MANAGEMENT’S DISCUSSION AND ANALYSIS

STATE OF INDIANA
Management's Discussion and Analysis
June 30, 2021

The following discussion and analysis of the State of Indiana's financial performance provides an overview of the state's financial activities for the fiscal year (FY) ended June 30, 2021. Please read it in conjunction with the transmittal letter at the front of this report and the state's financial statements, which follow this section. Because of prior period adjustments and reclassifications as described in Note IV(G) of the Notes to the Financial Statements, FY 2020 numbers have been restated.

Financial Highlights

- For FY 2021, on a government-wide basis, the assets and deferred outflows of the State of Indiana exceeded its liabilities and deferred inflows by $20.5 billion. This compares with $16.0 billion for FY 2020, as restated.
- At the end of the current FY, unassigned fund balance for the General Fund was $3.4 billion, or 23.4% of the total General Fund expenditures.
- On a government-wide basis for the primary government, the state incurred expenses net of program revenue of $21.5 billion, which are offset by general revenues totaling $26.2 billion, giving an increase in net position of $4.7 billion.
- General fund forecasted revenue for the primary government increased by $4,032.9 million, or 26.2%, from FY 2020. Income tax filing and due date shifts were made from FY 2020 into FY 2021 to align with federal income tax rate shifts. This shift is estimated to account for $886.3 million of the FY 2021 revenue collections.
- Combined general fund reserve balances for FY 2021 were $3,922.7 million.
- For the first time since FY 2012, the statutory, end-of-the biennium calculation resulted in the determination of excess reserves. A total of $1,090.8 million will be used to reduce statutorily directed pension liabilities and to pay for taxpayer credits in FY 2022.
- Indiana is one of thirteen 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). From the April 2021 report, S&P cited four areas in issuing the AAA credit rating: modest economic growth across all sectors, maintenance of strong budgetary reserves, active budget management, and low overall debt levels. Fitch's November 2020 rating report issued AAA due to "the state's low long-term liability burden and exceptionally strong operating profile, including prudent budgetary budget management during the long economic expansion that further strengthened the state's robust financial resilience as it enters the current coronavirus-driven downturn."
- Indiana continues to position itself as one of the lowest debt-level states in the country. Net tax supported debt (NTSD) represents just $233 per capita, the 6th lowest in the country (Moody's Debt Median Report, June 14, 2021).
- In 2021, Indiana received several accolades for its business environment. This includes favorable rankings of 5th in the nation in Chief Executive Magazine's annual "Best States for Business" survey (April 2021), top 10 best states for business tax climate (Tax Foundation 2021 Index), and 1st in Business Facilities' Annual Rankings Report of best states for manufacturing output (August 2021).

Key Economic Indicators

	Dec. 31, 2020	Dec. 31, 2019	% Change
Total Labor Force	3,321,235	3,359,406	-1.1%
Total Employed Labor Force	3,175,002	3,259,595	-2.6%
Total Goods and Service Employment	3,047,500	3,184,300	-4.3%
Service-Providing Employment	2,373,100	2,491,200	-4.7%
Goods-Producing Employment	674,400	693,100	-2.7%
Unemployment Rate	4.4%	3.0%	46.7%
Median Household Income	60,813	57,603	5.6%

Sources: Indiana Department of Workforce Development, Bureau of Labor Statistics, and U.S. Census Bureau.

Salaries and benefits for state employees represent approximately 7.0% of governmental fund expenditures. The following table shows a ten year history of the count of full time state employees.

Full Time State Employees Paid Through The Auditor of State's Office

Year	Governor's Authority	Judiciary	Other Elected Officials	On Disability Leave - In Pay Status	On Disability Leave - Not in Pay Status	Total
2021	28,803	964	896	422	154	31,239
2020	29,607	950	1,147	395	181	32,280
2019	28,868	922	1,124	363	193	31,470
2018	28,634	908	1,095	370	220	31,227
2017	28,286	894	1,062	425	221	30,888
2016	28,315	886	1,107	419	250	30,977
2015	28,157	865	1,083	455	289	30,849
2014	28,279	845	1,065	471	312	30,972
2013	28,398	831	1,049	511	345	31,134
2012	28,485	835	1,049	545	349	31,263

For more information on personnel paid through the Auditor of State, please read the Statistical Section.

Overview of the Financial Statements

This Financial Section consists of four parts: management's discussion and analysis (this part), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the state. The first two statements are government-wide financial statements that provide both long-term and short-term information about the state's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the state government, reporting the state's operations in more detail than the government-wide statements.

- The governmental fund statements tell how general government services such as public safety, education, and welfare were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the Unemployment Compensation Fund.
- Fiduciary fund statements provide information about the financial relationships in which the state acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong, such as the retirement plan for the state's employees.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* and *other supplementary information* that further explain and support the information in the financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the state as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the state's net position and how it has changed. Net position, which equals the state's assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, is one way to measure the state's financial health, or position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State of Indiana is improving or deteriorating. To assess the overall health of the state, additional non-financial factors should be considered, such as changes in the state's tax base, the condition of the state's roads and the state's student population. The government-wide financial statements of the state are divided into three categories:

- **Governmental activities**. Most of the state's basic services are included here, such as the state's roads and bridges, and health and environmental programs. State sales and income taxes and federal grants finance most of these activities.
- **Business-type activities**. The state provides goods and services through these activities that are financed or recovered primarily through fees and user charges. The Unemployment Compensation Fund, the Inns and Concessions Fund, and the Indiana Residual Malpractice Insurance Authority are included here.
- **Discretely Presented Component Units**. These are legally separate discretely presented entities for which the state is financially accountable. These include, among others, the Indiana Finance Authority, the State Lottery Commission of Indiana, the Indiana Bond Bank, the Indiana Housing and Community Development Authority, and colleges and universities that receive state funding.

Fund Financial Statements

The fund financial statements provide more detailed information about the state's most significant funds, not the state as a whole. Funds are accounting devices that the state uses to keep track of specific sources of funding and spending for particular purposes. The State of Indiana uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The state has three kinds of funds: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds**. Most of the state's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the state's programs.

   *Relationship and Reconciliation***.** Because the information provided in the governmental funds statements does not encompass the additional long-term focus of the government-wide statements, reconciliation pages are provided. On the page following each governmental fund's financial statement, these reconciliations explain the differences between the government-wide and the fund financial statement. Government-wide statements use full accrual accounting. Revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred, regardless of the timing of related cash inflows and outflows. Governmental fund financial statements use the modified accrual basis of accounting. Revenues are recognized when earned so long as they are collectible within the current period or soon enough afterwards to pay liabilities of the current period. Specific accrued liabilities are recognized as expenditures when payment is due because that is when they are normally liquidated with expendable available financial resources.

   Non-current assets such as infrastructure, land, and property, plant and equipment appear on the government-wide statements but not on the governmental fund statements where they are expensed as acquired rather than capitalized. Non-current liabilities such as capital lease payables and net pension liabilities also appear on the government-wide statements but not on the fund statements. Internal service funds are included as part of the governmental activities in the government-wide statements but not the governmental fund financial statements because they provide services to the governmental funds.

2. **Proprietary funds**. Services for which the state charges customers a fee are generally reported in proprietary funds. These funds use the economic resources measurement focus and the accrual basis of accounting. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. In fact, the state's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information such as cash flows. The state uses internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for the state's other programs and activities. An example would be the State Employee Health Insurance Fund.

3. **Fiduciary funds**. The state is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The state is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds use the economic resources measurement focus and

the accrual basis of accounting. All of the state's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the state's government-wide financial statements, because the state cannot use these assets to finance its operations.

Financial Analysis of the State as a Whole

Net Position

The following is condensed from the Statement of Net Position:

State of Indiana
Condensed Schedule of Net Position
(in millions of dollars)

	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and other assets	$ 19,025.0	$ 16,894.8	$ 698.8	$ 676.8	$ 19,723.8	$ 17,571.6
Capital assets	18,483.0	17,644.1	0.3	0.4	18,483.3	17,644.5
Total assets	37,508.0	34,538.9	699.1	677.2	38,207.1	35,216.1
Deferred outflows of resources	2,256.8	1,477.9	-	-	2,256.8	1,477.9
Total deferred outflows of resources	2,256.8	1,477.9	-	-	2,256.8	1,477.9
Current liabilities	6,263.0	6,562.3	84.2	167.2	6,347.2	6,729.5
Long-term liabilities	12,503.1	13,042.3	23.5	23.8	12,526.6	13,066.1
Total liabilities	18,766.1	19,604.6	107.7	191.0	18,873.8	19,795.6
Deferred inflows of resources	457.9	422.2	-	-	457.9	422.2
Total deferred inflows of resources	457.9	422.2	-	-	457.9	422.2
Net position:						
Net investment in capital assets	17,720.4	16,811.8	0.3	0.4	17,720.7	16,812.2
Restricted	1,160.8	1,105.5	531.5	426.9	1,692.3	1,532.4
Unrestricted	1,659.6	(1,927.3)	59.6	58.9	1,719.2	(1,868.4)
Total net position	$ 20,540.8	$ 15,990.0	$ 591.4	$ 486.2	$ 21,132.2	$ 16,476.2

At the end of the current FY, net position for the primary government increased by $4.7 billion.

Current and other assets increased by $2.1 billion due primarily to increases in tax revenues and unspent federal grant revenues received through the ARPA – Economic Stimulus Fund, which resulted in more cash, cash equivalents, and investments.

Capital assets increased by $838.8 million. The principal reason for the increase in capital assets were increases in land, infrastructure, and construction in progress at the Indiana Department of Transportation primarily due to the continuation of the Next Level Agenda initiative, which focuses on maintaining and building the state's infrastructure. In addition, assets were acquired through the defeasance of bonds from the Indiana Finance Authority.

Deferred outflows of resources increased $778.9 million. The reason for the increase was an additional contribution subsequent to the actuarial measurement date per HEA 1001-2021 to the TRF Pre-1996 Pension Plan.

Total liabilities decreased $921.8 million primarily due to the additional contribution to TRF Pre-1996 Pension Plan reducing the net pension liability and a reduction to accounts payable. The reduction in accounts payable was primarily due to unique transactions in 2020 related to investment settlements and Medicaid.

Changes in Net Position

The following is condensed from the Statement of Activities:

State of Indiana
Condensed Schedule of Change in Net Position
(in millions of dollars)

	Primary Government					
	Governmental Activities Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenues:						
Charges for services	$ 3,401.5	$ 3,299.1	$ 657.4	$ 468.4	$ 4,058.9	$ 3,767.5
Operating grants and contributions	20,093.2	15,992.1	-	-	20,093.2	15,992.1
Capital grants and contributions	1,326.6	1,249.9	-	-	1,326.6	1,249.9
General revenues:						
Income taxes	8,021.5	6,788.5	-	-	8,021.5	6,788.5
Sales taxes	9,400.4	8,320.7	-	-	9,400.4	8,320.7
Other	3,868.9	3,355.2	4,853.6	3,033.6	8,722.5	6,388.8
Total revenues	46,112.1	39,005.5	5,511.0	3,502.0	51,623.1	42,507.5
Program Expense						
General government	2,136.1	1,673.8	-	-	2,136.1	1,673.8
Public safety	1,799.5	1,820.5	-	-	1,799.5	1,820.5
Health	809.7	462.3	-	-	809.7	462.3
Welfare	20,264.6	18,360.2	-	-	20,264.6	18,360.2
Conservation, culture and development	1,508.2	549.8	-	-	1,508.2	549.8
Education	11,649.6	11,535.3	-	-	11,649.6	11,535.3
Transportation	3,355.3	3,166.4	-	-	3,355.3	3,166.4
Interest expense	38.9	42.3	-	-	38.9	42.3
Unemployment compensation fund	-	-	5,381.6	4,007.6	5,381.6	4,007.6
Other	-	-	23.6	23.5	23.6	23.5
Total expenses	41,561.9	37,610.6	5,405.2	4,031.1	46,967.1	41,641.7
Excess (deficiency) before transfers	4,550.2	1,394.9	105.8	(529.1)	4,656.0	865.8
Transfers	0.6	0.4	(0.6)	(0.4)	-	-
Change in net position	4,550.8	1,395.3	105.2	(529.5)	4,656.0	865.8
Beginning net position, as restated	15,990.0	14,594.7	486.2	1,015.7	16,476.2	15,610.4
Ending net position	$ 20,540.8	$ 15,990.0	$ 591.4	$ 486.2	$ 21,132.2	$ 16,476.2

Governmental Activities

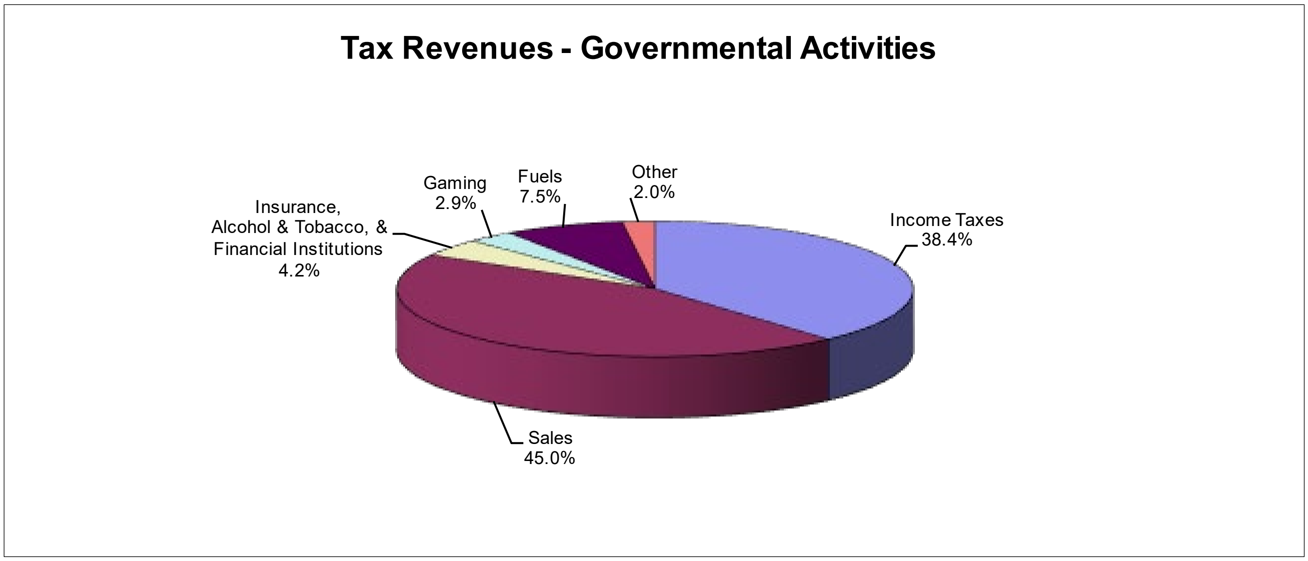
Program expenses exceeded program revenues by $16.7 billion. General revenues and transfers were $21.3 billion. The increase in net position was $4.6 billion, which is 9.9% of total revenues and 10.9% of total expenses.

Excess (deficiency) before transfers increased $3.2 billion from FY 2020 to FY2021.

Increased revenues were driven mainly by increased operating grants and contributions, income tax and sales tax revenue. Operating grants and contributions increased $4.1 billion due to increase in federal funding related to the Medicaid program, American Rescue Plan Act, National School Lunch program, and Supplemental Nutrition Assistance Program (SNAP), offset partially by a decrease in Covid-19 programs funding. Coronavirus relief legislation prevented recipients from being disenrolled from the Medicaid program, causing increased expenditures and a corresponding increase in federal revenues. The National School Lunch program funding increased as school attendance returned to in person and the program covered all student lunch. The increase in SNAP was to provide increased food support during the ongoing pandemic. Income tax revenue increased $1.2 billion due primarily to rising wages and increased employment. Sales tax revenue increased $1.1 billion. The economy continued to grow from increased sales as many sectors began to recover from the COVID-19 pandemic.

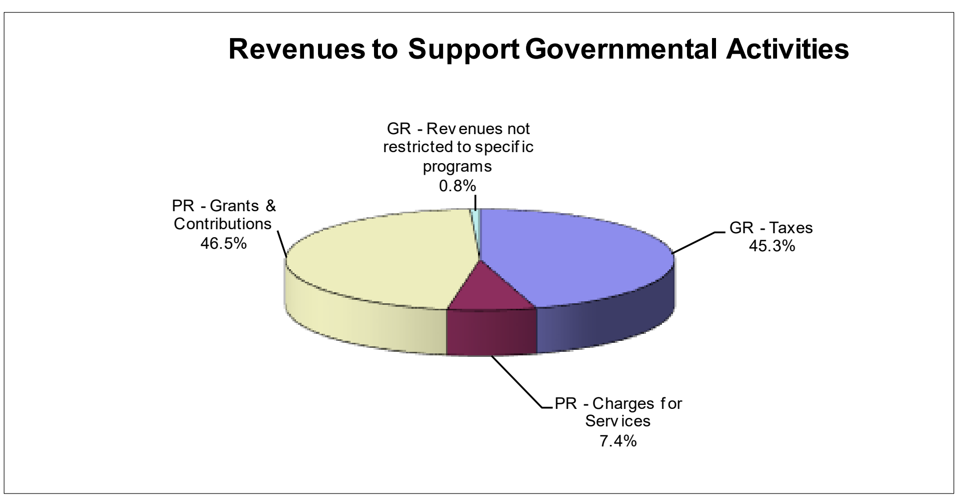
Expenses increased $4.0 billion or 10.5%. Welfare expenses increased $1.9 billion primarily due to increased spending of welfare programs. Conservation, culture and development increased $1.0 billion due primarily to spending of Federal COVID-19 federal grant funds largely received in fiscal year 2020 and the new FEMA Lost Wages Assistance program. General government and Health expenses increased generally due to spending on federal funding related to the ongoing public health emergency.

Tax revenues for governmental activities were broken down as follows:



Tax revenues of $20.9 billion represent 45.3% of total revenues for governmental activities. This compares to $18.3 billion or 46.8% of total revenues in FY 2020. Program revenues accounted for $24.8 billion or 53.9% of total revenues. In FY 2020, program revenues accounted for $20.5 billion or 52.7% of total revenues. General revenues other than tax revenues were $377.7 million or 0.8% of total revenues. Of this, $24.4 million were investment earnings. This compares to 2020, when general revenues other than taxes were $213.7 million or 0.5% of total revenues and $172.4 million was investment earnings. Investment earnings decreased $148.0 million from FY 2020 to FY 2021 or 85.8% due to lower interest rates.

Total revenues for governmental activities were broken down as follows:



PR = program revenues
GR = general revenues

Total revenues were 110.9% of expenses which was an increase from 103.7% in FY 2020. Total revenues increased 18.2% from $39.0 billion in FY 2020 to $46.1 billion in FY 2021. Expenses increased 10.5% from $37.6 billion in FY 2020 to $41.6 billion in FY 2021.

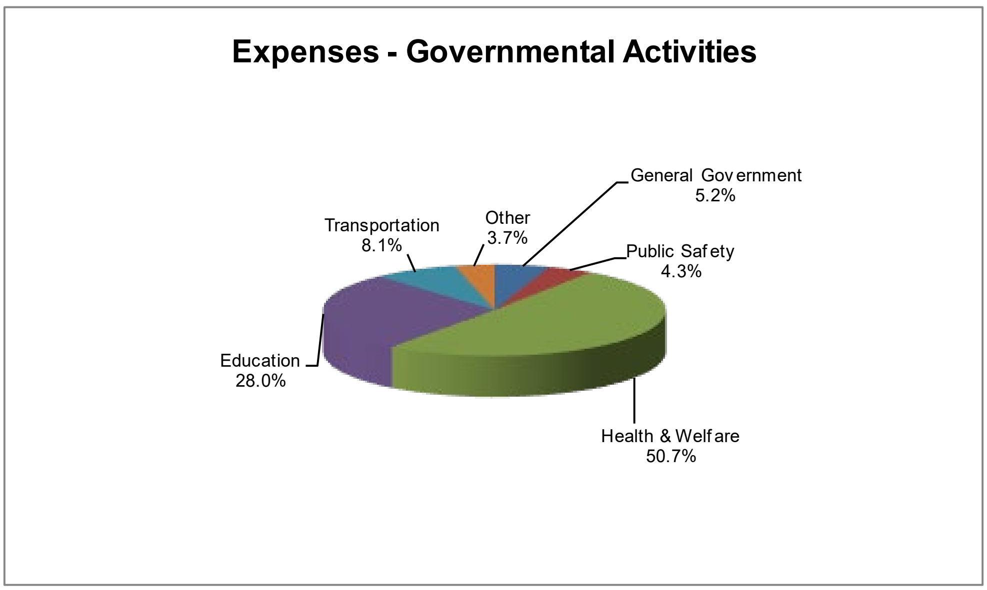
The largest portion of the state's expenses is for welfare, which is $20.3 billion, or 48.8% of total expenses. This compares with $18.4 billion, or 48.8% of total expenses in FY 2020. The change in welfare expenses was an increase of $1.9 billion or 10.3%. $4.2 billion of welfare expenses in FY 2021 were funded from general revenues.

Some of the major expenses were Medicaid Assistance, $15.3 billion, the U.S. Department of Health and Human Services Fund, $1.5 billion, and the federal food stamp program in the U.S. Department of Agriculture Fund, $1.9 billion.

Education comprises 28.0%, or $11.6 billion of the state's expenses. In FY 2020, education accounted for 30.7%, or $11.5 billion, of expenses. The change in education expenses was an increase of $114.3 million, or 1.0%. Some of the major expenses were tuition support of $7.3 billion, General Fund appropriations for state colleges and universities of $1.6 billion, Teachers' Retirement Pension of $1.6 billion, federal grant programs from the U.S. Department of Education Fund of $666.4 million, and U.S. Department of Agriculture Fund of $451.4 million.

Transportation spending accounted for $3.4 billion, or 8.1% of expenses. Transportation comprised $3.2 billion or 8.4% of expenses in FY 2020. Transportation includes expenses related to the maintenance and construction of state infrastructure.

Total expenses for governmental activities were broken down as follows:



Business-type Activities

Business-type activities represent 10.7% of the Primary Government's revenues and 11.5% of the expenses. The Unemployment Compensation Fund accounts for 97.0% of business-type activities' operating revenues and 99.7% of operating expenses. The change in net position for business-type activities was an increase of $105.2 million.

The Unemployment Compensation Fund collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals and the fund covers general and administrative expenses. Revenues earned in the fund exceeded expenses by $104.6 million. This compares to FY 2020 when this fund's expenses exceeded revenues by $535.6 million. Employer contributions into the fund increased by $188.5 million, from $444.5 million in FY 2020 to $633.0 million in FY 2021. The increase in net position of $104.6 million is due to an increase in employer contributions and increases in federal subsidies which helped offset the increase in unemployment benefits paid.

The following schedule shows the net expense (revenue) attributable to each function of government. Each function of Indiana government is either self-supporting (a negative number) or requires additional general revenues to cover expenses (a positive number).

Net Cost of Primary Government
(in millions of dollars)

	June 30, 2021	June 30, 2020	% Change
Governmental Activities:			
General government	$ (880.3)	$ 410.0	-314.7%
Public safety	1,002.8	1,092.0	-8.2%
Health	24.8	(296.9)	-108.4%
Welfare	4,160.4	3,815.8	9.0%
Conservation, culture, and development	562.4	161.3	248.7%
Education	10,352.1	10,446.1	-0.9%
Transportation	1,479.5	1,398.9	5.8%
Interest expense	38.9	42.3	-8.0%
Business-type Activities:			
Unemployment Compensation Fund	4,748.6	3,563.1	33.3%
Malpractice Insurance Authority	1.2	0.4	200.0%
Inns and Concessions	(1.9)	(0.7)	171.4%
Total	**$ 21,488.5**	**$ 20,632.3**	**4.1%**

Financial Analysis of the State's Funds

The following is an analysis of the state's major governmental funds. The transfers in and transfers out for these funds are explained in much greater detail in note IV(B) in the Notes to the Financial Statements.

General Fund

The General Fund 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 fund balance of the General Fund at June 30, 2021 was $6.8 billion, which is 68.2% of total assets. This compares to a fund balance at June 30, 2020 of $4.6 billion, which was 59.1% of assets. This indicates that the state's financial position in the General Fund increased from the prior year. The fund balance of $6.8 billion is comprised of nonspendable of $92.1 million, restrictions of $544.9 million, commitments of $39.6 million, and assignments of $2.6 billion, leaving an unassigned balance of $3.4 billion. The restricted amount consists of the Rainy Day Fund, which is accounted for in the General Fund. For more information on the components of fund balance, see the chart in the Notes to the Financial Statements III(B).

The General Fund's revenues increased 14.0%, or $2.3 billion, from FY 2020, because of an increase in total income tax of $1.3 billion and sales tax revenue of $1.0 billion.

General Fund expenditures increased $425.5 million, or 3.0% from FY 2020.

General Fund transfers in increased $42.4 million or 3.3% from FY 2020. Transfers out were $3.2 billion in FY 2021 as compared to $3.1 billion in FY 2020. More detail on these transfers can be found in the Notes to the Financial Statements IV(B).

Overall, the fund balance of the General Fund increased $2.1 billion.

Public Welfare-Medicaid Assistance Fund

Medicaid is an insurance program for low-income individuals. It is jointly funded by the Federal government and the state.

The fund received $11.9 billion in federal revenue as compared to $10.5 billion in FY 2020. State funding comes through transfers from the General Fund. Transfers in were $2.9 billion in FY 2021 which is the same compared to FY 2020. Transfers out were $257.4 million compared with $447.2 million in FY 2020. The fund distributed $15.3 billion in Medicaid Assistance during the year, which is an increase of $1.2 billion over FY 2020. The change in fund balance increased $69.3 million from FY 2020 to FY 2021.

U.S. Department of Health and Human Services Fund

The U.S. Department of Health and Human Services Fund is a fund to account for federal grants that are used to carry out health and human services programs.

The fund received $1.4 billion in federal grant revenues and expended $1.7 billion. The US DHHS Fund received transfers in of $413.4 million mostly from the General Fund for various health and human services programs. The change in fund balance from FY 2020 to FY 2021 was an increase of $28.1 million.

Federal COVID-19 Fund

The Federal COVID-19 Fund provides federal grant dollars to cover costs that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019. The fund includes the CARES Act, the Coronavirus Relief Fund (CRF), and additional funds provided for existing grant programs.

The fund received $2.7 billion in federal grant revenues and expended $2.7 billion for pandemic related expenditures. The change in fund balance from FY 2020 to FY 2021 was an increase of $44.8 million.

ARPA – Economic Stimulus Fund

The ARPA-Economic Stimulus Fund provides federal grant dollars to support the state in responding to the impact of COVID-19 and in its efforts to contain COVID-19 on communities, residents, and businesses. Its uses build on and expand the support provided to the state and local governments through the CRF.

The fund received $1.5 billion in cash which is all unearned. There were no expenses in 2021. This is a new fund for fiscal year 2021.

General Fund Budgetary Highlights

At 2021 fiscal year-end, Indiana closed the books with $3,922.7 million in combined balance reserves. This was the highest combined balance on record. The previous record was $2,270.1 million at the end of FY 2019. General Fund forecasted revenues for FY 2021 totaled $19,407.4 million which is $1,222.1 million (6.7%) above estimates from the Revenue Forecast Technical Committee's presentation at the April 15, 2021 Budget Committee meeting. The FY 2021 revenue report indicates that Indiana employment, income, and business activity, along with federal assistance measures, led to a sharper economic return than was forecasted. An estimated $886.3 million of income tax payments due in the last quarter of Fiscal Year 2020 were deferred to Fiscal Year 2021. After a balance transfer of $214.7 million from the General Fund to the Medicaid Contingency and Reserve Account and a $196.8 million transfer from the General Fund to the Tuition Reserve Account, the combined balances remaining in each account were $2,621.1 million in the General Fund, $214.7 million in the Medicaid Contingency and Reserve Account, $549.4 million in the Tuition Reserve Account, and $537.4 million in the Rainy Day Fund.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $18.5 billion, which was 48.4% of total assets for the primary government. Related debt was $0.8 billion. Net investment in capital assets for the primary government was $17.7 billion. Related debt was 4.3% of capital assets. Total capital assets increased $838.8 million or 4.8% and is mostly attributable to increases in the Indiana Department of Transportation's land, infrastructure, and construction in progress and assets acquired through the defeasance of bonds from the Indiana Finance Authority (IFA). The net increase in capital assets is primarily comprised of increases for $516.6 million in INDOT construction in progress and $263.6 million in buildings and improvements from IFA. More detailed information about the state's capital assets is presented in Note IV(D) to the Financial Statements.

The following table shows the percentage change from FY 2020 to FY 2021.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2021	2020	2021	2020	2021	2020	
Land	$ 2,616.2	$ 2,532.6	$ -	$ -	$ 2,616.2	$ 2,532.6	3.3%
Infrastructure	12,903.3	12,863.6	-	-	12,903.3	12,863.6	0.3%
Construction in progress	1,064.5	1,114.9	-	-	1,064.5	1,114.9	-4.5%
Property, plant and equipment	3,650.2	3,117.2	1.1	1.1	3,651.3	3,118.3	17.1%
Computer software	907.4	319.9	-	-	907.4	319.9	183.7%
Less accumulated depreciation	(2,658.6)	(2,304.1)	(0.7)	(0.7)	(2,659.3)	(2,304.8)	15.4%
Total	**$18,483.0**	**$17,644.1**	**$ 0.4**	**$ 0.4**	**$18,483.4**	**$17,644.5**	**4.8%**

Long-term Obligations

Long-term obligations items are included in the following table. These items comprised 66.4% of total liabilities.

The following table shows the percentage change from FY 2020 to FY 2021.

State of Indiana
Long-term Liabilities
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2021	2020	2021	2020	2021	2020	
Accrued liability for compensated absences	$ 207.0	$ 193.3	$ 0.8	$ 0.7	$ 207.8	$ 194.0	7.1%
Capital lease payable	762.4	832.3	-	-	762.4	832.3	-8.4%
Claims payable	-	-	22.7	23.1	22.7	23.1	-1.7%
Net pension liability	11,392.2	11,792.9	-	-	11,392.2	11,792.9	-3.4%
Net OPEB liability	54.2	133.0	-	-	54.2	133.0	-59.2%
OPEB DC liability	44.0	57.2	-	-	44.0	57.2	-23.1%
Asset retirement obligations	7.8	-	-	-	7.8	-	N/A
Pollution remediation	35.5	33.6	-	-	35.5	33.6	5.7%
Total	**$12,503.1**	**$13,042.3**	**$ 23.5**	**$ 23.8**	**$12,526.6**	**$13,066.1**	**-4.1%**

Total long-term liabilities decreased by 4.1% or $539.5 million. The largest decreases were for the net pension liability of $400.7 million and for other postemployment benefits of $92.0 million. Long-term liabilities related to capital leases also decreased by $69.9 million.

The continued funding for the Teachers Pre-96 Fund was the major contributing factor for the decrease to the net pension liability.

The decrease for other postemployment benefits was mainly due to actuarial valuation changes in actuarial assumptions for the state's OPEB plans.

The Indiana Finance Authority did not issue any new highway revenue bonds, therefore capital lease payables decreased.

Claims payable for business activities decreased by $0.4 million. This was the amount of decrease in claims payable for the Indiana Residual Malpractice Insurance Authority.

More detailed information about the state's long term obligations is presented in Note IV(F) to the Financial Statements.

Infrastructure

As required by GASB Statement No. 34, the state has capitalized its infrastructure. This amounts to $12.9 billion in roads and bridges using the modified approach and $2.1 billion in right of way classified as land, and $34.2 million in property (septic, sewer, and water systems; and streets/sidewalks/curbs) and dams being depreciated. In order to utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at or above the established condition level.

Under the modified approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 11,098 centerline road miles of pavement along 240 routes and approximately 5,811 bridges that the state is responsible to maintain.

The state has consistently maintained the assessed conditions of roads over the past three years. It is the state's policy to maintain a network average International Roughness Index based on the right wheel path (IRI RWP) of no more than 101 for Interstate Roads, NHS Non-Interstate, and Non-NHS Roads (a good rating is in the range of 80–114). The most recent condition assessment, completed for FY 2021, indicated that the average IRI RWP for roads was in an acceptable range.

The state has maintained the assessed conditions of bridges at levels which are above the established benchmarks. It is the state's policy to maintain Interstate bridges at an average sufficiency rating of 87%, NHS Non-Interstate bridges at an average sufficiency rating of 85%, and Non-NHS bridges at an average sufficiency rating of 83% (a good rating is 80% - 90%). The most recent condition assessment, completed in FY 2021, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Total actual maintenance and preservation costs for interstate roads was higher than planned during fiscal 2021 for interstate roads. Various factors contributing to this included letting additional projects, scope changes, and competitive biddings.

The total actual maintenance and preservation costs for all other road classifications were lower than planned during FY 2021. Various factors contributed to these costs being less than planned including bids that came in under the original estimates, work volumes, lower fuel costs, and redefining the repairs needed and the methods used. The average IRI RWP for Interstate roads was in the excellent condition rating range and the two other road categories, NHS roads - Non-Interstate and Non-NHS roads, were in the good condition rating range. The state's standard of having less than 12.5% of all roads rated in poor condition was met.

Total actual maintenance and preservation costs were less than planned for Interstate and non-National Highway System bridges. This was due to multiple factors including bids that came in under benchmark estimates, change of scope, and reprioritization to meet the agencies goals. The average sufficiency rating for the maintenance of bridges in all road classes was excellent.

Economic Factors

On March 6, 2020, Indiana Governor Eric J. Holcomb declared that a public health emergency existed in the State through Executive Order 20-02 due to COVID-19. The economic impacts of restrictions imposed on business, travel, and entertainment to limit the spread of the disease is evident in Indiana's economic output decline during the first two calendar quarters of 2020.

The latest annual data released by the Bureau of Economic Analysis (BEA) on March 26, 2021, indicates that Indiana's 2020 real Gross Domestic Product (GDP) was $385.3 billion and declined in real value by 3.1% compared to 2019. However, all of that decline occurred in the first two quarters of 2020. Industries most acutely impacted were food services, arts, recreation, entertainment, manufacturing, and transportation. The second half of calendar year 2020 saw quarterly growth in GDP. Based on BEA quarterly releases, the first half of calendar year 2021 is also seeing substantial growth in GDP. Q1 of 2021 saw a 9.4% growth in real GDP which was the 7th highest state growth rate in that quarter, and Q2 of 2021 realized a growth rate of 6.1%.

In comparison to other states, Indiana's economy ranked 18th largest in the U.S. in terms of value of goods and services in calendar year 2020. Indiana's largest contributor to real GDP has been and continues to be the manufacturing sector. As of January 2021, the manufacturing sector accounted for over 17% of the non-farm jobs in Indiana.

Indiana began calendar year 2020 with a per capita personal income of $48,980 and a seasonally adjusted unemployment rate of just 3.2%. By July 2020, after a few months into the global coronavirus pandemic, Indiana's unemployment rate stood at 8.6%. One year later in June 2021, the unemployment rate had dropped to 4.1%. Estimated per capita personal income for Indiana in 2020 had grown to $51,340. Contributing industries to personal income growth were farming, construction, retail, transportation, real estate, professional/technical fields, and health care.

Contacting the Auditor of State

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact ACFR@auditor.in.gov or 317-232-3300.