MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF INDIANA
Management's Discussion and Analysis
June 30, 2017

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 ended June 30, 2017. 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, fiscal year (FY) 2016 numbers have been restated.

Financial Highlights

- For FY 2017, on a government-wide basis, the assets and deferred outflows of the State of Indiana exceeded its liabilities and deferred inflows by $11.8 billion. This compares with $11.2 billion for FY 2016, as restated.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $296.4 million, or 2.3% of the total general fund expenditures.
- On a government-wide basis for the primary government, the state incurred expenses net of program revenue of $16.0 billion, which are offset by general revenues totaling $16.7 billion, giving an increase in net position of $0.7 billion.
- General revenue for the primary government increased by $464.0 million, or 2.9%, from FY 2016. Sales tax revenues increased by $240.7 million and income tax revenue increased $220.0 million. The increase in sales and income tax revenues can be attributed to a reduction in Indiana's unemployment rate, increases in the median household income, and growth in our GDP.
- Combined budget balances for FY 2017 were $1.8 billion. That balance consists of $302.7 million in the General Fund, $577.6 million in the Medicaid Contingency Reserve Fund, $348.3 million in the Tuition Reserve Fund, and $548.5 million in the Rainy Day Fund.
- $1.8 billion represents 11.5% of the General Fund expenditures for FY 2017. These reserve balances will protect the state's critical operations during the next economic downturn.
- Indiana is one of only twelve states with the top bond rating from all three major credit rating agencies. According to the independent credit rating agency Fitch Ratings, the rating "reflects Indiana's historical pattern of low debt, balanced financial operations, and a commitment to funding reserves to provide a cushion in times of economic and revenue decline. These strengths are offset by an economy that, despite ongoing diversification, remains heavily concentrated in the cyclical manufacturing industry." According to Standard & Poor's Ratings Service (S&P), the rating "reflects our view of the state's strong financial position and management's commitment to maintaining structural balance and a high level of reserves. In addition, despite any negative variance from projected revenues, we expect the state to make adjustments as necessary to restore budgetary balance." In addition, Moody's Analytics released a Stress Testing States report in October 2017 indicating that Indiana was one of only "16 states that have the funds they need for the next recession".

Key Economic Indicators

	Dec. 31, 2016	Dec. 31, 2015	% Change
Total Labor Force	3,287,532	3,274,687	0.4%
Total Employed Labor Force	3,156,507	3,125,715	1.0%
Total Goods and Service Employment	3,118,600	3,080,900	1.2%
Service-Providing Employment	2,460,200	2,425,700	1.4%
Goods-Producing Employment	658,400	655,200	0.5%
Unemployment Rate	4.0%	4.5%	-11.1%
Median Household Income	52,314	50,532	3.5%

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

Salaries and benefits for state employees represent approximately 7.6% 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
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
2011	28,472	830	1,067	610	351	31,330
2010	29,911	846	1,056	647	341	32,801
2009	31,254	835	1,093	624	358	34,164
2008	32,606	811	1,139	727	339	35,622

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 they have 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 11,191.7	$ 12,409.1	$ 603.6	$ 352.3	$ 11,795.3	$ 12,761.4
Capital assets	16,298.2	15,931.0	0.2	0.2	16,298.4	15,931.2
Total assets	27,489.9	28,340.1	603.8	352.5	28,093.7	28,692.6
Deferred outflows of resources	1,660.2	1,668.0	-	-	1,660.2	1,668.0
Total deferred outflows of resources	1,660.2	1,668.0	-	-	1,660.2	1,668.0
Current liabilities	3,198.5	4,354.2	53.0	45.8	3,251.5	4,400.0
Long-term liabilities	14,634.5	14,434.6	25.7	26.1	14,660.2	14,460.7
Total liabilities	17,833.0	18,788.8	78.7	71.9	17,911.7	18,860.7
Deferred inflows of resources	31.0	332.8	-	-	31.0	332.8
Total deferred inflows of resources	31.0	332.8	-	-	31.0	332.8
Net position:						
Net investment in capital assets	15,475.8	14,934.6	0.2	0.2	15,476.0	14,934.8
Restricted	1,129.7	1,150.9	477.7	233.0	1,607.4	1,383.9
Unrestricted	(5,319.4)	(5,199.0)	47.2	47.4	(5,272.2)	(5,151.6)
Total net position	$ 11,286.1	$ 10,886.5	$ 525.1	$ 280.6	$ 11,811.2	$ 11,167.1

At the end of the current fiscal year, net position for the primary government increased by $644.1 million.

Current and other assets decreased by $966.1 million due primarily to a decrease in securities lending collateral. Another contributing factor to this decrease was the end of the Tax Amnesty program in 2016.

Capital assets increased by $367.2 million. The principal reason for the increase in capital assets was the increase in land and infrastructure at the Indiana Department of Transportation of $313.7 million primarily due to the continued efforts of the state's infrastructure improvement initiative and other large construction commitments such as the Louisville-Southern Indiana Ohio River Bridges Project (LSIORBP).

Total liabilities decreased $949.0 million. This decrease is due to decreases in securities lending collateral of $870.5 million, accounts payables of $279.8 million, and capital leases of $177.8 million. The securities lending decrease is due to less securities out on loan as of the fiscal year end. These decreases were offset by the increase in the net pension liability of $381.2 million which was due to investment earnings lower than the assumed rate of 6.75%.

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	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	$ 2,477.8	$ 2,369.6	$ 575.8	$ 656.8	$ 3,053.6	$ 3,026.4
Operating grants and contributions	12,478.1	11,974.4	-	-	12,478.1	11,974.4
Capital grants and contributions	979.0	1,187.3	-	-	979.0	1,187.3
General revenues:						
Income taxes	6,454.7	6,234.7	-	-	6,454.7	6,234.7
Sales taxes	7,577.3	7,336.6	-	-	7,577.3	7,336.6
Other	2,627.7	2,622.7	1.7	3.3	2,629.4	2,626.0
Total revenues	32,594.6	31,725.3	577.5	660.1	33,172.1	32,385.4
Program Expense						
General government	1,388.5	1,463.4	-	-	1,388.5	1,463.4
Public safety	1,738.7	1,567.6	-	-	1,738.7	1,567.6
Health	379.2	374.3	-	-	379.2	374.3
Welfare	15,046.8	14,270.3	-	-	15,046.8	14,270.3
Conservation, culture and development	572.9	545.3	-	-	572.9	545.3
Education	11,035.8	11,671.6	-	-	11,035.8	11,671.6
Transportation	1,991.6	2,175.5	-	-	1,991.6	2,175.5
Interest expense	43.7	45.6	-	-	43.7	45.6
Unemployment compensation fund	-	-	305.4	330.4	305.4	330.4
Other	-	-	25.4	23.2	25.4	23.2
Total expenses	32,197.2	32,113.6	330.8	353.6	32,528.0	32,467.2
Excess (deficiency) before transfers	397.4	(388.3)	246.7	306.5	644.1	(81.8)
Transfers	2.2	2.6	(2.2)	(2.6)	-	-
Change in net position	399.6	(385.7)	244.5	303.9	644.1	(81.8)
Beginning net position, as restated	10,886.5	11,272.2	280.6	(23.3)	11,167.1	11,248.9
Ending net position	$ 11,286.1	$ 10,886.5	$ 525.1	$ 280.6	$ 11,811.2	$ 11,167.1

Governmental Activities

Program expenses exceeded program revenues by $16.3 billion. General revenues and transfers were $16.7 billion. The increase in net position was $399.6 million, which is 1.2% of total revenues and 1.2% of total expenses.

Excess (deficiency) before transfers increased $785.7 million from FY 2016 to FY2017.

Revenues increased mainly in operating grants and contributions. This revenue increased $503.7 million over the previous fiscal year due to an increase in federal funding for Medicaid. In addition, income taxes increased $220.0 million or 3.5% and sales tax increased $240.7 million or 3.3%. These increases were previously explained under financial highlights.

Expenses overall remained steady with only an increase of $0.8 million or 0.3%.

Education expenses decreased $635.8 million due to the decrease in pension expense for the Teachers Retirement fund. Changes of assumptions from the 2015 experience study caused the pension expense in 2016 to be significantly greater than 2017.

Transportation expenses decreased $183.9 million due to a significant reduction in the investment in direct financing lease between INDOT and IFA.

These decreases were offset by increases in Public Safety and Welfare expenses.

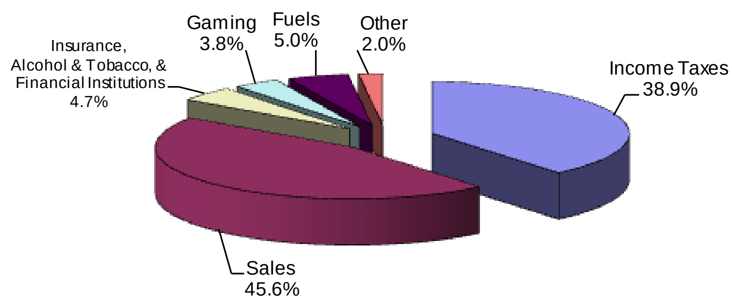
Public safety expenses increased $171.1 million primarily due to increases in net pension liabilities. Some other programs such as the Patients Compensation Fund, Community Corrections Program, federal funding for the Department of

Homeland Security, and payments to counties for state offenders also increased.

Welfare expenses increased $776.5 million. This increase is primarily due to the spending of the increased Medicaid funding by the federal government and to increased state support required for the Department of Child Services' Family and Children program.

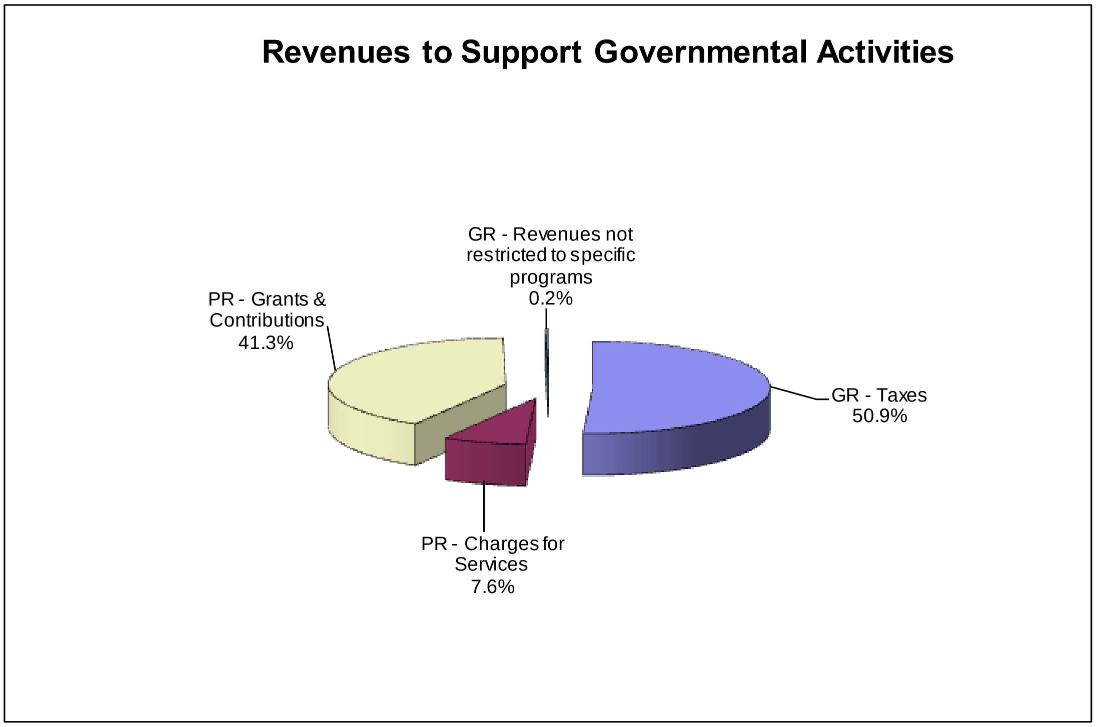
Tax revenues for governmental activities were broken down as follows:

Tax Revenues - Governmental Activities



Tax revenues of $16.6 billion represent 50.9% of total revenues for governmental activities. This compares to $16.1 billion or 50.8% of total revenues in FY 2016. Program revenues accounted for $15.9 billion or 48.9% of total revenues. In FY 2016, program revenues accounted for $15.5 billion or 49.0% of total revenues. General revenues other than tax revenues were $74.5 million or 0.2% of total revenues. Of this $46.6 million were investment earnings. This compares to 2016, when general revenues other than taxes were $70.5 million or 0.2% of total revenues and $38.3 million was investment earnings. Investment earnings increased by $8.3 million from FY 2016 to FY 2017 or 21.7% due to increased interest from securities on loan throughout the year and higher interest rates
.

Total revenues for governmental activities were broken down as follows:



PR = program revenues
GR = general revenues

Total revenues were 101.2% of expenses which was an increase from 98.8% in FY 2016. Total revenues increased 2.7% from $31.7 billion in FY 2016 to $32.6 billion in FY 2017. Expenses increased 0.3% from $32.1 billion in FY 2016 to $32.2 billion in FY 2017.

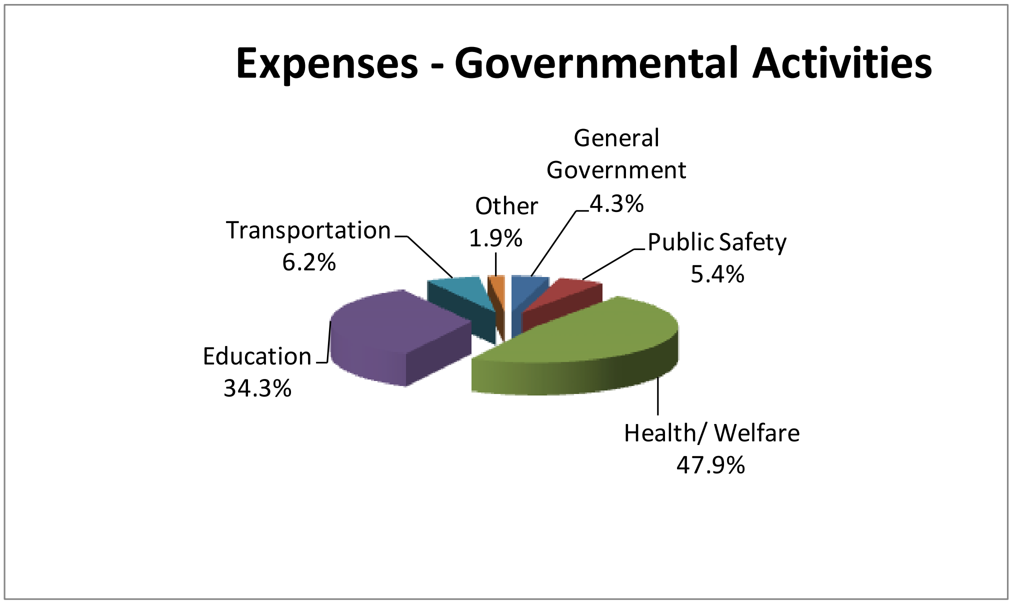
The largest portion of the state's expenses is for Welfare, which is $15.0 billion, or 46.7% of total expenses. This compares with $14.3 billion, or 44.4% of total expenses in FY 2016. The change in welfare expenses was an increase of $776.5 million or 5.4%. $3.4 billion of Welfare expenses in FY 2017 were funded from general revenues.

Some of the major expenses were Medicaid assistance, $11.3 billion, the federal food stamp program in the U.S. Department of Agriculture Fund, $1.1 billion, and the U.S. Department of Health and Human Services Fund, $1.5 billion.

Education comprises 34.3%, or $11.0 billion of the state's expenses. In FY 2016, Education accounted for 36.3%, or $11.7 billion, of expenses. The change in Education expenses was a decrease of $635.8 million, or 5.4%, as a result of the decrease in pension expense for the Teachers Retirement fund. Some of the major expenses were tuition support and full day kindergarten, $6.9 billion, General Fund appropriations for State colleges and universities, $1.5 billion, Teachers' Retirement Pension, $765.3 million, federal grant programs from the U.S. Department of Education Fund, $601.1 million, federal grant programs from the U.S. Department of Agriculture Fund, $423.0 million, and federal grant programs from the U.S. Department of Health and Human Services Fund, $175.9 million.

$1.4 billion, or 4.3% of expenses, was spent for General Government. General Government comprised $1.5 billion or 4.6%% of expenses in FY 2016. General Government includes local distributions and money for state administration and those functions that serve the state as a whole. Overall, general government expenditures decreased from FY 2016 to FY 2017 by $74.9 million or 5.1%.

Total expenses for governmental activities were broken down as follows:



Business-type Activities

Business-type activities represent 1.7% of the Primary Government's revenues and 1.0% of the expenses. The Unemployment Compensation Fund accounts for 95.2% of business-type activities' operating revenues and 94.1% of operating expenses. The change in net position for business-type activities was an increase of $244.5 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. Revenue in the fund exceeded benefits and administrative expenses paid by $242.9 million. This compares to FY 2016 when this fund's revenues exceeded expenses by $301.3 million. Employer contributions into the fund decreased by $81.6 million, from $629.9 million in FY 2016 to $548.3 million in FY 2017. The increase in net position is due to a low number of claims for benefits against the fund, the UI Program's strong anti-fraud and collections initiatives, and to an improving economy.

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, 2017	June 30, 2016	% Change
Governmental Activities:			
General government	$ 698.0	$ 776.3	-10.1%
Public safety	1,083.6	893.0	21.3%
Health	(93.5)	(42.9)	117.9%
Welfare	3,443.5	3,260.8	5.6%
Conservation, culture, and developm	203.1	144.1	40.9%
Education	9,981.3	10,613.7	-6.0%
Transportation	902.7	891.8	1.2%
Interest expense	43.7	45.6	-4.2%
Business-type Activities:			
Unemployment Compensation Fund	-242.9	-299.5	-18.9%
Malpractice Insurance Authority	1.4	0.3	366.7%
Inns and Concessions	(3.5)	(4.0)	-12.5%
Total	**$ 16,017.4**	**$ 16,279.2**	**-1.6%**

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, 2017 was $3.6 billion, which is 64.7% of assets. This compares to a fund balance at June 30, 2016 of $3.8 billion, which was 57.6% of assets. This indicates that the state's financial position in the General Fund decreased from the prior year by $271.9 million. The fund balance of $3.6 billion is composed of restrictions of $550.5 million, commitments of $3.5 million, and assignments of $2.6 billion, leaving an unassigned balance of $296.4 million. 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 2.5%, or $370.7 million, from FY 2016, because of the increase in total tax revenue which included a $141.9 million (2.3%) increase in income tax and a $242.9 million (3.3%) increase in sales tax. The increase in tax revenues is explained by the reduction in unemployment, increase in Indiana's GDP, and the increase in median household income

General Fund expenditures increased $292.3 million, or 2.3% from FY 2016. Distributions in education expenditures for state schools for tuition support and full day kindergarten increased $149.9 million. Welfare expenditures increased $188.2 million which is attributed to increased state support required for the Department of Child Services' Family and Children program. The state was required to increase their support for this program because we exhausted Title IV-E resources.

General Fund transfers in increased $97.9 million or 7.6% from FY 2016. Transfers out were $3.7 billion in FY 2017 as compared to $3.1 billion in FY 2016. More detail on these transfers can be found in the Notes to the Financial Statements IV(B).

Overall, the net position of the General Fund decreased $271.9 million.

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 Medicaid Assistance Fund received $8.3 billion in Federal revenue as compared to $7.8 billion in FY 2016. State funding comes through transfers from the General Fund. Transfers in were $2.6 billion in FY 2017 as compared to $2.3 billion in FY 2016. Transfers out were $428.2 million compared with $356.6 million in FY 2016. The Fund distributed $11.3 billion in Medicaid assistance during the year, which is an increase of $0.7 billion over FY 2016. The change in fund balance increased $101.4 million from FY 2016 to FY 2017.

General Fund Budgetary Highlights

Actual state General Fund forecasted revenue collections increased by $454.3 million, or 3.1%, in FY 2017. Actual expenditure growth was 2.0% from FY 2016 to FY 2017 compared to a .63% growth from FY 2015 to FY 2016. As noted above, at year-end, the state had $1.8 billion in reserves, with $302.7 million residing in the general fund, $577.6 million in the Medicaid Reserve Fund, $348.3 million in the Tuition Reserve Fund, and $548.5 million residing in the Rainy Day Fund. These changing funding balances are the result FY 2017 transactions. In FY 2017, a one-time transfer of $427.9 million from excess reserves in the General Fund was made to the Indiana Department of Transportation and local governments for road and bridge maintenance and construction.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $16.3 billion, which was 58.0% of total assets for the primary government. Related debt was $0.8 billion. Net investment in capital assets for the primary government was $15.5 billion. Related debt was 4.9% of capital assets. Total capital assets increased $367.2 million or 2.3% and is attributable to increases in the Indiana Department of Transportation's land and infrastructure. The net increase in capital assets is comprised of increases for INDOT's capital assets of $313.7 million and $95.8 million in computer software, which was offset by a decrease of $44.6 million in buildings and improvements of the primary government INDOT's $313.7 million increase is comprised of increases in land, $37.2 million, and infrastructure consisting of interstate roads, non-interstate roads, and bridges, $548.0 million, and a decrease in CIP consisting of right of way and work in progress, $271.5 million. 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 fiscal year 2016 to fiscal year 2017.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2017	2016	2017	2016	2017	2016	
Land	$ 2,166.9	$ 2,134.9	$ -	$ -	$ 2,166.9	$ 2,134.9	1.5%
Infrastructure	12,304.2	11,756.2	-	-	12,304.2	11,756.2	4.7%
Construction in Progress	589.6	833.2	-	-	589.6	833.2	-29.2%
Property, plant and equipment	2,914.8	2,936.8	0.7	0.6	2,915.5	2,937.4	-0.7%
Computer software	225.5	129.7	-	-	225.5	129.7	73.9%
Less accumulated depreciation	(1,902.8)	(1,859.8)	(0.5)	(0.4)	(1,903.3)	(1,860.2)	2.3%
Total	**$ 16,298.2**	**$ 15,931.0**	**$ 0.2**	**$ 0.2**	**$16,298.4**	**$15,931.2**	**2.3%**

Long-term Obligations

Major long-term obligations items are included in the following table. These items comprised 100% of total long-term liabilities and 81.8% of total liabilities.

The following table shows the percentage change from fiscal year 2016 to fiscal year 2017.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	
Accrued liability for compensated absences	$ 149.5	$ 145.7	$ 0.7	$ 0.7	$ 150.2	$ 146.4	2.6%
Capital lease payable	822.4	1,000.3	-	-	822.4	1,000.3	-17.8%
Claims payable	-	-	25.0	25.4	25.0	25.4	-1.6%
Net pension liability	13,490.8	13,122.7	-	-	13,490.8	13,122.7	2.8%
Other postemployment benefits	133.3	130.3	-	-	133.3	130.3	2.3%
Pollution remediation	38.4	35.6	-	-	38.4	35.6	7.9%
Total	**$14,634.4**	**$14,434.6**	**$ 25.7**	**$ 26.1**	**$14,660.1**	**$14,460.7**	**1.4%**

Total long-term liabilities increased by 1.4% or $199.4 million. The largest increase was in net pension liability of $368.1 million. Other long-term liabilities to increase were accrued liability for compensated absences by $3.8 million, other post employment benefits by $3.0 million and pollution remediation by $2.8 million. These increases are offset by a decrease to capital leases of $177.9 million.

The increase in NPL is primarily attributable to investment earnings that were lower than the assumed rate of return.

The decrease in capital lease payable is due to the repayment of principal by the State Highway Fund for the highway revenue bonds held by the Indiana Finance Authority.

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 $12.3 billion in roads and bridges using the modified approach, $1.9 billion in right of way classified as land, and $35.0 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 11,000 centerline road miles of pavement along 214 routes and approximately 5,700 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 2017, 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 2017, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Total actual maintenance and preservation costs for roads were lower than planned during fiscal 2017 in all road classes. Various factors contributed to these costs being less than planned including bids that come 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 more than planned for bridges on the Interstate and Non-NHS Bridges road classes and less than planned on the NHS - Non-Interstate road class. In total, the maintenance and preservation costs for bridges on all three road classes were greater than planned by approximately $41.3 million. This was due to the Indiana Department of Transportation's continued emphasis on making improvements to bridges in 2017. Bridge sufficiency ratings were within the state's policy for the maintenance of bridges in all road classes.

Economic Factors

The economic and revenue forecasts upon which the FY 2016 – FY 2017 state budget was based were presented to the State Budget Committee on April 16, 2015. At that time, the U.S. real Gross Domestic Product (real GDP) was forecast to increase by 4.7% in FY 2017. Indiana's personal income was forecast to increase by 4.4% in FY 2017.

With a 2016 Gross Domestic Product of $347.2 billion, Indiana's economy ranked 16th largest in the U.S. in terms of the value of goods and services Indiana's largest contributor to real GDP growth was the professional and business services sector, which accounted for 33% of Indiana's GDP growth in 2016. The second largest contributor of Indiana's real GDP growth was educational services, health care, and social assistance, which accounted for 25% of the total growth.

As of June 2017, the manufacturing sector accounted for nearly 16.9% of the jobs in Indiana compared to 16.7% in 2016. The share of employment accounted for by the health care and social services sector remained steady at 12.9% as of June 2016 and 2017. Per capita personal income was $43,097 in 2016, and the state's unemployment rate was 3.0% at the end of FY 2017.

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 accounting@auditor.in.gov or 317-232-3300.