

NOTES TO THE FINANCIAL STATEMENTS



STATE OF INDIANA

Notes to the Financial Statements
June 30, 2005

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STATE OF INDIANA
Notes to the Financial Statements
June 30, 2005
(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units. Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in one column in the government-wide financial statements. This column contains the governmental and proprietary fund types and colleges and universities. This is to emphasize that, as well as being legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Indiana Housing Finance Authority has a December 31, 2004, year-end.

Blended Component Units

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority Highway Bonds Fund accounts for the financing of improvements for highway road and bridge projects that are managed by the Indiana Department of Transportation. The unit is reported as an internal service fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities, as well as additional infrastructure and transportation facilities. The Commission is reported as an internal service fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties.

The six member commission includes the Treasurer of State, Director of DNR, Budget Director, and three gubernatorial appointees. The Commission is reported as an internal service fund.

Discretely Presented Component Units

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All governmental and proprietary component units are audited by outside auditors.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the Governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of State and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority's board consists of the Public Finance Director of the Indiana Finance Authority, the Lieutenant Governor, the State Treasurer and four persons appointed by the Governor. The Lieutenant Governor chairs the board. The unit is reported as a proprietary fund.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, State highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various proprietary and governmental funds.

The Indiana Board for Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the

Governor, provides insurance on public funds in excess of the \$100,000 Federal Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the Governor to purchase education loans in the secondary market. The Governor appointed the original Board of Directors. ISM provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. The unit is reported as a proprietary fund.

The State Lottery Commission of Indiana is composed of five members appointed by the Governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, public employees' retirement, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement Fund. The Commission is reported as a proprietary fund.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is governed by a board consisting of the Lieutenant Governor, the Treasurer of State, and seven members appointed by the Governor. The Authority is reported as a governmental fund.

The White River State Park Development Commission has the responsibility to design and implement a plan for the establishment and development of park, exposition, educational, athletic, and recreational projects to be located within one mile from the banks of the Indiana White River in a consolidated first-class city and county. The Commission is reported as a proprietary fund.

The Indiana Bond Bank, the Indiana Housing Finance Authority, the Indiana Transportation Finance Authority (ITFA) – Toll Road, the ITFA – Airport Facilities Bonds, the Indiana Board for Depositories, the Indiana Secondary Market for Education Loans and the State Lottery Commission were determined to be significant for note disclosure purposes involving the discretely presented component units.

Effective July 1, 2000, the Public Employees' Retirement Fund (PERF) became an independent body corporate and politic. PERF is not a department

or agency for the State but is an independent instrumentality exercising essential government functions. The PERF board is composed of five trustees appointed by the Governor. The board of trustees administers the following funds: Public Employees' Retirement Fund, Judges' Retirement System, Excise Police and Conservation Enforcement Officers' Retirement Plan, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Plan, the Legislators' Retirement System Defined Contribution Plan, the Prosecuting Attorneys' Retirement Fund, the Pension Relief Fund, and two death benefit funds. For more information on PERF see Note V(H) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation in the Discretely Presented Component Units' financial statements.

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

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

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Ivy Tech Community College has a fourteen-member board of trustees. Appointments to the boards of trustees are made by the Governor and by election of the alumni of the respective universities

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments.

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

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

Recreational Development Commission
c/o Treasurer of Indiana
242 State House
Indianapolis, IN 46204

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

State Office Building Commission
Government Center South, W478
402 W. Washington Street
Indianapolis, IN 46204

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

Secondary Market for Education Loans, Inc.
111 Monument Circle, Suite 202
Indianapolis, IN 46204

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

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

Indiana Housing Finance Authority
30 South Meridian, Suite 1000
Indianapolis, IN 46204

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

Diana M. Biggs
Director of Internal Audit
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

Office of the Vice President and CFO
Attn: Joan Hagen
Poplar's Room. 500, 107 S. Indiana Ave.
Indiana University
Bloomington, IN 47405-1202

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

Linda Waldroup, Controller
Vincennes University
1002 North 1st Street
Vincennes, IN 47591

William A. McCune, Controller
Administration Bldg., 301
2000 West University Avenue
Ball State University
Muncie, IN 47306

Jeffery J. Jacso
Assistant Controller Financial Accounting
Office of the Controller
Indiana State University
200 N. 7th Street
Terre Haute, IN 47809

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

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information about the overall government. They exclude information about fiduciary activities, including component units, which are fiduciary in nature, such as the public employee retirement systems. They distinguish between the primary government and its discretely presented component units as defined under the reporting entity above. They also distinguish between governmental activities and business-type activities of the State. Governmental activities rely on taxes and intergovernmental revenues for their support. Business-type activities, on the other hand, rely on fees and charges for services provided for their support.

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and

intergovernmental aid. Certain indirect costs are included in the program expense reported for individual functions of government. Program revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes, even those levied for a specific purpose and are reported by type of tax. Investment income is also a general revenue.

Separate financial statements are presented for the State's governmental, proprietary and fiduciary funds. Governmental fund financial statements are the balance sheet and the statement of revenues, expenditures, and changes in fund balances. Major governmental funds are presented in separate columns and non-major funds are aggregated in a separate column. Proprietary and fiduciary funds are

reported using the statement of net assets and the statement of changes in net assets. In addition proprietary funds include a statement of cash flows.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting

The government-wide statements and the proprietary and fiduciary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues, including federal government mandates on the State, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met.

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

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the State of Indiana, "available" means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual and corporate income tax, sales tax, inheritance tax, cigarette tax, alcoholic beverage tax, motor fuel tax, fines, and penalties are accrued using one month's revenues.

Gaming taxes and fees and vehicle licenses are received daily via electronic funds transfer with a one working day delay, so the first working day in July revenues are reviewed for materiality and accrued accordingly.

Financial Statement Presentation A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Governmental funds are used to account for the government's general government activities. Governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds and permanent funds.

The *General Fund* is the State's primary operating fund. It is maintained to account for resources obtained and used for those services traditionally provided by State government, which are not required to be accounted for in another fund. The General Fund is a major fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes except for major capital projects.

The following special revenue funds are presented as major.

- The *Motor Vehicle Highway Fund* collects motor fuel taxes, special fuel taxes, motor carrier surtaxes, and vehicle license fees for public safety programs and distributions to local units of government for transportation programs.
- The *Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid program.
- The *State Highway Department Fund* receives federal grants and State appropriations that are used for State transportation programs.
- The *Property Tax Replacement Fund* receives corporate income tax and sales tax which is used for education and property tax replacement distributions to local units of government.
- The *Tobacco Settlement Fund* is used to account for funds received under the tobacco master settlement agreement and is used to fund the children's health insurance program.

- The *Build Indiana Fund* receives gaming revenues and uses them to fund local capital project.

The *capital projects funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or fiduciary funds.

The *permanent funds* are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for the benefit of the government or its citizens. There are no major permanent funds.

Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows. Operating revenues and expenses are the revenues and expenses that pertain to the fund's principal operations. Nonoperating revenues and expenses are those revenues resulting from secondary or auxiliary activities of the fund. Nonoperating items include interest/investment revenue and expense. Proprietary funds include both enterprise funds and internal service funds.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The State reports the following major enterprise funds:

- The *State Revolving Fund* uses proceeds from bonds issued by the Indiana Bond Bank to assist qualified entities in obtaining below market financing for water pollution control projects.
- The *Unemployment Compensation Fund* collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals.

Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The services provided include fleet management, information technology and communication, printing, debt financing, and self-insurance. Major fund reporting requirements do not apply to internal service funds. Combined totals for all internal service funds are reported as a separate column on the face of the proprietary fund financial statements.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others. They cannot be used to

support the State's own programs. Fiduciary funds include pension (and other employee benefit) trust funds, private-purpose trust funds, and agency funds. *Pension (and other employee benefit) trust funds* are used to report resources held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, and other post-employment benefit plans. Pension trust funds include the Deferred Compensation Plan Fund and the State Police Pension Fund.

Private-purpose trust funds are used to account for trust arrangements in which both the principal and interest may be spent for the benefit of individuals, private organizations or other governments. Private Purpose funds include the Property Custody Fund, the Abandoned Property Fund, the Unclaimed Funds Fund, and the Private Purpose Trust Fund.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity. Agency Funds include Employee Payroll Withholding and Benefits, Local Distributions, Child Support and Department of Insurance.

D. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value, except for the cash and cash equivalents of the Tobacco Settlement Fund, which are at fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost, which approximates fair value. Fair value is determined by quoted market prices which approximate fair value.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9. The investments of the State's retirement systems are governed by separate investment guidelines.

Investments which are authorized for the State

Teachers' Retirement Fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, venture capital and partnerships, and real estate. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage pool investments, and repurchase agreements. The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, mutual funds, asset backed, commercial mortgage backed, international stocks, and real estate.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as an enterprise fund.

2. Receivables and Payables

In the government-wide and proprietary fund financial statements, revenues are recognized on the flow of economic resources measurement focus. Material receivables are recognized as follows. Uncollected taxes due in the following periods are subject to accrual.

Individual income tax – Individual withholding tax is due from employers by the 20th day after the end of the month collected. Estimated payments are due from individuals by the 15th of the month immediately following each quarter or the calendar year.

Corporate income tax - Due on or before the last day of the month immediately following each quarter of the calendar year.

Sales tax – Due by the 20th day after the end of the month collected.

Fuel tax – Gasoline tax is due the 20th day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15th day after the end of the month

collected or the 15th day after the end of the quarter collected. Motor carrier surtax is due at the end of the month following the end of the quarter.

Financial institutions tax – due on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year.

Alcohol and tobacco taxes – Cigarette distributors purchase tax stamps within 6 days after they accept delivery of the cigarettes. Cigarette tax is due within 30 days of the issuance of the tax stamp. Alcoholic beverage tax is due by the 20th day after the end of the month collected.

Inheritance tax – due nine months after the decedent's date of death.

In the governmental fund financial statements, revenue is recognized on the flow of current financial resources. Material receivables are subject to accrual for receipts collected in the month of July.

The State of Indiana does not collect property tax, which is collected by local units of government; a minor portion is remitted to the State semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

3. Interfund Transactions and Balances

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

Interfund service provided and used (reciprocal interfund activity) – Charges for goods or services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Interfund Transfers (non-reciprocal interfund activity) – Legally authorized transfers whereby the two parties do not receive equivalent cash, goods or services are reported as transfers.

The types of assets and liabilities resulting from these transactions are:

Interfund loans – These are balances arising from the short-term and long-term portion of interfund transactions.

Interfund services provided/used – These are balances arising in connection with reciprocal interfund activity or reimbursements. Balances

relating to discretely presented component units are presented as 'Due from/to component units'.

Interfund services provided and interfund loans are eliminated in the government-wide statements because they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another.

4. Inventories and Prepaid Items

Inventories for the Inns & Concessions, Institutional Industries and Administration Services Revolving are valued at cost. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Net Assets

Certain net assets are classified as restricted net assets because their use is completely restricted by bond indentures, contracts, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.

6. Capital Assets

Capital outlays are reported as expenditures in the governmental funds and as assets in the government-wide statements to the extent the State's \$20,000 capitalization threshold is met. In accordance with GASB Statement No. 34, all infrastructure assets have been capitalized retroactively.

The Indiana Department of Transportation (INDOT) uses the modified approach for reporting its infrastructure. The Department of Natural Resources (DNR) uses the depreciation approach for reporting its infrastructure.

Under the modified approach, the State has determined that the condition level for INDOT infrastructure assets to be maintained is:

- an average Pavement Quality Index (PQI) of 75 for Interstate and National Highway Safety (NHS) Non-Interstate roads,
- an average PQI of 65 for Non-NHS roads,
- an average sufficiency rating of 87% for interstate bridges,
- an average sufficiency rating of 85% for NHS Non-Interstate bridges, and
- an average sufficiency rating of 83% for Non-NHS bridges.

The Division of Program Development of INDOT is responsible for determining the appropriate condition level of the infrastructure assets.

No amounts are capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential.

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Condition assessments are determined on an annual basis for interstates and on a biennial basis for other roads. Sufficiency ratings are determined at least on a biennial basis for all bridges and more frequently for certain bridges depending on their design.

The State makes annual estimates of the amounts that must be expended to preserve and maintain these infrastructure assets at the predetermined condition levels.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Capital assets are depreciated in the proprietary and similar trust funds using the straight-line method on both the fund basis and the government-wide basis. Both the government-wide statements and proprietary and similar trust funds use the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Improvements other than buildings	10-20
Infrastructure (not using modified approach)	20
Furniture, machinery and equipment	5-14
Motor Pool Vehicles	10 ¢ / mile

The State of Indiana maintains several collections of works of art, historical treasures, and similar assets that are not capitalized. While the collections are maintained by different agencies, each collection is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organizational policy that either prohibits sale or requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State's major collections are:

- The State Museum Collection, which is a part of the Indiana Department of Natural Resources, consists of historical buildings and furnishings; personal artifacts; tools and equipment; communication, transportation, recreational and societal artifacts; and art objects.
- The Commission on Public Records, State Archives Collection consists of historical and legal documents, that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics.
- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

Other collections include the Historical Bureau's Indiana Governors' Portrait Collection, the Department of Administration's Statehouse Collection, and the Indiana Arts Commission's Collection. These collections consist primarily of art objects.

7. *Compensated Absences*

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment.

Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days. In addition, qualifying retiring employees are paid an additional payment up to a maximum of \$5,000, which is made up of unused vacation leave over 30 days, unused personal leave, and unused sick leave.

Employees of the legislative and judicial branches may convert a portion of accrued but unused vacation and sick leave into the deferred compensation plan. An employee must have at least 300 hours of vacation or sick leave accrued in order to participate in this plan. There is a sliding scale which determines how many hours are converted from those hours the employee has accrued. The hours converted are

deposited into the deferred compensation program's 401(a) plan at 60% of the employee's hourly rate.

Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long term liabilities in government-wide and proprietary and fiduciary fund financial statements.

8. Long-Term Obligations

Long-term debt and other obligations are reported in the government-wide statements and the proprietary funds statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund.

In the governmental fund financial statements, bond issuance costs and bond discounts are treated as period costs in the year of issue. Proceeds of long term debt, issuance premiums or discounts and certain payments to escrow agents for bond refundings are reported as other financing sources and uses.

9. Fund Equity

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

Reserve for Tuition Support – established to recognize that the legislature has set aside

money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

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

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

Reserve for Prepaid Items – established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

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

Reserve for Intergovernmental Loans – established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

Reserve for Debt Service, Special Purposes – established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

As described in Note I, Summary of Significant Accounting Policies, differences exist between the government-wide and the governmental fund financial statements. These differences are summarized in the reconciliations that follow the governmental fund financial statements.

A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

In the government-wide financial statements, capital assets are considered economic resources and are capitalized at cost or estimated historical cost at time of acquisition. Where applicable these costs are offset by accumulated depreciation.

The government-wide statements use the flow of economic resources and accrue receivables that are not available soon enough in the subsequent period to pay for the current period's expenditures. Also under the flow of economic resources, expenses reported in the statement of activities do not require the use of current financial resources. Both these receivables and payables are accrued in the government-wide statements, but not in the fund financial statements.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

In the government-wide financial statements, the cost for capital outlays, except for governmental infrastructure, is allocated over the assets' useful lives and is reported as depreciation expense. In the fund financial statements, capital outlays are reported as expenditures.

The government-wide statements use the flow of economic resources and therefore do not report revenues and expenses dependent on the availability of financial resources, as is reported in the fund financial statements. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the fund financial statements. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces long-term liabilities in the statement of net assets.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the expenses of internal service funds are included in governmental activities in the statement of activities. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Governor submits a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes the Armory Board and the Recreation funds at State institutions. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to

another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. In addition, expenditures under many federal grants are required to be spent before they are reimbursed by the federal government. These actions are considered supplemental appropriations; therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

B. Deficit Fund Equity

At June 30, 2005, various funds had a deficit fund balance caused by overdrafts from pooled cash and investments and the posting of accruals to the

balance sheet. Temporary cash overdrafts are reported as interfund loans from the general fund.

<u>Fund</u>	<u>Overdraft from pooled cash</u>	<u>Accrual deficits</u>
Governmental Funds		
Motor Vehicle Highway Fund	\$ -	\$ (17,834)
Medicaid Assistance	(37,095)	-
Property Tax Relief Fund	-	(1,091,034)
County Welfare Administration	-	(10,904)
Federal Food Stamp Program	(1,721)	(216)
Major Construction Army National Guard	(3,662)	-

C. Unreserved Fund Balance

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

the legislature and then allotted by the State Budget Agency. The following are the designations of unreserved fund balance at June 30, 2005:

<u>Unreserved Fund Balance</u>				
	<u>Designations of Unreserved Fund Balance</u>			<u>Total Unreserved Fund Balance</u>
	<u>Designated for Appropriations</u>	<u>Designated for Allotments</u>	<u>Undesignated</u>	
Governmental Funds				
General Fund	\$ 219,417	\$ 396,039	\$ 221,038	\$ 836,494
Motor Vehicle Highway Fund	-	-	(25,426)	(25,426)
Medicaid Assistance	-	-	(37,144)	(37,144)
Build Indiana Fund	47,984	-	-	47,984
State Highway Department	-	-	(583,777)	(583,777)
Property Tax Replacement Fund	-	-	(1,091,034)	(1,091,034)
Tobacco Settlement Fund	210,343	-	344	210,687
Non-Major Special Revenue Funds	167,838	678,937	9,109	855,884
Non-Major Capital Projects Funds	46,078	25,386	9,820	81,284
Non-Major Permanent Funds	-	122,659	1,346	124,005
Total Governmental Funds	<u>\$ 691,660</u>	<u>\$ 1,223,021</u>	<u>\$ (1,495,724)</u>	<u>\$ 418,957</u>

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits, Investments and Securities Lending

1. Primary Government

a. Governmental Activities

Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Indiana Tobacco Master Settlement Agreement Fund has separate investment authority as established under Indiana Code 4-12-1-14.3 to be invested in the same manner as the public employees' retirement fund (PERF) under Indiana Code 5-10.3-5. For more information, please see the PERF policy in IV(A) 2-c.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The investment policy of the State Office Building Commission, an internal service fund, states that all

cash and investments are held by, or in the name of, JP Morgan Trust Company, NA, as trustee under certain indentures of trusts (Trust Indentures) pertaining to the Commission and the bonds issued in connection with the Commission. Pursuant to the Commission's enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally applicable provisions of Indiana Code 5-13 inapplicable to the Commission's investments.

The investment policy of the Indiana Transportation Finance Authority Highway Bonds, an internal service fund, states that investment guidelines are dictated by Indiana statute and related trust indentures.

Although the Unemployment Compensation Fund is an enterprise fund (business-type activities), its deposits and investments are pooled with the deposits and investments of other funds that are part of governmental activities. The Treasurer cannot break them out by investment type at the fund level. Therefore, the Unemployment Compensation Fund is included with governmental activities in the following analysis.

Interest Rate Risk

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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2005:

Governmental Activities					
(Amounts are in thousands)					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Treasurer of State					
U.S. Treasuries	\$ 19,316	\$ -	\$ 17,202	\$ 178	\$ 1,936
U.S. Agencies	1,872,886	1,818,274	54,612	-	-
Mortgage Backed		-	-	-	-
Government Pass-Through	10,614	-	1,710	275	8,629
Corporate Pass-Through	3,227	282	244	-	2,701
Collateralized Mortgage Obligations		-	-	-	-
Govt CMO's	27,230	-	810	1,356	25,064
Corp CMO's	10,708	-	-	-	10,708
Corporate Bonds	22,229	3,988	10,603	3,818	3,820
Corporate Asset Backed	15,051	-	10,480	631	3,940
Private Placements	6,648	630	3,039	103	2,876
Municipal Bonds	6,729	252	806	1,912	3,759
Yankee Bonds	1,935	435	832	248	420
Supernational	1,166	459	707	-	-
Non-U.S. Fixed Income	7,711	-	689	3,164	3,858
Certificate of Deposits	308,407	308,407	-	-	-
Money Market Mutual Funds	1,038,098	1,038,098	-	-	-
ITFA - Highway Bonds					
Money market funds	166,783	166,783	-	-	-
State Office Building Commission					
Money market funds	183,912	183,912	-	-	-
Recreational Development Commission					
Repurchase agreements	936	936	-	-	-
Total	\$ 3,703,586	\$ 3,522,456	\$ 101,734	\$ 11,685	\$ 67,711

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2005, the balance of the State of Indiana's deposits was covered in full by the Federal Deposit Insurance Corporation (FDIC) or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) the custodian's failure to carry out the credit analysis, (iii) the custodian's failure to maintain proper collateral for each loan, or (iv) the failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

The Indiana Transportation Finance Authority Highway Bonds, an internal service fund, at June 30, 2005, had \$166.8 million in money market funds that were uninsured and unregistered with securities held by JP Morgan in the Authority's name.

The State Office Building Commission (SOBC), an internal service fund, at June 30, 2005, had \$7.0 million in unrestricted cash and equivalents and \$7.0

million in bank balance. The bank balance consists of a checking account that is swept into an interest bearing account each night. Of the bank balance, \$100,000 was covered by the FDIC.

The Recreational Development Commission, an internal service fund, at June 30, 2005, had \$2.0 million in certificates of deposit at two banks and \$0.94 million in Bank One repurchase agreements. The certificates of deposit are uncollateralized and insured by the FDIC up to \$100,000 at each bank. The securities of the repurchase agreements are fully collateralized by direct obligations or obligations guaranteed as to principal or interest by the United States and securities which are issued or guaranteed by corporations in which the United States has a direct or indirect interest.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Indiana Code 5-13-9-2 authorizes the State Treasurer to invest or reinvest in securities fully guaranteed and issued by (1) the United States Treasury (2) a federal agency (3) a federal instrumentality and (4) a federal government sponsored enterprise. The State Treasurer also may invest or reinvest in money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940. Such investment company or investment trust must be limited to direct obligations of the United States, a federal agency, a federal instrumentality, a federal government sponsored enterprise, or repurchase agreements fully collateralized by obligations described in number (1) through (4) above. The statute also states the securities of or interests in an investment company or investment trust must be rated as one of the following (1) AAA, or its equivalent, by Standard & Poor's Corporation or its successor (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

The following is a summary of the Credit Risk Disclosure as of June 30, 2005:

Governmental Activities				
(Amounts are in thousands)				
	<u>S & P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Fair Value</u>
Treasurer of State				
U.S. Agencies	AAA	Unavailable	Unavailable	1,872,886
Mortgage Backed				
Government Pass-Through	AAA	Unavailable	Unavailable	10,614
Corporate Pass-Through	AAA	Unavailable	Unavailable	1,780
Corporate Pass-Through	AA	Unavailable	Unavailable	149
Corporate Pass-Through	A	Unavailable	Unavailable	1,054
Corporate Pass-Through	Unrated	Unavailable	Unavailable	245
Collateralized Mortgage Obligations				
Govt CMO's	AAA	Unavailable	Unavailable	27,229
Corp CMO's	AAA	Unavailable	Unavailable	5,940
Corp CMO's	BBB	Unavailable	Unavailable	504
Corp CMO's	Unrated	Unavailable	Unavailable	4,264
Corporate Bonds				
	AAA	Unavailable	Unavailable	203
	AA	Unavailable	Unavailable	1,055
	A	Unavailable	Unavailable	5,923
	BBB	Unavailable	Unavailable	8,186
	BB	Unavailable	Unavailable	6,310
	Unrated	Unavailable	Unavailable	552
Corporate Asset Backed				
	AAA	Unavailable	Unavailable	12,212
	AA	Unavailable	Unavailable	176
	A	Unavailable	Unavailable	1,220
	BBB	Unavailable	Unavailable	931
	BB	Unavailable	Unavailable	177
	Unrated	Unavailable	Unavailable	336
Private Placements				
	AAA	Unavailable	Unavailable	1,603
	AA	Unavailable	Unavailable	489
	A	Unavailable	Unavailable	1,434
	BBB	Unavailable	Unavailable	1,503
	BB	Unavailable	Unavailable	103
	Unrated	Unavailable	Unavailable	1,516
Municipal Bonds				
	AAA	Unavailable	Unavailable	2,596
	Unrated	Unavailable	Unavailable	4,132
Yankee Bonds				
	A	Unavailable	Unavailable	245
	BBB	Unavailable	Unavailable	1,689
Supernational				
	A	Unavailable	Unavailable	1,166
Non-U.S. Fixed Income				
Foreign Governmental Bonds	BBB	Unavailable	Unavailable	361
Foreign Governmental Corp Debt	AAA	Unavailable	Unavailable	272
Foreign Governmental Corp Debt	AA	Unavailable	Unavailable	490
Foreign Governmental Corp Debt	A	Unavailable	Unavailable	1,550
Foreign Governmental Corp Debt	BBB	Unavailable	Unavailable	4,667
Foreign Governmental Corp Debt	Unrated	Unavailable	Unavailable	372
Certificate of Deposits	Unrated	Unavailable	Unavailable	308,407
Money Market Mutual Funds	AAA	Unavailable	Unavailable	1,038,098
State Office Building Commission				
Money Market Funds	AAA	AAA	Aaa	183,912
ITFA - Highway Revenue Bonds				
Money Market	Unrated	AAA	Aaa	166,783
Total Rated Investments				\$ 3,683,334

Concentration of Credit Risk

For an investment, concentration of credit risk is the risk of loss attributed to the magnitude of a State's investment in a single issuer. Indiana Code 5-13-10-3 states that the State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Treasurer.

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

Fannie Mae:	15.37%	\$515,104
Freddie Mac:	18.18%	\$609,397
Federal Home Loan Bank:	20.64%	\$691,858

The Indiana Transportation Finance Authority Highway Bonds, an internal service fund, had 100% of its funds invested in JP Morgan money market fund.

The State Office Building Commission (SOBC), an internal service fund, places no limit on the amount it may invest in any one issuer. The Commission has 100% of its investments in the JP Morgan Prime Money Market Fund. The Recreational Development Commission, an internal service fund, had 5% of its investments in three securities. They are composed of Flagstar Bank certificate of deposit (58%), Farmers & Mechanic Savings and Loan certificate of deposit (10%) and Bank One repurchase agreements (32%).

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. 0.2% of the portfolio of the Treasurer of State, or \$7.7 million, is exposed to foreign currency risk.

Securities Lending Credit Risk

The Treasurer of State is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an

amount or (2) a financial institution located either in or out of Indiana aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities. State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees' Retirement Fund and the State Teachers' Retirement Fund (discretely presented component units), which allow no more than 40% to be lent at one time.

The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

At year end, the State had no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

b. Business-Type Activities

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2005:

Business-type Activities					
(Amounts are in thousands)					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State Revolving Fund					
Money market funds	\$ 571,622	\$ 571,622	\$ -	\$ -	\$ -
Government obligations	405	-	405	-	-
Guaranteed investment contracts and other	527,949	7,377	32,519	101,866	386,187
Malpractice Insurance Authority					
U.S. Treasuries	39,608	3,483	28,966	7,159	-
Total	\$ 1,139,584	\$ 582,482	\$ 61,890	\$ 109,025	\$ 386,187

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following is a summary of the Credit Risk Disclosure as of June 30, 2005:

Business-Type Activities				
(Amounts are in thousands)				
	S & P	Fitch	Moody's	Fair Value
State Revolving Fund				
Money market funds	AAA	AAA	Aaa	\$ 571,622
Guaranteed investment contracts	Unrated	Unrated	Unrated	527,949
U.S. Agency bonds	AAA	AAA	Aaa	405
Total Rated Investments				\$ 1,099,976

State Revolving Fund

Investment Policy – All cash and investments are held by, or in the name of, JP Morgan Trust Company, NA, as trustee under certain indentures of trusts (Trust Indentures) pertaining to the Programs and the bonds issued in connection with the Programs. Pursuant to the Programs' enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally

applicable provisions of Indiana Code 5-13 inapplicable to the Programs' investments.

Concentration of Credit Risk – The State Revolving Fund places no limit on the amount it may invest in any one issuer. The following table shows investments in issuers that represents 5% or more of the total investments at June 30, 2005:

<u>Issuer</u>	<u>Waste water</u>	<u>Drinking Water</u>
JP Morgan Prime Money Market Fund	54%	45%
AIG Matched Funding Corp. GIC	32%	31%
Salomon Reinvestment Co., Inc. GIC	9%	12%
Trinity Plus Funding Company, LLC GIC	5%	12%
TOTAL	100%	100%

Malpractice Insurance Authority

Investment Policy – All money appropriated by the State and any surplus of premiums over losses and expenses received by the Authority shall be invested by the commissioner within limitations set forth in IC 27-1-13.

Custodial Credit Risk – At June 30, 2005, the bank balance of the Authority's demand deposits was \$987,000. The bank balance was insured for \$100,000 by the Federal Deposit Insurance Corporation (FDIC). The bank balance of \$887,000 which was in excess of the FDIC insurance was uninsured and uncollateralized, and exposed to custodial credit risk. The Authority's investments are not exposed to custodial credit risk and reflect investment securities registered in the name of the Authority.

2. Major Discretely Presented Component Units

a. Proprietary Funds

Investment Policy

Indiana Bond Bank – 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.

Indiana Housing Finance Authority – General policy: Indiana Code 5-20-1 authorizes the Authority to invest in obligations of the State, the United States, or their agencies or instrumentalities and such other obligors as may be permitted under the terms of any resolution authorizing the issuance of the Authority's obligation.

The Authority's Indenture policy states that the bond indentures permit investments in the direct obligations of, or obligations guaranteed by, the United States of America, obligations issued by certain agencies of the Federal government, and investments collateralized by those types of investments. At December 31, 2004, all investments held by the Authority were in compliance with the requirements of the Indentures.

Indiana Transportation Finance Authority – East-West Toll Road – The Trust Indentures authorize the Indiana Transportation Finance Authority (ITFA) to invest in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, commercial paper rated in the highest rating category, tax exempt securities, certificates of deposit, repurchase agreements secured by U.S. government securities, investment agreements with a qualified financial institution and any other obligation rated in one of the two highest rating categories by a rating agency.

The East-West Toll Road maintains various demand deposit accounts according to the terms of the Lease and Trust Indenture agreements. The carrying amount of cash was \$4.1 million at June 30, 2005, while the bank balances were \$5.0 million. All account balances at the bank were insured by the FDIC for \$100,000.

Indiana Transportation Finance Authority – Airport Facilities Bonds – Investment guidelines are dictated by Indiana statute and related trust indentures.

Indiana Board for Depositories – Indiana Code 5-13-9 authorizes the Board to invest in deposit accounts issued or offered by a designated depository; securities issued or securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

Indiana Code 5-13-9-2 authorizes the Board to invest or reinvest in securities fully guaranteed or issued by (1) the United States Treasury (2) a federal agency (3) a federal instrumentality and (4) a federal government sponsored enterprise. The Board also may invest or reinvest in money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940. Such investment company or investment trust must be limited to direct obligations of the United States, a federal agency, a federal instrumentality, a federal government sponsored enterprise, or repurchase

agreements fully collateralized by obligations described in number (1) through (4) above. The statute also states the securities of or interests in an investment company or investment trust must be rated as one of the following (1) AAA, or its equivalent, by Standard & Poor's Corporation or its successor (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

Indiana Code 5-13-10-3 also states that the Board may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Treasurer.

Indiana Code 5-13-10.5-10 authorizes the Board to invest or reinvest in obligations issued or guaranteed by the International Bank for Reconstruction and Redevelopment, the African Development Bank or the State of Israel.

Indiana Code 5-13-10.5-11 authorizes the investment in Indiana Bond Bank if the obligations are secured by tax anticipation time warrants or notes that are issued by a political subdivision with a maturity date not later than the end of the calendar year following year of issuance.

Indiana Secondary Market for Education Loans – At

June 30, 2005, the Indiana Secondary Market for Education Loans has few short term investments and has not adopted a formal investment policy.

State Lottery Commission – The Commission's investment policy establishes cash and investment guidelines for the deposit of funds. The Commission is authorized to make deposits in commercial banks and savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, money market funds with portfolios of securities issued or guaranteed by the United States of America or agreements to repurchase these same obligations, repurchase agreements, and short-term commercial paper rated AAA or AA. The Lottery policy states that money that the Commission anticipates will be available for the payment of prizes on a deferred basis may be invested in direct U.S. Treasury obligations or insurance annuities. Investments are reported at fair value, except for insurance annuities, using quoted market prices. Insurance annuities are carried at cost. Changes in the fair value of the investments are recognized as revenue or expense in the operating statement.

Interest Rate Risk

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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2005:

Major Discretely Presented Component Units					
(Amounts are in thousands)					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Indiana Bond Bank					
Guaranteed investment contracts and other	\$ 68,916	\$ 33,177	\$ 5,270	\$ 1,165	\$ 29,304
Indiana Housing Finance Authority					
U.S. Treasuries	13,778	248	242	3,222	10,066
U.S. Agencies	84,613	13,730	69,026	606	1,251
Guaranteed investment contracts and other	297,748	267,384	-	-	30,364
ITFA - Toll Road					
U.S. Treasuries	58,603	53,651	4,952	-	-
U.S. Agencies	14,789	14,789	-	-	-
Money market funds	11,311	11,311	-	-	-
Mutual bond fund	81,572	81,572	-	-	-
ITFA - Airport Facilities Bonds					
Money market funds	6,235	6,235	-	-	-
Board for Depositories					
U.S. Treasuries	26,731	17,330	9,401	-	-
U.S. Agencies	142,594	87,804	54,790	-	-
State of Indiana agency bond	4,802	-	-	4,802	-
State of Israel bond	5,000	-	5,000	-	-
Secondary Market for Education Loans					
Commercial paper	2,830	2,830	-	-	-
Guaranteed investment contracts and other	15,109	15,109	-	-	-
State Lottery Commission					
Repurchase agreements	425	425	-	-	-
Commercial paper	8,665	8,665	-	-	-
Money market funds	42,938	42,938	-	-	-
Insurance annuities	40,570	4,046	14,791	12,145	9,588
Government obligations	47,476	13,296	9,173	9,541	15,466
Total	\$ 974,705	\$ 674,540	\$ 172,645	\$ 31,481	\$ 96,039

Custodial Credit Risk

Indiana Housing Finance Authority – Of the Authority's \$430.0 million in investments, \$6.0 million includes bank balances that are not collateralized or insured but are held by the Authority's banks at December 31, 2004.

Indiana Transportation Finance Authority – Airport Facilities – Money market funds were uninsured and unregistered with securities held by a trustee in the Authority's name.

State Lottery Commission – The Commission has \$140.0 million of investments, which are not held by

the Commission.

Of this amount, \$47.0 million is invested in United States Treasury Strips and held by the United States Treasury Department; therefore, these investments are not considered to have custodial credit risk. The remaining \$93.0 million of investments are held by an outside counterparty.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following is a summary of the Credit Risk as of June 30, 2005:

Major Discretely Presented Component Units				
(Amounts are in thousands)				
	<u>S & P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Fair Value</u>
Indiana Bond Bank				
Guaranteed investment contracts	AAA	Unrated	Aaa	\$ 15,099
	Unrated	AAA	Aaa	34,678
	AAA	AA	Aaa	2,696
	AA	AA	Aaa	3,959
	Unrated	Unrated	Unrated	12,484
Indiana Housing Finance Authority				
U.S. Agency bonds	AAA	AAA	Aaa	84,613
Guaranteed investment contracts	Unrated	Unrated	Unrated	297,748
ITFA - Toll Road				
Money market	AAAm	Unrated	Aaa	11,311
Mutual funds	AAAm	Unrated	Aaa	81,572
ITFA - Airport Facilities				
Money market	Unrated	AAA	Aaa	6,235
Board for Depositories				
State of Israel bond	Unrated	Unrated	Unrated	5,000
U.S. agencies	AAA	AAA	Aaa	142,593
Secondary Market for Education Loans				
Commercial paper	A-1	Unrated	P-1	2,830
Guaranteed investment contracts	Unrated	Unrated	Unrated	15,109
State Lottery Commission				
U.S. Government Securities	Unrated	Unrated	Unrated	47,476
Commercial paper	A-1+	F-1+	P-1	7,075
	A-1+	Unrated	P-1	1,590
Repurchase agreements	Unrated	Unrated	Unrated	425
Money market funds	AAAm	AAA	Aaa	42,938
Insurance annuities	AA	AA+	Aa3	40,570
Total Rated Investments				<u>\$ 856,001</u>

Concentration of Credit Risk

Indiana Bond Bank – The Indiana Bond Bank places no limit on the amount that may be invested in any one issuer. The following table shows investments in issuers that represents 5% or more of the total investments at June 30, 2005:

<u>Issuer</u>	<u>Percent of total investments</u>
Ixis Funding Corp. GIC	50%
West LB GIC	17
Bayern LB GIC	14
Trinity Plus Funding GIC	8
MBIA, Inc. GIC	6

Indiana Housing Finance Authority – The Authority places no limit on the amount the Authority may invest in any one issuer. The following table shows investments in issuers that represents 5% or more of total investments at December 31, 2004:

<u>Issuer</u>	<u>Percent of total investments</u>
AIG Matched Funding Corp GIC	29.59%
XL Asset Funding Co. LLC GIC	12.78
Palas Capital Corp GIC	12.77
Grand Central GIC	11.13
FHLB	9.07
FNMA	5.58

Indiana Transportation Finance Authority – East-West Toll Road – The Toll Road places no limit on the amount that may be invested in any one issuer. The following investments each exceed 5% of the Toll Road’s total investments.

<u>Issuer</u>	<u>Percent of total investments</u>
First American Government Obligation Fund	49.1%
Freddie Mac	8.9
Victoria Federal Money Market	6.8

Indiana Transportation Finance Authority – Airport Facilities Bonds – 100% of funds were invested in JP Morgan money market fund.

Indiana Secondary Market for Education Loans (ISM) – ISM places no limit on the amount the district may invest in any one issuer. More than 5% of its investments are in General Electric Capital Corporation commercial paper and IXIS guaranteed investments. These investments are 15.77% and 84.23%, respectively, of the ISM total investments.

State Lottery Commission – The Commission is not limited on the amount it can invest in one issuer. More than 5% of the Commission’s investments are in United States Treasury Strips, JP Morgan Prime Money Market Fund, and AGEON Institutional Market annuities. These investments are 33.89%, 30.65%, and 28.96%, respectively, of the Commission’s total investments.

Securities Lending Credit Risk

Indiana Board for Depositories – The Board is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body.

The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully

insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities.

Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturity’s generally 0-15 days.

The contracts with the Board’s custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities’ issuers while the securities are on loan.

At year-end, the Board had no credit risk exposure to a borrowers because the amount the Board owes the borrowers exceeds the amounts the borrowers owe the Board.

Below are the investment types and values for securities lending transactions (in thousands):

Investment Type	Collateral Value	Market Value
U.S. Treasuries	\$25,060	\$24,765
U.S. agencies	183,462	180,175
Total	<u>\$208,522</u>	<u>\$204,940</u>

b. Pension Trust Fund – Primary Government

Deferred Compensation Plan

These monies are with a third party administrator.

State Police Pension Fund

Investment Policy – The Indiana State Police Pension Trust was established in 1937 to provide pension, death, survivor, and other benefits to present and former employees of the department and their beneficiaries who meet the statutory requirement for such benefits.

Indiana Code 10-1-2-2(c), established the prudent investor standard as the primary statutory provision governing the investment of the Trust’s assets. IC 10-1-2-2 (c) reads as follows:

The trust fund may not be commingled with any other funds and shall be invested only in accordance with Indiana laws for the investment of trust funds, together

with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a

prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities (in thousands):

Investment Type	Fair Value	S & P	Moody's	Fitch
U.S. Agencies	6,274	AAA	Unavailable	Unavailable
Mortgage Backed				
Government Pass-Through	62,570	AAA	Unavailable	Unavailable
Corporate Pass-Through	6,362	AAA	Unavailable	Unavailable
Corporate Pass-Through	137	Unrated	Unavailable	Unavailable
Collateralized Mortgage Obligations				
Govt CMO's	18,485	AAA	Unavailable	Unavailable
Corp CMO's	2,530	AAA	Unavailable	Unavailable
Corporate Bonds				
	3,836	AAA	Unavailable	Unavailable
	1,217	AA	Unavailable	Unavailable
	19,908	A	Unavailable	Unavailable
	7,896	BBB	Unavailable	Unavailable
	3,516	BB	Unavailable	Unavailable
	1,408	B	Unavailable	Unavailable
	262	CCC & Below	Unavailable	Unavailable
	1,588	Unrated	Unavailable	Unavailable
Corporate Asset Backed				
	13,745	AAA	Unavailable	Unavailable
	549	AA	Unavailable	Unavailable
	451	A	Unavailable	Unavailable
	2,050	BB	Unavailable	Unavailable
	74	B	Unavailable	Unavailable
	249	Unrated	Unavailable	Unavailable
Private Placements				
	793	AAA	Unavailable	Unavailable
	760	AA	Unavailable	Unavailable
	194	A	Unavailable	Unavailable
	2,015	BBB	Unavailable	Unavailable
	747	B	Unavailable	Unavailable
Municipal Bonds	109	Unrated	Unavailable	Unavailable
Yankee Bonds				
	159	BBB	Unavailable	Unavailable
	142	BB	Unavailable	Unavailable
Non-U.S. Fixed Income				
Foreign Governmental Bonds	1,857	AAA	Unavailable	Unavailable
Foreign Governmental Corp Debt	1,702	AAA	Unavailable	Unavailable
Foreign Governmental Corp Debt	461	A	Unavailable	Unavailable
Foreign Governmental Corp Debt	758	BBB	Unavailable	Unavailable
Foreign Governmental Corp Debt	143	BB	Unavailable	Unavailable
Money Market Mutual Funds	2,149	AAA	Unavailable	Unavailable
Total Rated Investments	165,096			

Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2005, the balance of the State Police Pension Trust deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the customer. None of the Indiana State Police Pension Trust's investments are exposed to custodial credit risk because they are held in the name of the Indiana State Police Pension Trust. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodian's failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Indiana State Police Trust has eight different investments managers. The purchase of securities in any one nongovernmental corporation shall be limited to an initial cost of 5% of the market value of an investment manager's portfolio. Additionally, the

following limits are set to further limit credit exposure:

Large/Mid/Small Capitalization Equity Managers: equity holdings in any one company should not exceed 7.5%.

Non-US Equity Investment Managers: equity holdings in any one international company shall not exceed 7.5% of the total value of all investments in international equity securities.

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

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

Fannie Mae: 17.80% \$59,035
 Freddie Mac: 5.07% \$16,800

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments.

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

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Fixed Income Securities					
U.S. Treasuries	\$ 12,830	\$ -	\$ 2,776	\$ 6,795	\$ 3,259
U.S. Agencies	6,274	6,274	-	-	-
Mortgage Backed					
Government Pass-Through	62,570	-	9,940	6,256	46,374
Corporate Pass-Through	6,499	-	2,049	231	4,219
Collateralized Mortgage Obligations					
Govt CMO's	18,485	-	828	2,965	14,692
Corp CMO's	2,530	-	-	-	2,530
Corporate Bonds	39,631	3,136	8,729	5,119	22,647
Corporate Asset Backed	17,119	955	2,398	292	13,474
Private Placements	4,509	-	2,757	385	1,367
Municipal Bonds	109	-	-	-	109
Yankee Bonds	300	-	159	-	141
Non-U.S. Fixed Income					
Foreign Governmental Bonds	1,857	-	-	1,635	222
Foreign Governmental Corp Debt	3,063	-	2,727	142	194
Money Market Mutual Funds	2,149	2,149	-	-	-
	<u>177,925</u>	<u>\$ 12,514</u>	<u>\$ 32,363</u>	<u>\$ 23,820</u>	<u>\$ 109,228</u>
Other Investments:					
Equities					
U.S.	96,566				
Non - U.S.	4,535				
Commingled Funds					
U.S. Equity	23,574				
Non- U.S. Equity	28,622				
Total Invested Assets	<u>\$ 331,222</u>				

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The table below breaks down the Trust’s exposure to each foreign currency (in thousands):

Currency by Investment	Fixed Income	Equity
British Pound	\$1,614	\$462
Canadian Dollar	-	726
Euro Currency	1,702	-
Other	1,605	3,347

c. Pension Trust Fund – Discrete Component Units

Public Employees’ Retirement System

Investment Policy – The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. Thus, the primary governing statutory provision is that the Board must “invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.” The Board is also required to diversify such investments in accordance with prudent investment standards.

Within these governing statutes, the Board has broad authority to invest the assets of the plans. The Board utilizes external investment managers each with specific mandates to implement the investment program. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled account, mutual funds or other structure acceptable to the Board.

Currently, the Board has established the following asset allocation strategy for the investments held in the Consolidated Retirement Investment Fund (CRIF):

Asset Classes	Target Norm	Allowable Ranges
Equities – Domestic	45%	42% - 51%
Equities – International	11%	8% - 17%
Equities – Global	9%	6% - 15%
Fixed Income – Core	20%	17% - 26%
Fixed Income – TIPS	10%	7% - 16%
Alternatives	5%	2% - 11%

Investment in the Annuity Savings Accounts and Legislature’s Defined Contribution plans are directed by the members in each respective plan and as such the asset allocation will differ from that of the CRIF. The Pension Relief Fund is invested to a target of 70% Fixed Income – Core and 30% Equities – Domestic. The Special Death Benefit Funds are 100% fixed income.

The following identifies investment types that are currently prohibited by the investment policy:

- Short sales of any kind
- Repurchase agreements that may create any kind of leverage in the portfolio (repurchase agreements as cash equivalents are permitted)
- Purchases of letter or restricted stock
- Buying or selling on the margin
- Purchases of futures and options, except where specifically noted in Specific Guidelines
- Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indexes representing investments, unless specifically approved by the Board or as delegated to the Executive Director
- Purchases of Interest Only or Principal Only collateralized mortgage obligations
- Purchases of Guaranteed Investment Contract (GIC’s) or Bank Investment Contracts (BIC’s)
- Any transactions giving rise to unrelated business taxable income (excluding current holdings)
- Any transaction that would be a “prohibited transaction” under the Internal Revenue Code Section 503
- Purchases of precious metals
- Purchases of commodities
- Purchases of inverse floaters

Deposit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the two demand deposit accounts are carried at cost and are insured up to \$100,000 each. Deposits in the demand accounts held in excess of \$100,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Deposits held with the custodian are collateralized with securities on loan that are held by the pledging financial institution.

Cash Deposits (in thousands)	Total	Bank One Benefits	National City Administration
Demand deposit account – carrying value	\$ 12,979	\$ 12,975	\$4
Demand deposit account – bank balance	58,549	58,446	103
Held with Treasurer of State	6,341		
Held with Custodian:			
Time Deposits – Cash collateral (nonnegotiable)	236,932		

Credit Risk – PERF’s fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard and Poors) at June 30, 2005, are as follows (in thousands):

Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$2,869,063	73.56%
AA	352,578	9.04%
A	232,196	5.95%
A-1	69,048	1.77%
BBB	210,895	5.41%
BB	74,485	1.91%
B	23,677	0.61%
CCC	1,625	0.04%
Not rated and other	66,696	1.71%
Grand Total	<u>\$3,900,263</u>	<u>100.00%</u>

Approximately 63% of total investments reported are AAA rated US Treasury and Other Agencies (\$2.454 billion). Fixed income mutual funds were rated AA and are approximately 7%, or \$280 million, of total investments. The remaining 30% of total investment balance of credit risk is allocated to corporate debt, asset backed securities and mortgage obligations with various credit quality ratings.

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

the securities are uninsured, are not registered in the name of PERF and are held by either the counterparty of the counterparty’s trust department of agent but not in PERF’s name.

Per IC 5-10.3-5-4(a), fund investments must be held by banks or trust companies under custodial agreements. Per IC 5-10.3-5-5, all custodians must be domiciled in the United States and approved by the department of financial institutions to act in a fiduciary capacity and manage custodial accounts in Indiana.

There was no custodial credit risk for investments. As the securities collateral was provided as a part of an external investment pool no custodial credit risk exists.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. Under PERF’s Investment Policy Statement, exposure to a single issuer, with the exception of the U.S. Government and it agencies, is generally limited to an initial cost of 5% of the market value of assets managed by each investment manager. For such investment managers, through capital appreciation, the exposure to a single issuer should not exceed 7.5% of market value of the assets managed by the manager.

For managers contracted to manage concentrated portfolios, exposure to the securities issued by a single issuer, with the exception of the U.S. Government and it agencies, is limited to 7.5% of the portfolio of the manager based upon initial cost and no more than 15% of the market value of the portfolio as a result of capital appreciation.

At June 30, 2005, there was no concentration of credit risks for the CRIF or separately managed fund portfolios.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The greater the duration of a bond or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is an indicator of a bond price’s sensitivity to a 100-basis point change in interest rates.

PERF’s fixed income portfolio investment policy sets duration guidelines that are linked directly, or indirectly, to the benchmark indices for each of its sub asset classes and as outlined in each portfolio manager contract. Several sub asset classes require that duration of the portfolio may not vary more than 20% above or below the duration of the applicable benchmark index.

Duration information is provided below (in thousands):

Investment Type	Net Asset Fair Value	Duration
Short Term	\$ 156,920	0.2
Government Obligation	2,067,728	5.9
Mortgage Backed	743,444	2.3
Corporate Bonds	713,414	5.3
Mutual Funds	280,179	4.2
Asset Backed	97,270	2.2
Foreign Government and Corporate Securities	11,358	2.3
Total Net Asset Fair Value	\$4,070,313	
Portfolio Duration		4.7

All PERF investments are directly, or indirectly, sensitive to changes in the interest rate environment. Significant investment types that are considered highly sensitive have been identified in the derivatives financial instruments section.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. PERF’s foreign currency exposure is focused in international and global equity holdings.

PERF’s portfolio investment policy refers to foreign currency guidelines that are linked directly, or indirectly, to the benchmark indices for each sub asset class or as outlined in each portfolio manager contract. Certain fixed income portfolio sub asset classes allow for up to 20% investment in non-US dollar government and corporate securities. The Equity portfolio sub asset classes have specific guidelines for international equities and global equity investments. Certain sub asset classes do not allow “emerging” markets investments while some allow up to 20% of market value to be held in emerging markets. PERF has exposure to foreign currency fluctuation as follows (in thousands):

Currency	Fair Value	Percentage of Holdings
Euro	\$626,023	35.55%
Pound Sterling	393,523	22.34%
Japanese Yen	320,239	18.18%
Australian Dollar	109,575	6.22%
Swiss Franc	75,400	4.28%
Canadian	48,454	2.75%
Other	187,952	10.68%
Grand Total	\$1,761,166	100.00%

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

Statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities. The Board requires that collateral securities and cash be initially pledged at 102% of the market value of the securities lent. No more than 40% of the Fund’s total assets may be lent at one time. The custodian bank and/or its securities lending subagents provide 100% indemnification to the Board and the Fund against borrower default, overnight market risk, and fails on the return of loaned securities. Securities received as collateral cannot be pledged or sold by the Board unless the borrower defaults. PERF retains the market value risk with respect to the investment of the cash collateral.

Cash collateral investments were subject to the investment guidelines specified by the Board. The Board policy includes that the maximum weighted average days to maturity may not exceed sixty. The average duration of the cash collateral portfolio was 24 days at June 30, 2005. The securities lending agents match the maturities of the investments of cash collateral for the securities loans with stated termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

Securities lent at year-end for cash collateral included loan values as follows (in millions):

Investment Type	Loan Value
Government Obligation	\$1,106
Corporate Bonds	78
Equities	910
Total Fair Value	\$2,094

At June 30, 2005, PERF had loaned US Treasury and Government Agency Obligations for securities collateral. The loan value was \$357.4 million which represented 102% coverage. The credit quality at June 30, 2005, also included under the credit risk section, was (in millions):

Securities Collateral Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$357.4	100%

At fiscal year end, PERF has no credit risk exposure to borrowers because the amount PERF owes the borrowers exceeds the amount the borrowers owe the Fund.

The credit quality of the cash collateral at June 30, 2005 was (in millions):

Cash Collateral Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$132	6.30%
AA	113	5.40%
A-1 and A-1+	1,771	84.58%
Not rated	78	3.72%
Grand Total	\$2,094	100%

The majority of AAA rated collateral was asset backed securities. The majority of AA rated collateral was Guaranteed Investment Contracts. The majority of A-1 and A-1+ collateral was medium term corporate bonds and time deposits.

Derivative Financial Instruments – PERF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. PERF's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, PERF's derivative investments included foreign currency forward

contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

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

At June 30, 2005 PERF's investments included the following currency forwards balances (in thousands):

Forward Currency Contract Receivables	\$319,093
Forward Currency Contract Payables	313,473

PERF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2005, the carrying value of the PERF's CMO holdings totaled \$151.1 million.

TIPS are used by PERF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). In addition, PERF employs TIPS at the total fund level in order to utilize their diversification benefits. As of June 30, 2005, the carrying value of the System's TIPS holdings totaled \$1.1 billion.

PERF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, PERF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. As of June 30, 2005, the only derivative positions held by PERF are equity index futures.

The PERF Board of Trustees had approved commitments to fund limited liability partnerships of \$115.8 million as of June 30, 2005. The fund has paid

out \$34.2 million of the commitment as of June 30, 2005. The funding period for the entire amount is July 2002 to February 2011.

State Teachers' Retirement Fund

Investment Policy - The Fund was established to provide retirement, disability, death, and termination benefits to present and former members of the Fund and their beneficiaries who meet the statutory requirements for such benefits. The Fund must be operated for the exclusive benefit of members and their beneficiaries, pursuant to Indiana law and the Internal Revenue Code. The Fund is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, the Fund is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. The Fund is also governed by Indiana statutes and administrative rules (IC 5-10.2 and IC 21-6.1).

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses. Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards (IC 21-6.1-3-9).

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

At its April 27, 2004 meeting, the Board changed the strategic asset allocation to:

Domestic Equities	42%
International Equities	18%
Private Equity	5%
Real Estate	5%
Absolute Return	5%
Fixed Income	25%
	<u>100%</u>

At its October 26, 2004 meeting, the Board also adjusted the domestic equity manager structure to the following: 20% large cap passive; 30% large cap enhanced; 10% large cap value; 10% large cap growth; 10% midcap core; 5% midcap value; 5% midcap growth; 5% small cap value; 5% small cap growth.

At its November 30, 2004 meeting, the Board adjusted the international equity manager structure to the following: 40% enhanced index and 60% to active management.

Credit Risk - The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by nationally recognized rating agencies. The Fund's investment policy limits each fixed income manager's purchase of below investment grade securities to 10% of the total market value of the manager's portfolio. The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's rated debt securities investments. Ratings below are presented using the Moody's rating scale. Debt securities unrated by Moody's are presented using Standard and Poor's ratings.

Quality Rating	Fair Value	Percentage of Portfolio
Aaa	\$2,131,330	66.81%
Aa1	12,823	0.40%
Aa2	16,566	0.52%
Aa3	46,233	1.45%
A1	181,108	5.68%
A2	62,636	1.96%
A3	191,549	6.00%
Baa1	90,726	2.84%
Baa2	141,842	4.45%
Baa3	99,767	3.13%
Ba1	50,747	1.59%
Ba2	34,159	1.07%
Ba3	16,173	0.51%
B1	10,851	0.34%
B2	3,243	0.10%

Quality Rating	Fair Value	Percentage of Portfolio
B3	19,502	0.61%
Caa1	22,218	0.70%
Caa2	14,344	0.45%
Ca	4,828	0.15%
P-1	15,242	0.48%
Not rated	24,478	0.76%
Total	\$3,190,365	100.00%

Custodial Credit Risk – Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the Fund. The deposits for the Fund at June 30, 2005 were \$16.5 million. Of this amount, \$16.4 million was exposed to custodial credit risk as uninsured and uncollateralized.

Concentration of Credit Risk – At June 30, 2005, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. government that represented more than 5% of net investments.

Interest Rate Risk – The Fund uses the Lehman Brothers Aggregate Index (LBA) as the benchmark for

performance measurement of their fixed income managers. Teachers' Retirement Fund's investment policy states that each fixed income manager must manage their portfolio so that the duration is no less than 80% and no more than 120% of the duration of the index.

Foreign Currency Risk – As of June 30, 2005, 12.17% of the Fund's investments were in foreign currencies. In addition to the Fund's international equity managers, fixed income managers are allowed to invest up to 10% of their portfolio in international bonds. As of June 30, 2005, \$54.2 million, or 2.0% of the Fund's fixed income holdings, were held in international bonds. The table below breaks down the Fund's exposure to each foreign currency (in thousands):

Currency	Fair Value	Percentage of Holdings
Euro Currency Unit	\$335,014	4.70%
British Pound Sterling	170,908	2.40%
Japanese Yen	167,637	2.35%
Swiss Franc	44,455	0.62%
Canadian Dollar	37,496	0.53%
Hong Kong Dollar	34,203	0.48%
Australian Dollar	24,339	0.34%
South Korean Won	15,327	0.22%
Others	34,363	0.53%
Totals	\$863,742	12.17%

The following is a summary of the Interest Rate Risk Disclosure for Teachers' Retirement Funds as of June 30, 2005:

As of June 30, 2005 TRF had the following investments and maturities (Amounts are in thousands).					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 343,462	\$ 72,595	\$ 59,614	\$ 63,414	\$ 147,839
U.S. Agencies	158,394	77,248	63,887	13,706	3,553
Asset backed securities	71,133	66,563	4,570	-	-
Mortgage backed securities	1,356,721	176,318	1,123,954	56,449	-
Non-government backed C.M.O.s	24,454	14,970	9,484	-	-
Corporate bonds	1,001,210	254,809	447,521	208,345	90,535
Index linked government bonds	75,931	633	74,539	759	-
Municipal/provincial bonds	758	-	-	758	-
Total	\$ 3,032,063	\$ 663,136	\$ 1,783,569	\$ 343,431	\$ 241,927

Securities Lending – State statutes and Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank

maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the

Fund. Collateral securities and cash are initially pledged at 102% of the market value of domestic securities lent and 105% on international securities lent. Collateral is marked to the market on a daily basis. No more than 40% of TRF's total assets may be lent at any one time. At year-end, TRF has no credit risk exposure to borrowers because the amount TRF owes the borrowers exceed the amounts the

borrowers owe TRF.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Cash collateral is generally invested in high quality short-term fixed income securities.

As of June 30, 2005 the Fund had the following securities on loan (in thousands):

<u>Security Type</u>	<u>Market Value of Loaned Securities Collateralized by Cash</u>	<u>Market Value of Loaned Securities Collateralized by Cash</u>	<u>Total Securities Loaned</u>
Global Equities	\$117,276	\$1,353	\$118,629
Global Gov't Fixed	2,385	-	2,385
U.S. Agencies	2,355	8,437	10,792
U.S. Corporate Fixed	169,281	15,587	184,868
U.S. Equities	412,226	5,318	417,544
U.S. Gov't Fixed	384,994	21,457	406,451
	<u>\$1,088,517</u>	<u>\$52,152</u>	<u>\$1,140,669</u>

Derivative Financial Instruments – TRF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. TRF's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, TRF's derivative investments included foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

Foreign currency forward contracts are used to hedge against the currency risk in TRF's foreign stock and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. At June 30, 2005 TRF's investments included the following currency forwards balances (in thousands):

Forward Currency Contract	\$153,180
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TRF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2005, the carrying value of the TRF's CMO holdings totaled \$158.7 million.

TIPS are used by TRF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). As of June 30, 2005, the carrying value of the System's TIPS holdings totaled \$75.2 million.

TRF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the

underlying security (arbitrage). Additionally, TRF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of

the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. As of June 30, 2005, the only derivative positions held by TRF are equity index futures.

B. Interfund Transactions

Interfund Loans

Interfund loans of \$5.3 million represents amounts owed by the State Office Building Commission Fund (SOBC), an internal service fund, to the General Fund. Out of this total, \$3.6 million is for the enhancement of Logansport State Hospital, \$1.5 million is for the Forensics Lab, and \$0.2 million is for the Hoosier Safe-T Project, to provide a statewide voice and data communications system.

Interfund loans of \$9.3 million represents amounts owed by the Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds Fund, an internal service fund, to the State Highway Department Fund, a special revenue fund, for construction expenses.

Interfund loans of \$2.4 million are composed of \$275,000 and \$2.1 million that represent amounts owed by the Alcohol Beverage Commission Research Fund and the Excise Tax Special Education Research

Fund, respectively, to the General Fund. The purpose of these loans was to cover a deficit cash balance in prior years.

Interfund loans of \$436,000 represents amounts owed by the Voluntary Compliance Research Fund to the Environmental Management Fund to cover a deficit cash balance in prior years. Both of these funds are nonmajor governmental funds.

As explained in Note III(B) above, temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2005, the following funds had temporary cash overdrafts covered by loans from the General Fund: the Medicaid Assistance Fund, \$37.1 million, the Federal Food Stamp Program Fund \$1.7 million, and the Major Construction Army National Guard Fund, a non-major governmental fund, \$3.7 million.

The following is a summary of the Interfund Loans as of June 30, 2005:

Interfund Loans - Current				
	Loans To Other Funds		Loans From Other Funds	
	Loans To Governmental Funds	Loans To Proprietary Funds	Loans From Governmental Funds	Loans From Proprietary Funds
Governmental Funds				
General Fund	\$ 44,886	\$ 5,302	\$ -	\$ -
Medicaid Assistance Fund	-	-	37,095	-
State Highway Department	-	9,265	-	-
Nonmajor Governmental Funds	436	-	8,227	-
Total Governmental Funds	45,322	14,567	45,322	-
Proprietary Funds				
Internal Service Funds	-	-	14,567	-
Total Proprietary Funds	-	-	14,567	-
Total Interfund Loans	\$ 45,322	\$ 14,567	\$ 59,889	\$ -

Interfund Services Provided/Used

Interfund Services Provided of \$5.2 million represents amounts owed by various governmental funds to the Institutional Industries Fund and the Administrative

Services Revolving Funds, both internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2005:

Interfund Services Provided/Used		
	Interfund Services Provided To <u>Governmental Funds</u>	Interfund Services Used By <u>Governmental Funds</u>
Governmental Funds		
General Fund	\$ -	\$ 1,862
Motor Vehicle Highway Fund	-	823
State Highway Department	-	148
Tobacco Settlement Fund	-	1
Nonmajor Governmental Funds	-	2,379
Total Governmental Funds	<u>-</u>	<u>5,213</u>
Proprietary Funds		
Internal Service Funds	<u>5,213</u>	-
Total Proprietary Funds	<u>5,213</u>	-
Total Interfund Services Provided/Used	<u>\$ 5,213</u>	<u>\$ 5,213</u>

Due From/Due Tos

Current - Interfund Balances of \$46.7 million represent the current amount due to the Indiana Bond Bank at June 30, 2005 for bonds issued on behalf of the State Revolving Fund. The Interfund Balance of \$27.1 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund.

Non-current – Interfund Balances of \$101.7 million represent the total of payment delays from the General Fund to the seven discretely presented colleges and universities throughout the State of

Indiana. In June, 2004, the General Fund borrowed \$50.0 million, interest free, from the Indiana Board for Depositories, a discretely presented component unit. This money is due to be repaid, either from the General Fund prior to January 1, 2013, or by a budget request submitted to the 2013 session of the general assembly. These non-current Interfund Balances appear on the government-wide statements, but not the General Fund statements. Interfund Balances of \$1.4 billion represent the non-current amount due to the Indiana Bond Bank at June 30, 2005 for bonds issued on behalf of the State Revolving Fund.

The following are current and non-current schedules of Due From/Due Tos of Component Units, as of June 30, 2005:

Component Units - Current				
	Due From Primary Government	Due To Component Units	Due From Component Units	Due To Primary Government
Governmental Funds				
Build Indiana Fund	\$ -	\$ -	\$ 27,068	\$ -
Total Governmental Funds	-	-	27,068	-
Proprietary Funds				
State Revolving Fund	-	46,695	-	-
Total Proprietary Funds	-	46,695	-	-
Component Units				
State Lottery Commission	-	-	-	27,068
Indiana Bond Bank	46,695	-	-	-
Total Component Units	46,695	-	-	27,068
Total Due From/To	\$ 46,695	\$ 46,695	\$ 27,068	\$ 27,068

Component Units - Non-current				
	Due From Primary Government	Due To Component Units	Due From Component Units	Due To Primary Government
Governmental Funds				
General Fund	\$ -	\$ 151,702	\$ -	\$ -
Total Governmental Funds	-	151,702	-	-
Proprietary Funds				
State Revolving Fund	-	1,397,141	-	-
Total Proprietary Funds	-	1,397,141	-	-
Component Units				
Indiana University	39,813	-	-	-
Purdue University	27,992	-	-	-
Nonmajor Universities	33,897	-	-	-
Board for Depositories	50,000	-	-	-
Indiana Bond Bank	1,397,141	-	-	-
Total Component Units	1,548,843	-	-	-
Total Due From/To	\$ 1,548,843	\$ 1,548,843	\$ -	\$ -

Transfers of a member's reserves are made between the State Teachers' Retirement Fund (TRF) and the Public Employees' Retirement Fund (PERF) when a member has service at the time of retirement that is covered by both funds. Service covered by PERF and the related Annuity Savings Account balance will be used by TRF at the time of retirement in calculating the member's retirement benefit from TRF if the member was last employed in a TRF covered position. If the member was last employed in a PERF covered position, PERF will use the member's TRF service and Annuity Savings Account balance. At the

time the retirement is calculated TRF sets up a receivable from PERF (Due from component unit) for both the Annuity Savings Account balance and the calculated reserve for the service credit brought in from PERF. This receivable is included as a line item in the "Receivables" section of TRF's Statement of Fiduciary Net Assets. On the reverse side, TRF recognizes a payable (Due to component unit) in the Liabilities section of the Statement of Fiduciary Net Assets for TRF amounts used in calculating a PERF retiree's benefit. The reverse of the above holds true for PERF.

The following is a schedule of Due From/ Due Tos within Component Units, as of June 30, 2005:

Within Component Units		
	Due From Component Units	Due To Component Units
Discretely Presented Component Units Pension Trust:		
Pension Trust		
Public Employees' Retirement Fund	\$ 495	\$ -
State Teachers' Retirement Fund	-	495
	<hr/>	<hr/>
Total Discretely Presented Component Units Pension Trust	495	495
	<hr/>	<hr/>
Total Due From / To	\$ 495	\$ 495
	<hr/>	<hr/>

Interfund Transfers

Major Governmental Funds

Transfers constitute the movement of money from the fund that receives the resources to the fund that utilizes them. These numerous transfers generally result from legislation passed by the Indiana General Assembly that directs how the transfers are made. In the case of the General Fund, many appropriations are made in the General Fund and then transferred during the year to the funds where these appropriations are used. Also in the case of the General Fund, various taxes and other revenues are collected in other funds and transferred to the General Fund. Following are the principal purposes of the State's interfund transfers:

General Fund – The General Fund had the following transfers in: \$1.63 billion was transferred in to reimburse the General Fund for the Property Tax Replacement Fund's share of tuition support per legislation. The General Fund's Motor Vehicle Excise Tax Replacement Account received \$236.2 million in transfers in from the Build Indiana Fund per legislation. \$151.8 million was transferred in from the Collection Fund. This represents individual and corporate income taxes collected for the General Fund. The General Fund also received \$126.4 million in transfers in from the Mental Institutions. \$96.4 million was transferred in from the Bureau of Motor Vehicles (BMV) Holding Account, representing motor vehicle sales tax collected for the General Fund. \$54.2 million was transferred in from the Tobacco Settlement Fund for health and welfare purposes. \$45.6 million was received to transfer the balance of the Financial Institutions Tax Fund not needed for distributions to counties. \$28.9 million was transferred

in from the Collection Fund. This represents sales taxes collected for the General Fund.

The General Fund received \$28.1 million for the disproportionate share hospital (DSH) program from the Medicaid Assistance Fund. \$22.0 million was transferred in from Family and Social Services Administration (FSSA) to the State Budget Agency Medicaid Reserve Contingency Fund. \$20.0 million was transferred from the Department of Education Escrow/Holding account to the State School Tuition Fund. \$17.8 million represents appropriation transfers made by the Budget Committee from the Title XX Fund to the General Fund for the Division of Disability, Aging and Rehabilitative Services (DDARS) – Residential Services for the Developmentally Disabled. \$16.3 million was transferred in from the FSSA Temporary Assistance for Needy Families (TANF) to the General Fund for DDARS – Residential Services for the Developmentally Disabled. \$7.3 million was transferred in from the Comfort and Welfare Fund to the General Fund for the Indiana Veterans Home. \$6.3 million was transferred in from the Institutional Industries Fund, an internal service fund. These transfers represent a transfer of funds to the General Fund per legislation at the end of the current fiscal year. \$4.7 million was transferred in from the Motor Vehicle Highway Fund for motor fuel tax and to reimburse the General Fund for the State Wide Cost Allocation Plan from dedicated funds. \$4.6 million was transferred in from the Administrative Services Fund, an internal service fund. \$2.5 million of this was required by the Budget Bill and \$2.1 million was from the General Fund PeopleSoft GMIS account for PeopleSoft implementation. \$4.4 million was transferred in from the Medicaid Certification Title XIX

to the State Board of Health (SBH) Medicare/Medicaid Certification.

The following were the transfers out from the General Fund: \$1.45 billion was transferred to the Medicaid Assistance Fund for Medicaid and Disability and the disproportionate share hospital (DSH) program. \$580.9 million in income taxes and \$52.2 million of BMV sales taxes were collected in the General Fund and transferred to the Property Tax Replacement Fund (PTRF). Another \$59.0 million was transferred to the PTRF to make up the shortfall of tuition support money per legislation.

\$99.5 million represents appropriation transfers out to the Higher Education Fund. \$99.0 million, \$97.9 million, and \$95.5 million of grant appropriations were transferred from the General Fund to the County Welfare Administration Fund, the Welfare-State and Federal Assistance Fund and the Mental Health Center Fund, respectively. \$59.2 million was transferred from the General Fund to the Motor Vehicle Highway Fund for State Police expenditures, pensions, and overtime. \$49.6 million and \$38.0 million represent appropriation transfers out to the Welfare-Medicaid Administration Fund and the Freedom of Choice Fund, respectively. Another \$38.8 million of grants were transferred to the Title XX Fund for aging, community service, and welfare. Grant and appropriations of \$37.4 million were transferred to the Welfare-Work Incentive Fund for the Family and Social Services Administration (FSSA) and TANF. \$22.5 million for administration and awards went to the 21st Century Scholars Fund. \$17.6 million of riverboat admissions tax was transferred to the Indiana Horse Racing Commission. \$15.3 million of grants were transferred to the Vocational Rehabilitation Fund for vocational rehabilitation and case management. \$13.3 million represents appropriation transfers to the Mental Health Services Block Grant Fund. \$13.0 million of grants were transferred to the Public Health Service Fund for auto emission testing, environmental management operation, and substance abuse treatment.

\$11.6 million and \$11.4 million represent transfers out to the Training 2000 Fund and appropriation and allotment transfers to the State Parks and Reservoirs Fund, respectively. \$10.1 million represents transfers out of sales and income taxes to the Collection Fund. \$9.1 million represents transfers out from the General Fund collection tax account to financial institutions account. There was \$9.0 million in transfer to the Fish and Wildlife Fund. \$8.0 million of appropriations was transferred to the Bank Tax Refunds Fund. Another \$8.0 million was transferred to the Public Defense Fund. \$7.7 million represents transfers to the Department of Corrections Title XX Fund. \$7.4 million

was transferred out to the Institutional Industries Fund, an internal service fund. These transfers represent a return of funds which were previously transferred in to the General Fund per legislation at the end of the prior fiscal year. \$7.1 million represents grant appropriation transfers for the Central Reimbursement Office (CRO) Program Administration and Revenue Recovery in the Title 4D Social Security Fund. \$5.8 million was transfers to the Employment and Training Fund. \$5.2 million represents transfers from the General Fund collection tax account to the Returned Check Revolving Fund.

Motor Vehicle Highway Fund – The Motor Vehicle Highway Fund received transfers in of \$115.4 million from the Bureau of Motor Vehicles Holding Account, representing vehicle licenses and fees. \$59.2 million was transferred in from the General Fund to reimburse the Motor Vehicle Fund for expenses it incurred for the State Police. \$43.6 million was transferred in from the International Registration Plan fund and represents Indiana’s share of revenues collected under this plan. \$24.0 million was transferred in from the Motor Carrier Clearing Account, representing collections for the motor carrier surtax. \$8.1 million was transferred in from the Indiana State Trooper Costs Account, representing State trooper salaries, benefits, and overtime charged to riverboats. \$6.6 million was transferred in from the Motor Carrier Regulation Fund.

Transfers out included \$320.2 million to the State Highway Department Fund. By legislation the remainder of the amount in the Motor Vehicle Highway Fund, after distributions to cities, towns, and counties, and after other legislative required transfers, goes to the State Highway Department Fund. \$16.5 million was transferred out to the Road and Street Primary Highway Fund. \$16.0 million was transferred out to the Underground Petroleum Storage Tank (UPST) Excess Liability Fund. This represents fees, fines and penalties assessed to owners of underground storage tanks.

Medicaid Assistance Fund – The Medicaid Assistance Fund had a transfer in of \$1.45 billion from the General Fund for Medicaid and Disability and the disproportionate share hospital (DSH) program. There were also transfers in of \$90.9 million from the Mental Health Center Fund, \$62.5 million from the Medicaid Indigent Care Trust Fund, \$16.0 million from the Tobacco Settlement Fund for the Children’s Health Insurance Program (CHIP Assistance), \$13.9 million from the Medical Assistance for Wards Fund, \$9.0 million from the Welfare Work Incentive Fund, and \$7.4 million from the Division of Family and Children Title 20 Fund.

Transfers out included \$54.6 million to the Mental Institutions Fund for Medicaid DSH providers and \$28.1 million to the General Fund for the DSH program.

Build Indiana Fund – The purpose of all Build Indiana Fund transfers is to follow legislation enacted by the Indiana General Assembly. The Build Indiana Fund received transfers in of the following: \$113.9 million from the Property Tax Replacement Fund, \$4.0 million from the Charity Gaming Enforcement Fund, and \$2.3 million from the Pari-Mutuel Taxes Account of the General Fund. All of these transfers in represent gambling tax revenues, with the Property Tax Replacement Fund transfer representing Riverboat Wagering Tax. The Build Indiana Fund had transfers out of \$236.2 million, all to the General Fund Motor Vehicle Excise Tax Replacement Account.

State Highway Department Fund – The State Highway Department had the following transfers in: \$320.2 million was transferred in from the Motor Vehicle Highway Fund. This is a legislative transfer as described above under the Motor Vehicle Highway Fund. \$147.4 million was transferred in from the Road and Street Primary Highway Fund. In addition, \$20.0 million was transferred in from the Gasoline and Special Fuel Tax Fund. This \$20.0 million represents the State Highway Department's share of gas and special fuel taxes collected in that fund.

Property Tax Replacement Fund – The Property Tax Replacement Fund (PTRF) received the following transfers in: \$580.9 million in income taxes and \$52.2 million of sales taxes were collected in the General Fund and transferred to the PTRF. \$59.0 million came from the General Fund to charge it with the shortfall of tuition support money per legislation. \$584.7 million in gaming taxes were collected in the State Gaming Fund and transferred to the PTRF. Another \$29.3 million in sales taxes were collected in the Tax Collection Fund and transferred to the PTRF.

The PTRF had the following transfers out: \$1.63 billion was transferred to reimburse the General Fund for the PTRF's share of tuition support per legislation.

\$113.9 million of wagering tax was transferred out to the Build Indiana Fund per legislation. \$10.0 million and \$2.3 million, representing riverboat admissions taxes, were transferred to the Indiana Horse Racing Commission and the State Fair Commission, respectively.

Tobacco Settlement Fund – The Tobacco Settlement Fund had the following major transfers out:

\$54.2 million was for health and welfare purposes in the General Fund. \$37.5 million of the transfers out was for the 21st Century Research and Technology Fund. Another \$16.0 million was for the Children's Health Insurance Program (CHIP Assistance) in the Public Welfare Medicaid Assistance Fund.

Proprietary Funds

Nonmajor Enterprise Funds

The Inns and Concessions Fund – This fund had transfers in of \$1.0 million, representing cash contributions from the Department of Natural Resources (DNR) in the General Fund for capital projects at the DNR Inns.

Internal Service Funds

The purpose of the Institutional Industries Fund transfers are to follow legislation enacted by the Indiana General Assembly. \$7.4 million was transferred in from the General Fund to the Institutional Industries Fund, an internal service fund. These transfers represent a return of funds which were previously transferred to the General Fund per legislation at the end of the prior fiscal year. \$6.3 million was transferred out at year end to the General Fund from the Institutional Industries Fund. These transfers represent a transfer of funds to the General Fund per legislation at the end of the current fiscal year.

\$1.0 million in Homeland Security grant funds were transferred in to Administrative Services, an internal service fund, from special revenue funds. This transfer of federal grant funds was for the purchase of enhanced security equipment for the Indiana Government Complex. \$2.5 million was transferred out from Administrative Services to the General Fund as required by the Budget Bill. \$2.1 million was transferred out to the General Fund (PeopleSoft GMIS account) for PeopleSoft implementation.

Fiduciary Funds (Discrete)

Transfers between the Public Employees' Retirement Fund (PERF) and the State Teachers' Retirement Fund (TRF) occur when employees in a position covered by one retirement fund move to a position covered by the other retirement fund. In that case, the service and account balance of the employee is transferred. During FY 2005, \$3.0 million was transferred from TRF to PERF and \$4.0 million was transferred from PERF to TRF.

A summary of interfund transfers for the year ended June 30, 2005 is as follows:

	<u>Transfers in</u>	<u>Transfers out</u>	<u>Net transfers</u>
Governmental Funds			
General Fund	\$ 2,548,487	\$ (3,100,077)	\$ (551,590)
Motor Vehicle Highway Fund	267,352	(363,861)	(96,509)
Medicaid Assistance	1,654,000	(83,342)	1,570,658
Build Indiana Fund	120,463	(236,287)	(115,824)
State Highway Department	490,323	(4,477)	485,846
Property Tax Replacement Fund	1,306,222	(1,765,310)	(459,088)
Tobacco Settlement Fund	77	(117,441)	(117,364)
Nonmajor Governmental Fund	1,596,525	(2,311,087)	(714,562)
Proprietary Funds			
Nonmajor Enterprise Funds	958	-	958
Internal Service Funds	8,373	(10,898)	(2,525)
Fiduciary Funds (Discrete)			
Public Employees' Retirement Fund	2,982	(3,972)	(990)
State Teachers' Retirement Fund	3,972	(2,982)	990
	<u>\$ 7,999,734</u>	<u>\$ (7,999,734)</u>	<u>\$ -</u>

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>			<u>Total Primary Government</u>
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	
Income taxes	\$ 1,173,413	\$ -	\$ -	\$ 1,173,413
Sales taxes	335,081	344,459	-	679,540
Fuel taxes	-	105,218	-	105,218
Gaming taxes	134	1,715	-	1,849
Inheritance taxes	40,942	-	-	40,942
Alcohol and tobacco taxes	27,670	3,716	1,799	33,185
Insurance taxes	5,069	-	-	5,069
Financial institutions taxes	-	33,059	-	33,059
Other taxes	6,885	33,989	-	40,874
	<u>1,589,194</u>	<u>522,156</u>	<u>1,799</u>	<u>2,113,149</u>
Less allowance for uncollectible accounts	(266,914)	(48,645)	(52)	(315,611)
Net taxes receivable	<u>\$ 1,322,280</u>	<u>\$ 473,511</u>	<u>\$ 1,747</u>	<u>\$ 1,797,538</u>
Tax refunds payable	<u>\$ 47,406</u>	<u>\$ 2,872</u>	<u>\$ -</u>	<u>\$ 50,278</u>

D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2005, was as follows:

Primary Government – Governmental Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,154,033	\$ 43,590	\$ (2,234)	\$ 1,195,389
Infrastructure	7,503,181	16,951	(3,760)	7,516,372
Construction in progress	427,603	182,587	(68,283)	541,907
Total capital assets, not being depreciated	<u>9,084,817</u>	<u>243,128</u>	<u>(74,277)</u>	<u>9,253,668</u>
Capital assets, being depreciated:				
Buildings and improvements	2,308,079	18,181	(11,474)	2,314,786
Furniture, machinery, and equipment	308,075	18,071	(18,799)	307,347
Infrastructure	14,235	-	-	14,235
Total capital assets, being depreciated	<u>2,630,389</u>	<u>36,252</u>	<u>(30,273)</u>	<u>2,636,368</u>
Less accumulated depreciation for:				
Buildings and improvements	(807,108)	(57,998)	7,012	(858,094)
Furniture, machinery, and equipment	(180,958)	(21,217)	19,312	(182,863)
Infrastructure	(12,099)	(306)	-	(12,405)
Total accumulated depreciation	<u>(1,000,165)</u>	<u>(79,521)</u>	<u>26,324</u>	<u>(1,053,362)</u>
Total capital assets being depreciated, net	<u>1,630,224</u>	<u>(43,269)</u>	<u>(3,949)</u>	<u>1,583,006</u>
Governmental activities capital assets, net	<u>\$ 10,715,041</u>	<u>\$ 199,859</u>	<u>\$ (78,226)</u>	<u>\$ 10,836,674</u>

Primary Government – Business-Type Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Business-type Activities:				
Capital assets, not being depreciated:				
Construction in progress	21	128	(149)	-
Total capital assets, not being depreciated	<u>21</u>	<u>128</u>	<u>(149)</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings and improvements	21,945	373	(50)	22,268
Furniture, machinery, and equipment	703	49	-	752
Total capital assets, being depreciated	<u>22,648</u>	<u>422</u>	<u>(50)</u>	<u>23,020</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,929)	(568)	50	(10,447)
Furniture, machinery, and equipment	(664)	(16)	-	(680)
Total accumulated depreciation	<u>(10,593)</u>	<u>(584)</u>	<u>50</u>	<u>(11,127)</u>
Total capital assets being depreciated, net	<u>12,055</u>	<u>(162)</u>	<u>-</u>	<u>11,893</u>
Business-type activities capital assets, net	<u>\$ 12,076</u>	<u>\$ (34)</u>	<u>\$ (149)</u>	<u>\$ 11,893</u>

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

Governmental activities:	
General government	\$ 28,829
Public safety	18,097
Health	2,319
Welfare	5,503
Conservation, culture and development	8,989
Education	1,207
Transportation	14,403
Other	174
	<hr/>
Total depreciation expense - governmental activities	<u>\$ 79,521</u>
Business-type activities:	
Inns and Concessions	584
	<hr/>
Total depreciation expense - business-type activities	<u>\$ 584</u>

Major Discretely Presented Component Units - Governmental and Proprietary

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital Assets				
Capital assets, not being depreciated:				
Land	\$ 28,219	\$ 5	\$ -	\$ 28,224
Infrastructure	184,066	-	-	184,066
Construction in progress	11,283	22,993	-	34,276
Total capital assets, not being depreciated	<u>223,568</u>	<u>22,998</u>	<u>-</u>	<u>246,566</u>
Capital assets, being depreciated:				
Buildings and improvements	63,855	11	-	63,866
Furniture, machinery, and equipment	55,522	2,010	(8,038)	49,494
Total capital assets, being depreciated	<u>119,377</u>	<u>2,021</u>	<u>(8,038)</u>	<u>113,360</u>
Less accumulated depreciation for:				
Buildings and improvements	(38,828)	(1,216)	-	(40,044)
Furniture, machinery, and equipment	(40,746)	(3,830)	7,580	(36,996)
Total accumulated depreciation	<u>(79,574)</u>	<u>(5,046)</u>	<u>7,580</u>	<u>(77,040)</u>
Total capital assets being depreciated, net	<u>39,803</u>	<u>(3,025)</u>	<u>(458)</u>	<u>36,320</u>
Business-type activities capital assets, net	<u>\$ 263,371</u>	<u>\$ 19,973</u>	<u>\$ (458)</u>	<u>\$ 282,886</u>

E. Leases

Investment in Direct Financing Lease

The Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds Fund, an internal service fund, has a direct financing lease with the Department of Transportation. This Highway Revenue Bonds Fund lease is offset by revenue bonds payable and is eliminated in the fund financial statements. The revenue bonds payable are included in the

government-wide statements. The ITFA Airport Facilities Revenue Bonds Fund and the ITFA Aviation Technology Center Lease Bonds Fund, discretely presented component units, have investments in direct financing leases with the Indianapolis Airport Authority.

The future minimum lease receipts together with the amounts representing principal and interest for the Highway Revenue Bonds Fund are as follows:

<u>Year Ending, June 30</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 23,280	\$ 70,689	\$ 93,969
2007	31,593	69,563	101,156
2008	32,996	67,978	100,974
2009	34,079	66,397	100,476
2010	36,113	64,463	100,576
2011-2015	208,702	287,422	496,124
2016-2020	259,665	225,426	485,091
2021-2025	328,092	148,895	476,987
2026-2030	327,556	46,980	374,536
Premium/(discount)	<u>(36,524)</u>		<u>(36,524)</u>
Total	<u>\$ 1,245,552</u>	<u>\$ 1,047,813</u>	<u>\$ 2,293,365</u>

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2005 and the assets acquired through capital leases are as follows:

Future minimum lease payments			
<u>Year ending June 30,</u>	<u>Operating leases</u>	<u>Capital leases Governmental Activities</u>	
2006	42,899	\$	3,788
2007	36,527		3,724
2008	30,563		3,627
2009	25,365		3,505
2010	20,462		2,906
2011-2015	45,465		6,969
2016-2020	13,397		3,800
2021-2025	2,536		3,914
2026-2030	399		4,036
2031-2035	-		2,808
Total minimum lease payments (excluding executory costs)	<u>\$ 217,613</u>		39,077
Less:			
Amount representing interest			<u>(16,285)</u>
Present value of future minimum lease payments		\$	<u>22,792</u>
Assets acquired through capital lease			
Land		\$	8,000
Building			42,394
Machinery and equipment			2,644
less accumulated depreciation			<u>(8,542)</u>
		\$	<u>44,496</u>

Operating Leases

The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of \$20,000 or more were \$43.3 million for the year ended June 30, 2005. A table of future minimum lease payments (excluding executory costs) is presented on the previous page.

Capital Leases Liabilities

The State has entered into various lease agreements with aggregate payments of \$20,000 or more to finance the acquisition of buildings, land and

equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the government-wide statements.

Discretely Presented Component Units

The Indiana Development Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total \$94,458.

F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2005 were as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Compensated absences	\$ 127,705	\$ 72,063	\$ (69,376)	\$ 130,392	\$ 77,178	\$ 53,214
Construction retention	1,882	1,245	(165)	2,962	-	2,962
Due to component unit	148,576	3,126	-	151,702	-	151,702
Net pension obligation	3,648	3,662	-	7,310	-	7,310
Revenue bonds/notes payable	2,311,356	439,215	(396,689)	2,353,882	57,637	2,296,245
Interest payable	33,549	2,239	-	35,788	23,480	12,308
Amount due federal government	295	-	-	295	-	295
Capital leases	24,954	1,626	(3,788)	22,792	2,486	20,306
	<u>\$ 2,651,965</u>	<u>\$ 523,176</u>	<u>\$ (470,018)</u>	<u>\$ 2,705,123</u>	<u>\$ 160,781</u>	<u>\$ 2,544,342</u>
Business-type activities:						
Compensated absences	\$ 300	\$ 202	\$ (177)	\$ 325	\$ 185	\$ 140
Claims liability	34,796	8,510	(2,798)	40,508	2,091	38,417
Amount due federal government	847	-	(847)	-	-	-
Due to component unit	1,485,652	1,387	(43,203)	1,443,836	46,695	1,397,141
	<u>\$ 1,521,595</u>	<u>\$ 10,099</u>	<u>\$ (47,025)</u>	<u>\$ 1,484,669</u>	<u>\$ 48,971</u>	<u>\$ 1,435,698</u>

Changes in long-term obligations for the major governmental and proprietary discretely presented component units for the year ended June 30, 2005 are as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Business-type activities:						
Accrued prize liability	\$ 111,289	\$ 74,207	\$ (61,806)	\$ 123,690	\$ 55,459	\$ 68,231
Revenue bonds/notes payable	5,578,325	2,088,809	(2,014,278)	5,652,857	919,075	4,733,782
Other noncurrent liabilities	2,912	3,501	(85)	6,328	-	6,328
	<u>\$ 5,692,526</u>	<u>\$ 2,166,517</u>	<u>\$ (2,076,169)</u>	<u>\$ 5,782,875</u>	<u>\$ 974,534</u>	<u>\$ 4,808,341</u>

Long-term obligations of the governmental activities consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, the State Office Building Commission and Recreational Development Commission. Other long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Note IV(E), net pension obligations for

the State Police Retirement Fund, the Prosecuting Attorney's Retirement Fund and Legislators' Retirement System as presented in Note V(H), construction retention, amount due the federal government and compensated absence obligations. The General Fund typically has been used to liquidate other long-term liabilities.

Long-term obligations of the business-type activities consists of claims liability of the Indiana Residual Malpractice Insurance Authority. The State Revolving Fund has obligations due the Indiana Bond Bank. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term obligations of the significant discretely presented component units consists of bonds issued or backed by the Indiana Housing Finance Authority and the Indiana Bond Bank. It also includes revenue bonds issued by the Indiana Transportation Finance Authority Airport Facilities and the Indiana Transportation Finance Authority Toll Road. Included also is prize liability accrued by the Indiana State Lottery Commission. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

Governmental Activities

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds – In 1988, the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On November 15, 2000, ITFA issued Highway Revenue Bonds, Series 2000 in the par amount of \$269.5 million, which included \$21.9 million of refunding debt and \$247.6 million of new money debt. New refunding debt service requirements required a \$2.7 million increase in cash funds needed over the prior debt service requirements. The economic gain, or present value savings, on the refunding was

\$556,875. The primary purpose of the refunding bond issue was to level out the debt service requirements over time to increase the volume capacity for future bond issuances, as well as present value savings.

The \$247.6 million new money debt is being used for the payment of construction costs for the Series 2000 projects. The refunding debt was used to refund in advance of their stated maturity dates the Series 1990A and 1993A bonds maturing from June 1, 2006 to June 1, 2011. A portion of the proceeds, \$22.7 million was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, Bank One Trust Company, N.A., and were used to purchase direct obligations of the United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest for the Series 1990A Bonds and the Series 1993A Bonds. As of June 30, 2005, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$9.7 million with total Series 1990A capital appreciation bonds maturing at \$14.1 million and total Series 1993A capital appreciation bonds maturing at \$9.2 million.

In June 2003, the Authority issued \$150.1 million of Highway Bond anticipation Notes to provide interim financing for highway and bridge projects under the Highway Revenue Bond Program. The interest rate on the notes was 1.50% (the yield was .95%). The Authority paid the notes on September 25, 2003, using a portion of the proceeds of the Authority's Highway Revenue Bonds, Series 2003A.

In September 2003, the Authority issued Highway Revenue Bonds, Series 2003A in the amount of \$433.2 million, which mature serially through June 1, 2003 and include a term bond maturing on June 1, 2028. The bonds bear interest at rates 2.00% to 5.25%.

In June 2004, the Authority issued Highway Revenue Bonds, Series 2004A in the amount of \$320.6 million, which mature serially from June 1, 2017 through June 1, 2029, and include a term bond maturing on June 1, 2029. The bonds bear interest at rates from 4.625% to 5.25%.

In July 2004, the Authority issued Highway Revenue Bonds, Series 2004B in the amount of \$147.3 million, which mature serially from December 1, 2014 through December 1, 2022. The bonds bear interest at rates from 5.50% to 5.75%.

In July 2004, the Authority issued Highway Revenue Bonds, Series 2004C in the amount of \$148.1 million, which mature serially from December 1, 2009 through December 1, 2025. The bonds bear interest at rates

from 4.25% to 5.50%.

Indiana State Office Building Commission - The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana State Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

The Hoosier Notes agreement provides interim financing for the acquisition and construction of the various facilities. On October 31, 2002, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998, which reduced the maximum advance of tax exempt commercial paper from \$200 million to \$150 million. Borrowings outstanding under this facility at June 30, 2005 were \$33.9 million, with interest computed at the LIBOR rate plus .25% or 70% of the Bank's prime lending rate. The interest rate in effect ranged from 1.15-2.47% at June 30, 2005. The credit facility expires on December 31, 2005.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004A which consist of \$255 thousand in serial bonds at interest rates ranging from 2.0% to 2.375% and \$45.9 million in term bonds at an interest rate of 5.25%. The 2004A Bonds were issued to partially refund the 1999A Series Bonds which were originally issued to finance the acquisition, design, construction, and equipping of Phase I of a medium security correctional facility, in the amount of \$47.9 million. The cash flow difference between the debt service on the 1999A Series Bonds and the new debt is \$1.8 million and the economic gain is \$1.7 million.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004B which

consist of \$61.9 million term bonds at an interest rate of 5.25%. The 2004B Bonds were issued to partially refund the 2002A Series Bonds which were originally issued to finance the remaining costs associated with the acquisition, design, construction, and equipping of the New Castle Correctional Facility, in the amount of \$65.7 million. The cash flow difference between the debt service on the 2002A Series Bonds and the new debt is \$2.9 million and the economic gain is \$2.7 million.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004C which consist of \$150 thousand in serial bonds at interest ranging from 2.875% to 3.25% and \$33.8 million in term bonds at an interest rate of 5.25%. The 2004C Bonds were issued to partially refund the 2003A Series Bonds which were originally issued to finance the remaining costs associated with the acquisition, design, construction, and equipping of the Indiana State Museum, in the amount of \$35.5 million. The cash flow difference between the debt service on the 2003A Series Bonds and the new debt is \$1.2 million and the economic gain is \$1.2 million.

In September 2004, the SOBC issued Facilities Revenue Bonds, Series 2004D which consist of \$26.0 million in serial bonds at interest rates ranging from 3.0% to 5.0% and \$7.8 million in term bonds at an interest rate of 5.0%. The 2004D Bonds were issued to fund the remaining costs associated with the acquisition, design, construction, and equipping of Logansport State Hospital.

In September 2004, the SOBC issued Facilities Revenue Bonds, Series 2004E which consist of \$57.0 million in serial bonds at interest rates ranging from 3.0% to 5.0%. The 2004E Bonds were issued to fund the remaining costs associated with the acquisition, design, construction, and equipping of Southwest Regional Treatment Center.

Pursuant to prior advance refundings, the Commission had \$524.1 million of defeased revenue bonds outstanding at June 30, 2005. In accordance with generally accepted accounting principles, these amounts are not included in the accounts of the Commission.

Recreational Development Commission - The Recreational Development Commission was created in 1973 pursuant to I.C. 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of six members. The Treasurer of State, the Director of the Department of Natural Resources (DNR) and the Budget Director are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990, revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued \$6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Benjamin Harrison State Park.

On December 19, 2002, the Commission issued Revenue Bonds, Series 2002, with a face value of \$14.4 million to finance the cost of the development of park facilities at Prophetstown State Park, located near Battle Ground, Indiana, in Tippecanoe County. The project will include construction of picnic areas, campground sites, trails, a gatehouse and maintenance facilities. Proceeds from the bond issue were also used to refund, in advance of their stated

maturing dates, a portion of the 1994A Series Revenue Bonds.

On September 23, 2004, the Commission issued Revenue Bonds, Series 2004, with a face value of \$12.78 million to finance the replacement of the "Riverview" section of the Clifty Inn at Clifty Falls State Park, located near Madison, Indiana in Jefferson County. The project will include construction to connect the replacement section to the remainder of the Inn, replace and expand the conference center, redesign the kitchen and add recreational sites. Proceeds from the bond issue were also used to refund, in advance of their stated maturing dates, the remaining 1994A Series Revenue Bonds.

In 2004, the Commission advance refunded the remaining portion of the Series 1994A Revenue Bonds using a portion of the proceeds from the 2004 Revenue Bonds. The loss on advance refunding is being amortized over the remaining life of the old bonds.

At June 30, 2005, outstanding revenue bonds of \$7.5 million are considered to be defeased. The advance refunding was undertaken to reduce total debt service requirements. Cash funds needed for the new refunding debt decreased by \$1.2 million from that needed under the prior debt service requirements. The economic gain, or present value savings, on the refunding was \$1.1 million.

The following is a summary of long-term revenue bond debt outstanding at June 30, 2005.

Summary of Long-Term Obligations including current portion	Interest Rates Range	Maturity Range	Annual Payment Range	Amount
Governmental Activities				
Recreational Development Commission	2.125% - 5.25%	2006 - 2026	\$399 - 3,400	\$ 31,390
ITFA Highway Revenue Bonds	2.0% - 7.40%	2006 - 2029	\$25,805 - 97,460	1,384,616
Indiana State Office Building Commission	2.0% - 7.50%	2006 - 2028	\$10 - 11,625	937,876
				<u>\$ 2,353,882</u>
Business-type Activities:				
State Revolving Fund	1.74% - 6.0%	2006 - 2027	\$17,257 - 130,464	1,443,836
				<u>\$ 1,443,836</u>

Revenue bond debt service and accrued prize liability requirements to maturity including interest are as follows:

<u>Year Ending, June 30</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 57,637	\$ 119,583	\$ 177,220
2007	110,965	119,977	230,942
2008	82,527	118,095	200,622
2009	88,964	114,109	203,073
2010	91,865	107,614	199,479
2011-2015	529,530	464,815	994,345
2016-2020	553,461	363,570	917,031
2021-2025	491,650	181,973	673,623
2026-2030	383,099	48,493	431,592
Premium/(discount)	(35,816)	-	(35,816)
Total	<u>\$ 2,353,882</u>	<u>\$ 1,638,229</u>	<u>\$ 3,992,111</u>

<u>Year Ending, June 30</u>	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 46,695	\$ 69,730	\$ 116,425
2007	49,540	68,015	117,555
2008	53,020	66,052	119,072
2009	56,115	63,834	119,949
2010	60,705	61,321	122,026
2011-2015	367,615	257,320	624,935
2016-2020	440,945	152,359	593,304
2021-2025	305,270	42,797	348,067
2026-2030	28,515	2,265	30,780
Premium/(discount)	35,416	-	35,416
Total	<u>\$ 1,443,836</u>	<u>\$ 783,693</u>	<u>\$ 2,227,529</u>

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Bond Bank – The Bond Bank is an instrumentality of the State of Indiana but is not a State agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor.

The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2005 was \$3.8 billion with interest rates ranging from 1.15% to 6.30%. Assets held in debt service reserve accounts are included in cash, cash

equivalents, and investments and amounted to \$17.2 million.

Special Program Bonds, Series 1985A and 1997B are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately \$38.7 million at June 30, 2005.

In January 2003, the Bond Bank issued its Special Program Bond, Series 2003B with a face amount of \$8.9 million at interest rates ranging from 2.0% to 5.0%.

In March 2003, the Bond Bank issued its Special Program Bond, Series 2003A with a face amount of \$40.4 million at interest rates ranging from 2.75% to 5.25%.

In June 2003, the Bond Bank issued School Severance Program Bonds, Series 4 with a face amount of \$50.0 million at interest rates ranging from 1.47% to 5.07%.

In June 2003, the Bond Bank issued its Special Program Bond, Series 2003C with a face amount of \$10.4 million at interest rates ranging from 2.0% to 5.0%.

In June 2003, the Bond Bank issued its Special Program Bond, Series 2003D with a face amount of \$27.5 million at interest rates ranging from 3.0% to 5.0%.

In July 2003, the Bond Bank issued Common School Fund Bonds, Series 2003A with a face amount of \$35.6 million at interest rates ranging from 2% to 5%. The proceeds were used to refund Common School Fund Program Bonds, Series 1993A which were outstanding in the amount of \$34.9 million. The cash flow difference between the debt service on the Common School Fund Program Bonds, Series 1993A and the new debt is \$2.0 million and the economic gain is \$2.0 million.

In July 2003, the Bond Bank issued Common School Fund Bonds, Series 2003B with a face amount of \$107.9 million at interest rates ranging from 2% to 5%.

In July 2003, the Bond Bank issued Reassessment Assistance Bonds, Series 2003B with a face amount of \$5.1 million and an interest rate of 2.0%. The Reassessment Assistance Bonds, Series 2003B were retired in their entirety in FY 2004.

In August 2003, the Bond Bank issued Reassessment Assistance Bonds, Series 2003 Midyear with a face amount of \$22.6 million and an interest rate of 2.0%. The Reassessment Assistance Bonds, Series 2003 Midyear were retired in their entirety in FY 2004.

In December 2003, the Bond Bank issued its Special Program Bonds, Series 2003E with a face amount of \$36.5 million at interest rates ranging from 2.0% to 5.0%.

In December 2003, the Bond Bank issued its Special Program Bonds, Series 2003F with a face amount of \$18.3 million at interest rates ranging from 2.0% to 4.75%. The proceeds were used to refund Special Program Bonds, Series 1993A and 1994B in the amounts of \$5.3 million and \$5.9 million, respectively. The cash flow difference between the debt service on the Special Program Bonds, Series 1993A and 1994B and the new debt is \$3.3 million and the economic gain is \$2.3 million.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5A with a face amount of \$184.7 million at interest rates ranging from 1.41% to 5.82%.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5B with a face amount of \$15.2 million and an interest rate of 5.05%.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5C with a face amount of \$4.0 million and an interest rate of 5.15%.

In January 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004A with a face amount of \$842.3 million and an interest rate of 2.0%.

In January 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004 Interim with a face amount of \$196.6 million and an interest rate of 1.2%. The Advance Funding Program Notes, Series 2004 Interim were retired in their entirety in FY 2004.

In January 2004, the Bond Bank issued AF Year End Program Bonds, Series 2003 with a face amount of \$350 million and an interest rate of 1.7%. The AF Year End Program Bonds, Series 2003 were retired in their entirety in FY 2004.

In February 2004, the Bond Bank issued its Special Program Bonds, Series 2004A in the amount of \$17.2 million at interest rates ranging from 2.0% to 5.0%.

In February 2004, the Bond Bank issued its Special Program Notes, Series 2004A with a face amount of \$12.4 million and an interest rate of 2.0%.

In March 2004, the Bond Bank issued its Special Program Bonds, Series 2004B with a face amount of \$17.6 million at interest rates ranging from 2.0% to 5.0%. The proceeds were used to advance refund Special Program Bonds, Series 1997B which were outstanding in the amount of \$17.5 million. The cash flow difference between the debt service on the Special Program Bonds, Series 1997B and the new debt is \$4.4 million and the economic gain is \$2.7 million.

In April 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004A with a face amount of \$113.1 million at interest rates ranging from 1.74% to 3.98%. The proceeds were used to refund the State Revolving Fund Program Bonds, Series 1994A and 1995A (collectively referred to as the Refunded Bonds) in the amounts of \$44.7 million and \$65.0 million, respectively. The cash flow difference between the debt service on the refunded bonds and the new debt is \$28.3 million and the economic gain is \$15.7 million.

In April 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004B with a

face amount of \$200.0 million at interest rates ranging from 2.0% to 5.0%.

In June 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004C with a face amount of \$200.0 million at interest rates ranging from 5.0% to 5.25%.

In June 2004, the Bond Bank issued its Special Program Bond, Series 2004C with a face amount of \$35.0 million at interest rates ranging from 2.94% to 5.52%.

In June 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004A Midyear with a face amount of \$182.8 million and an interest rate of 2.5%.

In June 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004B Midyear with a face amount of \$11.1 million and an interest rate of 2.7%.

In June 2004, the Bond Bank issued Year End Warrant Assistance Program Bonds, Series 2004 with a face amount of \$127.2 million and an interest rate of 1.7%.

In June 2004, the Bond Bank issued School Severance Program Bonds, Series 6A with a face amount of \$163.0 million at interest rates ranging from 2.42% to 6.24%.

In June 2004, the Bond Bank issued School Severance Program Bonds, Series 6B with a face amount of \$14.7 million and an interest rate of 5.79%.

In October 2004, the Bond Bank issued its School Severance Program Bonds, Series 7A with a face amount of \$107.7 million and interest rates ranging from 2.40% to 5.73%.

In October 2004, the Bond Bank issued its School Severance Program Bonds, Series 7B with a face amount of \$12.9 million and interest rates ranging from 3.03% to 5.30%.

In November 2004, the Bond Bank issued its Special Program Bonds, Series 2004D with a face amount of \$29.3 million at interest rates ranging from 2.00% to 5.00%.

In December 2004, the Bond Bank issued its School Severance Program Bonds, Series 8A with a face amount of \$136.9 million and interest rates ranging from 2.65% to 5.64%.

In December 2004, the Bond Bank issued its School Severance Program Bonds, Series 8B with a face

amount of \$70.5 million and interest rates ranging from 3.35% to 5.49%.

In December 2004, the Bond Bank issued its School Severance Program Bonds, Series 9 with a face amount of \$36.9 million and interest rates ranging from 2.68% to 5.53%.

In December 2004, the Bond Bank issued AF Year End Program Bonds, Series 2004 with a face amount of \$265.0 million and an interest rate of 3.50%. The AF Year End Program Bonds, Series 2004 were retired in their entirety in FY 2005.

In January 2005, the Bond Bank issued its Special Program Bonds, Series 2005A with a face amount of \$14.8 million at interest rates ranging from 2.25% to 4.50%. A portion of the proceeds from this issue were used to refund the Special Program Bonds Series 1995A which were outstanding in the amount of \$3.3 million. The cash flow difference between the debt service on the refunded bonds and the new debt is \$0.43 million and the economic gain is \$0.02 million.

In January 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005A with a face amount of \$537.1 million at interest rate of 3.25%.

In January 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Lake Midyear with a face amount of \$89.9 million at interest rate of 3.20%.

In January 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Interim with a face amount of \$196.0 million at interest rate of 1.90%. The Advance Funding Program Notes, Series 2005 Interim were retired in their entirety in FY 2005.

In May 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Midyear with a face amount of \$43.1 million at interest rate of 3.50%.

In May 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Midyear Interim with a face amount of \$4.7 million and an interest rate of 3.05%. The Advance Funding Program Notes, Series 2005 Midyear Interim were retired in their entirety in FY 2005.

In June 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Lake with a face amount of \$71.5 million at interest rates ranging from 2.79% to 2.84%.

In June 2005, the Bond Bank issued its Year End Warrant Program Assistance Program Notes, Series 2005 with a face amount of \$6.6 million and an interest rate of 3.50%.

Indiana Housing Finance Authority – In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of \$1.91 billion with interest rates ranging from 1.20% to 7.85%. The total outstanding debt associated with these bond issues as of December 31, 2004 was \$942 million.

The Authority has a line of credit of \$ 50.6 million which is due on June 30, 2005. Interest is due on the outstanding borrowings at a variable rate based on LIBOR (2.147% at December 31, 2004).

During 2004, the Single Family Mortgage Program Fund issued 2004 Bond Series with a face value of \$294.6 million and interest rates varying from 1.40% to 5.30%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner-occupied housing.

Indiana Transportation Finance Authority – East-West Toll Road – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the State. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued \$257 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 (Series 1985 Bonds), for the refunding of the outstanding portion of the \$259.5 million Indiana Toll Road Commission East-West Toll Road Revenue Bonds, 1980 Series (Series 1980 Bonds). The Series 1985 Bonds are secured by the renewable lease between the ITFA and Indiana Department of Transportation (INDOT).

The Series 1980 Bonds are not reported as a debt of ITFA since repayment of principal and interest will be from escrowed funds and earnings. At June 30, 2005, the principal amount of the Series 1980 Bonds outstanding, which have been defeased in substance, total \$108 million.

During October 1993, ITFA issued \$76.1 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Refunding Bonds, Series 1993 (Series 1993 Bonds) to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1985. The Series 1993 Bonds are secured by the renewable lease between ITFA and INDOT.

As a result, the refunded portion of the Series 1985 Bonds are not reported as a debt of the ITFA since repayment of principal and interest will be from escrowed funds and earnings. The advance refunding of the Series 1985 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14.2 million. This difference is being charged to interest expense in the amount of \$1.2 million through the year 2005 using the straight-line method. Accordingly, \$1.2 million through the period ended June 30, 2004 has been reported in the accompanying financial statements as a deduction from bond payable. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$9.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$7.1 million.

During October 1996, ITFA issued \$134.8 million of Indiana Transportation Finance Authority Toll Road Lease Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds), to refund a portion of the Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987. Proceeds from the sale of the Series 1996 Bonds were used to purchase assets placed in an irrevocable trust that will be used to pay principal and interest on the Series 1987 Bonds when due. The Series 1996 Bonds are secured by the renewable lease between ITFA and INDOT.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15.5 million. The difference is being charged to interest expense in the amount of \$1.2 million for the year ended June 30, 2004, using the effective interest rate method over the life of the bond. Accordingly \$4.5 million through the

year ended June 30, 2004 has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$8.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4.7 million.

At June 30, 2005, the ITFA was in compliance with all material requirements and restrictions contained in the Trust Indentures.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds – In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon.

ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

In December 2004, the Transportation Finance Authority issued Airport Facilities Multi-Mode Lease Revenue and Revenue Refunding Bonds, Series 2004 in the par amount of \$204.5 million, which included \$199.4 million of refunding debt and \$5.1 million of new money debt at interest rates ranging from 2.50% to 4.35%. The refunded 1992A, 1995A, and 1996A series bonds are not reported as a debt of the Authority since payment of principal and interest are to be from escrowed funds and investment earnings. At June 30, 2005, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$158.0 million. As a result of the refunding, the Authority realized an economic gain or present value savings of \$5.7 million. The \$5.1 million new money debt is being used for the payment of construction costs for the Series 2004 projects. The refunding debt was used to refund in advance of their stated maturity dates the Series 1992A, 1995A and 1996A bonds maturing from November 2005 to November 2017. A portion of the proceeds, \$196.7 million, was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, JP Morgan Trust Company, and were used to purchase direct obligations of the United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest for the Series 1992A, 1995A and 1996A Bonds.

Indiana Secondary Market for Education Loans, Inc. (ISM) – ISM was established pursuant to Public Law No. 154 of the 1980 Indiana General Assembly. ISM is a not-for-profit corporation established to purchase student loans and provide enhanced access for Indiana residents pursuing education at post-secondary institutions. Taxable and tax-exempt bond and note financings are the primary sources of funding for ISM's programs. The State of Indiana has not appropriated any funds for the administration of ISM's programs. ISM administers programs for the purchase of loans guaranteed and reinsured by the United States Department of Education ("US DOED") under the Federal Family Education Loan Program ("FFELP").

ISM's bonds payable at June 30, 2005 include \$243.20 million and \$231.65 million of taxable and tax-exempt Auction Rate Certificates ("ARCs"), respectively. The ARCs mature on various dates between December 1, 2030 and 2044, respectively. Interest on the ARCs ranged from 1.28% to 3.40% during the year ended June 30, 2005, and is payable either at each auction, which occurs every 28 or 35 days as stipulated in the related ARC agreement, or semiannually.

In September 2004, ISM issued its Series 2004 Taxable bonds with a face amount of \$150 million and interest rates ranging from 1.95% to 3.40%.

In December 2004, ISM issued its Series 2004 Tax Exempt bonds with a face amount of \$73.1 million and interest rates ranging from 1.88% to 3.15%.

State Lottery Commission Accrued Prize Liability – Accrued prize liability includes an estimate of sold unclaimed scratch-off, pull-tab, and draw game winners and future television game show prizes awarded on shows committed to as of June 30, 2005, as well as installment amounts payable to past scratch-off, pull tab, draw game, and game show winners. Installment prizes are recorded at a discount based on interest rates that range from approximately 3% to 6% and reflect the interest earned by the investments held to fund the related liabilities. At June 30, 2005, the accrued prize liability was \$123.7 million including \$55.5 million in current prize liability and \$68.2 million in long-term prize liability.

G. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2005, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These prior period adjustments and restatements are reflected in the beginning net assets in the government-wide statement of activities.

Prior Period Adjustments

In the fund statements for the Tobacco Settlement Fund and in the government-wide statements, there is an increase of \$13.8 million in fund balance/net assets for investment income which was reinvested, but not recognized as revenue in prior periods.

In the fund statements for the Unemployment Compensation Fund, an enterprise fund, and in the government-wide statements, there is a decrease of \$135.5 million in net assets. This restatement is necessary to properly reflect the balance of the Unemployment Trust Fund held with the federal government.

For the government-wide statements, there is an increase of \$27.6 million in net assets for capital assets. This was the result of several State agencies not capitalizing fixed assets acquired prior to June 30, 2004, by that date.

For the government-wide statements, there is an increase of \$7.3 million in net assets for capital assets. This was the result of the State not capitalizing a lease entered into prior to June 30, 2004, by that date. The State entered into a 35 year lease agreement in 1996 with the U.S. Department of Veterans Administration for the relocation of the Larue Carter Memorial Hospital.

For the government-wide statements, there is an increase of \$19.3 million in net assets for infrastructure. This was the result of the Indiana Department of Transportation (INDOT) not capitalizing certain right-of-way in process acquired prior to June 30, 2004, by that date.

Previous distributions from the State Lottery Commission to the state were handled in the CAFR as transfers because the Lottery was a blended

The following schedule reconciles June 30, 2004 net assets as previously reported, to beginning net assets, as restated:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>All Discretely Presented Component Units</u>
June 30, 2004, fund balance/retained earnings/net assets as reported	\$ 12,342,613	\$ 1,629,422	\$ 26,896,638
Prior period adjustments:			
Correction of errors	67,273	(135,408)	(43,045)
Reclassifications of funds	<u>(105,908)</u>	<u>(288,841)</u>	<u>411,019</u>
Balance July 1, 2004 as restated	<u>\$ 12,303,978</u>	<u>\$ 1,205,173</u>	<u>\$ 27,264,612</u>

component unit. Accruals were not made on the transfers. Beginning this year the State Lottery Commission is being presented as a discretely presented component unit. The accrual on the distribution from last year becomes a prior period adjustment, causing beginning net assets to decrease by \$45.9 million.

Reclassification of Funds

The following reclassifications took place to more accurately reflect discrete presentation of component units under GAAP. The beginning net assets/fund balance reclassified follows the name of the fund in parentheses:

The Indiana Transportation Finance Authority (ITFA) Operating Fund (\$0.4 million) was reclassified from a special revenue fund to discretely presented component unit. The ITFA Interstate Bridge Fund (\$6.3 million) was reclassified from a capital projects fund to a discretely presented component unit. The ITFA Toll Road Fund (\$231.2 million), the ITFA Aviation Technology Bonds Fund (\$0.4 million), the ITFA Airport Facilities Bonds Fund (\$1.2 million), the ITFA Toll Bridges Fund (\$5.3 million) and the State Lottery Commission (\$50.7 million) were reclassified from enterprise funds to discretely presented component units.

One fund, the Indiana White River State Park Fund (\$115.5 million) reached the materiality level necessary to be included in the Comprehensive Annual Financial Report as a discretely presented component unit.

In the fund statements for the General Fund and in the government-wide statements, there is a decrease of \$99.2 million in fund balance/net assets for the Local Option Income Tax (LOIT). LOIT has been reclassified as an agency fund.

V. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase commercial insurance related to certain employee health benefits. The State also purchases immaterial amounts of commercial insurance related to errors, omissions, and theft by employees. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the State employees' disability, certain State employees' health benefits, and certain health, disability and

death benefits for State Police officers. These are reported in three individual Internal Service Funds.

The State employees' disability program is financed partially by State employees through payroll withholdings and by the funds from which employees are paid. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.)

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The surplus retained earnings in these funds are reserved for future catastrophic losses.

	<u>State Police Health Insurance Fund</u>	<u>State Employees' Health Insurance Fund</u>	<u>State Disability Fund</u>	<u>Total</u>
<u>2005</u>				
Unpaid Claims, July 1	\$ 2,345	\$ 20,427	\$ 5,154	\$ 27,926
Incurred Claims and Changes in Estimate	23,548	195,541	26,378	245,467
Claims Paid	<u>(23,696)</u>	<u>(196,910)</u>	<u>(27,290)</u>	<u>(247,896)</u>
Unpaid Claims, June 30	<u>\$ 2,197</u>	<u>\$ 19,058</u>	<u>\$ 4,242</u>	<u>\$ 25,497</u>
<u>2004</u>				
Unpaid Claims, July 1	\$ 1,707	\$ 14,754	\$ 5,097	\$ 21,558
Incurred Claims and Changes in Estimate	19,957	158,904	26,322	205,183
Claims Paid	<u>(19,319)</u>	<u>(153,231)</u>	<u>(26,265)</u>	<u>(198,815)</u>
Unpaid Claims, June 30	<u>\$ 2,345</u>	<u>\$ 20,427</u>	<u>\$ 5,154</u>	<u>\$ 27,926</u>

The trustees of Indiana University and Purdue University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2005 was \$41.6 million.

B. Investment in Joint Venture

To finance the construction of the Indianapolis Maintenance Center (IMC) at Indianapolis International Airport, the Authority, a City of Indianapolis/Marion County-related financing authority (the City) and the Indianapolis Airport Authority (the Airport Authority) entered into a number of agreements, including leases, providing for the acquisition, construction, equipping and financing of the IMC (collectively, the Joint Venture).

Under the Joint Venture, the Authority's undivided interest as a tenant in the IMC is determined in proportion to the money it contributes to the acquisition, construction and equipping of the IMC from proceeds of the Authority's revenue bonds issued to finance the IMC. The City's and the Airport Authority's undivided interests are established in the same way, but by reference to the amount of money they contribute to the IMC from their revenue bond proceeds.

The Authority leases its undivided interest in the IMC to the Airport Authority. Upon termination of that lease, the Airport Authority will succeed to the Authority's interest in the Joint Venture. The Airport Authority is obligated to pay the Authority lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay Authority expenses and ground rent obligations. The Airport Authority expects to pay the lease rentals through appropriations made by the General Assembly.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note I(A).

C. Subsequent Events

The Indiana Finance Authority ("Finance Authority")

was reconstituted pursuant to amendments made to Indiana Code 4-4-11 et seq., the WSRF Act, and the DWSRF pursuant to Public Law 235-2005 as enacted by the Indiana General Assembly in 2005 ("PL 235"). Pursuant to PL 235, the Finance Authority became the successor to the State, acting through the State Budget Agency and the Department of Environmental Management, for purposes of holding, administering, managing and financing the Programs and the SRF Funds. In addition, pursuant to PL 235, the Finance Authority also became the successor to the Indiana Bond Bank with respect to outstanding bonds issued by the Indiana Bond Bank related to the Programs. As a result of PL 235, the responsibility for the Programs has been consolidated into one entity, the Finance Authority. This entity merges five previously separate legal entities. They are: the Indiana Transportation Finance Authority, the Indiana Development Finance Authority, the Recreational Development Commission, the State Revolving Fund, and the Indiana State Office Building Commission. The Financial Statements reflect the legal and entity structure as in effect prior to the effective date of PL 235.

Subsequent to June 30, 2005, the Bond Bank has closed two new Special Program bond issues, Series 2005B (Town of Merrillville Redevelopment District) in the amount of \$8.9 million and Series 2005C (City of Carmel) in the amount of \$11.6million. In addition, the Board approved pool applications for Dawn Lakes Conservancy District in an amount not to exceed \$0.35 million and for Charlestown Municipal Sewage Works in an amount not to exceed \$4.0 million.

The Board of Directors of the Indiana Bond Bank has also authorized financing of equipment purchases amounting to \$1.83 million through the Hoosier Equipment Lease Program. Financing has occurred for \$0.83 million of the aforementioned amounts. Due to an immediate need on the part of the qualified entity, financing has also occurred for \$0.19 million of leases which have not yet been approved by the Board. However, those leases are expected to be ratified at the next meeting of the Board. The Bond Bank has not recorded these leases and their related obligations in their financial statements as the leases and related obligations have been assigned to a bank.

On June 30, 2005, all of the \$6.6 million of the Indiana Bond Bank's Year End Warrant Program Assistance Notes of 2005 has been repaid by qualified entities.

On April 19, 2005, Indiana Secondary Market for Education Loans' (ISM) Board of Directors authorized a revolving line of credit agreement (the "FIB LOC Agreement") with First Indiana Bank in the amount of \$25 million. The FIB LOC Agreement was executed on July 18, 2005, matures on June 30, 2006 and can be extended at the request of ISM and with the

consent of First Indiana Bank.

On July 19, 2005, ISM's Board of Directors authorized a revolving line of credit agreement (the "BOA LOC Agreement") with Bank of America in an amount up to \$300 million. The BOA LOC Agreement was executed on August 17, 2005 in the amount of \$100 million for a term of 12 months.

On September 2, 2005, ISM executed a lease termination agreement whereby ISM has the option to terminate its office space lease by delivering written notice at any time prior to January 31, 2006.

D. Contingencies and Commitments

Litigation

The State does not establish reserves for judgments or other legal or equitable claims. Judgments and other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to \$300,000 for injury or death of one person in any one occurrence for causes of action arising prior to January 1, 2006, and to \$500,000 for causes of action arising on or after January 1, 2006, and \$5 million for injury to or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a total payment for liabilities of \$7.5 million to be made from the Tort Claim Fund during the next fiscal year because of the increase in the "Tort Cap" as mandated by the General Assembly to become effective on January 1, 2006. During the fiscal year ending June 30, 2005 the State paid \$6.1 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

The Indiana Attorney General's office is currently handling the following cases that could result in significant liabilities to the State:

In 1998, a group of State employees assigned to the Department of Natural Resources, filed a class action complaint for damages and injunctive relief in Marion County Superior Court against the State Personnel Department and its Director, the Department of Natural Resources and the State of Indiana claiming failure to comply with Public Law 70-1996, Section 3, in violation of plaintiffs' due process, statutory and contractual rights. Plaintiffs sought damages, back wages, injunctive relief, as well as attorneys' fees and costs, in excess of \$5 million. The class was certified and a trial date was set to commence. The State's Motion for Judgment on the Pleadings or for Summary Judgment was granted November 2003 dismissing all of Plaintiffs' and class claims with prejudice; Plaintiffs

to take nothing by way of their Complaint. Notice of Appeal was filed by Plaintiff, November 2003. Oral argument was heard on November 2004. Opinion was affirmed in part and reversed in part. Petition for Re-Hearing denied. Petition for Transfer filed and stayed pending settlement negotiations. Tentative class settlement reached conditioned on approval by AG, Governor and Court.

In 1998, a group of (1) pediatric dentists who are Medicaid providers, and (2) Medicaid recipients of those services, filed a class action lawsuit against the State and its agent, Electronic Data Systems (EDS). The suit challenged the Medicaid reimbursement system for pediatric dental services under both federal and state law. The Johnson County Superior Court granted summary judgment to the State on the federal law claims. The plaintiffs claim damages against the State in the amount of approximately \$17 million. Mediation was not successful. The state law claims were set for a court trial in August 2004 and continued by agreement of the parties in order for the motion for summary judgment of EDS to be responded to by the plaintiffs and ruled on by the court. A date for the bench trial has not been re-set.

In 2000, a gaming corporation operating one of the riverboat casinos challenged the interpretation the Department of Revenue (DOR) has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. In April 2004 the tax court ruled in favor of DOR and found that the riverboat owed \$17 million in unpaid taxes from 1996 forward. The case could result in more than \$200 million in back taxes paid by Indiana's 10 casinos.

In 2000, a group of relatives, friends and attorneys of persons in the custody of the Department of Correction (DOC) who have received, accepted and paid for collect calls by persons in custody of DOC and anticipate continuing to do so, filed a class action against the Commissioner of the Indiana Department of Administration (IDOA). The amount of potential damages may be over \$5 million. This case was originally dismissed for lack of subject-matter jurisdiction; however, Plaintiffs appealed and the Court of Appeals reversed the dismissal and remanded the action to the trial court in *Alexander v. Cottey*, 801 N.E.2d 651 (Ind. Ct. App 2004). The trial court is instructed to determine if the State has the authority to enter into telephone contracts that reap a margin under the arrangements specified in the contract. If it determines it is not permissible, then the trial court must fashion a remedy. If it determines that the rate practice is permissible, it can determine the reasonableness of the rates or to the extent the profit margin is permissible or refer the matter to the IURC. To date a class has been certified but not notified, and

the Co-Defendant (Marion County Sheriff's Department) has filed their Motion for Summary Judgment. Because IDOA has entered into new telephone contracts for DOC the Court has allowed the Plaintiffs to amend their complaint to incorporate the new telephone contracts, since their allegations were based solely on the old contract before the case was appealed. Upon the Plaintiffs' filing their Amended Complaint, the State will file an answer and motion for summary judgment. This case is set for hearing regarding Motion for Summary Judgment on February 1, 2006.

In 2002, a corporation filed a breach of contract action against the Department of Environmental Management (IDEM) alleging that IDEM failed to abide by the terms of an agreed order relating to clean-up costs directed by the federal government. The plaintiff is seeking \$18 million in damages. On cross-motions for summary judgment the court held that IDEM's referral to EPA was a breach of contract, however, there is a conflict in facts as to whether EPA would have taken action anyway. The case was set for trial in December 2005.

In 2002, a large accounting firm hired to conduct the reassessment of real property in Lake County filed a breach of contract suit seeking \$12 million. Plaintiff asserts that the State approved invoices then failed to abide by contractual provision requiring it to take steps to force Lake County to pay invoices. Plaintiff's motion for Partial Summary Judgment was denied in April 2004. Bench trial was held August 31, 2005. Findings of Fact and Conclusions of Law were due in November 2005.

In 2003, a large business with facilities in East Chicago filed an amended complaint in Marion Superior Court that claims East Chicago improperly reduced the assessed value it reported from \$1.2 billion to \$750 million during the process of determining budgets, rates and levies for 2002. Plaintiff claims that various local and State officials did not follow proper procedures, which resulted in a tax rate that was higher than it should have been and an increased tax burden on the plaintiff. In addition, plaintiff claims that IC 6-1.1-17-0.5 permits an unconstitutional non-uniform and unequal rate of assessment. Claims are asserted against the County and State in unspecified amounts but could be several million dollars. The State filed motion to dismiss in March 2003. The same allegations by the same business were filed as a new case in Tax Court in April 2003. Oral Arguments were held in March 2004 and the matter is under advisement.

In March 2004, a class action complaint was filed challenging the constitutionality of the Indiana Unclaimed Property Act (Act). Pursuant to the Act,

the State is mandated to hold in its custody all unclaimed properties. The Act permits the State to hold the unclaimed property without paying interest to the owner when the property is claimed. The plaintiff alleges that the Act is facially unconstitutional under the United States and Indiana Constitutions because it permits the State to take private property, specifically, the interest and other increments accruing on abandoned property in the State's custody, without just compensation. The Act states that an owner is entitled to receive dividends, interest or other increments accruing on the property at or before delivery to the Attorney General. The Act does not require the payment of any earnings on property, including dividends on securities, to the owner after the property has been delivered to the Attorney General. The State's Motion to Dismiss was granted in April 2005 and the State has received notice of appeal. The State's exposure is approximately \$5 million.

In September 2004, Hamilton County filed a lawsuit against the Department of Revenue (DOR) claiming miscalculation of the county option income tax that DOR collects and remits on the County's behalf. The complaint claims that DOR has under remitted the tax to Hamilton County since 1999. The State is currently involved in pre-litigation discovery and everything is stayed until discovery is complete. If DOR fails to prevail, damages owed by the State could be approximately \$15 million.

In July 2005, Marion County challenged: 1) constitutionality of statute that requires the County to pay the State for expenses of juvenile incarceration (Marion County is approx. \$62 million in arrears); and 2) the misapplication of Ind. Code 11-10-2-3 and Ind. Code 4-24-7-2 in that Marion County has been assessed by the State for costs incurred by DOC institutions other than the Boys School and the Girls School. The court granted Joseph and Clark Counties Motion to Intervene as Plaintiffs. In September 2005 the Court conducted a hearing on Plaintiff's motion for preliminary injunction and entered its Order denying Plaintiff's motion for preliminary injunction. Intervening plaintiff, Clark County voluntarily dismissed out of the cause. In October 2005 Plaintiff filed its Notice of Appeal and its Motion For Stay. Motion was denied and an appeal is pending. The parties were ordered to file a Case Management Plan by December 15, 2005. The court projects resolution of motion and cross motion for summary judgment will be delayed until approximately June 2006.

The Recreational Development Commission has been named as a co-defendant in a lawsuit involving a personal injury claim at an Indiana State Park. While the results of such litigation cannot be predicted with certainty, management based upon the advice of

counsel, believes that the final outcome will not have a material adverse effect on the financial condition of the Commission.

The State intends to vigorously defend each of the foregoing suits or other claims.

Loss from reimbursement agreements

Qualitech – The Authority is a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation (“Qualitech”), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA (“Bank”), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 Qualitech Steel Corporation Project) (“Bonds”).

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. Such letter of credit replaced a letter of credit issued by another bank upon original issuance of the Bonds. As a result of Qualitech’s payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

For FY 2005 and FY 2006, the Indiana General Assembly appropriated sufficient funds to the State Budget Agency for transfer to the Authority to pay Qualitech bond and related payments during those fiscal years. During the fiscal year ending June 30, 2005, the Authority recorded expenses for such bond and related payments of \$2.2 million. For the FY 2007 and FY 2008 budget period, it is anticipated that the General Assembly will appropriate sufficient funds to the State Budget Agency for transfer to the Authority for Qualitech bond and related payments, negating the need to access other Authority funds in either fiscal year.

If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling \$23.6 million as of June 30, 2005. Debt service reserve fund aggregating \$3.6 million are currently held in trust and may be available to reduce the contingency obligation.

Heartland Steel – The Authority is a party to an Amended and Restated Reimbursement Agreement

with Heartland Steel, Inc. (“Heartland”), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA (“Bank”), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) (“Bonds”).

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. As a result of Heartland’s payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding. If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal amount of the Bonds, \$10.3 million, as of June 30, 2005. Current debt service reserve funds of \$2.2 million would be available to reduce the contingent obligation.

For FY 2005 and FY 2006, the General Assembly appropriated sufficient Guaranty funds to pay Heartland bond and related payments during those fiscal years. During the fiscal year ending June 30, 2005, the Authority recorded expenses for bond and related payments of \$0.9 million. For the FY 2007 and FY 2008 budget period, it is anticipated that the General Assembly will appropriate sufficient funds to the State Budget Agency for transfer to the Authority for Heartland bond and related payments, negating the need to access other Authority funds in either fiscal year.

Indiana Housing Finance Authority

Lease – The Indiana Housing Finance Authority had lease expense for 2004 and 2003 of \$364,743 and \$462,071, respectively. The Authority entered into a lease agreement for new office space in February 2003. The new lease requires payments of \$29,464 per month (\$353,568 per year) for the ten-year term of the lease. The move to the new office space was completed in April 2003.

Excess Investment Earnings – In order to preserve the exemption of federal and state income taxation on interest received by the bond holders, each bond issue of the Indiana Housing Finance Authority is subject to certain Internal Revenue Code (IRC) and U.S. Treasury Regulations. Under these regulations,

the Indiana Housing Finance Authority is required to pay the federal government any excess earnings as defined by IRC Section 148(f) on all nonpurpose investments if such investments were invested at a rate greater than the yield on the bond issue. The Indiana Housing Finance Authority's liability, included in accounts payable and other liabilities on the combined balance sheet, for excess earnings at December 31, follows:

	<u>2004</u>	<u>2003</u>
Single Family Program Fund	\$439,762	\$590,624
Working Families Program Fund	-	140,430
	<u>\$439,762</u>	<u>\$731,054</u>

HOME Investment Partnerships Program – The Indiana Housing Finance Authority (IHFA) serves as a Participating Jurisdiction (PJ) for the HOME Investment Partnerships Program (HOME) monies for the State of Indiana from the U.S. Department of Housing and Urban Development (HUD). The HOME funds are used to develop affordable housing. Properties assisted with HOME money have an affordability period for which they must remain targeted for low-income persons. The affordability period varies depending on the amount of assistance the property received. In 2003, HUD published a policy newsletter that would make PJ's responsible for repaying HOME monies invested in properties that failed to meet their affordability periods, regardless of the circumstances. This policy is contrary to IHFA's understanding of the HOME statute, regulations, and implementation to date. IHFA, along with other recipients of HOME Funds, has asked that HUD reconsider the repayment guidance. Nonetheless, IHFA is making programmatic adjustments to be prepared should HUD continue to pursue implementation of this new repayment policy. No liability has been recorded for any amounts that may be due HUD if the revised policy is enforced.

Indiana Transportation Finance Authority – East-West Toll Road

Contractual Commitments – At June 30, 2005, the Toll Road Project had contractual commitments for various Major Expense Fund projects, primarily the purchase of property, plan and equipment, aggregating to \$10 million.

Grants – The Toll Road Project periodically makes Transportation Improvement Fund (TIF) grants to various cities and counties adjoining the Toll Road Project. At June 30, 2005 and 2004, TIF grants to fund projects that have not yet been expended totaled

\$9.56 million.

Operations – The nature of the Toll Road Project's operations sometimes subjects the Toll Road Project to litigation resulting from concession activities and traffic accidents for which the General Counsel for the Toll Road Project is of the opinion that ultimate settlement of such claims in excess of insurance coverage will not result in a material adverse effect on the Toll Road Project's financial statements as of June 30, 2005.

Indiana Board for Depositories

During 1994, the Board entered into a bond purchase and pledge agreement with the Indiana Housing Finance Authority (IHFA) pursuant to Public Law 69-1989 and Indiana Code Sec. 5-13-12-7. The agreement provides that IHFA may borrow funds from the Board by issuing one or more bonds having an aggregate principal sum of not more than \$5.0 million. The bonds do not bear interest, pursuant to Indiana Code Sec. 5-20-4-9, and any outstanding principal will become due on March 12, 2013. As security for the bonds, the IHFA assigned to the Board a zero-coupon U.S. Treasury STRIP in the amount of \$5.0 million maturing February 15, 2013. At June 30, 2005, the Board held IHFA bonds of approximately \$5.0 million

During May 2001, Senate Enrolled Act 524 was signed into law. The act provides that the interest earned from the investment of the Public Deposit Insurance Fund (PDIF) be distributed to communities facing police and fire pension liabilities. On or before the last business day of November of each year, beginning in 2001 and ending in 2011, a computation shall be made based upon the interest earned on the PDIF during the fiscal year ending June 30 after deducting certain expenses for the Board for Depositories and the Indiana Education Savings Authority. The payment must be made by the PDIF to the pension distribution fund by the last business day of December. The amount that was transferred to the pension distribution fund during December 2004 and 2003 was \$3.8 million and \$6.9 million, respectively and the amount expected to be transferred during December 2005 is \$5.2 million.

Indiana Code section 5-13-12-7(d)(7) and (e) permits the Board to invest in guarantees of bonds or notes issued under Indiana Code section 5-1.5-4-1. During December 2003, the Board authorized a guarantee not to exceed \$20.0 million related to the Indiana Bond Bank Special Program Notes, Series 2004. The actual amount guaranteed by the Board as of June 30, 2005 and 2004 was zero and \$6.2 million, respectively.

Indiana State Lottery Commission

Multi-State Lottery Association – The Indiana State Lottery Commission is a member of the Multi-State Lottery Association (“MUSL”), and unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently consists of 29 state and district lotteries (“member lotteries”) and operates the on-line Powerball game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for this game and remits 50% of sales of prize winners or to MUSL for payment of prizes.

As a member of MUSL, the State Lottery Commission is required to contribute to various prize reserve funds held by MUSL. Accounts were established by MUSL as a contingency reserve to fund prizes in excess of the game prize structure and to protect all member lotteries and MUSL from any unforeseen liabilities. All funds remitted, and the related interest earned, will be returned to the Commission upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the funds. As of June 30, 2005, the State Lottery Commission’s balance of prize reserve funds was \$8.8 million.

Restricted assets also contain the Retailers Bonding Fund, with a balance as of June 30, 2005 of \$0.43 million.

Periodically, the State Lottery Commission is subject to certain legal and administrative actions that arise in the normal course of its operations. As of June 30, 2005, the State Lottery Commission’s management believes that the ultimate outcome of any pending legal matters will not have a material adverse impact on the Commission’s financial position.

Federal Grants

The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

E. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of “other revenue” received by a fund is insignificant in comparison with total revenues received.

F. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund (“Rainy Day Fund”).

This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature.

In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2005 was \$316.5 million. Total outstanding loans were \$17.6 million, resulting in total assets of \$334.1 million.

G. Deferred Compensation

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an

Indiana Incentive Match Plan which provides \$15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in pension and other employee benefit trust funds.

H. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements. They are reported and administered as described in Note I(A).

Summary of Significant Accounting Policies (Primary government and discretely presented component units)

The accrual basis is used for financial statement reporting purposes. Contributions are considered due when the related payroll is issued by the employer and recognized as a receivable at that time. Employers are not required to submit the contributions until the month following the end of the quarter. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds. According to the plans' policies, benefits and refunds are due at time of payment. Therefore no liability has been accrued.

Investments of defined benefit plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value.

Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The State sponsors the following defined benefit single-employer plans:

State Police Retirement Fund (Presented as a pension fund)

Plan Description The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-2 grants authority to the Department to

establish and operate an actuarially sound pension plan governed by a pension trust. It also authorizes the Department to make annual contributions as necessary to prevent any deterioration in the actuarial status of the trust.

Funding Policy The pre-1987 plan required employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, State police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. Under the terms of the Trust Agreement, in the event the Department fails to make the minimum contribution for five successive years, the Trust shall terminate and the fund shall be liquidated. The unfunded actuarial accrued liability is funded over a forty-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Excise Police and Conservation Enforcement Officers' Retirement Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Plan (ECRP) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcohol and Tobacco Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Plan provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first \$8,500 of annual salary to the Plan. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 18.3% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Plan provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for thirty years, and prevent the State's unfunded accrued liability from increasing.

Prosecuting Attorneys' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990.

These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at six percent (6%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

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

Plan Description The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files

an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

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

Judges' Retirement System (Presented as part of PERF – a discretely presented component unit)

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-38-8 applies to judges beginning service after August 31, 1985. Indiana Code 33-38-6 and -7 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent (6%) of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-38-6-7 provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund

appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

The State sponsors the following defined benefit agent multiple-employer plan:

Public Employees' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162. At June 30, 2005, the number of participating political subdivisions was 1,132.

Funding Policy The State of Indiana and any political

subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1997. The amortization period for employers joining thereafter will be reduced 1 year per year until 2007 when it will be leveled at 30 years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for State employees at an actuarially determined rate; the current rate is 4.6% of covered payroll.

The Annual Pension Cost and Net Pension Obligations, the significant actuarial assumptions, and the historical trend information of the single and agent multiple employer defined benefit plans are as follows:

(amounts expressed in thousands)	Primary Government	-----Discretely Presented Component Unit-----					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	\$ 12,070.1	\$ 54,579.0	\$ 114,399.8	\$ 2,190.3	\$ 10,488.1	\$ 144.2	\$ 95.4
Interest on net pension obligation	124.2	(3,463.0)	(7,707.1)	(23.4)	(661.4)	132.0	3.8
Adjustment to annual required contribution	(139.1)	3,947.0	8,782.9	24.9	753.7	(140.3)	(4.8)
Annual pension cost	12,055.2	55,063.0	115,475.6	2,191.8	10,580.4	136.0	94.4
Contributions made	(7,543.6)	(90,709.0)	(140,740.8)	(2,120.0)	(12,965.1)	(933.0)	(205.5)
Increase (decrease) in net pension obligation	4,511.6	(35,646.0)	(25,265.2)	71.8	(2,384.7)	(797.0)	(111.1)
Net pension obligation, beginning of year	1,774.4	(47,770.0)	(106,305.2)	(323.5)	(9,123.2)	1,821.4	52.2
Net pension obligation, end of year	\$ 6,286.0	\$ (83,416.0)	\$ (131,570.4)	\$ (251.7)	\$ (11,507.9)	\$ 1,024.4	\$ (58.9)
Significant Actuarial Assumptions							
Investment rate of return	7.00%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:							
Total	1.80%	3.50% - 17.00%	3.50% - 17.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	N/A	0.50%	0.50%	0.50%	N/A	N/A	0.50%
Contribution rates:							
State	23.50%	4.50%	4.70%	18.30%	39.20%	5.90%	20.00%
Plan members	6.00%	3.00%	3.00%	3.00%	6.00%	6.00%	5.00%
Actuarial valuation date	7/1/2005	7/1/2004	7/1/2004	7/1/2004	7/1/2004	7/1/2004	7/1/2004
Actuarial cost method	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	accrued benefit (unit credit)
Amortization method	level percent	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	40 years	30 years	30 years	30 years	30 years	30 years	30 years
Amortization period (from date)	7/1/1997	7/1/2002	7/1/2002	7/1/2002	7/1/2004	N/A	7/1/1992
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	smoothed basis	75% of expected actuarial value plus 25% of market value	75% of expected actuarial value plus 25% of market value	smoothed basis	smoothed market value	smoothed market value	smoothed market value
Historical Trend Information							
<u>Year ended June 30, 2005</u>							
Annual pension cost (APC)	\$ 12,055.2	*	*	*	*	*	*
Percentage of APC contributed	69.6%	*	*	*	*	*	*
Net pension obligation (asset)	\$ 6,286.0	*	*	*	*	*	*
<u>Year ended June 30, 2004</u>							
Annual pension cost (APC)	\$ 10,382.8	\$ 55,063.0	\$ 115,475.6	\$ 2,191.8	\$ 10,580.4	\$ 136.0	\$ 94.4
Percentage of APC contributed	80.8%	164.7%	121.9%	96.7%	122.5%	686.0%	217.7%
Net pension obligation (asset)	\$ 1,774.4	\$ (83,416.0)	\$ (131,570.4)	\$ (251.7)	\$ (11,507.9)	\$ 1,024.4	\$ (58.9)
<u>Year ended June 30, 2003</u>							
Annual pension cost (APC)	\$ 9,594.4	\$ 80,118.0	\$ 140,321.9	\$ 2,324.7	\$ 9,598.5	\$ 1,124.3	\$ 233.6
Percentage of APC contributed	87.4%	100.8%	93.3%	83.9%	138.3%	39.7%	79.9%
Net pension obligation (asset)	\$ (1,064.8)	\$ (48,513.0)	\$ (106,305.2)	\$ (323.5)	\$ (9,123.2)	\$ 1,821.5	\$ 52.2
<u>Year ended June 30, 2002</u>							
Annual pension cost (APC)	\$ 9,218.0	\$ 72,609.0	\$ 105,032.5	\$ 2,048.0	\$ 10,323.6	\$ 903.5	\$ 205.7
Percentage of APC contributed	104.0%	105.1%	122.5%	93.0%	121.5%	48.2%	90.7%
Net pension obligation (asset)	\$ (2,272.2)	\$ (47,092.0)	\$ (116,503.3)	\$ (696.7)	\$ (5,445.8)	\$ 1,143.2	\$ 5.3
SPRF - State Police Retirement Fund							
PERF - Public Employees' Retirement Fund							
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)							
JRS - Judges' Retirement System (Administered by the PERF board of trustees)							
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)							
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)							
N/A - not applicable							
* - information not available							

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

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

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Suite 300, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2005, the number of participating employers was 386.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The State Teachers' Retirement Fund has a total unfunded actuarial liability as of June 30, 2005, of \$8.4 billion. Indiana law provides that the STRF is on a "pay-as-you-go" basis. The Indiana General Assembly appropriated sufficient funds to provide for the State's estimated liability for the current

The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	<u>Discretely Presented Component Units</u>	
	<u>STRF</u>	<u>PFPF*</u>
<u>Historical Trend Information</u>		
<u>Year ended June 30, 2005</u>		
Annual required contribution	\$ 619,186.0	\$ 92,833.7
percentage contributed	78%	127%
<u>Year ended June 30, 2004</u>		
Annual required contribution	\$ 638,541.1	\$ 87,253.0
percentage contributed	69%	112%
<u>Year ended June 30, 2003</u>		
Annual required contribution	\$ 572,226.2	\$ 98,686.9
percentage contributed	106%	98%
STRF - State Teachers' Retirement Fund		
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)		
* - year ended December 31		

year. These appropriations include revenues from the State Lottery Commission.

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

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2005, the number of participating employer units totaled 160 (247 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The State sponsors the following defined contribution plan:

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

Plan Description The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained

by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy For the Legislators' Defined Contribution Plan, each participant is required to contribute five percent of his annual salary. In addition, the State of Indiana is required to contribute 20% of the member's annual salary on behalf of the participant.

Discretely Presented Component Units

Governmental and proprietary fund types Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF