

# NOTES TO THE FINANCIAL STATEMENTS



## STATE OF INDIANA

Notes to the Financial Statements  
June 30, 2009

I. Summary of Significant Accounting Policies .....	52
A. Reporting Entity .....	52
B. Government-Wide and Fund Financial Statements .....	55
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation .....	56
D. Eliminating Internal Activity .....	57
E. Assets, Liabilities and Equity .....	58
1. Deposits, Investments and Securities Lending .....	58
2. Receivables and Payables .....	58
3. Interfund Transactions and Balances .....	59
4. Inventories and Prepaid Items .....	59
5. Restricted Net Assets .....	59
6. Capital Assets .....	59
7. Compensated Absences .....	61
8. Long-Term Obligations .....	61
9. Fund Equity .....	61
II. Reconciliation of Government-Wide and Fund Financial Statements .....	62
A. Reconciliation of the Government Funds Balance Sheet to the Statement of Net Assets .....	62
B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Government Funds to the Statement of Activities .....	62
III. Stewardship, Compliance and Accountability .....	63
A. Deficit Fund Equity .....	63
B. Unreserved 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 Trust Funds .....	64
2. Pension and Other Employee Benefit Trust Funds – Primary Government .....	70
3. Pension Trust Funds – Discrete Component Units .....	74
B. Interfund Transactions .....	81
C. Taxes Receivable/Tax Refunds Payable .....	87
D. Capital Assets .....	87
E. Leases .....	89
F. Long-Term Obligations .....	90
G. Prior Period Adjustments and Reclassifications .....	90
V. Other Information .....	91
A. Risk Management .....	91
B. Contingencies and Commitments .....	92
C. Other Revenue .....	94
D. Economic Stabilization Fund .....	94
E. Employee Retirement Systems and Plans .....	94
F. Other Postemployment Benefits – Defined Benefit and Defined Contribution Plans .....	101
G. Pollution Remediation Obligations .....	105

**STATE OF INDIANA**  
**Notes to the Financial Statements**  
**June 30, 2009**  
**(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 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, 2008, fiscal year-end.

*Blended Component Unit*

The following component unit is reported under the blended method as the primary government appoints a voting majority of the board and is able to impose its will. This unit, although legally separate from the State, is reported as part of the State because it provides services entirely or almost entirely to the State. This component unit is 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.

*Discretely Presented Component Units*

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All 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 discrete pension trust funds. College and university foundations are audited by outside auditors.

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 refinances 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 proprietary fund.

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 unit is reported as a proprietary fund.

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 unit is reported as a proprietary fund.

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 unit is reported as a proprietary fund.

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. The unit is reported as a proprietary fund.

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 proprietary fund.

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 upcoming 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 proprietary fund.

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 proprietary fund.

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 proprietary fund.

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 proprietary fund.

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 proprietary fund.

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 proprietary fund.

Effective July 1, 2000, the Public Employees' Retirement Fund (PERF) became an independent body corporate and politic. PERF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The PERF board is composed of five trustees appointed by the Governor and 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 funds: Public Employees' Retirement Fund, Judges' Retirement System, Excise Police, Gaming Agent 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 PERF see Note V(E) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation from PERF's financial statements.

Effective July 1, 2000, the Teachers' Retirement Fund (TRF) became an independent body corporate and politic. TRF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The TRF board is composed of five trustees appointed by the Governor and the director of the budget agency or director's designee as an ex officio voting member of the board. For more information on TRF see Note V(E) Employee Retirement Systems and Plans.

The Public Employees' Retirement Fund and the Teachers' Retirement Fund were determined to be significant for note disclosure purposes involving the discretely presented fiduciary component units.

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 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.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Finance Authority  
One North Capitol Ave., Suite 900  
Indianapolis, IN 46204

Indiana Bond Bank  
10 West Market St. Suite 2980  
Indianapolis, IN 46204

State Lottery Commission of Indiana  
Pan Am Plaza  
201 S. Capitol, Suite 1100  
Indianapolis, IN 46225

Indiana Stadium and Convention  
Building Authority  
425 W. South Street  
Indianapolis, IN 46225

Indiana Housing and Community  
Development Authority  
40 South Meridian, Suite 1000  
Indianapolis, IN 46204

Secondary Market for Education Loans, Inc.  
Capital Center, Suite 400  
251 N. Illinois  
Indianapolis, IN 46204

Indiana Board for Depositories  
One North Capitol Ave., Suite 444  
Indianapolis, IN 46204

Indiana White River State Park  
Development Commission  
801 West Washington Street  
Indianapolis, IN 46204

Indiana Comprehensive Health Insurance  
Association  
9465 Counselors Row, Suite 200  
Indianapolis, IN 46240

Ports of Indiana  
150 West Market Street, Suite 100  
Indianapolis, IN 46204

Indiana State Fair Commission  
1202 E. 38<sup>th</sup> Street  
Indianapolis, IN 46205

Indiana Political Subdivision Risk  
Management Commission  
c/o Indiana Department of Insurance  
311 W. Washington St., Suite 300  
Indianapolis, IN 46204

Ivy Tech Community College  
Assistant Treasurer  
50 West Fall Creek Parkway North Drive  
Indianapolis, IN 46208

University of Southern Indiana  
8600 University Boulevard  
Evansville, IN 47712

Indiana University  
Poplar's Room. 500, 107 S. Indiana Ave.  
Bloomington, IN 47405-1202

Ball State University  
Administration Bldg., 301  
2000 West University Avenue  
Muncie, IN 47306

Indiana State University  
Office of the Controller  
210 N. 7<sup>th</sup> Street  
Terre Haute, IN 47809

Vincennes University  
1002 North 1st Street  
Vincennes, IN 47591

Purdue University  
Accounting Services  
401 South Grant Street  
West Lafayette, IN 47907-2024

State of Indiana  
Public Employees' Retirement Fund  
Harrison Building  
143 West Market Street  
Indianapolis, IN 46204

Indiana State Teachers' Retirement Fund  
150 West Market Street, Suite 300  
Indianapolis, IN 46204-2809

## B. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of a statement of net assets 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 defined under the reporting entity above. 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 assets and the statement of changes in net assets. 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.

For the government-wide financial statements and enterprise and fiduciary fund statements, the State applies all applicable FASB pronouncements issued before December 1, 1989, and those issued after that date which do not contradict any previously issued GASB pronouncements.

**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 unmatured interest on general long-term debt which is recognized when due, and 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 the first several working days in July revenues 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 revenue sources that are legally restricted to expenditure for specific purposes except for major capital projects.

The following special revenue funds are presented as major.

- The *Motor Vehicle Highway Fund* collects motor fuel taxes, special fuel taxes, motor carrier surtaxes, and vehicle license fees for public safety programs and distributions to local units of government for transportation programs.
- The *Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid and Children's Health Insurance programs.
- 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.
- The *State Highway Department Fund* receives federal grants and State appropriations that are used for State transportation programs.
- The *Property Tax Replacement Fund* receives corporate income tax and sales tax which is used for education and property tax replacement distributions to local units of government.
- The *ARRA of 2009 Fund* is used to account for funds received under the American Recovery and Reinvestment Act of 2009 which became law on February 17, 2009. These funds are

supplementing existing federal programs in areas such as Medicaid, education, transportation, housing, and employment services.

The *capital projects funds* account 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 assets, 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 interest/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 the board has 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, and self-insurance. 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.

When both restricted and unrestricted resources are available for use, it is the primary government's policy to use restricted resources first, then unrestricted resources as they are needed.

**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, and defined contribution pension plans. Pension and other employee benefits trust funds include the Public Employees' Retirement Fund, Teachers' Retirement Fund, State Police Pension Fund and the Retiree Health Benefit Trust Fund.

*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 assets. 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 assets.

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 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. 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.

Investments which are authorized for the State Teachers' Retirement Fund (TRF) include: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, banker's acceptances, limited liability partnerships, real estate securities, options, and swaps. The investments of TRF are subject to the provisions of IC 5-10.4-3-10.

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.

The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund (PERF) Board of Trustees. The PERF Board of Trustees is required to diversify investments in accordance with the prudent investor standards. The investment policy statement adopted by the PERF Board of Trustees and the asset allocation approved by the PERF Board of Trustees contain limits and goals for each type of investment portfolio and specifies prohibited transactions. These guidelines authorize investments of: U.S. Treasury and Agency obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, mutual funds, collective trust funds, asset backed, commercial mortgage backed, international stocks, and real estate. The investments of PERF are subject to the provisions of IC 5-10.3-5-3.

### **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 20<sup>th</sup> day after the end of the month collected. Estimated payments are due from individuals by the 15<sup>th</sup> of the month

immediately following each quarter or the calendar year.

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

Sales tax – Due by the 20<sup>th</sup> day after the end of the month collected.

Fuel tax – Gasoline tax is due the 20<sup>th</sup> day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15<sup>th</sup> day after the end of the month collected or the 15<sup>th</sup> 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 20<sup>th</sup> 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; a minor portion is remitted to the State semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

### **3. Interfund Transactions and Balances**

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

Interfund service 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 Assets**

Certain net assets are classified as restricted net assets 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.

### **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 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:

- an average Pavement Quality Index (PQI) of 75 for Interstate and National Highway Safety (NHS) Non-Interstate roads,
- an average PQI of 65 for 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 Program Engineering 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 sixty-two (364) 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>Years</u>
Buildings including improvements to buildings	40
Structures other than buildings including improvements to structures other than buildings	20
Infrastructure (not using modified approach)	20
Furniture, machinery and equipment	5-14
Motor pool vehicles	10 ¢ / mile

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 State Museum Collection, which is a part of the Indiana Department of Natural Resources, consists of historical buildings and furnishings; personal artifacts; tools and equipment; communication, transportation, recreational and societal artifacts; and art objects.
- 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 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.

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 Equity**

In the fund financial statements, reservations of fund equity represent those portions of fund balances that are legally restricted by outside parties for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

*Reserve for Encumbrances* – established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

*Reserve for Special Purposes* – established to recognize that money has been set aside for specific purposes as designated by the governmental entity or fund pursuant to its management's direction or in accordance with any rules, laws, or procedures.

*Reserve for Tuition Support* – established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

*Reserve for Interfund Loans* – established to recognize short-term and long-term loans issued to other funds within this government and therefore not currently available for expenditure.

*Reserve for Long-Term Loans and Advances* – established to recognize short-term and long-term loans issued by various governmental activities' funds to entities outside this government and therefore, not currently available for expenditure. The majority of these loans are made from the Common School Fund to school corporations for construction and/or technology initiatives.

*Reserve for Restricted Purposes* – established to recognize legal limitations that specify the purpose or purposes for which resources derived from government-mandated and voluntary nonexchange transactions are to 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 Assets

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.

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 assets. 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 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 assets. 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 assets.

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, 2009, 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
<b>Governmental Funds</b>		
Medicaid Assistance	\$ -	\$ (19,363)
County Welfare Administration	-	(4,479)
Bureau of Motor Vehicles Commission	-	(18,575)
Federal Food Stamp Program	(7,973)	(286)

#### B. Unreserved Fund Balance

The State of Indiana designates its unreserved fund balance as designated for appropriations, designated for allotments, and undesignated. In order for money to be spent out of a fund it must be appropriated by

the legislature and then allotted by the State Budget Agency. The following are the designations of unreserved fund balance at June 30, 2009:

Unreserved Fund Balance				
	Designations of Unreserved Fund Balance			Total Unreserved Fund Balance
	Designated for Appropriations	Designated for Allotments	Undesignated	
<b>Governmental Funds</b>				
General Fund	\$ 449,822	\$ 427,903	\$ 581,892	\$ 1,459,617
Motor Vehicle Highway Fund	-	-	(19,621)	(19,621)
Medicaid Assistance	-	-	(39,406)	(39,406)
Major Moves Construction Fund	754,935	-	1,507,649	2,262,584
State Highway Department	-	-	(1,360,848)	(1,360,848)
ARRA of 2009	-	-	(208,216)	(208,216)
Non-Major Special Revenue Funds	712,290	627,959	215,315	1,555,564
Non-Major Capital Projects Funds	63,503	20,405	1,560	85,468
Non-Major Permanent Funds	424	120,051	541,029	661,504
Total Governmental Funds	\$ 1,980,974	\$ 1,196,318	\$ 1,219,354	\$ 4,396,646

**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 is

no formal investment policy 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, 2009:

<b>Primary Government (Amounts in thousands)</b>			
<b>Investment Type</b>	<b>Fair Value Totals</b>	<b>Investment Maturities (in Years)</b>	
		<b>Less than 1</b>	<b>1 - 5</b>
U.S. Treasuries	\$ 373,785	\$ 373,785	\$ -
U.S. Agencies	596,563	528,859	67,704
Municipal Bonds	189,070	189,070	-
Local Govt Investment Pool	256,065	256,065	-
Non-U.S. Fixed Income	10,000	5,000	5,000
Certificate of Deposits	357,340	357,340	-
Money Market Mutual Funds	2,258,000	2,258,000	-
<b>Total</b>	<b>\$ 4,040,823</b>	<b>\$ 3,968,119</b>	<b>\$ 72,704</b>

*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, 2009, 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. 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:

<b>Primary Government (Amounts in thousands)</b>				
<b><u>Investment Type</u></b>	<b><u>S &amp; P</u></b>	<b><u>Moody's</u></b>		<b><u>Fair Value</u></b>
U.S. Treasuries	AAA	Aaa	\$	373,785
U.S. Agencies	AAA	Aaa		596,563
Certificate of Deposits	NR	NR		357,340
Municipal Bonds	NR	NR		189,070
Non-US Fixed Income Bonds	A	A		10,000
Local Govt Investment Pool	NR	NR		256,065
Money Market Mutual Funds	AAA	Aaa		2,258,000
Total			\$	<u>4,040,823</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 Treasurer.

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

Federal Home Loan Bank: 7.06% \$341,672,885.03

#### *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 Credit Risk*

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 government, 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 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, 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. 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

### **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

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 securities or cash 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. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees' Retirement Fund and the State Teachers' Retirement Fund (discretely presented component units), which allow no more than 40% to be lent at one time.

The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-35 days. The weighted average maturity gap at June 30, 2009 was 29 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.

the Treasurer of State. The Investment Policy Statements are written in conformity with the applicable investment statutes and in accordance with prudent investor standards. 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 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, 2009:

Major Moves/Next Generation Funds (Amounts in thousands)		Investment Maturities (in Years)			
		Fair Value	Less than 1	1 - 5	6 - 10
U.S. Treasuries	\$ 285,132	\$ 25,235	\$ 128,220	\$ 73,081	\$ 58,596
U.S. Agencies	383,367	1,266	24,691	38,568	318,842
Government Asset and Mortgage Backed Collateralized Mortgage Obligations	226,809	94	3,494	4,978	218,243
Government CMOs	35,787	-	-	7,991	27,796
Corp CMOs	96	-	-	-	96
Other Government Bonds	120,049	2,995	23,212	52,029	41,813
Corporate Bonds	1,171,814	34,477	392,301	491,427	253,609
Corporate Asset Backed	217,173	207	23,671	13,673	179,622
Private Placements	83,488	1,585	33,289	30,804	17,810
Municipal Bonds	23,830	2,586	4,951	9,331	6,962
Miscellaneous Other Fixed Income	1,569	-	860	-	709
Money Market Mutual Funds	409,217	409,217	-	-	-
	<u>\$ 2,958,331</u>	<u>\$ 477,662</u>	<u>\$ 634,689</u>	<u>\$ 721,882</u>	<u>\$ 1,124,098</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, 2009, 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

g. High-yield and non-US debt securities are permitted

h. Non US-dollar currency exposure is permitted

Hybrid Fixed Income Managers

The following is a summary of the Credit Risk Disclosure as of June 30, 2009:

<b>Major Moves/Next Generation Funds</b> (Amounts in thousands)					
Investment Type	<b>S &amp; P</b>		<b>Moody's</b>		
	Ratings	Fair Value	Ratings	Fair Value	
U.S. Treasuries	AAA	\$ 285,132	Aaa	\$ 285,132	
U.S. Agencies	AAA	383,367	Aaa	383,367	
Government Asset And Mortgage Backed	AAA	190,229	Aaa	167,790	
	AA	784	Aa	2,040	
	A	3,627	A	2,520	
	BBB	12,632	Baa	15,453	
	BB	5,766	Ba	8,485	
	B	4,890	B	6,744	
	CCC&Below	2,753	Caa&Below	7,158	
	NR	6,128	NR	16,619	
Collateralized Mortgage Obligations					
Government CMO's	AAA	35,108	Aaa	35,334	
Government CMO's	NR	679	NR	453	
Government CMO's	BBB	96	Baa	96	
Other Government Bonds					
	AAA	44,231	Aaa	48,529	
	AA	8,076	Aa	3,003	
	A	9,323	A	3,680	
	BBB	26,433	Baa	13,937	
	BB	18,702	Ba	38,595	
	B	379	B	3,187	
	CCC&Below	840	Caa&Below	-	
	NR	12,065	NR	9,118	
Corporate Bonds					
	AAA	77,002	Aaa	81,245	
	AA	71,554	Aa	85,064	
	A	331,972	A	296,583	
	BBB	369,131	Baa	377,879	
	BB	95,996	Ba	91,764	
	B	64,283	B	76,718	
	CCC&Below	56,818	Caa&Below	66,026	
	NR	105,058	NR	96,535	
Corporate Asset Backed					
	AAA	155,407	Aaa	148,547	
	AA	1,652	Aa	7,072	
	A	9,819	A	1,874	
	BBB	25,115	Baa	27,119	
	BB	1,929	Ba	9,363	
	B	2,461	B	5,232	
	CCC&Below	936	Caa&Below	5,417	
	NR	19,854	NR	12,549	
Private Placements					
	AAA	4,115	Aaa	3,758	
	AA	17,244	Aa	10,159	
	A	25,501	A	28,834	
	BBB	24,310	Baa	27,295	
	BB	5,367	Ba	5,602	
	CCC&Below	4,787	Caa&Below	4,787	
	NR	2,164	NR	3,053	
Municipal Bonds					
	AAA	1,561	Aaa	1,101	
	AA	4,219	Aa	3,884	
	A	7,760	A	6,512	
	BBB	6,479	Baa	4,508	
	BB	-	Ba	689	
	NR	3,811	NR	7,136	
Misc Other Fixed Income					
	AA	32	Aa	32	
	A	514	A	514	
	BBB	710	Baa	710	
	NR	313	NR	313	
Money Market Mutual Funds					
	AAA	324,104	Aaa	324,104	
	NR	85,113	NR	85,113	
<b>Total</b>		<b>\$ 2,958,331</b>		<b>\$ 2,958,331</b>	

*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: 12.55%, \$350,983,458

*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 Credit Risk*

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, the State had no credit risk exposure to

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2009:

any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

***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 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.

<b>TrustINDiana - Local Government Investment Pool</b>			
(Amounts are in thousands)			
Investment Type	Amortized Cost	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Agencies	16,023	\$ 10,682	\$ 5,341
Commercial Paper	18,669	18,669	-
Money Market Mutual Funds	81,403	81,403	-
<b>Total</b>	<b>\$ 116,095</b>	<b>\$ 110,754</b>	<b>\$ 5,341</b>

*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, 2009, 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 it’s 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:

<b>TrustINDiana - Local Government Investment Pool</b> (Amounts are in thousands)				
Investment Type	S & P		Moody's	
	Ratings	Fair Value	Ratings	Fair Value
U.S. Agencies	AAA	\$ 16,023	Aaa	\$ 16,023
Commercial Paper	A-1	18,669	P-1	18,669
Money Market Mutual Funds	AAA	81,403	Aaa	81,403
Total		<u>\$116,095</u>		<u>\$116,095</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.

There were no investments in any one issuer that represent 5% or more of the total Pool investments.

*Securities Lending Credit Risk*

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, an agency of the United States government, 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.

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.

**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. IC 10-1-2-2 (c) reads 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.

**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 as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities:

Investment Type	S & P		Moody's	
	Ratings	Fair Value	Ratings	Fair Value
State Police Pension (Amounts in thousands)				
U.S. Treasuries	AAA	\$ 11,985	Aaa	\$ 11,985
U.S. Agencies	AAA	22	Aaa	22
Government Assets and Mortgage Backed Securities	AAA	10,257	Aaa	10,257
Collateralized Mortgage Obligations				
Corporate CMO's	AAA	51	Aaa	51
Government CMOs	AAA	6,836	Aaa	6,836
Corporate Bonds	AA	2,387	Aa	3,038
	A	14,115	A	12,911
	BBB	10,790	Baa	9,763
	BB	1,408	Ba	3,834
	B	-	B	60
	CCC & Below	1,283	CCC & Below	1,283
	NR	906	NR	-
Corporate Asset Backed	AAA	16,388	Aaa	10,451
	AA	-	Aa	2,193
	A	3,185	A	2,493
	BBB	7,031	Baa	8,218
	BB	414	Ba	2,149
	B	507	B	4,536
	CCC & Below	875	CCC & Below	1,638
	NR	3,920	NR	642
Foreign Bonds	AA	37	Aa	-
	NR	-	NR	37
Private Placements	AAA	552	Aaa	33
	AA	1,540	Aa	1,616
	A	1,295	A	2,821
	BBB	4,669	Baa	3,513
	BB	-	Ba	73
	B	599	B	599
Municipal Bonds	AAA	1,011	Aaa	-
	AA	1,875	Aa	487
	NR	494	NR	2,893
Money Market Mutual Funds	AAA	10,253	Aaa	10,253
	NR	571	NR	571
Total		\$ 115,256		\$ 115,256

### *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, 2009, 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) 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. The Indiana State Police Trust has ten different investments managers. The purchase of securities in any one nongovernmental corporation shall be limited to an initial cost of 5% of the market value of an investment manager's portfolio. Additionally, the following limits are set to further limit credit exposure:

**Large/Mid/Small Capitalization Equity Managers:** equity holdings in any one company should not exceed 7.5% of the market value of the investment manager's portion of the Fund's portfolio. Equity holdings in any one industry should not exceed 25% of the market value of the investment manager's portion and equity holdings in any one sector should not exceed 35% of the investment manager's portfolio market value.

**Non-US Equity Investment Managers:** equity holdings

in any one international company shall not exceed 7.5% of the total value of all investments in international equity securities and equity holdings in any one country shall not exceed 35% of all investments in international equity securities.

**Domestic Core Fixed/ Domestic Core Plus/Hybrid Managers:** securities of any one issuer is limited to not more than 5% of the investment manager's portion of the portfolio measured at market value. Securities backed by the full faith and credit of the United States Government or any of its instrumentalities shall not be subject to exposure limitations. Investments in high-yield and non-US debt securities should be limited to 20% high-yield and 20% non-U.S. debt with a combined exposure to those sectors not to exceed 30%.

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 7%.

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

State Police Pension (Amounts in thousands)					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6- 10	More than 10
U.S. Treasuries	\$ 11,985	\$ 2,092	\$ 7,764	\$ 1,771	\$ 358
U.S. Agencies	17,115	6	394	660	16,055
Collateralized Mortgage Obligations					
Corporate CMO's	51	-	-	51	-
Corporate Bonds	30,889	-	5,699	15,497	9,693
Corporate Asset Backed	32,320	-	1,911	992	29,417
Foreign Bonds	37	-	37	-	-
Private Placements	8,655	45	3,370	1,402	3,838
Municipal Bonds	3,380	-	-	427	2,953
Money Market Mutual Funds	10,824	10,824	-	-	-
<b>Total Fixed Income Securities</b>	<b>\$ 115,256</b>	<b>\$ 12,967</b>	<b>\$ 19,175</b>	<b>\$ 20,800</b>	<b>\$ 62,314</b>

**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 Credit Risk -** The Treasurer of

State is authorized by Indiana Cod 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, and agency of 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, the State Police Pension Trust had no securities on loan and thus no credit risk exposure.

#### *State Employee Retiree Health Benefit Trust Fund*

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 Retiree Health Benefit Trust Fund 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 is no formal investment policy 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 debt securities as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities:

State Employee Retiree Health Benefit Trust Fund (Amounts are in thousands)				
Investment Type	S & P		Moody's	
	Ratings	Fair Value	Ratings	Fair Value
U.S. Agencies	AAA	\$ 76,885	Aaa	\$ 76,885
Total		\$ 76,885		\$ 76,885

#### *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, 2009, 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.

**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.

There were no investments in any one issuer that represent 5% or more of the total Trust Fund that would require disclosure.

**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 Credit Risk** - 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, 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.

**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, 2009:

State Retiree Health Benefit Trust (Amounts in thousands)		
Investment Type	Fair Value	Investment Maturities (in Years)
		Less than 1
U.S. Treasuries	\$ 76,885	\$ 76,885
Total Fixed Income Securities	\$ 76,885	\$ 76,885

**3. Pension Trust Funds – Discrete Component Units**

*Public Employees’ Retirement System*

Investment Guidelines and Limitations – The Indiana General Assembly enacted the prudent investor standard to apply to the PERF Board of Trustees and govern all its investments. Under the statute (IC 5-10.3-5-3(a)), the PERF 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 PERF Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the PERF Board of Trustees has broad authority to invest the assets of the plans. The PERF Board of Trustees utilizes external investment managers, each with specific mandates to implement the investment program. 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 PERF Board of Trustees.

The PERF Board of Trustees approved a new asset allocation for the Consolidated Retirement Investment Fund (CRIF) on October 17, 2008 as follows:

Asset Classes	Target Norm - %	Allowable Ranges - %
Equities - Domestic	15	10 - 20
Equities - International	15	10 - 20
Equities - Global	10	5 - 15
Fixed Income - Core & Core-Opportunistic	20	15 - 25
Fixed Income - TIPS	10	5 - 15
Alternatives – Private Equity	10	5 - 15
Alternatives – Real Assets	10	5 - 15
Alternatives – Absolute Return	10	5 - 15

Investments in the PERF annuity savings accounts and Legislators’ Defined Contribution plan are

directed by the members in each respective plan and as such the asset allocation will differ from that of the CRIF. The Pension Relief Fund is invested to a target of seventy percent Fixed Income – Core and thirty percent Equities – Domestic. The Special Death Benefit Funds are one hundred percent fixed income.

The following investment types, unless otherwise approved by the PERF Board of Trustees, are prohibited by the PERF investment policy statement IPS (IPS):

- Short sales of any kind.
- Repurchase agreements that may create any kind of leverage in the portfolio.
- Repurchase agreements as non cash equivalents.
- Purchases of letter or restricted stock.
- Buying or selling on the margin.
- Purchases of futures and options.
- Entrance into swap agreements.
- Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indices representing investments.
- Purchases of interest only or principal only collateralized mortgage obligations.
- Any transaction that would be a “prohibited transaction” under the Internal Revenue Code Section 503.
- Purchases of inverse floaters.

Deposit Risks – 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 two demand deposit accounts are carried at cost and are insured up to \$250,000 each. Deposits in the demand accounts held in excess of \$250,000 are not collateralized. Deposits with the Indiana Treasurer of State are entirely insured. Deposits held with the investment custodian are insured up to \$250,000.

Cash Deposits (dollars in thousands)	Total	JP Morgan Chase	National City Bank	Bank of New York Mellon
Demand deposit account – carrying value	\$919.1	\$795.5	\$61.9	\$61.7
Demand deposit account – bank balance	85,070.6	77,103.3	83.1	7,884.2
Held with Treasurer of State	54,657.9	-	-	-
Held with investment Cash	32,248.8	-	-	-

Credit Risk – PERF’s IPS sets credit quality rating guidelines and benchmark indices for each of its sub-asset classes and is outlined in each portfolio manager contract. The guidelines and benchmarks are as follows: the Enhanced Index and Core fixed income portfolio (excluding TIPS) must maintain an

average credit quality rating of at least A1 (Moody's) or the equivalent; securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the PERF Board of Trustees. The Core-Opportunistic fixed income portfolio must maintain an average credit quality rating of at least investment grade by Moody's or the equivalent. The benchmark for the fixed income portfolio is the Barclays Capital Aggregate Bond Index and Barclays Capital Universal Bond Index; and the Treasury Inflation Protection Securities (TIPS) portfolio must substantially match the quality of its benchmark, the Barclays Capital US TIPS Index. The quality rating of investments in debt securities as described by the Nationally Recognized Statistical Rating Organization (NRSRO) Standard and Poor's at June 30, 2009 is as follows:

Quality Rating (dollars in millions)	Fair Value	Percent of Portfolio
AAA	\$2,692.1	54.4
AA	88.3	1.8
A	347.7	7.0
A-1	109.8	2.2
BBB	457.4	9.3
BB	79.0	1.6
B	49.5	1.0
CCC	21.3	0.4
CC	5.4	0.1
C	0.7	0.0
D	0.2	0.0
Not Rated	1,097.6	22.2
Total	\$4,949.0	100

The credit risk schedule includes debt securities, short-term money market funds, bond mutual funds and bond commingled funds. Of the total fair value reported, approximately \$2.3 billion (46.2 percent) is AAA rated US Treasury, US Agency or US Agency Mortgage Backed Securities. The remaining balance of approximately \$2.6 billion (53.8 percent) consists of corporate debt, short-term custodial money market funds, commingled or mutual funds, municipal securities, asset-backed, mortgage-backed securities, and emerging markets debt of various credit quality ratings.

The \$1.1 billion not rated by Standard & Poor's is primarily in money market funds, mutual funds, or commingled funds.

**Custodial Credit Risk** – Custodial credit risk is the risk that the PERF will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter

party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of PERF and are held by either the counterparty or the counterparty trust department's agent, but not in PERF's name.

There was no custodial credit risk for investments including investments related to securities-lending collateral as of June 30, 2009. Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5, securities held for the fund are held by banks under custodial agreements in the fund's name. While PERF's Investment Policy Statement does not specify custodial risk, statutes provide certain custodial requirements.

**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. PERF's IPS limits the purchase of securities of any one issuer (with the exception of the US Government and its agencies) to an initial cost of 5 percent or two times the benchmark weight of the market value of an investment manager's portfolio, whichever is greater. Through capital appreciation, no such holding should exceed 10 percent of the market value of the total holdings of such investment manager's portfolio, unless the Board approves an exception.

For investment managers contracted to manage concentrated portfolios, exposure to the securities issued by a single issuer (with the exception of the U.S. Government and its agencies) is limited to 7.5 percent or two times the benchmark weight of the investment manager's portfolio, whichever is greater. Through capital appreciation, no such holdings should exceed 15 percent of the market value of the total holdings of the investment manager's portfolio, unless the Board approves an exception.

At June 30, 2009, there was no concentration of credit risk for the CRIF.

**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 greater the duration of a bond or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is an indicator of a bond price's sensitivity to a 100 basis point change in interest rates.

PERF's IPS sets duration guidelines for the fixed income investment portfolio. The Indexed and Enhanced Index fixed income portfolios must substantially match the duration characteristics of the

benchmark index. The Core fixed income portfolio limits the duration of the portfolio to not vary more than 20 percent above or below the duration of the applicable benchmark index. The duration of the Core-Opportunistic portfolio may not vary more than 5 years above or below the duration of the benchmark index.

Duration information is provided below:

Investment Type (dollars in millions)	Net Asset Fair Value	% of Net Asset Fair Value	Duration
Short-term Investment Fund	\$879.6	15.9	0.00
Government & Agency Obligations	1,285.7	23.2	4.35
Residential & Commercial Mortgage-Backed Securities	1,367.1	24.7	2.52
Corporate Bonds	1,050.4	18.9	5.46
Asset-backed	117.6	2.1	0.92
Municipal Securities	21.6	0.4	7.90
Other <sup>1</sup>	822.0	14.8	1.17
<b>Total Net Asset Fair Value</b>	<b>\$5,544.0</b>	<b>100</b>	<b>2.89</b>

<sup>1</sup> Includes mutual funds, collective trusts, and derivatives

PERF investments are directly, or indirectly, sensitive to changes in the interest rate environment. Some derivative products, identified in the derivatives financial instruments section, are also sensitive to interest rate risk. Debt securities, debt securities mutual funds and commingled funds, and short-term cash and cash-equivalents represent the portions of the portfolio most sensitive to interest rate risk and are included in the duration information.

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. PERF’s foreign currency exposure is focused primarily in international and global equity holdings. Futures currency contracts are reported in the following schedule at gross exposure value. Forward currency contracts values included both receivables and payables.

PERF’s IPS refers to foreign currency guidelines that are linked directly, or indirectly, to the benchmark indices for each sub-asset class or as outlined in each portfolio manager contract. The equity portfolio sub-asset classes have specific guidelines for international equities and global equity investments. Certain sub-asset classes do not allow emerging markets

investments while some allow up to 30 percent of market value to be held in emerging markets. PERF has exposure to foreign currency fluctuation as follows:

Currency (dollars in millions)	Total Fair Value	% of Foreign Currency
Euro	\$663.8	31.7
Japanese Yen	401.2	19.1
Pound Sterling	336.5	16.0
Australian Dollar	135.2	6.5
Hong Kong Dollar	117.7	5.6
Swiss Franc	80.1	3.8
Other	362.5	17.3
<b>Total</b>	<b>\$2,097.0</b>	<b>100.0</b>

Securities Lending – Indiana Code 5-10.2-2-13(d) provides that the PERF Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which securities held by the custodian on behalf of PERF may be loaned. The purpose of such a program is to provide additional revenue for PERF.

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 PERF Board of Trustees requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent. No more than 40 percent of the CRIF’s total assets may be lent at one time. The custodian bank and/or its securities lending subagents provide 100 percent indemnification to the PERF Board of Trustees and the CRIF against borrower default, overnight market risk, and failure to return loaned securities. Securities received as collateral cannot be pledged or sold by the PERF Board of Trustees unless the borrower defaults. PERF retains the market value risk with respect to the investment of the cash collateral. During the reporting period through June 30, 2009, PERF experienced a credit event that negatively impacted the value of the collateral pool. Given PERF’s high liquidity profile, this event did not materially impact the liquidity of the securities lending portfolio. PERF will inject capital into the pool during fiscal year 2010 to bring the value of the collateral pool back to 102% of the market value of securities lent.

Cash collateral investments are subject to the investment guidelines specified by PERF's IPS. It states that the maximum weighted average days to maturity may not exceed 60. The average term to maturity of the cash collateral portfolio was approximately 17 days at June 30, 2009. The securities lending agent match 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.

The fair value of securities lent for cash collateral at June 30, 2009, was:

<b>Investment Type (dollars in millions)</b>	<b>Loan Value</b>
Government Obligation	\$903.8
Corporate Bonds	75.6
Equities	1,336.8
<b>Total Fair Value</b>	<b>\$2,316.2</b>

The credit quality of the cash collateral investments as described by Standard and Poor's at June 30, 2009, was:

<b>Cash Collateral Investments Quality Rating (dollars in millions)</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>
AAA	\$ 83.3	3.5
AA	80.0	3.4
A-1 and A-1+	2,118.8	89.5
A2	25.0	1.1
Not Rated	60.1	2.5
<b>Total</b>	<b>\$ 2,367.2</b>	<b>100</b>

The majority of A-1 and A-1+ collateral investments are commercial paper. The majority of the Not Rated collateral investments are money market funds.

At June 30, 2009, PERF had loaned approximately \$36.2 million US Treasury and government agency obligations for securities collateral. The securities collateral value was approximately \$36.9 million which represented 102 percent coverage.

Derivative Financial Instruments – PERF's IPS authorizes the use of derivative instruments as a meaningful component of the strategies within the absolute return and commodities allocations. The fair value of total investments in the absolute return portfolio was \$716 million and the fair value of total investments in the commodities portfolio was \$349 million at June 30, 2009. PERF's directly held investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to

sell (short a financial future or buy a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the PERF Board of Trustees, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, PERF's derivative investments included but were not limited to, foreign currency forward contracts, SWAPS, options, and futures.

Foreign currency forward contracts are used to hedge against the currency risk in PERF's foreign equity stock and debt security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis.

At June 30, 2009, PERF's investments included the following currency forwards balances (dollars in millions):

Forward Currency Contract Receivables	\$451.8
Forward Currency Contract Payables	\$452.5

PERF's investment managers use financial futures to replicate an underlying security or index they wish 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, PERF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. 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. 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. At June 30, 2009, PERF's notional value in these futures totaled approximately \$1.4 billion.

Long Term Commitments for Alternative Investments – PERF had entered into long term commitments for funding alternative investments in private equity and private real estate of approximately \$2.9 billion as of June 30, 2009. The fund has disbursed approximately \$1.0 billion toward the commitments as of June 30, 2009. The expected investment term of these commitments extend through 2028. These amounts include five Euro-denominated and one Norwegian Kroner-denominated commitments to limited liability partnerships converted to United States dollars at the closing exchange rate as of June 30, 2009.

*State Teachers' Retirement Fund (TRF)*

Investment Policy - The Fund was established in 1915 to pay retirement, disability, death, and survivor benefits to public school teachers and administrators, regularly employed teachers at certain state universities and other educational institutions, and certain other educational employees. Pursuant to Indiana law and the Internal Revenue Code, TRF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. TRF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, TRF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. The Fund is also governed by Indiana statutes and administrative rules. See IC 5-10.2 and IC 5-10-4.

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of

each fund must diversify the investments of their fund so as to minimize the risk of large losses. Thus, the primary governing statutory provision is that the Board 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 is also required to diversify such investments in accordance with prudent investment standards. IC 5-10.4-3-10.”

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets in accordance with allowable legal limits.

The strategic asset allocation for employer assets effective on June 30, 2009 is as follows:

Domestic Equities	29%
International Equities	20%
Private Equity	10%
Real Estate	8%
Absolute Return	7%
Commodities	1%
Fixed Income	25%
Total	100%

The asset allocation for the guaranteed fund, which are employee assets in the member's Annuity Savings Accounts, is 90% fixed income securities and 10% equity securities.

Credit Risk - The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by national rating agencies such as Moody's and Standard and Poor's. The Fund's credit risk of investments policy is set on a manager by manager basis.

The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's investments in debt securities. Ratings were obtained from Moody's.

Rating	Fair Value	Percentage of Portfolio
Aaa	\$ 918,527	23.9%
US Government Guaranteed	912,148	23.8%
Aa	134,994	3.5%
A	380,524	9.9%
Baa	472,897	12.3%
Ba	121,427	3.2%
B	12,362	0.3%
Caa	49,173	1.3%
Ca	20,824	0.5%
C	642	0.0%
Unrated	816,085	21.3%
Total	\$ 3,839,603	100.0%

**Custodial Credit Risk** – Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the Fund 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 Fund.

There was no custodial credit risk for investments including investments related to securities-lending collateral. Per IC 5-10.4-3-13, all fund investments are held by banks under custodial agreements and all custodians must be domiciled in the United States.

**Deposit Risks** – 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 account are carried at cost and are insured up to \$250,000 each. Deposits in the demand accounts held in excess of \$250,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash Deposits held with the custodian are carried at cost and are not insured or collateralized.

<b>Assets Exposed (dollars in thousands):</b>	
Demand Deposit Account – Bank Balance	\$15,956
Margin Deposits with Brokers	22,946
Cash Collateral with Counterparty	6,390
Cash Held with Custodian	5,842
<b>Total Exposed</b>	<b>51,134</b>

**Concentration of Credit Risk** – As of June 30, 2009, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. government that represented more than 5% of net investments.

**Interest Rate Risk** – The Fund uses the Barclays Capital Aggregate Index as the benchmark for performance measurement of domestic fixed income managers and various other indices for international fixed income managers.

As of June 30, 2009, the Fund had the following duration information (dollars in thousands):

<b>Investment Type:</b>	<b>Net Asset Fair Value</b>	<b>% of Net Asset Fair Value</b>	<b>Effective Duration</b>
Short Term Investment Funds	\$ 413,505	10.8%	0.00
Short Term Bills and Notes	94,064	2.5%	0.39
Commercial Paper	2,800	0.1%	0.00
Asset-Backed Securities	44,388	1.2%	2.40
Commercial Mortgage-Backed Securities	217,391	5.7%	4.93
Corporate Bonds	1,152,989	30.1%	5.05
Corporate Bonds	114,099	3.0%	N/A
Index Linked Government Bonds	29,503	0.8%	4.09
Guaranteed Fixed Income	23,768	0.6%	1.38
Government Agencies	203,673	5.3%	4.60
Government Bonds	632,980	16.5%	4.20
Government Mortgage Backed Securities	731,637	19.1%	3.36
Bank Loans	58,998	1.5%	N/A
Municipal/Provincial Bonds	8,061	0.2%	6.97
Collateralized Mortgage Obligations	26,149	0.7%	1.39
Duration Not Available	73,803	1.9%	N/A
<b>Total</b>	<b>\$ 3,827,808</b>	<b>100%</b>	

**Foreign Currency Risk** – As of June 30, 2009, 12.8% of the Fund's investments were in foreign currencies. The Fund does not have a formal policy relating to foreign currency risk. The table below breaks down the Fund's exposure to each foreign currency (in thousands of dollars):

<b>Currency</b>	<b>Total Fair Value</b>	<b>Percent of Total Fund Fair Value</b>
Euro Currency Unit	\$ 330,289	4.6%
Japanese Yen	198,757	2.8%
British Pound Sterling	129,471	1.8%
Australian Dollar	60,634	0.9%
Swiss Franc	37,591	0.5%
Hong Kong Dollar	29,484	0.4%
Canadian Dollar	24,967	0.4%
Norwegian Krone	22,965	0.3%
Swedish Krona	16,435	0.2%
Other	67,110	0.9%
<b>Totals</b>	<b>\$ 917,703</b>	<b>12.8%</b>

**Securities Lending** – State statutes and the Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of domestic securities lent and 105% on international securities lent. Collateral is adjusted to the market on a daily basis. No more than 40% of TRF's total assets may

be lent at any one time. At year-end, TRF has no credit risk exposure to borrowers because the amount TRF owes the borrowers exceed the amounts the borrowers owe TRF.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Total cash collateral of \$152 million is invested in a pooled fund. As of June 30, 2009, TRF had an \$11.8 million liability allocated to the TRF's Investment portfolio relating to a difference in the book value of the assets of the pooled fund over the market value of the assets in that fund.

As of June 30, 2009, the Fund had the following securities on loan (in thousands):

Security Type	Market Value of Loaned Securities Collateralized by Cash	Market Value of Loaned Securities Collateralized by Noncash	Total Securities Loaned
Global Equities	\$ 13,118	\$ 1,310	\$ 14,428
U.S. Agencies	1,255	-	1,255
U.S. Corporate Fixed	9,341	-	9,341
U.S. Equities	53,213	30	53,243
U.S. Gov't Fixed	70,896	-	70,896
Total	\$ 147,823	\$ 1,340	\$ 149,163

**Outstanding Short Sales –** Short sales occur when investments have been sold which are not yet owned by the fund. Prior to settlement of the sale, the investments will be procured. For the investments directly held by the fund within the custody accounts, the outstanding short sales are included as accounts receivable from sales of investments and as negative investments. A schedule of the negative investments as of June 30, 2009 is listed below. These investments reduced the debt securities investments shown on the balance sheet. These transactions involve market risk as the asset to be delivered may become more costly to procure and then losses would be realized.

A schedule of the outstanding short sales at June 30, 2009 follows (dollars in thousands):

Type of Investment	Total Short Sales
U.S. Treasuries	\$ 13,219
Government Mortgage Backed	13,277
Total	\$ 26,496

**Derivative Financial Instruments –** TRF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets, such as commodity prices, bond and stock prices, or market index. In the case of an obligation to purchase

(long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, TRF's derivative investments included cash and cash equivalent futures, equity derivatives–options, fixed income derivatives–options, rights/warrants, swaps, foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

TRF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, TRF's investment managers use futures contracts to adjust the portfolio's risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. At June 30, 2009, the total offset was \$354.8 million. 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.

Cash and cash equivalent futures are used to manage exposure at the front end of the yield curve. These include swaps with a duration of one year or less, and Eurodollar, Euribor and other futures based on short-term interest rates. At June 30, 2009, TRF had no notional value in these instruments.

Equity derivatives–futures are used to gain exposure to an index or market sector. These may offer an opportunity to outperform due to active management of the liquid portfolio backing the exposure. Exposure is backed by underlying fixed-income portfolio. At June 30, 2009, TRF's equity derivatives position had a

notional value of \$284.4 million and an offset of an equal value of \$284.4 million.

Fixed income derivatives—futures are used to manage interest rate fluctuations. At June 30, 2009, TRF's fixed income futures had a notional value of \$40.6 million and an offset of an equal value of \$40.6 million. Commodity futures are used to gain exposure to a particular commodity. At June 30, 2009, TRF's commodity futures had a notional value of \$29.8 million and an offset of an equal value of \$29.8 million.

Stock rights/warrants give the holder the right to buy a stock at a certain price until a certain date. At June 30, 2009, the carrying value of TRF's stock rights and warrants totaled \$0.1 million.

Swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions ("received fixed") increase exposure to long-term interest rates; short positions ("pay fixed") decrease exposure. At June 30, 2009, the market value of TRF's swaps was \$10.9 million and swap liabilities totaled \$10.1 million.

Foreign currency contracts are used to hedge against currency risk and to purchase investments in non-dollar currencies. A foreign currency contract is an agreement to buy and sell a specific amount of foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency contracts are marked to market on a daily basis. At June 30, 2009, TRF had Pending Foreign Exchange purchases of \$122.8 million and Pending Foreign Exchange sales of \$123.3 million.

TRF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed

income portfolio. As of June 30, 2009, the carrying value of TRF's CMO holdings totaled \$60.9 million.

Treasury inflation protected securities (TIPS) are used by TRF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). As of June 30, 2009, TRF had \$106.6 million in TIPS holdings.

TRF has two investment accounts that use absolute return strategies. One account uses a Pure Alpha strategy, where value is added through a broadly diversified active portfolio of global fixed income, currency, equity, inflation-indexed bond, EMD, EMFX, and Option markets. As of June 30, 2009, TRF had \$72.3 million invested in this strategy. The other account is based on the concept of mean reversion. This strategy uses both top-down and bottom-up valuation methodologies to value asset classes, countries and individual securities in order to allocate assets to undervalued countries, currencies and securities. As of June 30, 2009, TRF had \$113.1 million invested in this strategy.

Partnership Investments – The Board of Trustees had approved commitments and TRF had entered into agreements to fund limited liability partnerships of \$1,111.8 million as of June 30, 2009. The Fund had a net asset value of \$428.4 million as of June 30, 2009, invested in these partnerships. The funding period for the amounts that TRF has already committed is from April 2002 to approximately June 2018. The outstanding commitments at June 30, 2009, totaled \$519.9 million.

## B. Interfund Transactions

### Interfund Loans

Interfund loans of \$39.9 million represents amounts owed by the Bureau of Motor Vehicles Commission Fund to the Motor Vehicle Highway Fund.

As explained in Note III(A) above, temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2009,

the following funds had temporary cash overdrafts covered by loans from the General Fund: Welfare Medicaid Administration Fund, \$0.6 million, the Federal Food Stamp Program Fund, \$8.0 million, and the Major Construction Army National Guard Fund, a non-major capital projects fund, \$4.9 million.

The following is a summary of the Interfund Loans as of June 30, 2009:

<b>Interfund Loans - Current</b>		
	Loans To Governmental Funds	Loans From Governmental Funds
<b>Governmental Funds</b>		
General Fund	\$ 13,558	\$ -
Motor Vehicle Highway Fund	39,913	-
Nonmajor Governmental Funds	-	53,471
<b>Total Governmental Funds</b>	<u>53,471</u>	<u>53,471</u>
<b>Total Interfund Loans</b>	<u>\$ 53,471</u>	<u>\$ 53,471</u>

**Interfund Services Provided/Used**

Interfund Services Provided of \$10.5 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, 2009:

<b>Interfund Services Provided/Used</b>		
	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
<b>Governmental Funds</b>		
General Fund	\$ -	\$ 3,579
Motor Vehicle Highway Fund	-	322
State Highway Department	-	423
Nonmajor Governmental Funds	-	6,165
<b>Total Governmental Funds</b>	<u>-</u>	<u>10,489</u>
<b>Proprietary Funds</b>		
Internal Service Funds	10,489	-
<b>Total Proprietary Funds</b>	<u>10,489</u>	<u>-</u>
<b>Total Interfund Services Provided/Used</b>	<u>\$ 10,489</u>	<u>\$ 10,489</u>

**Due From/Due Tos**

*Current* – Interfund balance of \$32.1 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund. The Indiana Finance Authority owed \$201 thousand to the General Fund.

*Non-current* – The interfund balance of \$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. This money is due to be repaid, either from the General Fund prior to January 1, 2013, or by a budget request submitted to the 2013 session of the general

assembly. This non-current interfund balance appears on the government-wide statements, but not the General Fund statements.

The following are current and non-current schedules of Due From/Due Tos of Component Units, as of June 30, 2009:

<b>Component Units - Current</b>		
	Due From Component Units	Due To Primary Government
<b>Governmental Funds</b>		
General Fund	\$ 201	\$ -
Nonmajor Governmental Funds	32,057	-
Total Governmental Funds	<u>32,258</u>	<u>-</u>
<b>Component Units</b>		
Indiana Finance Authority	-	201
State Lottery Commission	-	32,057
Total Component Units	<u>-</u>	<u>32,258</u>
<b>Total Due From/To</b>	<b><u>\$ 32,258</u></b>	<b><u>\$ 32,258</u></b>

<b>Component Units - Non-current</b>		
	Due From Primary Government	Due To Component Units
<b>Governmental Funds</b>		
General Fund	\$ -	\$ 50,000
Total Governmental Funds	<u>-</u>	<u>50,000</u>
<b>Component Units</b>		
Board for Depositories	50,000	-
Total Component Units	<u>50,000</u>	<u>-</u>
<b>Total Due From/To</b>	<b><u>\$ 50,000</u></b>	<b><u>\$ 50,000</u></b>

Effective July 1, 2008, members who have at least one year of service in both the Public Employees' Retirement Fund (PERF) and the State Teachers' Retirement Fund (TRF) have the option of choosing from which of these funds they would like to retire. The fund that the employee chooses pays the retirement benefits to the employee. The employee's pension is computed and vested status determined on the basis of the combined creditable service in both funds. The annuity, if any, is computed on the basis of amounts credited to the employee in the annuity savings accounts in both funds.

The fund in which the employee was a member must pay to the fund responsible for paying the employee's benefits:

- (1) the amount credited to the employee in the employee's annuity savings account, minus any amount withdrawn by the employee; and
- (2) the proportionate actuarial cost of the employee's pension.

At the time the retirement benefit is calculated, PERF and TRF will set up a receivable (Due from component unit) or payable (Due to component unit) in their respective Statements of Fiduciary Net Assets based on which retirement fund will pay benefits to the member.

The following is a schedule of Due From/ Due Tos within Component Units, as of June 30, 2009:

<b>Within Component Units</b>		
	Due From Component Units	Due To Component Units
<b>Discretely Presented Component Units Pension Trust:</b>		
Pension Trust		
Public Employees' Retirement Fund	\$ 1,633	\$ 618
State Teachers' Retirement Fund	<u>618</u>	<u>1,633</u>
Total Discretely Presented Component Units Pension Trust	<u>2,251</u>	<u>2,251</u>
<b>Total Due From /To</b>	<b><u>\$ 2,251</u></b>	<b><u>\$ 2,251</u></b>

## 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** – The General Fund had the following transfers in: \$848.2 million was transferred in to reimburse the General Fund for the Property Tax Replacement Fund's (PTRF's share of tuition support per legislation. Another \$9.6 million came from the PTRF as intercept payments for Marion County's juvenile detention charges. \$419.7 million was transferred in from the State Gaming Fund representing wagering tax from riverboats and slot machine wagering tax from horse racetracks. The General Fund's Motor Vehicle Excise Tax Replacement Account received \$236.2 million in transfers in from the Build Indiana Fund per IC 4-30-17-3.5. An additional \$44.0 million was transferred in from the Build Indiana Fund's lottery and gaming surplus account at fiscal year end. \$259.1 million was transferred in from individual, corporate, and sales taxes collected in the Department of Revenue's Collection Fund. The Public Welfare-Medicaid Assistance Fund received transfers in totaling \$229.2 million of which \$161.4 million represented reductions to Medicaid's state appropriations, \$34.4 million was for quality assessment fees collected throughout the fiscal year which can only be used for the state's share of Medicaid services under Title XIX of the Social Security Act, and \$33.4 million was received by the State's psychiatric hospitals for the disproportionate share hospital program. The Mental Institutions Fund transferred in \$99.2 million to reimburse the General Fund for the federal share of revenue accruing to the state development centers under IC 12-15 based on the federal Medicaid assistance percentage from the hospital's fiscal year 2009 revenues. The General Fund received transfers in of \$54.3 million for financial institutions tax collected per IC 6-5.5. \$38.6 million was transferred in from the Tobacco Settlement Fund for various health and welfare purposes. Nearly \$27.0 million was received from the Abandoned Property Fund primarily to transfer the balance in excess of \$500,000 to the General Fund pursuant to state law. \$20.8 million

was transferred in from the Skills 2016 Training Fund to a Department of Workforce Development administration account. \$20.4 million was transferred in from the Welfare-Work Incentive Fund for state hospital and FSSA operations as well as for statewide cost allocation plan recoveries to the General Fund. The Fire and Building Services Fund transferred in \$13.4 million for Department of Homeland Security administration and operations. The Motor Vehicle Commission Fund transferred in \$13.1 million mostly for a surplus adjustment, but also for its share of indirect costs and state retiree health plan costs. \$12.8 was transferred into the General Fund for excess riverboat admissions tax collected under IC 4-33-12-7

The following were transfers out from the General Fund: \$1.8 billion was transferred to the Property Tax Replacement Fund (PTRF) of which \$279.8 million was from adjusted gross income taxes and the balance of \$1.5 billion was to terminate the PTRF effective January 1, 2009 pursuant to PL 146-2008, Section 852 (2007-2009 Biennial Budget Bill). The Public Welfare Medicaid Assistance Fund received \$1.6 billion in transfers for Medicaid current obligations for the purpose of enabling 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. The State Tuition Reserve Fund received transfers in totaling \$941.7 million which is for tuition support distributions under IC 20-43 whenever the budget director determines the state general fund cash balances or state revenues available for deposit in the General Fund will be insufficient to cover or fully fund such distributions. \$178.0 million was transferred to the Welfare, Child Service Fund administered by the Department of Child Services for family and children services including the Indiana Child Welfare Information System. The State Student Assistance Commission received transfers in totaling \$187.1 million for the Frank O'Bannon Grant program which provides need-based tuition and regularly assessed fees support for Hoosier students to attend eligible postsecondary institutions. The Department of Child Services Local Office Administration fund received transfers in totaling \$101.2 million for administration of children's services in the counties including the addition of 400 new caseworker positions over the biennium ending June 30, 2009. The Mental Health Centers Fund received transfers in totaling \$100.7 million for services to adults who are seriously mentally ill in comprehensive community mental health centers and for administration by the Department of Mental Health. The County Welfare Administration Fund received

transfers in of \$84.5 million for local office family and children administration and for the Indiana Client Eligibility System (ICES). The General Fund transferred \$80.3 million to the Welfare – State and Federal Assistance Fund for child care services and temporary assistance to needy families (TANF) to enable the FSSA's Division of Family Resources to carry out all services as provided in IC 12-14 and for adoption assistance services provided through the Department of Child Services. \$79.6 million was transferred to the Returned Check Revolving Fund as a result of checks received by the Department of Revenue that were unable to be cashed. Nearly \$64.0 million was transferred from the General Fund to the Motor Vehicle Highway Fund primarily for State Police administration and pensions. \$20.6 million was transferred to the Indiana Horse Racing Commission and the Indiana State Fair Commission from riverboat admissions taxes per IC 4-33-12. The Enterprise Common Processing and Analytics System (ENCOMPASS) project received \$12.0 million for development of the State's new statewide financial management system.

**Motor Vehicle Highway Fund** – The Motor Vehicle Highway Fund received a transfer in of \$64.2 million from the International Registration Plan Fund and represents Indiana's share of carrier registration fees collected under this plan. \$55.5 million was transferred in from the General Fund for State Police administration, pensions, and benefits. \$30.2 million was transferred in from the International Fuel Tax Agreement (IFTA)/Motor Carrier Clearing Account. The Gasoline and Special Fuel Tax Fund transferred in \$30.0 million for distribution to counties, cities, and towns per IC 6-6-1.1-801.5(c). \$5.5 million was transferred in from the Motor Carrier Regulation Fund.

The Motor Vehicle Highway Fund transferred out \$270.6 million to the State Highway Department Fund. By legislation the remainder of the amount in the Motor Vehicle Highway Fund, after distributions to cities, towns, and counties, and after other legislative required transfers, goes to the State Highway Department Fund. \$30.4 million was transferred out to the Underground Petroleum Storage Tank (UPST) Excess Liability Fund. This represents fees, fines and penalties assessed to owners of underground storage tanks. \$13.7 million was motor carrier surtaxes transferred out to the Road and Street Primary Highway Fund. The State Police Retirement Pension Fund received \$13.4 million from the MVH Fund representing retirement contributions.

**Medicaid Assistance Fund** – The Medicaid Assistance Fund had a transfer in of \$1.6 billion from the General Fund to support the state Medicaid program administered through the Office of Medicaid

Policy and Planning and. \$88.5 million was transferred in from the Mental Health Center Fund for funds collected from providers of services to the seriously mentally ill for the local/State set-aside match. \$55.7 million was transferred in from the Medicaid Indigent Care Trust Fund for reimbursement of hospital care for the indigent supplement payments made from the Medicaid Assistance Fund. There was also a transfer in of \$32.5 million from the Tobacco Settlement Fund for the Children's Health Insurance Program (CHIP Assistance).

Transfers out included \$229.2 million to the General Fund of which \$161.4 million was a reduction or reversal of the State Medicaid program's state appropriations, \$34.4 million went to the State Budget Agency for qualifying assessment fees that can only be used for the state's share of Medicaid services under Title XIX of the Social Security Act, and \$33.4 million was paid to the state psychiatric hospitals for disproportionate share hospital (DSH) payments. The Mental Institutions Fund received \$60.1 million for Medicaid DSH providers. \$22.7 million was transferred out to the Medicaid Indigent Care Trust Fund for additional payments to health care facilities up to the Medicare Upper Payment Limit. \$9.0 million was transferred to the Medicaid Administration Fund to support administration of the program.

**Major Moves Construction Funds** – The Major Moves Construction Fund had a transfer out of \$399.0 million to the State Highway Department for construction and maintenance of the State's highways, roads, and bridges.

**State Highway Department Fund** – The State Highway Department had the following major transfers in: \$270.6 million was transferred in from the Motor Vehicle Highway Fund for use by the Indiana Department of Transportation for maintenance services, access road construction, and the research and highway extension program. This is a legislative transfer as described above under the Motor Vehicle Highway Fund. \$135.5 million was transferred in from the Road and Street Primary Highway Fund's collection of motor fuel taxes, motor carrier surtaxes, and vehicle registration fees. \$399.0 million was transferred in from the Major Moves Construction Fund as described above for construction and maintenance of the State's highways, roads, and bridges. \$20.0 million was transferred in from the Gasoline and Special Fuel Tax Fund for highway maintenance services. The State Highway Department Fund also received transfers in totaling \$13.3 million from the Oversize/Overweight Holding Account for special permits issued to allow vehicles to travel on Indiana highways.

The State Highway Department had the following major transfers out: \$7.8 million was transferred to

the General Fund to provide funding for State Highway Department employees' portion of the Retiree Medical Benefits Plan that provides a Healthcare reimbursement arrangement for eligible state employee retirees. \$5.9 million was transferred to the Highway Construction Improvement Fund for use in the leasing of the state's highway infrastructure assets. \$2.2 million was transferred to the Indiana Department of Environmental Management's Underground Petroleum Storage Tank Excess Liability Trust Fund.

**Property Tax Replacement Fund** – The Property Tax Replacement Fund (PTRF) received the following transfers in: \$1.8 billion from the General Fund of which \$1.5 billion was transferred pursuant to PL 146-2008, Section 852 effective January 1, 2009 and \$279.8 million was received in individual income taxes

from the General Fund. \$188.6 million in riverboat wagering taxes was received from the State Gaming Fund.

The PTRF had the following transfers out: \$848.2 million to the General Fund for the PTRC's share of tuition support per PL 146-2008. \$121.4 million of riverboat wagering taxes to the Lottery and Gaming Surplus account (Build Indiana Fund) per IC 4-33-13-5. \$9.6 million to the General Fund for payment of Marion County's juvenile incarceration charges.

**ARRA of 2009 Fund** – The American Recovery and Reinvestment Act of 2009 Fund did not have any significant transfers in and out.

**Proprietary Funds**

**Non-Major Enterprise Funds**

**The Inns and Concessions Fund** – This fund had transfers in of \$2.1 million, representing cash contributions from the Department of Natural Resources (DNR) in the General Fund for capital projects at the DNR Inns.

Fund from the Institutional Industries Fund. This was transferred at the end of the current fiscal year per legislation.

**Internal Service Funds**

\$14.1 million was transferred from the General Fund to the Institutional Industries Fund, an Internal Service Fund. This transfer represents a return of funds which were previously transferred to the General Fund per legislation at the end of the prior fiscal year. \$10.1 million was transferred at year end to the General

\$12.6 million was transferred from the State Employee Health Insurance Fund, an Internal Service Fund. Of the \$12.6 million, \$8.4 million was rebated to state agencies for premiums due to excess reserves in the Health Insurance Fund, and the remaining \$4.2 million was transferred to the general fund to repay monies given to the Fund in 1999.

A summary of interfund transfers for the year ended June 30, 2009 is as follows:

	Operating transfers in	Operating transfers (out)	Net transfers
<b>Governmental Funds</b>			
General Fund	\$ 2,550,671	\$ (5,672,367)	\$ (3,121,696)
Motor Vehicle Highway Fund	202,329	(327,207)	(124,878)
Medicaid Assistance	1,820,551	(329,435)	1,491,116
Major Moves Construction Fund	-	(399,000)	(399,000)
State Highway Department	839,846	(19,473)	820,373
Property Tax Replacement Fund	2,019,620	(999,486)	1,020,134
ARRA of 2009	-	(6)	(6)
Nonmajor Governmental Fund	3,143,376	(2,822,931)	320,445
<b>Proprietary Funds</b>			
Inns and Concessions	2,113	-	2,113
Internal Service Funds	14,129	(22,730)	(8,601)
Total	<u>\$ 10,592,635</u>	<u>\$ (10,592,635)</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	\$ 1,053,464	\$ 15,042	\$ -	\$ 1,068,506
Sales taxes	868,754	17,614	-	886,368
Fuel taxes	-	111,402	-	111,402
Gaming taxes	1,272	12,626	-	13,898
Inheritance taxes	37,293	-	-	37,293
Alcohol and tobacco taxes	33,249	18,501	1,830	53,580
Insurance taxes	3,759	25	-	3,784
Financial institutions taxes	-	30,242	-	30,242
Other taxes	24,464	36,415	-	60,879
Total taxes receivable	2,022,255	241,867	1,830	2,265,952
Less allowance for uncollectible accounts	(374,567)	(32,852)	(4)	(407,423)
Net taxes receivable	<u>\$ 1,647,688</u>	<u>\$ 209,015</u>	<u>\$ 1,826</u>	<u>\$ 1,858,529</u>
Tax refunds payable	<u>\$ 78,885</u>	<u>\$ 4,154</u>	<u>\$ -</u>	<u>\$ 83,039</u>

### D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2009, was as follows:

#### Primary Government – Governmental Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,318,325	\$ 79,027	\$ (693)	\$ 1,396,659
Infrastructure	7,748,691	170,599	(30,796)	7,888,494
Construction in progress	749,097	783,015	(250,577)	1,281,535
Total capital assets, not being depreciated	<u>9,816,113</u>	<u>1,032,641</u>	<u>(282,066)</u>	<u>10,566,688</u>
Capital assets, being depreciated:				
Buildings and improvements	1,460,836	37,923	(25,155)	1,473,604
Furniture, machinery, and equipment	402,211	25,412	(27,547)	400,076
Infrastructure	14,235	-	-	14,235
Total capital assets, being depreciated	<u>1,877,282</u>	<u>63,335</u>	<u>(52,702)</u>	<u>1,887,915</u>
Less accumulated depreciation for:				
Buildings and improvements	(735,988)	(34,878)	16,539	(754,327)
Furniture, machinery, and equipment	(241,402)	(32,145)	21,414	(252,133)
Infrastructure	(13,121)	(180)	-	(13,301)
Total accumulated depreciation	<u>(990,511)</u>	<u>(67,203)</u>	<u>37,953</u>	<u>(1,019,761)</u>
Total capital assets being depreciated, net	<u>886,771</u>	<u>(3,868)</u>	<u>(14,749)</u>	<u>868,154</u>
Governmental activities capital assets, net	<u>\$ 10,702,884</u>	<u>\$ 1,028,773</u>	<u>\$ (296,815)</u>	<u>\$ 11,434,842</u>

**Primary Government – Business-Type Activities**

	<u>Balance July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30</u>
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	3,056	-	(3,056)	-
Total capital assets, not being depreciated	<u>3,056</u>	<u>-</u>	<u>(3,056)</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,991	\$ 4,543	\$ -	\$ 26,534
Furniture, machinery, and equipment	811	-	(533)	278
Total capital assets, being depreciated	<u>22,802</u>	<u>4,543</u>	<u>(533)</u>	<u>26,812</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,429)	(613)	-	(12,042)
Furniture, machinery, and equipment	(756)	(22)	533	(245)
Total accumulated depreciation	<u>(12,185)</u>	<u>(635)</u>	<u>533</u>	<u>(12,287)</u>
Total capital assets being depreciated, net	<u>10,617</u>	<u>3,908</u>	<u>-</u>	<u>14,525</u>
Business-type activities capital assets, net	<u>\$ 13,673</u>	<u>\$ 3,908</u>	<u>\$ (3,056)</u>	<u>\$ 14,525</u>

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

<b>Governmental activities:</b>	
General government	\$ 4,766
Public safety	26,124
Health	1,748
Welfare	6,988
Conservation, culture and development	8,466
Education	1,246
Transportation	17,865
Total depreciation expense - governmental activities	<u>\$ 67,203</u>
<b>Business-type activities:</b>	
Inns and Concessions	<u>\$ 635</u>
Total depreciation expense - business-type activities	<u>\$ 635</u>

## E. Leases

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2009 and the assets acquired through capital leases are as follows:

<b>Future minimum lease payments</b>		
Year ending June 30,	Operating leases	Capital leases Governmental Activities
2010	\$ 19,064	\$ 105,258
2011	14,604	105,041
2012	9,004	103,384
2013	6,423	101,238
2014	4,174	101,391
2015-2019	2,149	504,733
2020-2024	675	501,819
2025-2029	-	501,189
2030-2034	-	3,630
2035-2039	-	-
<b>Total minimum lease payments (excluding executory costs)</b>	<b><u>\$ 56,093</u></b>	<b><u>2,027,683</u></b>
Less:		
Remaining premium(discout)		(26,521)
Amount representing interest		(715,055)
Present value of future minimum lease payments		<b><u>\$ 1,286,107</u></b>
<b>Assets acquired through capital lease</b>		
Land		\$ -
Infrastructure		37,376
Building		2,613
Machinery and equipment		1,271,270
less accumulated depreciation		(26,410)
		<b><u>\$ 1,284,849</u></b>

### *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 \$27.2 million for the year ended June 30, 2009. A table of future minimum lease payments (excluding executory costs) is presented on the previous page.

### *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, 2009 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
<b>Governmental activities:</b>						
Compensated absences	\$ 148,385	\$ 2,120	\$ (3,233)	\$ 147,272	\$ 80,186	\$ 67,086
Due to component unit	84,561	-	(34,561)	50,000	-	50,000
Net pension obligation	964,367	1,639	(8,507)	957,499	-	957,499
Other postemployment benefits	35,745	36,086	-	71,831	-	71,831
Pollution remediation	-	66,677	-	66,677	14,609	52,068
Intergovernmental payable	212,957	-	(37,922)	175,035	125,035	50,000
Capital leases	1,322,176	5,658	(41,727)	1,286,107	43,209	1,242,898
	<u>\$ 2,768,191</u>	<u>\$ 112,180</u>	<u>\$ (125,950)</u>	<u>\$ 2,754,421</u>	<u>\$ 263,039</u>	<u>\$ 2,491,382</u>
<b>Business-type activities:</b>						
Compensated absences	\$ 423	\$ 271	\$ (186)	\$ 508	\$ 198	\$ 310
Claims liability	49,711	243	(4,250)	45,704	3,221	42,483
	<u>\$ 50,134</u>	<u>\$ 514</u>	<u>\$ (4,436)</u>	<u>\$ 46,212</u>	<u>\$ 3,419</u>	<u>\$ 42,793</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 State Police Retirement Fund and the Prosecuting Attorney's Retirement Fund as presented in Note V(E), other postemployment benefits, pollution remediation, amounts due to component units, amounts due the federal government 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, 2009, 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 assets in the government-wide statement of activities.

### Prior Period Adjustments

In the fund statements for the General fund and the government-wide statements, there is a decrease of \$55.6 million in fund balance/net assets due to the creation of the new State Employee Retiree Health Benefit Trust Fund.

In the fund statements for the General fund, Special Revenue funds, and the government-wide statements, there is a decrease of \$187.1 million in fund balance/net assets for the removal of the IEDC from the reporting entity.

For the government-wide statements, there is a decrease of \$1.1 billion in net assets of which the majority is for recording the net pension obligation of the Teachers' Retirement Fund's pre-1996 retirement account.

For the government-wide statements, there is a decrease of \$48.7 million in net assets for the full accrual Medicaid payables and receivables not included in 2008.

For the government-wide statements, there is a decrease of \$18.5 million in net assets to eliminate duplicate taxes receivable in the Department of Revenue's July 2008 collections.

For the government-wide statements, there is an increase of \$25.1 million in net assets for Department of Administration (DoA) work in process. This was the

result of not capitalizing projects by June 30, 2008 that had been initiated prior to this date per DoA's work in process records.

For the government-wide statements, there was an increase of \$16.5 million in net assets for capital assets. This was the result of not capitalizing capital assets by June 30, 2008 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 \$582.2 thousand in net assets for an Indiana Office of Technology lease that started in 2008 that it did not previously classify as a lease.

The net assets for business type activities increased by \$36.0 million as accounts receivable for the Unemployment Compensation Fund was understated by this amount for fiscal year 2008.

For the Internal Service funds and the government-wide statements, there is an increase of \$1.4 million in net assets for the Administrative Services Revolving fund as a result of the Motor Pool's 2008 ending balance for gasoline inventory being improperly reported and understated by this total.

For the fiduciary funds, beginning net assets increased by \$55.6 million due to the creation of the

The following schedule reconciles June 30, 2008 net assets as previously reported, to beginning net assets, as restated:

	Governmental Activities	Business- Type Activities	Fiduciary Funds	Discretely Presented Component Units (Non Fiduciary)
June 30, 2008, fund balance/retained earnings/net assets as reported	\$ 18,946,918	\$ 289,255	\$ 24,890,729	\$ 8,570,124
Correction of errors	(1,089,676)	36,041	-	(38,392)
Reclassifications of funds	(242,718)	-	55,625	140,500
<b>Balance July 1, 2008 as restated</b>	<b>\$ 17,614,524</b>	<b>\$ 325,296</b>	<b>\$ 24,946,354</b>	<b>\$ 8,672,232</b>

## 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

new Retiree Health Benefit Trust Fund.

For the discrete component units, there was an increase of \$140.5 million due to adding three new component units. These three new discrete component units and their July 1, 2008 balances are: 1) Ports of Indiana, \$91.7 million; 2) State Fair Commission, \$39.9 million; and 3) Indiana Political Subdivision Risk Management Commission, \$8.9 million.

There was a decrease of \$38.4 million in beginning net assets for the correction of errors by Indiana University and Ivy Tech Community College.

Indiana University's beginning net assets decreased by \$46.5 million for a correction of an error. Total liabilities were increased by this amount to recognize interest expense not previously recorded. It was determined that capital appreciation bonds' unpaid interest on the outstanding debt should be accrued over the life of the bonds based on the total accreted value matured at year end.

Ivy Tech Community College's beginning net assets increased by \$8.1 million for the subsequent recognition land and buildings reduced by associated depreciation expense.

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 related to certain employee health benefits

and also some insurance coverage exists for 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.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Employee Disability Fund	Total
<b><u>2009</u></b>				
Unpaid Claims, July 1	\$ 2,883	\$ 30,138	\$ 4,281	\$ 37,302
Incurred Claims and Changes in Estimate	25,877	293,397	23,696	342,970
Claims Paid	<u>(25,723)</u>	<u>(291,414)</u>	<u>(23,840)</u>	<u>(340,977)</u>
Unpaid Claims, June 30	<u>\$ 3,037</u>	<u>\$ 32,121</u>	<u>\$ 4,137</u>	<u>\$ 39,295</u>
<b><u>2008</u></b>				
Unpaid Claims, July 1	\$ 2,050	\$ 18,209	\$ 3,631	\$ 23,890
Incurred Claims and Changes in Estimate	25,044	223,677	23,816	272,537
Claims Paid	<u>(24,211)</u>	<u>(211,748)</u>	<u>(23,166)</u>	<u>(259,125)</u>
Unpaid Claims, June 30	<u>\$ 2,883</u>	<u>\$ 30,138</u>	<u>\$ 4,281</u>	<u>\$ 37,302</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) three hundred thousand dollars (\$300,000) for a cause of action that accrues before January 1, 2006; (B) five hundred thousand dollars (\$500,000) for a cause of action that accrues on or after January 1, 2006, and before January 1, 2008; or (C) seven hundred thousand dollars (\$700,000) for a cause of action that accrues on or after January 1, 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 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2009, the State paid \$5.1 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

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, in United States of America, et al v. Board of School Commissioners, et al, 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 begun the desegregation plan. State expenditures will be gradually reduced as the plan is phased out.

In 1993 Plaintiffs filed a breach of employment contract lawsuit in a state trial court alleging that the State has failed to pay certain similarly classified state employees at an equal rate of pay from 1973 to 1993. The Court certified Plaintiffs' class and class notification was completed. Plaintiffs seek to recover damages as well as attorney fees and costs. Mediation was unsuccessful. A claims-made basis class action settlement was preliminarily approved in August 2008 with an \$8.5 million settlement cap, inclusive of fees and costs. If the State's purported total liability for claims, attorney fees and expenses exceed \$8.5 million, the State may exercise its option to terminate the Settlement Agreement and proceed to trial. In October 2008 the Court conducted a fairness hearing for the purpose of considering any timely written objections that may have been filed and determining, pursuant to Ind. Trial Rule 23(E), whether the Court should approve the agreed settlement as fair, reasonable, and adequate. The Court approved the settlement subject to the State's option to terminate the settlement agreement. In November 2008 the State filed a Notice Regarding Settlement Agreement in which they gave notice that the conditions for terminating the settlement agreement have been met, and the State elected to exercise its option to terminate the settlement pursuant to the settlement agreement. Trial was reset for March 2009. The Court ordered the parties to return for a second mediation session in February 2009. Mediation was unsuccessful. A four-day bench trial was conducted in March. The Court took the matter under advisement and gave the parties until March 31 to submit proposed findings of fact and conclusions of law. Findings of fact and conclusions of law were submitted. Settlement discussions continued but the parties were unable to reach an agreement. In July the Court entered judgment against the State in the total amount of \$43 million (\$21 million awarded to merit, overtime eligible employees; \$17 million awarded to non-merit, overtime eligible employees; \$3 million awarded to merit, overtime exempt employees; \$2 million

awarded to non-merit, overtime exempt employees). The State filed a Notice of Appeal and Motion to Stay Judgment Pending Appeal. In August the trial court granted the Motion to Stay Judgment Pending Appeal and the State's Case Summary and Notices of Appearance were filed in the Court of Appeals. In September Plaintiffs filed Notices of Appearance and a Motion for Pre-appeal Conference and Appellate Alternative Dispute Resolution. In October the State filed a response and the Court of Appeals denied Appellees' motion. The case is on appeal and the Court Reporter's deadline to file transcript is on or before January 18, 2010.

In May 2000 Plaintiffs along the Fawn River in northeastern Indiana, brought action against the State alleging violations of the Clean Water Act, unconstitutional takings of property and federal civil rights violations. Plaintiffs are seeking in excess of \$38 million in damages, costs and attorney fees. The federal trial court granted summary judgment in favor of the State and Plaintiffs appealed. A federal appeals court remanded the case to the trial court on one issue under the federal Clean Water Act. The parties have completed discovery on that issue and prepared briefs in support of new motions for summary judgment for consideration of the trial court. An order denying the State's motion for summary judgment and entering summary judgment in favor of the Plaintiffs (on liability) was issued. The parties have to file a joint status report, following a teleconference with the Court, as to how this case will proceed. An independent surveyor is assessing the Fawn River, which may take a year to conduct. In the interim, Plaintiffs filed a Motion for Attorney Fees, which was denied. This matter has been reassigned to outside counsel. The Plaintiffs renewed their request for attorney fees. In a July 2008 order, the District Court ruled in favor of the Plaintiffs and awarded nearly \$1 million interim fees and costs. The State filed a Motion to Alter or Amend the Order, which motion the Court denied. Plaintiffs filed a Motion for Order to Pay Judgment, which the Court granted. The State paid the interim award of \$1 million in attorney fees and costs directly to Plaintiffs' counsel and other parties. The parties are waiting on a final report from the technical consultant on options and costs for removal of sediment from Fawn River. The parties have received a draft report from the technical consultant; however, the parties are waiting on a cost estimate to be used during negotiations. The parties intend to meet for a settlement conference in December to attempt to resolve this matter. If a settlement cannot be reached the parties will prepare for a final hearing.

In December 2000 Plaintiffs filed an action against the Indiana Department of Environmental Management (IDEM), including the Office of Environmental Adjudication (OEA), claiming that denial of a permit for

a landfill use was an unconstitutional taking of property and a denial of due process under the United States Constitution, as well as a violation of the Indiana Constitution. Plaintiffs are seeking in excess of \$30 million in damages plus costs and attorney fees. Federal claims against OEA were dismissed by the federal court. Remaining federal claims are expected to be taken up after the state court acts. In 2005 Plaintiffs negotiated a settlement that would grant them the right to pursue a landfill permit application. In 2008, toward the end of the permit process, the enactment of SB 43 required Plaintiffs to submit a new application with the approval of the County Executive. In June 2008 IDEM sent a letter to Plaintiffs asking for the re-submission of the permit with evidence of approval by the County Executive. In August 2008 Plaintiffs filed a Motion for Judgment Finding Total Breach of Settlement Agreement and a Motion For Civil Contempt, Attorney Fees and Declaratory Judgment. A hearing was held on Plaintiffs' motions in October. In November the Court held that IDEM had breached the 2005 Settlement Agreement and set a two day trial for damages. A Motion to Certify for Appeal was filed in December. In January 2009 the Court certified the Order to Facilitate Interlocutory Appeal and vacated the trial date. The State filed a Motion for Interlocutory Appeal in February. In August the State was notified that the court reporter filed the transcript with the Court on August 7 and the Appellant's Brief on behalf of the State was filed October 7.

#### *Other Loss Contingencies*

The Auditor of State's Office surveyed state agencies to identify other loss contingencies. State agencies were requested to provide information on each other loss contingency to include a brief description, amount or range of loss, if known, the likelihood (probable, reasonably possible, or remote) of loss and the fund from which payment would be made. State agencies were instructed to provide this information on their other loss contingencies for amounts exceeding \$5 million individually or in the aggregate. Information for these other loss contingencies is as follows:

Family and Social Services Administration (FSSA): \$45 million has been accrued as an expense and payable in the government-wide financial statements to resolve U.S. Office of Inspector General (USOIG) audits requesting repayments for Indiana's Medicaid Assistance Program. FSSA settled USOIG audit findings by reducing Medicaid draws as follows: 1) \$21 million on September 30, 2009 for a Community Mental Health Centers audit; 2) \$17 million on September 30, 2009 for the audit of Institutions for Mental Disease's DSH and Medicaid payments; and 3) \$7 million planned to be settled on December 30, 2009 for a Medicaid Rehabilitation Option (MRO)

payments finding.

#### **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%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. 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 2009 was \$365.2 million. Total outstanding loans were \$22.1 million, resulting in total assets of \$387.3 million.

#### **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 discretely presented component units)

The accrual basis is used for financial statement reporting purposes. Receivables are not maintained on the accounting records, but are calculated or estimated for financial statement reporting purposes.

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 receivables and payables 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.

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, 2007. 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, 2009, the most recent actuarial valuation date, the plan was 79 percent funded. The actuarial accrued liability for benefits was \$453.7 million, and the actuarial value of assets was \$356.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$97.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$68.3 million, and the ratio of the UAAL to the covered payroll was 143 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 PERF – a discretely presented component unit)

Plan Description The State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (ECRP) is a single employer defined benefit plan administered by the Board of Trustees of the Public Employees' Retirement Fund. 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 Excise Police, Gaming Agent 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 Public Employees' Retirement Fund Board of Trustees 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 Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

Funding Policy Members are required by statute to contribute 4 percent of the member's annual salary to the Plan. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially fund the benefits. The funding policy for employer contributions of the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for thirty years, and prevent the State's unfunded accrued liability from increasing.

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date, the plan was 85 percent funded. The actuarial accrued liability for benefits was \$77.2 million, and the actuarial value of assets was \$65.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$21.3 million, and the ratio of the UAAL to the covered payroll was -55 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 PERF – a discretely presented component unit)

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

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 Public Employees' Retirement Fund Board of Trustees 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 Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

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 Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date, the plan was 69 percent funded. The actuarial accrued liability for benefits was \$38.1 million, and the actuarial value of assets was \$26.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.7 million. The covered payroll (annual payroll of active employees covered by the plan) was \$20.6 million, and the ratio of the UAAL to the covered payroll was -57 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 PERF – a discretely presented 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 Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees 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 Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of the actuary, is to be appropriated from the State's General Fund.

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date, the plan was 102 percent funded. The actuarial accrued liability for benefits was \$5.0 million, and the actuarial value of assets was \$5.1 million, resulting in a funding excess of \$0.1 million. The benefit formula is determined based on service rather than compensation. The funding excess per active participant was \$2,378 per active participant 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 PERF – a discretely presented component unit)

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer public employee retirement system administered by the Board of Trustees of the Public Employees' Retirement Fund, 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 of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; or county courts including Circuit, Superior, Criminal, Probate, Juvenile, and Municipal 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 Public Employees' Retirement Fund Board of Trustees 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 Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

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. 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 determined 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 statutes also provide for remittance of docket fees and court fees. These are considered employer contributions.

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date, the plan was 69 percent funded. The actuarial accrued liability for benefits was \$338.7 million, and the actuarial value of assets was \$234.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$103.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$33.7 million, and the ratio of the UAAL to the covered payroll was -308 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 PERF – a discretely presented component unit)

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan for units of state and local governments administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees 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 Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

At June 30, 2009, the number of participating political subdivisions was 1,200.

Funding Policy The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required contributions are determined by

the PERF 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 portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of compensation. These contributions are credited to the member's annuity savings account that is a separate benefit from the defined pension benefit. The State is required to contribute for State employees at an actuarially determined rate; the current rate is 6.5% of covered payroll.

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 non-retired assets.

State of Indiana Employees: As of July 1, 2008, the most recent actuarial valuation date, the state employees portion of the plan was 98 percent funded.

The actuarial accrued liability for benefits was \$2.51 billion, and the actuarial value of assets was \$2.47 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.04 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$1.66 billion, and the ratio of the UALL to the covered payroll was 2.7 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:

(amounts expressed in thousands)	Primary Government	-----Discretely Presented Component Units-----						TRF - Pre-1996 Account
	SPRF	PERF -State	ECRF	JRS	PARF	LRS		
<b>Annual Pension Cost and Net Pension Obligation (Asset)</b>								
Annual required contribution	\$ 10,361.6	\$ 99,134.7	\$ 3,675.8	\$ 10,028.4	\$ 1,040.4	\$ 66.0	\$ 678,050.0	
Interest on net pension obligation	579.4	(3,868.0)	(40.5)	(1,131.0)	185.3	(11.0)	71,515.0	
Adjustment to annual required contribution	(674.2)	4,408.0	46.2	1,302.0	(211.2)	16.9	(82,390.0)	
Annual pension cost	10,266.8	99,674.7	3,681.5	10,199.4	1,014.5	71.9	667,175.0	
Contributions made	(9,472.5)	(106,867.3)	(4,854.2)	(15,920.3)	(170.0)	(100.0)	(675,682.0)	
Increase (decrease) in net pension obligation	794.3	(7,192.6)	(1,172.7)	(5,720.9)	844.5	(28.1)	(8,507.0)	
Net pension obligation, beginning of year	8,277.6	(53,348.3)	(559.1)	(15,599.7)	2,555.6	(151.6)	953,534.0	
Net pension obligation, end of year	\$ 9,071.9	\$ (60,540.9)	\$ (1,731.8)	\$ (21,320.6)	\$ 3,400.1	\$ (179.7)	\$ 945,027.0	
<b>Significant Actuarial Assumptions</b>								
Investment rate of return	7.00%	7.25%	7.25%	N/A	7.25%	7.25%	7.50%	
Projected future salary increases:								
Total	3.50 - 9.00%	4.00%	4.50%	4.00%	4.00%	3.00%	3.50 - 12.50%	
Attributed to inflation	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.25%	
Cost of living adjustments	N/A	1.50%	1.50%	N/A	N/A	1.50%	1.50%	
Contribution rates:								
State	20.80%	6.50%	20.75%	pay-as-you-go	6.50%	Flat Dollar Amount ***	N/A	
Plan members	5.00% - 6.00%	3.00%	4.00%	6.00%	6.00%	0.00%	3.0%	
Actuarial valuation date	7/1/2009	7/1/2008	7/1/2008	7/1/2008	7/1/2008	7/1/2008	6/30/2008	
Actuarial cost method	entry age normal cost	entry age normal cost	entry age normal cost	pay-as-you-go	entry age normal cost	accrued benefit (unit credit)	entry age normal cost	
Amortization method	level dollar	level dollar	level dollar	N/A	level dollar	level dollar	level dollar	
Amortization period	40 years ****	30 years	30 years	N/A	30 years	30 years	30 years	
Amortization period (from date)	7/1/1997	7/1/2002	7/1/2002	N/A	N/A	7/1/1992	N/A	
Amortization period (open or closed)	closed	closed	closed	N/A	closed	closed	N/A	
Asset valuation method	smoothed basis	smoothed market value	smoothed market value	N/A	smoothed market value	smoothed market value	4-year smoothed market value with corridor	
<b>Historical Trend Information</b>								
<u>Year ended June 30, 2009</u>								
Annual pension cost (APC)	\$ 10,266.8	*	*	*	*	*	*	
Percentage of APC contributed	92.3%	*	*	*	*	*	*	
Net pension obligation (asset)	9,071.9	*	*	*	*	*	*	
<u>Year ended June 30, 2008</u>								
Annual pension cost (APC)	\$ 9,082.8	99,674.7	3,681.5	10,199.4	1,014.5	71.9	667,175.0	
Percentage of APC contributed	103.6%	107.2%	131.9%	156.1%	16.8%	139.1%	101.3%	
Net pension obligation (asset)	\$ 8,277.6	(60,540.9)	(1,731.8)	(21,320.6)	3,400.1	(179.7)	945,027.0	
<u>Year ended June 30, 2007</u>								
Annual pension cost (APC)	\$ 9,361.2	\$ 97,043.2	\$ 3,130.9	\$ 12,384.3	\$ 1,026.1	\$ 125.6	\$ 592,436.0	
Percentage of APC contributed	129.4%	92.5%	107.3%	118.4%	18.5%	79.6%	107.4%	
Net pension obligation (asset)	\$ 8,607.0	\$ (53,348.3)	\$ (559.1)	\$ (15,599.7)	\$ 2,555.6	\$ (151.6) **	\$ 953,534.0	
<u>Year ended June 30, 2006</u>								
Annual pension cost (APC)	\$ 12,609.0	\$ 88,720.0	\$ 2,715.0	\$ 15,058.1	\$ 942.2	\$ 96.3	\$ 546,285.0	
Percentage of APC contributed	59.8%	82.2%	92.0%	89.9%	18.0%	103.8%	110.1%	
Net pension obligation (asset)	\$ 11,359.4	\$ (60,591.0)	\$ (331.3)	\$ (10,985.7)	\$ 1,719.5	\$ (177.9)	\$ 997,137.0	
SPRF - State Police Retirement Fund								
PERF - Public Employees' Retirement Fund								
ECRF - Excise Police, Gaming Agent and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)								
JRS - Judges' Retirement System (Administered by the PERF board of trustees)								
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)								
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)								
TRF - Teachers' Retirement Fund								
N/A - not applicable								
* - information not available.								
** - net pension obligation for LRS for the year ended June 30, 2007 was restated.								
*** - \$44,613 based on July 1, 2008 actuarial valuation.								
**** - 30 year amortization commended with July 1, 2007 actuarial valuation. 40 year period was permitted for 10 years after the effective date (July 1, 1997 for Indiana) of GASB 27.								

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

State Teachers' Retirement Fund (Presented as a discretely presented component unit)

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 5-10.4-2 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees 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 State Teachers' Retirement Fund, 150 West Market Street, Suite 300, Indianapolis, IN 46204, by calling 317-232-3860, or at STRF's website, [www.in.gov/trf](http://www.in.gov/trf).

At June 30, 2009, the number of participating employers was 390.

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. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from 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; the individual employer will make annual contributions. These contributions are set as a percentage of the employee's salary at a rate recommended by the Fund's actuaries and approved by the Fund's Board of Trustees.

As of June 30, 2008, TRF was 48.2% 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 37.7% funded and the 1996 Account is 104.1% funded.

The funded ratio of the Fund has increased from 44% at June 30, 2003, to the ratio of 48% at June 30, 2008. The actuarial value of the Fund's assets as of the June 30, 2008 valuation was \$9.0 billion and the actuarial accrued liability was \$18.7 billion. The difference is the Fund's unfunded actuarial accrued liability of \$9.7 billion. The annual covered payroll as of the June 30, 2008, actuarial valuation was \$4.3 billion and the ratio of the unfunded actuarial liability to the annual covered payroll was 223%.

1977 Police Officers' and Firefighters' Pension and Disability Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing public employees retirement system administered by the Public Employees' Retirement Fund Board of Trustees. Indiana Code 36-8-8 governs the requirements of the Fund that provides retirement, disability, and survivor benefits. The Public Employees' Retirement Fund Board of Trustees 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 Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

At June 30, 2009, the number of participating employer units totaled 163 (which include 257 police and fire departments).

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 the current rate is 19.5 percent of the salary of a first-class officer or firefighter. The funding policy mandated by statute requires quarterly 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 *
<b>Historical Trend Information (dollars in thousands)</b>		
<u>Year ended June 30, 2009</u>		
Annual required contribution	n/a	n/a
Percentage contributed	n/a	n/a
<u>Year ended June 30, 2008</u>		
Annual required contribution	\$ 678,050.0	\$ 89,673.7 **
Percentage contributed	100%	137% **
<u>Year ended June 30, 2007</u>		
Annual required contribution	\$ 602,904.0	\$ 102,964.2
Percentage contributed**	105%	139%
<u>Year ended June 30, 2006</u>		
Annual required contribution	\$ 556,460.0	\$ 97,286.4
Percentage contributed**	108%	112%
STRF - State Teachers' Retirement Fund - Pre-1996 Account		
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)		
* - year ended December 31		
** - Amount and percentage corrected from prior year's annual CAFR report.		
n/a - not available		

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees 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 Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

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 PERF and confirmed by the State Budget Agency each year. Effective January 1, 2009 the rate was established at 9.3 percent. For the LDB Plan, the amount required to actuarially fund participants' retirement benefits, as determined by the

PERF Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund.

## 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.

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. 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 (dollar amounts in thousands):

	<b>State Personnel Healthcare Plan</b>	<b>Legislature's Healthcare Plan</b>	<b>Indiana State Police Healthcare Plan</b>	<b>Conservation and Excise Police Health Care Plan</b>
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	\$ 7,716	\$ 497	\$ 35,271	\$ 4,178
Interest on net OPEB obligation	252	10	1,209	138
Amortization adjustment to ARC	(344)	(13)	(1,650)	(189)
Annual OPEB Cost	7,624	494	34,830	4,127
Contributions made	(1,796)	(301)	(7,910)	(982)
Change in net OPEB obligation	5,828	193	26,920	3,145
Net OPEB obligation - beginning of year	5,595	216	26,867	3,067
Net OPEB obligation - end of year	<u>\$ 11,423</u>	<u>\$ 409</u>	<u>\$ 53,787</u>	<u>\$ 6,212</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 monthly premiums (except for grandfathered LP current retirees). The following chart shows actual 2009 premium rates which are projected 2009 rates based on the plans actual claims

experience before reserve adjustment for the SP and LP plans. The premiums shown for the ISPP and CEPP plans are the 2008 monthly premiums.

Contribution rates:	<b>State Personnel Healthcare Plan (SP)</b>		<b>Legislature's Healthcare Plan (LP)</b>		<b>Indiana State Police Healthcare Plan (ISPP)</b>		<b>Conservation and Excise Police Health Care Plan (CEPP)</b>	
	Single	Family	Single	Family	Retiree Only	Retiree plus One Dependent	Retiree Only	Retiree and Spouse
Plan members (monthly premium)								
High Deductible Health Plan #1	\$ 277.48	\$ 790.83	\$ 277.48	\$ 790.83	N/A	N/A	N/A	N/A
High Deductible Health Plan #2	357.12	1,017.80	357.12	1,017.80	N/A	N/A	N/A	N/A
Anthem Traditional II	536.38	1,528.68	536.38	1,528.68	N/A	N/A	N/A	N/A
Wellborn HMO	450.39	1,239.88	450.39	1,239.88	N/A	N/A	N/A	N/A
Medical (Pre-Medicare)	N/A	N/A	N/A	N/A	\$ 197.13	\$ 241.21	\$ 64.88	\$ 87.92
Medical (Post-Medicare)	N/A	N/A	N/A	N/A	89.02	87.24	-	-

The State of Indiana's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for June 30, 2009 (the second

year of OPEB reporting) and June 30, 2008 (first year of OPEB reporting) for each of the plans were as follows (dollar amounts in thousands):

	<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	6/30/2009	\$ 7,624	23.6%	\$ 11,423
	6/30/2008	\$ 7,231	22.6%	\$ 5,595
Legislature's Healthcare Plan	6/30/2009	493	61.0%	409
	6/30/2008	492	56.1%	216
Indiana State Police Healthcare Plan	6/30/2009	34,831	22.7%	53,787
	6/30/2008	34,275	21.6%	26,867
Conservation and Excise Police Health Care Plan	6/30/2009	4,128	23.8%	6,212
	6/30/2008	3,965	22.7%	3,067

A third year is not presented since this is only the second year for OPEB reporting.

Funded Status and Funding Progress The funded status of the plans as of June 30, 2009, was as follows (dollar amounts in thousands):

	<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)	\$ 67,405	\$ 8,009	\$ 341,923	\$ 45,308
Actuarial value of plan assets (b)	-	-	-	-
Unfunded actuarial accrued liability (funding excess) (a) - (b)	\$ 67,405	\$ 8,009	\$ 341,923	\$ 45,308
Funded ratio (b)/(a)	0.0%	0.0%	0.0%	0.0%
Covered payroll (c)	\$ 1,130,900	N/A	N/A	\$ 12,900
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $\frac{[(a)-(b)]}{(c)}$	5.5%	N/A	N/A	332.1%

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, 2007 projected to June 30, 2008 with adjustments for known experience for the period ending June 30, 2009. However, the covered payroll and unfunded actuarial accrued liability as a percentage of covered payroll in the above chart is that from the June 30, 2007 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 *	6/30/2008	6/30/2008	6/30/2008	6/30/2008
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	N/A	N/A	N/A	N/A
Actuarial assumptions:				
Investment rate of return	4.5%	4.5%	4.5%	4.5%
Projected salary increases	4.0%	4.0%	4.0%	4.0%
Healthcare inflation rate *	8.7% pre-65 & 9.5% post-65	8.7% pre-65 & 9.5% post-65	6.8% pre-65 & 7.4% post-65	8.7% pre-65 & 9.5% post-65

\* Most recent actuarial valuation is for the period ending June 30, 2007, but this data has been updated for the projection to June 30, 2008.

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, 2007 projected to June 30, 2008 with adjustments for known experience for the period ending June 30, 2009. 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, 2007. However, the actuarial valuation date and the healthcare inflation rates were updated for the actuarial results projected to June 30, 2008.

**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.

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 employees of the executive, legislative, and judicial branches of state government to pay for participants' medical insurance after retirement. 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 new 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:

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, 2009, the plan participants consisted of:

Description	Number
Active participants with accounts, not yet retired	33,518
Retired participants with accounts	1,977
<b>Total</b>	<b>35,495</b>

At June 30, 2009, plan participants' retirement medical plan account balances totaled \$119.9 million which consisted of \$70.2 million in unretired active participants' accounts and \$49.7 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. The plan benefits satisfy the condition of being a defined contribution OPEB benefit and by definition, there is no unfunded liability.

For the fiscal year ending June 30, 2009, the State contributed \$32.5 million to the State Retiree Health Fund. Another \$36.2 million was contributed by state agencies that are funded by federal or dedicated funds for their portion of funding. The total contribution for the fiscal year was \$68.7 million. 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. The annual required contribution for the year is \$68.7 million.

**G. Pollution Remediation Obligations**

Nature and source of pollution remediation obligations: Five state agencies have identified themselves as responsible or potentially responsible parties to remediate seventy-seven pollution sites pursuant to the State's implementation of GASB 49, Accounting and Financial Reporting for Pollution Remediation Obligations effective July 1, 2008. Obligor 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 Recovery and Conservation Act, being named in a lawsuit, 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 \$66.7 million of which \$14.6 million is estimated to be payable within one year and \$52.1 million estimated to be payable in more than one year. State agencies calculated their estimated liabilities using various approaches including existing agreements, contractor bids, 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, court established fee structure, 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 \$7.1 million. Of this total, \$1.9 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 from a bankruptcy court settlement, coverage of allowable costs by the State's Excess Liability Trust Fund (ELTF), a credit received for work performed on another Superfund site, and a court order. The ELTF state law states that if insufficient funds exist to pay claims neither the State nor the Fund are liable for unpaid claims