STATE OF INDIANA

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006

Mitchell E. Daniels, Jr., Governor

Prepared by:

The Office of the Auditor of State
Connie K. Nass
Auditor of State
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State House
Indianapolis, Indiana 46204

Acknowledgments

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

The pictures in this report are of scenes in State Parks located in the State of Indiana. The pictures were taken by **John Maxwell**, Indiana Department of Natural Resources. Reproduced with the permission of the photographer.

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AUDITORS OF STATE
of
THE STATE OF INDIANA

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

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Toboggan Run at Pokagon State Park

Reproduced with the permission of the photographer, John Maxwell, Indiana Department of Natural Resources

Connie Kay Nass
Auditor of State of Indiana
Comprehensive Annual Financial Report

The mission of the State Auditor's office is to carry out the Constitutional responsibilities of the Auditor of State by:

Maintaining the State's financial records and reports and paying the State's bills and employees efficiently, effectively, and honestly

Educating and informing the public about Indiana State government's finances

Taking a leadership role in the development of the State's financial policy, and working as a team of professionals in order to provide quality customer service to the citizens of the State, State agencies, local governments and school corporations, State employees, other states and federal agencies, and vendors.

Auditor of State

Connie Kay Nass

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December 28, 2006

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

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2006.

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

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

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

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

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

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

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

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

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

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

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

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing State and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,272,000 which makes Indiana the nation's 15th largest State. The State is 64% urban and 36% rural. The five largest cities are Indianapolis, the capital, Fort Wayne, Evansville, South Bend and Gary.

Indiana became the 19th State of the Union on December 11, 1816. The constitution establishes the government in three separate departments: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100 member House of Representatives and a 50 member Senate. The Indiana General Assembly has the power to enact laws which are not prohibited by the State constitution and not in conflict with Federal laws and powers. The executive power of the State is vested with the Governor. The State constitution and legislation establish the following Statewide elected administrative officials: Lieutenant Governor, Auditor of State, Secretary of State, Treasurer of State, Attorney General, and the Superintendent of Public Instruction. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 90 Circuit Courts, and one Tax Court.

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

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

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

Factors Affecting Economic and Financial Conditions

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

Local Economy

With an estimated 2005 Gross State Product of $238.6 billion, Indiana's economy ranks sixteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top six nationally for producing items as diverse as steel, motor vehicles parts, medical equipment and supplies, pharmaceuticals, and grain and oilseed milling. According to published data from the U.S. Census Bureau, Indiana ranked twelfth through the first six months of 2006 in the value of exports.

In 2005, the manufacturing sector accounted for 19% of the jobs in the State. Wholesale and retail trade accounted for 15% employment. Between the fourth quarter of 2002 and the fourth quarter of 2005, the largest employment gains came in areas of administrative and waste services (up 12.0%), professional and technical services (up 6.9%), and health care and social services (up 5.8%). At the end of 2005, the State's unemployment rate stood at 5.4%. Between 2004 and 2005, per capita personal income increased by 3.3% in the State.

Cash Management and Investments

Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(D)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 3.48%. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and State depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is $11.56 billion at June 30, 2006.

Risk Management

The State of Indiana assumes the cost of the risks associated with Unemployment Compensation Benefit Claims for State employees, Workers' Compensation Benefit Claims for State employees, Tort claims filed against the State, Medical Malpractice claims filed against State hospitals, accidents caused by State motor vehicles, and on State owned real property, including public buildings. The State administers self-insurance funds for certain employee health benefits, disability and death benefits.

Pension Benefits

The State of Indiana sponsors eight public employee retirement systems (PERS). One of these, the State Police Pension Fund, is part of the primary government. The Public Employees' Retirement Fund and the State Teachers' Retirement Fund are discretely presented component units. In addition to its own fund, the board of the Public Employees' Retirement Fund administers the following funds: the 1977 Police Officer and Firefighters' Pension and Disability Fund, the Excise Police, Gaming Agent and Conservation Enforcement Officers' Retirement Fund, the Prosecuting Attorneys' Retirement Fund, the Legislators' Retirement System, and the Judges' Retirement Fund.

Major Initiatives

K-12 Education – Indiana eliminated the tuition support payment delay, which was created in FY02 in an effort to balance the state budget, with two half payments in February and July of 2006. In 2006, the Indiana General Assembly enacted HB1006 directing the State Board of Education to develop a more robust school financial data collection system in order to enable policymakers and stakeholders to better evaluate the state expenditures on K-12 education. Further, HEA1006 established several mandates designed to maximize the amount of state expenditures for student academic achievement. Course curriculum and graduation requirements have been strengthened through the establishment of Indiana's Core 40 college preparation program as the standard default curriculum for students who enter high school in the 2007/2008 school year and subsequent years. Consistent with the No Child Left Behind Act and Indiana's own P.L. 221-1999, ISTEP+ testing is given in grades 3-10 in math and language arts. Science testing is given in Grades 5 and 7.

Higher Education – Indiana has concentrated part of its efforts on improving and enriching the Indiana economy through higher education. Indiana has continued to build a strong community college system to support the state's economic development needs. Indiana has directed its resources to building the state's research infrastructure through an emphasis on capital projects related to that purpose. Indiana eliminated $40 million of the 2002 R&R payment delay to state institutions of higher education with SEA 345-2006. The General Assembly directed that the appropriation be used to reduce the universities' backlogs of Repair & Rehabilitation projects. State aid for students attending public and private colleges and universities, provided through the State Student Assistance Commission for Indiana increased 4.8% in FY06.

Public Safety - During FY06, the Indiana Department of Correction (DOC) privatized food service and medical service for all facilities as well as the complete operations of the New Castle Correctional Facility to improve efficiency and save taxpayers dollars. Prior to the privatization, the DOC was paying approximately $1.41 per meal per offender. Under the contract, that cost was reduced to approximately $0.99 per meal per offender. This will result in an estimated $11.5 million savings annually for the department.

In addition, a vendor was selected to provide all medical related care to the offender population. This will increase efficiency and improve record keeping as offenders are moved throughout the system.

A private company took over daily management of the New Castle Correctional Facility. This agreement allowed for a 500 offender population increase to approximately 1068 total, lowering the per diem cost per offender from $242.17 to $93.14.

The 2006 General Assembly passed the Major Moves state highway plan. Annual new construction will quadruple during the program from $213 million in FY06 to $874 million in 2015. In addition to state highway projects, the counties where the Indiana Toll Road is located will receive one-time payments in FY07 of between $15 million and $40 million for local transportation projects. In FY07 and FY08, all 92 Indiana counties also will receive additional funds for their local transportation projects. The legislature also directed $500 million from the lease proceeds be dedicated to a Next Generation Fund to be used later for transportation projects. In addition, the Northwest Indiana Regional Development Authority will receive $120 million between FY07 and FY15. Of that amount, $20 million must be distributed to the Gary/Chicago Airport.

The 800 megahertz SAFE-T project, the statewide communications system, is being constructed and managed by the State of Indiana's Integrated Public Safety Commission (IPSC). The system is dedicated for use by state and local public safety "first responder" agencies and will ultimately be comprised of 126 network sites with up to 64,000 registered user radios. The system has a final projected cost of $79 million which is less than the initial estimate of $90 million and will be completed in 2007. Currently, Phase 2, covering the southern part of the state is underway. As of Oct. 1, 2006, 101 of the 126 sites are on the air, with the completion of the network scheduled for mid 2007. Funding for IPSC comes from a $1.25 fee attached to most driver license, vehicle title, and registration transactions processed by the Bureau of Motor Vehicles.

The Intelligence Fusion Center operates out of the Indiana Department of Homeland Security and was newly created by SEA 247-2006. The Center is staffed by representatives of the Department and by members of the Indiana State Police, Department of Natural Resources, Indiana National Guard, Federal Bureau of Investigation, and Indianapolis Police Department. The mission of the Center is to collect, analyze, and share information and intelligence, to be used by federal, state, and local entities, for making strategic decisions about the prevention, mitigation, and response to security and terrorism treats.

Health and Human Services - Due to lower utilization rates under the Temporary Assistance for Needy Families (TANF) program, the Division of Family Resources (DFR), within the Family and Social Services Administration (FSSA), realized $18 million in non-obligated funds during FY06. The DFR used $6 million of the un-obligated funds to lower the waitlist for families with children who qualified for the state's subsidized child care voucher program. The impact of the additional funds to the child care voucher program reduced the waitlist from 6,500 children to less than 2,500, a reduction of approximately 62%.

In FY06, FSSA implemented the nursing home Quality Assessment Fee (QAF) as a new initiative to bring in additional funds to the state as well as nursing home providers in Indiana. The QAF drew in approximately $631.0 million during FY06 of new state and federal funds, which represented a retroactive assessment over the past three years. Therefore, future QAF revenues will not be as large. The additional funds generated by the QAF were used to increase the rates at which nursing home facilities are reimbursed.

In August of 2005, the Substance Abuse and Mental Health Services Administration (SAMHSA), a division of the U.S. Department of Health and Human Services (DHHS), awarded FSSA and the Division of Mental Health and Addiction (DMHA) a five-year $11.7 million Strategic Prevention Framework State Incentive Grant. The purpose of the grant is to establish a framework to reduce prevalence of substance abuse and to improve overall public health across Indiana.

The Children's Health Insurance Plan (CHIP) spent $99.5 million in state and federal funds in FY06, an increase of $8.6 million from FY05, or an 8.2% increase. The increase in spending in the program allowed CHIP to serve 71,000 eligible clients, an increase of 3% over FY05.

In the Hoosier Healthwise program, FSSA expensed $191.1 million in FY06, an increase of $24.5 million from FY05. In addition to an increase in expenditures, the average cost per member per month was reduced to $160 from $182 in FY05.

The Community and Home Options to Institutional Care for the Elderly and Disabled program (CHOICE) provides services that enable the elderly and/or disabled to live independently in their own homes or in community integrated settings. In FY06, CHOICE received an appropriation of $48.8 million and served 9,055 clients. The average monthly cost per client in FY06 was $545.

The Division of Disability and Rehabilitative Services (DDRS) has been contracting with approximately 400 caseworkers to provide services to roughly 9,100 Hoosiers on the developmental disabilities, support services and autism waivers. In FY06, DDRS and FSSA began working with the Indiana Professional Management Group (IPMG) to establish a system of accountability and consolidate the approximate 400 caseworkers into one contract with IPMG. By contracting with IPMG, FSSA and DDRS will be able to provide improved services and case management to persons on waivers as well as provide better oversight of caseworkers including training, qualifications requirements and annual reviews.

The Indiana State Department of Health's (ISDH) INShape Indiana programs participation rate rose by 49 percent to 13,277. Participants in the program increased their physical activity, increased consumption of fruits, vegetables and dairy products, and decreased their consumption of cigarettes. In addition, the program held four Statewide events to promote the program.

The ISDH, in collaboration with the Regenstrief Institute expanded the Public Health Emergency Surveillance System (PHESS) to nearly 70 hospital emergency departments. The PHESS provides software that captures data the hospital is already entering about a patient that presents to and emergency department, identifies cases that meet criteria for a possible bioterrorism-related disease, and sends a copy of the file to the ISDH. This saves hospital emergency department staff from making a separate report in a separate system.

The ISDH Laboratories, in cooperation with the Regenstrief Institute and the Indiana Health Information Exchange (IHIE) implemented an electronic system for forwarding laboratory results for HIV tests to sample submitters. This process shortens the time it takes to provide the results to the submitter after the tests are completed, eliminates paper, provides for secure transport of the lab results, and enables the submitter to copy the results into an electronic medical record if the submitter is using an electronic medical record.

ISDH also provided 56 workshops and presentations to an estimate of 800 providers, school nurses, local health department officers, church leaders, volunteers, summer camp kids, college students, and parents regarding good nutrition and increase physical activities.

In its first year of operations, the Department of Child Services (DCS) increased the minimum educational requirements for FCMS (degree in social work or related field is required), enhanced new worker pre-service training including 9 week course, 3 week on-the-job training component and transfer of learning based on behavioral anchors, and completed “as-is” work flows for every phase in the life of a child welfare case.

In addition, DCS developed “to-be” work flows for each phase, aligning policy with best practice and pertinent state and federal law, developed process and began review and rewrite of child welfare manual, and implemented complete agency administrative policies, and developed practice indicators under the broad categories of response, time and permanency.

DCS increased federal funding reimbursement to local counties by $10.5 million in FY06 and increased the IV-E foster care penetration rate (the percentage of children eligible for foster care reimbursement) by 10 points, leading to an additional $3 million to the state to offset administrative expenses. DCS extended the IV-E Waiver Demonstration project for an additional five years and received a one-time refund of $30 million to be used for child welfare.

DCS increased the number of children adopted in Indiana, thereby earning incentive funds from the federal government, increased the number of FCMs in the field by 304, for a total of 971 filled positions and 30 vacancies at June 30, 2006, and increased the number of FCM supervisors in the field by 25.

Thirty of 92 counties (32.6%) meet caseload standards of 12 new investigations per month per worker or 17 children in case management per worker.

Economic Development - The Office of Community and Rural Affairs (OCRA) partnered with the Indiana Finance Authority and United States Department of Agriculture Rural Development (USDA RD) to facilitate opportunities for current internet service providers to expand their service in rural areas. Funding through the Community Development Block Grant (CDBG) totaled $ 28 Million in Community Focus Funds (CFF). In addition, OCRA provided funding for economic development, urgent need, and planning grants that was approximately $6 Million.

In FY06, the Indiana Office of Energy & Defense Development (OEDD) awarded $1.1 million from its Biofuels Grant Program for E85 and B20 refueling infrastructure projects. These projects will result in offsetting the usage of 3 million gallons of conventional transportation fuel annually, the opening of 29 E85 refueling stations, 5 B20 refueling stations and 15 vehicle fleets using alternative fuels. This project is in conjunction with the Indiana State Department of Agriculture.

In FY06, the Indiana Office of Tourism Development (IOTD) created the new state tourism brand, “Restart Your Engines”. IOTD expanded its advertising and placed a series of image advertisements in nine consumer magazines, including Ladies Home Journal and Midwest Living, among others. In an effort to increase visitors’ length of stay, the IOTD has researched best practices for tourism development in other states. Fact finding missions were conducted in West Virginia and North Carolina. Additionally, in FY06, Best Western purchased IOTD’s new spring cam sponsorship as well as its leaf cam sponsorship for $20,000.

During the first full fiscal years following its inception, the Indiana Economic Development Corporation (IEDC) continued to build upon accomplishments from the first half of 2005 and work towards Indiana’s economic recovery. Total competitive project activity (consisting of projects completed between July 1, 2005 and June 30, 2006) resulted in commitments to create 22,678 jobs and invest over $5.2 billion of private capital in Indiana. Major projects completed during this period include:

- Honda's selection of Greensburg as the site for its latest vehicle assembly plant. The new plant will involve capital investment of $550 million and will eventually employ over 2,000 workers.
- Toyota's investment of $200 million at the SIA facility in Lafayette. Toyota's investment will support the production of the popular Camry line at the SIA facility and will lead to the creation of 1,000 new jobs.
- Louis Dreyfus's investment in Claypool (Kosciusko County) to establish one of the largest biodiesel production facilities in the US.
- Pfizer's expansion at its Terre Haute facility to support the production of the Exubera line of inhalable insulin. This project involves capital investment of $174 million and the creation of 440 new jobs.
- Rolls-Royce's investment in its manufacturing and research and development operations at its Indianapolis facility. The company's $145 million investment will result in the creation of up to 600 new jobs.

While achieving great success in attracting major investment opportunities with many of the world's largest and most respected companies, the IEDC has been equally focused on supporting the growth of Indiana's entrepreneurial sector. During 2005, with the guidance of the Entrepreneurship Committee of the IEDC and many others from Indiana's entrepreneurial community, the IEDC refocused the Twenty-First Century Research and Technology Fund from the previous model emphasis pure research to a model based on specific opportunities for the commercialization of high technology research generated from the entrepreneurial, business, and academic sectors. While continuing to leverage the vital research networks established through the Fund's prior investments, with its new focus the Fund will strive to make growth capital directly available to entrepreneurs planning to commercialize new and innovative technologies. Under the new philosophy emphasizing technology commercialization, companies receiving Fund awards are now 1-2 years away from market entry vs. 5-10 years under the prior philosophy, creating the potential for a nearer term return on investment measured by quality jobs and new technology. The continued involvement of the state's universities in nearly every Twenty-First Century Fund proposal will ensure that Indiana continue to invest in research networks and linkages.

The IEDC has also devoted substantial effort to refining other tools designed to support the entrepreneurial sector. The Venture Capital Investment Tax Credit is now being actively promoted as a means to assist promising Indiana companies attract growth capital. New criteria have been developed for the Certified Technology Park (CTP) program to ensure that the program achieves the objectives of attracting high growth, high wage jobs and encouraging technology transfer across the private and academic sectors. The first CTP designated under the new criteria represents the potential of this program to attract rapidly growing technology companies to Indiana. Through designation of a CTP in Jeffersonville, the IEDC was able to attract the headquarters, manufacturing, and R&D operations of MedVenture Technology Corporation from their previous site in Louisville, KY. MedVenture, a designer and manufacturer of medical devices, proposes to create over 500 jobs to support rapidly expanding operations.

In early 2006 the IEDC formalized the state's economic goals and strategy with the release of the Accelerating Growth strategic economic development plan. The plan focuses on three broad areas: innovation, talent and investment and will be driven by specific means to improve statewide R&D, entrepreneurial activity, workforce talent and Indiana's overall business environment. Accelerating Growth will serve as the guide for moving Indiana's economy forward in FY 2008, FY 2009, and beyond. The vision of the IEDC is to meet the national average in per capita income and average annual wages by 2020. For this vision to be achieved Indiana must grow the economy significantly faster than the nation's economy as a whole and compete successfully in the global economy.

General Government – Facing an enormous increase in the cost of healthcare premiums, the State introduced a new health care plan for 2006 that gave employees more control on how to spend their healthcare dollars while still providing quality care. During the 2006 open enrollment period, state employees had the opportunity to choose to enroll in a Health Savings Account (HSA) in conjunction with a High Deductible Health Plan (HDHP). No employee premium was required for the HDHP. During 2006, the State will make contributions to the employees' HSA, and employees can also make tax-free contributions to this account to save for medical expenses. Once a plan member meets the deductible, the member receives 80% coverage for in-network standard medical services. As with other plans, there is a maximum out-of-pocket expense, at which point coverage increases to 100%. Funds deposited in HSAs belong to the employee, earn interest, can be rolled over from year to year, and can be taken with the employee when changing jobs or retiring. Funds can be used for any qualified medical expense.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the thirteenth consecutive year that the State of Indiana has achieved this prestigious award.

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

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

Acknowledgments

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

Sincerely,

Connie K. Nass

Connie K. Nass
Auditor of State
State of Indiana

Charles E. Schalliol

Charles E. Schalliol
Director
Office of Management and Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Indiana

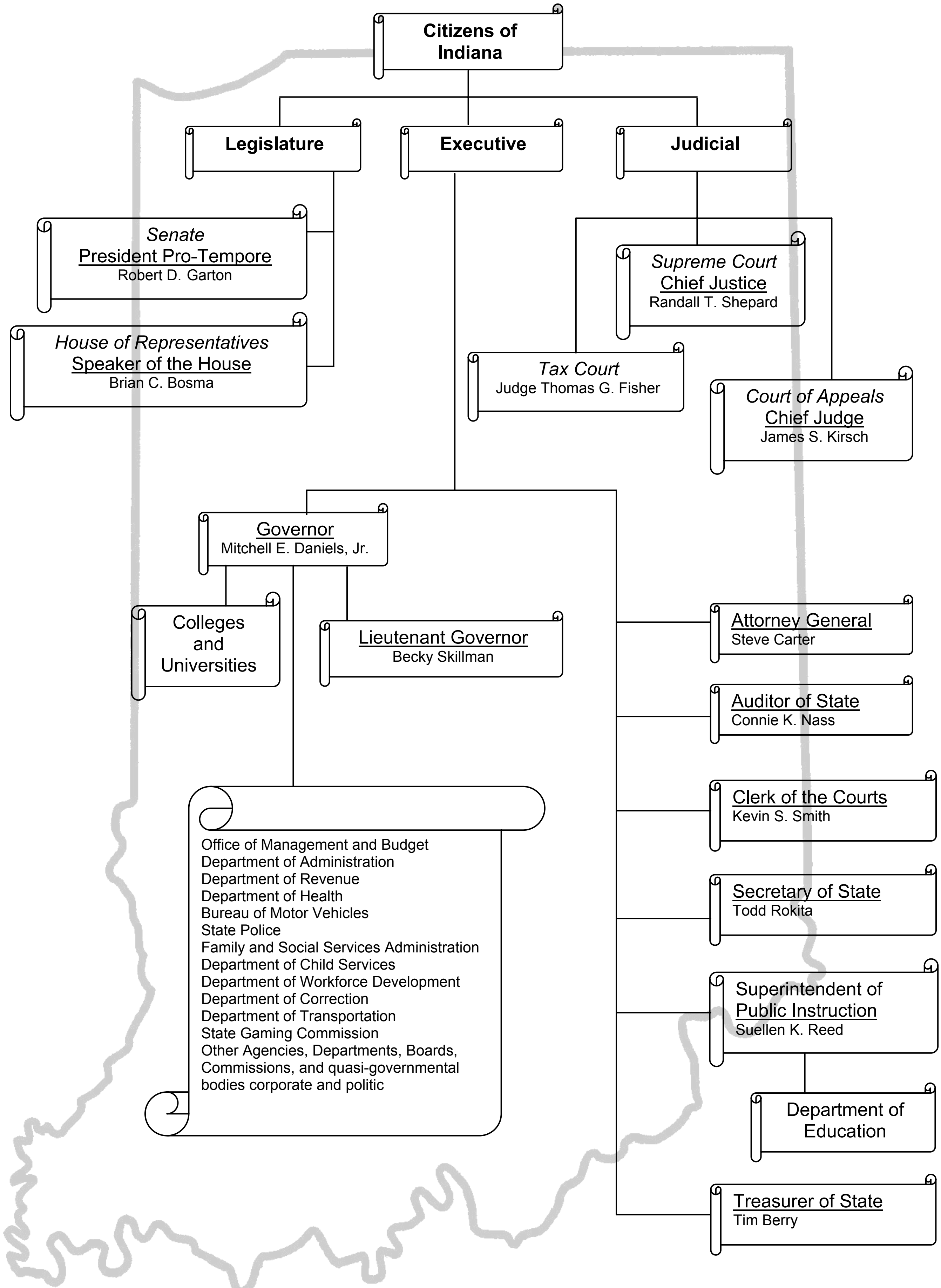
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

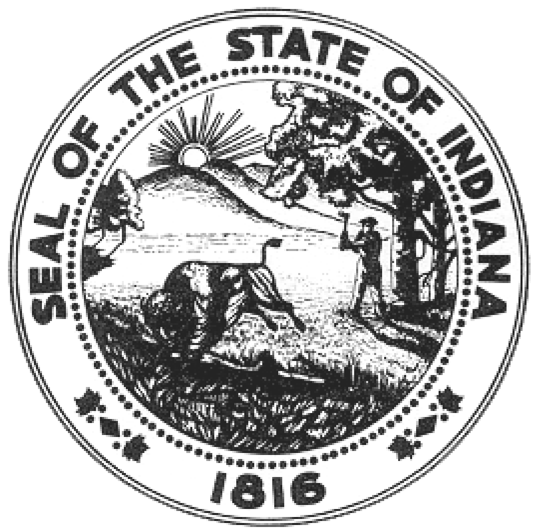
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director


Citizens of Indiana
Legislature
Executive
Judicial
Senate
President Pro-Tempore
Robert D. Garton
House of Representatives
Speaker of the House
Brian C. Bosma
Supreme Court
Chief Justice
Randall T. Shepard
Tax Court
Judge Thomas G. Fisher
Court of Appeals
Chief Judge
James S. Kirsch
Governor
Mitchell E. Daniels, Jr.
Colleges and Universities
Lieutenant Governor
Becky Skillman
Office of Management and Budget
Department of Administration
Department of Revenue
Department of Health
Bureau of Motor Vehicles
State Police
Family and Social Services Administration
Department of Child Services
Department of Workforce Development
Department of Correction
Department of Transportation
State Gaming Commission
Other Agencies, Departments, Boards, Commissions, and quasi-governmental bodies corporate and politic
Attorney General
Steve Carter
Auditor of State
Connie K. Nass
Clerk of the Courts
Kevin S. Smith
Secretary of State
Todd Rokita
Superintendent of Public Instruction
Suellen K. Reed
Department of Education
Treasurer of State
Tim Berry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