(12,598)
US Department of Education	-	(55,798)
S&S Children Home Construction	(709)	-

B. Fund Balance

The State of Indiana reports its fund balances for governmental funds as nonspendable, restricted, committed, assigned, and unassigned. The detail

of the fund balance classifications at June 30, 2013 is as follows:

	Major Special Revenue Funds			
	General Fund	Public Welfare - Medicaid Assistance Fund	Major Moves Construction Fund	Non-Major Funds
Fund Balances:				
Nonspendable:				
Permanent fund principal	\$ -	\$ -	\$ -	\$ 520,665
Restricted:				
Administration	378,559	-	-	-
Committed:				
Administration	-	-	-	7,426
Public Health	-	-	-	316,290
Economic Development	6,030	-	-	11,270
Environmental	-	-	-	561
Natural Resources	-	-	-	468
Higher Education	-	-	-	4
Secondary Education	-	-	-	564,681
Roads & Bridges	-	-	-	166,166
Other Purposes	-	-	-	14,818
Assigned:				
Administration	72,575	-	-	209,474
Corrections	46,195	-	-	10,676
Police & Protection	11,277	-	-	190,802
Mental Health	-	-	-	62,061
Public Health	22	416,762	-	276,447
Child Services	205,713	-	-	133,753
Disability & Aging	3	-	-	9,445
Economic Development	862	-	-	43,516
Environmental	552	-	-	96,334
Natural Resources	249	-	-	105,755
Higher Education	-	-	-	23,582
Secondary Education	5,311	-	-	29,698
Roads & Bridges	81	-	774,481	374,465
Capital Outlay	92,884	-	-	70,015
Other Purposes	1,762	-	-	48,600
Encumbrances	759,540	-	-	-
Unassigned:	1,756,635	-	-	(176,649)
Total fund balance	\$ 3,338,250	\$ 416,762	\$ 774,481	\$ 3,110,323

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits, Investments and Securities Lending

1. Primary Government – Other than Major Moves Construction Fund and Next Generation Trust Fund, Investment Trust Funds, and Pension and Other Employee Benefit Trust Funds.

Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Major Moves Construction Fund and the Next Generation Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and Indiana Code 8-14-15, respectively. The Treasurer of State shall invest these funds in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5 with the exception that monies may not be invested in equity securities. For more information, please see the PERF policy in note IV(A)3. There are no formal deposit or investment policies for the investment of these

funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; 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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statute does not establish any parameters or guidelines related to interest rate risk.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2013:

Investment Type	Fair Value Totals	Investment Maturities (in Years)		
		Less than 1	1 - 5	6 - 10
U.S. Treasuries	\$ 627,108	\$ 627,108	\$ -	\$ -
U.S. Agencies	3,040,659	2,550,623	490,036	-
Supranationals	168,549	168,549	-	-
Municipal Bonds	37,570	19,386	-	18,184
Local Govt Investment Pool	200,015	200,015	-	-
Non-U.S. Fixed Income	35,120	5,015	30,105	-
Certificate of Deposits	144,008	141,408	2,600	-
Money Market Mutual Funds	519,009	519,009	-	-
Total	\$ 4,772,038	\$ 4,231,113	\$ 522,741	\$ 18,184.00

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2013, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty’s trust department or agent, but not in the name of the State of Indiana. None of the State’s investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian’s operational failure, (ii) custodian’s failure to carry out the credit analysis, (iii) custodian’s failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Indiana Code 5-13-9-2 authorizes the State Treasurer to invest or reinvest in securities fully guaranteed and issued by (1) the United States Treasury, (2) a federal agency, (3) a federal instrumentality, or (4) a federal government sponsored enterprise. The State Treasurer 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. The portfolio of the 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 numbers (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; or (2) Aaa, or its equivalent, by Moody’s Investors Service, Inc. or its successor.

The following table provides information on the credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities as of June 30, 2013. It

reflects the greatest risk rating (the credit rating reflecting the greatest degree of risk) as set by three nationally recognized rating organizations (S&P, Moody, and Fitch) for each type of investment:

Primary Government		
Investment Type	Greatest Risk Rating	Fair Value
U.S. Treasuries	AA	\$ 627,108
U.S. Agencies	AA	3,040,659
Supranationals	AAA	168,549
Certificate of Deposits	NR	144,008
Municipal Bonds	NR	37,570
Non-US Fixed Income Bonds	A	35,120
Local Govt Investment Pool	NR	200,015
Money Market Mutual Funds	AAA	519,009
Total		<u>\$4,772,038</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Indiana Code 5-13-10-3 states that the State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Board for Depositories.

Investments in any one issuer, other than securities issued or guaranteed by the US government, that represent 5% or more of the total investments are:

FHLMC	9.22%	\$556,143
FHLB	21.55%	\$1,299,448
FNMA	11.71%	\$706,080

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2013, there were no deposits or investments denominated in foreign currencies, thus there was no foreign currency risk.

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. 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, a federal instrumentality, or a federal government sponsored enterprise, in excess of the total market value of the loaned securities. The Treasurer of State is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository, 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 or (2) a financial institution located either in or out of Indiana 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. State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

The State's custodial banks manage the securities lending programs and receive cash or securities as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. Cash received as collateral is reported as an asset and a liability on the balance sheet. Securities received as non-cash collateral are not reported on the balance sheet because the State does not have the ability to pledge or sell them without a borrower default. Generally, there are no restrictions on the amount of assets that can be lent at one time.

Cash collateral may be invested. Cash collateral is

generally invested in securities of a longer term with the mismatch of maturities generally 0-35 days. The weighted average maturity gap at June 30, 2013 was 26 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

At year end, the State had no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

As of June 30, 2013, the fair values of the underlying securities on loan were:

Security Type	Fair Value
U.S. Governments	\$ 430,041
U.S. Agencies	239,478
Total	\$ 669,519

The fair values of the cash and non-cash collateral received were:

Security Type	Fair Value
U.S. Governments	\$ 440,036
U.S. Agencies	244,310
Total	\$ 684,346

Collateral percentage: 102.21%

Collateral Type	Fair Value
Non-cash collateral	\$ 237,932
Cash collateral	446,414
Total	\$ 684,346

Major Moves Construction Fund/Next Generation Trust Funds

Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Major Moves Construction Fund and the Next Generation Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and

Indiana Code 8-14-15, respectively. The Treasurer of State shall invest these funds in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5, except the funds may not be invested in equity securities. Investment Policy Statements for the investment of these two funds has been adopted by the Treasurer of State. The Investment Policy Statements are written in conformity with the applicable investment statutes and in accordance with prudent investor standards. There is no formal deposit policy other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk. The Investment Policy Statements establish asset allocations for both Funds and set limits for the exposure in securities from any one issuer to not more than 5% of a Core Fixed Income Investment Manager's

portfolio and not more than 10% of a Core Plus Fixed Income Investment Manager's portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Fund's policy for controlling its exposure to interest rate fluctuations should be viewed with the appropriate perspective. A long-term strategy was employed to achieve the Fund's objectives, but there was consideration given to the short-term liquidity needs to meet disbursements required by the Fund. The asset allocation and investment manager structure was designed to tolerate some interim fluctuations in market value while maintaining a long-term return objective of 5.25%.

The following table provides the interest rate risk disclosure for the Major Moves/Next Generation Trust Fund as of June 30, 2013:

Major Moves/Next Generation Funds					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6- 10	More than 10
U.S Treasuries	\$ 248,704	\$ 60,528	\$ 144,786	\$ 22,976	\$ 20,414
U.S. Agencies	18,104	384	11,115	4,428	2,177
Government Asset and Mortgage Backed Collateralized Mortgage Obligations	110,265	-	3,627	3,113	103,525
Government CMOs	32,828	-	4,752	10,226	17,850
Corp CMOs	16,411	11	440	1,858	14,102
Corporate Bonds	452,535	136,015	230,323	63,277	22,920
Corporate Asset Backed	89,299	1,316	35,270	8,116	44,597
Private Placements	231,370	24,074	147,197	40,149	19,950
Municipal Bonds	20,479	8,673	8,434	2,678	694
Commercial Paper	27,170	27,170	-	-	-
Non US Government/Corp Bonds	40,943	10,946	6,414	11,508	12,075
Mutual Funds	58,580	58,580	-	-	-
	<u>\$ 1,346,688</u>	<u>\$ 327,697</u>	<u>\$ 592,358</u>	<u>\$ 168,329</u>	<u>\$ 258,304</u>

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2013, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial

credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians

failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The investment managers must adhere to the following guidelines:

Intermediate and Core Fixed Income Managers

- The average credit quality of each manager's portfolio shall not be lower than Aa3/AA-
- All securities at the time of purchase shall have a Moody's, S&P's and/or Fitch's credit quality rating of no less than BBB
- In the event a holding is downgraded to less than BBB, the manager will have the discretion over when to sell the security, generally, no later than 90 days following the downgrade.

Core Plus Fixed Income Managers

- At least 60% of the securities held in the portfolio shall have a credit rating of no less than BBB
- Investments in high-yield and non-US debt are permitted, but combined exposure to those sectors should not exceed 40%
- The average credit quality of each manager's portfolio shall not be lower than single A

Hybrid Fixed Income Managers

- High-yield and non-US debt securities are permitted
- Non US-dollar currency exposure is permitted

The following table provides information on the credit quality ratings for investments in debt securities, short-term money market funds, bond mutual funds and bond commingled funds, municipal securities, asset-backed, and mortgage-backed securities as of June 30, 2013. It reflects the "greatest risk" rating (the credit rating reflecting the greatest degree of risk) as set by three

nationally recognized rating organizations (S&P, Moody, and Fitch) for each type of investment.

Major Moves/Next Generation Funds		
Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Treasuries	AA	\$ 248,704
U.S. Agencies	AA	17,785
	A	319
Government Asset And Mortgage Backed	AA	74,562
	NR	35,703
Collateralized Mortgage Obligations:		
Government CMO's	AAA	34,105
	NR	(1,277)
Corporate CMO's	AAA	4,040
	AA	1,445
	A	1,115
	BBB	2,142
	BB	903
	B	535
	CCC&Below	6,231
Non US Govt/Corp Bonds	A	2,075
	BBB	24,249
	BB	1,035
	B	1,701
	NR	11,883
Corporate Bonds	AAA	596
	AA	35,656
	A	175,982
	BBB	172,762
	BB	28,762
	B	26,972
	CCC&Below	8,816
	NR	2,989
Corporate Asset and Mortgage Backed	AAA	66,566
	AA	10,123
	A	6,991
	BBB	736
	BB	2,116
	B	940
	CCC&Below	1,827
Private Placements	AAA	35,288
	AA	15,487
	A	16,095
	BBB	29,219
	BB	12,079
	B	25,191
	CCC&Below	13,792
	NR	84,219
Commercial Paper	AA	25,177
	A	1,993
Municipal Bonds	AAA	749
	AA	9,359
	A	9,358
	BBB	804
	NR	209
Money Market Mutual Funds	NR	58,580
Total		\$ 1,346,688

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools. For Intermediate and Core Fixed Income Managers, securities in any one issuer should be limited to not more than 5% of the investment manager's portion of the Fund portfolio measured at market value. For Core Plus Fixed Income Managers, the exposure of each manager's portfolio should be limited to not more than 10% of the manager's portion of the Fund portfolio measured at market value.

Investments in any one issuer that represent 5% or more of the total investments are:

FNMA 6.83% \$90,539

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Major Moves/Next Generation Trust Fund's foreign currency exposure is focused primarily in fixed income securities. The exposure to foreign currency fluctuation is as follows:

Currency	Combined Total	% of Total Market Value
Brazil Real	\$ 3,976	0.30%
Chilean Peso	812	0.06%
Columbian Peso	2,003	0.15%
Euro	168	0.01%
Indonesian Rupian	51	0.01%
Japanese Yen	(3,531)	-0.27%
Malaysian Ringgit	34	0.00%
Mexico New Peso	6,782	0.51%
New Turkish Lira	2,397	0.18%
Philippines Peso	1,489	0.11%
Polish Zloty	996	0.08%
Pound Sterling	(1,584)	-0.12%
Russian Rubel	2,407	0.18%
South African Comm R	1,408	0.11%
Swiss Franc	16	0.00%
Uruguayan Peso	2,645	0.20%
Others	8	0.00%
Total	\$ 20,077	1.51%

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. 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, a federal instrumentality, or a federal government sponsored enterprise, in excess of the total market value of the loaned securities.

At year end, there were no securities on loan and therefore, no credit risk exposure.

TrustIndiana, Local Government Investment Pool (Investment Trust Funds)

Investment Policy

Indiana Code, Title 5, Article 13, Chapter 9, Section 11 established the local government investment pool (TrustIndiana) within the office and custody of the Treasurer of State. The Treasurer of State shall invest the funds in TrustIndiana in the same manner, in the same type of instruments, and subject to the same limitations provided for the deposit and investment of state funds by the Treasurer of State under Indiana Code 5-13-10.5. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk. However, pursuant to IC 5-13-9-11(g)(7), no less than fifty percent of funds available for investment shall be deposited in banks qualified to hold deposits of participating local government entities. Investment criteria have been established to create the principles and procedures by which the funds of TrustIndiana shall be invested and to comply with state statute relating to the investment and deposit of public funds.

Valuation of Investments

Consistent with the provisions of a 2a-7 like pool as defined by GASB Statement No. 31, TrustIndiana securities are valued at amortized cost, which approximates market value.

Interest Rate Risk

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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2013:

TrustIndiana - Local Government Investment Pool		
Investment Type	Amortized Cost	Investment Maturities (in Years)
		Less than 1
U.S. Agencies	\$ 59,803	\$ 59,803
Supranationals	16,569	16,569
Commercial Paper	97,314	97,314
Money Market Mutual Funds	<u>3,627</u>	<u>3,627</u>
Total	\$ <u>177,313</u>	\$ <u>177,313</u>

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2013, the balance of all bank deposits were covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. TrustIndiana limits its investments in any one issuer to the highest rating category issued by one nationally recognized statistical rating organization.

The following table provides information on the credit quality ratings for investments in TrustIndiana:

TrustIndiana - Local Government Investment Pool		
Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Agencies	AA+	\$ 59,803
Supranationals	AAA	16,569
Commercial Paper	A1	97,314
Money Market Mutual Funds	AAA	<u>3,627</u>
Total		\$ <u>177,313</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. As noted above, TrustIndiana is required to be comprised of no less than 50% of deposits in banks from an approved list maintained by the State of Indiana. In addition,

TrustIndiana limits its investments in any one issuer to 40% of net assets if the issuer is rated A1+/P1 and 25% of net assets if the issuer is rated A1/P1. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

Investments in any one issuer, not exempt from disclosure, that represents 5% or more of the total investments were:

FHLB	8.43%	\$	33,134
FRMC	5.90%	\$	23,196

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent under an agreement which requires the loaned securities to be collateralized in the form of (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, a federal instrumentality, or a federal government sponsored enterprise, in an amount at least equal to 102% of the current market value of the loaned securities. The net income earned through securities lending is recorded as additional income to the Pool. As of June 30, 2013, there were no securities on loan and therefore, no credit risk exposure.

2. Pension and Other Employee Benefit Trust Funds – Primary Government

State Police Pension Fund

Investment Policy

The Indiana State Police Pension Trust was established in 1937 to provide pension, death, survivor, and other benefits to present and former employees of the department and their beneficiaries who meet the statutory requirement for such benefits.

Indiana Code 10-1-2-2(c), established the prudent investor standard as the primary statutory provision governing the investment of the Trust’s assets. Per IC 10-1-2-2 (c) as follows:

The trust fund may not be commingled with any other funds and shall be invested only in accordance with Indiana laws for the investment of trust funds, together with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish

investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards. There is no formal deposit policy other than compliance to State statute.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in debt securities, short term money market funds, bond mutual/commingled funds, municipal securities, asset-backed, and mortgage backed securities for the State Police Pension Trust. It reflects the “greatest risk” rating (the credit rating reflecting the greatest degree of risk) as set by three nationally recognized rating organizations (S&P, Moody, and Fitch) for each investment type.

State Police Pension Fund		
Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Treasuries	AA	\$ 5,423
U.S. Agencies	AA	621
U.S. Agencies Assets and Mortgage Backed Securities	AA	9,119
	NR	241
Collateralized Mortgage Obligations		
Corporate CMO's	AAA	689
	A	153
	BBB	41
U.S. Agencies CMOs	AA	1,115
	NR	765
Corporate Bonds	AA	976
	A	4,797
	BBB	9,640
	BB	615
	B	989
	CCC & Below	117
Corporate Asset Backed	AAA	2,074
	AA	147
	A	573
	BBB	302
Private Placements	A	205
	BBB	419
Municipal Bonds	AAA	227
	AA	792
	A	804
	BBB	220
Mutual/Commingled Funds	NR	150,007
Total		\$ 191,071

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2013, the balance of the State Police Pension Trust deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the customer. None of the Indiana State Police Pension Trust's investments are exposed to custodial credit risk because they are held in the name of the Indiana State Police Pension Trust. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Indiana State Police Trust has eighteen different investments managers. Each investment manager is retained by the Trust to implement a specific investment style and strategy and shall adhere to the specific limitations on holdings outlined in each investment manager's securities guidelines. The securities guidelines for each investment manager is negotiated and agreed upon in writing on a case-by-case basis and referenced in Appendix D of the Investment Policy Statement.

At June 30, 2013, there were no investments in any one issuer that represents 5% or more of the total investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Fund's policy for controlling its exposure to interest rate fluctuations should be viewed with the appropriate perspective. A long-term strategy was employed to achieve the Fund's objectives, but there was consideration given to the short-term liquidity needs to meet disbursements required by the Fund. The asset allocation and investment manager structure was designed to tolerate some interim fluctuations in market value while maintaining a long-term return objective to exceed the actuarial assumed interest rate of 6.75%.

The following table provides the interest rate risk disclosure for the Indiana State Police Pension Fund:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6- 10	More than 10
U.S. Treasuries	\$ 5,423	\$ 400	\$ 796	\$ 3,357	\$ 870
U.S. Agencies					
Bonds	621	-	420	201	-
Mortgage Backed	9,360	-	147	598	8,615
Government CMO's	1,880	-	-	69	1,811
Collateralized Mortgage Obligations					
Corporate CMO's	883	-	-	211	672
Corporate Bonds	17,134	83	5,009	9,782	2,260
Corporate Asset Backed	3,096	114	324	-	2,658
Foreign Bonds	-	-	-	-	-
Private Placements	624	-	-	502	122
Municipal Bonds	2,043	235	299	690	819
Mutual/Commingled Funds	150,007	103,855	-	-	46,152
Total Fixed Income Securities	\$ 191,071	\$ 104,687	\$ 6,995	\$ 15,410	\$ 63,979

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State Police Pension Trust's foreign currency exposure is focused primarily in international and global equity holdings. The exposure to foreign currency fluctuation is as follows:

Currency	Market Value	% of Total Market Value
Australian Dollar	\$ 1	0.00%
Brazil Real	292	0.07%
Euro	1,414	0.32%
Hong Kong	2,600	0.59%
Indonesian Rupiah	186	0.04%
Japanese Yen	3,827	0.87%
Singapore Dollar	600	0.14%
S. African Rand	979	0.22%
Thailand Baht	(2)	0.00%
Total	\$ 9,897	2.26%

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. 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, a federal instrumentality, or a federal government sponsored enterprise. The market value of the required collateral must be in an amount at least equal to 102% of the current market value of the loaned securities.

As of June 30, 2013, the State Police Pension Trust did not have any securities on loan and therefore, no credit risk exposure.

State Employee Retiree Health Benefit Trust Fund-DB

Investment Policy

The State Retiree Health Benefit Trust Fund – DB fund is comprised of the State Police Retiree Health Benefit Trust Fund, the SPD OPEB Trust Fund, the DNR OPEB Trust Fund, and the ATC/Excise OPEB Trust Fund.

The State Police Retiree Health Benefit Trust Fund consists of sections 401(h) and 115 established pursuant to the Internal Revenue Service that are

separate accounts established within the State Police Pension Fund for the purpose of paying benefits for sickness, accident, hospitalization, and medical expenses. The assets in this account may be commingled for investment purposes only with the other accounts of the Indiana State Police Pension Fund. The investment authority for this Fund, since it is to be invested in the same manner as the State Police Pension Fund, is established under Indiana Code IC 10-12-2-2(c). There is no formal deposit policy other than compliance to State statute.

Per IC 10-12-2-2(c) as follows:

The trust fund shall be invested only in accordance with Indiana laws for the investment of trust funds, together with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards.

The SPD, DNR, and the ATC/Excise OPEB Trust Funds were established pursuant to HEA 1123 of the 2012 Indiana General Assembly. The State Personnel Department administers the SPD OPEB Trust Fund. The Department of Natural Resources administers the DNR OPEB Trust Fund. The ATC/Excise OPEB Trust Fund is administered by the Alcohol and Tobacco Commission. These trust funds were created to provide for the prefunding of annual required contributions and for covering the OPEB liability of covered individuals. The Treasurer of State shall invest monies in these trust funds not currently needed to meet the obligations of the trust funds in the same manner as other public money may be invested. Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. There are no formal deposit and investment policies for the investment of these funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in the State Retiree Health Benefit Trust Fund-DB:

State Employee Retiree Health Benefit Trust Funds - DB		
Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Agencies	AA+	68,128
Total		\$ 68,128

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2013, the balance of any bank deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

Investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments were:

FHLB	88.16%	\$60,065
FHLMC	10.51	7,158

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There was no foreign currency risk.

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. 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, 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.

At year end, there were no securities on loan and therefore, no credit risk exposure.

Interest Rate Risk

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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2013:

State Employee Retiree Health Benefit Trust Fund - DB Plans			
Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Agencies	68,128	60,164	7,964
Total	\$ 68,128	\$ 60,164	\$ 7,964

State Employee Retiree Health Benefit Trust Fund-DC

Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the State Retiree Health Benefit Trust Fund-DC has separate investment authority as established under Indiana Code 5-10-8-8.5 (b). The Treasurer of State shall invest the money in the trust fund not currently needed to meet the obligations of the trust fund in the same manner as other public money may be invested. There are no formal deposit and investment policies for the investment of these funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in the State Retiree Health Benefit Trust Fund-DC:

State Employee Retiree Health Benefit Trust Fund-DC		
Investment Type	Greatest Risk	
	Ratings	Fair Value
U.S. Agencies	AA+	\$210,030
Supranationals	AAA	10,005
Total		\$220,035

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to

recover collateral securities that are in the possession of an outside party.

At June 30, 2013, the balance of any bank deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodian's failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

Investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments were:

Federal Home Loan Banks	45.46%	\$ 100,027
Federal Home Loan Mortgage Corporation	15.98%	35,170
Federal National Mortgage Association	22.66%	49,851
Federal Agriculture Mortgage Corporation	6.81%	14,994

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There was no foreign currency risk.

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. 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, 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.

At year end, there were no securities on loan and therefore, no credit risk exposure.

Interest Rate Risk

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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2013:

State Employee Retiree Health Benefit Trust Fund - DC			
Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Agencies	\$210,030	\$ 144,995	\$ 65,035
Supranationals	10,005	5,008	4,997
Total	\$220,035	\$ 150,003	\$ 70,032

3. Pension Trust Funds – Fiduciary in Nature Component Unit

Indiana Public Retirement System

Investment Guidelines and Limitations

The Indiana General Assembly enacted the prudent investor standard to apply to the INPRS Board of Trustees and govern all its investments. Under statute (IC 5-10.3-5-3(a)) for PERF and (IC 5-10.4-3-10(a)) for TRF, the Board of Trustees must “invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.” The Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the INPRS Board of Trustees has broad authority to invest the assets

of the plans. The INPRS Board of Trustees utilizes external investment managers, each with specific mandates to achieve the investment objectives of the retirement funds. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the INPRS Board of Trustees. An asset allocation review is conducted periodically.

Effective January 1, 2012, the INPRS Board of Trustees adopted a new Investment Policy Statement and the new strategic asset allocation for the Consolidated Defined Benefit Assets is as follows:

Asset Classes	Target Allocation - %	Allowable Ranges - %
Public Equity	22.5	20-25
Private Equity	10	7-13
Fixed Income - Ex Inflation - Linked	22	19-25
Fixed Income - Inflation - Linked	10	7-13
Commodities	8	6-10
Real Estate	7.5	4-11
Absolute Return	10	6-14
Risk Parity	10	5-15

Contributions and asset reallocation in the PERF and TRF Annuity Savings Accounts and the Legislators’ Defined Contribution Plan (LEDC) are directed by the members in each plan and as such, the asset allocation will differ from that of the Consolidated Defined Benefit Assets.

The Pension Relief Fund (PR Fund) is invested 100 percent in a money market fund. The State Employees’ Death Benefit Fund and the Public Safety Officers’ Special Death Benefit Fund are 100 percent invested in short-term and fixed income investments.

Custodial Credit Risk

Deposits, investment securities, and collateral securities are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, that INPRS will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of INPRS and are held by either the counterparty or the counterparty trust department’s agent, but not in INPRS’ name.

Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5 for PERF and IC 5-10-4-3-14(a)) and IC 5-10.4-3-13 for TRF, securities are required to be held for the fund under custodial agreements. INPRS' custody agreement with the custodian requires that the custodian segregate the securities on the custodian's books and records from the custodian's own property. In addition, any investment manager for INPRS is not allowed, under any circumstances, to take possession, custody, title, or ownership of any managed assets.

There was no custodial credit risk for investments including investments related to securities lending collateral as of June 30, 2013.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit accounts are carried at cost and are insured up to \$250 thousand for each institution. Deposits in the demand accounts held in excess of \$250 thousand are not collateralized. Deposits with the Indiana Treasurer

of State are entirely insured. Deposits held with the investment custodian are insured up to \$250 thousand. Deposits held with counterparties are carried at cost and are not insured or collateralized.

Cash Deposits	Total
Demand Deposit Account – Bank Balances	\$ 10,001
Held with Treasurer of State	1,234
Held with Counterparties	227,713
Total	\$ 238,948

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes. The INPRS Investment Policy Statement recognizes interest rate risk as a market risk factor that is monitored on an absolute and relative basis.

As of June 30, 2013 the debt securities had the following duration information:

Debt Security Type	Fair Value 6/30/2013	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Short Term Investments			
Cash at Brokers	\$ 227,648	1.7%	-
Money Market Sweep Vehicle	983,930	7.5%	0.01
Commercial Paper	9,692	0.1%	0.16
U.S. Treasury Obligations	183,284	1.4%	0.22
U.S. Agencies	43,070	0.3%	0.14
Non-U.S. Government	19,612	0.2%	0.13
Total Short Term Investments	1,467,236	11.2%	
Fixed Income Investments			
U.S. Governments	3,720,035	28.4%	8.94
Non-U.S. Government	1,361,258	10.4%	7.51
U.S. Agencies	1,029,359	7.9%	3.68
Corporate Bonds	3,496,484	26.7%	4.68
Asset-Backed Securities	834,536	6.4%	1.16
Commingled Fixed Income Funds	8,493	0.1%	3.79
Duration Not Available	1,186,224	8.9%	N/A
Total Fixed Income Investments	11,636,389	88.8%	
Total Debt Securities	\$13,103,625	100.0%	

The \$1,186 million, for which no duration was available, is primarily made up of commingled debt funds.

Credit Risk

The credit risk of investments is the risk that the issuer will default and not meet their obligations. The INPRS Investment Policy Statement recognizes credit (quality) risk as a market and strategic risk factor that is monitored on an absolute and relative basis.

The quality rating of investments in debt securities as described by Moody's at June 30, 2013 is as follows:

Moody's Rating	Total	Percentage of All Debt Securities
Aaa	\$ 1,058,622	8.1%
US Government Guaranteed	4,756,243	36.3%
Aa	953,678	7.3%
A	1,117,185	8.5%
Baa	1,898,222	14.5%
Ba	309,353	2.3%
B	209,712	1.6%
Below B	77,789	0.6%
Unrated	2,722,821	20.8%
Total	\$ 13,103,625	100.0%

The \$2,723 million not rated by Moody's is primarily in the following security types: cash at broker, money market sweep vehicles, asset-backed securities, commercial mortgages, CMO/Remics and commingled debt funds.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The INPRS Investment Policy Statement recognizes issuer risk as a strategic risk factor that is monitored on an absolute and relative basis.

INPRS Investment Policy Statement has placed an upper limit on the concentration of assets placed with an investment manager.

No investment manager shall manage more than 10 percent of the system's assets in actively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no

investment manager shall be allowed to manage in excess of 15 percent of the systems' assets in actively managed portfolios without Board approval.

No investment manager shall manage more than 15 percent of the system's assets in passively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 20 percent of the system's assets in passively managed portfolios without Board approval.

No investment manager shall manage more than 25 percent of the system's assets in a combination of actively and passively managed portfolios.

At June 30, 2013, single issuer exposure in the portfolio did not exceed 5 percent of the total net investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. INPRS' foreign currency exposure is focused primarily in international equity holdings.

The INPRS Investment Policy Statement recognizes foreign exchange risk and the impact on incremental risk and return is assessed based on overall portfolio exposure. Unless otherwise approved by the Board, management of foreign currency exposure will only be implemented (1) by an Investment Manager on its Portfolio when the Investment Manager possesses recognized foreign exchange experience or (2) by an overlay manager or other third-party expert for a specific Portfolio or Retirement Fund. Any hedging strategy recommendation will be presented to the Board for approval and incorporated into the benchmark. The management and implementation of Board approved hedging activities will be implemented by the CIO, with the advice of the Executive Director and Consultants who are approved by the Board.

INPRS has exposure to foreign currency fluctuation as follows:

Currency	Short Term Investments	Debt Securities	Equity Securities	Other Investments	Grand Total	% of Total
Australian Dollar	\$ 347	\$ 17,777	\$ 81,705	\$ (36,511)	\$ 63,318	0.2%
Brazilian Real	203	26,045	13,940	22,835	63,023	0.2
Canadian Dollar	996	90,257	82,379	(88,895)	84,737	0.3
Chilean Peso	-	4,473	-	(5,343)	(870)	-
Chinese R Yuan HK	-	-	-	(4,134)	(4,134)	-
Chinese Yuan Renminbi	-	-	20	193	213	-
Colombian Peso	-	12,801	590	(1,358)	12,033	-
Czech Koruna	76	-	3,895	(6,415)	(2,444)	-
Danish Krone	82	-	16,677	-	16,759	0.1
Egyptian Pound	-	-	478	-	478	-
Euro Currency Unit	4,725	557,619	519,941	(337,438)	744,847	2.7
Hong Kong Dollar	493	-	137,850	-	138,343	0.5
Hungarian Forint	24	6,023	710	2,912	9,669	-
Indian Rupee	29	-	24,856	12	24,897	0.1
Indonesian Rupiah	66	14,082	3,101	3,855	21,104	0.1
Israeli Shekel	12	-	2,130	-	2,142	-
Japanese Yen	15,341	48,872	404,659	(72,072)	396,800	1.4
Malaysian Ringgit	42	20,011	5,149	18,475	43,677	0.2
Mexican Peso	5,882	38,034	4,361	(7,328)	40,949	0.1
New Taiwan Dollar	440	7	29,416	(259)	29,604	0.1
New Turkish Lira	26	23,331	25,115	(3,248)	45,224	0.2
New Zealand Dollar	27	7,846	1,911	491	10,275	-
Nigerian Naira	1,453	2,156	-	-	3,609	-
Norwegian Krone	161	40	31,011	34,588	65,800	0.2
Peruvian Nuevo Sol	-	2,179	-	278	2,457	-
Philippine Peso	18	8,971	2,051	1,724	12,764	-
Polish Zloty	353	13,341	1,658	1,705	17,057	0.1
Pound Sterling	6,552	272,418	319,815	(277,127)	321,658	1.2
Romania Leu	1	1,602	-	-	1,603	-
Russian Rubel	-	15,948	-	5,569	21,517	0.1
S. Africa Comm Rnd	210	14,487	19,842	6,810	41,349	0.1
Singapore Dollar	40	-	33,128	(1,217)	31,951	0.1
South Korean Won	58	177	61,732	1,784	63,751	0.2
Swedish Krona	1,447	61,675	67,469	(62,251)	68,340	0.2
Swiss Franc	2,189	(27)	132,424	(8,153)	126,433	0.5
Thai Baht	95	12,781	15,649	855	29,380	0.1
Uruguayan Peso	-	1,066	-	-	1,066	-
Held in Foreign Currency	\$ 41,388	\$ 1,273,992	\$ 2,043,662	\$ (809,663)	\$ 2,549,379	9.0%

The foreign currency figures are comprised of all of the assets within the investment portfolio. The short term investment, debt securities and equity securities include accruals. Other investments include foreign holdings of other investments, derivatives and receivables/payables.

Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the INPRS Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which certain securities held by the custodian on behalf of INPRS may be loaned. The statute requires that collateral initially in

excess of the total market value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total market value of the loaned securities.

The purpose of such a program is to provide additional revenue for the Consolidated Defined Benefits Assets. The INPRS Investment Policy Statement requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent for domestic securities and 105 percent for international securities. No more than 40 percent of the Consolidated Defined Benefit Assets may be lent at one time. The custodian bank and/or its securities

lending sub-agents provide 100 percent indemnification of the Consolidated Defined Benefit Assets against borrower default, overnight market risk and failure to return loaned securities. Securities received as collateral cannot be pledged or sold unless the borrower defaults. INPRS retains the market value risk with respect to the investment of the cash collateral.

Cash collateral investments are subject to the investment guidelines specified by the INPRS Investment Policy Statement. It states that the maximum weighted average days to maturity may not exceed 60. The securities lending agent matches the maturities of the cash collateral investments with stated securities loans' termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

Securities Lending as of June 30, 2013	
Market value of securities on loan	<u>\$ 1,849,234</u>
Fair value of cash and non-cash collateral by investment type:	
U.S. Governments	\$ 1,076,460
Corporate Bonds	143,000
International Bonds	40,743
Domestic Equities	470,901
International Equities	<u>168,746</u>
Fair value of cash and non-cash collateral	1,899,850
Fair value of non-cash collateral that is not included in the Statements of Fiduciary Plan Net Position	<u>819,303</u>
Fair value of cash collateral (liability to borrowers)	1,080,547
Fair value of reinvested cash collateral by type:	
Commercial Paper	98,527
Repurchase Agreements	547,038
U.S. Agencies	79,022
Floating Rate Notes	298,724
Certificate of Deposits	<u>57,236</u>
Fair value of reinvested cash collateral	<u>1,080,547</u>
Net unrealized gain	<u>\$ -</u>

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2013 is as follows:

Standard and Poor's Rating	Fair Value of Reinvested Cash Collateral	Percent of Portfolio
A-1 and A-1+	\$ 234,756	21.7
AAA	5,407	0.5
AA+	16,029	1.5
AA-	228,467	21.1
A+	48,821	4.5
Unrated	547,087	50.7
Total	<u>\$ 1,080,567</u>	<u>100.0</u>

The majority of the unrated reinvested cash collateral investments consist of repurchase agreements.

Repurchase Agreements

A repurchase agreement is an agreement in which INPRS transfers cash to a broker-dealer or financial institution. The broker dealer or financial institution transfer securities to INPRS and promises to repay the cash plus interest in exchange for the same securities. Repurchase agreements are assets with the security collateral held at INPRS' custodian bank.

A reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Repurchase agreements are secured loans with INPRS' collateral held at the broker dealer or financial institution's custodian bank.

The amounts held at June 30, 2013, exclusive of securities lending reinvested cash collateral, are as follows:

Repurchase Agreements by Collateral Type	Cash Collateral Received	Market Value
U.S. Agencies	\$ 16,600	\$ 16,957
U.S. Treasury	12,200	12,454
Total Repurchase Agreements	<u>\$ 28,800</u>	<u>\$ 29,411</u>
Reverse Repurchase Agreements by Collateral Type	Market Value	Cash Collateral Posted
U.S. Treasury	\$ 11,112	\$ 11,060
US Inflation Linked Bonds	161,494	163,745
Total Reverse Repurchase	<u>\$ 172,606</u>	<u>\$ 174,805</u>

Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The fair value of all derivative financial

instruments is reported in the Statement of Fiduciary Net Position as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as investment income. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an "OTC contract" (Over the Counter) such as swaps and forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded". Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

During the year, the Fund's derivative investments included:

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

INPRS' investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, INPRS' investment managers use futures contracts to adjust the portfolio risk exposure. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities. No short sales of equity securities or equity index derivatives are permitted.

As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. An interest rate swaption is the option to enter into an interest rate swap based off a set of predetermined conditions.

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services, using various proprietary methods, based upon the type of option.

Swaps

Interest Rate Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value is determined by external pricing services using various proprietary methods.

Inflation Swap

An inflation swap is a derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI) or an inflation bond.

Credit Default Swaps

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of

securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk. The fair value is determined by external pricing services using various proprietary methods.

Forwards

Foreign Currency

A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the

trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Position. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Position.

The Fund enters into forward currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

The tables below summarize INPRS' derivative contracts for the year ending June 30, 2013:

Investment Derivatives	Changes in Fair Value	Fair Value	Notional (USD)
Listed Futures:			
Equity Index	\$ (11,062)	\$ (11,062)	\$ 499,854
Commodity	(46,030)	(46,030)	1,030,053
Bond	(6,743)	(6,672)	106,577
Currency	41	155	52,511
Interest Rate	(377)	(377)	291,364
Total Listed Futures	(64,171)	(63,986)	1,980,359
Options:			
Listed			
Currency	286	29	36,565
Subtotal Listed	286	29	36,565
OTC			
Swaptions	6,735	30,650	1,029,320
Subtotal OTC	6,735	30,650	1,029,320
Total Options	7,021	30,679	1,065,885
Swaps:			
OTC			
Interest Rate Swaps	(6,015)	(7,013)	1,815,195
Inflation Swaps	12	126	38,885
Equity Index	2	-	200
Credit Default Swaps Single Name	759	913	153,706
Credit Default Swaps Index	1,112	990	367,464
Total Swaps	(4,130)	(4,984)	2,375,450
Total	\$ (61,280)	\$ (38,291)	\$ 5,421,694

Swap Type	Swap Maturity Profile at June 30, 2013					Total
	< 1 yr	1 - 5 yrs	5 - 10 yrs	10 - 20 yrs	20 + yrs	
Interest Rate Swaps	\$ -	\$ (3,224)	\$ (2,273)	\$ (17,284)	\$ 15,768	\$ (7,013)
Inflation Swaps	-	-	-	126	-	126
Credit Default - Single Name	1	1,207	405	(147)	(553)	913
Credit Default - Index	(450)	(354)	-	-	1,794	990
Total Swap Fair Value	\$ (449)	\$ (2,371)	\$ (1,868)	\$ (17,305)	\$ 17,009	\$ (4,984)

Credit Default Swaps				
Investment Type		Reference	Fair Value	Notional
Single Name	Seller Protection	Various	\$ (947)	\$ 61,660
Single Name	Buyer Protection	Various	1,860	92,046
Total CDS - Single Name			\$ 913	\$ 153,706
Index	Bought	CDX IG	\$ (1,497)	\$ 216,700
Index	Sold	CDX IG	\$ 875	\$ 95,475
Index	Bought	CDX ABX	2,424	8,218
Index	Sold	CDX CMBX	(631)	15,700
Index	Bought	CDX HY	(571)	17,391
Index	Sold	CDX HY	365	11,560
Index	Bought	CDX ITRAXX	25	2,420
Total CDS - Index			\$ 990	\$ 367,464

Credit Risk

Counterparty credit risk exists on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract.

INPRS' investment managers use International Swaps and Derivative Association Master Agreements to further reduce counterparty risk by specifying credit protection mechanisms and providing standardization that improves legal certainty, thereby reducing the probability of unforeseen losses. Furthermore, the master agreements can provide additional credit protection through the requirement of collateral exchange and

certain event of default and mutual termination provisions. Securities eligible as collateral are typically United States government bills and U.S. dollar cash.

The maximum amount of loss due to credit risk that the Fund would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements, is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in an unrealized gain position at June 30, 2013, was \$39.2 million of which \$15.1 million was uncollateralized.

The tables below summarize INPRS's swap positions as of June 30, 2013:

Swaps Counterparty	S&P Rating	Fair Value		Total Fair Value	Collateral	
		Receivable/ Unrealized Gain	Payable/ (Unrealized Loss)		Posted	Received
Bank of America	A-	\$ 2,927	\$ (5,669)	\$ (1,491)	\$ 260	\$ (1,550)
Barclays	A	1,641	(3,315)	(2,059)	861	(300)
BNP Paribas Securities Corp	A+	60	-	71	-	-
Citibank	A-	1,459	(5,168)	(850)	-	(14,158)
CME Central	AA-	673	(67)	431	8	-
Credit Suisse	A	9,075	(7,941)	(2,678)	3,695	(430)
Deutsche Bank	A+	4,978	(7,457)	(5,057)	-	(8,549)
Goldman Sachs	A-	13,751	(3,513)	11,449	640	(13,670)
HSBC Securities Inc	A+	10	(5)	(5)	-	-
Intercontinental Exchange, Inc.	A	98	(75)	(72)	-	-
JPMorgan Chase Bank	A	3,501	(3,893)	327	-	(650)
Morgan Stanley Capital Services	A-	410	(14)	384	-	(2,078)
Royal Bank of Canada (RBC)	AA-	623	(641)	6	-	(650)
UBS	A	3	(6,533)	(5,440)	-	(370)
Grand Total		\$ 39,209	\$ (44,291)	\$ (4,984)	\$ 5,464	\$ (42,405)

Interest Rate Risk

The Fund has exposure to interest rate risk due to

investments in interest rate and inflation swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule.

The table below summarizes INPRS's Investments that are highly sensitive to interest rate changes:

Reference Rate	Fair Value	Notional
Interest Rate Swap:		
Pay Variable 3M CDOR / Receive Fixed Various 1.75% to 3.04%	\$ (992)	\$ 34,931
Pay Fixed Various 2.99% to 3.23% / Receive Variable 3M CDOR	1,131	14,740
Pay Fixed Various 1.75% to 2.75% / Receive Variable 3M STIBOR	361	14,142
Pay Variable 3M STIBOR / Receive Fixed 2.75%	(226)	9,552
Pay Fixed Various 1.93% to 3.00% / Receive Variable 6M EURIBOR	(278)	29,351
Pay Variable 6M EURIBOR / Receive Fixed Various 0.60% to 3.00%	90	178,170
Pay Fixed Various 2.50% to 4.00% / Receive Variable 6M NIBOR	28	14,472
Pay Variable 6M NIBOR / Receive Fixed 4.00%	12	6,015
Pay Fixed 3.50% / Receive Variable 6M BBSW	178	14,655
Pay Variable 6M BBSW / Receive Fixed 3.50%	(58)	4,760
Pay Fixed Various 3.50% to 4.00% / Receive Variable 3M NZD	323	8,518
Pay Variable BBSW / Receive Fixed Various 3.50% to 4.00%	(5,418)	159,546
Pay Variable 1D BRL CDI / Receive Fixed Various 8.86% to 10.67%	(674)	24,621
Pay Fixed Various 3.00% to 3.19% / Receive Variable 3M KRW	177	8,047
Pay Fixed Various 5.33% to 5.36% / Receive Variable CLP	10	449
Pay Variable Brazil CETIP / Receive Fixed Various 8.16% to 10.36%	(217)	8,918
Pay Fixed 3.50% / Receive Variable 3M NFIX3FRA	58	2,178
Pay Variable CPTW90DY / Receive Fixed 1.49%	7	1,190
Pay Variable 6M GBP-LIBOR / Receive Fixed Various 1.00% to 3.00%	(6,738)	250,780
Pay Fixed Various 1.00% to 3.00% / Receive Variable 6M GBP-LIBOR	15,920	221,579
Pay Variable 1M MXN-TIE BANXICO / Receive Fixed Various 5.63% to 7.81%	(369)	11,424
Pay Variable 3M ZAR-JIBAR_SAFEX / Receive Fixed Various 6.52% to 7.17%	(535)	7,384
Pay Variable 3M USD-LIBOR / Receive Fixed Various 1.00% to 3.17%	(14,685)	271,152
Pay Fixed Various 0.50% to 3.00% / Receive Variable 3M USD-LIBOR	9,746	407,351
Pay Variable BZDIOVRA / Receive Fixed Various 8.88% to 8.94%	(4,864)	111,270
	\$ (7,013)	\$ 1,815,195
Inflation Swap:		
Receive 2.15% / Pay France CPI Ex Tobacco	126	3,700
Put 2.00% Inflation Rate Cap / UL US CPI Urban Consumers	-	35,185
	\$ 126	\$ 38,885

Foreign Currency Risk

The Fund is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule.

At June 30, 2013, INPRS' investments included the following currency forwards balances:

Forward Currency Contract Receivables	\$ 2,017.1
Forward Currency Contract Payables	2,004.7

Long Term Commitments for Alternative Investments – INPRS enters into long term commitments for funding other investments in private equity and private real estate. These amounts include Euro-currency denominated, Norwegian Krone denominated and British Pound Sterling denominated commitments to limited liability partnerships. The remaining amount of

unfunded commitments, converted to U.S. dollars using the closing exchange rate, as of June 30, 2013 is as follows:

Currency	Total Unfunded Commitments
Euro Currency Unit	\$ 74,248
Norwegian Krone	11,675
British Pound Sterling	1,504
U.S. Dollar	1,873,353
Total	\$ 1,960,780

B. Interfund Transactions

Interfund Loans

As explained in Note III(A), temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2013, the following funds had temporary cash overdrafts covered by loans from the General Fund: US DHHS

Fund, \$80.6 million, and S&S Children's Home Construction Fund, \$0.7 million. Also, reported is an \$8.0 million loan from the Motor Vehicle Highway Fund to the State Highway Fund.

The following is a summary of the Interfund Loans as of June 30, 2013:

<u>Interfund Loans - Current</u>		
	Loans To Governmental Funds	Loans From Governmental Funds
Governmental Funds		
General Fund	\$ 81,329	\$ -
Nonmajor Governmental Funds	8,000	89,329
Total Governmental Funds	<u>89,329</u>	<u>89,329</u>
Total Interfund Loans	<u>\$ 89,329</u>	<u>\$ 89,329</u>

Interfund Services Provided/Used

Interfund Services Provided of \$8.3 million represents amounts owed by various governmental funds to the Institutional Industries Fund and the Administrative Services Revolving Funds, both

internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2013:

<u>Interfund Services Provided/Used</u>		
	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
Governmental Funds		
General Fund	\$ -	\$ 3,480
Nonmajor Governmental Funds	-	4,844
Total Governmental Funds	<u>-</u>	<u>8,324</u>
Proprietary Funds		
Internal Service Funds	8,324	-
Total Proprietary Funds	<u>8,324</u>	<u>-</u>
Total Interfund Services Provided/Used	<u>\$ 8,324</u>	<u>\$ 8,324</u>

Due From/Due To

The \$50.0 million represents funds the General Fund borrowed in June 2004, interest free, from the Indiana Board for Depositories, a discretely presented component unit. Per Public Law 93-2013, Section 4, repayments to the Indiana Board for Depositories are to be made in annual

increments of \$5.0 million each July beginning July 2013. The interfund balance of \$3.4 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund.

The following is the schedule of Due From/Due To of component units, as of June 30, 2013:

Component Units				
	Due From Primary Government	Due To Component Units	Due From Component Units	Due To Primary Government
Governmental Funds				
General Fund	\$ -	\$ 50,000	\$ -	\$ -
Nonmajor Governmental Funds	-	-	3,389	-
Total Governmental Funds	-	50,000	3,389	-
Component Units				
Board for Depositories	50,000	-	-	-
State Lottery Commission	-	-	-	3,389
Total Component Units	50,000	-	-	3,389
Total Due From/To	\$ 50,000	\$ 50,000	\$ 3,389	\$ 3,389

Interfund Transfers*Major Governmental Funds*

Transfers constitute the movement of money from the fund that receives the resources to the fund that utilizes them. These numerous transfers generally result from legislation passed by the Indiana General Assembly that directs how the transfers are made. In the case of the General Fund, many appropriations are made in the General Fund and then are transferred during the year to the funds where these appropriations are used. Also in the case of the General Fund, various taxes and other revenues are collected in other funds and transferred to the General Fund. Following are the principal purposes of the State's interfund transfers:

General Fund – \$569.9 million was transferred in from the State Gaming Fund which was wagering taxes from riverboats and slot machines at horse tracks. \$550.5 million was transferred in from the Medicaid Assistance Fund of which \$292.1 million was returned to the Medicaid State appropriation fund for the purpose of transferring \$145.0 million to the Medicaid Contingency and Reserve Account

and \$147.1 million to the County Adjusted Income Tax Distribution Fund, \$207.3 million was the State's share of hospital assessment fees, and \$51.1 million was qualifying assessment fees. The hospital assessment fees and qualifying assessment fees can only be used for the State's share of Medicaid services under Title XIX of the Social Security Act. The Build Indiana Fund transferred in \$236.2 million as Motor Vehicle Excise Tax Cut Replacement distributions. \$116.3 million was received from the Fund 6000 Programs Fund of which \$68.4 million was distribution of financial institutions tax per IC 6-5.5; \$24.1 million was transferred in for Indiana Veterans' Home administration from the Comfort-Welfare Fund's receipts of resident fees and Medicaid reimbursements; \$11.8 million was the recapture of financial institutions tax based on the FIT distribution that would have been based on property tax levies that were assumed by the State in 2009; \$3.5 million was transferred in from permit fees collected from business that sell alcoholic beverages per IC 7.1-4-9-4; \$2.9 million was transferred in from the Tech Modernization and Upgrade Fund to make HEA 1001 (2008) Homestead Credit distributions to counties; \$2.8

million was transferred to the Office of Medicaid Policy and Planning's State Medicaid General Fund which was appropriation transfers from Indiana Veterans' Home Medicaid reimbursements; and \$2.8 million was transferred in from consumer and non-consumer settlements, unclaimed property litigation, and real estate appraiser licensing for the Office of the Indiana Attorney General. \$76.1 million was transferred to the Construction Post War capital projects fund to make lease payments and defease remaining bonds on the Rockville Correctional Facility and Pendleton Juvenile Correctional Facility and to eliminate the monthly usage fee at the New Castle Correctional Facility. \$39.1 million was transferred in from the Tobacco Master Settlement Fund for various health and welfare purposes including developmental disabilities services provided by the FSSA's Division of Disability and Rehabilitative Services, the Children's with Special Health Care Needs program administered by the Indiana State Department of Health, and substance abuse prevention and treatment services through the FSSA's Division of Mental Health and Addition. The Motor Vehicle Commission Fund transferred \$17.9 million to the General Fund which was unobligated funds and its share of central service costs.

The following were transfers out from the General Fund: The Public Welfare Medicaid Assistance Fund received \$2.046 billion in transfers for Medicaid current obligations and for Medicaid administration to enable the Office of Medicaid Policy and Planning to carry out all services under IC 12-8-6. These services include, but may not be limited to the provision of care and treatment for individuals with mental illness, developmental disability, long term care needs, and family and child services needs. \$311.5 million was transferred to the U.S. Department of Health and Human Services Fund in support of: \$120.6 million for Department of Child Services programs including adoption services grants, adoption assistance, special needs adoption, family and children services, administration (for case management, state, and county), Social Security Title IV-D services to needy families with children, the Indiana Support Enforcement Tracking System, the Indiana Child Welfare Information System, child welfare services state grants and training, and independent living; \$112.4 million for the Family and Social Services' Division of Family Resources for local offices, state administration, child care services, the temporary assistance for needy families program, and information systems; \$49.0 million for the State Medicaid program; \$11.2 million to the FSSA divisions of Aging and Disability

and Rehabilitative Services for developmental disabled client, children's prevention, and aging services, \$6.5 million for county prosecutors' and local judges' salaries; \$5.6 million for child psychiatric and other programs provided through the FSSA's Division of Mental Health and Addition; \$5.4 million for FSSA's central office; and \$0.8 million for other health and human services programs. \$250.0 million was transferred to the Indiana Commission for Higher Education's Division of Student Financial Aid mostly for the awarding of the State's grants and scholarships for Hoosier students to attend colleges. The Mental Health Center Fund received appropriation transfers in totaling \$96.6 million to fund services to adults who are seriously mentally ill in comprehensive community health centers and for the administration of services by the Department of Mental Health. The Build Indiana Fund received \$83.3 million from riverboat wagering taxes which went to the Lottery and Gaming Surplus Account. \$61.0 million was transferred from the General Fund to the Motor Vehicle Highway Fund primarily for State Police administration, pensions, and the forensic and health sciences laboratories. \$57.0 million was transferred to the Hospital Care for the Indigent Fund for the Hospital Care for the Indigent Program. \$55.4 million was transferred to the U.S. Department of Agriculture Fund of which \$50.5 million was for the Federal Food Stamp Program administered by FSSA's Division of Family Resources and \$4.9 million was the State's match for the National School Lunch program administered by the Indiana Department of Education's Division of School and Community Nutrition Programs. \$47.6 million was transferred to the Fund 6000 Programs Fund of which \$35.8 million was for the ENCOMPASS Project Fund, \$7.0 million was for Indiana State Police administration under the Excess Handgun License Fees Fund, \$2.8 million was for National Guard members' tuition scholarships made by the Indiana Commission for Higher Education's Division of Student Financial Aid, and \$2.0 million was for the Auditor of State's Technology Modernization and Upgrade Fund. \$41.3 million was received by the Indiana Department of Transportation for the Public Mass Transportation Fund, which is used for the promotion and development of public transportation.

Medicaid Assistance Fund – The Medicaid Assistance Fund had a transfer in of \$2.046 billion from the General Fund to support the state Medicaid program administered through the Office of Medicaid Policy and Planning. \$67.8 million was transferred in from the Medicaid Indigent Care Trust Fund, which is part of the U.S. Department of

Health and Human Services Fund, for reimbursement of hospital care for the indigent supplement payments made from the Medicaid Assistance Fund. \$39.0 million was transferred in from the Mental Health Centers Fund for reimbursement of services to the seriously mentally ill.

Transfers out included \$550.5 million to the General Fund of which \$292.1 million was returned to the Medicaid State appropriation fund for the purpose of transferring \$145.0 million to the Medicaid Contingency and Reserve Account and \$147.1 million to the County Adjusted Income Tax Distribution Fund. \$207.3 million was hospital assessment fees, and \$51.1 million was quality assessment fees. The hospital assessment fees and quality assessment fees can only be used for the State's share of Medicaid services under Title XIX of the federal Social Security Act.

Major Moves Construction Funds – The Major Moves Construction Fund had a transfer out of \$412.7 million to the State Highway Department for construction and maintenance of the State's highways, roads, and bridges.

Proprietary Funds

Non-Major Enterprise Funds

The Inns and Concessions Fund – This fund had transfers out of \$2.8 million, representing cash contributions to the Department of Natural Resources (DNR) which are to be used for repayments of bonds made by the Indiana Finance Authority.

Internal Service Funds

\$5.7 million was transferred to the Institutional Industries Fund to pay off their commissary building loan. \$0.5 million was transferred to the Administrative Services Revolving Fund from the pay phone fund to partially fund the Government Management Information Systems organization within the Indiana Office of Technology. \$0.1 million was transferred from the Institutional Industries Fund to the U.S. Department of Justice Fund as a closing entry at June 30, 2013. The Administrative Services Revolving Fund transferred \$0.02 million to the U.S. Department of Housing and Urban Development Fund as state match for an Indiana Office of Community and Rural Affairs grant.

A summary of interfund transfers for the year ended June 30, 2013 is as follows:

	<u>Operating transfers in</u>	<u>Operating transfers (out)</u>	<u>Net transfers</u>
Governmental Funds			
General Fund	\$ 1,682,779	\$ (3,199,135)	\$ (1,516,356)
Public Welfare-Medicaid Assistance Fund	2,163,546	(565,303)	1,598,243
Major Moves Construction Fund	-	(412,706)	(412,706)
Nonmajor Governmental Fund	2,479,143	(2,151,611)	327,532
Proprietary Funds			
Inns and Concessions	-	(2,769)	(2,769)
Internal Service Funds	6,198	(142)	6,056
Total	<u>\$ 6,331,666</u>	<u>\$ (6,331,666)</u>	<u>\$ -</u>

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities			Total Primary Government
	General Fund	Special Revenue Funds	Capital Projects Funds	
Income taxes	\$ 822,112	\$ -	\$ -	\$ 822,112
Sales taxes	771,239	1,182	-	772,422
Fuel taxes	-	93,848	-	93,848
Gaming taxes	1,016	12,531	-	13,546
Unemployment	-	-	-	-
Inheritance taxes	33,235	-	-	33,235
Alcohol and tobacco taxes	53,784	30,053	1,959	85,796
Insurance	2,405	-	-	2,405
Financial institutions taxes	-	44,598	-	44,598
Other taxes	17,365	2,839	-	20,203
Total taxes receivable	1,701,156	185,051	1,959	1,888,165
Less allowance for uncollectible accounts	(165,991)	(19,187)	(3)	(185,182)
Net taxes receivable	<u>\$ 1,535,164</u>	<u>\$ 165,864</u>	<u>\$ 1,956</u>	<u>\$ 1,702,984</u>
Tax refunds payable	<u>\$ 38,072</u>	<u>\$ 5,516</u>	<u>\$ -</u>	<u>\$ 43,588</u>

D. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

Primary Government – Governmental Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Governmental Activities:				
Capital assets, not being depreciated/amortized:				
Land	\$ 1,718,041	\$ 124,970	\$ (4,611)	\$ 1,838,400
Infrastructure	8,924,165	372,420	(28,686)	9,267,899
Construction in progress	1,779,499	841,894	(428,399)	2,192,994
Total capital assets, not being depreciated/amortized	<u>12,421,705</u>	<u>1,339,284</u>	<u>(461,696)</u>	<u>13,299,293</u>
Capital assets, being depreciated/amortized:				
Land and water use rights	16,165	326	-	16,491
Buildings and improvements	1,631,941	524,537	(23,582)	2,132,896
Furniture, machinery, and equipment	517,368	40,983	(22,186)	536,165
Computer software	41,468	4,382	(96)	45,754
Infrastructure	22,655	-	(515)	22,140
Total capital assets, being depreciated/amortized	<u>2,229,597</u>	<u>570,228</u>	<u>(46,379)</u>	<u>2,753,446</u>
Less accumulated depreciation/amortization for:				
Land and water use rights	(4,621)	(2,223)	-	(6,844)
Buildings and improvements	(843,652)	(245,798)	8,448	(1,081,002)
Furniture, machinery, and equipment	(367,103)	(36,810)	19,114	(384,799)
Computer software	(36,049)	(3,256)	87	(39,218)
Infrastructure	(14,495)	(476)	260	(14,711)
Total accumulated depreciation/amortization	<u>(1,265,920)</u>	<u>(288,563)</u>	<u>27,909</u>	<u>(1,526,574)</u>
Total capital assets being depreciated/amortized, net	<u>963,677</u>	<u>281,665</u>	<u>(18,470)</u>	<u>1,226,872</u>
Governmental activities capital assets, net	<u>\$ 13,385,382</u>	<u>\$ 1,620,949</u>	<u>\$ (480,166)</u>	<u>\$ 14,526,165</u>

Primary Government – Business-Type Activities

	<u>Balance, July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 149	\$ 55	\$ -	\$ 204
Furniture, machinery, and equipment	1,133	644	(872)	905
Total capital assets, being depreciated	<u>1,282</u>	<u>699</u>	<u>(872)</u>	<u>1,109</u>
Less accumulated depreciation for:				
Buildings and improvements	(112)	(21)	-	(133)
Furniture, machinery, and equipment	(485)	(147)	320	(312)
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>(597)</u>	<u>(168)</u>	<u>320</u>	<u>(445)</u>
Total capital assets being depreciated, net	<u>685</u>	<u>531</u>	<u>(552)</u>	<u>664</u>
Business-type activities capital assets, net	<u>\$ 685</u>	<u>\$ 531</u>	<u>\$ (552)</u>	<u>\$ 664</u>

Depreciation/amortization expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 187,531
Public safety	59,571
Health	1,155
Welfare	6,423
Conservation, culture and development	13,013
Education	1,370
Transportation	<u>19,500</u>
Total depreciation/amortization expense - governmental activities	<u>\$ 288,563</u>
Business-type activities:	
Inns and Concessions	\$ 24
Wabash Memorial Bridge	<u>144</u>
Total depreciation expense - business-type activities	<u>\$ 168</u>

E. Leases

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2013 and the assets acquired through capital leases are as follows:

Future minimum lease payments		
Year ending June 30,	Operating leases	Capital leases Governmental Activities
2014	\$ 31,712	\$ 105,751
2015	27,472	108,163
2016	25,379	107,077
2017	23,062	105,623
2018	18,659	103,027
2019-2023	25,797	510,681
2024-2028	168	503,825
2029-2033	-	101,121
Total minimum lease payments (excluding executory costs)	\$ 152,249	1,645,268
Less:		
Remaining premium(discount)		(14,426)
Amount representing interest		(473,932)
Present value of future minimum lease payments		\$ 1,156,910
Assets acquired through capital lease		
Building		\$ 12,263
Machinery and equipment		1,728
Infrastructure		1,152,968
less accumulated depreciation		(6,087)
		\$ 1,160,872

Operating Leases

The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of \$20,000 or more were \$34.6 million for the year ended June 30, 2013. A table of future minimum lease payments (excluding executory costs) is presented above.

Capital Leases Liabilities

The State has entered into various lease agreements with aggregate payments of \$20,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the government-wide statements.

F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2013 were as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Compensated absences	\$ 138,411	\$ 82,232	\$ (72,013)	\$ 148,630	\$ 79,579	\$ 69,051
Net pension obligation	1,344,297	2,007	(179,529)	1,166,775	-	1,166,775
Other postemployment benefits	119,631	14,443	-	134,074	-	134,074
Pollution remediation	45,951	-	(1,276)	44,675	5,360	39,315
Intergovernmental payable	30,000	-	(10,000)	20,000	10,000	10,000
Capital leases	1,209,970	18,511	(71,571)	1,156,910	54,141	1,102,769
	<u>\$ 2,888,260</u>	<u>\$ 117,193</u>	<u>\$ (334,389)</u>	<u>\$ 2,671,064</u>	<u>\$ 149,080</u>	<u>\$ 2,521,984</u>
Business-type activities:						
Compensated absences	\$ 456	\$ 228	\$ (205)	\$ 479	\$ 235	\$ 244
Claims liability	30,171	1,532	(3,053)	28,650	3,861	24,789
	<u>\$ 30,627</u>	<u>\$ 1,760</u>	<u>\$ (3,258)</u>	<u>\$ 29,129</u>	<u>\$ 4,096</u>	<u>\$ 25,033</u>

Long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Note IV(E), net pension obligations for the Public Employees Retirement Fund-State and the State Teachers' Retirement Fund (Pre-1996 Account) as presented in Note V(E), other postemployment benefits, pollution remediation, amounts due to component units, and compensated absence obligations. The General Fund typically has been used to liquidate any other long-term liabilities.

Long-term obligations of the business-type activities consist of claims liability of the Indiana Residual Malpractice Insurance Authority and compensated absences of the Inns and Concessions Fund.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

G. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2013, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These prior period adjustments and restatements are reflected in the beginning net position in the government-wide statement of activities.

Prior Period Adjustments

In the fund statements for governmental funds, there is an increase of \$16.5 million in net position of the General Fund and a corresponding decrease in net position of the Non-major Governmental funds for revenues not properly reported by the Department of Revenue in prior years.

In the fund statements for governmental funds, and the government-wide statements, net position of the Non-major Governmental funds decreased \$23.1 million due to the overstatement of grants

receivable in the prior year.

In the fund financial statements for Special Revenue Funds, and the government-wide statements, net position increased by \$1.2 million due to the incorrect recording of accrued interest on loans at the Department of Transportation.

In the fund statements for Special Revenue funds, net position increased \$41.9 million in the Medicaid Assistance Fund with a corresponding decrease in the U.S. Health and Human Services Fund due to revenue being incorrectly deposited in prior years.

For the government-wide statements, there is an increase of \$51.8 million in net position for capital assets. This was the result of not capitalizing capital assets by June 30, 2012 that were acquired prior to this date and for corrections to acquisition cost by state agencies.

For the government-wide statements, there is a decrease of \$26.5 million for software that was incorrectly reported as in development on June 30, 2012.

For the Enterprise funds and the government-wide statements, there is a decrease of \$7.8 million in net position for the correction of errors relating to interest payments for the Unemployment Compensation Fund.

For the Enterprise funds and the government-wide statements, there is an increase of \$1.4 million in net position for the addition of the Wabash Memorial Bridge fund that was not previously reported.

For the discrete component units, the Indiana Finance Authority's net position decreased by \$277.1 million due to the implementation of GASB 60 regarding service concession arrangements. Non-major discrete units net position increased by \$10.6 million due to the early implementation of GASB 65. The Indiana Economic Development Corporation's net position increased by \$3.8 million due to corrections of errors relating to their loan balances.

For the discrete component units, colleges & universities, the net position of Purdue University increased by \$38.8 million for the inclusion of a foundation previously not reported and for other various changes to their reporting entity.

The following schedule reconciles June 30, 2012 net position as previously reported, to beginning net position, as restated:

	Governmental Activities	Business- Type Activities	Discretely Presented Component Units (Non Fiduciary)
June 30, 2012, fund balance/retained earnings/net position as reported	\$ 19,218,153	\$ (1,544,438)	\$ 11,865,249
Change in accounting principle			
Service concession arrangements	-	-	(277,126)
Early adoption of GASB 65	-	-	10,646
Change in reporting entity	-	-	38,784
Correction of errors	39	(6,384)	3,755
Balance July 1, 2012 as restated	\$ 19,218,192	\$ (1,550,822)	\$ 11,641,308

V. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State purchases commercial insurance coverage for certain DNR Inns properties. The State also purchases immaterial amounts of commercial insurance related to errors, omissions, and theft by employees. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the State employees' disability, certain State employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in three individual Internal Service Funds.

The State employees' disability program is financed partially by State employees through payroll withholdings and by the funds from which employees are paid. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.)

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The surplus retained earnings in these funds are reserved for future catastrophic losses.

	<u>State Police Health Insurance Fund</u>	<u>State Employees' Health Insurance Fund</u>	<u>State Employee Disability Fund</u>	<u>Total</u>
<u>2013</u>				
Unpaid Claims, July 1, as restated	\$ 3,926	\$ 40,455	\$ 5,183	\$ 49,564
Incurred Claims and Changes in Estimate	29,147	297,386	21,347	347,880
Claims Paid	<u>(29,721)</u>	<u>(302,950)</u>	<u>(21,690)</u>	<u>(354,361)</u>
Unpaid Claims, June 30	<u>\$ 3,352</u>	<u>\$ 34,891</u>	<u>\$ 4,840</u>	<u>\$ 43,083</u>
<u>2012</u>				
Unpaid Claims, July 1	\$ 4,144	\$ 33,745	\$ 5,131	\$ 43,020
Incurred Claims and Changes in Estimate	30,651	301,378	20,841	352,870
Claims Paid	<u>(30,869)</u>	<u>(294,668)</u>	<u>(21,558)</u>	<u>(347,095)</u>
Unpaid Claims, June 30	<u>\$ 3,926</u>	<u>\$ 40,455</u>	<u>\$ 4,414</u>	<u>\$ 48,795</u>

B. Contingencies and Commitments

Litigation

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any.

With respect to tort claims only, the State's liability is limited to: (A) \$300,000 for a cause of action that accrues before January 2006; (B) \$500,000 for a cause of action that accrues between 2006 and 2008; or (C) \$700,000 for a cause of action that accrues on or after January 2008, for injury to or death of one person in any one occurrence and \$5 million for injury to or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a total payment for liabilities and litigation expenses of \$8.6 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2013, the State paid \$8.3 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

In addition, the State paid \$6.0 million from the Supplemental State Fair Relief Fund to settle claims arising from the Indiana State Fair tragedy during the fiscal year ending June 30, 2013.

The following is a summary of certain significant litigation and claims currently pending against the State involving amounts exceeding \$5 million individually or in the aggregate. This summary is not exhaustive, either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

The Indiana Attorney General's office is currently handling the following cases that could result in significant liabilities to the State:

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The District Court entered its final judgment in 1981 holding the State responsible for most of the costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the

desegregation plan that was approved by the Court for some school corporations and a 13-year phase out of the desegregation plan for the school corporations that had already began the desegregation plan. State expenditures will be gradually reduced as the plan is phased out.

In August 2011, the temporary structure supporting spotlights and other equipment mounted on top of the Indiana State Fair Grandstand Stage collapsed. As a result of the collapse, seven people died and more than fifty others required medical treatment. A number of lawsuits were filed as a result of this incident. Under the Indiana Tort Claims Act, Indiana Code 34-13-3, claims are capped at \$5 million per event and \$700,000 per person. The State, on behalf of the Commission, settled with many of the claimants, distributing the full cap amount of \$5 million in amounts determined under a formula developed for this purpose in November 2011. The General Assembly supplemented the amount with an additional \$6 million during the 2012 Session, which was distributed pursuant to legislative directives during the fiscal year ended June 30, 2013. Tort claims were paid from the State General Fund and not the funds of the Commission. The remaining open litigation concerns the indemnification claims as a result of the August 2011 incident.

In March 2012, Plaintiffs filed a class action lawsuit against the State and the Indiana Residual Malpractice Insurance Authority (IRMIA) which alleges, on behalf of those who paid for medical malpractice liability insurance since January 1, 2000, that premiums were paid to IRMIA for insurance and that IRMIA presently has surpluses that are alleged to exceed \$5 million that will not be needed. The litigation seeks to have the alleged surplus returned to the class members. The order granting class certification was issued April 22, 2013. Discovery is closed and the dispositive motion process is underway.

In March 2013, Plaintiffs filed a class action lawsuit against the State which alleges the Indiana Bureau of Motor Vehicles charged amounts that were not authorized by law to persons under the age of 75 who have paid a fee to obtain or renew their drivers' licenses since March 7, 2007. A settlement has been reached that provides for credits, in a total amount of about \$30 million, be paid to class members and their attorneys. In November 2013, The Court's Order and Judgment Approving Settlement was entered. For a period of 3 years after the Court's final approval of the Settlement, any refunds that have not been paid as advance

payments will be available to class members as outlined.

In October 2013, an individual brought a putative class action against the Indiana Bureau of Motor Vehicles alleging overcharges. A response to the complaint and motion for class certification is due in December 2013.

In May 2013, Plaintiffs filed an inverse condemnation complaint against the State seeking \$8 million in damages to their real estate which Plaintiffs allege will be caused by construction of the Illiana Expressway, which is a proposed highway to connect northwestern Indiana to the greater Chicago area. Construction of the Illiana Expressway has not yet begun. The State filed a Motion to Dismiss and Plaintiffs filed a Motion to Amend Complaint.

Other Litigation

The State on behalf of the Indiana Family and Social Services Administration (FSSA) is currently involved in the following case that could result in significant liability to the State:

In May 2010, the State of Indiana, on behalf of the Indiana Family and Social Services Administration (FSSA), and counterclaim Plaintiff sued each other regarding counterclaim Plaintiff's state welfare system contract entered into in 2006. In October 2009, the State announced its intention to terminate the 10-year contract early effective December 2009 due to counterclaim Plaintiff's deficient performance. After a trial to the court in February and March of 2012, the court issued rulings in July and August of 2012 awarding the counterclaim Plaintiff \$62.7 million. This amount included \$9.5 million for equipment retained by the state, \$2.5 million in early termination close-out payments, \$40.0 million in subcontractor assignment fees (previously granted to the counterclaim Plaintiff on summary judgment), and \$10.7 million in prejudgment interest. The court also ruled that the counterclaim Plaintiff was not entitled to recover \$43.0 million claimed for deferred fees. The court further ruled that there was no material breach of the contract, so the State could not recover damages from the counterclaim Plaintiff for breach of contract. The State appealed. The court granted the State's motion to stay the enforcement of the judgment pending appeal. The case is presently pending before the Indiana Court of Appeals.

Other Loss Contingencies

The U.S. Office of Inspector General (USOIG) has issued multiple audit reports on Indiana's Medicaid

Assistance Program. Findings in these reports identify several issues including state psychiatric hospitals that were ineligible to receive Medicaid inpatient payments and unreported fund recoveries. The State has worked with the Centers for Medicare and Medicaid Services (CMS) to resolve the findings. As of June 30, 2013 there was \$76.1 million in findings in which FSSA believes \$55.6 million to be probable for having to be repaid and therefore, has been accrued as an expense and payable in the government-wide financial statements. FSSA management is continuing to work with CMS on a settlement of these findings.

Construction Commitments

As of June 30, 2013, the Indiana Department of Transportation had outstanding construction commitments totaling \$1.2 billion for road and bridge projects. It is anticipated that these projects will be financed with approximately 7% State funds, 2% local funds, 57% traditional Federal funds, 1% ARRA of 2009 fund, and 33% from the Major Moves Construction Fund. These amounts do not include the LSIORBP project described below.

The State of Indiana and the Commonwealth of Kentucky have entered into a legal agreement known as the "Bi-State Development Agreement" which governs "The Louisville- Southern Indiana Ohio River Bridges Project (LSIORBP)." The project consists of the construction of the East End Bridge and highway connections that will complete an outer loop around the greater Louisville area; a Downtown Crossing including a new I-65 bridge for northbound traffic; a revamped John F. Kennedy Memorial Bridge for southbound traffic, and rebuilding of the downtown interchanges on both sides of the Ohio River. Kentucky is responsible for the financing, reconstruction and operational improvements of the Downtown Crossing Bridges; and, Indiana is responsible for financing and constructing the East End Crossing.

The Ohio River Bridge Project structures will be ultimately owned 50% by Indiana and 50% by Kentucky and is expected to cost \$2.6 billion. Kentucky's portion of the total project cost is estimated to be \$1.3 billion and Indiana's portion is estimated to be \$1.3 billion.

The State of Indiana has spent approximately \$189 million to date and the Commonwealth of Kentucky has spent approximately \$300 million to date.

The Indiana Department of Administration, Public Works Division, had remaining construction commitments totaling \$9.7 million for building and

improvement projects of the State's agencies as of June 30, 2013. These projects are to be funded through State appropriations, the State Highway Department Fund, capital projects funds, and federal funds.

The State had \$23.3 million in total commitments for software in development as of June 30, 2013. These commitments are to be funded through the General Fund, federal funds and state dedicated funds.

Encumbrances

Significant encumbrances by major funds and non-major funds in the aggregate as of June 30, 2013 were as follows:

Governmental Funds	Encumbrances
General Fund	\$ 788,167
Non-Major Governmental Funds	2,576,871
Total	\$ 3,365,038

C. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

D. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund").

This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature.

In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund to the State General Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2013 was \$370.1 million. Total outstanding loans were \$8.4 million, resulting in total assets of \$378.5 million. Because the API increased by more than 2%, \$14.8 million was transferred from the General Fund to the Rainy Day Fund.

E. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements. They are reported and administered as described in Note I(A).

Summary of Significant Accounting Policies (Primary government and fiduciary in nature component units)

The accrual basis is used for financial statement reporting purposes. Contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Throughout the year, the investments are maintained on the accounting records at the net asset value per the custodian banks. The custodian banks maintain records of the detailed holdings and accounts that comprise the net asset value. At fiscal year end, the accounting records and financial statements recognize investment assets and liabilities using investment unit trust accounting. Investments of defined benefit plans are reported at fair value. Short-term investments are reported at market value when available, or at cost, which approximates fair value.

Securities traded on a national or international exchange are valued at the official closing price at current exchange rates. Collective trust funds' fair values are determined by the fair value per share of the pool's underlying portfolio as provided by the trustee. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Values for limited partnership interests are those estimates most recently provided by the general manager, plus or minus cash flows transacted since the valuation date. Investments that do not have an established market are reported at estimated fair value.

The State sponsors the following defined benefit single-employer plans:

State Police Retirement Fund (Presented as a pension fund)

Plan Description The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-2 grants authority to

the Department to establish and operate an actuarially sound pension plan governed by a pension trust. It also authorizes the Department to make annual contributions as necessary to prevent any deterioration in the actuarial status of the trust.

The State Police Retirement Fund does not issue a stand-alone financial report. The SPRF's financial statements are included in the State of Indiana's CAFR as part of the statements presented with fiduciary funds.

Financial Statements As separately issued financial statements are not available for the State Police Retirement Fund, summarized financial statements are as follows:

Combining Statement of Fiduciary Net Position June 30, 2013	
	State Police Pension Fund
Assets	
Cash, cash equivalents and non-pension investments	\$ 105,526
Receivables:	
Contributions	224
Interest	372
Member loans	257
From investment sales	20,607
Total receivables	21,460
Pension and other employee benefit investments at fair value:	
Equity Securities	205,281
Debt Securities	109,037
Total investments at fair value	314,318
Total assets	441,304
Liabilities:	
Accounts/escrows payable	94
Securities purchased payable	2,622
Total liabilities	2,716
Net Position	
Restricted for:	
Employees' pension benefits	438,588
Total net position	\$ 438,588

Combining Statement of Changes in Fiduciary For the Year Ended June 30, 2013	
	State Police Pension Fund
Additions:	
Member contributions	\$ 3,786
Employer contributions	47,588
Net investment income (loss)	30,824
Less investment expense	(1,037)
Other	2
Total additions	81,163
Deductions:	
Pension and disability benefits	30,724
Administrative	261
Total deductions	30,985
Net increase (decrease) in net position	50,178
Net position restricted for pension and other employee benefits, July 1, as restated:	
Pension benefits	388,410
Net position restricted for pension and other employee benefits, June 30	\$ 438,588

Funding Policy The pre-1987 plan required employee contributions of five percent of the salary of a sixth-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, State police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry

age normal cost actuarial method. Normal cost is funded on a current basis. Under the terms of the Trust Agreement, in the event the Department fails to make the minimum contribution for five successive years, the Trust shall terminate and the fund shall be liquidated. The unfunded actuarial accrued liability is being funded over a thirty-year closed period which commenced July 1, 2010. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level dollar of payroll method. The funding policy for normal cost and

unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Funded Status and Funding Progress As of June 30, 2013, the most recent actuarial valuation date, the plan was 83 percent funded. The actuarial accrued liability for benefits was \$523.2 million, and the actuarial value of assets was \$434.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$88.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$64.3 million, and the ratio of the UAAL to the covered payroll was 138 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (Presented as part of INPRS – a fiduciary in nature component unit)

Plan Description The State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (EG&C) is a single employer defined benefit plan administered by the Board of Trustees of the Indiana Public Retirement System. The retirement fund is for certain employees of the Indiana Department of Natural Resources, the Indiana Alcohol and Tobacco Commission, and any State excise police officer, Indiana state conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties.

The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Indiana Public Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting INPRS' website, www.in.gov/inprs.

Funding Policy The funding policy for the EG&C Plan is in accordance with IC 5-10-5.5-8.5. Members are required by statute to contribute 4

percent of the member's annual salary to the Plan. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation. During fiscal year 2013, all participating employers were required to contribute 20.75 percent of covered payroll. The State appropriated additional monies during fiscal year 2013 for the EG&C plan of \$15 million from State excess reserves in accordance with 2012 HB 1376.

Funded Status and Funding Progress As of June 30, 2013, the most recent actuarial valuation date, the plan was 84 percent funded. The actuarial accrued liability for benefits was \$118.1 million, and the actuarial value of assets was \$98.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$19.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$26.2 million, and the ratio of the UAAL to the covered payroll was 74 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Prosecuting Attorneys' Retirement Fund (Presented as part of INPRS – a fiduciary in nature component unit)

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a single-employer defined benefit plan administered by the Board of Trustees of the Indiana Public Retirement System. The Prosecuting Attorneys' Retirement Fund provides retirement, disability, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney; or serve as the executive director or assistant executive director of the Indiana Prosecuting Attorneys Council or as a state-paid deputy prosecuting attorney.

These individuals' salaries are paid from the General Fund of the State of Indiana. Indiana Code 33-39-7 governs the requirements of the Fund. The Indiana Public Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting INPRS' website, www.in.gov/inprs.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at six percent (6%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendations of the actuary, is to be appropriated from the State's General Fund.

Funded Status and Funding Progress As of June 30, 2013, the most recent actuarial valuation date, the plan was 79 percent funded. The actuarial accrued liability for benefits was \$61.9 million, and the actuarial value of assets was \$48.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$13.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$21.2 million, and the ratio of the UAAL to the covered payroll was 62 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Legislators' Retirement System – Legislators' Defined Benefit Plan (Presented as part of INPRS – a fiduciary in nature component unit)

Plan Description The Legislators' Defined Benefit Plan (IC 2-3.5-4), a single-employer defined benefit plan, applies to each member of the Indiana General Assembly who was serving on April 30, 1989 and filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Indiana Public Retirement System. The Indiana Public Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting INPRS' website, www.in.gov/inprs.

Funding Policy The funding policy is in accordance with statute IC 2-3.5-4-9 and IC 2-3.5-4-10. The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund for each biennium.

Funded Status and Funding Progress As of June

30, 2013, the most recent actuarial valuation date, the plan was 80 percent funded. The actuarial accrued liability for benefits was \$4.3 million, and the actuarial value of assets was \$3.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.9 million. The benefit formula is determined based on service rather than compensation. The unfunded liability per active participant was \$36,139 as of the most recent actuarial valuation.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Judges' Retirement System (Presented as part of INPRS – a fiduciary in nature component unit)

Plan Description The Judges' Retirement System (JRS) is a single-employer defined benefit public employee retirement system administered by the Board of Trustees of the Indiana Public Retirement System, and is governed by IC 33-38-6, 33-38-7, and IC 33-38-8. The Judges' Retirement System provides retirement, disability, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge or justice of any of the following courts: Supreme Court of the State of Indiana; Court of Appeals; Circuit Court of a Judicial Circuit; Indiana Tax Court; or county courts including Superior, Criminal, Probate, Juvenile, Municipal and County Courts. The system consists of two plans: the 1977 system and the 1985 system. IC 33-38-7 applies to judges who began service before September 1, 1985. IC 33-38-8 applies to judges beginning service after August 31, 1985. The Indiana Public Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting INPRS' website, www.in.gov/inprs.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation paid by the state of Indiana, deducted from the member's salary and remitted by the Auditor of State or county auditor. However, no contribution is required and no such amounts shall be paid by the member for more than 22 years of service.

Employer contributions are actuarially determined and approved by the INPRS Board of Trustees and by the Indiana General Assembly as biennial appropriations from the State's General Fund. Indiana Code 33-38-6-17 provides that this appropriation only include sufficient funds to cover the aggregate liability of the fund for benefits to the end of the biennium, on an actuarially funded basis. The statute also provide for remittance of docket fees and court fees. These are considered employer contributions. The State appropriated additional monies during fiscal year 2013 for the Judges Retirement System of \$90 million from State excess reserves in accordance with 2012 HB 1376.

Funded Status and Funding Progress As of June 30, 2013, the most recent actuarial valuation date, the plan was 84 percent funded. The actuarial accrued liability for benefits was \$453.1 million, and the actuarial value of assets was \$381.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$71.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$47.0 million, and the ratio of the UAAL to the covered payroll was 153 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The State sponsors the following defined benefit agent multiple-employer plan:

Public Employees' Retirement Fund (Presented as part of INPRS – a fiduciary in nature component unit)

Plan Description The Public Employees' Retirement Fund (PERF) is an agent multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to full-time employees of the state of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions means a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF

Hybrid Plan) and the second is the Public Employees' ASA Only Plan (PERF ASA Only Plan). The PERF ASA Only Plan was effective March 1, 2013. For the first time, newly hired full-time employees of the state of Indiana can now elect to participate in either the PERF Hybrid Plan or the PERF ASA Only Plan. The Indiana Public Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting INPRS' website, www.in.gov/inprs. At June 30, 2013, the number of participating political subdivisions was 1,120, and there were also 17 State-related participating employers.

Funding Policy The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. During fiscal year 2013, all participating employers were required to contribute 9.7 percent of covered payroll for State members. For political subdivisions, an average contribution rate of 8.8 percent was required from employers during the period of July 1 – December 31, 2012, and an average contribution rate of 9.7 percent was required for the period of January 1 – June 30, 2013. For the ASA Only Plan all participating employers were also required to contribute 9.7 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less that 3% and not be greater than the normal cost of the fund which was 4.7 percent for fiscal year 2013 and any amount not credited to the member's account shall be applied to the Unfunded Actuarial Accrued Liability of the PERF Hybrid Plan.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent to their annuity savings account, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the

member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts. Upon retirement, members may choose to annuitize the amount of their annuity saving accounts if the member has met all of the criteria established by the INPRS Board of Trustees.

Funded Status and Funding Progress Funded status and funding progress information is being disclosed for the State of Indiana employee portion of the plan. The funded status and funding progress information presented is for active and retired assets.

State of Indiana Employees: As of June 30, 2013, the most recent actuarial valuation date, the state employees portion of the plan was 78 percent funded. The actuarial accrued liability for benefits was \$5.7 billion, and the actuarial value of assets was \$4.4 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.3 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$1.6 billion, and the ratio of the UAAL to the covered payroll was 77 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension Cost and Net Pension Obligation The annual pension cost and net pension obligations, the significant actuarial assumptions, and three-year historical trend information of the single and agent multiple employer defined benefit plans are as follows:

	Primary Government		Fiduciary in Nature Component Unit					TRF - Pre-1996 Account
	SPRF	PERF -State	ECRF	JRS	PARF	LRS		
Annual Pension Cost and Net Pension Obligation (Asset)								
Annual required contribution	\$ 14,509.4	\$ 160,149.6	\$ 5,003.3	\$ 25,458.5	\$ 2,542.5	\$ 140.2	\$ 873,751.0	
Interest on net pension obligation	(899.1)	3,427.2	(138.9)	(1,818.9)	527.4	(2.5)	85,547.0	
Adjustment to annual required contribution	1,071.2	(3,989.3)	161.7	2,117.3	(614.0)	3.0	(99,579.0)	
Annual pension cost	14,681.5	159,587.5	5,026.1	25,756.9	2,455.9	140.7	859,719.0	
Contributions made	(44,041.2)	(157,580.6)	(19,740.0)	(111,417.6)	(19,443.4)	(150.0)	(1,013,080.0)	
Increase (decrease) in net pension obligation	(29,359.7)	2,006.9	(14,713.9)	(85,660.7)	(16,987.5)	(9.3)	(153,361.0)	
Net pension obligation, beginning of year	18,353.4	50,773.4	(2,057.6)	(26,946.5)	7,814.6	(37.7)	1,267,356.0	
Net pension obligation, end of year	\$ (11,006.3)	\$ 52,780.3	\$ (16,771.5)	\$ (112,607.2)	\$ (9,172.9)	\$ (47.0)	\$ 1,113,995.0	
Significant Actuarial Assumptions								
Investment rate of return	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	
Projected future salary increases:								
Total	3.50 - 9.00%	3.25 - 4.50%	3.25%	4.00%	4.00%	3.00%	3.00 - 12.50%	
Attributed to inflation	3.5%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Cost of living adjustments	N/A	1.00%	1.00%	4.00%	N/A	1.00%	1.00%	
Contribution rates:								
State	21.60%	9.70%	20.75%	Appropriation 38.83%	Appropriation 6.71%	Flat Dollar Amount *	Pay-As-You-Go	
Plan members	5.00% - 6.00%	3.00%	4.00%	6.00%	6.00%	0.00%	3.00%	
Actuarial valuation date	7/1/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013	
Actuarial cost method	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	traditional unit credit	entry age normal cost	
Amortization method	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar	
Amortization period	30 years	30 years	30 years	30 years	30 years	30 years	30 years	
Amortization period (from date)	7/1/2010	7/1/2008	7/1/2007	7/1/2006	7/1/2007	7/1/1992	N/A	
Amortization period (open or closed)	closed	closed	closed	closed	closed	closed	closed	
Asset valuation method	smoothed basis	smoothed market value with 20% corridor	smoothed market value with 20% corridor	smoothed market value with 20% corridor	smoothed market value with 20% corridor	smoothed market value with 20% corridor	smoothed market value with 20% corridor	
Historical Trend Information								
Year ended June 30, 2013								
Annual pension cost (APC)	\$ 14,681.5	\$ 159,587.5	\$ 5,026.1	\$ 25,756.9	\$ 2,455.9	\$ 140.7	\$ 859,719.0	
Percentage of APC contributed	300.0%	98.7%	392.7%	432.6%	791.7%	106.6%	117.8%	
Net pension obligation (asset)	\$ (11,006.3)	\$ 52,780.3	\$ (16,771.5)	\$ (112,607.2)	\$ (9,172.9)	\$ (47.0)	\$ 1,113,995.0	
Year ended June 30, 2012								
Annual pension cost (APC)	\$ 14,329.4	\$ 183,328.2	\$ 5,559.5	\$ 19,961.0	\$ 1,955.6	\$ 113.5	\$ 853,735.0	
Percentage of APC contributed	86.3%	75.5%	90.9%	94.7%	94.0%	99.6%	89.5%	
Net pension obligation (asset)	\$ 18,353.4	\$ 50,773.4	\$ (2,057.6)	\$ (26,946.5)	\$ 7,814.6	\$ (37.7)	\$ 1,267,356.0	
Year ended June 30, 2011								
Annual pension cost (APC)	\$ 12,121.4	\$ 176,881.5	\$ 5,206.5	\$ 19,206.5	\$ 1,896.3	\$ 114.7	\$ 883,459.0	
Percentage of APC contributed	78.0%	65.1%	99.8%	100.0%	9.0%	0.0%	84.8%	
Net pension obligation (asset)	\$ 16,389.9	\$ 5,772.7	\$ (2,564.0)	\$ (28,011.3)	\$ 7,697.9	\$ (38.1)	\$ 1,178,044.0	
SPRF - State Police Retirement Fund PERF - Public Employees' Retirement Fund (Administered by the INPRS Board of Trustees) ECRF - State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (Administered by the INPRS Board of Trustees) JRS - Judges' Retirement System (Administered by the INPRS Board of Trustees) PARF - Prosecuting Attorneys' Retirement Fund (Administered by the INPRS Board of Trustees) LRS - Legislators' Retirement System (Administered by the INPRS Board of Trustees) TRF - Teachers' Retirement Fund (Administered by the INPRS Board of Trustees) N/A - Not Applicable * - \$118,927 based on June 30, 2013 actuarial valuation								

The State sponsors the following cost-sharing multiple-employer plans:

State Teachers' Retirement Fund (Presented as part of INPRS – a fiduciary in nature component unit)

Plan Description The State Teachers' Retirement Fund (TRF), is a cost-sharing, multiple-employer defined benefit plan, administered by the Indiana Public Retirement System Board of Trustees. Indiana Code 5-10.2, IC 5-10.4, and IC 5-10.5 govern the requirements of the Fund. The Indiana Public Retirement System issues a publicly available financial report that includes financial

statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-286-3544, or by visiting INPRS' website, www.in.gov/inprs.

At June 30, 2013, the number of participating employers was 369.

Funding Policy Each member is required to contribute 3% of his/her compensation to the plan. The Indiana State Teachers' Retirement Fund is funded on a "pay as you go" basis for employees hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date (Pre-1996 Account). State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. Currently, a three (3) percent year-over-year increase is being provided through State appropriations. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund. In fiscal year 2013, the State appropriated an additional \$207 million from State excess reserves in accordance with 2012 HB 1376 and also pre-funded a one-time check (a.k.a. 13th check) of \$20 million in accordance with 2012 HB 1123 (which went into the Pension Stabilization Fund).

For employees hired on or after July 1, 1995; or hired before July 1, 1995, and prior to June 30, 2005, were either hired by another school corporation or institution covered by the Fund or were re-hired by a covered prior employer (1996 Account); the employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. During fiscal year 2013, all participating employers in the TRF 1996 account were required to contribute 7.5% of covered payroll.

As of June 30, 2013, TRF was 46% funded. Members in the Pre-1996 Account are funded on a "pay as you go" method for the employer portion of the pension and members in the 1996 Account are funded with employer contributions as they work.

TRF accounts for these two classes of members as "Pre-1996 Account" and "1996 Account", respectively. The Pre-1996 Account is 32% funded and the 1996 Account is 94% funded.

The funded ratio of the Fund has been between 42% and 48% since June 30, 2000. The actuarial value of the Fund's assets as of the June 30, 2013 valuation was \$9.7 billion and the actuarial accrued liability was \$21.2 billion. The difference is the Fund's unfunded actuarial accrued liability of \$11.5 billion. The annual covered payroll as of the June 30, 2013, actuarial valuation was \$4.1 billion and the ratio of the unfunded actuarial liability to the annual covered payroll was 279%.

1977 Police Officers' and Firefighters' Pension and Disability Fund (Presented as part of INPRS – a fiduciary in nature component unit)

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a cost-sharing, multiple-employer defined benefit plan administered by the Indiana Public Retirement System Board of Trustees. Indiana Code 36-8-8 governs the requirements of the Fund that provides retirement, disability, and survivor benefits. The Indiana Public Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting INPRS' website, www.in.gov/inprs.

At June 30, 2013, the number of participating employer units totaled 161.

Funding Policy A participant is required by statute to contribute six percent of a first class officer's or firefighter's salary for the term of their employment up to 32 years. Employer contributions are determined actuarially and during fiscal year 2013, all participating employers were required to contribute 19.7% of the salary of a first-class officer or firefighter. The funding policy mandated by statute requires remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The annual required contributions, percentage contributed, and three-year historical trend information, for the cost sharing, multiple-employer plans are as follows:

	Discretely Presented Component Units	
	STRF	PFPF
<u>Historical Trend Information</u>		
<u>Year ended June 30, 2013</u>		
Annual required contribution	\$ 873,751	\$ 88,287
Percentage contributed	116%	155%
Employer contribution	\$ 1,013,080	\$ 137,111
<u>Year ended June 30, 2012</u>		
Annual required contribution	\$ 866,207	\$ 141,988
Percentage contributed	88%	96%
Employer contribution	\$ 764,423	\$ 135,605
<u>Year ended June 30, 2011</u>		
Annual required contribution	\$ 894,507	\$ 133,903
Percentage contributed	84%	100%
Employer contribution	\$ 748,978	\$ 133,726
STRF - State Teachers' Retirement Fund - Pre-1996 Account		
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by INPRS)		

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of INPRS – a fiduciary in nature component unit)

Plan Description The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to: (1) members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b); (2) members of the General Assembly who are first elected or appointed after April 30, 1989; and (3) members of the General Assembly who: (a) served before April 30, 1989; (b) were not serving on April 20, 1989; and (c) are subsequently reelected or reappointed to the General Assembly. The plan is administered by the Board of Trustees' of the Indiana Public Retirement System. The Indiana Public Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting INPRS' website, www.in.gov/inprs.

Funding Policy For the Legislators' Defined Contribution Plan, each participant is required to contribute 5 percent of annual salary. In addition, the state of Indiana is required to contribute a percentage of the member's annual salary on behalf of the participant as determined by INPRS Board of Trustees and confirmed by the State Budget Agency each year. Effective January 1, 2013 the rate was established at 12.7 percent.

F. Other Postemployment Benefits

Defined Benefit Plans

Plan Descriptions The State of Indiana sponsors and contributes to four single-employer defined benefit healthcare plans: State Personnel Plan (SPP); Legislature Plan (LP); Indiana State Police Plan (ISPP); and the Conservation and Excise Police Plan (CEPP). The SPP and LP are administered by the State Personnel Department. The Indiana State Police administer the ISPP. The CEPP is administered by the Indiana State Excise Police and Indiana Conservation Officers Health Insurance Committee. All four plans provide medical plan health care benefits to eligible State employee retirees and beneficiaries. The medical benefits provided to retirees are the same benefit

options afforded active employees. Benefit provisions for each plan are established and may be amended by Indiana Code 5-10-8 *et seq.*

Separate financial reports are not issued for these plans.

Financial Statements As separately issued financial statements are not available for the State Employee Retiree Health Benefit Trust Fund-DB, summarized financial statements are as follows:

State of Indiana
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2013

	SPP & LP	ISPP	CEPP	Total
Assets				
Cash, cash equivalents and non-pension investments	\$ 11	\$ 10,216	\$ 1,716	\$ 11,943
Receivables:				
Contributions	-	51	-	51
Interest	-	50	-	50
Total receivables	-	101	-	101
Pension and other employee benefit investments at fair value:				
Debt Securities	44,000	10,816	5,730	60,546
Total investments at fair value	44,000	10,816	5,730	60,546
Total assets	44,011	21,133	7,446	72,590
Net Position				
Restricted for:				
OPEB benefits	44,011	21,133	7,446	72,590
Total net position	\$ 44,011	\$ 21,133	\$ 7,446	\$ 72,590

State of Indiana
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Year Ended June 30, 2013

	SPP & LP	ISPP	CEPP	Total
Additions:				
Member contributions	\$ -	\$ 949	\$ -	\$ 949
Employer contributions	-	2,437	1,673	4,110
Net investment income (loss)	3	24	-	27
Federal reimbursements	-	548	-	548
Other	-	200	-	200
Total additions	3	4,158	1,673	5,834
Deductions:				
Administrative	-	58	-	58
Total deductions	-	58	-	58
Net increase (decrease) in net position	3	4,100	1,673	5,776
Net position restricted for pension and other employee benefits, July 1, as restated:				
OPEB benefits	44,008	17,033	5,773	66,814
Net position restricted for pension and other employee benefits, June 30	\$ 44,011	\$ 21,133	\$ 7,446	\$ 72,590

Funding Policy and Annual OPEB Cost The contribution funding policy for each of the four plans is on a pay-as-you-go cash basis. However, trust funds as authorized by the Indiana General Assembly were created to start pre-funding the SPP, ISPP, and CEPP plans. The State of Indiana's annual other postemployment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution (ARC) of the employer,

an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The State of Indiana's annual OPEB cost for the current year and the related information for each plan are as follows:

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
Contribution rates:				
State of Indiana	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Plan members (monthly premium)	See next chart	See next chart	See next chart	See next chart
Annual required contribution	\$ 941	\$ 827	\$ 27,419	\$ 3,053
Interest on net OPEB obligation	(1,941)	51	5,713	436
Amortization adjustment to ARC	<u>2,234</u>	<u>(69)</u>	<u>(7,283)</u>	<u>(594)</u>
Annual OPEB Cost	1,234	809	25,849	2,895
Contributions made	<u>(4,203)</u>	<u>(533)</u>	<u>(11,684)</u>	<u>(2,893)</u>
Change in net OPEB obligation	(2,969)	276	14,165	2
Net OPEB obligation - beginning of year	<u>(27,728)</u>	<u>1,120</u>	<u>108,840</u>	<u>9,671</u>
Net OPEB obligation - end of year	<u>\$ (30,697)</u>	<u>\$ 1,396</u>	<u>\$ 123,005</u>	<u>\$ 9,673</u>

The plan administrators (see plan descriptions above) establish the contribution requirements of plan members. Plan members (retirees and eligible dependents) who participate in these healthcare plans must pay the full 2014 monthly premiums (except for grandfathered LP current retirees) as shown in the following chart.

	<u>Monthly Premium</u>
State Personnel Healthcare Plan (SP) and Legislature's Healthcare Plan (LP)	
Consumer Driven Health Plan #1	
Single (Non-Tobacco)	\$ 401.31
Family (Non-Tobacco)	1,206.27
Consumer Driven Health Plan #2	
Single (Non-Tobacco)	531.44
Family (Non-Tobacco)	1,541.15
Traditional PPO	
Single (Non-Tobacco)	856.31
Family (Non-Tobacco)	2,405.91
Dental	
Single	24.31
Family	63.96
Vision	
Single	3.55
Family	9.01
Indiana State Police Healthcare Plan (ISPP)	
Basic Plan - Medical Only	
Retiree Only (Pre-Medicare)	391.29
Retiree Plus One Dependent (Pre-Medicare)	503.29
Retiree Only (Post-Medicare)	143.68
Retiree Plus One Dependent (Post-Medicare)	172.98
Optional Plan - Medical, Dental, & Vision	
Retiree Only (Pre-Medicare)	457.56
Retiree Plus One Dependent (Pre-Medicare)	625.16
Retiree Only (Post-Medicare)	167.43
Retiree Plus One Dependent (Post-Medicare)	220.74
Conservation and Excise Police Health Care Plan (CEPP) - Medical, Dental, & Vision	
Single - Under Age 60 (Pre-Medicare)	328.00
Family - Under Age 60 (Pre-Medicare)	575.00
Single - Age 60 -64 (Pre-Medicare)	328.00
Family - Age 60-64 (Pre-Medicare)	575.00
Single (Post-Medicare)	131.00
Family (Post-Medicare)	188.00

The State of Indiana's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for June 30, 2011 through

June 30, 2013 for each of the plans were as follows:

	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
State Personnel Healthcare Plan	6/30/2013	\$ 1,234	340.6%	\$ (30,697)
	6/30/2012	2,930	1155.1%	(27,728)
	6/30/2011	4,499	376.1%	3,191
Legislature's Healthcare Plan	6/30/2013	\$ 809	65.9%	\$ 1,396
	6/30/2012	802	60.9%	1,120
	6/30/2011	551	64.0%	806
Indiana State Police Healthcare Plan	6/30/2013	\$ 25,850	45.2%	\$ 123,005
	6/30/2012	26,336	70.7%	108,840
	6/30/2011	28,915	47.7%	101,131
Conservation and Excise Police Health Care Plan	6/30/2013	\$ 2,894	100.0%	\$ 9,673
	6/30/2012	3,460	199.1%	9,671
	6/30/2011	4,257	31.4%	13,101

Funded Status and Funding Progress The funded status of the plans as of June 30, 2013, was as follows:

	<u>State Personnel Healthcare Plan</u>	<u>Legislature's Healthcare Plan</u>	<u>Indiana State Police Healthcare Plan</u>	<u>Conservation and Excise Police Health Care Plan</u>
Actuarial accrued liability (a)	\$ 39,999	\$ 12,078	\$ 297,104	\$ 38,810
Actuarial value of plan assets (b)	44,011	-	21,133	7,446
Unfunded actuarial accrued liability (funding excess) (a) - (b)	<u>\$ (4,012)</u>	<u>\$ 12,078</u>	<u>\$ 275,971</u>	<u>\$ 31,364</u>
Funded ratio (b)/(a)	110.0%	0.0%	7.1%	19.2%
Covered payroll (c)	\$ 1,208,402	\$ 1,696	\$ 87,040	\$ 25,532
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c))	-0.3%	712.1%	317.1%	122.8%

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. The State elected to use the actuarial results for the period ending June 30, 2012 with adjustments for known experience for the period ending June 30, 2013. However, the covered payroll for the Indiana State Police Healthcare plan is that from the June 30, 2012 actuarial results.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as

required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Projections of benefits are based on the substantive plan (the plan

as understood by the employer and plan members) and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
Actuarial valuation date	6/30/2013	6/30/2013	6/30/2013	6/30/2013
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar amount, open	Level dollar amount, open	Level dollar amount, open	Level dollar amount, open
Remaining amortization period	30 years	30 years	30 years	30 years
Asset valuation method	Market Value of Assets	N/A	Market Value of Assets	Market Value of Assets
Actuarial assumptions:				
Inflation rate	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.00%	4.50%	5.25%	4.50%
Projected salary increases	4.00%	4.00%	4.00%	4.00%
Healthcare inflation rate	9.2%	9.2% pre-65 & 10.0% post-65	9.2% pre-65 & 10.0% post-65	9.2% pre-65 & 10.0% post-65

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. The State elected to use the actuarial results for the period ending June 30, 2012 projected to June 30, 2013 with adjustments for known experience for the period ending June 30, 2013. There have been no material changes in the retiree health benefits or contribution requirements from the most recent available actuarial valuation for the period ending June 30, 2012. However, the premiums and per capita costs were updated for the current year valuation.

Defined Contribution Plan

Plan Description The State of Indiana sponsors one single employer defined contribution OPEB plan established as a trust fund, the Retiree Health Benefit Trust Fund, in IC 5-10-8-8.5. The State established this trust fund to provide funding for the retiree health benefit plan developed under IC 5-10-8.5. The plan is a benefit to employees who retire

and are eligible for and have received a normal, unreduced or disability retirement benefit (as determined by statutes and codes governing a State public employee retirement fund). Qualified retirees of the State are eligible to receive retirement medical benefits from this Plan. Retirees' and/or covered dependents' qualifying health insurance and medical costs are eligible for reimbursement from their reimbursement account, subject to Plan conditions and limitations.

Financial Statements As separately issued financial statements are not available for the State Employee Retiree Health Benefit Trust Fund-DC, summarized financial statements are as follows:

State of Indiana Combining Statement of Fiduciary Net Position June 30, 2013	
	State Employee Retiree Health Benefit Trust Fund - DC
Assets	
Cash, cash equivalents and non-pension investments	\$ 2,154
Contributions	141
Interest	62
Total receivables	203
Pension and other employee benefit investments at fair value:	
Debt Securities	220,035
Total investments at fair value	220,035
Total assets	222,392
Liabilities:	
Accounts/escrows payable	19
Benefits payable	258
Total liabilities	277
Net Position	
Restricted for:	
OPEB benefits	222,115
Total net position	\$ 222,115

state government to pay for participants' medical insurance after retirement. Legislation passed by the 2012 Indiana General Assembly removed from eligibility in the DC plan all Conservation Officers, all Excise Officers, and employees of the Indiana State Police who did not previously waive coverage under the agency's DB plan. Benefits are entitled to be received from this account for a participant who: a) is eligible for and has applied to receive a normal, unreduced or disability retirement benefit under the Public Employees' Retirement Fund; or b) has completed at least 10 years of service as an elected or appointed officer; or c) has completed at least 15 years of service with the state for an employee. A surviving spouse or IRS dependent of a retired participant is allowed to receive the benefit from this account. Amounts credited to a retired participant are forfeited if the participant dies without a surviving spouse or IRS dependent.

The trust meets the requirements of a qualified OPEB trust. The trust is qualified under section 115 of the Internal Revenue Code.

Contributions The State is required to make annual contributions to the account based on the following schedule:

State of Indiana Combining Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2013	
	State Employee Retiree Health Benefit Trust Fund - DC
Additions:	
Employer contributions	\$ 22,245
Net investment income (loss)	285
Total additions	22,530
Deductions:	
Retiree health benefits	14,651
Administrative	111
Total deductions	14,762
Net increase (decrease) in net position	7,768
Net position restricted for pension and other employee benefits, July 1, as restated:	
OPEB benefits	214,347
Net position restricted for pension and other employee benefits, June 30	\$ 222,115

Employee's Age	Annual State Contributions
Less than 30	\$500
At least 30, but less than 40	\$800
At least 40, but less than 50	\$1,100
At least 50	\$1,400

An additional bonus contribution is to be made upon a participant's retirement with normal unreduced benefits if the retirement occurs between July 1, 2007 and July 1, 2017, and the retiree on the last day of service has completed at least 15 years of service or 10 years of service as an elected or appointed officer. The additional bonus contribution amount is one thousand dollars (\$1,000) multiplied by the participant's years of service (rounded down to the nearest whole year).

At June 30, 2013, the plan participants consisted of:

Plan Provisions Benefit provisions for this plan are established or may be amended by the State legislature. The State Budget Agency of the State of Indiana is the administrator of the plan pursuant to Indiana Code 5-10-8-8.5. The plan establishes a retirement medical benefits account for elected officers, appointed officers, and most employees of the executive, legislative, and judicial branches of

Description	Number
Active participants with accounts, not yet retired	28,567
Retired participants with accounts	5,082
Total	33,649

At June 30, 2013, plan participants' retirement medical plan account balances totaled \$250.9 million which consisted of \$150.3 million in unretired active participants' accounts and \$100.6 million in retired participants' accounts.

This plan is a defined contribution individual account for GASB 45 purposes. The employer subsidy is defined in terms of an annual contribution to an individual account. Plan assets are maintained in the Retiree Health Benefit Trust Fund created by the State as a dedicated trust fund.

The trust fund consists of cigarette tax revenues deposited in the fund under IC 6-7-1-28.1(7) and other appropriations, revenues, or transfers to the trust fund under IC 4-12-1. Cigarette tax revenues to the fund were suspended effective July 1, 2011 and are to resume on July 1, 2013. The plan benefits satisfy the condition of being a defined contribution OPEB benefit and by definition, there is no unfunded liability.

The annual required contribution for the fiscal year ending June 30, 2012 was \$34.4 million. For the fiscal year ending June 30, 2013, \$22.2 million was contributed by state agencies that are funded by federal or dedicated funds for their portion of funding. The accumulated General Fund balance held by the trust covered the remainder of the annual required contribution. The retiree contribution includes the bonus contributions of \$1,000 per year of service to employees retiring after July 1, 2007 who also met certain minimum age and service requirements.

G. Pollution Remediation Obligations

Nature and source of pollution remediation obligations:

Three state agencies have identified themselves as responsible or potentially responsible parties to remediate fifty-one pollution sites pursuant to the State's implementation of GASB 49, Accounting and Financial Reporting for Pollution Remediation Obligations effective July 1, 2008. Obligating events for the cleanup of these sites include the federal Superfund law, being named by a regulator to remediate hazardous wastes and contamination, violation of the Resource Conservation and Recovery Act, and voluntarily assuming responsibility because of imminent threats to human health and the environment.

Amount of the estimated liability, methods and assumptions used for the estimate, and the potential for changes:

The State's total estimated liability is \$44.7 million of which \$5.4 million is estimated to be payable within one year and \$39.3 million estimated to be payable in more than one year. State agencies calculated their estimated liabilities using various approaches including existing agreements, contractor bids/surveys, records of decisions from regulators, matching requirements under the Superfund law, previous actual costs to cleanup similar sites, investigation activities, well known and recognized estimation methods, and through the sampling and knowing the size and volume of existing contamination at a site. Superfund site estimated liabilities also applied a rolling thirty year liability as this was the number of years determined to be reasonably estimable. The estimated liabilities of state agencies are subject to annual review and adjustment for changes in agreements, laws, regulations, court decisions, price increases or decreases for goods and services used in cleanup, and other relevant changes that come to light.

Estimated recoveries reducing the liability:

The estimated recoveries total \$18.2 million. Of this total, \$0.09 million is unrealizable or has not yet been realized and has been applied to reduce the State's total estimated liability. Estimated recoveries include the proceeds from the sale of stock, bankruptcy court settlements, coverage of allowable costs by the State's Excess Liability Trust Fund (ELTF), and credits received for work performed on Superfund sites. The ELTF state law states that if insufficient funds exist to pay claims neither the State nor the Fund are liable for unpaid claims. The State recognized \$4.3 million of program revenue for four sites whose realized recoveries exceeded the pollution remediation liability.