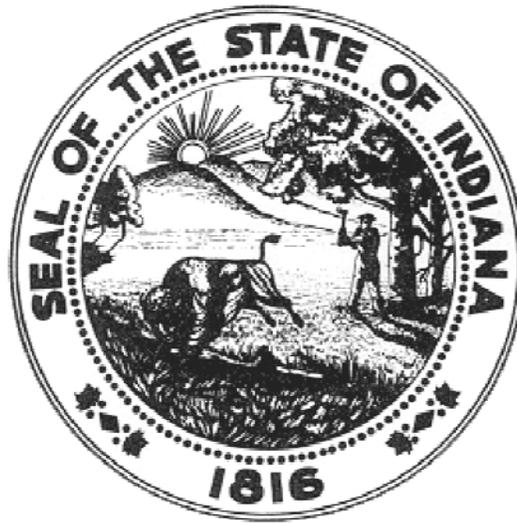


STATE OF INDIANA

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011**

Mitchell E. Daniels, Jr., Governor



Prepared by:

The Office of the Auditor of State

Tim Berry

Auditor of State

Room 240

State House

Indianapolis, Indiana 46204

Acknowledgments

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We extend special thanks to Stacey Halvorsen, CPA, and all employees of State agencies throughout Indiana. Your cooperation and assistance in the preparation of this Comprehensive Annual Financial Report has been invaluable.

Please visit our web site at www.in.gov/auditor/

Elected Indiana's 54th State Auditor in November of 2006, taking office January 1, 2007, Tim Berry serves as the Chief Financial Officer for the State of Indiana. Auditor Berry is a committed fiscal conservative who keeps taxpayers first in recognizing that they deserve a government that is equipped to do more with less. As Allen County treasurer, Berry cut budget expenditures to the lowest cost per capita of any Treasurer in Indiana. During his tenure as State Treasurer, Tim returned 12% of his budget appropriation back to the state general fund. Since taking office as State Auditor, he has cut office expenditures 17% to levels consistent with year 2000 spending.

Under the leadership of Tim Berry, in late fall of 2009 Indiana successfully implemented a fully integrated financial system – the first of its kind for all of Indiana government, providing more efficient and transparent government. Additionally, Indiana's annual financial reports have received the Certificate of Achievement for Excellence in Financial Reporting – the highest standard available - from the Government Finance Officers Association each year of Berry's tenure as State Auditor. Berry's initiatives in financial education and literacy have earned him recognition from the National Association of Government Defined Contribution plans. During his inauguration speech Berry said, "As Auditor we won't often make headlines, but we will continue to listen – continue to lead – continue to make a difference for all Hoosiers". This system transformed the ability of the public to see how their money is being spent through the Indiana Transparency Portal, which can be found at www.in.gov/itp. People can view items as diverse as employee salaries and local government financial records.

Prior to his election as State Auditor, Tim served two terms as Indiana's Treasurer. In that role, Berry earned a record \$1.7 billion for Hoosier taxpayers through the prudent investment of state dollars. Berry led the effort to obtain favorable legislation providing tax incentives for families saving for college through the CollegeChoice 529 plan. Through this 20% tax credit on contributions, more families will be financially prepared to meet the cost of higher education. Through his leadership as chair of the Wireless 911 Advisory Board, Indiana was recognized as a national leader for wireless 911 network technology.

Tim Berry's leadership has been recognized by many in Indiana and across the country. Berry was awarded the 2005 Jesse Unruh award, given to the nation's most outstanding state treasurer. Additionally, he was presented the 2003 Presidential Award of Excellence by the Association of Public Safety Officials, and the recipient of the American Heart Association's "Heartsaver Award". Berry served as President of the National Association of State Treasurers and Chair of the National College Savings Plans Network. His efforts led to recognition by the State of Israel Bonds in 2003 and the Indianapolis Business Journal recognized Tim with their "40 under 40" designation in 2000.



Tim Berry
Indiana Auditor of State

Tim and his wife Kim are both Fort Wayne natives and the parents of two sons, Ian a student at Cathedral High School and Colin a 5th grader in Lawrence Township school district. Kim serves as the state director for the Arthritis Foundation. Tim holds a degree in Business Administration from Bowling Green State University, and a MBA from Indiana University. A “hockey dad and lacrosse coach”, Tim is active in many organizations within the community.

**AUDITORS OF STATE
Of THE STATE OF INDIANA**

Term	Name	Politics
1816-1828	William H. Lilley	Party Unknown
1828-1829	Benjamin I. Blythe	Party Unknown
1829-1844	Morris Morris	Party Unknown
1844-1847	Horatio J. Harris	Party Unknown
1847-1850	Douglas Maguire	Whig
1850-1853	Erastus W. H. Ellis	Democrat
1853-1855	John P. Dunn	Democrat
1855-1857	Hiram E. Talbot	Fusion-"peoples"
1857-1861	John W. Dodd	Democrat
1861-1863	Albert Lange	Republican
1863-1865	Joseph Ristine	Democratic Union
1865-1869	Thomas P. McCarthy	Republican
1869-1871	John D. Evans	Republican
1871-1873	John C. Shoemaker	Democrat
1873-1875	James A. Wilder	Republican
1875-1879	Ebenezer Henderson	Democrat
1879-1881	Mahlon D. Manson	Democrat
1881-1883	Edward H. Wolfe	Republican
1885-1887	James H. Rice	Democrat
1887-1891	Bruce Carr	Republican
1891-1895	John O. Henderson	Democrat
1895-1899	Americus C. Daily	Republican
1899-1903	William H. Hart	Republican
1903-1905	David E. Sherrick	Republican
1905-1906	Warren Bigler	Republican
1906-1910	John C. Billheimer	Republican
1910-1914	William H. O'Brien	Democrat
1914-1916	Dale J. Crittenberger	Democrat
1916-1920	Otto Clauss	Republican
1920-1922	William G. Oliver	Republican
1922-1924	Robert Bracken	Democrat
1924-1928	Lewis S. Bowman	Republican
1928-1930	Arch N. Bobbit	Republican
1930-1934	Floyd E. Williamson	Democrat
1934-1938	Laurence F. Sullivan	Democrat
1938-1940	Frank G. Thompson	Democrat
1940-1944	Richard T. James	Republican
1944-1948	Alvin V. Burch	Republican
1948-1950	James M. Propst	Democrat
1950-1954	Frank T. Millis	Republican
1954-1956	Curtis E. Rardin	Republican
1956-1958	Roy T. Combs	Republican
1958-1960	Albert A. Steinwedel	Democrat
1960-1964	Dorothy Gardner	Republican
1964-1966	Mark L. France	Democrat
1966-1968	John P. Gallagher	Republican
1968-1970	Trudy Slaby Etherton	Republican
1970-1978	Mary Aikins Currie	Democrat
1978-1982	Charles D. Loos	Republican
1982-1986	Otis E. Cox	Democrat
1986-1994	Ann G. DeVore	Republican
1994-1998	Morris Wooden	Republican
1999-2006	Connie K. Nass	Republican
2007-	Tim Berry	Republican

STATE OF INDIANA

Comprehensive Annual Financial Report For the Year Ended June 30, 2011

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INTRODUCTORY SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

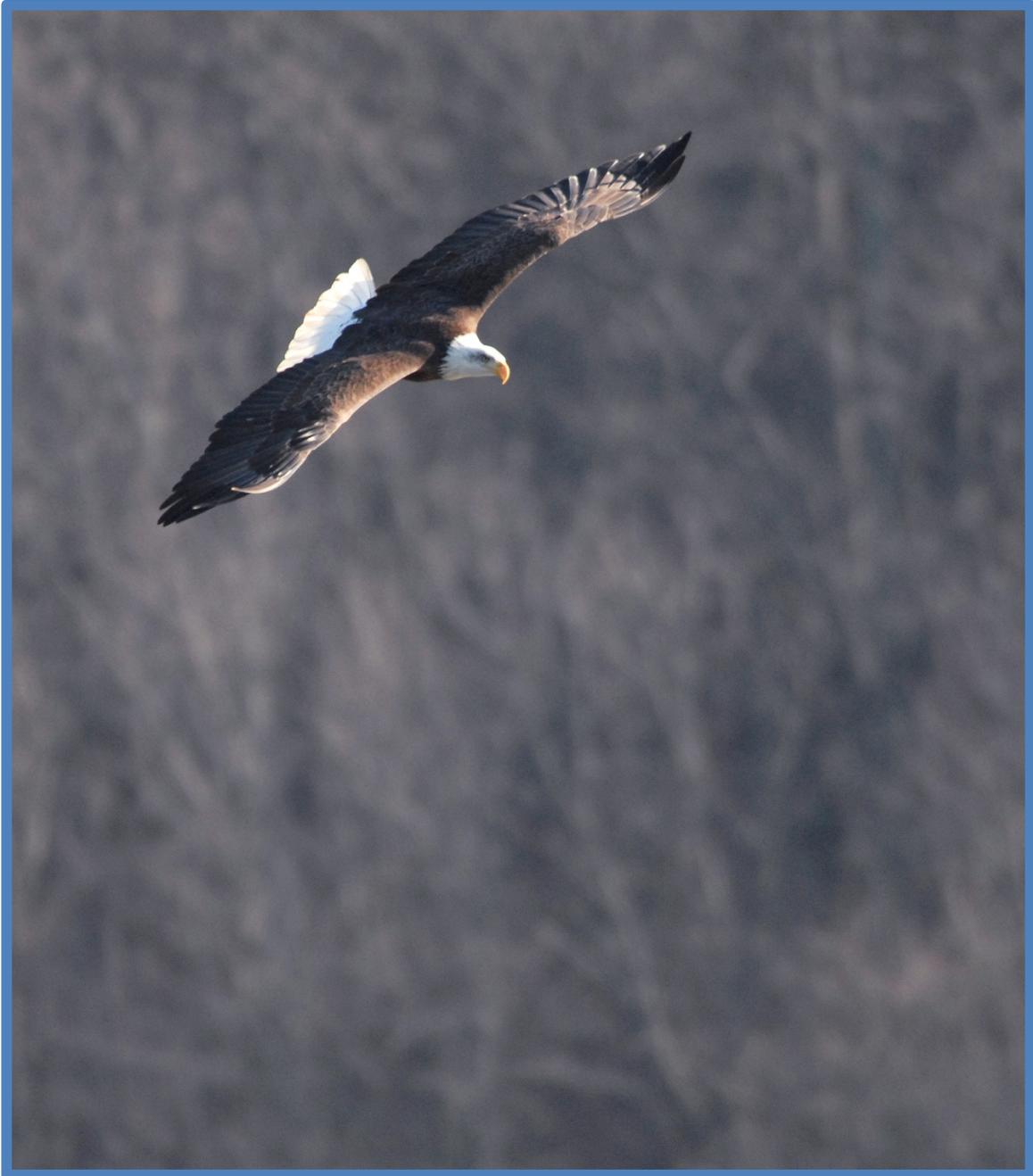


Photo provided by Outdoor Indiana Magazine,
Indiana Department of Natural Resources

Bald eagle fishing over Starve Hollow Lake in Jackson County.





AUDITOR OF STATE

Tim Berry

Telephone (317)232-3300
Facsimile (317)232-6097
<http://www.in.gov/auditor>

December 29, 2011

Governor,
Members of the General Assembly,
Citizens of the State of Indiana:

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2011.

This Comprehensive Annual Financial Report has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. While management remains primarily and ultimately responsible for the contents and presentation of this report, responsibility for both the accuracy of the data presented and completeness and fairness of the presentation rests with the State agencies that provide the data and are obligated to verify postings. We believe the information set forth in this report is accurate in all aspects and is presented in a manner designed to set forth the financial position and results of operations of the State as measured by the financial activity of its various funds.

State statute requires an annual audit by the Indiana State Board of Accounts. The Board is considered by federal and State government to be independent auditors. The Independent Auditor's Report on the financial statements is included in the financial section of this report and in the Statewide Single Audit Report of the State of Indiana.

The State is responsible for ensuring that an adequate internal control structure is in place to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized user disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires management to make estimates and judgments.

This internal control structure is subject to periodic evaluation by management and internal audit staff of the various State agencies. As part of the Single Audit, tests are made to determine the adequacy of the internal control structure related to federal financial assistance programs, as well as to determine that the State of Indiana has complied with applicable laws and regulations.

The State has adopted GASB Statement No. 34 as required by Generally Accepted Accounting Principles. GASB 34 provides for two types of statements, government-wide and fund statements. The government-wide statements are very similar to the private sector's statements, using the full accrual basis of accounting and the economic resources measurement focus. The governmental funds financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. In the government-wide statements, infrastructure (roads, bridges, dams) has been capitalized. Capital assets, except for infrastructure using the modified approach, are depreciated like the private sector.

GASB Statement No. 34 provides for the presentation of Management's Discussion and Analysis (MD&A) in the Financial Section. The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities. It is presented before the basic financial statements. We encourage you to read it to get an in-depth analysis of the State of Indiana's finances.

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing state and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,483,802 which makes Indiana the nation's 15th largest State. The State is 78.4% urban and 21.6% rural. The five largest cities are Indianapolis, the capital, Fort Wayne, Evansville, South Bend and Hammond.

Indiana became the 19th State of the Union on December 11, 1816. The State Constitution establishes the government in three separate departments: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100 member House of Representatives and a 50 member Senate. The Indiana General Assembly has the power to enact laws which are not prohibited by the State Constitution and not in conflict with Federal laws and powers. The executive power of the State is vested with the Governor. The State Constitution and legislation establish the following Statewide elected administrative officials: Lieutenant Governor, Auditor of State, Secretary of State, Treasurer of State, Attorney General, and the Superintendent of Public Instruction. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 313 Trial Courts (including Circuit Courts), and one Tax Court.

The State government provides a wide range of services to the citizens of Indiana, including education, transportation, public health, public safety, welfare, conservation, and economic development.

This report includes the financial activities and balances of the State of Indiana and its component units. The component units are legally separate entities for which the State of Indiana has financial responsibility and include State funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Indiana. More information on the financial reporting entity can be found in Note I(A) in the notes to the financial statements.

The Indiana General Assembly meets every other year to adopt a biennial budget, which is submitted by the Governor. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated funding sources. Budgetary control is exercised in that agencies of the State may only expend appropriations as allotted by the Budget Agency or other statutory authority. The State Board of Finance, which consists of the Governor, Auditor of State, and Treasurer of State, is empowered to transfer appropriations from one agency of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign and reassign appropriations made for one specific purpose to another use or purpose within the same agency.

Factors Affecting Economic and Financial Conditions

The information presented in the financial statements is better understood within the context of the specific environment within which the State of Indiana operates. The following describes that environment.

Local Economy

With a 2010 Gross Domestic Product of \$275.7 billion, Indiana's economy ranked 16th largest in the U.S. in terms of the value of goods and services. In 2009, Indiana ranked 2nd among the fifty states in terms of the value of primary metals production. Indiana also ranked 2nd in the value of motor vehicle manufacturing, 4th in chemical manufacturing, 9th in the value of fabricated metal products, and 10th in the production of manufacturing machinery. According to published U.S. Bureau of Economic Analysis data, Indiana ranked 7th in 2009 in terms of the value of total manufactured goods.

In 2010, the manufacturing sector accounted for 16.5% of the jobs in Indiana compared to 20.8% in 2002. The share of employment accounted for by the health care and social services sector increased from 11.5% in 2002 to 14.2% in 2010. Between 2006 and 2010, per capita personal income increased at an average annual rate of 1.1%. In 2010, the State's unemployment rate averaged 10.2%.

Cash Management and Investments

Cash temporarily idle during the year was invested in deposit accounts, obligations of the U.S. Treasury and U.S. Agencies, money market mutual funds, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(D)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 0.30%. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and State depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is \$12.6 billion at June 30, 2011.

Financial Policies

In 2005, Governor Daniels created the Office of Management and Budget (OMB) as an umbrella organization to better coordinate the State's financial policies. The OMB consists of the Department of Government Efficiency and Financial Planning, the Department of Local Government Finance, the Department of Revenue, the State Board of Accounts, the State Budget Agency, the Indiana Public Retirement System, and the Indiana Finance Authority.

In June 2011, Indiana closed the books with more than \$1,181 million in reserves, and a balanced budget in both FY 2012 and FY 2013. Reducing general fund spending has enabled Indiana to not only maintain a prudent level of reserves, but also repay debts to local government, schools, and universities, which at their peak in FY 2005, totaled over \$750 million. One-time revenues, such as those generated by the Tax Amnesty program several years ago, have been used to repay one-time debt rather than being built into revenue forecasts to support on-going expenditures.

Indiana is one of nine states that has the highest credit rating assigned by all three independent credit rating agencies: Fitch, Moody's, and Standard & Poor's Ratings Service (S&P).

At the time of the upgrade by S&P, their report noted that the administration has made significant financial management changes and strengthened budgeting practices. S&P cited four areas in issuing the AAA credit rating: a stable and diversifying economic base despite continued manufacturing concentration, a conservative biennial budget that will add to the fund balance by the end of the biennium, property tax reform that has clarified the state's financial responsibilities, and low overall debt levels.

Long-Term Financial Planning

The Indiana Finance Authority is charged with developing, implementing, maintaining and monitoring a debt management plan for all non-conduit debt or debt-related obligations issued by State Issuers. This plan is intended to provide guidance in the structuring, sale, monitoring, and post-issuance compliance for all State-related debt.

The State of Indiana launched a new statewide accounting system in September 2009. The transition to the new system included a significant enhancement of internal controls, the implementation of a uniform chart of accounts, and the conversion of all financial data from the prior system into the new system. In addition to a successful go-live in September 2009, the state had a timely closing of the books in July 2010 and 2011.

The OMB continues to make modifications and improvements to the capital budgeting process to provide a more comprehensive analysis of the State's capital assets and corresponding budgetary needs to maintain existing infrastructure. Comprehensive, 10-year master plans are being developed and/or updated for all State facilities that consist of detailed information on each facility, including use, square footage, systems information, replacement reserve schedules, preventive maintenance, renovations, new construction, and how all of this aligns with available resources.

In 2008, the Pew Center on the States and *Governing* magazine released a report from the Government Performance Project assessing the quality of management in the 50 states. In this report, Indiana was highlighted as having "moved into fiscal balance by going beyond one-time budget fixes" and for having a four-year horizon to make fiscal decisions.

Major Initiatives

K-12 Education – Governor Daniels and the 2008 General Assembly enacted HB 1001 which provided for sweeping property tax reform. Part of this reform included the assumption by the State's general fund of the share of tuition support previously paid by local property tax dollars. Beginning January 2009, the State assumed 100% of K-12 tuition support, allowing school corporations to receive payments monthly and without delay. Tuition support funding decreased 1.8% from FY 2010 to FY 2011; however, HEA 1001 (2011) provided a 0.24% increase in tuition support funding from FY 2011 to FY 2012 and a 0.73% increase from FY 2012 to FY 2013. Governor Mitch Daniels and the 2011 Indiana General Assembly increased funding for full-day kindergarten by 40%, or \$23.4 million, for FY 2012 compared to FY 2011. HEA 1001 (2011) included \$6 million in FY 2012 and \$9 million in FY 2013 for Performance Rewards for Teachers, as well as \$8 million in FY 2012 and \$9 million in FY 2013 for a Charter School Facilities Assistance Program.

Higher Education – Indiana continued its commitment to Higher Education through annual increases in student financial aid related funding. Appropriations for state aid to students attending public and private colleges and universities, provided through the State Student Assistance Commission for Indiana, increased 2.5% in FY 2011 to \$269 million. Higher Education non-capital funding for FY 2011 totaled \$1,278 million.

In addition, HEA 1001 (2009) authorized 23 new capital projects resulting in \$288.4 million of estimated state appropriation fee replaced debt service and \$186 million of estimated non-state appropriation fee replaced debt service. The Office of Management and Budget and the Commission for Higher Education prioritized the release of authorized projects due to the extremely high level of authorized bonding authority, including the reauthorization of numerous projects from the 2007-2009 budget. HEA 1001 (2011) did not authorize any new higher education capital projects.

Public Safety – The Indiana State Police has completed a statewide initiative to regionalize police dispatch services. This initiative allowed ISP to reduce the number of dispatch centers from 18 to 6 while also greatly enhancing public safety through the utilization of a Computer Aided Dispatch (CAD) system. This increased use of technology was accomplished in partnership with the Integrated Public Safety Commission (IPSC).

Indiana State Police traffic safety efforts have continued to increase dramatically resulting in a record low number of fatalities on Indiana roadways. Crashes in high crash areas are down nearly 4% and statewide crashes in FY 2011 are down approximately 1% when compared to the prior year. Fatal crashes have also decreased from the previous year by just over 2%.

In FY 2011, the Indiana Department of Correction (IDOC) continued to improve its operational efficiency and reduce operating costs, doing so while the total offender population continued to increase in size. This was accomplished in part by streamlining substance abuse services and implementing new cost-saving contracts with work release providers. The IDOC also opened the new Short Term Offender Program

(STOP) facility, increasing agency capacity by centralizing offenders serving less than one year at a single facility. These steps and others allowed the IDOC to revert \$45 million to the General Fund in FY 2011.

Transportation – Six years into Governor Daniels' Major Moves program, Indiana has seen record construction, as the Indiana Department of Transportation (INDOT) is executing the \$12 billion construction program made possible in part by the lease of the Indiana Toll Road. INDOT is aggressively working to advance as much work as possible from later construction years to take advantage of favorable price conditions that currently exist in the construction industry. This also helps deliver the benefits of the new highways much earlier, and spurs job creation.

For a fourth consecutive year, State and federal program expenditures for engineering, right-of-way, construction, and maintenance exceeded one billion dollars. Actual FY 2011 expenditures were nearly \$1.8 billion, up significantly from the FY 2010 total of almost \$1.4 billion, and nearly triple the annual amount spent a decade ago.

Conservation and Environment - The Young Hoosiers Conservation Corps (YHCC) returned for its third season in FY 2011 by hiring approximately 155 Hoosiers to work at state facilities, including the Department of Natural Resources (DNR) and INDOT, in partnership with the Department of Workforce Development (DWD). Participants learn effective workplace habits and are given an opportunity to meet with their WorkOne coordinator to receive information on job search techniques, résumé assistance, job fairs and education opportunities. DNR also participated in other on-the-job training programs in partnership with DWD to employ minorities, veterans, and senior citizens, with an emphasis on permanent job placement after the completion of the programs.

In FY 2011, DNR continued the largest land conservation initiative in the State's history. The initiative consists of two projects, one within the Wabash River and Sugar Creek floodplain (43,000 acres) and another along the Muscatatuck River known as Muscatatuck Bottoms (25,600 acres). Since the announcement by Governor Daniels in FY 2010, DNR has acquired nearly 2,700 acres along the Muscatatuck River and Wabash River corridors. Land acquisition efforts will continue for years into the future.

Health and Human Services – As part of the replacement of an outdated paper-based system, the Family and Social Services Administration (FSSA) piloted a hybrid welfare modernization system in 10 counties in southwestern Indiana in January 2010. This hybrid system combined updated technology and in-person assistance in order to determine welfare eligibility and to deliver benefits. Despite enrollment increasing (in at least one program) from 897,629 in May 2005 to 1,291,760 in May 2011, Indiana has been able to demonstrate improvement in quality and service as positive error rates (those that improperly receive benefits) and negative error rates (those that are improperly denied benefits) both fell in FFY 2010. Indiana ranked 10th in the nation (out of 53 states/territories) for positive error rates and 12th for negative error rates. In June 2011, FSSA announced plans to expand the hybrid system to a total of 72 counties.

The Children's Health Insurance Plan (CHIP) spent \$138.1 million in FY 2011. At the end of FY 2011, CHIP was serving 83,494 clients, an increase of 4.7% compared to the average number of clients served by CHIP in FY 2010.

As of June 30, 2011, Medicaid enrollment was 900,769, which excludes CHIP, the Healthy Indiana Plan (HIP), and retroactive eligibility. This represents a 2.1% increase compared to average enrollment of 882,354 in FY 2010.

In its sixth year of operations, the Department of Child Services (DCS) continued the implementation of a practice reform initiative designed to improve outcomes for children and families by strategically funding and assessing prevention initiatives. During the past fiscal year, the Department centered its efforts on the concept of keeping children in the least restrictive, most family-like setting. As a result, during FY 2011, DCS reduced the number of children placed in residential care by 346, from 1,190 to 844. The downward

trending is important because research shows that placing children in the least restrictive, most family-like setting is in the child's best interest and is less costly than residential placements.

Since July 1, 2005, the DCS has increased the total number of filled Family Case Manager (FCM) positions by 838, from 792 to 1,630. Pursuant to IC 31-25-2-5, enacted in the spring of 2007, the Department of Child Services is required to ensure that staffing levels of FCMs are maintained so that each county has enough FCMs to allow caseloads to be at no more than: (1) twelve active cases relating to initial assessments, including investigations of an allegation of child abuse or neglect; or (2) seventeen children monitored and supervised in active cases relating to ongoing services. The 12/17 standard represents that of the Child Welfare League of America. As of June, 2011, 83.3%, or 15 of 18 regions, were in compliance with the caseload averages of 12 and 17. Regions 6 and 8 ended the year within one (1) staff member of meeting the 12/17 standard, while Region 16 needed six (6) additional staff to do so. However, statewide FCM staffing levels were 109.2% of the 12/17 standard at the conclusion of FY 2011.

In January 2010, DCS established the Indiana Child Abuse and Neglect Hotline to serve as the central reporting center for all allegations of child abuse or neglect in Indiana. The Hotline is staffed with 62 FCMs, also known as Intake Specialists, who are specially trained to take reports of abuse and neglect. The centralized Hotline unit began taking calls January 1, 2010, in Marion County and statewide rollout was completed in the first quarter of FY 2011. During 2010, the Hotline handled 102,686 calls and 45% of those calls were answered in less than 8 seconds.

The DCS works to reduce the amount of child support which is past due. The percentage of cases paying past due amounts has increased from 55 percent to 64.7 percent since 2004, exceeding the national average of 62.0 percent.

Economic Development - The Indiana Economic Development Corporation (IEDC) is the State of Indiana's chief economic development agency. The IEDC seeks to bring new job creation and capital investment opportunities to Indiana through competitive company attractions, expansions and consolidations. During FY 2011, the IEDC closed 293 competitive economic development projects. The companies undertaking these projects have committed to invest \$2.34 billion in Indiana and create 22,505 new jobs.

The IEDC uses an aggressive and strategic approach to attract and encourage new business investment and job attraction in Indiana. The IEDC in FY 2011 allocated significant resources engaging in four sectors in which the State has a strategic competency: automotive, defense, energy, and life sciences. These sectors were selected due to high growth levels, high wages, and Indiana's strengths in attracting these industries. The IEDC is also facilitating the development of industry-led initiatives for the automotive and defense sectors. BioCrossroads (life science) and Energy Systems Network (energy) are examples that existed prior to the IEDC's full engagement in these four sectors.

In August, 2010, the IEDC co-sponsored, along with the Indiana State Fair, "Bridges to Japan," an exhibit highlighting Indiana's economic, cultural and academic connections with Japan. More than 250,000 Hoosiers visited the exhibition. In November, 2010, Governor Mitch Daniels led Indiana business and community leaders on an investment mission to China and Japan for the IEDC's seventh overseas mission since 2005. Other international outreach efforts conducted in FY 2011 included the state's first mission to India, a follow-up mission to China, and a jobs mission to Italy. The IEDC also hosted multiple international business delegations, including one led by the Governor of Zhejiang Province, Indiana's sister-state in China.

In addition to aggressively pursuing competitive business development projects, the IEDC is also actively engaged in supporting the growth of Indiana's entrepreneurial sector through the 21st Century Research and Technology Fund. In FY 2011, the 21st Century Fund made investments in eleven (11) new Indiana companies totaling \$7.95 million through its direct awards program and made 30 federal match funding awards through the Small Business Innovation Research (SBIR) or Small Business Technology Transfer (STTR) matching program totaling \$2.12 million. Despite these challenging times, 21st Century investments were initially matched by private and federal capital sources on a 2:1 basis. As these

businesses develop, considerable further matching investment is expected. Accompanying leverage ratios, inclusive of follow-on funding, are projected to far exceed the 21st Century Fund's historical leverage ratio of 2.3:1 and the average ratio of 4:1 for investments since 2009. The SBIR/STTR program has historically attracted substantial federal and private sector matching funds at a 4:1 ratio. Also this year, the 21st Century Fund announced its INVEST Indiana Initiative. This initiative commenced several key reforms outlined in *Accelerating Growth: Indian's Strategic Economic Development Plan* designed to maximize private sector participation in early-stage ventures and to provide 21st Century Fund awardees with experienced entrepreneurial assistance in addition to capital. Further, the 21st Century Fund has actively sought to attract new resources for Indiana entrepreneurs and to spur regional entrepreneurial initiatives.

General Government – The State continues to administer Retirement Medical Benefits accounts, established as Health Reimbursement Arrangements (HRAs), for all employees and elected officials of the State. The purpose of this defined contribution plan is to allow retirees from State government to have a means to assist with the payment of health insurance premiums in retirement. Funding for the program in FY 2011 came from 5.74% of State cigarette tax revenues and from charges to federal and dedicated funds for employees paid from those funds, which were deposited directly into the retiree health trust fund. These funds are then credited to each employee's account annually based upon their age. There is also a catch-up provision allowing for additional contributions based upon the number of years of service completed by the qualified retiree who retires prior to June 30, 2017.

Legislation enacted during FY 2011 effectively merged the administrative and management functions of the State's two retirement systems, the Public Employees Retirement Fund (PERF) and the Teachers Retirement Fund (TRF). Legislation passed during the 2011 session of the Indiana General Assembly (effective in FY 2012) further integrates the management of the funds, including the creation of a combined board of trustees. While the individual funds are not comingled, this new entity, branded as the Indiana Public Retirement System (INPRS), is expected to recognize significant savings from combined asset allocation and integrated investment managers for all PERF and TRF funds, as well as from consolidation and increased efficiency in administrative functions.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the eighteenth consecutive year that the State of Indiana has achieved this prestigious award.

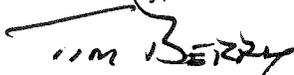
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We acknowledge the cooperation and assistance of all State agencies in the preparation of this report.

Sincerely,



Tim Berry
Auditor of State
State of Indiana



Chris Ruhl
Director
Office of Management and Budget

Certificate of Achievement for Excellence in Financial Reporting

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For its Comprehensive Annual
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A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

