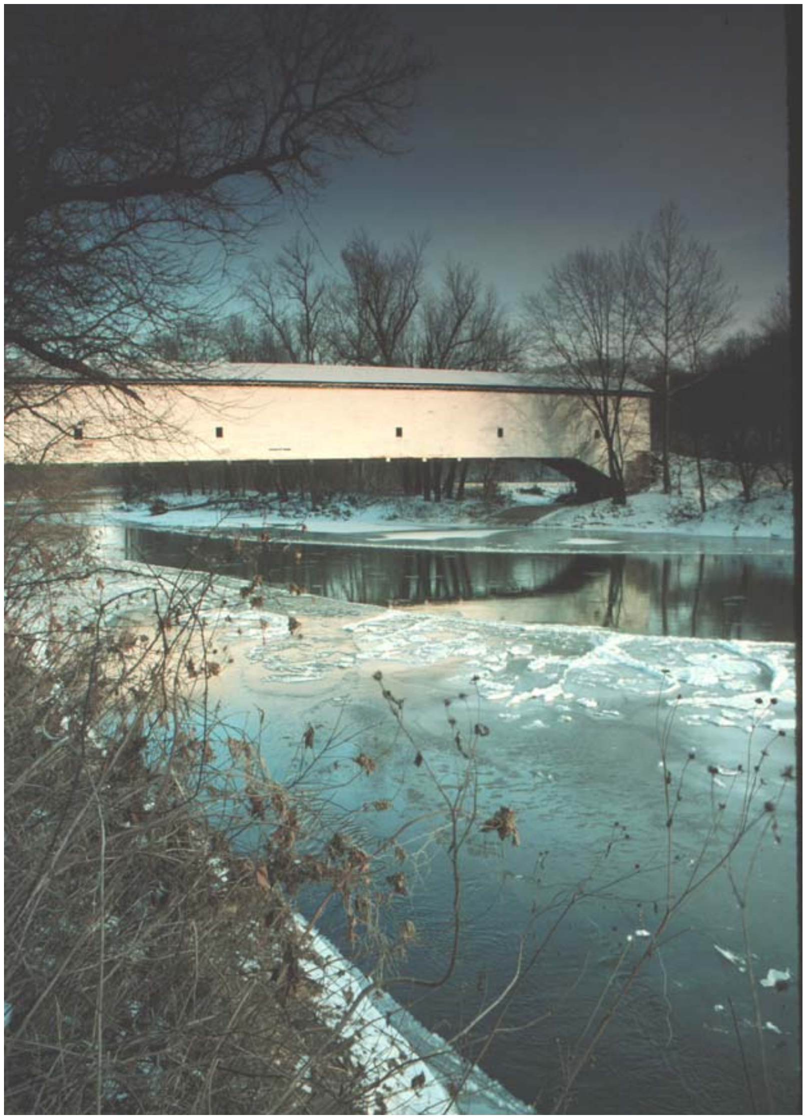
FINANCIAL SECTION



Jackson Bridge, crossing Sugar Creek, in Parke County, Indiana

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SEAL OF THE STATE OF INDIANA

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STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: The Honorable Frank O'Bannon
The Members of the General Assembly, and
The Citizens of the State of Indiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Indiana, as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which represent 11.2% and .7% of the assets and revenues of the governmental activities, 63% and 59.5% of the business-type activities and 100% of the assets and revenues of the governmental and proprietary discretely presented component units. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Indiana as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note IV(G) to the financial statements, the State of Indiana has restated certain beginning fund balances and net assets. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 2001 year-end.

The Management Discussion and Analysis, schedule of funding progress for employee retirement systems and plans and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Indiana's basic financial statements. The introductory section, combining and individual nonmajor and discretely presented component unit fund information, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor and discretely presented component unit financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

State Board of Accounts

STATE BOARD OF ACCOUNTS

December 27, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2002. 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.

Financial Highlights

- On a government-wide basis, the assets of the State of Indiana exceeded its liabilities by $14.4 billion. Of this amount, $3.0 billion may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $738.9 million, or 9.8% of the total general fund expenditures.
- On a government-wide basis for governmental activities, the State incurred expenses net of program revenue of $11.3 billion, which are partially offset by general revenues and transfers of $10.4 billion, giving a decrease in net assets of $907.2 million. The financial position of the State has deteriorated as can be seen in this decrease in net assets.
- The economic recession has hit Indiana especially hard. There have been job losses, increases in personal bankruptcies, and declining tax revenues for the State over the course of FY 2002. Per the US Department of Labor's Bureau of Labor Statistics, during FY 2002, the State's unemployment rate rose from 4.3% to 5.1%. The industries with the largest drop in employment were Transportation and Public Utilities (-5.2%, or 7,800 jobs) and Manufacturing (-3.8%, or 24,400 jobs). Per the American Bankruptcy Institute, for FY 2002, the State ranks sixth worst in number of households in personal bankruptcy filings. During CY 2001, the State had a 27.8% rise in personal bankruptcy filings, compared to a 19.2% increase nationally.

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 State Lottery Commission and the Indiana Transportation Finance Authority's Toll Roads.
- 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 assets includes all the government's assets and liabilities. All of the current year's 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 assets and how they have changed. Net assets, the difference between the State's assets and liabilities, is one way to measure the State's financial health, or position. Over time, increases or decreases in net assets 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 Hoosier Lottery and the East-West Toll Road 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 Bond Bank, the Board for Depositories, the Indiana Housing Finance 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 you 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. Debt service payments and a number of specific accrued liabilities are recognized as expenditures when payment is due because that is when they are normally liquidated with expendable available financial resources.

   Noncurrent 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. Noncurrent liabilities such as revenue bonds payable and net pension obligations 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 Office Building Commission.

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 assets and a

statement of changes in fiduciary net assets. 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

This is the first year that the State of Indiana's Comprehensive Annual Financial Report was prepared under GASB Statement No. 34. In accordance with this Statement, the State is not required to restate prior periods for the purposes of providing comparative information. Where comparative data is available, comparative analysis is included. In future years, when prior year information is available, a comparative analysis of government-wide information will be presented.

Net assets

The following is condensed from the Statement of Net Assets:

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

	Primary Government			Component Units	
	Governmental Activities	**Business-type Activities**	**Total Primary Government**	**Governmental & Proprietary**	**Colleges & Universities**
Current and other assets	$ 7,461.5	$ 3,297.7	$ 10,759.2	$ 4,115.7	$ 3,183.7
Capital assets	10,181.0	249.1	10,430.1	0.4	3,527.1
Total assets	17,642.5	3,546.8	21,189.3	4,116.1	6,710.8
Current liabilities	3,479.7	161.6	3,641.3	973.4	788.6
Long-term liabilities	1,842.1	1,289.7	3,131.8	2,572.0	1,366.8
Total liabilities	5,321.8	1,451.3	6,773.1	3,545.4	2,155.4
Net assets:					
Invested in capital assets, net of related debt	8,683.4	19.8	8,703.2	0.4	2,260.5
Restricted	666.4	2,054.3	2,720.7	121.7	1,260.1
Unrestricted	2,970.9	21.4	2,992.3	448.6	1,034.8
Total net assets	$ 12,320.7	$ 2,095.5	$ 14,416.2	$ 570.7	$ 4,555.4

Infrastructure and right of way land, in the amount of $8.4 billion, were added to the financial statements for the fiscal year ending June 30, 2002 under GASB Statement No. 34. This had the effect of increasing net assets by this amount over the previous year. Indiana built this infrastructure over the course of many years without incurring debt. Without this infrastructure, total net assets for governmental activities would have been $3.9 billion.

Colleges and universities account for $4.6 billion of the net assets of component units.

At the end of the current fiscal year, unrestricted net assets for governmental activities were $3.0 billion, or 16.2% of the total governmental activities' expenses. This compares with 1.4% for business-type activities and 138% for governmental and proprietary component units. The purpose of the proprietary component units is to issue debt for the use of the primary government and other local units of government. Their expenses are for operating costs rather than for programs, causing them to be much lower in relation to unrestricted net assets.

The State maintains a Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue of the State's general fund during periods of economic recession. The fund had total assets of $257 million or 8.7% of the total governmental activities' unrestricted net assets.

Changes in Net Assets

The following is condensed from the Statement of Activities:

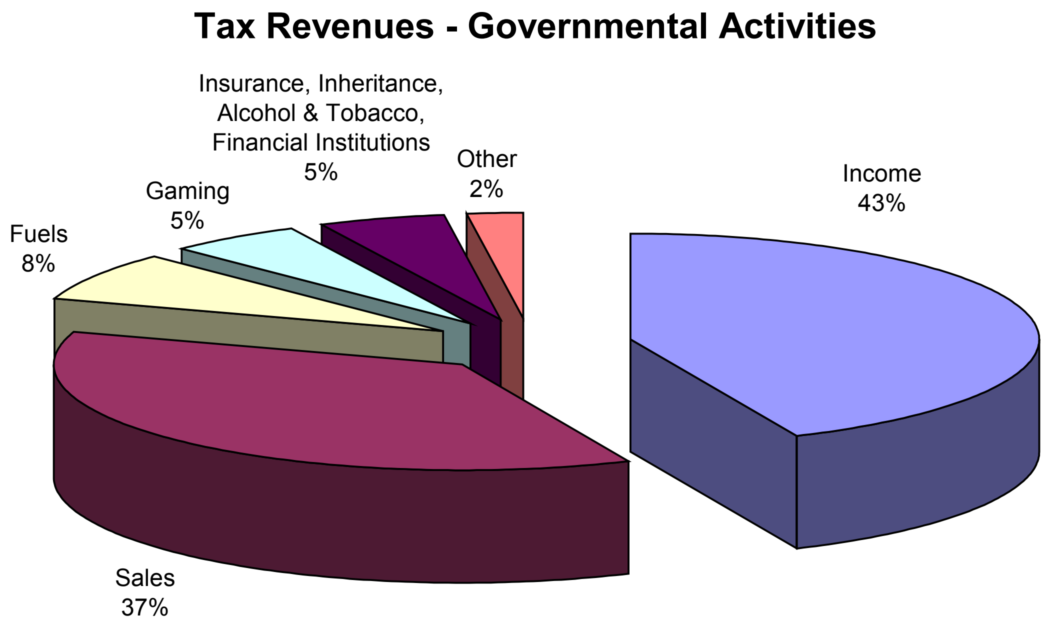
State of Indiana
Condensed Schedule of Change in Net Assets
(in millions of dollars)

	Primary Government			Component Units	
	Governmental Activities	**Business-type Activities**	**Total Primary Government**	**Governmental & Proprietary**	**Colleges & Universities**
Revenues					
Program revenues:					
Charges for services	$ 1,178.8	$ 1,049.5	$ 2,228.3	$ 110.7	$ 1,738.8
Operating grants and contributions	6,171.9	0.6	6,172.5	198.9	736.2
Capital grants and contributions	37.0	92.3	129.3	-	108.9
General revenues					
Individual and corporate income taxes	4,307.6	-	4,307.6	-	-
Sales taxes	3,630.1	-	3,630.1	-	-
Other	2,159.1	329.0	2,488.1	53.9	1,437.8
Total revenues	17,484.5	1,471.4	18,955.9	363.5	4,021.7
Program Expenses					
General government	3,097.8	-	3,097.8	-	-
Public safety	1,134.0	-	1,134.0	-	-
Health	332.7	-	332.7	-	-
Welfare	6,403.5	-	6,403.5	-	-
Conservation, culture and development	473.1	-	473.1	-	-
Education	5,718.3	-	5,718.3	-	-
Transportation	1,099.5	-	1,099.5	-	-
Interest expense	87.3	-	87.3	-	-
Toll roads	-	85.7	85.7	-	-
State revolving fund	-	50.3	50.3	-	-
Unemployment compensation fund	-	804.9	804.9	-	-
State lottery commission	-	521.1	521.1	-	-
Other	0.5	23.6	24.1	-	-
Component units:					
Governmental and proprietary	-	-	-	325.6	-
Colleges and universities	-	-	-	-	3,809.5
Total expenses	18,346.7	1,485.6	19,832.3	325.6	3,809.5
Excess (deficiency) before transfers	(862.2)	(14.2)	(876.4)	37.9	212.2
Transfers	85.8	(107.2)	(21.4)	-	-
Special item	(9.3)	-	(9.3)	-	-
Change in net assets	(785.7)	(121.4)	(907.1)	37.9	212.2
Beginning net assets	13,106.4	2,216.9	15,323.3	532.8	4,343.2
Ending net assets	$ 12,320.7	$ 2,095.5	$ 14,416.2	$ 570.7	$ 4,555.4

Governmental Activities

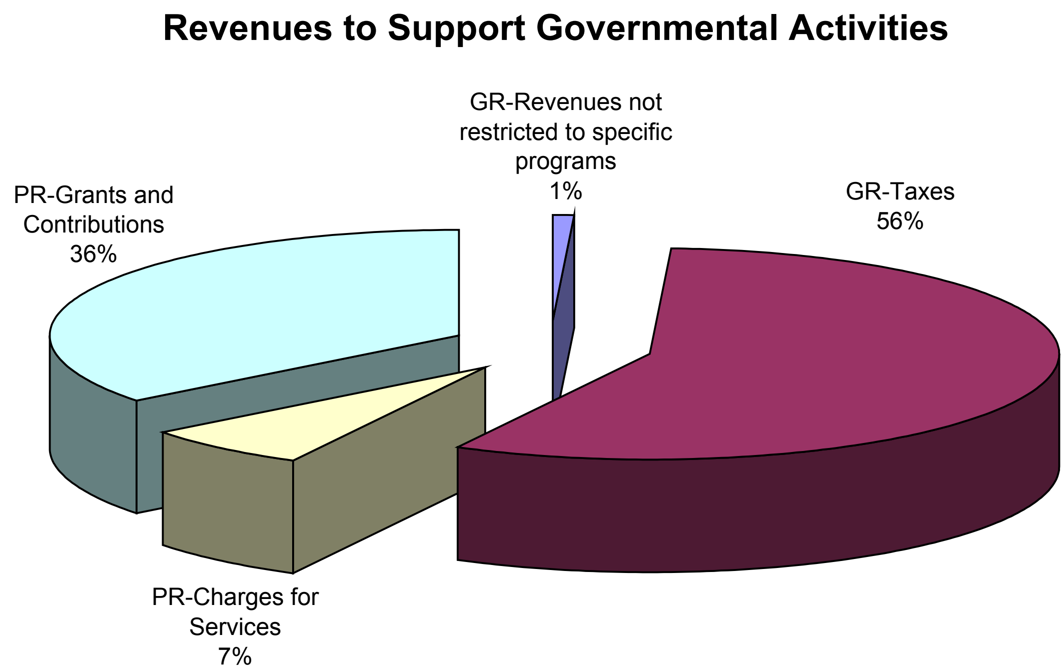
Expenses exceeded program revenues by $11.0 billion. General revenues and transfers were $10.2 billion, leaving a decrease in net assets of $785.7 million, which is 4.5% of total revenues. During the fiscal year the State received $149 million from Tobacco Settlement Master Agreement, which represents 0.9% of total revenues. Transfers of $109 million, or 0.6% of total revenues, were received from the State Lottery Commission. Without these two revenue sources, the state would have had a decrease in net assets of $1.0 billion which is 6.0% of total revenues.

Tax revenues for governmental activities were broken down as follows:



Tax revenues of $9.9 billion represent 56.8% of total revenues for governmental activities. Program revenues accounted for $7.4 million or 42.3% of total revenues. Revenues not restricted to specific programs were $163 million or 0.9% of total revenues. Of this $163 million, $125 million was investment earnings.

Total revenues for governmental activities were broken down as follows:



PR = program revenues
GR = general revenues

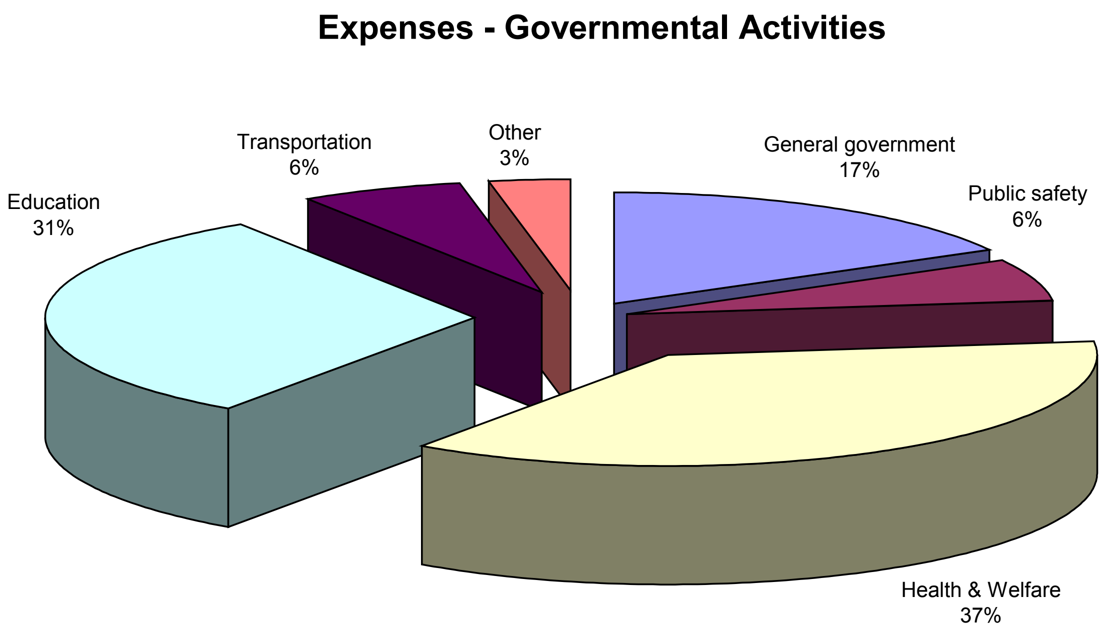
Total revenues were 95.6% of expenses. The difference was partially covered by transfers from business-type activities, primarily the Indiana State Lottery Commission.

The largest portion of the State's expenses is Health and Welfare, which is $6.7 billion or 36.7% of total expenses. 66% is funded through operating grants, with the majority of the remainder funded from general revenues. $3.8 billion of this amount was used for Medicaid assistance.

Education comprises 31.1%, or $5.7 billion of the State's expenses. All but $533.5 million of this is funded from general revenues. The expenses are composed of tuition support, transportation, and the ADA (average daily attendance) flat grant distribution. The National School Lunch Program is another area of expense, which is funded through program revenues.

$3.1 billion, or 16.9% of expenses, was spent for General Government. General Government includes local distributions and money for state administration and those functions that serve the state as a whole. Examples of local distributions are the property tax replacement credit, which subsidizes local property tax collections, and the motor vehicle excise replacement credit, which subsidizes automobile license fees. Examples of state administration would be the executive branch of government, the state legislature, and the judiciary.

Total expenses for governmental activities were broken down as follows:



Business-Type Activities

Business-type activities represent 7.8% of the Primary Government's revenues and 7.5% of the expenses. The State Lottery Commission accounts for 54.8% of business-type activities' program revenues and 35.1% of expenses. Profits of the State Lottery Commission help to fund the State's retirement plans, and, through the Build Indiana Fund, the motor vehicle excise tax credit, and capital projects for local governments. The Unemployment Compensation Fund's expenses make up 54.1% of business-type activities' expenses.

Financial Analysis of the State's Funds

The following is an analysis of the State's major governmental funds:

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, 2002 was $1.08 billion, which is 35.3% of assets. This compares to a fund balance at June 30, 2001 of $1.8 billion, which was 47.9% of assets. This indicates that the state's financial position is worse than the prior year by $0.72 billion. The fund balance of $1.08 billion is composed of reserves of $340 million and unreserved of $739 million. Major reserves are:

- Encumbrances of $46 million, which is money set aside to pay for future obligations.
- Loans of $27.2 million, which consists of $19.2 million in loans to other governmental units and $8.0 million in interfund loans.
- Tuition support of $265 million, which is money set aside for July distributions to schools.

The State calculates a cash basis surplus balance monthly. The year-end surplus balance is combined with estimated revenue forecasts to assess and determine the State's budget. This surplus balance is contained in the General Fund. As of June 30, 2002, the surplus balance was $522.0 million. The balance decreased from $908.7 million as of June 30, 2001. This surplus balance is composed of:

- $265.0 million tuition support, which is money set aside to pay for July distributions to schools.

- $257.0 million rainy day fund, which is to assist in stabilizing revenue during periods of economic recession and is part of designated unreserved. $230.6 million was transferred from the rainy day fund to the General Fund in the fiscal year ending June 30, 2002.

The General Fund's revenues declined 15.7%, or $1.4 billion, from FY 2001, primarily due to a 23.1% decline, or $1.3 billion, in individual and corporate income tax revenue.

Motor Vehicle Highway Fund

The Motor Vehicle Highway Fund receives portions of gas and special fuel tax, motor vehicle registration fees, the motor carrier surtax, federal revenue, and other revenues. These are distributed to cities and towns, counties and the State Department of Transportation and are used to help fund the State Police, the Bureau of Motor Vehicles, the Department of Revenue and others. The fund collected $460 million in taxes, $17 million in fees, and $11 million in federal grants. The fund received $244 million in transfers in, which are taxes collected in other funds. The fund distributed $276 million to local units of government, $172 million for public safety, and transferred $411 million to other funds, which include the Department of Transportation and the General Fund. In the past, the Motor Vehicle Highway Fund has lent money to the Bureau of Motor Vehicles. Because this money is not likely to be repaid, it is reflected as a transfer out of the Motor Vehicle Highway Fund in the amount of $63.3 million in FY 2002.

Medicaid Assistance Fund

Medicaid is an insurance program for low-income and needy people. It is jointly funded by the Federal government and the State. The Medicaid Assistance Fund received $2.5 billion in Federal revenue and used $1.9 billion in State revenue. The Fund distributed $3.8 billion in Medicaid assistance. This compares to $3.2 billion distributed in fiscal year 2001. Transfers out of the Fund include $453 million to the General Fund for Medicaid.

Build Indiana Fund

The Build Indiana Fund receives revenues from the Hoosier Lottery through the State Lottery Commission, Riverboat Wagering Tax through the Indiana Gaming Commission, Horse Racing Pari-mutuel Wagering Tax through the Indiana Horse Racing Commission, and Charity Gaming Excise Tax through the Department of Revenue. The revenues are used to help fund Motor Vehicle Excise Tax Replacement, capital projects for local units of government, and State projects such as the 21st Century Research and Technology Fund, the Indiana Technology Fund and other education technology grants.

The Build Indiana Fund received $437.3 million in gaming revenue which was transferred in from other funds. Of this amount, $109.4 million came from the State Lottery Commission. The Fund distributed $24.6 million for the 21st Century Research and Technology Fund, $12.6 million for capital projects for local units of government and $15.4 million for other technology and local grants. The Fund also earned $13.6 million in investment earnings and $7.9 million from securities lending transactions. Transfers out of the Fund included $247.5 million to the General Fund per an order of the State Board of Finance, $236.2 million to the Motor Vehicle Excise Replacement account in the General Fund and $200 million to the Property Tax Replacement Fund.

State Highway Department Fund

The State Highway Department Fund was created to fund the construction, reconstruction, operation, maintenance, and control of state highways and tollways. The fund collected $551 million in grants and received $547 million in transfers in, which are taxes collected in other funds. Transfers out of the Fund included $30 million to the General Fund per an order of the State Board of Finance. The fund expended $987 million during the year, compared with $1,165 million in FY 2001.

Property Tax Replacement Fund

The Property Tax Replacement Fund collects sales and corporate income taxes that are dedicated to tuition support and to property tax replacement distribution to local units of government. This is to relieve the property tax burden for the citizens of Indiana who own property. $1.3 billion was used for tuition support and $1.1 billion was distributed to local units of government for property tax relief.

Any shortfalls in the fund caused by these distributions are made up by the General Fund. For the year ended June 30, 2002, $838.5 million was transferred from the General Fund and $200 million was transferred from the Build Indiana Fund.

Tobacco Settlement Fund

The Tobacco Settlement Fund is used to receive and distribute revenue received from the Tobacco Settlement Agreement entered into on November 23, 1998, by the State and leading United States tobacco product manufacturers. During fiscal year 2002 the State collected $149.2 million from tobacco product manufacturers. The State expended $20.8 million to fund operating and capital expenses associated with community health centers and $16.8 million for tobacco education, prevention, and use control. Transfers out of the Fund include $29.7 million to the General Fund per an order of the State Board of Finance, $21.1 million for the Children's Health Insurance Program (CHIP), and $23.1 million for various health-related programs, including $7.3 million for Residential Services, $4.7 million for the Pharmacy Drug Program, $4.0 million for Aging and Community Services, $3.2 million for Tobacco Health Programs, $2.0 million for Developmentally Disabled Services, $1.3 million for Local Maintenance, and $0.5 million for Newborn Screening. The State earned $7.0 million in investments of this money.

General Fund Budgetary Highlights

An economic downturn that began in Indiana in 2000 affected the State's General Fund. State revenues, generated from sales, individual and corporate income taxes, started coming in under forecasted targets. Because of a continuing decline in revenue, a revised revenue forecast was provided in November 2001 lowering revenue projections to a 2.7% growth rate for fiscal year 2003.

As a result of revenue declines, a series of spending reductions, transfers, and reallocations of other revenues were used to offset the reduced revenues in the General Fund. The following summarizes the differences between the original and final budget amounts for fiscal year 2002:

- General purpose tax revenues of $7.0 billion were significantly less than the budgeted $7.6 billion.
- Agencies controlled spending to create budgetary savings of $145.1 million.
- Delays in payments of local school aid and higher education created a savings of $253.9.
- Transfer of certain restricted funds to the General Fund in the amount of $396.3 offset some of the declining revenues.
- The Lottery and Gaming Surplus Account transferred $200 million to the General Fund.

Although it is anticipated that the General Fund will experience reduced revenues in the next fiscal year, there will be a reduction in spending and other measures used to maintain an acceptable General Fund balance.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $10.4 billion, which was 49.2% of total assets for the primary government. Related debt was $1.7 billion. Total capital assets net of related debt for the primary government was $8.7 billion. The ratio of capital assets to related debt was 504%.

The following table shows the percentage change from fiscal year 2001 to fiscal year 2002.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2002	2001	2002	2001	2002	2001	
Land	$ 1,058.8	$ 1,010.9	$ 30.7	$ 30.7	$ 1,089.5	$ 1,041.6	4.6%
Infrastructure	7,473.1	7,376.5	180.4	180.3	7,653.5	7,556.8	1.3%
Construction in Progress	192.7	456.0	0.5	-	193.2	456.0	-57.6%
Property, plant and equipment	2,292.7	2,030.9	117.7	120.7	2,410.4	2,151.6	12.0%
Less accumulated depreciation	(836.3)	(808.5)	(80.2)	(79.8)	(916.5)	(888.3)	3.2%
Total	**$ 10,181.0**	**$ 10,065.8**	**$ 249.1**	**$ 251.9**	**$ 10,430.1**	**$ 10,317.7**	**1.1%**

Overall capital assets increased by 1.1% from 2001 to 2002. Construction in Progress decreased by 57.6% due to reduced spending. Property, plant, and equipment increased by 12.0% due to the completion of new State Office Building facilities, including the Indiana State Museum in May 2002. More detailed information about the State's capital assets is presented in Note I(D)(6) to the financial statements.

Long-term Debt

Major long-term debt items are included in the following table. These major items comprised 100% of total long-term liabilities and 46.2% of total liabilities.

The following table shows the percentage change from fiscal year 2001 to fiscal year 2002.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2002	2001	2002	2001	2002	2001	
Accrued liability for compensated absences	$ 52.0	$ 47.7	$ 0.1	$ 0.2	$ 52.1	$ 47.9	8.8%
Accrued prize liability	-	-	51.2	44.3	51.2	44.3	15.6%
Capital lease payable	19.2	6.8	-	-	19.2	6.8	182.4%
Claims payable	-	-	11.7	11.3	11.7	11.3	0.0%
Construction retention	4.9	6.2	-	-	4.9	6.2	-21.0%
Net pension obligations	0.7	0.6	-	-	0.7	0.6	16.7%
Due to component units	-	-	1,008.8	633.2	1,008.8	633.2	59.3%
Revenue bonds/notes payable	1,765.3	1,782.2	217.9	236.6	1,983.2	2,018.8	-1.8%
Total	**$ 1,842.1**	**$ 1,843.5**	**$ 1,289.7**	**$ 925.6**	**$ 3,131.8**	**$ 2,769.1**	**13.1%**

Accrued liability for compensated absences is an estimate of the State's liability for vacation and personal leave time not taken by State employees and accrued at June 30, 2002. This total liability increased by 8.8% from FY 2001 to FY 2002.

The amount due to component units is money due to the Indiana Bond Bank from the State Revolving Fund. The Indiana Bond Bank is a separate body corporate and politic from the State and is reported as a discretely presented component unit. The State Revolving Fund is administered by the State Budget Agency and the Indiana Department of Environmental Management, which are agencies of the State. Proceeds from State revolving bonds issued by the Indiana Bond Bank are used by the State Revolving Fund to assist qualified entities in obtaining below market financing for water pollution control projects. The repayment of these loans is used by the State Revolving Fund to repay the Indiana Bond Bank, which makes the bond payments. The 59.3% increase is attributable to $400 million Series 2001A bonds issued by the Indiana Bond Bank on behalf of the State Revolving Fund.

Of the $2.0 billion in revenue bonds/notes payable, $1.1 billion were issued by the Indiana Transportation Finance Authority, $851 million by the Indiana State Office Building Commission, and $23 million by the Recreational Development Commission.

More detail about the State's debt is presented in note IV(F) of the notes to the financial statements.

Infrastructure

As required by GASB Statement No. 34, the State has capitalized its infrastructure. This amounts to $7.5 billion in roads and bridges using the modified approach, $814 million in right of way classified as land, and $14 million in 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 23,000 lane miles of roads and approximately 5,100 bridges that the State is responsible to maintain.

The State has consistently maintained the assessed conditions of roads over the past two years. It is the State's policy to maintain Interstate and National Highway System (NHS) Non-Interstate roads at an average Pavement Quality Index (PQI) of 75 and Non-NHS roads at an average PQI of 65. The most recent condition assessment, completed for fiscal year 2001, indicated that the average PQI for roads exceeded the minimum acceptable standard.

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%. The most recent condition assessment, completed in August 2002, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Although the actual maintenance and preservation costs for NHS Non-Interstate roads and Interstate and NHS Non-Interstate bridges were lower than planned, this has not caused the condition level to fall below the State's policy.

Economic Factors

The economic forecast, upon which the state budget for fiscal years 2002 and 2003 was based, was updated in November 2001. At that time, real Gross Domestic Product (GDP) was projected to decrease by 1.9% in the fourth quarter of 2001. Real GDP growth was projected to increase through the first half of 2002 before stabilizing at 3.0%. On a state fiscal year basis, real GDP was projected to decrease by 0.1% in 2002 and increase by 2.0% in 2003.

Growth was stronger than expected in the fourth quarter of calendar year (CY) 2001 and the first quarter of CY 2002. Growth was slower than expected in the second quarter of CY 2002, but stronger than expected in the third quarter. Through the first three-quarters of CY 2002, real GDP increased by 2.3% compared to the November forecast of -0.3%.

The November 2001 forecast projected the Indiana non-farm personal income growth to slow in the third and fourth quarters of CY 2001 before rebounding quickly through the first and second quarters of CY 2002. Quarterly growth in Indiana non-farm personal income was projected to reach 2.4% by the second quarter of CY 2002. On an annual basis, Indiana non-farm personal income growth was projected to increase by 1.9% in CY 2002 and by 3.9% in the first half of CY 2003.

Growth in Indiana non-farm personal income was stronger than expected in the third quarter of CY 2001 and weaker than expected in the fourth quarter of CY 2001. Through the first half of CY 2002 Indiana non-farm personal income increased by 2.2%, exceeding the November forecast.

The November forecast projected growth in General Fund and Property Tax Replacement Fund revenues of -0.5% in FY 2002 and 2.7% in FY 2003.

Contacting the Auditor of State

This financial report is designed to provide our citizens, taxpayers, customers, and 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 the Auditor of State, 240 State House, 200 West Washington Street, Indianapolis, Indiana 46204-2793.

BASIC FINANCIAL STATEMENTS