

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

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

June 30, 2016 and 2015

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

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-9
Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13-39
Required Supplementary Information:	
Schedule of the Bond Bank's Proportionate Share of the Net Pension Liability (Unaudited)	40
Schedule of the Bond Bank's Contributions (Unaudited)	41
Other Supplementary Information:	
Supplemental Schedules of Net Position Information by Program Type – June 30, 2016 and 2015	42-43
Supplemental Schedules of Revenues, Expenses and Changes in Net Position Information by Program Type – Years Ended June 30, 2016 and 2015	44-45
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>	46-47

Independent Auditors' Report

Board of Directors
Indiana Bond Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana Bond Bank, a component unit of the State of Indiana, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and the *Uniform Compliance Guidelines for Audit of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards and guidelines require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Indiana Bond Bank as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the schedules of the Bond Bank's proportionate share of the net position liability and the Bond Bank's contributions on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary schedules of net position information by program type and revenues, expenses and changes in net position information by program type on pages 42 through 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2016, on our consideration of Indiana Bond Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Indiana Bond Bank's internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 13, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016 and 2015

This section of the Indiana Bond Bank's (the Bond Bank) annual financial report presents our discussion and analysis of the Bond Bank's financial performance during the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Bond Bank's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- Bonds and notes payable debt issued during the year ended June 30, 2016 totaled \$290,662,000. Debt issuances included \$141,834,000 of Advance Funding Program Notes and \$116,645,000 of School Severance Program Notes. All School Severance Program Notes were issued to refund prior School Severance debt.
- Repayments of bonds and notes payable debt totaled \$531,310,000 including \$147,634,000 of Advance Funding Program Notes and \$208,675,000 of School Severance Program Notes. \$141,060,000 of School Severance Program Notes was refunded debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Bond Bank's financial status and the change in financial status. The Statement of Net Position includes all of the Bond Bank's assets, liabilities, deferred inflows, deferred outflows and net position. Assets and liabilities are classified as either current or noncurrent. The Statement of Revenues, Expenses and Changes in Net Position reports all of the revenues and expenses during the time period. The Statement of Cash Flows reports the cash provided and used by operating activities as well as other cash sources and uses. The financial statements also include notes that explain and support the information in the statements and are followed by a section of supplementary information that further details the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position by program type.

The Bond Bank adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. This statement required the Bond Bank to disclose fair value measurements, the level of fair value hierarchy and valuation techniques. See Note 3.

INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016 and 2015

FINANCIAL ANALYSIS OF THE BOND BANK

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Position			
Current assets	\$ 282,172,000	\$ 338,686,000	\$ 316,555,000
Noncurrent assets	897,441,000	1,090,641,000	1,309,907,000
Total Assets	<u>1,179,613,000</u>	<u>1,429,327,000</u>	<u>1,626,462,000</u>
 Deferred Outflows of Resources	 24,480,000	 23,820,000	 29,801,000
 Current liabilities	 285,064,000	 311,199,000	 313,335,000
Noncurrent liabilities	906,779,000	1,129,237,000	1,331,036,000
Total Liabilities	<u>1,191,843,000</u>	<u>1,440,436,000</u>	<u>1,644,371,000</u>
 Deferred Inflows of Resources	 27,000	 37,000	
 Restricted for debt service	 (2,217,000)	 (1,818,000)	 (3,546,000)
Unrestricted	14,440,000	14,492,000	15,438,000
 Total Net Position	 <u>\$ 12,223,000</u>	 <u>\$ 12,674,000</u>	 <u>\$ 11,892,000</u>
 Revenues, Expenses and Changes in Net Position			
Operating Revenues:			
Interest income	\$ 45,929,000	\$ 59,111,000	\$ 67,395,000
Acceptance and administration fees	1,129,000	711,000	706,000
Total Operating Revenues	<u>47,058,000</u>	<u>59,822,000</u>	<u>68,101,000</u>
 Operating Expenses:			
Interest	43,059,000	56,495,000	61,380,000
Debt issuance costs	3,183,000	977,000	2,835,000
General and administrative	1,426,000	1,766,000	1,055,000
Total Operating Expenses	<u>47,668,000</u>	<u>59,238,000</u>	<u>65,270,000</u>
 Operating Income (Loss)	 (610,000)	 584,000	 2,831,000
 Nonoperating Revenue	 159,000	 198,000	 66,000
 Change in Net Position	 (451,000)	 782,000	 2,897,000
 Net Position - Beginning of Year	 12,674,000	 11,892,000	 8,995,000
 Net Position - End of Year	 <u>\$ 12,223,000</u>	 <u>\$ 12,674,000</u>	 <u>\$ 11,892,000</u>

INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016 and 2015

Statement of Net Position - June 30, 2016

Total assets and deferred outflows of resources, and total liabilities and net position and deferred inflows of resources decreased by approximately \$249 million in fiscal years 2016 from 2015. The decrease in the qualified obligations receivable resulted primarily from approximately \$485 million of principal being repaid to the Bond Bank compared to \$287 million in new Qualified Entity (QE) debt issued. Similarly, there was a corresponding decrease in the bonds and notes payable due to \$531 million of principal being paid compared to \$295 million of new debt issued. Included in the other current assets are cash and cash equivalents, and accrued interest receivable. Accrued interest payable and accounts payable are included in other current liabilities as well.

Statement of Net Position Reconciliation - 2016

Total Assets as of June 30, 2015		\$ 1,429,327,000
Decrease in current qualified obligations receivable	\$ (7,218,000)	
Decrease in other current assets	(49,296,000)	
Decrease in noncurrent qualified obligations receivable	(193,924,000)	
Increase in other noncurrent assets	<u>724,000</u>	
Total Decrease in Assets		<u>(249,714,000)</u>
Total Assets as of June 30, 2016		<u>\$ 1,179,613,000</u>
Total Deferred Outflows of Resources as of June 30, 2015		\$ 23,820,000
Decrease in fair value of interest rate swaps	\$ (1,816,000)	
Increase in deferred refunding costs	2,422,000	
Increase in pension costs	<u>54,000</u>	
Total Increase in Deferred Outflows of Resources		<u>660,000</u>
Total Deferred Outflows of Resources as of June 30, 2016		<u>\$ 24,480,000</u>
Total Deferred Inflows of Resources as of June 30, 2015		\$ 37,000
Decrease in deferred pension costs	<u>\$ (10,000)</u>	
Total decrease in deferred inflows of resources		<u>(10,000)</u>
Total Deferred Inflows of Resources as of June 30, 2016		<u>\$ 27,000</u>
Total Liabilities and Net Position as of June 30, 2015		\$1,453,110,000
Decrease in net position	\$ (451,000)	
Decrease in current bonds and notes payable	(17,521,000)	
Decrease in other current liabilities	(8,614,000)	
Decrease in noncurrent bonds and notes payable	(220,705,000)	
Decrease in other noncurrent liabilities	<u>(1,753,000)</u>	
Total decrease in liabilities and net position		<u>(249,044,000)</u>
Total Liabilities and Net Position as of June 30, 2016		<u>\$1,204,066,000</u>

INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016 and 2015

Statement of Net Position - June 30, 2015

Total assets and deferred outflows of resources, and total liabilities and net position and deferred inflows of resources decreased by approximately \$203 million in fiscal years 2015 from 2014. The decrease in the qualified obligations receivable resulted primarily from approximately \$379 million of principal being repaid to the Bond Bank compared to \$165 million in new QE debt issued. Similarly, there was a corresponding decrease in the current bonds and notes payable due to \$389 million of principal being paid compared to \$190 million of new debt issued. Included in the other current assets are cash and cash equivalents, and accrued interest receivable. Accrued interest payable and accounts payable are included in other current liabilities as well.

Statement of Net Position Reconciliation - 2015

Total Assets as of June 30, 2014		\$ 1,626,462,000
Increase in current qualified obligations receivable	\$ 355,000	
Increase in other current assets	21,776,000	
Decrease in noncurrent qualified obligations receivable	(218,221,000)	
Decrease in other noncurrent assets	<u>(1,045,000)</u>	
Total Decrease in Assets		<u>(197,135,000)</u>
Total Assets as of June 30, 2015		<u>\$ 1,429,327,000</u>
Total Deferred Outflows of Resources as of June 30, 2014		\$ 29,801,000
Decrease in fair value of interest rate swaps	\$ (1,453,000)	
Decrease in deferred refunding costs	(4,553,000)	
Increase in pension costs	<u>25,000</u>	
Total Decrease in Deferred Outflows of Resources		<u>(5,981,000)</u>
Total Deferred Outflows of Resources as of June 30, 2015		<u>\$ 23,820,000</u>
Total Deferred Inflows of Resources as of June 30, 2014		\$ -
Increase in deferred pension costs	<u>\$ 37,000</u>	
Total increase in deferred inflows of resources		<u>37,000</u>
Total Deferred Inflows of Resources as of June 30, 2015		<u>\$ 37,000</u>
Total Liabilities and Net Position as of June 30, 2014		\$1,656,263,000
Increase in net position	\$ 782,000	
Decrease in current bonds and notes payable	(890,000)	
Decrease in other current liabilities	(1,246,000)	
Decrease in noncurrent bonds and notes payable	(199,834,000)	
Decrease in other noncurrent liabilities	<u>(1,965,000)</u>	
Total decrease in liabilities and net position		<u>(203,153,000)</u>
Total Liabilities and Net Position as of June 30, 2015		<u>\$1,453,110,000</u>

INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016 and 2015

Operating revenues consist of interest income earned on qualified obligations receivable and the related investments. The operating interest income for the fiscal years was 4.3% for 2016, 4.6% for 2015 and 4.5% for 2014 of the related investments. Also included in operating revenues are acceptance and administration fees paid by qualified entities to the Bond Bank's operating program. These fees increased approximately \$201,000 from 2015 to 2016, and increased \$5,000 from 2014 to 2015.

Operating expenses include interest expense on bonds and notes payable. Interest expense for the fiscal years represented 3.8% for 2016, 4.1% for 2015 and 3.9% for 2014 of the related bonds and notes payable balance. Also included in operating expenses is the actual debt issuance costs and general and administrative expenses such as management fees and arbitrage expense, as well as, expenses for the operating program such as professional fees, payroll and payroll related expenses.

Net position in fiscal year 2016 decreased in total approximately \$451,000 from 2015. Net position restricted for debt service decreased approximately \$399,000 and unrestricted net position decreased approximately \$52,000. In comparison, net position for fiscal year 2015 increased approximately \$782,000. Net position restricted for debt service increased approximately \$1,728,000 and unrestricted net assets decreased approximately \$946,000.

DEBT ADMINISTRATION

Below is a listing of the amount of debt issued by program for the fiscal years ended June 30, 2016, 2015 and 2014:

<u>Programs</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Special Program	\$ 10,475,000	\$ 20,079,823	\$ -
Advance Funding Program	141,833,969	146,473,653	163,173,616
School Severance Program	116,645,000	-	84,280,000
USDA - RD Interim Loan Program	26,305,000	23,074,000	-

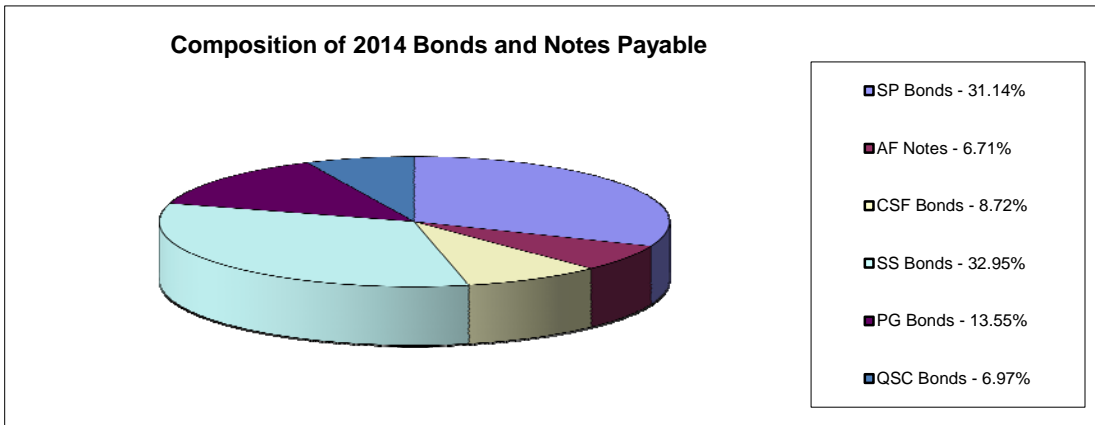
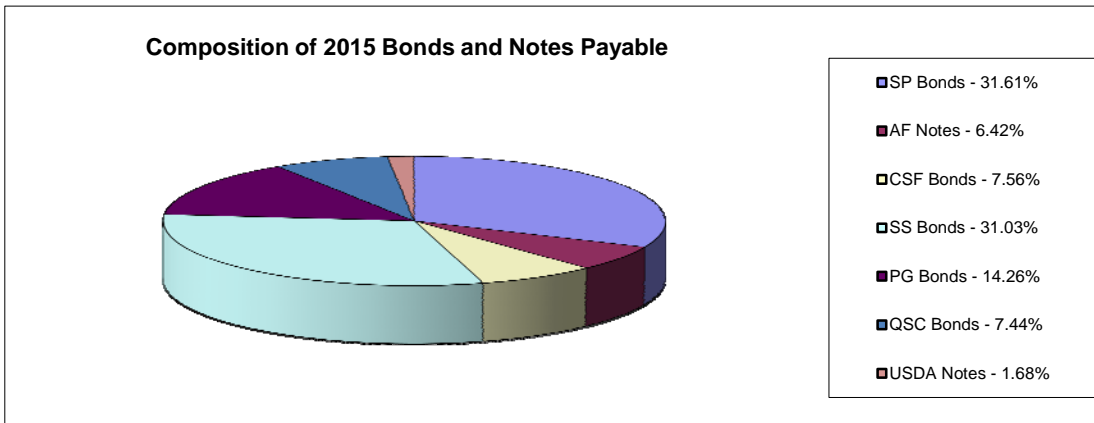
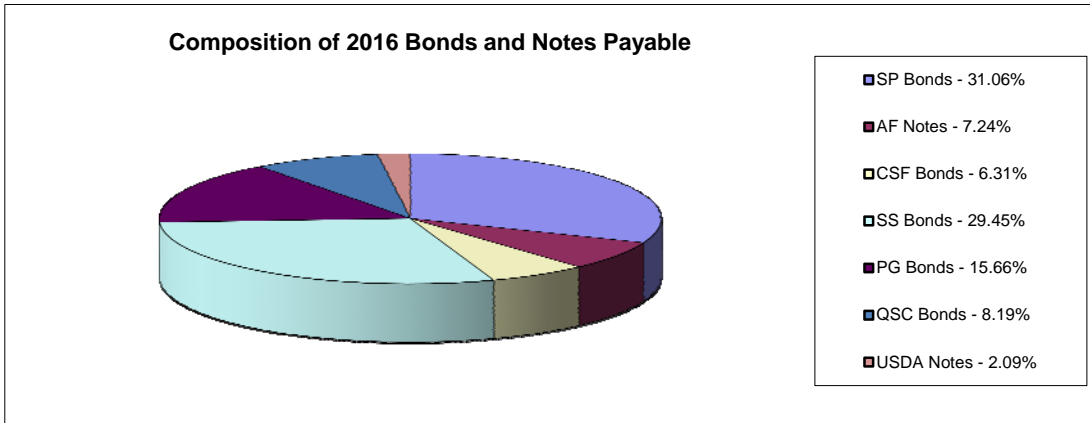
On the following pages are three graphs depicting the composition of bonds and notes payable. The first graph details the composition of bonds and notes payable by program as of June 30, 2016, the second graph shows as of June 30, 2015, and the third graph shows as of June 30, 2014. The composition by program has changed due to the combination of new bonds issued and maturation of old bonds during each of the years.

The Bond Bank's bond and note issues are rated A+ to AAA by the national rating agencies. The ratings are based on the financing program structure.

Additional information on the Bond Bank's debt can be found in Notes 5 and 6 to the financial statements.

INDIANA BOND BANK
 (A COMPONENT UNIT OF THE STATE OF INDIANA)
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016 and 2015



INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016 and 2015

REQUESTS OF INFORMATION

The financial report is designed to provide a general overview of the Bond Bank's finances for all those with an interest in the Bond Bank's finances. Questions concerning any of the information should be addressed to the Indiana Bond Bank, 10 West Market Street, Suite 2410, Indianapolis, Indiana 46204.

FINANCIAL STATEMENTS

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

**STATEMENTS OF NET POSITION
June 30, 2016 and 2015**

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 63,499,630	\$ 108,830,562
Qualified obligations receivable	207,561,811	214,779,573
Accrued interest receivable	11,110,261	15,076,096
Total Current Assets	<u>282,171,702</u>	<u>338,686,231</u>
Noncurrent assets:		
Guaranteed investment contracts	28,224,982	27,500,686
Qualified obligations receivable, net of current portion	869,216,297	1,063,140,675
Total Noncurrent Assets	<u>897,441,279</u>	<u>1,090,641,361</u>
Total Assets	<u>1,179,612,981</u>	<u>1,429,327,592</u>
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of interest rate swaps	9,019,000	10,835,000
Deferred refunding costs	15,381,505	12,959,138
Pension	79,117	25,237
Total Deferred Outflows of Resources	<u>24,479,622</u>	<u>23,819,375</u>
LIABILITIES		
Current liabilities:		
Bonds and notes payable	240,894,414	258,414,666
Accrued interest payable	12,835,912	17,808,471
Funds held for qualified entities	30,355,457	33,582,349
Accounts payable	977,960	1,393,516
Total Current Liabilities	<u>285,063,743</u>	<u>311,199,002</u>
Noncurrent liabilities:		
Bonds and notes payable, net of current portion	897,579,980	1,118,284,995
Net pension liability	177,171	113,790
Advances payable	2,785	3,525
Derivative instrument liability	9,019,000	10,835,000
Total Noncurrent Liabilities	<u>906,778,936</u>	<u>1,129,237,310</u>
Total Liabilities	<u>1,191,842,679</u>	<u>1,440,436,312</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	27,113	36,744
Total Deferred Inflows of Resources	<u>27,113</u>	<u>36,744</u>
NET POSITION		
Restricted for debt service	(2,216,924)	(1,817,932)
Unrestricted	14,439,735	14,491,843
Total Net Position	<u>\$ 12,222,811</u>	<u>\$ 12,673,911</u>

See accompanying notes to financial statements.

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015**

	2016	2015
OPERATING REVENUES		
Interest income	\$ 45,929,271	\$ 59,110,551
Acceptance and administration fees	1,128,776	710,853
Total Operating Revenues	<u>47,058,047</u>	<u>59,821,404</u>
OPERATING EXPENSES		
Interest	43,327,697	56,494,755
Debt issuance costs	3,183,332	976,726
General and administrative	1,157,282	1,766,268
Total Operating Expenses	<u>47,668,311</u>	<u>59,237,749</u>
Operating Income (Loss)	(610,264)	583,655
NONOPERATING REVENUE		
Interest income on investments	<u>159,164</u>	<u>198,461</u>
CHANGE IN NET POSITION	(451,100)	782,116
NET POSITION		
Beginning of Year	<u>12,673,911</u>	<u>11,891,795</u>
End of Year	<u><u>\$ 12,222,811</u></u>	<u><u>\$ 12,673,911</u></u>

See accompanying notes to financial statements.

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

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest, acceptance and administrative fees	\$ 51,023,142	\$ 61,484,596
Cash payments for interest and operating expenses	(52,001,028)	(59,907,665)
Cash payments to suppliers and employees	<u>(1,055,398)</u>	<u>(1,452,952)</u>
Net Cash Provided (Used) by Operating Activities	<u>(2,033,284)</u>	<u>123,979</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from debt issuances	290,661,894	192,364,556
Debt issuance costs paid	(3,183,332)	(976,726)
Repayment of bonds and notes payable	<u>(531,309,525)</u>	<u>(388,534,355)</u>
Net Cash Used in Non-Capital Financing Activities	<u>(243,830,963)</u>	<u>(197,146,525)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(28,367,331)	(30,861,791)
Purchases of qualified obligations receivable	(287,474,770)	(164,683,558)
Interest received on investments	159,164	198,461
Maturities of investments	27,643,035	29,816,746
Maturities of qualified obligations receivable	<u>488,573,217</u>	<u>386,474,790</u>
Net Cash Provided by Investing Activities	<u>200,533,315</u>	<u>220,944,648</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(45,330,932)	23,922,102
CASH AND CASH EQUIVALENTS		
Beginning of Year	<u>108,830,562</u>	<u>84,908,460</u>
End of Year	<u><u>\$ 63,499,630</u></u>	<u><u>\$ 108,830,562</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest received during the year	\$ 49,895,106	\$ 60,895,005
Interest paid during the year	48,300,255	56,062,705
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (610,264)	\$ 583,655
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in certain assets and liabilities:		
Accrued interest receivable	3,965,835	2,145,744
Accrued interest payable	(4,972,559)	(2,510,324)
Accounts payable	(415,556)	387,456
Advances payable	<u>(740)</u>	<u>(482,552)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (2,033,284)</u></u>	<u><u>\$ 123,979</u></u>

See accompanying notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(1) Summary of Significant Accounting Policies

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.

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, 2016 and 2015**

(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.

The Bond Bank adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. This statement required the Bond Bank to disclose fair value measurements, the level of fair value hierarchy, and valuation techniques. See Note 3.

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, 2016 and 2015, 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, 2016 and 2015**

(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 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, 2016 and 2015, 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, 2016 and 2015, 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(1) Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Bond Bank has evaluated the financial statements for subsequent events occurring through October 13, 2016, 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, 2016 and 2015 are summarized as follows:

	2016	
	<u>Cost</u>	<u>Fair Value</u>
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
	<u>\$ 91,724,612</u>	<u>\$ 91,724,612</u>
Total deposits and investments		
	2015	
	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 93,692,313	\$ 93,692,313
U.S. government agency obligations	14,155,122	14,155,122
Guaranteed investments	27,500,686	27,500,686
Cash	983,127	983,127
	<u>\$ 136,331,248</u>	<u>\$ 136,331,248</u>
Total deposits and investments		

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, 2016 and 2015, the Bond Bank had cash balances of \$264,145 and \$733,127, respectively, with custodial risk.

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(2) Deposits and Investments (Continued)

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, 2016, the Bond Bank had investments with maturities as follows:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Money market funds	\$ 51,285,903	\$ 51,285,903			
Government obligations	11,699,582	11,699,582			
Guaranteed investments	28,224,982				\$ 28,224,982
Totals	<u>\$ 91,210,467</u>	<u>\$ 62,985,485</u>			<u>\$ 28,224,982</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, 2016 and 2015:

<u>Credit Ratings</u>	<u>S & P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Fair Value</u>
Money market funds	AAA	AAA	Aaa	\$ 51,285,903
Government obligations	AA+	AAA	Aaa	11,699,582
Guaranteed investments	A+	A-	A3	28,224,982
Total Rated Investments				<u>\$ 91,210,467</u>

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(2) Deposits and Investments (Continued)

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, 2016:

Aegon Institutional Guaranteed Investment Contracts	31%
Huntington Collateral Backed Deposit Account	19%
Bank of New York Cash Reserve	18%
U.S. Bank Custodian Account	15%
First American Prime Obligation Fund	7%

(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.

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, 2016 and 2015.

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.

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(3) Fair Value Measurement (Continued)

At June 30, 2016 and 2015, 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, 2016 and 2015, qualified obligations receivable included \$32,960,000 and \$36,415,000, 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, 2016 and 2015, the Bond Bank's Board of Directors authorized the purchase and subsequent leasing of equipment totaling approximately \$9,711,000 and \$8,501,000, 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 obligation receivables 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, 2016 and 2015**

(4) Qualified Obligations Receivable (Continued)

At June 30, 2016, maturities of qualified obligations receivables are as follows:

Fiscal Year Ending June 30	Principal
2017	\$ 207,561,811
2018-2022	537,513,114
2023-2027	262,696,456
2028 and after	82,907,798
	1,090,679,179
Less: Unamortized discount	(6,711,061)
Less: Refunding credit	(7,190,010)
	\$ 1,076,778,108

(5) Bonds and Notes Payable

Bonds and notes payable at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Special Program Bonds:		
Series 2004 D (rates vary from 4.00% to 5.00% with maturities from February 1, 2016 to February 1, 2022, repaid in 2016)	\$ -	\$ 15,020,000
Series 2005 B (rates vary from 4.00% to 4.15% with maturities from February 15, 2016 to February 15, 2020, repaid in 2016)	-	3,755,000
Series 2005 C (rates vary from 4.00% to 4.25% with maturities from June 1, 2016 to June 1, 2026, refunded in 2016)	-	7,185,000
Series 2005 D (rates vary from 4.25% to 5.00% with maturities from August 1, 2015 to August 1, 2028, refunded in 2016)	-	3,305,000
Series 2006 B-2 (rate of 5.80% with maturities from September 1, 2016 to September 1, 2017)	405,000	750,000
Series 2006 A (rates vary from 5.00% to 5.13% with maturities from August 1, 2016 to September 1, 2024)	14,215,000	15,630,000
Series 2006 C (rates vary from 4.55% to 5.00% with maturities from February 1, 2017 to February 1, 2023)	12,005,000	13,415,000
Series 2006 D (rates vary from 4.00% to 4.25% with maturities from August 1, 2016 to February 1, 2027)	6,440,000	7,115,000
Series 2007 A (rate of 5.25% with maturities from April 1, 2017 to April 1, 2030)	38,140,000	39,960,000
Series 2008 B (rates vary from 4.13% to 5.79% with maturities from June 1, 2017 to June 1, 2034)	91,447,116	90,884,261

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(5) Bonds and Notes Payable (Continued)

	2016	2015
Special Program Bonds (Continued):		
Series 2009 A (rates vary from 4.00% to 5.5% with maturities from August 1, 2016 to February 1, 2029)	\$ 56,425,000	\$ 59,490,000
Series 2009 C (rates vary from 4.00% to 4.77% with maturities from February 1, 2017 to February 1, 2030)	18,460,000	19,590,000
Series 2009 D (rates vary from 4.00% to 5.00% with maturities from August 1, 2016 to August 1, 2020, repaid in 2016)	-	42,435,000
Series 2010 A-1 (rates vary from 3.00% to 3.50% with maturities from February 1, 2017 to February 1, 2021)	3,435,000	4,305,000
Series 2010 A-2 (rates vary from 3.74% to 4.506% with maturities from February 1, 2017 to February 1, 2020)	785,000	1,095,000
Series 2010 A-3 (rates vary from 3.00% to 3.80% with maturities from February 1, 2017 to February 1, 2024)	555,000	635,000
Series 2011 A (rates vary from 2.00% to 5.00% with maturities from September 1, 2016 to September 1, 2021)	20,955,000	23,000,000
Series 2012 A (rates are fixed at 3.06% with maturities from October 1, 2016 to April 1, 2027)	3,010,974	3,238,055
Series 2012 C (rates vary from 1.50% to 5.00% with maturities from August 1, 2016 to February 1, 2025)	16,650,000	18,200,000
Series 2012 D (rates vary from 3.00% to 5.00% with maturities from February 1, 2017 to February 1, 2033)	30,760,000	32,000,000
Series 2013 A (rate of 1.84% with maturities from February 1, 2017 to February 1, 2023)	4,830,000	5,830,000
Series 2015 A (Ref) (rate of 2.78% with maturities from August 15, 2016 to February 15, 2027)	18,584,493	20,079,823
Series 2015 B (Ref) (rate of at 2.20% with maturities from June 1, 2017 to June 1, 2026)	6,795,000	-
Series 2015 C (Ref) (rate of 2.85% with maturities from August 1, 2017 to August 1, 2028)	2,880,000	-
Series 2015 D (Ref) (rate of 2.85% with maturity on August 1, 2016)	160,000	-
	<u>\$ 346,937,583</u>	<u>\$ 426,917,139</u>
Total Special Program Bonds		
Advance Funding Program Notes:		
Series 2015 A Special Notes (rate of 0.87%, matured on January 6, 2016)	\$ -	\$ 8,715,000
Series 2015 A (rate of 2.00%, matured on January 5, 2016)	-	76,445,000
Series 2015 A Midyear (rate of 0.75%, matured on January 5, 2016)	-	2,510,000
Series 2016 A Special Notes (rate of 1.32%, maturing on January 4, 2017)	5,545,000	-
Series 2016 A (rate of 2.00% maturing on January 4, 2017)	73,420,000	-
Series 2016 A Midyear (rate of 0.95% maturing on January 4, 2017)	2,905,000	-
	<u>\$ 81,870,000</u>	<u>\$ 87,670,000</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, 2016 and 2015**

(5) Bonds and Notes Payable (Continued)

	2016	2015
Common School Fund Bonds:		
Series 2010 A (rates vary from 3.91% to 4.04% with maturities from August 1, 2016 to February 1, 2017)	\$ 22,440,000	\$ 42,755,000
Series 2010 B (rates vary from 3.82% to 4.30% with maturities from August 1, 2016 to August 1, 2018)	34,535,000	34,640,000
Series 2012 A (rates vary from 1.63% to 1.95% with maturities from February 1, 2017 to February 1, 2018)	710,000	1,160,000
Series 2012 B (rates vary from 1.43% to 2.30% with maturities from August 1, 2016 to February 2, 2019)	14,195,000	25,490,000
	<u>\$ 71,880,000</u>	<u>\$ 104,045,000</u>
Total Common School Fund Bonds		
School Severance Program Bonds:		
Series 8A (rates vary from 4.91% to 5.64% with maturities from July 15, 2015 to January 15, 2029, refunded in 2016)	\$ -	\$ 13,580,000
Series 9 (rates vary from 4.93% to 5.53% with maturities from July 15, 2015 to January 15, 2026, refunded in 2016)	-	10,555,000
Series 10 (rates vary from 5.15% to 5.68% with maturities from July 15, 2015 to January 15, 2031, refunded in 2016)	-	45,900,000
Series 11 (rates vary from 5.73% to 6.20% with maturities from July 15, 2015 to January 15, 2029, refunded in 2016)	-	78,225,000
Series 11A (rate of 2.15% with maturities from July 15, 2016 to January 15, 2018)	2,880,000	4,265,000
Series 12A (rates vary from 1.39% to 3.32% with maturities from July 15, 2016 to January 15, 2023)	8,560,000	9,895,000
Series 12B (rates vary from 1.78% to 3.52% with maturities from July 15, 2016 to July 15, 2022)	3,000,000	3,430,000
Series 12C (rates vary from 1.20% to 2.56% with maturities from July 15, 2016 to January 15, 2023)	8,120,000	11,015,000
Series 13A (rates vary from 1.02% to 4.03% with maturities from July 15, 2016 to January 15, 2030)	143,140,000	172,575,000
Series 13B (rate of 1.80% with maturities from July 15, 2016 to January 15, 2025, repaid in 2016)	-	8,090,000
Series 13C (rates vary from 1.07% to 4.34% with maturities from July 15, 2016 to January 13, 2026)	60,310,000	69,725,000
Series 15A (rates vary from 0.78% to 3.93% with maturities from July 15, 2016 to January 15, 2029)	97,885,000	-
Series 15B (rates vary from 1.00% to 2.15% with maturities from July 15, 2016 to January 15, 2020)	3,545,000	-
Series 15C (rate of 2.25% with maturities from July 15, 2016 to January 15, 2021)	1,375,000	-
Series 15D (rate of 4.75% with maturities from July 15, 2016 to January 15, 2027)	1,380,000	-
Series 15E (rate of 5.00% with maturities from July 15, 2016 to January 15, 2027)	5,030,000	-
	<u>\$ 335,225,000</u>	<u>\$ 427,255,000</u>
Total School Severance Program Bonds		

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(5) Bonds and Notes Payable (Continued)

	2016	2015
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, 2015 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 1.37%, 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 1.05%, maturing on October 15, 2022.		
2007 B-3 CPI Index Rate Bonds rates vary based on changes in the CPI Index plus the per annum spread of 1.40%. The bond matured on October 15, 2015.	\$ 176,810,000	\$ 194,480,000
Total Prepaid Gas Funding Program Bonds	\$ 176,810,000	\$ 194,480,000
Qualified School Construction Bonds:		
Series 2009 (rates vary from 1.51% to 1.75% with maturities from January 15, 2017 to January 15, 2025)	\$ 46,404,000	\$ 52,239,000
Series 2010 (rates vary from 2.96% to 5.49% with maturities from July 15, 2016 to July 15, 2026)	46,490,000	49,800,000
Total Qualified School Construction Bonds	\$ 92,894,000	\$ 102,039,000
USDA-RD Interim Loan Program Bonds		
Series 2014 A (rate of 0.74% matured on November 13, 2015)	\$ -	\$ 554,000
Series 2015 A (rate of 0.90% matured on May 13, 2016)	-	2,235,000
Series 2015 B (rate of 0.86% matured on May 13, 2016)	-	20,285,000
Series 2015 C (rate of 1.05% maturing on November 13, 2016)	1,460,000	-
Series 2016 A (rate of 1.05% maturing on May 12, 2017)	22,353,000	-
Total USDA-RD Interim Loan Program Bonds	\$ 23,813,000	\$ 23,074,000
Total	1,129,429,583	1,365,480,139
Add: Net unamortized premium	9,044,811	11,219,522
Total Bonds and Notes Payable	1,138,474,394	1,376,699,661
Less: Current portion	(240,894,414)	(258,414,666)
Noncurrent Portion of Bonds and Notes Payable	\$ 897,579,980	\$ 1,118,284,995

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(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 \$8,706,386 and \$13,005,708 at June 30, 2016 and 2015, respectively.

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 \$8,706,386 and \$13,005,708 at June 30, 2016 and 2015, 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, 2016.

Special Program Bonds

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

<u>Series</u>	<u>Eligible Amount</u>
Special Program Bonds, Series 2006 A Refunding	\$ 2,186,637
Special Program Bonds, Series 2006 B-2	1,259,641
Special Program Bonds, Series 2006 C	2,081,120
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
Advance Funding Program, Series 2016 A	6,607,800

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(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, 2016 and 2015.

At June 30, 2016, maturities of long-term debt and interest are as follows:

Fiscal Year Ending June 30	Principal	Interest
2017	\$ 240,894,414	\$ 37,085,130
2018	132,312,555	31,667,918
2019	117,292,968	27,630,756
2020	102,740,826	23,945,264
2021	94,259,580	20,301,916
2022-2026	328,014,224	50,339,713
2027-2031	94,595,285	63,619,623
2032-2036	19,319,731	263,900
	1,129,429,583	\$ 254,854,220
Add: Unamortized premium	9,044,811	
	<u>\$1,138,474,394</u>	

The Bond Bank issued \$56,435,000 of debt on behalf of seventeen not-for-profit qualified water utilities. At June 30, 2016 and 2015, the balance outstanding for these qualified water utilities totaled \$8,270,000 and \$10,025,000, 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, 2016 and 2015**

(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:

	2016
Bonds and notes payable - face amount	\$ 1,129,429,583
Less: Debt recorded which does not require reserve funds	876,950,090
Debt outstanding for statutory debt limit purposes at June 30	252,479,493
Available remaining debt limit for statutory purposes	747,520,507
Statutory debt limit	\$ 1,000,000,000

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.

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.

During fiscal year 2015, the Bond Bank issued Special Program Refunding Bonds Series 2015 A in the amount of \$20,079,823. The proceeds from the Special Program Refunding Bonds Series 2015 A issue plus funds on hand were used to refund Special Program Bonds Series 2003 C, 2003 F, and 2005 A and to partially refund Special Program Bonds Series 2006 B. The cash flow difference between the debt service on the Special Program Bond Series 2003 C, 2003 F, 2005 A, and 2006 B and the new debt was \$762,430 and the net present value savings were \$3,577,719.

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(5) Bonds and Notes Payable (Continued)

The total bonds considered to have been defeased and removed from the financial statements and in total have remaining outstanding principal balance of approximately \$40,555,000 and \$10,275,000 at June 30, 2016 and 2015, respectively.

Changes in the Bond Bank's long-term liabilities during fiscal years 2016 and 2015 are as follows:

<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>
<u>2015</u>					
Bonds and notes payable	\$ 1,577,423,118	\$ 190,412,216	\$ 391,135,673	\$ 1,376,699,661	\$ 258,414,666
Advances payable	486,077	-	482,552	3,525	-
Derivative instrument liability	12,288,000	-	1,453,000	10,835,000	-
Total	<u>\$ 1,590,197,195</u>	<u>\$ 190,412,216</u>	<u>\$ 393,071,225</u>	<u>\$ 1,387,538,186</u>	<u>\$ 258,414,666</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	Changes in Fair Value		Fair Value at June 30, 2016	Notional Amount
	Classification	Amount	Amount	
Pay-fixed interest rate swap - LIBOR Index Rate Bonds (B-1)	Deferred Outflow	\$ 1,104,000	\$ (4,470,000)	\$ 22,500,000
Pay-fixed interest rate swap - SIFMA Index Rate Bonds (B-2)	Deferred Outflow	621,000	(4,549,000)	15,690,000
Pay-fixed interest rate swap - CPI Index Rate Bonds (B-3) (matured during 2016)	Deferred Outflow	91,000		
		<u>\$ 1,816,000</u>	<u>\$ (9,019,000)</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, 2016 and 2015**

(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, 2016 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 \$4,470,000 at June 30, 2016. 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, 2016 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 \$4,549,000 at June 30, 2016. 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, 2016 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.

Terms for B-3 (CPI Index). Under the Swap Agreement, the Bond Bank paid interest to JPMorgan on the notional amount set forth in the CPI Index Swap agreement at the fixed interest rate of 1.40% on a notional amount of \$10,000,000. The swap's notional amount of \$10,000,000 at June 30, 2015 matched the variable rate bonds. The obligation began to bear interest on September 15, 2007, and each party was required to make payments, if any, to the other party under the 2007 Swap Agreement, on the 15th of each month. The Swap Agreement matured during October 2015.

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

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

Fair Value (CPI Index). Because interest rates had changed since execution of the Swap Agreement, the swap had a negative fair value of \$91,000 at June 30, 2015. The swap's negative fair value could 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 adjusted to changing interest rates, the bonds did not have a corresponding fair value decrease. The fair value was estimated using the current CPI Index for the swap payment due July 15, 2015. The method calculated the future net settlement payments required by the swap, assuming that the current CPI index reflects the fair value of the swap payments. These payments were then discounted using the current CPI index on the coupon due on the date of the future net settlement on the swap.

Credit Risk. As of June 30, 2016, 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.

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, 2016.

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, 2016, 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)

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2017	\$ -	\$ 308,250	\$ 756,000	\$ 1,064,250
2018	-	308,250	756,000	1,064,250
2019	-	308,250	756,000	1,064,250
2020	-	308,250	756,000	1,064,250
2021	-	308,250	756,000	1,064,250
2022	-	308,250	756,000	1,064,250
2023	22,500,000	308,250	756,000	1,064,250
Total	<u>\$ 22,500,000</u>	<u>\$ 2,157,750</u>	<u>\$ 5,292,000</u>	<u>\$ 7,449,750</u>

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

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

<u>Fiscal Year Ending June 30</u>	<u>Variable-Rate Bonds (B-2, SIFMA Index)</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2017	\$ -	\$ 164,431	\$ 588,689	\$ 753,120
2018	-	164,431	588,689	753,120
2019	-	164,431	588,689	753,120
2020	-	164,431	588,689	753,120
2021	-	164,431	588,689	753,120
2022	-	164,431	588,689	753,120
2023	15,690,000	164,431	588,689	753,120
Total	<u>\$ 15,690,000</u>	<u>\$ 1,151,017</u>	<u>\$ 4,120,823</u>	<u>\$ 5,271,840</u>

(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	\$ 244,910,274	23%
Hendricks	119,176,674	11%
Hamilton	95,443,684	9%

No other county has a concentration over 5% of the total qualified obligations receivable at June 30, 2016.

(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).

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(8) Employee Benefits (Continued)

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(8) Employee Benefits (Continued)

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.

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, 2015 and 2014; however, eligible members received a one-time check (a.k.a. 13th check) in September 2014 and 2013 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, 2013 and 2012, and who was entitled to receive a monthly benefit on July 1, 2014 and 2013.

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, 2016 and 2015**

(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, 2015

Liability valuation date – June 30, 2014 – Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2014 to June 30, 2015.

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

Experience study date – Period of 5 years ended June 30, 2011

Investment rate of return – 6.75%

COLA – 1.0%

Future salary increases, including inflation – 2.5% - 4.5%

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, 2016 and 2015**

(8) Employee Benefits (Continued)

	Target Asset Allocation	Geometric Basis Long- Term Expected Real Rate of Return
Public Equity	22.5%	6.0%
Private Equity	10.0%	7.7%
Fixed Income – ExInflation-Linked	22.0%	2.1%
Fixed Income – Inflation-Linked	10.0%	0.5%
Commodities	8.0%	2.5%
Real Estate	7.5%	3.9%
Absolute Return	10.0%	1.8%
Risk Parity	10.0%	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>\$261,343</u>	<u>\$177,171</u>	<u>\$107,294</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, 2016 and 2015**

(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 2015, 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 11.03% was required from employers during the period of July 1 – December 31, 2014, and an average contribution rate of 11.19% was required for the period of January 1 – June 30, 2015. 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 2015, 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, 2016 and 2015**

(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, 2016 and 2015, the Bond Bank reported a liability of \$177,171 and \$113,790, 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, 2015 and 2014 measurement date was 0.00435% and 0.00433%, respectively.

For the years ended June 30, 2016 and 2015, the Bond Bank recognized pension expense of \$24,705 and \$18,495, respectively, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$(3,283) and \$15,291, respectively. At June 30, 2016 and 2015, 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>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>

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(8) Employee Benefits (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2015</u>		
Differences between expected and actual experience		\$ 511
Net difference between projected and actual earnings on pension plan investments		22,114
Changes in proportion and differences between Bond Bank contributions and proportionate share of contributions	<u>\$ 969</u>	<u>14,119</u>
Total that will be recognized in pension expense based on table below	969	36,744
Pension contribution subsequent to measurement date	<u>24,268</u>	<u> </u>
Total	<u>\$25,237</u>	<u>\$36,744</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
2017	\$ (7,934)
2018	(7,934)
2019	(3,832)
2020	<u>(7,469)</u>
	<u>\$(27,169)</u>

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

**NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

(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, 2016:

Fiscal Year Ending June 30	Payments
2017	\$ 56,770
2018	57,926
2019	59,081
2020	65,046
2021 and thereafter	<u>141,328</u>
	<u>\$ 380,151</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 \$58,952 and \$53,804 for the years ended June 30, 2016 and 2015, respectively.

(10) Subsequent Events

Since July 1, 2016, the Bond Bank has closed seven (7) Hoosier Equipment Lease Purchase (HELP) program leases. These transactions provided \$12,354,213 in equipment financing assistance to seven local units of government.

On July 27, 2016, the Bond Bank issued \$12,170,000 of its Special Program Refunding Bonds, Series 2016 A (Fort Wayne Regional Public Safety Academy Project). This issue refunded the IBB's Special Program Bonds, Series 2006 C. The 2006 C bonds, totaling \$12,005,000, were fully redeemed on July 29, 2016.

The Bond Bank issued its Special Program Refunding Bonds, Series 2016 B (East Chicago Municipal Building Corporation First Mortgage Refunding Bonds) on October 6, 2016 in the amount of \$13,555,000. This issue refunded the previously outstanding \$13,480,000 of the IBB's Special Program Refunding Bonds, Series 2006 A, which were defeased on October 6, 2016 and will be fully redeemed on November 5, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

INDIANA BOND BANK

**SCHEDULE OF THE BOND BANK'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (UNAUDITED)**

**PUBLIC EMPLOYEES' RETIREMENT FUND
Last 10 Fiscal Years***

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Bond Bank's proportion of the net pension liability	0.00435%	0.00433%	0.00486%
Bond Bank's proportionate share of the net pension liability	\$ 177,171	\$ 113,790	\$ 166,459
Bond Bank's covered-employee payroll	\$ 216,680	\$ 211,582	\$ 233,338
Bond Bank's proportionate share of the net pension liability as a percentage of its covered-employee payroll	81.77%	53.78%	71.34%
Plan fiduciary net position as a percentage of the total pension liability	77.30%	84.30%	78.80%

*The effort and cost to re-create financial statement information for 10 years was not practical.
Information was prepared prospectively from June 30, 2013 for GASB Statement No. 68 purposes.

INDIANA BOND BANK

SCHEDULE OF THE BOND BANK'S CONTRIBUTIONS (UNAUDITED)

PUBLIC EMPLOYEES' RETIREMENT FUND Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 24,268	\$ 23,697	\$ 22,634
Contributions in relation to the contractually required contribution	<u>\$ 24,268</u>	<u>\$ 23,697</u>	<u>\$ 22,634</u>
Contribution deficiency	\$ -	\$ -	\$ -
Bond Bank's covered-employee payroll	\$ 216,680	\$ 211,582	\$ 233,338
Contributions as a percentage of covered-employee payroll	11.2%	11.2%	9.7%

*The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2013 for GASB Statement No. 68 purposes.

OTHER SUPPLEMENTARY INFORMATION

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

SUPPLEMENTAL SCHEDULE OF NET POSITION INFORMATION BY PROGRAM TYPE
June 30, 2016

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Budgeting Program	Qualified School Construction Bonds	USDA-RD Loans Program	Eliminations	Total
ASSETS											
Current assets:											
Cash and cash equivalents	\$ 12,521,388	\$ 10,210,572	\$ 14,574,575	\$ 187,712	\$ 22,171,034	\$ 1,922,248	\$ 244,292	\$ 1,640,804	\$ 27,005	\$ —	\$ 63,499,630
Qualified obligations receivable	19,912,146	72,797,514	—	28,661,232	37,648,652	18,860,000	—	5,987,000	23,695,267	—	207,561,811
Accrued interest receivable	4,275,858	380,746	—	1,583,300	1,866,923	1,880,100	—	1,065,000	58,334	—	11,110,261
Total Current Assets	<u>36,709,392</u>	<u>83,388,832</u>	<u>14,574,575</u>	<u>30,432,244</u>	<u>61,686,609</u>	<u>22,662,348</u>	<u>244,292</u>	<u>8,692,804</u>	<u>23,780,606</u>	<u>—</u>	<u>282,171,702</u>
Noncurrent assets:											
Guaranteed investment contracts	—	—	—	—	—	28,224,982	—	—	—	—	28,224,982
Qualified obligations receivable, net of current portion	317,274,875	—	—	42,387,714	264,149,004	158,620,588	—	86,784,116	—	—	869,216,297
Total Noncurrent Assets	<u>317,274,875</u>	<u>—</u>	<u>—</u>	<u>42,387,714</u>	<u>264,149,004</u>	<u>186,845,570</u>	<u>—</u>	<u>86,784,116</u>	<u>—</u>	<u>—</u>	<u>897,441,279</u>
Total Assets	<u>353,984,267</u>	<u>83,388,832</u>	<u>14,574,575</u>	<u>72,819,958</u>	<u>325,835,613</u>	<u>209,507,918</u>	<u>244,292</u>	<u>95,476,920</u>	<u>23,780,606</u>	<u>—</u>	<u>1,179,612,981</u>
DEFERRED OUTFLOWS OF RESOURCES											
Accumulated decrease in fair value of interest rate swaps											
	—	—	—	—	—	9,019,000	—	—	—	—	9,019,000
Deferred refunding costs	3,578,505	—	—	135,101	11,667,899	—	—	—	—	—	15,381,505
Pension	—	—	79,117	—	—	—	—	—	—	—	79,117
Total Deferred Outflows of Resources	<u>3,578,505</u>	<u>—</u>	<u>79,117</u>	<u>135,101</u>	<u>11,667,899</u>	<u>9,019,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>24,479,622</u>
LIABILITIES											
Current liabilities:											
Bonds and notes payable	21,695,143	82,394,271	—	29,205,000	58,665,000	18,860,000	—	6,262,000	23,813,000	—	240,894,414
Accrued interest payable	4,223,819	654,641	—	1,060,255	3,492,704	1,880,100	—	1,488,900	35,493	—	12,835,912
Funds held for qualified entities	—	—	—	—	—	30,355,457	—	—	—	—	30,355,457
Accounts payable	—	—	9,673	—	—	243,701	—	724,586	—	—	977,960
Total Current Liabilities	<u>25,918,962</u>	<u>83,048,912</u>	<u>9,673</u>	<u>30,265,255</u>	<u>62,157,704</u>	<u>51,339,258</u>	<u>—</u>	<u>8,475,486</u>	<u>23,848,493</u>	<u>—</u>	<u>285,063,743</u>
Noncurrent liabilities:											
Bonds and notes payable, net of current portion	331,959,433	—	—	42,674,999	276,564,418	159,375,395	—	87,005,735	—	—	897,579,980
Net pension liability	—	—	177,171	—	—	—	—	—	—	—	177,171
Advances payable	2,785	—	—	—	—	—	—	—	—	—	2,785
Derivative instrument liability	—	—	—	—	—	9,019,000	—	—	—	—	9,019,000
Total Noncurrent Liabilities	<u>331,962,218</u>	<u>—</u>	<u>177,171</u>	<u>42,674,999</u>	<u>276,564,418</u>	<u>168,394,395</u>	<u>—</u>	<u>87,005,735</u>	<u>—</u>	<u>—</u>	<u>906,778,936</u>
Total Liabilities	<u>357,881,180</u>	<u>83,048,912</u>	<u>186,844</u>	<u>72,940,254</u>	<u>338,722,122</u>	<u>219,733,653</u>	<u>—</u>	<u>95,481,221</u>	<u>23,848,493</u>	<u>—</u>	<u>1,191,842,679</u>
DEFERRED INFLOWS OF RESOURCES											
Pension											
	—	—	27,113	—	—	—	—	—	—	—	27,113
Total Deferred Inflows of Resources	<u>—</u>	<u>—</u>	<u>27,113</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>27,113</u>
NET POSITION											
Restricted for debt service	(318,408)	339,920	—	14,805	(1,218,610)	(1,206,735)	244,292	(4,301)	(67,887)	—	(2,216,924)
Unrestricted	—	—	14,439,735	—	—	—	—	—	—	—	14,439,735
Total Net Position	<u>\$ (318,408)</u>	<u>\$ 339,920</u>	<u>\$ 14,439,735</u>	<u>\$ 14,805</u>	<u>\$ (1,218,610)</u>	<u>\$ (1,206,735)</u>	<u>\$ 244,292</u>	<u>\$ (4,301)</u>	<u>\$ (67,887)</u>	<u>\$ —</u>	<u>\$ 12,222,811</u>

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

SUPPLEMENTAL SCHEDULE OF NET POSITION INFORMATION BY PROGRAM TYPE
June 30, 2015

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Budgeting Program	Qualified School Construction Bonds	USDA-RD Loans Program	Eliminations	Total
ASSETS											
Current assets:											
Cash and cash equivalents	\$ 17,934,590	\$ 15,374,552	\$ 14,691,058	\$ 131,326	\$ 56,985,095	\$ 1,808,303	\$ 16,897	\$ 1,685,614	\$ 203,127	\$ —	\$ 108,830,562
Qualified obligations receivable	23,975,564	73,643,957	—	31,371,921	36,391,131	17,670,000	—	8,875,000	22,852,000	—	214,779,573
Accrued interest receivable	5,690,999	298,311	—	2,224,300	3,584,347	2,012,000	—	1,231,838	34,301	—	15,076,096
Total Current Assets	47,601,153	89,316,820	14,691,058	33,727,547	96,960,573	21,490,303	16,897	11,792,452	23,089,428	—	338,686,231
Noncurrent assets:											
Guaranteed investment contracts	56,016	—	—	—	—	27,444,670	—	—	—	—	27,500,686
Qualified obligations receivable, net of current portion	393,808,912	—	—	71,436,634	327,096,887	177,688,666	—	93,109,576	—	—	1,063,140,675
Total Noncurrent Assets	393,864,928	—	—	71,436,634	327,096,887	205,133,336	—	93,109,576	—	—	1,090,641,361
Total Assets	441,466,081	89,316,820	14,691,058	105,164,181	424,057,460	226,623,639	16,897	104,902,028	23,089,428	—	1,429,327,592
DEFERRED OUTFLOWS OF RESOURCES											
Accumulated decrease in fair value of interest rate swaps											
	—	—	—	—	—	10,835,000	—	—	—	—	10,835,000
Deferred refunding costs	3,367,344	—	—	312,623	9,279,171	—	—	—	—	—	12,959,138
Pension	—	—	25,237	—	—	—	—	—	—	—	25,237
Total Deferred Outflows of Resources	3,367,344	—	25,237	312,623	9,279,171	10,835,000	—	—	—	—	23,819,375
LIABILITIES											
Current liabilities:											
Bonds and notes payable	25,592,411	88,368,255	—	32,165,000	62,400,000	17,670,000	—	9,145,000	23,074,000	—	258,414,666
Accrued interest payable	5,722,127	673,817	—	1,417,000	6,394,876	2,012,000	—	1,573,500	15,151	—	17,808,471
Funds held for qualified entities	4,201,916	—	—	—	—	29,380,433	—	—	—	—	33,582,349
Accounts payable	—	—	73,918	—	228,403	243,701	—	847,494	—	—	1,393,516
Total Current Liabilities	35,516,454	89,042,072	73,918	33,582,000	69,023,279	49,306,134	—	11,565,994	23,089,151	—	311,199,002
Noncurrent liabilities:											
Bonds and notes payable, net of current portion	409,595,723	—	—	71,879,999	364,791,221	178,677,717	—	93,340,335	—	—	1,118,284,995
Net pension liability	—	—	113,790	—	—	—	—	—	—	—	113,790
Advances payable	3,525	—	—	—	—	—	—	—	—	—	3,525
Derivative instrument liability	—	—	—	—	—	10,835,000	—	—	—	—	10,835,000
Total Noncurrent Liabilities	409,599,248	—	113,790	71,879,999	364,791,221	189,512,717	—	93,340,335	—	—	1,129,237,310
Total Liabilities	445,115,702	89,042,072	187,708	105,461,999	433,814,500	238,818,851	—	104,906,329	23,089,151	—	1,440,436,312
DEFERRED INFLOWS OF RESOURCES											
Pension	—	—	36,744	—	—	—	—	—	—	—	36,744
Total Deferred Inflows of Resources	—	—	36,744	—	—	—	—	—	—	—	36,744
NET POSITION											
Restricted for debt service	(282,277)	274,748	—	14,805	(477,869)	(1,360,212)	16,897	(4,301)	277	—	(1,817,932)
Unrestricted	—	—	14,491,843	—	—	—	—	—	—	—	14,491,843
Total Net Position	\$ (282,277)	\$ 274,748	\$ 14,491,843	\$ 14,805	\$ (477,869)	\$ (1,360,212)	\$ 16,897	\$ (4,301)	\$ 277	\$ —	\$ 12,673,911

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

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION BY PROGRAM TYPE
Year Ended June 30, 2016

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Budgeting Program	Qualified School Construction Bonds	USDA-RD Loans Program	Total
OPERATING REVENUES										
Interest income	\$ 16,389,050	\$ 817,594	\$ —	\$ 3,123,504	\$ 12,867,165	\$ 9,001,111	\$ 71	\$ 3,273,922	\$ 456,854	\$ 45,929,271
Acceptance and administration fees	—	—	632,499	—	—	—	496,277	—	—	1,128,776
Total Operating Revenues	<u>16,389,050</u>	<u>817,594</u>	<u>632,499</u>	<u>3,123,504</u>	<u>12,867,165</u>	<u>9,001,111</u>	<u>496,348</u>	<u>3,273,922</u>	<u>456,854</u>	<u>47,058,047</u>
OPERATING EXPENSES										
Interest	16,061,805	378,470	—	3,082,554	11,240,246	8,816,052	268,953	3,264,445	215,172	43,327,697
Debt issuance costs	307,159	523,578	—	—	2,038,363	—	—	—	314,232	3,183,332
General and administrative	45,858	9,251	991,153	40,950	24,509	31,582	—	9,477	4,502	1,157,282
Total Operating Expenses	<u>16,414,822</u>	<u>911,299</u>	<u>991,153</u>	<u>3,123,504</u>	<u>13,303,118</u>	<u>8,847,634</u>	<u>268,953</u>	<u>3,273,922</u>	<u>533,906</u>	<u>47,668,311</u>
Operating Income (Loss)	(25,772)	(93,705)	(358,654)	—	(435,953)	153,477	227,395	—	(77,052)	(610,264)
NONOPERATING REVENUES										
Interest income on investments	—	—	159,164	—	—	—	—	—	—	159,164
Change in Net Position Before Transfers	(25,772)	(93,705)	(199,490)	—	(435,953)	153,477	227,395	—	(77,052)	(451,100)
Transfers	(10,359)	158,877	147,382	—	(304,788)	—	—	—	8,888	—
CHANGE IN NET POSITION	<u>\$ (36,131)</u>	<u>\$ 65,172</u>	<u>\$ (52,108)</u>	<u>\$ —</u>	<u>\$ (740,741)</u>	<u>\$ 153,477</u>	<u>\$ 227,395</u>	<u>\$ —</u>	<u>\$ (68,164)</u>	<u>\$ (451,100)</u>

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

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION BY PROGRAM TYPE
Year Ended June 30, 2015

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Budgeting Program	Qualified School Construction Bonds	USDA-RD Loans Program	Total
OPERATING REVENUES										
Interest income	\$ 19,386,953	\$ 829,537	\$ —	\$ 4,410,673	\$ 21,193,467	\$ 9,837,646	\$ —	\$ 3,417,951	\$ 34,324	\$ 59,110,551
Acceptance and administration fees	—	—	430,604	—	—	—	280,249	—	—	710,853
Total Operating Revenues	<u>19,386,953</u>	<u>829,537</u>	<u>430,604</u>	<u>4,410,673</u>	<u>21,193,467</u>	<u>9,837,646</u>	<u>280,249</u>	<u>3,417,951</u>	<u>34,324</u>	<u>59,821,404</u>
OPERATING EXPENSES										
Interest	18,275,203	322,225	—	4,366,291	20,182,956	9,579,746	346,386	3,406,797	15,151	56,494,755
Debt issuance costs	350,725	587,855	—	—	—	—	—	—	38,146	976,726
General and administrative	40,342	10,150	1,524,675	44,350	80,188	54,659	—	11,154	750	1,766,268
Total Operating Expenses	<u>18,666,270</u>	<u>920,230</u>	<u>1,524,675</u>	<u>4,410,641</u>	<u>20,263,144</u>	<u>9,634,405</u>	<u>346,386</u>	<u>3,417,951</u>	<u>54,047</u>	<u>59,237,749</u>
Operating Income (Loss)	720,683	(90,693)	(1,094,071)	32	930,323	203,241	(66,137)	—	(19,723)	583,655
NONOPERATING REVENUES										
Interest income on investments	—	—	198,461	—	—	—	—	—	—	198,461
Change in Net Position Before Transfers	720,683	(90,693)	(895,610)	32	930,323	203,241	(66,137)	—	(19,723)	782,116
Transfers	—	84,723	(50,673)	(485)	(53,565)	—	—	—	20,000	—
CHANGE IN NET POSITION	<u>\$ 720,683</u>	<u>\$ (5,970)</u>	<u>\$ (946,283)</u>	<u>\$ (453)</u>	<u>\$ 876,758</u>	<u>\$ 203,241</u>	<u>\$ (66,137)</u>	<u>\$ —</u>	<u>\$ 277</u>	<u>\$ 782,116</u>

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*

Years Ended June 30, 2016 and 2015

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, 2016, 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 13, 2016.

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 13, 2016