

# **HoosierFund**

Independent Auditor's Reports and Financial Statements

December 31, 2016

**HoosierFund**  
**December 31, 2016**

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## Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Representatives and Participants  
HoosierFund  
Indianapolis, Indiana

### Report on the Financial Statements

We have audited the accompanying basic financial statements of HoosierFund, which are comprised of a statement of net position as of December 31, 2016, and a statement of changes in net position and the related notes to the basic financial statements for the year ended December 31, 2016, as listed in the table of contents.

### *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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit 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 auditor's 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 auditor considers 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 financial position of HoosierFund as of December 31, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017, on our consideration of HoosierFund's internal control over financial reporting and 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 the 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 HoosierFund's internal control over financial reporting and compliance.

**BKD, LLP**

Indianapolis, Indiana  
March 20, 2017

**HoosierFund**  
**Statement of Net Position**  
**December 31, 2016**

	<b>Par Value</b>	<b>2016</b>
<b>Assets</b>		
Cash		\$ 94,740,454
Cash Equivalents		
Money Market Mutual Funds		
Fidelity Institutional Money Market Funds	\$ 7,468,287	7,468,287
U.S. Government-Sponsored Enterprise Securities		
Federal National Mortgage Association	10,000,000	\$ 10,000,100
Federal National Mortgage Association	15,300,000	<u>15,178,977</u>
Total Federal National Mortgage Association		25,179,077
Federal Home Loan Mortgage Association	10,000,000	9,827,800
Federal Farm Credit Bank	10,000,000	9,866,200
Other Assets - interest receivable		<u>290,507</u>
Total Assets		<u><u>147,372,325</u></u>
<b>Liabilities</b>		
Distribution and investment payable		60,547
Accrued expenses		<u>28,616</u>
Total Liabilities		<u><u>89,163</u></u>
<b>Net Position - unrestricted</b>		<u><u>\$ 147,283,162</u></u>

# HoosierFund

## Statement of Changes in Net Position For the Year Ended December 31, 2016

	<u>2016</u>
<b>Investment Income</b>	
Interest income	\$ 1,481,185
Realized and unrealized losses	(151,076)
Total investment income	<u>1,330,109</u>
<b>Expenses</b>	
Administrative fees, portfolio management fees, marketing expenses and custodial, transfer agent and fund accounting fees	663,761
Accrued administrative fees	28,616
Total expenses	<u>692,377</u>
<b>Net Investment Gain</b>	637,732
<b>Capital Transactions</b>	
Contributions	82,872,863
Withdrawals	<u>(193,450,738)</u>
<b>Decrease in Net Position</b>	(109,940,143)
<b>Net Position - Unrestricted, Beginning of Year</b>	<u>257,223,305</u>
<b>Net Position - Unrestricted, End of Year</b>	<u>\$ 147,283,162</u>

# HoosierFund

## Notes to Financial Statements

### December 31, 2016

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

HoosierFund was established in October 2006 pursuant to Indiana Code §36-1-7, the *Interlocal Cooperation Act*, and commenced operations April 1, 2009, and is governed by a Board of Representatives made up of representatives from each Participant. HoosierFund provides a voluntary investment pool for political subdivisions or other legislatively created quasi-governmental entities or bodies corporate and politic (collectively, Participants). HoosierFund invests Participants' funds in a legal, prudent and suitable fashion, maintaining safety of principal, allowing daily liquidity, providing competitive interest rates and delivering a high level of service.

HoosierFund's portfolio follows the investment criteria set forth in Indiana Code §5-13-9.

##### ***Measurement Focus and Basis of Accounting and Presentation***

HoosierFund prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. HoosierFund is reported as a special-purpose government and the accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

##### ***Use of Estimates***

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

##### ***Cash and Cash Equivalents***

Cash is held in various financial institutions in depository accounts. HoosierFund considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016, cash equivalents consisted completely of money market mutual funds, which are reported at amortized cost. HoosierFund's money market mutual funds do not have significant limitations or restrictions on withdrawals.

# **HoosierFund**

## **Notes to Financial Statements**

### **December 31, 2016**

#### ***Investments and Investment Income***

Investments are carried at fair value as calculated on a daily basis. Fair value is determined from the bid and ask prices for securities as quoted in The Wall Street Journal (Eastern Edition) or by an independent nationally recognized pricing service. Securities not quoted in The Wall Street Journal or by an independent nationally recognized pricing service are valued by taking a bid quote from one primary dealer making a market in such securities, or if there is no primary dealer in such securities, by such other reasonable method as the Program Administrator shall determine.

As an alternative to determining the fair value pursuant to the foregoing paragraph, the fair value of all or a portion of the securities may be determined using the matrix method. Matrix pricing involves grouping securities into a matrix by type, maturity and short-term credit rating. A primary dealer who makes markets in those securities will provide the bid side prices for the matrix.

Security transactions are recorded on a settlement-date basis. Interest income is recorded on the accrual basis.

#### ***Operating Revenues and Expenses***

As a special-purpose government, HoosierFund distinguishes operating revenues and expense from nonoperating items. Operating revenues and expenses generally arise from providing services in connection with the principal ongoing operations. HoosierFund's principal operating revenue is investment income and its principal expenses are administrative fees. All revenues and expenses not meeting this definition are reported as nonoperating or capital transactions.

#### ***Unit Issues, Redemptions and Distributions***

HoosierFund determines the net asset value of each participant daily. Units are issued and redeemed at \$1.00 per unit. Investment income for each portfolio is reinvested when received.

#### ***Fees and Expenses***

CRF Financial Group, Inc. has been appointed by the Participants as the Program Administrator. Likewise, CRF Financial Group, Inc. serves as the Investment Advisor for HoosierFund. Under separate agreements, the Program Administrator and US Bank (custodian) are paid annual fees for operating the investment program. For the performance of its obligations under the Interlocal Agreement, the Program Administrator can charge a fee up to a 50 basis points (0.50%) of the Investment Property Value. This fee accrues on a daily basis and is paid semi-monthly.



**HoosierFund**  
**Notes to Financial Statements**  
**December 31, 2016**

***Pronouncements Adopted***

During 2016, HoosierFund adopted and implemented GASB Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The implementation of GASB No. 72 and No. 79 did not impact net position or the change in net position of HoosierFund as of or for the year ended December 31, 2016.

**Note 2: Deposits, Investments and Investment Return**

As of December 31, 2016, HoosierFund had the following cash deposits and investments:

	<b>2016</b>
Cash	\$ 94,740,454
Money market mutual funds	7,468,287
U.S. Government-Sponsored Enterprise securities	44,873,077
	<b>\$ 147,081,818</b>

Deposits and investments included in the statement of net position at December 31, 2016 are as follows:

	<b>2016</b>
Carrying value	
Deposits	\$ 94,740,454
Investments	52,341,364
	<b>\$ 147,081,818</b>

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure, HoosierFund's deposits may not be returned to it. HoosierFund's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Any cash deposits in excess of the \$250,000 Federal Deposit Insurance Corporation (FDIC) limits are partially or fully collateralized by an approved depository institution and insured by the Indiana Public Deposits Insurance Fund (Fund) via the pledged collateral from the institutions securing deposits of public funds. The Fund is a multiple financial institution collateral pool as provided under Indiana Code, Section 5-13-12-1.

# HoosierFund

## Notes to Financial Statements

### December 31, 2016

#### **Investments**

Indiana statutes generally authorize HoosierFund to invest in United States obligations and issues of federal agencies, Indiana municipal securities, secured repurchase agreements fully collateralized by U.S. Government or U.S. Government agency securities, certificates of deposit, and open end money market mutual funds pursuant to Indiana Code §5-13-9. It is HoosierFund’s policy to not invest in any “new issue” municipal bonds that are issued by an entity whose representative has been elected as an officer of HoosierFund. However, HoosierFund’s investment policy permits the purchase of municipal bonds in the secondary market of an entity whose assigned representative is an officer of HoosierFund.

At December 31, 2016, HoosierFund had the following investments and maturities:

	Carrying Value	Maturity in Years	
		Less Than 1	1 - 5
Money market mutual funds	\$ 7,468,287	\$ 7,468,287	\$ -
U.S. Government-Sponsored Enterprise securities	44,873,077	-	44,873,077
	<u>\$ 52,341,364</u>	<u>\$ 7,468,287</u>	<u>\$ 44,873,077</u>

#### **Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, HoosierFund is limited to investing in municipal securities of Indiana issuers that have not defaulted within the previous 20 years and other securities with a stated maturity of not more than five years after the date of purchase or entry into a repurchase agreement, as defined by HoosierFund’s investment policy and Indiana Code § 5-13-9-5.6. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

#### **Credit Risk**

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. HoosierFund’s investment policy for credit risk requires compliance with the provisions of Indiana statutes. Indiana Code Section 5-13-9-2.5 requires that HoosierFund’s investments in money market mutual funds be rated AAA by Standard and Poor’s or Aaa by Moody’s Investor’s Service. HoosierFund maintains a policy that limits its investments in State of Indiana municipal bonds to those rated A or better by one of the three nationally recognized rating services.

# HoosierFund

## Notes to Financial Statements

### December 31, 2016

At December 31, 2016, HoosierFund's investments were rated by Moody's Investors Service and Standard & Poor's as follows:

	Moody's Investors Service					
	Carrying Value	Aaa	Aa	A	Baa	Not Rated
Money market mutual funds	\$ 7,468,287	\$ 7,468,287	\$ -	\$ -	\$ -	\$ -
U.S. Government-Sponsored Enterprise securities	44,873,077	44,873,077	-	-	-	-
	\$ 52,341,364	\$ 52,341,364	\$ -	\$ -	\$ -	\$ -

  

	Standard & Poor's					
	Carrying Value	AAA	AA	A	BBB	Not Rated
Money market mutual funds	\$ 7,468,287	\$ 7,468,287	\$ -	\$ -	\$ -	\$ -
U.S. Government-Sponsored Enterprise securities	44,873,077	-	44,873,077	-	-	-
	\$ 52,341,364	\$ 7,468,287	\$ 44,873,077	\$ -	\$ -	\$ -

### ***Custodial Credit Risk***

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, HoosierFund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2016, HoosierFund's investments were not exposed to custodial credit risk. HoosierFund's investments in U.S. Government-Sponsored Enterprises are held by the pledging financial institution's trust department or agent in HoosierFund's name. The existence of HoosierFund's investment in money market mutual funds is not evidenced by securities that exist in physical or book entry form.

### ***Concentration of Credit Risk***

HoosierFund places no limit on the amount that may be invested in any one issuer. More than 5% of HoosierFund's investments are in government-sponsored enterprises. These investments are 86% of HoosierFund's total investments and 31% of the total portfolio.

### ***Foreign Currency Risk***

Foreign currency risk relates to adverse effects on the fair value of an investment from changes in exchange rates. HoosierFund's investment policy prohibits investments in foreign investments. HoosierFund had no investments denominated in foreign currency at December 31, 2016.

**HoosierFund**  
**Notes to Financial Statements**  
**December 31, 2016**

**Note 3: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

**Recurring Measurements**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
U.S. Government-Sponsored Enterprise securities	\$ 44,873,077	\$ -	\$ 44,873,077	\$ -
Total investments by fair value level	44,873,077	\$ -	\$ 44,873,077	\$ -
<b>Investment measured at amortized cost</b>	<u>7,468,287</u>			
Total investments	<u>\$ 52,341,364</u>			

**HoosierFund**  
**Notes to Financial Statements**  
**December 31, 2016**

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

**Note 4: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Deposits and Investments***

Approximately 41% of HoosierFund's net deposits and investments were attributable to two Participants' accounts at December 31, 2016.

**Note 5: Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

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

Board of Representatives and Participants  
HoosierFund  
Indianapolis, Indiana

We have audited, in accordance with 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 basic financial statements of HoosierFund, which comprise the statement of net position as of December 31, 2016, and the related statement of changes in net position for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 20, 2017.

***Internal Control Over Financial Reporting***

Management of HoosierFund is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered HoosierFund's 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 HoosierFund's internal control. Accordingly, we do not express an opinion on the effectiveness of HoosierFund'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 HoosierFund'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 HoosierFund'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 HoosierFund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Indianapolis, Indiana  
March 20, 2017