

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT WITH
SUPPLEMENTARY AND OTHER INFORMATION

June 30, 2017 and 2016

INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)

Table of Contents

	Page(s)
Independent Auditors' Report	1-3
Management's Discussion and Analysis (Unaudited)	4-10
Financial Statements:	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	14-40
Required Supplementary Information:	
Schedule of the Bond Bank's Proportionate Share of the Net Pension Liability (Unaudited)	41
Schedule of the Bond Bank's Contributions (Unaudited)	42
Other Supplementary Information:	
Supplemental Schedules of Net Position Information by Program Type – June 30, 2017 and 2016	43-44
Supplemental Schedules of Revenues, Expenses and Changes in Net Position Information by Program Type – Years Ended June 30, 2017 and 2016	45-46
Other Information:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47-48

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL STATEMENTS

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(1) Summary of Significant Accounting Policies

Organization

Indiana Bond Bank (the Bond Bank), a component unit of the State of Indiana (the State), was created by Senate Enrolled Act No. 97 (as amended) (the Bond Bank Act) of the Indiana General Assembly on July 1, 1984. The Bond Bank is an instrumentality of the State but is not a State agency and has no taxing power. It has separate corporate and sovereign capacity, and its Board of Directors is composed of the Treasurer of the State (who serves as Chairman of the Board, ex officio), the Director of Public Finance (who serves as director, ex officio) and five directors appointed by the Governor of the State. The Bond Bank has no oversight authority over any other entity.

The Bond Bank is authorized to buy and sell securities (see Note 5 for statutory limitations) for the purpose of providing funds to Indiana qualified entities, as defined under the Bond Bank Act. Accordingly, the Bond Bank enables qualified entities to issue debt at a lower cost of borrowing and on more favorable terms than would be possible by financing on their own. Certain financing agreements specify that any residual cash remaining at maturity or refinancing of a series is the property of the Bond Bank.

To achieve its purpose, the Bond Bank operates the following programs:

Special Program - Bonds issued to assist qualified entities with various long-term financing needs, including expansion of water and sewer systems and county hospitals.

Advance Funding Program - Notes issued to provide qualified entities with short-term cash flow financing during the periods of time prior to the semi-annual receipt of property taxes.

Common School Fund Program - Bonds issued to purchase outstanding advancements made from the State's constitutionally established Common School Fund to finance technology or construction costs. The proceeds replenish the Fund's balance, allowing the Indiana Department of Education to provide additional financial assistance for Indiana school corporations.

School Severance Program - Bonds issued to assist qualified entities with financing for contractual retirement or severance liabilities.

Year End Warrant Assistance Program - Notes issued to assist Indiana political subdivisions with financing for continued cash flow deficits at year end. These notes were issued to fund outstanding amounts from the Advance Funding and Midyear Programs.

Hoosier Equipment Lease Purchase Program - Bonds issued to assist qualified entities in obtaining low cost lease financing for essential equipment purchases. The leases and related obligations are not reflected on the Bond Bank's financial statements as these are assigned to a bank.

Prepaid Gas Funding Program - Bonds issued to allow qualified entities a mechanism for financing the prepayment of supplies of natural gas to be delivered over time.

Fuel Budgeting Program - Program to offer municipalities a means to reduce price volatility in gasoline and diesel fuel through the use of commodity hedges.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(1) Summary of Significant Accounting Policies (Continued)

Qualified School Construction Program - Tax credit bonds that enable schools to borrow funds at below market interest rate for construction projects.

USDA-RD Interim Loan Program - Program is a partnership between the Bond Bank and USDA-Rural Development (USDA-RD). The Bond Bank assists with project financing prior to USDA-RD permanent financing.

Basis of Presentation

The financial statements of the Bond Bank have been prepared on the accrual basis of accounting and using the economic resources measurement focus. Accordingly, the Bond Bank recognizes revenue in the period earned and expenses in the period incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Federal Income Taxes

The Bond Bank is exempt from federal income taxes under Internal Revenue Code Section 115.

Investments

Investments are recorded at fair value, based on quoted market prices of the investment or similar investments. See Note 3 for discussion of fair value measurements. For investments at June 30, 2017 and 2016, fair value approximates cost. Changes in the fair value of investments are included in the statement of revenues, expenses and changes in net position. The calculation of realized gains or losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in prior year(s) and the current year. Guaranteed investment contracts are recorded at cost.

Cash and Cash Equivalents

The Bond Bank considers all investments in commercial paper, certificates of deposit, repurchase agreements, passbook savings, money market deposits, and money market funds with original maturities of three months or less to be cash equivalents.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(1) Summary of Significant Accounting Policies (Continued)

Defeasance of Debt

The Bond Bank considers debt to be defeased when cash or other assets are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on a specific obligation. The related liability and assets held in trust for the related bonds are removed from the Bond Bank's financial statements.

Retirement Plan

The employees of the Bond Bank participate in the Indiana Public Retirement System (INPRS). See Note 8.

Deferred Outflows of Resources

The Bond Bank reports net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position. Deferred outflows of resources reported at June 30, 2017 and 2016, related to the defined benefit pension plan, including contributions made to the plan between the measurement date of the net pension liability and the end of the Bond Bank's fiscal year, changes in the Bond Bank's allocated proportion from the previous year, and differences between the Bond Bank's contributions to the plan and its proportionate share. The amounts related to changes in the Bond Bank's allocated proportion from the previous year and differences between the Bond Bank's contributions to the plan and its proportionate share are being amortized into pension expense over four years. In addition, deferred outflows of resources includes the fair value of interest rate swaps (see Note 6) and deferred refunding costs, which are recognized at the time of refunding and are amortized over the life of the bond.

Deferred Inflows of Resources

The Bond Bank's statements of net position reports a separate section for deferred inflows of resources, which reflects an increase in net position that applies to future periods. Deferred inflows of resources reported at June 30, 2017 and 2016, related to the defined benefit pension plan, including actual pension plan investment earnings in excess of the expected amounts and the difference between expected and actual experience on the pension plan included in determining pension expense. These amounts are being amortized into pension expense over four years.

Net Position

The Bond Bank's resources are classified for accounting and financial reporting purposes into the following net position categories:

- *Restricted* - net position subject to externally imposed stipulations as to use. This net position is restricted under the related program's bond indentures.
- *Unrestricted* - net position which is available for the use of the Bond Bank.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(1) Summary of Significant Accounting Policies (Continued)

Operating and Nonoperating Revenues

Revenues are classified as either operating or nonoperating. Operating revenues consist of interest income earned on qualified obligations receivable related investments and acceptance and administration fees paid by qualified entities to the Bond Bank's operating program. All other items are considered nonoperating.

Subsequent Events

The Bond Bank has evaluated the financial statements for subsequent events occurring through October 12, 2017, the date the financial statements were available to be issued. See Note 10.

(2) Deposits and Investments

The Bond Bank Act permits funds to be invested as provided by resolutions of the Board of Directors or trust indentures executed by the Bond Bank. In addition to authorizing investments in qualified entities, these resolutions and trust indentures have authorized the Bond Bank to invest in obligations of the U.S. Treasury, U.S. agencies and secured and unsecured investment agreements. The Bond Bank has also been authorized to invest in commercial paper, certificates of deposit, repurchase agreements, passbook savings and money market deposit accounts.

The Bond Bank's deposits and investments at June 30, 2017 and 2016 are summarized as follows:

	2017	
	Cost	Fair Value
Money market funds	\$ 48,852,096	\$ 48,852,096
U.S. government agency obligations	10,708,784	10,708,784
Guaranteed investments	29,032,929	29,032,929
Cash	472,041	472,041
Total deposits and investments	\$ 89,065,850	\$ 89,065,850
	2016	
	Cost	Fair Value
Money market funds	\$ 51,285,903	\$ 51,285,903
U.S. government agency obligations	11,699,582	11,699,582
Guaranteed investments	28,224,982	28,224,982
Cash	514,145	514,145
Total deposits and investments	\$ 91,724,612	\$ 91,724,612

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(2) Deposits and Investments (Continued)

Deposits with Financial Institutions

Custodial risk is the risk that in the event of bank failure, the Bond Bank's deposits may not be returned to it. The Bond Bank's cash is insured by Federal Deposit Insurance Corporation (FDIC). From time to time, certain cash balances maintained by the Bond Bank exceed federally insured limits. As of June 30, 2017 and 2016, the Bond Bank had cash balances of \$222,041 and \$264,145, respectively, with custodial risk.

Investments

Investments are restricted for repayment of bonds and notes payable issued under the respective programs (see Note 5). Funds deposited under investment agreements with banks and insurance companies earn a fixed interest rate and generally expire upon extinguishment of the debt issues to which they relate. Investments are also restricted to authorized investments per the applicable trust indentures.

Interest Rate Risk

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

As of June 30, 2017, the Bond Bank had investments with maturities as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>2017</u> <u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Money market funds	\$ 48,852,096	\$ 48,852,096		
Government obligations	10,708,784	10,708,784		
Guaranteed investments	29,032,929			\$29,032,929
Totals	<u>\$ 88,593,809</u>	<u>\$ 59,560,880</u>		<u>\$29,032,929</u>

Custodial Credit Risk of Investments

Custodial credit risk is the risk that the Bond Bank 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 counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of the Bond Bank, and are held by either the counterparty or the counterparty's trust department or agent but not in the Bond Bank's name. The Bond Bank has no custodial risk on investments.

Credit Risk Disclosure

The following table provides information on the credit ratings associated with the Bond Bank's cash equivalents and investments as of June 30, 2017:

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(2) Deposits and Investments (Continued)

Credit Ratings	S & P	Fitch	Moody's	Fair Value
Money market funds	AAA	AAA	Aaa	\$ 48,852,096
Government obligations	AA+	AAA	Aaa	10,708,784
Guaranteed investments	A+	A-	A3	<u>29,032,929</u>
Total Rated Investments				<u>\$ 88,593,809</u>

Concentration of Credit Risk

There are no limits on the amount that may be invested in any one issuer. The following table shows investment issuers that represent 5% or more of the total investments at June 30, 2017:

Aegon Institutional Guaranteed Investment Contracts	33%
Bank of New York Cash Reserve	30%
U.S. Bank Custodian Account	27%
Huntington Collateral Backed Deposit Account	9%

(3) Fair Value Measurement

The Bond Bank has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy as part of the implementation of GASB Statement No. 72. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Bond Bank has the ability to access.

Level 2 – Inputs to the valuation methodology may include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and/or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the Bond Bank makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(3) Fair Value Measurement (Continued)

Following is a description of the valuation methodologies used by the Bond Bank for assets and liabilities that are measured at fair value on a recurring basis. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Money Market Fund Shares: Valued at the published net asset value (NAV), as reported by each fund, of the shares held by the Bond Bank at the reporting date. These funds are deemed to be actively traded.

U.S. Government and Agency Securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

Interest Rate Swaps: Valued by a third-party using models which include assumptions about the LIBOR yield curve at the reporting date. The Bond Bank uses the fair value provided by the third-party without adjustment. See Note 6.

For those assets and liabilities measured at fair value, management determines the fair value measurement policies. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Bond Bank's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of these assets and liabilities could result in a different fair value measurement at the reporting date.

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of the Bond Bank's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017 and 2016:

2017	Level 1	Level 2	Level 3	Total
Assets:				
Money market fund shares	\$48,852,096			\$ 48,852,096
U.S. government and agency securities	<u> </u>	<u>\$10,708,784</u>		<u>10,708,784</u>
Investments at fair value	<u>\$48,852,096</u>	<u>\$10,708,784</u>		<u>\$ 59,560,880</u>
Liabilities:				
Interest rate swap derivatives			<u>\$ 6,423,000</u>	<u>\$ 6,423,000</u>

INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

(3) Fair Value Measurement (Continued)

2016	Level 1	Level 2	Level 3	Total
Assets:				
Money market fund shares	\$51,285,903			\$ 51,285,903
U.S. government and agency securities	<u> </u>	<u>\$11,699,582</u>		<u>11,699,582</u>
Investments at fair value	<u>\$51,285,903</u>	<u>\$11,699,582</u>		<u>\$ 62,985,485</u>
Liabilities:				
Interest rate swap derivatives			<u>\$ 9,019,000</u>	<u>\$ 9,019,000</u>

At June 30, 2017 and 2016, the Company had no other assets or liabilities that are measured at fair value on a recurring basis. See Note 6 for further discussion on the interest rate swaps.

(4) Qualified Obligations Receivable

All of the qualified obligations receivable are held in safekeeping by trustees, are registered in the Bond Bank's name and are uninsured. All purchases of qualified obligations are authorized by the Board of Directors. Prior to being presented to the Board of Directors, an evaluation of each purchase is made by Bond Bank management and independent consultants. Repayment of these obligations by the qualified entities is funded by multiple sources, including property tax revenues and user fees.

In the event of default, the Bond Bank Act provides that certain qualified entities can, to the extent permitted by law, be required to levy tax or the Bond Bank may receive state funding to which the qualified entities are otherwise entitled. No qualified entity has defaulted on its obligation to the Bond Bank since inception of the Bond Bank operations.

At June 30, 2017 and 2016, qualified obligations receivable included \$33,505,000 and \$32,960,000, respectively, which is to be repaid from incremental property tax revenues. The ability of the qualified entities to realize these incremental property tax revenues is dependent upon certain economic developments occurring in the future. Furthermore, the Bond Bank does not have the remedies, as described above, available should the qualified entities default due to the realization of insufficient property tax revenues. Management, however, believes the amount of these obligations to be fully collectible. Additionally, the Bond Bank executed letter of credit arrangements with a bank to further secure the related indebtedness to the Bond Bank bondholders (see Notes 5 and 6).

As of June 30, 2017 and 2016, the Bond Bank's Board of Directors authorized the purchase and subsequent leasing of equipment totaling approximately \$24,449,000 and \$9,711,000, respectively, through the Hoosier Equipment Lease Purchase Program. These lease receivables and related obligations are not reflected in the financial statements as the leases and related obligations have been assigned to a bank and the Bond Bank has been legally released from the obligations.

Qualified obligations receivable typically require semi-annual payments of principal and interest with maturities through May 1, 2034. All rates bear interest at varying rates, which are generally higher than the corresponding interest rate on the bond or note payable. Refunding principal credits are issued to qualified entities in instances where the corresponding debt has been refunded at a lower interest rate. The refunding principal credits are amortized on an effective interest rate method over the life of the qualified obligation receivable.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(4) Qualified Obligations Receivable (Continued)

At June 30, 2017, maturities of qualified obligations receivable are as follows:

Fiscal Year Ending June 30	Principal
2018	\$ 161,975,588
2019-2023	489,752,270
2024-2028	145,252,192
2029 and after	<u>61,284,495</u>
	858,264,545
Less: Unamortized discount	(8,189,306)
Less: Refunding credit	<u>(6,820,312)</u>
	<u><u>\$ 843,254,927</u></u>

(5) Bonds and Notes Payable

Bonds and notes payable at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Special Program Bonds:		
Series 2006 B-2 (rate is fixed at 5.80% with maturity on September 1, 2017)	\$ 50,000	\$ 405,000
Series 2006 A (Ref) (rates vary from 5.00% to 5.13% with maturities from August 1, 2017 to September 1, 2024, refunded in 2017)	-	14,215,000
Series 2006 C (rates vary from 4.55% to 5.00% with maturities from February 1, 2018 to February 1, 2023, refunded in 2017)	-	12,005,000
Series 2006 D (rates vary from 4.00% to 4.25% with maturities from August 1, 2017 to February 1, 2027)	6,275,000	6,440,000
Series 2007 A (rate of 5.25% with maturities from April 1, 2018 to April 1, 2030)	36,230,000	38,140,000
Series 2008 B (rates vary from 4.13% to 5.79% with maturities from May 1, 2029 to May 1, 3034, partially redeemed in 2017)	33,540,764	91,447,116
Series 2009 A (rates vary from 4.00% to 5.5% with maturities from August 1, 2017 to February 1, 2029)	53,205,000	56,425,000
Series 2009 C (rates vary from 4.00% to 4.77% with maturities from February 1, 2018 to February 1, 2030)	17,280,000	18,460,000
Series 2010 A-1 (rates vary from 3.00% to 3.50% with maturities from February 1, 2018 to February 1, 2021)	2,540,000	3,435,000
Series 2010 A-2 (rates vary from 3.74% to 4.506% with maturities from February 1, 2018 to February 1, 2020)	460,000	785,000

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(5) Bonds and Notes Payable (Continued)

	<u>2017</u>	<u>2016</u>
Special Program Bonds (Continued):		
Series 2010 A-3 (rates vary from 3.00% to 3.80% with maturities from February 1, 2018 to February 1, 2024)	\$ 470,000	\$ 555,000
Series 2011 A (Ref) (rates vary from 2.00% to 5.00% with maturities from September 1, 2017 to September 1, 2021)	18,835,000	20,955,000
Series 2012 A (rates are fixed at 3.06% with maturities from October 1, 2017 to April 1, 2027)	2,776,891	3,010,974
Series 2012 C (rates vary from 1.50% to 5.00% with maturities from August 1, 2017 to February 1, 2025)	15,065,000	16,650,000
Series 2012 D (rates vary from 3.00% to 5.00% with maturities from February 1, 2018 to February 1, 2033)	29,480,000	30,760,000
Series 2013 A (rate of 1.84% with maturities from February 1, 2018 to February 1, 2023)	3,800,000	4,830,000
Series 2015 A (Ref) (rate of 2.78% with maturities from August 15, 2016 to February 15, 2027)	17,118,433	18,584,493
Series 2015 B (Ref) (rate of at 2.20% with maturities from June 1, 2018 to June 1, 2026)	6,180,000	6,795,000
Series 2015 C (Ref) (rate of 2.85% with maturities from August 1, 2017 to August 1, 2028)	2,880,000	2,880,000
Series 2015 D (Ref) (rate of 2.85%, matured on August 1, 2016)	-	160,000
Series 2016 A (Ref) (rates vary from 4.70% to 5.01% with maturities December 15, 2017 to December 15, 2022)	11,695,000	-
Series 2016 B (Ref) (rates vary from 1.45% to 4.00% with maturities from July 20, 2017 to January 20, 2024)	12,550,000	-
	<u>\$ 270,431,088</u>	<u>\$ 346,937,583</u>
Total Special Program Bonds		
Advance Funding Program Notes:		
Series 2016 A Special Notes (rate of 1.32%, matured on January 4, 2017)	\$ -	\$ 5,545,000
Series 2016 A (rate of 2.00% matured on January 4, 2017)	-	73,420,000
Series 2016 A Midyear (rate of 0.95% matured on January 4, 2017)	-	2,905,000
Series 2017 A Special Notes (rate of 1.20% maturity on January 3, 2018)	2,546,000	-
Series 2017 A (rates vary from 2.00% to 3.00%, maturity on January 3, 2018)	56,535,000	-
Series 2017 A Midyear (rate of 1.25% maturing on January 3, 2018)	1,400,000	-
	<u>\$ 60,481,000</u>	<u>\$ 81,870,000</u>
Total Advance Funding Program Notes		

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(5) Bonds and Notes Payable (Continued)

	2017	2016
Common School Fund Bonds:		
Series 2010 A (rates vary from 3.91% to 4.04% with maturity on February 1, 2017)	\$ -	\$ 22,440,000
Series 2010 B (rates vary from 3.82% to 4.30% with maturities from August 1, 2017 to August 1, 2018)	34,435,000	34,535,000
Series 2012 A (rates vary from 1.63% to 1.95% with maturity on February 1, 2018)	260,000	710,000
Series 2012 B (rates vary from 1.43% to 2.30% with maturities from August 1, 2017 to February 2, 2019)	7,980,000	14,195,000
	<u>7,980,000</u>	<u>14,195,000</u>
Total Common School Fund Bonds	<u>\$ 42,675,000</u>	<u>\$ 71,880,000</u>
School Severance Program Bonds:		
Series 11A (rate of 2.15% with maturities from July 15, 2017 to January 15, 2018)	\$ 1,455,000	\$ 2,880,000
Series 12A (rates vary from 1.39% to 3.32% with maturities from July 15, 2017 to January 15, 2023)	7,215,000	8,560,000
Series 12B (rates vary from 1.78% to 3.52% with maturities from July 15, 2017 to July 15, 2022)	2,565,000	3,000,000
Series 12C (rates vary from 1.20% to 2.56% with maturities from July 15, 2017 to January 15, 2023)	5,165,000	8,120,000
Series 13A (rates vary from 1.02% to 4.03% with maturities from July 15, 2017 to January 15, 2030)	115,545,000	143,140,000
Series 13C (rates vary from 1.07% to 4.34% with maturities from July 15, 2017 to January 13, 2026)	50,975,000	60,310,000
Series 15A (rates vary from 0.78% to 3.93% with maturities from July 15, 2017 to January 15, 2029)	85,560,000	97,885,000
Series 15B (rates vary from 1.00% to 2.15% with maturities from July 15, 2017 to January 15, 2020)	985,000	3,545,000
Series 15C (rate of 2.25% with maturities from July 15, 2017 to January 15, 2021)	1,110,000	1,375,000
Series 15D (rate of 4.75% with maturities from July 15, 2017 to January 15, 2027)	1,285,000	1,380,000
Series 15E (rate of 5.00% with maturities from July 15, 2017 to January 15, 2027, redeemed in 2017)	-	5,030,000
	<u>-</u>	<u>5,030,000</u>
Total School Severance Program Bonds	<u>\$ 271,860,000</u>	<u>\$ 335,225,000</u>

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(5) Bonds and Notes Payable (Continued)

	2017	2016
Prepaid Gas Funding Program Bonds:		
Series 2007 A and B 2007 A Fixed Bonds rates vary from 5.00% to 5.25%, with maturities from October 15, 2017 to October 15, 2021.		
2007 B-1 LIBOR Index Rate Bonds rates vary based on 67% of the Three-Month LIBOR Rate plus the per annum spread of 0.97%. Rate at June 30, 2016 was 1.62%, maturing on October 15, 2022.		
2007 B-2 BMA Index Rate Bonds rates vary based on the BMA Municipal Swap Index plus the per annum spread 0.66%. Rate at June 30, 2016 was 1.52%, maturing on October 15, 2022.	\$ 157,950,000	\$ 176,810,000
Total Prepaid Gas Funding Program Bonds	\$ 157,950,000	\$ 176,810,000
Qualified School Construction Bonds:		
Series 2009 (rates vary from 1.51% to 1.75% with maturities from January 15, 2018 to January 15, 2025)	\$ 41,492,000	\$ 46,404,000
Series 2010 (rates vary from 2.96% to 5.49% with maturities from July 15, 2017 to July 15, 2026)	45,140,000	46,490,000
Total Qualified School Construction Bonds	\$ 86,632,000	\$ 92,894,000
USDA-RD Interim Loan Program Bonds		
Series 2015 C (rate of 1.05% matured on November 13, 2016)	\$ -	\$ 1,460,000
Series 2016 A (rate of 1.05% matured on May 12, 2017)	-	22,353,000
Total USDA-RD Interim Loan Program Bonds	\$ -	\$ 23,813,000
Total	890,029,088	1,129,429,583
Add: Net unamortized premium	7,192,060	9,044,811
Total Bonds and Notes Payable	897,221,148	1,138,474,394
Less: Current portion	(192,541,105)	(240,894,414)
Noncurrent Portion of Bonds and Notes Payable	\$ 704,680,043	\$ 897,579,980

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(5) Bonds and Notes Payable (Continued)

The bonds and notes payable listed above were issued under respective indentures of trust. Each indenture requires the maintenance of various trust accounts, and several of the bonds and notes payable require debt service reserve accounts. Assets held in debt service reserve accounts are included in investments and amounted to \$8,618,295 and \$8,706,386 at June 30, 2017 and 2016, respectively.

The faith, credit and taxing power of the State or any political subdivision thereof are not pledged to the payment of principal and interest on these obligations. However, the following series of the Bond Bank bonds are fully insured by a private insurer at June 30, 2017.

Special Program Bonds

Series 2006 B2
Series 2006 D
Series 2007 A Refunding
Series 2008 B
Series 2010 A-1, A-2 (Taxable), A-3 Multipurpose
Series 2011 A Refunding
Series 2016 B Refunding

The Bond Bank is required under the trust indentures of certain series of Special Program Bonds to enter into letter of credit arrangements with banks in order to secure the indebtedness.

Additionally, the Bond Bank was required under the trust indentures of certain series of bonds and notes payable to enter into line of credit arrangements with banks in order to secure the indebtedness. These line of credit arrangements are renewable each year.

The amounts eligible to be drawn under these arrangements at June 30, 2017 are as follows:

<u>Series</u>	<u>Eligible Amount</u>
Special Program Bonds, Series 2006 B-2	\$ 1,259,641
Special Program Bonds, Series 2006 D	1,584,938
Special Program Bonds, Series 2007 A Ref	3,920,650
Special Program Bonds, Series 2010 A-1, A-2 Taxable, A-3 Multipurpose	2,865,702
Special Program Bonds, Series 2011 A Refunding	3,008,950
Special Program Bonds, Series 2012 C Refunding	2,294,750
Special Program Bonds, Series 2012 D Refunding	2,727,225
Special Program Bonds, Series 2016 B Refunding	2,177,093
Advance Funding Program, Series 2017 A	5,088,150

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(5) Bonds and Notes Payable (Continued)

In the event of a draw on either a letter or line of credit facility, each borrowing will bear an interest rate based upon a series of optional rates as specified in the particular agreement. No draws were made against any debt service reserve account, letter, or line of credit facility during the years ended June 30, 2017 and 2016.

At June 30, 2017, maturities of long-term debt and interest are as follows:

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 192,027,826	\$ 31,611,706
2019	115,232,968	26,291,361
2020	99,600,827	22,926,872
2021	91,199,580	19,626,815
2022	95,378,495	16,251,515
2023-2028	225,303,629	48,281,065
2028-2032	49,084,022	13,786,994
2033-2037	<u>22,201,741</u>	<u>2,366,026</u>
	<u>890,029,088</u>	<u>\$ 181,142,354</u>
Add: Unamortized premium	<u>7,192,060</u>	
	<u>\$ 897,221,148</u>	

The Bond Bank issued \$56,435,000 of debt on behalf of seventeen not-for-profit qualified water utilities. At June 30, 2017 and 2016, the balance outstanding for these qualified water utilities totaled \$6,295,000 and \$8,270,000, respectively. Under the provisions of these debt issues, the bonds are payable solely from the revenues generated by the qualified water utilities. This debt does not constitute a general or moral obligation of the Bond Bank nor are debt service reserve funds maintained for these debt issues. The Bond Bank is not obligated in any manner for repayment of the bonds. For these reasons, the Bond Bank has not recorded these debt issues and the related utilities' obligations in the accompanying financial statements.

The Bond Bank is restricted by statute (IC 5-1.5-4-1(c)) to limit its total outstanding debt to \$1,000,000,000. However, the statute allows for the exclusion of bonds and notes issued funding the refunding of bonds or notes, as well as bonds, notes, or other obligations that are not secured by a reserve fund as defined by IC 5-1.5-5. Accordingly, the debt involving not-for-profit water utilities discussed above is not included when computing the Bond Bank's available debt limit. In addition, certain debt recorded in the Bond Bank's financial statements is not included in such a computation due to the provisions described in the statute.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(5) Bonds and Notes Payable (Continued)

A reconciliation of debt outstanding as reflected in the financial statements to the statutory debt limit is as follows:

	2017
Bonds and notes payable - face amount	\$ 890,029,088
Less: Debt recorded which does not require reserve funds	655,915,655
Debt outstanding for statutory debt limit purposes at June 30	234,113,433
Available remaining debt limit for statutory purposes	765,886,567
Statutory debt limit	\$1,000,000,000

During fiscal year 2017, the Bond Bank issued Special Program Refunding Bonds Series 2016 A in the amount of \$12,170,000. The proceeds from the Special Program Refunding Bonds Series 2016 A issue plus other funds on hand were used to refund Special Program Bonds Series 2006 C. The cash flow difference between the debt service on the Special Program Bond Series 2006 C and the new debt was \$1,513,811 and the net present value savings were \$1,142,265.

During fiscal year 2017, the Bond Bank issued Special Program Refunding Bonds Series 2016 B in the amount of \$13,555,000. The proceeds from the Special Program Refunding Bonds Series 2016 B issue plus other funds on hand were used to refund Special Program Bonds Series 2006 A. The cash flow difference between the debt service on the Special Program Bond Series 2006 A and the new debt was \$1,636,431 and the net present value savings were \$1,247,900.

During fiscal year 2016, the Bond Bank issued Special Program Refunding Bonds Series 2015 B in the amount of \$7,435,000. The proceeds from the Special Program Refunding Bonds Series 2015 B issue plus other funds on hand were used to refund Special Program Bonds Series 2005 C. The cash flow difference between the debt service on the Special Program Bond Series 2005 C and the new debt was \$700,615 and the net present value savings were \$604,953.

During fiscal year 2016, the Bond Bank issued Special Program Refunding Bonds Series 2015 C and 2015 D in the amount of \$3,040,000. The proceeds from the Special Program Refunding Bonds Series 2015 C and D issue plus other funds on hand were used to refund Special Program Bonds Series 2005 D. The cash flow difference between the debt service on the Special Program Bond Series 2005 D and the new debt was \$279,615 and the net present value savings were \$470,383.

INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

(5) Bonds and Notes Payable (Continued)

During fiscal year 2016, the Bond Bank issued School Severance Program Refunding Bonds Series 2015 A, 2015 B, 2015 C, 2015 D, and 2015 E in the amount of \$116,645,000. The proceeds from the Special Program Refunding Bonds Series 2015 A, 2015 B, 2015 C, 2015 D, and 2015 E issue plus other funds on hand were used to refund School Severance Program Bonds Series 8A, Series 9, Series 10, and Series 11.

The total bonds considered to have been defeased and removed from the financial statements and in total have remaining outstanding principal balance of approximately \$38,210,000 and \$40,555,000 at June 30, 2017 and 2016, respectively.

Changes in the Bond Bank's long-term liabilities during fiscal years 2017 and 2016 are as follows:

<u>2017</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and notes payable	\$ 1,138,474,394	\$ 133,710,419	\$ 374,963,665	\$ 897,221,148	\$ 192,541,105
Advances payable	2,785	-	2,785	-	-
Derivative instrument liability	9,019,000	-	2,596,000	6,423,000	-
Total	<u>\$ 1,147,496,179</u>	<u>\$ 133,710,419</u>	<u>\$ 377,562,450</u>	<u>\$ 903,644,148</u>	<u>\$ 192,541,105</u>
<u>2016</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and notes payable	\$ 1,376,699,661	\$ 295,258,969	\$ 533,484,236	\$ 1,138,474,394	\$ 240,894,414
Advances payable	3,525	-	740	2,785	-
Derivative instrument liability	10,835,000	-	1,816,000	9,019,000	-
Total	<u>\$ 1,387,538,186</u>	<u>\$ 295,258,969</u>	<u>\$ 535,300,976</u>	<u>\$ 1,147,496,179</u>	<u>\$ 240,894,414</u>

(6) Derivative Instruments and Fair Value Measurement

Objective of the Interest Rate SWAP Agreement. In August 2007, in anticipation of issuing the Series 2007 B1, B2, and B3, Prepaid Gas Funding Program Bonds and protecting, in part, the Bond Bank from the risk of any adverse change in interest rates on the Series 2007 Prepaid Gas Funding Program Bonds, the Bond Bank entered into a Swap Agreement with JPMorgan Chase Bank N.A. (JPMorgan) to lock in a fixed interest rate.

SUMMARY OF DERIVATIVE INSTRUMENTS (INTEREST RATE SWAPS)					
Business-Type Activities	Classification	Changes in Fair Value		Fair Value at June 30, 2017	Notional Amount
		Amount	Amount	Amount	
Pay-fixed interest rate swap - LIBOR Index Rate Bonds (B-1)	Deferred Outflow	\$ 1,128,000	\$ (3,342,000)	\$ 22,500,000	
Pay-fixed interest rate swap - SIFMA Index Rate Bonds (B-2)	Deferred Outflow	1,468,000	(3,081,000)	15,690,000	
		<u>\$ 2,596,000</u>	<u>\$ (6,423,000)</u>	<u>\$ 38,190,000</u>	

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(6) Derivative Instruments and Fair Value Measurement (Continued)

Terms for B-1 (LIBOR Index). Under the Swap Agreement, the Bond Bank pays interest to JPMorgan on the notional amounts set forth in the three-month LIBOR agreements at the fixed interest rate of 4.73%, in exchange for which JPMorgan pays interest to the Bond Bank on notional amounts at a variable interest rate equal to 67% of the three-month LIBOR plus a spread of .97%. The swap's notional amount of \$22,500,000 at June 30, 2017 matches the variable rate bonds. The obligation began to bear interest on October 15, 2007, and each party is required to make payments, if any, to the other party under the 2007 Swap Agreement, on the 15th of October, January, April and July.

Fair Value (LIBOR Index). Because LIBOR interest rates have decreased since execution of the Swap Agreement, the swap had a negative fair value of \$3,342,000 at June 30, 2017. The swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of the future net settlement on the swap.

Terms for B-2 (SIFMA Municipal Swap Index). Under the Swap Agreement, the Bond Bank pays interest to JPMorgan on the notional amounts set forth in the weekly SIFMA Municipal Index Swap agreements at the fixed interest rate of 4.80%, in exchange for which JPMorgan pays interest to the Bond Bank on notional amounts at a variable interest rate equal to the weekly SIFMA Municipal Index Swap plus a spread of .66%. The swap's notional amount of \$15,690,000 at June 30, 2017 matches the variable rate bonds. The obligation began to bear interest on October 15, 2007, and each party is required to make payments, if any, to the other party under the 2007 Swap Agreement, on the 15th of October, January, April, and July.

Fair Value (SIFMA Municipal Swap Index). Because SIFMA Municipal Swap Index rates have decreased since execution of the Swap Agreement, the swap had a negative fair value of \$3,081,000 at June 30, 2017. The swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the current weekly SIFMA Municipal Index to be used for the July 15, 2017 swap payment. This method calculates the future net settlement payments required by the swap, assuming that the current weekly SIFMA Municipal Index reflects the fair value of the swap payments. These payments are then discounted using the current weekly SIFMA Municipal Index Swap on the coupon due on the date of the future net settlement on the swap.

Credit Risk. As of June 30, 2017, the Bond Bank was not exposed to credit risk because the index swaps had negative fair values. However, should interest rates change and the fair value of the swaps become positive, the Bond Bank would be exposed to credit risk in the amount of the derivative's fair value.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(6) Derivative Instruments and Fair Value Measurement (Continued)

The Swap Agreement counterparty, JPMorgan, was rated A+ by Fitch Ratings and Standard & Poor's and A3 by Moody's Investor Service as of June 30, 2017.

Termination Risk. At any time, the Bond Bank may terminate the Swap Agreement by providing at least a two day written notice to JPMorgan. If at the time of termination the Swap Agreement has a negative fair value, the Bond Bank would be liable to JP Morgan for a payment equal to the swaps' fair value.

Swap Payments and Associated Debt. As rates vary, variable-rate bond interest payments and net swap payments will vary for the qualified entities. As of June 30, 2017, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows.

Variable-Rate Bonds (B-1, LIBOR Index)

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2018	\$ -	\$ 699,750	\$ 364,500	\$ 1,064,250
2019	-	699,750	364,500	1,064,250
2020	-	699,750	364,500	1,064,250
2021	-	699,750	364,500	1,064,250
2022	-	699,750	364,500	1,064,250
2023	22,500,000	699,750	364,500	1,064,250
Total	<u>\$ 22,500,000</u>	<u>\$ 4,198,500</u>	<u>\$ 2,187,000</u>	<u>\$ 6,385,500</u>

Variable-Rate Bonds (B-2, SIFMA Index)

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2018	\$ -	\$ 515,260	\$ 237,860	\$ 753,120
2019	-	515,260	237,860	753,120
2020	-	515,260	237,860	753,120
2021	-	515,260	237,860	753,120
2022	-	515,260	237,860	753,120
2023	15,690,000	515,260	237,860	753,120
Total	<u>\$ 15,690,000</u>	<u>\$ 3,091,560</u>	<u>\$ 1,427,160</u>	<u>\$ 4,518,720</u>

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(7) Concentrations of Credit

The Bond Bank has qualified obligations receivable in counties throughout the State. The largest concentrations of such receivables are with qualified entities and are as follows:

<u>County</u>	<u>Qualified Obligations Receivable</u>	<u>Concentration Percentage</u>
Marion	\$ 211,970,412	25%
Hendricks	108,938,891	13%

No other county has a concentration over 5% of the total qualified obligations receivable at June 30, 2017.

(8) Employee Benefits

Plan Description

The Bond Bank contributed to the Public Employees' Retirement Fund (PERF), which is administered by Indiana Public Retirement System (INPRS). As part of the implementation of GASB Statement No. 67, PERF changed from an agent to a cost-sharing, multiple-employer defined benefit plan effective July 1, 2013, based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan).

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.3 and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

The PERF ASA Only Plan was established by the Indiana Legislature in 2011, and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12 and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. The PERF ASA Only Plan members are full-time employees of the State (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013; were members of the PERF Hybrid Plan or (2) on or after March 1, 2013, do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the PERF ASA Only Plan and must offer eligible employees the PERF ASA Only Plan option. Quasi-government agencies and State educational institutions may choose to offer the PERF ASA Only Plan as an option to their employees. Since inception, 395 members have selected the PERF ASA Only Plan, or approximately 9% of eligible new hires of the State.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(8) Employee Benefits (Continued)

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at 3% of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10% of their compensation into their ASA. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' ASA are individually directed and controlled by plan participants who direct the investment of their account balances among eight (8) investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may make changes to their investment directions daily and investments are reported at fair value.

Retirement Benefits – Defined Benefit Pension

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's ASA. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100% of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100% of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100% of the benefits as described above.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(8) Employee Benefits (Continued)

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89%. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84%) to age 50 being 44%.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the years ended June 30, 2016 and 2015; however, eligible members received a one-time check (a.k.a. 13th check) in September 2015 and 2014 for the respective years. The amount of the one-time checks ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2014 and 2013, and who was entitled to receive a monthly benefit on July 1, 2015 and 2014.

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.inprs.in.gov/>.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(8) Employee Benefits (Continued)

Significant Actuarial Assumptions

The total pension liability is determined by INPRS actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

Asset valuation date – June 30, 2016

Liability valuation date – June 30, 2015 – Member census data as of June 30, 2015 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2015 and June 30, 2016. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2015 to June 30, 2016.

Actuarial cost method – Entry age normal (level percent of payroll)

Experience study date – Period of 4 years ended June 30, 2014

Investment rate of return – 6.75%

COLA – 1.0%

Future salary increases, including inflation – 2.50% – 4.25%

Inflation – 2.25%

The long-term return expectation for the defined benefit retirement plan has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(8) Employee Benefits (Continued)

	<u>2017</u>	<u>2016</u>
Target Asset Allocation	Geometric Basis Long-Term Expected Real Rate of Return	Geometric Basis Long-Term Expected Real Rate of Return
Public Equity	22.0%	6.0%
Private Equity	10.0%	7.7%
Fixed Income – Ex Inflation-Linked	24.0%	2.1%
Fixed Income – Inflation-Linked	7.0%	0.5%
Commodities	8.0%	2.5%
Real Estate	7.0%	3.9%
Absolute Return	10.0%	1.8%
Risk Parity	12.0%	4.3%

Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75%). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
<u>\$312,877</u>	<u>\$217,845</u>	<u>\$138,859</u>

Investment Valuation and Benefit Payment Policies

The pooled and non-pooled investments are reported at fair value by INPRS. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(8) Employee Benefits (Continued)

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity.

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' ASA. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

Funding Policy

The State is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During fiscal year 2016, all participating employers were required to contribute 11.2% of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 11.19% was required from employers during the period of July 1 – December 31, 2015, and an average contribution rate of 11.2% was required for the period of January 1 – June 30, 2016. For the PERF ASA Only Plan, all participating employers were also required to contribute 11.2% of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3% and not be greater than the normal cost of the fund which was 4.6% for fiscal year 2016, and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan.

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(8) Employee Benefits (Continued)

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute 3% of covered payroll to their ASA, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective July 1, 2014, the PERF ASA Only Plan may also participate) may elect to make additional voluntary contributions, under certain criteria, of up to 10% of their compensation into their ASA.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017 and 2016, the Bond Bank reported a liability of \$217,845 and \$177,171, respectively, for its proportionate share of the net pension liability. The Bond Bank's proportionate share of the net pension liability was based on the Bond Bank's wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2016 and 2015 measurement date was 0.00480% and 0.00435%, respectively.

For the years ended June 30, 2017 and 2016, the Bond Bank recognized pension expense of \$41,067 and \$24,705, respectively, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$(103) and \$(3,283), respectively. At June 30, 2017 and 2016, the Bond Bank reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2017</u>		
Differences between expected and actual experience	\$ 4,881	\$ 402
Net difference between projected and actual earnings on pension plan investments	47,914	12,257
Changes of assumptions	9,612	
Changes in proportion and differences between Bond Bank contributions and proportionate share of contributions	<u>11,084</u>	<u>9,221</u>
Total that will be recognized in pension expense based on table below	73,491	21,880
Pension contribution subsequent to measurement date	<u>25,291</u>	<u> </u>
Total	<u>\$98,782</u>	<u>\$21,880</u>

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(8) Employee Benefits (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2016</u>		
Differences between expected and actual experience	\$ 7,605	\$ 366
Net difference between projected and actual earnings on pension plan investments	29,873	16,662
Changes of assumptions	14,977	
Changes in proportion and differences between Bond Bank contributions and proportionate share of contributions	<u>1,827</u>	<u>10,085</u>
Total that will be recognized in pension expense based on table below	54,282	27,113
Pension contribution subsequent to measurement date	<u>24,835</u>	<u> </u>
Total	<u>\$79,117</u>	<u>\$27,113</u>

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

Fiscal Year Ending June 30,	Amount
2018	\$(17,999)
2019	(13,308)
2020	(14,505)
2021	<u>(5,799)</u>
	<u>\$ (51,611)</u>

**INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016**

(9) Operating Leases

The Bond Bank leases office space as well as office equipment under non-cancelable leases with terms in excess of one year. The following is a schedule of the future minimum rentals under the leases as of June 30, 2017:

Fiscal Year Ending June 30,	Amount
2018	\$ 57,926
2019	59,081
2020	65,046
2021	65,729
2022	60,227
2023 and thereafter	<u>15,372</u>
	<u>\$323,381</u>

In addition to the minimum lease payments, the Bond Bank is required to pay insurance, taxes and a proportional share of operating costs in excess of a basic level for the office space. The aggregate rental expense charged to operations was \$56,963 and \$58,952 for the years ended June 30, 2017 and 2016, respectively.

(10) Subsequent Events

Since July 1, 2017, the Bond Bank has closed five (5) Hoosier Equipment Lease Purchase (HELP) program leases. These transactions provided \$1,638,652 in equipment financing assistance to five local units of government.

On July 10, 2017, the IBB redeemed \$6,120,000 of the original aggregate principal amount of \$56,535,000 Advance Funding Program Notes, Series 2017. The current amount outstanding is \$50,415,000. The Advance Funding Program provides cash-flow assistance to local units of government throughout the State.

The Bond Bank issued \$74,905,000 in Common School Fund Advancement Purchase Funding Bonds on July 12, 2017. The proceeds of this transaction were used to replenish the State's Common School Fund.

On August 8, 2017, the Bond Bank issued \$6,271,000 in Interim Loan Program Notes. The Interim Loan Program is a partnership with the United States Department of Agriculture – Rural Development, in which the IBB assists local entities with financing their construction costs. Two entities participated in this issuance.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

OTHER INFORMATION

*Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards*

Year Ended June 30, 2017

To the Board of Directors
Indiana Bond Bank

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Indiana Bond Bank (the Bond Bank), a component unit of the State of Indiana, which comprise the statements of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bond Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bond Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bond Bank's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bond Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 12, 2017