Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2010

Mitchell E. Daniels, Jr., Governor

Prepared by the Office of
Indiana Auditor of State

Tim Berry

Room 240 State House
200 West Washington St.
Indianapolis, IN 46204

STATE OF INDIANA

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Mitchell E. Daniels, Jr., Governor

Prepared by:

The Office of the Auditor of State
Tim Berry
Auditor of State
Room 240
State House
Indianapolis, Indiana 46204

Acknowledgments

This Comprehensive Annual Financial Report was prepared by:

The Office of Indiana Auditor of State, Tim Berry
Room 240, State House
200 West Washington Street
Indianapolis, Indiana 46204
(317) 232-3300

Auditor of State Staff:

Ryan Downham, Management Information Systems Director
Stephen Daniels, CPA, Deputy Auditor of Operations
Beth Memmer, Budgeting/Purchasing Director
Brent Plunkett, Payroll Director
Greg Reece, Data Center Manager
Mary Reilly, Accounts Payable Manager
Kirke Willing, MBA, Deputy Auditor of Administration

Auditor of State Financial Reporting Team:

Brenda Alyea, Settlement Specialist
Dan Bastin, CPA, Settlement Director
Cindy Bowling, Account Analyst
Janie Cope, Assistant Settlement Director
Abigail Dankenbring, Financial Analyst
Sara Darrah, Financial Analyst
Clay Jackson, CPA, Finance Project Manager
Brandon LaTour, Settlement Clerk
Fred Van Dorp, Financial Analyst

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

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

Tim Berry was elected Indiana's 54th State Auditor in November of 2006, taking office January 1, 2007. Tim was reelected State Auditor in November of 2010.

As Auditor, Berry serves as the Chief Financial Officer for the State of Indiana, compiling all financial reports, overseeing in excess of 6,000,000 distributions annually to vendors and units of local government. Tim Berry is committed to making state finances more transparent to all taxpayers, and implemented a new state financial accounting system as a management tool to provide more efficient state government operations. Berry is also committed toward greater financial literacy for all Hoosiers and providing retirement education to public employees saving through the state's Hoosier Start Deferred Compensation plan. As Auditor, Berry serves as the administrator of this plan. During his inauguration speech Berry said, "As Auditor we won't often make headlines, but we will continue to listen – continue to lead – continue to make a difference for all Hoosiers".

Prior to his election as State Auditor, Tim served two successive terms as Indiana's 51st State Treasurer, first being elected in 1998. A fiscal conservative, Berry keeps taxpayers first in recognizing that taxpayers deserve a government that is equipped to do more with less, as Berry returned in excess of 10% of his budget appropriation back to the state general fund throughout his tenure.

As Treasurer, Berry earned a record $1.7 billion through the prudent investment of Hoosier tax dollars. Through Tim's leadership Hoosiers saved millions of dollars in communities across the state through the efficient use of the Indiana Bond Bank. As Chair of the Wireless 911 Advisory Board, Indiana built the most advanced wireless 911 network in the country while providing over $96 million to counties so that they could upgrade their 911 technology. As Chair of the Education Savings Authority, Berry worked to provide greater opportunities and incentives for families to save for college, and obtained legislation to provide a 20% tax credit up to $1000 on contributions to a College Choice 529 Investment Plan. Additionally, Tim Berry led the effort to provide a creative solution to assist local communities with their unfunded police and fire pension liabilities, providing over $50 million to cities across the state without increasing taxes between 2001 and 2006.

Tim Berry's leadership has been recognized by many across the country. He served as President of the National Association of State Treasurers and Chair of the College Savings Plans Network. Berry was awarded the Jesse Unruh Distinguished State Treasurer Award in 2005, the 2003 Presidential Award of Excellence by the Association of Public-Safety Officials, is the 2003 recipient of the American Heart Association's Heartsaver Award, was recognized for leadership by the State of Israel in 2003 through the State of Israel Bonds, and in 2000 the Indianapolis Business Journal recognized Tim with their "40 under 40" designation.

Tim Berry
Indiana Auditor of State

Tim Berry is a 1980 graduate of Fort Wayne's, Wayne High School, and a member of Trinity English Lutheran Church in Fort Wayne. He serves as Treasurer of the Fishers Youth Hockey Association, and a coach in the Fall Creek Little League where his sons Ian and Colin both play. Tim holds a BS in Business Administration from Bowling Green State University and a MBA from Indiana University. Tim and his wife Kim are the proud parents of two sons, Ian and Colin. Kim has served since 2001 as the State Director of the Cystic Fibrosis Foundation.

AUDITORS OF STATE
Of THE STATE OF INDIANA

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

STATE OF INDIANA

Comprehensive Annual Financial Report
For the Year Ended
June 30, 2010

TABLE OF CONTENTS

INTRODUCTORY SECTION

Title Page i
Acknowledgments ii
Auditors of State iii
Table of Contents vi
Letter of Transmittal xii
Certificate of Achievement for Excellence in Financial Reporting xix
State Organization Chart and Selected State Officials xx

FINANCIAL SECTION

Independent Auditor's Report 3
Management's Discussion and Analysis 5

Basic Financial Statements: 21

Government-Wide Financial Statements: 22
Statement of Net Assets 23
Statement of Activities 25

Fund Financial Statements: 26
Balance Sheet – Governmental Funds 27
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 29
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 31
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 33
Statement of Fund Net Assets – Proprietary Funds 35
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds 36
Statement of Cash Flows – Proprietary Funds 37
Statement of Fiduciary Net Assets – Fiduciary Funds 39
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds 40
Combining Statement of Net Assets – Discretely Presented Component Units 41
Combining Statement of Activities – Discretely Presented Component Units 42
Combining Statement of Net Assets Discretely Presented Component Units – Proprietary Funds 43
Combining Statement of Activities Discretely Presented Component Units – Proprietary Funds 45

Combining Statement of Net Assets
Discretely Presented Component Units – Colleges and Universities 47
Combining Statement of Activities
Discretely Presented Component Units – Colleges and Universities 48

Notes to the Financial Statements 50

Required Supplementary Information: 114
Schedule of Funding Progress
Employee Retirement Systems and Plans 115
Other Postemployment Benefits 116
Schedule of Employer Contributions
Other Postemployment Benefits 117
Budgetary Information 118
Combining Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual Major Funds (Budgetary Basis) 119
Budget/GAAP Reconciliation – Major Funds 123
Infrastructure – Modified Reporting
Condition Rating of the State's Highways and Bridges 125
Comparison of Needed-to-Actual Maintenance/Preservation 126

Other Supplementary Information: 128

Non-Major Governmental Funds: 129
Balance Sheet – Non-Major Governmental Funds 131
Statement of Revenues, Expenditures, and Changes
in Fund Balance – Non-Major Governmental Funds 132
Combining Balance Sheet – Non-Major Special Revenue Funds 133
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Non-Major Special Revenue Funds 137
Combining Balance Sheet – Non-Major Capital Projects Funds 141
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Non-Major Capital Projects Funds 142
Combining Balance Sheet – Non-Major Permanent Funds 143
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances – Non-Major Permanent Funds 144
Combining Schedule of Revenues, Expenditures, and Changes
in Fund Balances – Budget and Actual Non-Major Funds (Budgetary Basis) 145
Budget/GAAP Reconciliation Non-Major Special Revenue Funds 157

Non-Major Proprietary Funds: 158
Combining Statement of Net Assets – Non-Major Proprietary Funds 159
Combining Statement of Revenues, Expenditures, and Changes
in Fund Net Assets – Non-Major Proprietary Funds 160
Combining Statement of Cash Flows – Non-Major Proprietary Funds 161

Internal Service Funds: 164
Combining Statement of Net Assets – Internal Service Funds 165
Combining Statement of Revenues, Expenses, and Changes
in Fund Net Assets – Internal Service Funds 166
Combining Statement of Cash Flows – Internal Service Funds 167

Fiduciary Funds: 169
Combining Statement of Fiduciary Net Assets – Pension and Other Employee
Benefit Trust Funds 171
Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee

Benefit Trust Funds 172
Combining Statement of Net Assets – Private Purpose Trust Funds 173
Combining Statement of Changes in Net Assets – Private Purpose Trust Funds 174
Combining Statement of Net Assets – Agency Funds 175
Combining Statement of Changes in Assets and Liabilities – Agency Funds 176

Non-Major Discretely Presented Component Units: 178
Combining Statement of Net Assets
Non-Major Discretely Presented Component Units – Governmental Funds 179
Combining Statement of Activities
Non-Major Discretely Presented Component Units – Governmental Funds 180
Combining Balance Sheet
Non-Major Discretely Presented Component Units – Governmental Funds 181
Reconciliation of the Balance Sheet to the Statement of Net Assets
Non-Major Discretely Presented Component Units – Governmental Funds 182
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Discretely Presented Component Units – Governmental Funds 183
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
to the Statement of Activities
Non-Major Discretely Presented Component Units – Governmental Funds 184
Combining Statement of Net Assets
Non-Major Discretely Presented Component Units – Proprietary Funds 185
Combining Statement of Activities
Non-Major Discretely Presented Component Units – Proprietary Funds 186
Combining Statement of Net Assets
Non-Major Discretely Presented Component Units – Colleges and Universities 187
Combining Statement of Activities
Non-Major Discretely Presented Component Units – Colleges and Universities 188

STATISTICAL SECTION

Net Assets by Component 192
Changes in Net Assets 193
Fund Balances – Governmental Funds 195
Changes in Fund Balances – Governmental Funds 196
Taxable Sales by Industry 197
Sales Tax Revenue Payers by Industry 198
Personal Income by Tax Filers and Liability by Income Level 199
Personal Income by Industry 200
Personal Income by Tax Rates 201
Property Tax Levies and Collections – Last Ten Years 202
Assessed Value of Property – Last Ten Years 202
Property Tax Schedules – 2006 Payable 2007 203
Assessed Value and Current Property Tax Levied by County – Payable 2007 204
Property Valuations and Deductions for Property Taxes Payable 2007 by County 205
Property Taxes Charged Payable 2007 by Fund and County 209
Property and Excise Taxes Collected in 2007 by County 219
Distribution of Property and Excise Taxes Collected in 2007 by Fund and County 220
Property Tax Schedules – 2007 Payable 2008 221
Assessed Value and Current Property Tax Levied by County – Payable 2008 223
Property Valuations and Deductions for Property Taxes Payable 2008 by County 224
Property Taxes Charged Payable 2008 by Fund and County 228
Property and Excise Taxes Collected in 2008 by County 238
Distribution of Property and Excise Taxes Collected in 2008 by Fund and County 239

Property Tax Schedules – 2008 Payable 2009 240
Assessed Value and Current Property Tax Levied by County – Payable 2009 242
Property Valuations and Deductions for Property Taxes Payable 2009 by County 243
Property Taxes Charged Payable 2009 by Fund and County 248
Property and Excise Taxes Collected in 2009 by County 256
Distribution of Property and Excise Taxes Collected in 2009 by Fund and County 257
Property Tax Schedules – 2009 Payable 2010 258
Assessed Value and Current Property Tax Levied by County – Payable 2010 260
Property Valuations and Deductions for Property Taxes Payable 2010 by County 261
Property Taxes Charged Payable 2010 by Fund and County 265
Ratio of Outstanding Debt by Type 273
State Facts 274
County Facts 275
Demographics and Economic Statistics 276
Twenty Largest Indiana Public Companies 277
Twenty Largest Indiana Private Companies 278
Principal Employers 279
School Enrollment 280
Twenty Largest Indiana College & Universities 281
Operating Indicators by Function of Government 282
Capital Assets Statistics by Function of Government 283
Full Time State Employees Paid Through the Auditor of State's Office 284
Employees Other Than Full Time Paid Through the Auditor of State's Office 285
Pension, Death Benefits, and Former Governors –
Number of People Paid Through the Auditor of State's Office 286

INTRODUCTORY SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Drawing provided by the Indiana Historical Bureau
Artist, Mike Scherer

The peony (Paeonia) was adopted as the state flower by the 1957 General Assembly (Indiana Code 1-2-7). From 1931 to 1957 the zinnia was the state flower. The peony blooms the last of May and early June in various shades of red and pink and also in white; it occurs in single and double forms. No particular variety or color was designated by the General Assembly. It is cultivated widely throughout the state and is extremely popular for decorating gravesites for Memorial Day.


SEAL OF THE STATE OF INDIANA
1816

AUDITOR OF STATE

Tim Berry

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

February 25, 2011

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

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2010.

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

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

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

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

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

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

This CAFR is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section includes this transmittal letter, a list of former Auditors of State, the Table of Contents, the Certificate of Achievement for Excellence in Financial Reporting Award, and the State Organizational Chart that includes a listing of selected State Officials.

200 W. Washington Street • State House Room 240 • Indianapolis, IN 46204-2731

The Financial Section includes the independent auditor's report, Management's Discussion and Analysis, the basic financial statements, required supplementary information, and other supplementary information.

The financial statements include government-wide and fund financial statements, representing all funds for which the State of Indiana is accountable, based on criteria for defining the financial reporting entity prescribed by the Governmental Accounting Standards Board. The criteria for inclusion are based on fiscal dependency, financial accountability, selection of governing authority, and ability to significantly influence operations. Based on these criteria, the various funds and entities shown in this report are considered as part of the reporting entity.

The Statistical Section includes selected financial, demographic, and operating information, generally presented on a multi-year basis.

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing state and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,423,113 which makes Indiana the nation's 16th largest State. The State is 78.4% urban and 21.6% rural. The five largest cities are Indianapolis, the capital, Fort Wayne, Evansville, South Bend and Gary.

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

The State government provides a wide range of services to the citizens of Indiana, including education, transportation, public health, public safety, welfare, conservation, and economic development.
This report includes the financial activities and balances of the State of Indiana and its component units. The component units are legally separate entities for which the State of Indiana has financial responsibility and include State funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Indiana. More information on the financial reporting entity can be found in Note I(A) in the notes to the financial statements.

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

Factors Affecting Economic and Financial Conditions

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

Local Economy

With an estimated 2009 Gross Domestic Product of $262.6 billion, Indiana's economy ranked 16th largest in the U.S. in terms of the value of goods and services. In 2008, Indiana ranked 1st among the fifty states in terms of the value of primary metals production. Indiana ranked 7th in the value of fabricated metal products, 9th in the production of manufacturing machinery, 4th in the value of motor vehicle manufacturing, and 10th in chemical manufacturing. According to published U.S. Census Bureau data, Indiana ranked 7th in 2008 in terms of the value of total manufactured goods.

In 2009, the manufacturing sector accounted for 16.3% of the jobs in Indiana compared to 20.8% in 2002. The share of employment accounted for by the health care and social services sector increased from 11.5% in 2002 to 14% in 2009. Between 2005 and 2009, per capita personal income increased at an average annual rate of 1.9%. In 2009, the State's unemployment rate averaged 10.1%.

Cash Management and Investments

Cash temporarily idle during the year was invested in deposit accounts, obligations of the U.S. Treasury and U.S. Agencies, money market mutual funds, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(D)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 6.60%. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and State depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is $13.1 billion at June 30, 2010.

Financial Policies

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

In June 2010, Indiana closed the books with more than $830 million in reserves despite experiencing consecutive years of revenue declines of 7.4% and 5.6% in FY 2009 and FY 2010, respectively. Reducing general fund spending has enabled Indiana to not only maintain a prudent level of reserves, but also repay debts to local government, schools, and universities, which at their peak in FY 2005, totaled over $750 million. One-time revenues, such as those generated by the Tax Amnesty program several years ago, have been used to repay one-time debt rather than being built into revenue forecasts to support on-going expenditures.

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

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

Long-Term Financial Planning

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

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

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

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

Major Initiatives

K-12 Education – Governor Daniels and the 2008 General Assembly enacted HB 1001 which provided for sweeping property tax reform. Part of this reform included the assumption by the State's general fund of the share of tuition support previously paid by local property tax dollars. Beginning January 2009, the State assumed 100% of K-12 tuition support. This allowed school corporations to receive payments monthly and without delay. The Indiana General Assembly provided a 2.26% increase in tuition support funding from FY 2009 to FY 2010; however, due to the significant decline in state revenue, Governor Daniels ordered a reduction of 0.1% from the FY 2009 level. The state utilized $209 million of American Recovery and Reinvestment Act (ARRA) Fiscal Stabilization funds in FY 2010.

Higher Education – Indiana continued its commitment to Higher Education through annual increases in University and aid related funding. Appropriations for state aid to students attending public and private colleges and universities, provided through the State Student Assistance Commission for Indiana, increased 5.2% in FY 2010 to $262 million. In FY 2010, the Indiana General Assembly appropriated Higher Education non-capital funds equal to FY 2009 funding levels utilizing ARRA Fiscal Stabilization Funds. However, due to the significant decline in state revenues, a 3.56% reduction was required. Higher Education non-capital funding for FY 2010 totaled $1,305 million.

In addition, the 2009-2011 budget authorized 23 new capital projects resulting in $288.4 million of estimated state appropriation fee replaced debt service and $186 million of estimated non-state appropriation fee replaced debt service. The Office of Management and Budget and the Commission for Higher Education prioritized the release of authorized projects due to the extremely high level of authorized bonding authority, including the reauthorization of numerous projects from the 2007-2009 budget.

Public Safety – The Indiana State Police has embarked on a statewide initiative to regionalize police dispatch services as part of their on-going modernization efforts. This initiative will allow ISP to reduce the number of dispatch centers from 18 to 6 while also greatly enhancing public safety through the utilization of a Computer Aided Dispatch (CAD) system. The increased use of technology will eliminate duplicative data entry while allowing the Indiana State Police to transform from a bricks-and-mortar dispatch operation to a more adaptive force while delivering a higher level of service and better response times to the citizens of Indiana.

With the addition of more than 250 troopers to Indiana's roads, the Indiana State Police has dramatically increased its overall traffic safety efforts, resulting in a reduction in deaths on Indiana roadways. The total number of traffic arrests and warnings in 2010 as of September 2010 is 735,034 compared to 345,403 in all of 2006. This is a 113% increase in just the first nine months of 2010. The increased traffic enforcement efforts have resulted in a reduction in traffic fatalities from 938 in 2005 to 693 in 2009. As of September 2010, the record low number of fatalities is holding at 2009 levels, with 514 so far as compared to 516 at this same time in 2009. Operating While Intoxicated (OWI) arrests increased from 3,834 in 2006 to 6,785 just nine months into 2010, an increase of 77%. Alcohol related fatal crashes in 2010 appear to be on the way to another significant reduction. As of September 2010, there have been 56 alcohol related fatal crashes, compared to 203 in 2006 and 142 in 2009.

In FY 2010, the Indiana Department of Correction (IDOC) implemented a myriad of cost savings initiatives to enhance the overall effectiveness and efficiency of the Department. Facility Forward, a comprehensive initiative designed to enhance prison capacity, maximize current state property and assets, and create efficiencies, was implemented by relocating several inmate populations. The Department also began its partnership with Ivy Tech Community College to assume responsibility for providing adult educational services including GED, literacy, and vocational programs to adult offenders statewide. The full implementation will be completed by April 4, 2011 and result in annual savings of nearly $7 million.

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

For a third consecutive year, State and federal program expenditures for engineering, right-of-way, construction, and maintenance exceeded one billion dollars. Actual FY 2010 expenditures were nearly $1.4 billion, slightly down from the FY 2009 total of almost $1.5 billion, and still more than double the annual amount spent a decade ago.

Conservation and Environment - The Young Hoosiers Conservation Corps (YHCC) began its second season in FY 2010 by hiring approximately 2,000 Hoosiers to work at state facilities, including the Department of Natural Resources (DNR) and INDOT, in partnership with the Department of Workforce Development (DWD). Participants learn effective workplace habits and are given an opportunity to meet with their WorkOne coordinator to receive information on job search techniques, resume assistance, job fairs and education opportunities.

In FY 2010, Governor Daniels announced the largest land conservation initiative in the state's history consisting of two projects, one within the Wabash River and Sugar Creek floodplain (43,000 acres) and another along the Muscatatuck River known as Muscatatuck Bottoms (25,600 acres). The projects will be funded by $10 million from a U.S. Fish & Wildlife Service grant and another $21.5 million from DNR's Lifetime License Fund. Additional support will come from The Nature Conservancy, the U.S. Department of Agriculture's Natural Resources Conservation Service and Ducks Unlimited. DNR began acquiring property from willing sellers in FY 2010 with activity continuing for years to come.

Health and Human Services – Created by Governor Daniels and the Indiana General Assembly in 2007, the Healthy Indiana Plan (HIP) will provide health insurance to approximately 130,000 Hoosiers, including childless adults. Funding for HIP comes from an increase in the Indiana cigarette tax and is expected to bring in $1.1 billion in new federal funds to Indiana over five years. Currently, 46,194 Hoosiers are in the program.

The Children's Health Insurance Plan (CHIP) spent $118.0 million in FY 2010 an increase of $9.0 million from FY 2009 (or 7.6%). At the end of FY 2010, CHIP was serving 79,757 clients, an increase of 9.3% compared to the average number of clients served by CHIP in FY 2009.

As of June 30, 2010, Medicaid enrollment was 882,354, which excludes CHIP, HIP, and retroactive eligibility. This represents an 8.5% increase compared to average enrollment of 813,400 in FY 2009.

In its fifth year of operations, the Department of Child Services (DCS) continued the implementation of a practice reform initiative designed to improve outcomes for children and families by strategically funding and assessing prevention initiatives. As a result, during FY 2010, DCS improved performance in permanency measures by decreasing the median length of stay for children in all forms of foster care by greater than 5%, from 383 days down to 363 days. The downward trending is important because unnecessarily removing a child from his or her home is traumatic for the child and costly for taxpayers.

Since July 1, 2005, the DCS has increased the total number of filled FCM (Family Case Manager) positions by 750, from 842 to 1,592. Pursuant to IC 31-25-2-5, enacted in the spring of 2007, the Department of Child Services is required to ensure that staffing levels of family case managers are maintained so that each county has enough family case managers to allow caseloads to be at not more than: (1) twelve active cases relating to initial assessments, including investigations of an allegation of child abuse or neglect; or (2) seventeen children monitored and supervised in active cases relating to ongoing services. The 12/17 standard represents that of the Child Welfare League of America. As of June, 2010, 88.9%, or 16 of 18 regions, were in compliance with the caseload averages of 12 and 17. Region 1 ended the year within one (1) staff member of meeting the 12/17 standard, while Region 3 needed three (3) additional staff to do so.

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

The DCS works to reduce the amount of child support which is past due. The percentage of cases paying past due amounts has increased from 55 percent to 63.6 percent since 2004, exceeding the national average of 63.3 percent.

Economic Development - The Indiana Economic Development Corporation (IEDC) is the State of Indiana's chief economic development agency. The IEDC seeks to bring new job creation and capital investment opportunities to Indiana through competitive company attractions, expansions and consolidations. Between July 1, 2009 and June 30, 2010, the IEDC closed 192 competitive economic development projects. The companies undertaking these projects have committed to invest $1.18 billion in Indiana and create 26,371 new jobs.

The IEDC uses an aggressive and strategic approach to attract and encourage new business investment and job attraction in Indiana. The IEDC in FY 2010 also focused on attracting companies that were looking to consolidate manufacturing plants or facilities to reduce business costs. Indiana's investment friendly business climate and competitive regulatory environment have been key assets in competing for these opportunities.

The IEDC has also developed a comprehensive approach to attracting new international investment. In September 2009, Governor Mitch Daniels led dozens of Indiana business and community leaders on an investment mission to China and Japan for the IEDC's sixth overseas mission since 2005. Other international outreach efforts conducted in FY 2010 included a mission to Europe targeting specific economic development prospects and a reception held in Indianapolis hosting executives from the Chinese automotive industry.

In addition to aggressively pursuing competitive business development projects, the IEDC is also actively engaged in supporting the growth of Indiana's entrepreneurial sector through the 21st Century Research and Technology Fund. In FY 2010, the 21st Century Fund made twelve (12) new investments in Indiana technology businesses totaling $12.65 million and made 66 federal match funding awards through the Small Business Innovation Research (SBIR) or Small Business Technology Transfer (STTR) matching program totaling $6.72 million. Despite these challenging times, 21st Century investments have attracted substantial federal and private sector matching funds on a 3 to 1 basis through which technical and business risks have been managed. The SBIR/STTR program, which provides early-stage proof-of-principle and product prototyping phases, results in a 4 to 1 leveraging of federal funds.

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

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the seventeenth consecutive year that the State of Indiana has achieved this prestigious award.

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

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

Acknowledgments

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

Sincerely,

Tim Berry
Auditor of State
State of Indiana

Chris Ruhl
Director
Office of Management and Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

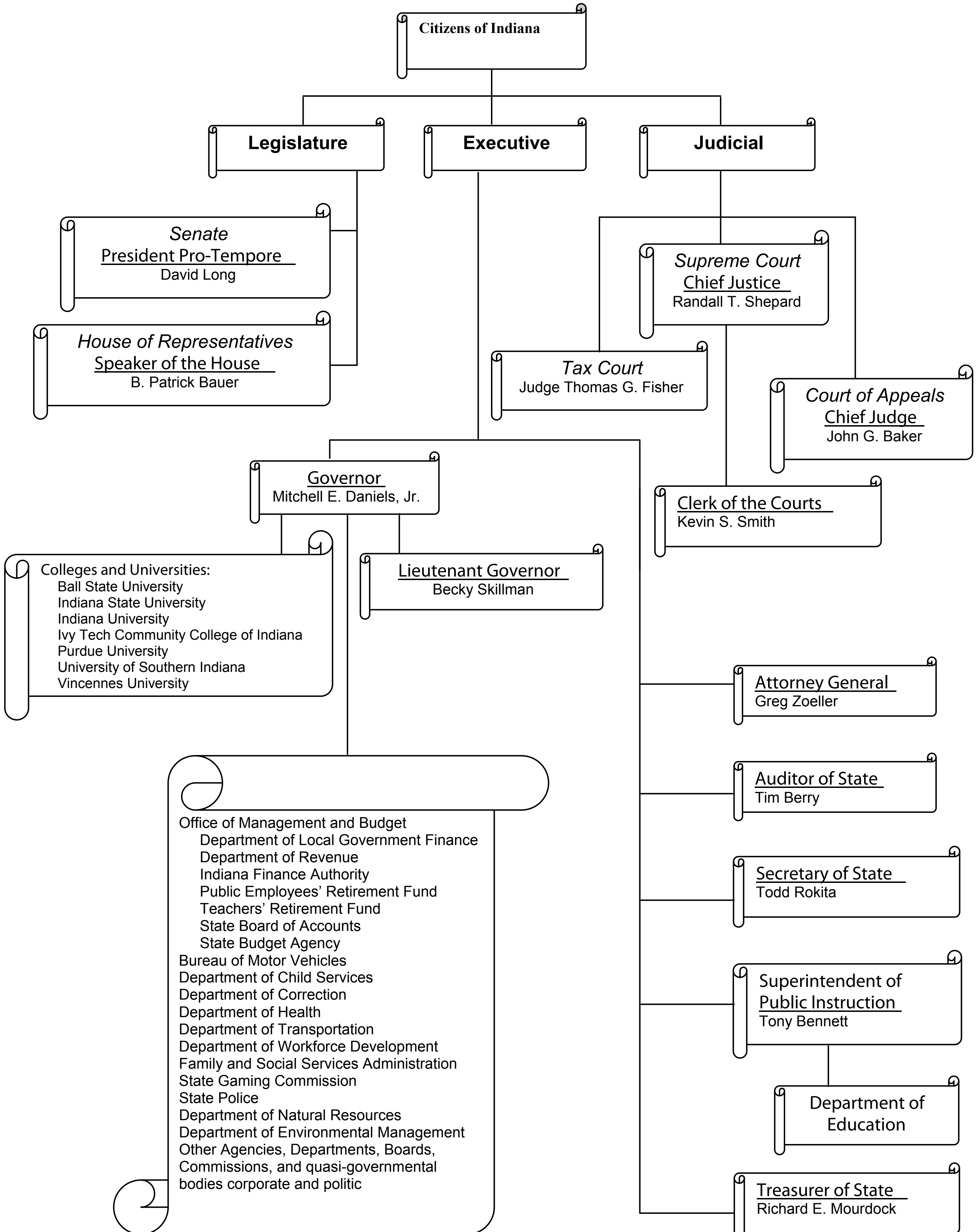
State of Indiana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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

President

Executive Director


Citizens of Indiana
Legislature
Executive
Judicial
Senate
President Pro-Tempore
David Long
House of Representatives
Speaker of the House
B. Patrick Bauer
Supreme Court
Chief Justice
Randall T. Shepard
Tax Court
Judge Thomas G. Fisher
Court of Appeals
Chief Judge
John G. Baker
Clerk of the Courts
Kevin S. Smith
Governor
Mitchell E. Daniels, Jr.
Lieutenant Governor
Becky Skillman
Colleges and Universities:
Ball State University
Indiana State University
Indiana University
Ivy Tech Community College of Indiana
Purdue University
University of Southern Indiana
Vincennes University
Office of Management and Budget
Department of Local Government Finance
Department of Revenue
Indiana Finance Authority
Public Employees' Retirement Fund
Teachers' Retirement Fund
State Board of Accounts
State Budget Agency
Bureau of Motor Vehicles
Department of Child Services
Department of Correction
Department of Health
Department of Transportation
Department of Workforce Development
Family and Social Services Administration
State Gaming Commission
State Police
Department of Natural Resources
Department of Environmental Management
Other Agencies, Departments, Boards, Commissions, and quasi-governmental bodies corporate and politic
Attorney General
Greg Zoeller
Auditor of State
Tim Berry
Secretary of State
Todd Rokita
Superintendent of Public Instruction
Tony Bennett
Department of Education
Treasurer of State
Richard E. Mourdock


SEAL OF THE STATE OF INDIANA
1816