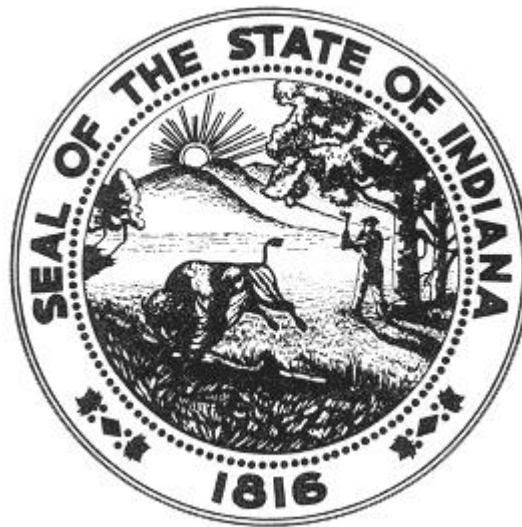


STATE OF INDIANA

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017**

Eric J. Holcomb, Governor



Prepared by:

The Office of Indiana Auditor of State
Tera Klutz, CPA
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We acknowledge the cooperation and assistance of the State Budget Agency and all other State agencies in the preparation of this report.

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

Tera K. Klutz, CPA is the 57th Indiana Auditor of State and the first Certified Public Accountant to serve as the state's Chief Financial Officer. Appointed by Governor Eric J. Holcomb in January 2017, Klutz is focused on providing accurate information, maintaining and enhancing government transparency, and delivering great customer service to ALL Hoosiers.

Prior to becoming the Auditor of State, Klutz served as the County Auditor in Allen County, Indiana, the state's largest county, geographically, and the third largest by population. First elected in 2010 and again in 2014, Klutz streamlined the county's payment system and ensured the county's fiscal house was in order. Between 2013 and 2016, Klutz was very active in the Association of Indiana Counties' Legislative Committee. As Chairwoman, she oversaw and directed the Association's legislative priorities by assisting in the analysis and review of proposed legislation and regularly testified before the Indiana General Assembly.

In 2016, Klutz was named the Indiana Auditor of the Year by the Indiana Auditors' Association for her dedicated and tireless work. Before serving in the public sector, Klutz served as a Senior Accountant at PriceWaterhouseCoopers in Ft. Wayne, Indiana.

As part of her 'First Year Initiatives, Klutz has created an Internal Controls Department tasked with reviewing the processes with the Auditor's office to enhance services provided to Hoosiers. She has also begun the process of overhauling the Indiana Transparency Portal to provide even more useful data regarding the state's spending and purchasing.

Klutz holds a Bachelor's Degree in Accounting from Indiana University- Purdue University Ft. Wayne. She is married to Zach Klutz and they have 2 daughters; Alyx and Julian.

Auditor Klutz is a member of the Indiana CPA Society, the American Institute of CPAs, Pass the Torch, and Cornerstone Lutheran Church.



**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
1998-2006	Connie K. Nass	Republican
2006-2013	Tim Berry	Republican
2013-2013	Dwayne Sawyer	Republican
2013-2017	Suzanne Crouch	Republican
2017-	Tera Klutz	Republican

STATE OF INDIANA

**Comprehensive Annual Financial Report
For the Year Ended
June 30, 2017**

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INTRODUCTORY SECTION

Comprehensive Annual Financial Report

The Crossroads of America



The Lewis and Clark Bridge spans the Ohio River and connects Indiana State Road 265 with Kentucky State Highway 841. (Photo courtesy of INDOT)

Long before the Indiana General Assembly codified it as the State's official motto in 1937, Indiana has been known as the '*Crossroads of America.*' According to the Indiana Department of Transportation, over 81 Million vehicles travel Hoosier roads each year. Indiana is located within a day's drive of two-thirds of the nation's population and with over 14 Interstate highways beginning in, ending in, or passing through Indiana, it comes as no surprise that our state's infrastructure is a vital part of the American economy. As Indiana enters its Third Century of Statehood, we are committed to improving the infrastructure to assure we live up to our moniker for another 200 years.



December 19, 2017

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

We are proud to present the State of Indiana's Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2017, prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board (GASB).

The Auditor of State in conjunction with the Indiana State Budget Agency are primarily and ultimately responsible for the contents and presentation of this report, however, the 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. To the best of our knowledge, 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.

The Indiana State Board of Accounts, considered by federal and state government to be independent auditors, provides the Independent Auditor's Report on the financial statements included in the financial section of this report and in the Federal 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.

Generally Accepted Accounting Principles provide for two types of statements, government-wide and fund statements. The government-wide statements use 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 in the same manner as the private sector.

Management's Discussion and Analysis (MD&A) in the financial section introduces the basic financial statements and provides an analytical overview of the government's financial activities. We encourage you to read it to get an in-depth analysis of the State of Indiana's finances.

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing state and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,619,680 which makes Indiana the nation's 16th most populated State. The five largest cities are Indianapolis (the capital), Fort Wayne, Evansville, South Bend, and Carmel.

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 authorized and not prohibited by the State Constitution and not in conflict with the U.S. Constitution and laws made in pursuance thereof. 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, 315 Trial Courts (including Circuit Courts), and one Tax Court.

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

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

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

Factors Affecting Economic and Financial Conditions

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

Local Economy

With a 2016 Gross Domestic Product of \$341.9 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 20.3% in 2002. The share of employment accounted for by the health care and social services sector increased from 10.2% in 2002 to 12.9% as of June 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.

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(E)(1) in the notes to the financial statements. The average yield on the General Fund investments was 0.52% for the fiscal year ended June 30, 2017. The average yield on the total investment of all funds, except for pension trust funds, was 0.76% for the fiscal year ended June 30, 2017. 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 held by the Treasurer of State 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 \$9.0 billion as of June 30, 2017.

Financial Policies

Indiana's Office of Management and Budget (OMB) serves as an umbrella organization to better coordinate the State's financial policies. The OMB consists of the State Budget Agency, Management Performance Hub, Office of State Based Initiatives, Department of Revenue, Department of Local Government Finance, Indiana Finance Authority, State Board of Accounts, Indiana Public Retirement System, Indiana Office of Technology, and Indiana Board of Tax Review.

In June 2017, Indiana closed the books with \$1.771 billion in reserves and a structurally balanced budget. Reducing general fund spending has enabled Indiana not only to 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. The 2015 Tax Amnesty continues to fund quality of place investments in Indiana's localities through the Regional Cities program.

Indiana is one of twelve 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.

Executive Order 14-06 required the OMB to create the Governor's Management and Performance Hub (MPH) for the purposes of centralized data sharing, correlation, and analysis in order to drive innovation and efficiency across state agencies; improve information technology systems, practices, and procedures to enhance the security of data retained by state agencies; and to increase the transparency of state government.

Major Initiatives

K-12 Education –

Local school aid includes distributions for programs such as assessment and performance, as well as tuition support. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

The K-12 tuition support distributions for FY 2017 totaled \$6.92 billion. In addition, there was a distribution of \$26.1 million for adult learners.

Higher Education – Through the General Fund, the state supports seven higher education institutions: Ball State University, Indiana University, Indiana State University, Ivy Tech Community College of Indiana, Purdue University, University of Southern Indiana, and Vincennes University. Higher education expenditures from the General Fund were \$1.52 billion for FY 2017, which included funding for university operating, fee-replaced debt service, and line items. An additional \$453.6 million was appropriated for other higher education line items, university repair and rehabilitation, university capital projects, and state student aid.

Since FY 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding student fee and building facilities fee bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the Indiana Constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

Public Safety – Appropriations for the Department of Correction, payable almost entirely from the General Fund, include funds for incarceration and rehabilitation of adult and juvenile offenders, as well as, parole programs. Corrections expenditures were \$711.1 million for FY 2017.

Offender population is the most significant driver of corrections expenditures. The total offender population, including those in jail and contract beds, decreased by 0.9% to 26,173 at the end of FY 2017 compared to 26,420 at the end of FY 2016.

Transportation – As a result of the Major Moves program and the Major Moves 2020 program, Indiana has seen record construction. The Indiana Department of Transportation (INDOT) is executing a \$12.0 billion construction program made possible in part by the lease of the Indiana Toll Road. INDOT is aggressively working to advance as much work as possible from later construction years to take advantage of favorable price conditions. This also helps deliver the benefits of the new highways much earlier, and spurs job creation. In addition, \$100.0 million was appropriated from the General Fund for highway capacity enhancements in FY 2017.

In FY 2017, a one-time transfer of \$427.9 million from General Fund reserves was made to INDOT and local governments for road and bridge maintenance and construction. This transfer was the result of an FY 2016 excess reserves calculation.

Conservation and Environment - In FY 2017, the Department of Natural Resources (DNR) continued the largest land conservation initiative in the State's history, the Healthy Rivers Initiative (HRI). The HRI consists of two projects, one within the Wabash River and Sugar Creek floodplain (over 43,000 acres) and another along the Muscatatuck River known as Muscatatuck Bottoms (over 26,000 acres). Since the announcement in FY 2010, DNR has acquired over 14,300 acres along the Muscatatuck River and Wabash River corridors. Land acquisition efforts will continue for years into the future. To date, these efforts have added three new conservation areas for recreational use: Austin Bottoms, Sugar Creek, and Wabash River.

The Bicentennial Nature Trust (BNT) was launched in FY 2012 as a statewide land conservation initiative to celebrate Indiana's upcoming 200th anniversary in much the same way as the first 100 years of statehood were marked in 1916 with establishment of the state park system. The state committed \$20 million to help fund BNT and called on individuals, businesses and communities around the state to join the effort. Through FY 2017, nearly 200 BNT projects had been approved.

In 2016, the Indiana Heritage Trust was renamed the President Benjamin Harrison Conservation Trust Fund. The purpose of the trust is to acquire and protect land that represents outstanding natural resources and habitats, or have recreational, historical, or archeological significance.

Health and Human Services – Medicaid is a state/federal shared fiscal responsibility with the state supporting 33.26% of the total program through a combination of General Fund and dedicated funds over the biennium and the remaining 66.74% funded through federal funding. Indiana's base federal reimbursement rate equaled 66.52% for Federal FY 2015 and 66.74% for Federal FY 2016. In FY 2017, General Fund Medicaid expenditures totaled \$1.97 billion. Total Medicaid and CHIP enrollment at the end of FY 2017 was 1,416,322.

In 2015, Indiana received approval from the federal government to replace the traditional Medicaid program for non-disabled adults by expanding the Healthy Indiana Plan (HIP). HIP 2.0 has been designed to improve healthcare utilization and promote personal responsibility. In addition, HIP 2.0 will maintain financial sustainability and will not increase taxes for Hoosiers. The program will be funded by enhanced federal funding, the hospital assessment fee, and existing cigarette tax revenues previously used for HIP.

In its eleventh year of operations, the Department of Child Services (DCS) continued the implementation of its practice to place children in the least restrictive, most family-like setting; providing better outcomes and more cost effective services.

In January 2010, DCS established the Indiana Child Abuse and Neglect Hotline to serve as the centralized reporting channel for all allegations of child abuse or neglect in Indiana. The Hotline is staffed with trained intake specialists and at least one supervisor per shift, 24 hours per day, seven days per week, and 365 days per year. DCS has seen the number of calls reported to the Hotline increase by 71% from 2009 to 2016, up from 109,489 in 2009 to 187,137 in 2016.

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. In 2016, Indiana received several accolades for its business environment. This includes ranking 1st in the Midwest and 5th in the nation in Chief Executive magazine's annual "Best & Worst States" survey (April 2017), 1st in the Midwest and 9th overall in the Tax Foundation's State Business Tax Climate Index (2017), and best in the Midwest and 7th overall in Area Development magazine's "Top States for Doing Business" study (Q3 2017).

General Government – Legislation creating an Automatic Taxpayer Refund (ATR) was enacted in FY 2011, requiring any reserves greater than 10% of FY 2013 appropriations to be divided equally between various pension plans and a refundable tax credit to eligible taxpayers. The statute was again changed during FY 2016, triggering a one-time transfer from the General Fund reserves of \$427.9 million after the end of the fiscal year for state and local road and bridge preservation. The balance in General Fund at the end of Fiscal Year 2017 did not result in a transfer.

The state continues to administer Retirement Medical Benefits accounts, established as Health Reimbursement Arrangements (HRAs), for most employees and elected officials of the State. The purpose of this defined contribution plan is to allow retirees from State government to have a means to assist with the payment of health insurance premiums in retirement. Funding for the program comes from 4% of State cigarette tax revenues as well as charges to federal and dedicated funds for employees paid from those funds. The plan remained more than 100% funded at the end of FY 2017. 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 employee who is eligible for full unreduced retirement on or before June 30, 2017.

Awards

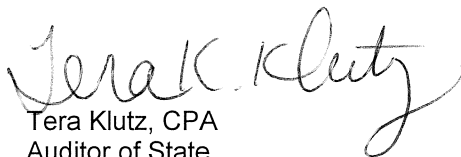
Certificate of Achievement Award

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 (CAFR) for the fiscal year ended June 30, 2016. This was the 24th 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 CAFR. 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. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate.

Sincerely,



Tera Klutz, CPA
Auditor of State
State of Indiana



Micah Vincent
Director
Office of Management and Budget



Government Finance Officers Association

**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, 2016

A handwritten signature in black ink, which appears to read "Jeffrey R. Emen".

Executive Director/CEO

