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December 29, 1999

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, 1999.

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. 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.

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 auditors' reports, the general purpose financial statements, the combining and individual fund statements, and the account group statements and schedules.

The financial statements include all funds and account groups 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, account groups 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.

ECONOMIC CONDITION AND OUTLOOK

The economic forecast upon which the state budget for fiscal years 2000-2001 was based, projected real GDP growth at just above 3% in 1999, reduced growth in the first half of 2000, and then stable growth at about 2.9% for the remainder of the biennium. This was increased slightly from the prior forecast because the economic crisis in Asia did not spread to South America and negative impact on Indiana businesses was not as great as feared. A forecast update completed in December, 1999 increased the outlook for real GDP growth to about 3.2% by the second quarter of 2001. The most important factor in the GDP forecast for the biennium is continued strong consumer spending. The inflation projection calls for a modest, but steady rise in prices to a rate of about 2.0% by the end of the biennium.

In April, 1999, the State's estimate for growth in personal income for the last half of 1999 was increased by 1.5% to about 4.2%. The increase reflected the stronger real GDP forecast. The state's forecast for personal income was expected to grow to about 5% by the second quarter of 2001, the end of the 2000-2001 biennium. The December forecast update lowered that expected growth rate to about 4.6% for the same period.

The economic forecast and the December update led to projected growth in General Fund (GF) and Property Tax Replacement Fund (PTRF) revenues of 3.3% and 5.0% for fiscal years 2000 and 2001, respectively.

Combined GF and PTRF spending for fiscal years 2000 and 2001 is estimated to exceed revenues for the same periods. As a result, combined GF and Rainy Day Fund balances and reserves are expected to drop from $1,991 million on June 30, 1999 to $1,321.5 million on June 30, 2001. This is due to tax cuts, significant one-time projects and other non-base building investments. Operating revenues exceed base appropriations for both years of the biennium.

MAJOR INITIATIVES

During the 1999 legislative session, the Governor and the General Assembly passed a number of tax cuts as follows:

- The renter's deduction was increased from $1,500 to $2,000 per year.
- The exemption for dependent children was increased from $500 to $1,500 per year.
- The standard exemption for persons who are age 65 or older and who earn less than $40,000 annually was increased from $1,000 to $1,500 per year.
- The state earned income tax deduction for families earning $12,000 or less was changed to a refundable earned income tax credit.
- A new exemption from the property tax for the first $12,500 of assessed value for personal property, including inventory, was added.
- A change to allow businesses and farmers to deduct 100% of property tax payments from state taxable income and allow homeowners to deduct up to $2,500 in property taxes from state taxable income was enacted.

It is estimated these tax cuts will reduce revenue by $572.3 million for the 2000 2001 biennium.

The Governor and General Assembly also shifted certain welfare costs from counties to the State. It is estimated this change will increase state distributions to local governments by $69.1 million for the biennium.

The tax reductions and shift in welfare costs combined will save taxpayers a total of $641.4 million for the biennium.

The budget passed by the 1999 General Assembly also included significant increased funding for local school aid and higher education as well as a number of important new initiatives. Total school distributions for direct tuition support, the State's largest operating appropriation, increased by an average of 4.7% for calendar year 2000 with no school corporation receiving and increase of less than 2.5%. Support for higher education, the State's second largest operating appropriation, increased by about 6.7% for fiscal year 2000.

Significant one-time, non-base building initiatives included: additional support of $250 million for the Pension Stabilization Fund to support the State Teachers' Retirement Fund, $200 million for local road improvements, $50 million for a new 21st Century Research and Technology Fund and $12.8 million to supplement $57.9 million appropriated for the previous biennium for Y2K remediation.

FINANCIAL INFORMATION

The State's system of internal accounting control is designed 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.

Single audit - As a recipient of federal financial assistance, the State is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to federal programs. 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, including that portion related to federal financial assistance programs, as well as to determine that the State of Indiana has complied with applicable laws and regulations.

Budgetary Controls - The annual budget for the State of Indiana is comprised of separate appropriations to individual cost centers within the General and Special Revenue funds. A cost center is a mechanism for recording financial activity. Budgetary control is exercised at the cost center level by appropriations and allotments of accounts. Purchase orders and warrants, which result in a deficit account balance, are not released until additional appropriations are made available or the deficit balance is properly authorized. Unencumbered appropriations lapse at the end of each fiscal year.

Revenues - The following schedule presents a summary of General and Special Revenue fund revenues for the fiscal year ended June 30, 1999 and the amount and percentage of increases and decreases in relation to prior year revenues (amounts expressed in thousands).

Revenues:	Amount	Percent of Total	Increase (decrease) from 1998	Percent of Increase (decrease)
Taxes	$ 10,808,788	65.52%	$ 770,588	7.68%
Licenses and permits	384,081	2.33%	27,014	7.57%
Current service charges	544,870	3.30%	(48,238)	-8.13%
Investment income	389,484	2.36%	(57,698)	-12.90%
Sales / rentals	65,163	0.39%	6,886	11.82%
Grants	4,113,681	24.94%	457,263	12.51%
Other	191,434	1.16%	(2,081)	-1.08%
Totals	$ 16,497,501		$ 1,153,734	7.52%

Increased grant revenues were primarily due to increases in federal revenue for the Family and Social Services' Administration.

Expenditures - The following schedule presents a summary of General and Special Revenue fund expenditures, for the fiscal year ended June 30, 1999 and the amount and percentage of increases and decreases in relation to prior year expenditures (amounts expressed in thousands).

Expenditures	Amount	Percent of Total	Increase (decrease) from 1998	Percent of Increase (decrease)
General government	$ 3,270,076	20.08%	$ 185,011	6.00%
Public safety	906,776	5.57%	45,596	5.29%
Health	313,092	1.92%	44,909	16.75%
Welfare	4,746,168	29.14%	606,570	14.65%
Conservation, culture, and development	459,954	2.82%	18,157	4.11%
Education	5,375,531	33.00%	349,912	6.96%
Transportation	1,216,306	7.47%	139,377	12.94%
Other	950	0.01%	83	9.57%
Totals	$ 16,288,853		$ 1,389,615	9.33%

Increased Welfare expenditures were primarily due to increased spending through the Family and Social Services' Administration's (FSSA) Medicaid Assistance fund and other FSSA programs.

General Fund Balance - The fund balance of the General Fund increased by $168.3 million during the fiscal year ended June 30, 1999.

Proprietary Operations - The State of Indiana's Enterprise Funds consist of: Inns and Concessions, Toll Bridges, Toll Roads, the State Lottery Commission and the Malpractice Insurance Authority. The Inns and Concessions provide lodging and dining for park tourists, and the golf course operation at the Fort Benjamin Harrison Park. The Toll Bridges Fund collects fees for the construction and improvements of toll bridges. The Toll Roads Fund collects fees for the construction and improvements of toll roads. The State Lottery Commission manages and controls all activity that deals with the State's lottery, including the game show, the random number generating machines and the various instant winner games. The Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage. The outlook is good for continued self-sufficiency of these operations with little or no support from the General Fund.

The combined operating revenue for the State's Enterprise Funds was $786.2 million for the fiscal year ended June 30, 1999. This is a 4.83% increase over fiscal year 1998. The combined cost of sales and operating expenses was $549.8 million for fiscal year 1999. This is a 4.01% increase over fiscal year 1998.

The State of Indiana's Internal Service Funds consist of: Institutional Industries, Administration Services Revolving Funds, the State Office Building Commission (a blended component unit), the Recreational Development Commission (a blended component unit), and self-insurance funds. The Institutional Industries Fund is used to account for revenues and expenses incurred in maintaining inmate employment programs. The Department of Administration uses the Administration Services Revolving Funds to account for various services provided to other state agencies. The State Office Building Commission was created as a public body, both corporate and politic, for the issuance of debt for the Indiana Government Center and various correctional facilities. The Recreational Development Commission was created as a public body, both corporate and politic, for the issuance of debt for construction and renovation at various state parks. The self-insurance funds consist of funds used to administer health insurance, disability and death benefit plans for state employees and state police personnel.

Combined operating revenue for the State's Internal Service Funds was $217.9 million for the fiscal year ended 1999. This is a 3.36% increase over fiscal year 1998. The combined cost of sales and operating expenses for fiscal year 1999 was $171.9 million. This is a 3.26% decrease from fiscal year 1998.

Fiduciary Operations - The State of Indiana sponsors eight public employee retirement systems (PERS). They are identified as follows: State Police Pension Fund, 1977 Police Officer and Firefighters' Pension and Disability Fund, Teachers' Retirement Fund, Excise Police and Conservation Enforcement Officers' Retirement Fund, Prosecuting Attorneys' Retirement Fund, Legislators' Retirement System, Judges' Retirement Fund, and Public Employees' Retirement Fund.

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. Total of revenue bonds and notes outstanding, net of amortized discounts, is $4.87 billion at June 30, 1999.

Cash Management - 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(C)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 5.57%.

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.

Risk Management - All of the risks associated with the items listed below are entirely assumed by the State of Indiana.

1) Unemployment Compensation Benefit Claims for state employees.
2) Workers' Compensation Benefit Claims for state employees.
3) Tort claims filed against the state.
4) Medical Malpractice claims filed against state hospitals.
5) Accidents caused by state motor vehicles.
6) State owned real property, including public buildings.
7) Certain employee health and death benefits.

The State, through the Department of Personnel and other agencies, conducts various types of risk programs for state employees designated to encourage state employees to live healthy and productive lifestyles. Some of the programs offered are:

1) Cardiopulmonary Resuscitation Training.
2) Better Nutrition.
3) Safety Training.
4) Disaster Preparedness Training.
5) Defensive Driving.
6) Mammogram Availability.
7) Employee Assistance Program.

OTHER INFORMATION

Year 2000 Issue - The Year 2000 issue is a result of computer programs being written using two digits rather than four to define the applicable year. Any of the State's computer programs that have date-sensitive software may recognize a date using 00 as the year 1900 rather than the year 2000. Because of its reliance on computer systems and other electronic equipment critical to conducting operations, the State of Indiana has recognized and is addressing the Year 2000 issue. A Year 2000 office has been established to identify equipment, software and systems that are not Year 2000 compliant and develop remediation plans for many state agencies. Some state agencies have taken responsibility for identifying noncompliant equipment, software and systems and developing remediation plans. $72.9 million has been authorized for the Year 2000 issue by the General Assembly.

While the State of Indiana is making progress toward Year 2000 compliance, the task is large and unpredictable and no guarantee can be made that all systems will be compliant and no prediction can be made of the effect of the failure of any particular system or outside interface.

Independent Audit - 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 Auditor’s report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of the Single Audit Act Amendments of 1996 and related OMB Circular A-133 statewide audit report.

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, 1998. This was the sixth 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

Peggy Boehm
Peggy Boehm
Director
State Budget Agency