NOTES TO THE FINANCIAL STATEMENTS

STATE OF INDIANA

Notes to the Financial Statements
June 30, 2002

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(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units. Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in two separate columns, one column for the governmental and proprietary fund types, and one for colleges and universities, in the government-wide financial statements. This is to emphasize that, as well as being legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 2001, year-end.

Blended Component Units.

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various governmental funds and an enterprise fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three gubernatorial appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana governor is composed of five members appointed by the Governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

Discretely Presented Component Units.

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All governmental and proprietary component units are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is governed by a board consisting of the Lieutenant Governor, the Treasurer of State, and seven members appointed by the Governor. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the Governor to purchase education loans in the secondary market. The Governor appointed the original Board of Directors. The Indiana Secondary Market for Education Loans provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. The unit is reported as a proprietary fund.

The Indiana Board for Public Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the $100,000 Federal Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the Governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority's board consists of the Director of the Department of Financial Institutions, the Director of the Department of Commerce, the State Treasurer and four persons appointed by the Governor. By statute, the Lieutenant Governor is Director of the Indiana Department of Commerce. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority, the Indiana Bond Bank and the Indiana Development Finance Authority were determined to be significant for note disclosure purposes involving the discretely presented proprietary and governmental component units.

Effective July 1, 2000, the Public Employees Retirement Fund (PERF) became an independent body corporate and politic. PERF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The PERF board is composed of five trustees appointed by the Governor. The board of trustees administers the following funds: Public Employees Retirement Fund, Judges Retirement System, Excise Police and Conservation Enforcement Officers' Retirement Plan, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Plan, the Legislators' Retirement System Defined Contribution Plan, the Prosecuting Attorneys' Retirement Fund, the Pension Relief Fund, and two death benefit funds. For more information on PERF see Note V(J) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation in the Discretely Presented Component Units' financial statements.

Effective July 1, 2000, the Teachers Retirement Fund (TRF) became an independent body corporate and politic. TRF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The TRF board is composed of five trustees appointed by the Governor. For more information on TRF see Note V(J) Employee Retirement Systems and Plans.

The Public Employees Retirement Fund and the Teachers Retirement Fund were determined to be significant for note disclosure purposes involving the discretely presented fiduciary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the Governor and by election of the alumni of the respective universities.

Indiana University and Purdue University were determined to be significant for note disclosure purposes involving the colleges and universities.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance Authority One North Capital Suite 900 Indianapolis, IN 46204	Recreational Development Commission c/o Division of State Parks and Reservoirs 402 W. Washington Street, Rm W298 Indianapolis, IN 46204	State Lottery Commission of Indiana Pan Am Plaza 201 S. Capitol, Suite 1100 Indianapolis, IN 46225
State Office Building Commission Government Center South, W478 402 W. Washington Street Indianapolis, IN 46204	Indiana Development Finance Authority One North Capitol, Suite 900 Indianapolis, IN 46204	Secondary Market for Education Loans, Inc. P.O. Box 501877 8425 Woodfield Crossing Boulevard Suite 100 Indianapolis, IN 46240-2495
Board for Public Depositories 101 W. Washington St., Suite 1301E Indianapolis, IN 46204	Indiana Bond Bank 2980 Market Tower 10 West Market St. Indianapolis, IN 46204	Indiana Housing Finance Authority 115 West Washington Street Suite 1350, South Tower Indianapolis, IN 46204
Accounting Services 1062 Freehafer Hall Purdue University West Lafayette, IN 47907-1062	Richard W. Schmidt, VP Business Affairs University of Southern Indiana 8600 University Boulevard Evansville, IN 47712	Office of the Vice President and CFO Poplar's Room. 300, 400E. 7th Street Indiana University Bloomington, IN 47405-1202

Mark Husk Director of Budgeting and Accounting Indiana Vocational Technical College Indianapolis, IN 46206-1763	Phillip Rath Vice President-Financial Services Vincennes University 1002 North 1st Street Vincennes, IN 47591	William A. McCune, Controller Administration Bldg., 103A 2600 University Avenue Ball State University Muncie, IN 47305
Office of the Vice President For Planning and Budgets Rankin Hall, Room 200 Indiana State University Terre Haute, IN 47809	State of Indiana Public Employees' Retirement Fund 143 West Market Stree, Suite 700 Indianapolis, IN 46204	Indiana State Teachers' Retirement Fund 150 West Market Street, Suite 300 Indianapolis, IN 46204-2809

B. Government-Wide and Fund Financial Statements.

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information about the overall government. They exclude information about fiduciary activities, including component units, which are fiduciary in nature, such as the public employee retirement systems. They distinguish between the primary government and its discretely presented component units as defined under the reporting entity above. They also distinguish between governmental activities and business-type activities of the State. Governmental activities rely on taxes and intergovernmental revenues for their support. Business-type activities, on the other hand, rely on fees and charges for services provided for their support.

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. Certain indirect costs are included in the program expense reported for individual functions of government. Program revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes, even those levied for a specific purpose and are reported by type of tax. Investment income is also a general revenue.

Separate financial statements are presented for the State's governmental, proprietary and fiduciary funds. Governmental fund financial statements are the balance sheet and the statement of revenues, expenditures, and changes in fund balances. Major governmental funds are presented in separate columns and non-major funds are aggregated in a separate column. Proprietary and fiduciary funds are reported using the statement of net assets, and the statement of changes in net assets. In addition proprietary funds include a statement of cash flows.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting.

The government-wide statements and the proprietary and fiduciary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues, including federal government mandates on the state, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met.

For the government-wide financial statements and proprietary and fiduciary fund statements, the State applies all applicable FASB pronouncements issued before December 1, 1989, and those issued after that date which do not contradict any previously issued GASB pronouncements.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the State of

Indiana, "available" means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual and corporate income tax, sales tax, inheritance tax, cigarette tax, alcoholic beverage tax, motor fuel tax, fines, and penalties are accrued using one month's revenues.

Gaming taxes and fees and vehicle licenses are received daily via electronic funds transfer with a one working day delay, so the first working day in July revenues are reviewed for materiality and accrued accordingly.

Financial Statement Presentation. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Governmental funds are used to account for the government's general government activities. Governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds and permanent funds.

The *General Fund* is the State's primary operating fund. It 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 General Fund is a major fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes except for major capital projects.

The following special revenue funds are presented as major.

- The *Motor Vehicle Highway Fund* collects motor fuel taxes, special fuel taxes, motor carrier surtaxes, vehicle license fees and uses them for public safety programs and distributions to local units of government for transportation programs.

- The *Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid program.

- The *State Highway Department Fund* receives federal grants and State appropriations that are used for State transportation programs.

- The *Property Tax Replacement Fund* receives corporate income tax and sales tax which is used for education and property tax replacement distributions to local units of government.

- The *Tobacco Settlement Fund* is used to account for funds received under the master tobacco settlement agreement and is used to fund the children's health insurance program.

The *capital projects* funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or fiduciary funds.

The following capital projects fund is presented as major:

- The Build Indiana Fund receives gaming revenues and uses them to fund local capital projects.

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or fiduciary funds. There are no major debt service funds.

The permanent funds are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for the benefit of the government or its citizens. There are no major permanent funds.

Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows. Operating revenues and expenses are the revenues and expenses that pertain to the fund's principal operations. For the Unemployment Compensation Fund, operating revenues consist of grants and taxes. For the State Revolving Fund, grant revenue is considered operating revenue. Nonoperating revenues and expenses are those revenues resulting from secondary or auxiliary activities of the fund. Nonoperating items include interest/investment revenue and expense. Proprietary funds include both enterprise funds and internal service funds.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The State reports the following major enterprise funds:

- The *Toll Roads Fund* under the Indiana Transportation Finance Authority, collects tolls that are used to make payments on revenue bonds used to finance the construction of the East-West Toll Road in northern Indiana.

- The *State Revolving Fund* uses proceeds from bonds issued by the Indiana Bond Bank to assist qualified entities in obtaining below market financing for water pollution control projects.

- The *Unemployment Compensation Fund* collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals.

- The *State Lottery Commission Fund* collects lottery revenues that are distributed to the Pension Relief Fund, the Teachers Retirement Fund and the Build Indiana Fund.

Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The services provided include fleet management, information technology and communication, printing, debt financing, and self-insurance. Major fund reporting requirements do not apply to internal service funds. Combined totals for all internal service funds are reported as a separate column on the face of the proprietary fund financial statements.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others. They cannot be used to support the State's own programs. Fiduciary funds include pension (and other employee benefit) trust funds, private-purpose trust funds, and agency funds.

Pension (and other employee benefit) trust funds are used to report resources held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, and other post-employment benefit plans. Pension trust funds include the Deferred Compensation Plan Fund and the State Police Pension Fund.

Private-purpose trust funds are used to account for trust arrangements in which both the principal and interest may be spent for the benefit of individuals, private organizations or other governments. Private Purpose funds include the Property Custody Fund, the Abandoned Property Fund, the Unclaimed Funds Fund, and the Private Purpose Trust Fund.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity. Agency Funds include Employee Payroll Withholding and Benefits, Local Distributions, Child Support and Department of Insurance.

D. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost, which approximates fair value. Fair value is determined by quoted market prices which approximate fair value.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least $10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines. Investments which are authorized for the State Teacher's Retirement Fund include: U.S. Treasury and Agency obligations, corporate bonds/notes, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, common stocks, repurchase agreements, mortgage securities, and bankers acceptances. The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, corporate bonds/notes, common stocks, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as an enterprise fund.

2. Receivables and Payables

In the government-wide and proprietary fund financial statements, revenues are recognized on the flow of economic resources measurement focus. Material receivables are recognized as follows. Uncollected taxes due in the following periods are subject to accrual.

> Individual income tax – Individual withholding tax is due from employers by the 20th day after the end of the month collected. Estimated payments are due from individuals by the 15th of the month immediately following each quarter or the calendar year.
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> Corporate income tax - Due on or before the last day of the month immediately following each quarter of the calendar year.
>
> Sales tax – Due by the 20th day after the end of the month collected.
>
> Fuel tax – Gasoline tax is due the 20th day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15th day after the end of the month collected or the 15th day after the end of the quarter collected. Motor carrier surtax is due at the end of the month following the end of the quarter.
>
> Financial institutions tax – due on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year.
>
> Alcohol and tobacco taxes – Cigarette distributors purchase tax stamps within 6 days after they accept delivery of the cigarettes. Cigarette tax is due within 30 days of the issuance of the tax stamp. Alcoholic beverage tax is due by the 20th day after the end of the month collected.
>
> Inheritance tax – due nine months after the decedent's date of death.

In the governmental fund financial statements, revenue is recognized on the flow of current financial resources. Material receivables are subject to accrual for receipts collected in the month of July.

The State of Indiana does not collect property tax, which is collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

3. *Interfund Transactions and Balances*

The State has the following types of interfund transactions in the governmental fund and proprietary financial statements:

Interfund service provided and used (reciprocal interfund activity) - Charges for goods or services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Interfund Transfers (non-reciprocal interfund activity) - Legally authorized transfers whereby the two parties do not receive equivalent cash, goods or services are reported as transfers.

The types of assets and liabilities resulting from these transactions are:

Interfund loans - These are balances arising from the short-term and long-term portion of interfund transactions.

Interfund services provided / used - These are balances arising in connection with reciprocal interfund activity or reimbursements. Balances relating to discretely presented component units are presented as 'Due from / to component units.'

Interfund services provided and interfund loans are eliminated in the government-wide statements if they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another. The net amount of interfund services provided and interfund loans provided by a governmental activity for a business-type activity or by a business-type activity for a governmental activity are presented in the government-wide statement of net assets under the title "Interfund balances".

4. *Inventories and Prepaid Items*

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. *Restricted Net Assets*

Certain net assets are classified as restricted net assets because their use is completely restricted by bond indentures, contracts, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.

6. *Capital Assets*

Capital outlays are reported as expenditures in the governmental funds and as assets in the government-wide statements to the extent the State's $20,000 capitalization threshold is met. In accordance with GASB Statement No. 34, all infrastructure assets have been capitalized retroactively.

The Indiana Department of Transportation (INDOT) uses the modified approach for reporting its infrastructure. The Department of Natural Resources (DNR) uses the depreciation approach for reporting its infrastructure.

Under the modified approach, the State has determined that the condition level for INDOT infrastructure assets to be maintained is:

- an average Pavement Quality Index (PQI) of 75 for Interstate and NHS Non-Interstate roads,
- an average PQI of 65 for Non-NHS roads,
- an average sufficiency rating of 87% for interstate bridges,
- an average sufficiency rating of 85% for NHS Non-Interstate bridges, and
- an average sufficiency rating of 83% for Non-NHS bridges.

The Division of Program Development of INDOT is responsible for determining the appropriate condition level of the infrastructure assets.

No amounts are capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential.

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Condition assessments are determined on an annual basis for interstates and on a biennial basis for other roads. Sufficiency ratings are determined at least on a biennial basis for all bridges and more frequently for certain bridges depending on their design.

The State makes annual estimates of the amounts that must be expended to preserve and maintain these infrastructure assets at the predetermined condition levels.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated fixed assets are recorded at their estimated fair value at the date of donation.

Capital assets are depreciated in the proprietary and similar trust funds using the straight-line method on both the fund basis and the government-wide basis. Both the government-wide statements and proprietary and similar trust funds use the following estimated useful lives:

Assets	Years
Buildings	20-40
Improvements other than buildings	10-20
Infrastructure (not using modified approach)	20
Furniture, machinery and equipment	5-14
Motor Pool Vehicles	10 ¢ / mile

The State of Indiana maintains several collections of works of art, historical treasures, and similar assets that are not capitalized. While the collections are maintained by different agencies, each collection is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organizational policy that either prohibits sale or requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State's major collections are:

- The State Museum Collection, which is a part of the Indiana Department of Natural Resources, consists of historical buildings and furnishings; personal artifacts; tools and equipment; communication, transportation, recreational and societal artifacts; and art objects.

- The Commission on Public Records, State Archives Collection consists of historical and legal documents, that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics.

- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

Other collections include the Historical Bureau's Indiana Governors' Portrait Collection, the Department of Administrations' Statehouse Collection, and the Indiana Arts Commission's Collection. These collections consist primarily of art objects.

7. Compensated Absences

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long term liabilities in government-wide and proprietary and fiduciary fund financial statements.

8. Long-Term Obligations

Long-term debt and other obligations are reported in the government-wide statements and the proprietary funds statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund.

In the governmental fund financial statements, bond issuance costs and bond discounts are treated as period costs in the year of issue. Proceeds of long term debt, issuance premiums or discounts and certain payments to escrow agents for bond refundings are reported as other financing sources and uses.

9. Fund Equity

In the fund financial statements reservations of fund equity represent those portions of fund balances that are legally restricted by outside parties for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

Reserve for Tuition Support - established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

Reserve for Encumbrances - established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

Reserve for Restricted Purposes – established to recognize legal limitations that specify the purpose or purposes for which resources derived from government-mandated and voluntary nonexchange transactions are to be used.

Reserve for Prepaid Items – established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

Reserve for Interfund Loans - established to recognize short-term and long-term loans issued to other funds within this government and therefore not currently available for expenditure.

Reserve for Intergovernmental Loans - established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

Reserve for Debt Service, Special Purposes--established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component.

Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

As described in Note I, Summary of Significant Accounting Policies, differences exist between the government-wide and the governmental fund financial statements. These differences are summarized in the reconciliations that follow the governmental fund financial statements.

A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

In the government-wide financial statements, capital assets are considered economic resources and are capitalized at cost or estimated historical cost at time of acquisition. Where applicable these costs are offset by accumulated depreciation.

The government-wide statements use the flow of economic resources and accrue receivables that are not available soon enough in the subsequent period to pay for the current period's expenditures. Also under the flow of economic resources, expenses reported in the statement of activities do not require the use of current financial resources. Both these receivables and payables are accrued in the government-wide statements, but not in the fund financial statements.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

In the government-wide financial statements, the cost for capital outlays, except for governmental infrastructure, is allocated over the assets' useful lives and is reported as depreciation expense. In the fund financial statements, capital outlays are reported as expenditures.

The government-wide statements use the flow of economic resources and therefore do not report revenues and expenses dependent on the availability of financial resources, as is reported in the fund financial statements. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the fund financial statements. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces long-term liabilities in the statement of net assets.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the expenses of internal service funds are included in governmental activities in the statement of activities. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Governor submits a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes the Transportation Finance Authority - Highway Revenue Bonds, which is not subject to appropriation pursuant to State law. In addition there are various “Other Special Revenue Funds” excluded which are the Armory Board, the Recreation funds at state institutions and mental facilities, and the Transportation Finance Authority - Airport Facilities and Aviation Technology Funds. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. 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 State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. These actions are considered supplemental appropriations; therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

B. Deficit Fund Equity

At June 30, 2002, various funds had a deficit fund balance caused by overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as interfund loans from the general fund.

Fund	Overdraft from pooled cash	Accrual deficits
Governmental Funds		
Motor Vehicle Highway Fund	$ -	$ (19,030)
Property Tax Replacement Fund	-	(433,930)
County Welfare Administration	(3,874)	(6,516)
Federal Food Stamp Program	(1,055)	(113)
Major Construction Army National Guard	(706)	(53)

C. Unreserved Fund Balance

The State of Indiana designates its unreserved fund balance as designated for appropriations, designated for allotments, and undesignated. In order for money to be spent out of a fund it must be appropriated by the legislature and then allotted by the State Budget Agency. The following are the designations of unreserved fund balance at June 30, 2002:

Unreserved Fund Balance

	Designations of Unreserved Fund Balance			
	Designated for Appropriations	Designated for Allotments	Undesignated	Total Unreserved Fund Balance
Governmental Funds				
General Fund	$ 272,822	$ 397,314	$ 68,744	$ 738,880
Motor Vehicle Highway Fund	-	-	(24,532)	(24,532)
Medicaid Assistance	-	12,590	-	12,590
Build Indiana Fund	-	90,926	-	90,926
State Highway Department	-	-	(656,365)	(656,365)
Property Tax Replacement Fund	-	-	(433,930)	(433,930)
Tobacco Settlement Fund	271,512	2,638	-	274,150
Non-Major Special Revenue Funds	98,875	741,010	108,560	948,445
Non-Major Capital Projects Funds	31,375	30,874	54,682	116,931
Non-Major Permanent Funds	-	180,008	977	180,985
Total Governmental Funds	$ 674,584	$ 1,455,360	$ (881,864)	$ 1,248,080

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits, Investments and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or an agent in the State's or unit's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's or unit's name.

Blended component units that are included in the financial statements as described in Section I(A) account for $308.7 million of the primary government's total investments included in these totals.

Primary Government Including Fiduciary Funds

	Category 1	Category 2	Category 3	Fair Value
Corporate debt/equity securities				
Not on securities loan	$ 193,888	$ -	$ 481,423	$ 675,311
Foreign corporate debt/equity securities				
Not on securities loan	-	-	3,600	3,600
Repurchase agreements				
Not on securities loan	2,205	48,419	135,434	186,058
US Treasury & agency obligations				
Not on securities loan	322,269	655	318,875	641,799
State and municipal obligations				
Not on securities loan	1,689	-	60,156	61,845
Mortgage securities				
Not on securities loan	88	-	-	88
Totals	$ 520,139	$ 49,074	$ 999,488	1,568,701
Investments - not categorized				
Guaranteed investment contracts and other				864,762
Investments held by broker-dealers under securities loans				
US Treasury & agency obligations				1,927,889
Securities lending S-T cash collateral investment pool				1,951,864
Mutual funds				1,015,300
Total primary government				$ 7,328,516

The categories of investments for the Major Discretely Presented Component Units including colleges and universities at June 30, 2002 are as follows:

Major Discretely Presented Component Units

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 3,578	$ 343,217	$ -	$ 346,795
Corporate debt/equity securities				
Not on securities loan	9,724,974	3,047	746,803	10,474,824
On securities loan	2,011	126,354	17,259	145,624
Foreign bonds				
Not on securities loan	111,877	-	-	111,877
On securities loan	-	-	405	405
Foreign equity securities				
Not on securities loan	963,154	-	-	963,154
Repurchase agreements				
Not on securities loan	-	205,713	168,774	374,487
On securities loan	427,180	-	-	427,180
US Treasury & agency obligations				
Not on securities loan	1,568,581	84,389	24,998	1,677,968
On securities loan	212,641	117,966	145,518	476,125
Mortgage securities				
Not on securities loan	1,303,743	2,031	-	1,305,774
Totals	$ 14,317,739	$ 882,717	$ 1,103,757	16,304,213
Investments - not categorized				
Guaranteed investment contracts and other				640,084
Investments held by broker-dealers under securities loans				
Equity securities				319,703
Corporate bonds				119,860
US Treasury & agency obligations				1,224,978
Foreign bonds				7,466
Securities lending S-T cash collateral investment pool				244,909
Securities lending S-T non-cash collateral investment pool				3,013
Mutual funds				4,680
Total				$ 18,868,906

State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees Retirement Fund and the State Teachers Retirement Fund (discretely presented component units), which allow no more than 40% to be lent at one time. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

B. Interfund Transactions

The composition of interfund balances as of June 30, 2002 is as follows:

Interfund Loans

	Loans To Other Funds		Loans From Other Funds	
	Loans To Governmental Funds	Loans To Proprietary Funds	Loans From Governmental Funds	Loans From Proprietary Funds
Governmental Funds				
General Fund	$ 8,043	$ -	$ -	$ 506
Build Indiana Fund	-	24,625	-	-
State Highway Department	3,203	-	-	811
Nonmajor Governmental Funds	435	500	11,681	-
Total Governmental Funds	11,681	25,125	11,681	1,317
Proprietary Funds				
State Lottery Commission	-	-	24,625	-
Nonmajor Enterprise Funds	-	-	-	300
Internal Service Funds	-	1,617	500	-
Total Proprietary Funds	-	1,617	25,125	300
Total Interfund Loans	**$ 11,681**	**$ 26,742**	**$ 36,806**	**$ 1,617**

Interfund Services Provided/Used

	Interfund Services Provided		Interfund Services Used	
	Services Provided To Governmental Funds	Services Provided To Proprietary Funds	Services Used By Governmental Funds	Services Used By Proprietary Funds
Governmental Funds				
General Fund	$ -	$ -	$ 2,661	$ -
Motor Vehicle Highway Fund	-	188	2,067	-
State Highway Department	-	-	181	-
Nonmajor Governmental Funds	-	-	1,931	-
Total Governmental Funds	-	188	6,840	-
Proprietary Funds				
Internal Service Funds	6,840	-	-	188
Total Proprietary Funds	6,840	-	-	188
Total Interfund Services Provided/Used	**$ 6,840**	**$ 188**	**$ 6,840**	**$ 188**

The composition of interfund balances as of June 30, 2002 is as follows: (continued)

Component Units

	Due From Primary Government	Due To Component Units
Governmental Funds		
General Fund	$ -	$ 94,931
Total Governmental Funds	-	94,931
Proprietary Funds		
State Revolving Fund	-	1,026,925
State Lottery Commission	-	15,000
Total Proprietary Funds	-	1,041,925
Component Units		
Indiana University	37,656	-
Purdue University	26,613	-
Nonmajor Universities	30,662	-
Public Employees' Retirement System	7,500	-
State Teachers' Retirement Fund	7,500	-
Indiana Bond Bank	1,026,925	-
Total Component Units	1,136,856	-
Total Due From/To	**$ 1,136,856**	**$ 1,136,856**

Within Component Units

	Due From Component Units	Due To Component Units
Discretely Presented Component Units Pension Trust:		
Pension Trust		
Public Employees' Retirement Fund	$ 6,461	$ 4,217
State Teachers' Retirement Fund	4,217	6,461
Total Discretely Presented Component Units Pension Trust	10,678	10,678
Total Due From / To	**$ 10,678**	**$ 10,678**

A summary of interfund operating transfers for the year ended June 30, 2002 is as follows:

	Operating transfers in	Operating transfers (out)	**Net transfers**
Governmental Funds			
General Fund	$ 3,312,190	$ (3,852,255)	**$ (540,065)**
Motor Vehicle Highway Fund	244,103	(411,468)	**(167,365)**
Medicaid Assistance	1,893,694	(499,449)	**1,394,245**
Build Indiana Fund	437,266	(719,182)	**(281,916)**
State Highway Department	547,349	(34,494)	**512,855**
Property Tax Replacement Fund	1,044,662	(1,351,203)	**(306,541)**
Tobacco Settlement Fund	24,072	(97,491)	**(73,419)**
Nonmajor Governmental Fund	2,720,746	(3,163,142)	**(442,396)**
Proprietary Funds			
Unemployment Compensation Fund	2,137	-	**2,137**
State Lottery Commission	-	(109,352)	**(109,352)**
Internal Service Funds	16,690	(26,292)	**(9,602)**
Fiduciary Funds			
Private-purpose Trust Funds	52,461	(31,042)	**21,419**
	$ 10,295,370	$ (10,295,370)	**$ -**

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities			**Business-type Activites**	
	General Fund	**Special Revenue Funds**	**Capital Projects Funds**	**Enterprise Funds**	**Total Primary Government**
Income taxes	$ 739,397	$ -	$ -	$ -	**$ 739,397**
Sales taxes	284,829	199,970	-	-	**484,799**
Fuel taxes	-	92,489	-	-	**92,489**
Gaming taxes	-	1,302	-	-	**1,302**
Unemployment - employers' contributions	-	-	-	16,705	**16,705**
Inheritance taxes	49,131	-	-	-	**49,131**
Alcohol and tobacco taxes	11,252	7,035	1,366	-	**19,653**
Insurance taxes	3,289	-	-	-	**3,289**
Financial institutions taxes	-	59,034	-	-	**59,034**
Other taxes	251	188,905	-	-	**189,156**
Total taxes receivable	1,088,149	548,735	1,366	16,705	**1,654,955**
Less allowance for uncollectible accounts	(145,710)	(95,380)	(48)	-	**(241,138)**
Net taxes receivable	**$ 942,439**	**$ 453,355**	**$ 1,318**	**$ 16,705**	**$ 1,413,817**
Tax refunds payable	**$ 39,490**	**$ 1,451**	**$ -**	**$ -**	**$ 40,941**

D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2002, was as follows:

Primary Government – Governmental Activities

Governmental Activities:	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated:				
Land	$ 1,010,917	$ 51,348	$ (3,481)	$ 1,058,784
Infrastructure	7,362,294	114,856	(18,243)	7,458,907
Construction in progress	456,025	76,804	(340,118)	192,711
Total capital assets, not being depreciated	8,829,236	243,008	(361,842)	8,710,402
Capital assets, being depreciated:				
Buildings and improvements	1,748,132	291,848	(9,581)	2,030,399
Furniture, machinery, and equipment	282,688	12,055	(32,465)	262,278
Infrastructure	14,235	-	-	14,235
Total capital assets, being depreciated	2,045,055	303,903	(42,046)	2,306,912
Less accumulated depreciation for:				
Buildings and improvements	(636,867)	(43,118)	6,510	(673,475)
Furniture, machinery, and equipment	(160,726)	(20,891)	30,233	(151,384)
Infrastructure	(10,909)	(548)	-	(11,457)
Total accumulated depreciation	(808,502)	(64,557)	36,743	(836,316)
Total capital assets being depreciated, net	1,236,553	239,346	(5,303)	1,470,596
Governmental activities capital assets, net	$ 10,065,789	$ 482,354	$ (367,145)	$ 10,180,998

Primary Government – Business-Type Activities

Business-Type Activities:	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated:				
Land	$ 30,713	$ -	$ -	$ 30,713
Infrastructure	180,331	-	-	180,331
Construction in progress	-	531	-	531
Total capital assets, not being depreciated	211,044	531	-	211,575
Capital assets, being depreciated:				
Buildings and improvements	74,047	74	-	74,121
Furniture, machinery, and equipment	46,565	1,472	(4,461)	43,576
Infrastructure	-	-	-	-
Total capital assets, being depreciated	120,612	1,546	(4,461)	117,697
Less accumulated depreciation for:				
Buildings and improvements	(44,546)	(1,673)	-	(46,219)
Furniture, machinery, and equipment	(35,225)	(2,993)	4,249	(33,969)
Infrastructure	-	-	-	-
Total accumulated depreciation	(79,771)	(4,666)	4,249	(80,188)
Total capital assets being depreciated, net	40,841	(3,120)	(212)	37,509
Business-type activities capital assets, net	$ 251,885	$ (2,589)	$ (212)	$ 249,084

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	$	21,748
Public safety		15,242
Health		3,008
Welfare		5,497
Conservation, culture and development		8,005
Education		117
Transportation		11,081
Other		130
Total deprecation expense - governmental activities	$	64,828
Business-type activities:		
Toll Roads		3,350
State Revolving Fund		755
State Lottery Commission		861
Other Enterprise Funds		453
Total deprecation expense - business-type activities	$	5,419

Major Discretely Presented Component Units - Governmental and Proprietary

Major Governmental and Proprietary	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, being depreciated:				
Buildings and improvements	$ 57	$ -	$ -	$ 57
Furniture, machinery, and equipment	1,475	72	(4)	1,543
Total capital assets, being depreciated	1,532	72	(4)	1,600
Less accumulated depreciation for:				
Buildings and improvements	(41)	(9)	-	(50)
Furniture, machinery, and equipment	(1,059)	(211)	2	(1,268)
Total accumulated depreciation	(1,100)	(220)	2	(1,318)
Total capital assets being depreciated, net	432	(148)	(2)	282
Capital assets, net	$ 432	$ (148)	$ (2)	$ 282

Major Discretely Presented Component Units - Colleges and Universities

Major Colleges and Universities	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated:				
Land	$ 63,049	$ 83	$ -	$ 63,132
Art & museum objects	52,860	275	-	53,135
Construction in progress	64,239	136,609	(27,123)	173,725
Total capital assets, not being depreciated	180,148	136,967	(27,123)	289,992
Capital assets, being depreciated:				
Land improvements	51,889	3,922	-	55,811
Buildings and improvements	2,845,299	119,966	(5,288)	2,959,977
Furniture, machinery, and equipment	955,268	117,180	(48,264)	1,024,184
Infrastructure	140,173	7,931	-	148,104
Total capital assets, being depreciated	3,992,629	248,999	(53,552)	4,188,076
Less accumulated depreciation for:				
Buildings and improvements	(1,182,216)	(85,777)	4,077	(1,263,916)
Furniture, machinery, and equipment	(542,717)	(89,105)	34,365	(597,457)
Infrastructure	(91,806)	(5,369)	-	(97,175)
Total accumulated depreciation	(1,816,739)	(180,251)	38,442	(1,958,548)
Total capital assets being depreciated, net	2,175,890	68,748	(15,110)	2,229,528
Total capital assets, net	$ 2,356,038	$ 205,715	$ (42,233)	$ 2,519,520

E. Leases

Investment in Direct Financing Lease

The Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds and the ITFA Aviation Technology Center Lease Bonds have investments in direct financing leases with the Indianapolis Airport Authority.

The future minimum lease receipts together with the amounts representing principal and interest are as follows:

	Governmental Activities		
Year Ending, June 30	Principal	Interest	Total
2003	$ 8,090	$ 12,038	$ 20,128
2004	9,230	11,531	20,761
2005	10,445	10,949	21,394
2006	11,485	10,288	21,773
2007	12,165	9,587	21,752
2008-2012	71,720	36,627	108,347
2013-2017	93,730	14,021	107,751
2018-2022	3,380	102	3,482
Total	$ 220,245	$ 105,143	$ 325,388

Operating Leases

The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of $20,000 or more were $37.1 million for the year ended June 30, 2002. A table of future minimum lease payments (excluding executory costs) is presented below.

Capital Leases Liabilities
The State has entered into various lease agreements with aggregate payments of $20,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the government wide statements.

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2002 and the assets acquired through capital lease during the fiscal year are as follows:

Future minimum lease payments

Year ending June 30,	**Operating leases**	**Capital leases Governmental Activities**
2003	$ 40,951	$ 4,069
2004	34,560	3,639
2005	28,185	3,131
2006	21,768	2,717
2007	19,111	1,950
2008-2012	59,793	8,775
2013-2017	13,097	-
2018-2022	5,388	-
2023-2027	750	-
2028-2032	550	-
Total minimum lease payments (excluding executory costs)	**$ 224,153**	**24,281**
Less:		
Amount representing interest		(4,991)
Present value of future minimum lease payments		**$ 19,290**

Assets acquired through capital lease

Machinery and equipment	$ 7,251
less accumulated depreciation	(2,633)
	$ 4,618

Discretely Presented Component Units
The Indiana Development Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $0.4 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling $158.9 million, of which $61.7 million represents interest.

On November 1, 2001, Purdue University entered into a capital lease arrangement with Ross-Ade Foundation, an affiliated organization, by issuing certificates of participation. The certificates included a taxable issue of $10.0 million and a tax-exempt issue of $60.0 million, both of which will fund the renovation of Ross-Ade Stadium.

Indiana University's liability for capital leases is $6.1 million, of which $0.3 million represents interest.

Indiana University has future obligations under operating leases of $56.2 million.

F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2002 were as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Compensated absences	$ 121,559	$ 67,145	$ (67,368)	$ 121,336	$ 69,320	$ 52,016
Construction retention	6,198	1,906	(3,226)	4,878	-	4,878
Net pension obligation	578	98	-	676	-	676
Revenue bonds/notes payable	1,782,184	273,041	(234,116)	1,821,109	55,983	1,765,126
Amount due federal government	227	-	(74)	153	-	153
Capital leases	6,905	14,738	(2,353)	19,290	59	19,231
	$ 1,917,651	$ 356,928	$ (307,137)	$ 1,967,442	$ 125,362	$ 1,842,080
Business-type activities:						
Compensated absences	$ 266	$ 149	$ (146)	$ 269	$ 138	$ 131
Claims liability	11,329	3,814	(1,679)	13,464	1,789	11,675
Accrued Prize Liability	79,480	19,917	(4,413)	94,984	43,817	51,167
Due to component unit	648,204	420,550	(26,829)	1,041,925	33,130	1,008,795
Revenue bonds/notes payable	234,585	862	(7,428)	228,019	11,901	216,118
	$ 973,864	$ 445,292	$ (40,495)	$ 1,378,661	$ 90,775	$ 1,287,886

Changes in long-term obligations for the major discretely presented component units for the year ended June 30, 2002 are as follows:

Changes in Long-Term Obligations	Balance, Jan 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Compensated absences	$ 33,954	$ 32,609	$ (32,499)	$ 34,064	$ 19,921	$ 14,143
Revenue bonds/notes payable	3,179,373	1,400,167	(714,301)	3,865,239	602,732	3,262,507
Capital leases	34,827	73,411	(5,191)	103,047	10,646	92,401
Other	107,973	117,793	(120,389)	105,377	28,374	77,003
	$ 3,356,127	$ 1,623,980	$ (872,380)	$ 4,107,727	$ 661,673	$ 3,446,054

Governmental Activities

Long-term debt of the governmental activities consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Other long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Section IV(E), net pension obligations for the Prosecuting Attorney's Retirement Fund as presented in Section V(J), construction retention, and compensated absence obligations.

Long-term debt of the business-type activities consists of claims liability of the Indiana Residual Malpractice Insurance Authority. It also includes compensated absences, revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, the Indiana Transportation Finance Authority Toll Roads, and the State Revolving Fund. The State Revolving Fund has debt due to a discretely presented component unit, the Indiana Bond Bank. Long-term debt also includes prize liability accrued by the Indiana State Lottery Commission. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term debt of the significant discretely presented component units consists of bonds issued or backed by the Indiana Housing Finance Authority, the Indiana Bond Bank, Indiana University, and Purdue University. It also includes capital leases of Indiana University and Purdue University. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds – In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On November 15, 2000, ITFA issued Highway Revenue Bonds, Series 2000 in the par amount of $269.5 million, which included $21.9 million of refunding debt and $247.6 million of new money debt. New refunding debt service requirements required a $2.7 million increase in cash funds needed over the prior debt service requirements. The economic gain, or present value savings, on the refunding was $556,875. The primary purpose of the refunding bond issue was to level out the debt service requirements over time to increase the volume capacity for future bond issuances, as well as present value savings.

The $247.6 million new money debt is being used for the payment of construction costs for the Series 2000 projects. The refunding debt was used to refund in advance of their stated maturity dates the Series 1990A and 1993A bonds maturing from June 1, 2006 to June 1, 2011. A portion of the proceeds, $22.7 million was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, Bank One Trust Company, N.A., and were used to purchase direct obligations of the United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest for the Series 1990A Bonds and the Series 1993A Bonds. As of June 30, 2002, the amount of defeased debt still outstanding, but removed from the government-wide statement of net assets was $9.7 million for Series 1990A and $9.2 million for Series 1993A.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds – In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of $201.3 million. Additionally, Series 1995A parity bonds in the amount of $29.7 million were issued May 15, 1995. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, ITFA issued Airport Facilities Lease Revenue Refunding Bonds, Series 1996A, in the amount of $137.8 million with interest rates from 4.5% to 6%. The refunding debt was used to refund in advance of their stated maturity dates the Series 1992A bonds maturing on November 1, 2006 through November 1, 2014. A portion of the proceeds, $136.9 million, was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, Bank One, N.A., and was used to purchase direct obligations of United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest on the remaining bonds. As of June 30, 2002, the amount of defeased debt on Series 1992A still outstanding in a separate escrow account was $127.0 million.

Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds - On February 27, 2002, ITFA issued Aviation Technology Center Lease Revenue Refunding Bonds, Series 2002 with a principal amount of $10.1 million. The refunding debt was used to refund in advance of their stated maturity dates all outstanding Series 1992A bonds. A portion of the proceeds totaling $9.9 million, as well as funds available from the Series 1992A bonds totaling $660,717, was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, Fifth Third Bank, Indiana, and was used to purchase direct obligations of United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest on the remaining bonds.

The difference in cash flows required between the prior debt service requirements and new refunding debt service requirements resulted in cash flow savings of $780,582. The economic gain, or present value savings, was $660,851.

As of June 30, 2002, the amount of defeased debt on Series 1992A still outstanding in a separate escrow account was $9.7 million.

Indiana State Office Building Commission - The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana State Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

On September 8, 1993, the Commission issued $178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. On January 1, 1998, Facilities Revenue Refinance Bonds Series 1998A in the amount of $93 million with interest rates from 3.9% to 5.125% were issued to fully refund in advance of their stated maturity dates the 1991 Series Bonds. The net proceeds were used to purchase U.S Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service for the refunded bonds. At June 30, 2002, the Commission had a total of $246.1 million defeased bonds outstanding.

On August 1, 2001, the Commission issued Series 2001A serial bonds in the amount of $66.6 million at par. These bonds bear interest at a variable rate as determined by the remarketing agent, not to exceed 6% per annum, with annual maturities of principal beginning July 4, 2003 and ending July 4, 2002.

On June 4, 2002, the Commission issued Series 2002A serial bonds at a par amount of $128.1 million with a premium of $4.4 million. These bonds bear interest at a rate between 2.3% and 5.5% per annum, with annual maturities of principal beginning July 1, 2002 and ending July 1, 2022.

On March 25, 2002, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998, which provides up to $250 million of tax exempt commercial paper through September 30, 2002, to be reduced to $200 million beginning October 1, 2002, to provide interim financing for the acquisition and construction of the various facilities. Borrowings outstanding under this facility at June 30, 2002 were $100.4 million, with interest computed at the LIBOR rate plus .25% or 70% of the Bank's prime lending rate. During FY 2002, $59.0 million was borrowed against this credit agreement. The interest rate in effect was 1.55% at June 30, 2002. The credit facility expires on February 1, 2004. Upon completion of construction on the various facilities, the Commission plans to issue bonds to fund the outstanding balance on the Hoosier Notes.

Recreational Development Commission - The Recreational Development Commission was created in 1973 pursuant to I.C. 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of five members. The Treasurer of State and the Director of the Department of Natural Resources (DNR) are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued $6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

Business-type Activities*:*

Indiana Transportation Finance Authority – East-West Toll Roads – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the state. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued $256.9 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 for the refunding of the outstanding portion of the Indiana Toll Commission East-West Toll Road Revenue Bonds, 1980 Series. At June 30, 2002, the principal amount of the Series 1980 bonds, which have been defeased in substance, was $108.0 million.

The following is a summary of long term-debt including revenue bonds outstanding at June 30, 2002.

Summary of Long-Term Debt including current portion (in thousands)	Interest Rates Range	Maturity Range	Annual Payment Range	Amount
Governmental Activities				
Recreational Development Commission	3.60% - 6.125%	2003 - 2019	$1,945 - 2,509	$ 23,387
ITFA Highway Revenue Bonds	4.25% - 7.25%	2003 - 2026	$1,465 - 16,750	699,182
ITFA Airport Facilities Bonds	4.50% - 6.50%	2003 - 2017	$795 - 7,265	210,185
ITFA Aviation Technology Center Bonds	2.45% - 5.00%	2004 - 2017	$265 - 920	10,095
Indiana State Office Building Commission	2.30% - 7.50%	2003 - 2022	$317 - 14,417	883,327
				$ 1,826,176
Business-type Activities:				
State Lottery Commission	1.95% - 6.00%	2003 - 2026	$40 - 827	$ 94,984
East-West Toll Road	3.90% - 9.50%	2003 - 2015	$2,735 - 26,200	227,797
State Revolving Fund	3.50% - 7.00%	2003 - 2023	$22,622 - 96,874	1,026,925
Inns and Concessions	5.60%	2003 - 2004	$140	222
				$ 1,349,928

State Lottery Commission Accrued Prize Liability – Accrued prize liability includes an estimate of unclaimed scratch-off and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2002, as well as installment amounts payable to past scratch-off, on-line and game show winners. Installment prizes payable are recorded at a discount based on interest rates that range from approximately 1.95% to 6% and reflect interest earned by investments held to fund related liabilities. At June 30, 2002, the accrued prize liability was $95.0 million including $43.8 million in current prize liability and $51.2 million in long-term prize liability.

Revenue bond debt service and accrued prize liability requirements to maturity including interest are as follows:

Year Ending, June 30	Governmental Activities Principal	Interest	Total
2003	$ 55,983	$ 90,138	$ 146,121
2004	162,640	90,514	253,154
2005	65,452	86,999	152,451
2006	69,597	83,304	152,901
2007	75,100	79,175	154,275
2008-2012	431,166	330,387	761,553
2013-2017	507,504	195,531	703,035
2018-2022	329,827	89,089	418,916
2023-2027	173,510	18,296	191,806
Premium/(discount)	(49,669)	-	(49,669)
Total	$ 1,821,110	$ 1,063,433	$ 2,884,543

Year Ending, June 30	Business-type Activities Principal	Interest	Total
2003	$ 73,848	$ 71,347	$ 145,195
2004	37,464	65,554	103,018
2005	41,081	64,089	105,170
2006	46,045	62,344	108,389
2007	49,305	60,295	109,600
2008-2012	309,700	263,329	573,029
2013-2017	398,420	169,322	567,742
2018-2022	310,276	70,257	380,533
2023-2027	81,985	6,268	88,253
Premium/(discount)	1,802	-	1,802
Total	$ 1,349,926	$ 832,805	$ 2,182,731

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Housing Finance Authority -- In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of $1,642 million with interest rates ranging from 1.90% to 9.375%. The total outstanding debt associated with these bond issues as of December 31, 2001 was $984 million.

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A. This loan was paid in full during 2001 and no other bank debt existed at December 31, 2001.

During 2001, the Single Family Mortgage Program Fund issued 2001 Bond Series with a face value of $160.7 million and interest rates varying from 1.90% to 6.15%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner-occupied housing.

Indiana Bond Bank – The Bond Bank is an instrumentality of the State of Indiana but is not a state agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of the Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor. The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2002 was $2,007 million with interest rates ranging from 2.0% to 7.125%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to $20.7 million.

In January 2000, the Bond Bank issued its Special Program Series 2000A Refunding Bonds in the amount of $32.9 million. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1985B, 1986B, 1986C, 1986E, 1987A, 1989C, 1990A, 1990B, and Special Loan Program Bonds Series 1988A, 1988B, 1988C, and 1989A in entirety. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying amount of the defeased debt resulted in a deferred cost on defeasance of $1.2 million, which is being amortized over the life of the Special Program Series 2000A Refunding Bonds. However, the issuance of the Special Program Series 2000A Refunding Bonds will reduce the Bond Bank's aggregate debt service payments by $17.7 million over the 20-year period extending through February 2020, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.9 million.

Special Program Bonds Series 1985A, 1989A, 1991B 1992A, and 1992B are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately $53.4 million at June 30, 2002.

In July 2001, the Bond Bank issued its Special Program Bond Series 2001A with a face amount of $7.1 million at interest rates ranging from 4.5% to 5.125%.

In July 2001, the Bond Bank issued its Advance Funding Program Notes Series 2001B with a face amount of $5.0 million.

In August 2001, the Bond Bank issued its Common School Fund Bonds in the amount of $55.5 million at an interest rates ranging from 4.75% to 5%.

In October 2001, the Bond Bank issued its Special Program Series 2001C Refunding Bonds in the amount of $1.1 million at an interest rate of 3.95%.

In November 2001, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2001A in the amount of $400 million at interest rates ranging from 3.5% to 5.5%. A portion of the proceeds from this issue were used to refund and redeem the $12.5 million of outstanding principal for the Taxable State Revolving Fund Program Bonds, Subordinate Series 1, dated September 30, 1999 and Subordinate Series 2, dated December 15, 2000. The remaining $387.5 million in proceeds from the Series 2001A bonds were used to provide financing for the current needs of the State Revolving Fund.

In January 2002, the Bond Bank issued Advanced Funding Interim Notes with a face amount of $109.9 million. This money goes out to all participants who want to receive their funds ahead of the Advance Funding Program Notes, which are issued in February. These Advanced Funding Interim Notes are repaid when the Advance Funding Program Notes are issued.

In February 2002, the Bond Bank issued Advance Funding Program Notes Series 2002A with a face amount of $470.1 million and an interest rate of 2.25%.

In April 2002, the Bond Bank issued Special Program Bond Series 2002B with a face amount of $5.8 million with interest rates based on the lowest available rate in the interest period (weekly, monthly, quarterly, annually, or fixed) as selected by the qualified entity, not to exceed 10%. The interest rate was 1.35% at June 30, 2002.

In May 2002, the Bond Bank issued Special Program Bond Series 2002A with a face amount of $42.9 million at interest rates ranging from 2.5% to 5.125%.

In May 2002, the Bond Bank issued Special Program Bond Series 2002C with a face amount of $3.9 million at interest rates ranging from 2.0% to 5.0%.

In May 2002, the Bond Bank issued School Severance Program Bonds Series 1 with a face amount of $57.3 million at interest rates ranging from 2.83% to 6.30%.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital, academic facilities and utility systems.

Indiana University

The outstanding long-term bonded indebtedness at June 30, 2002 was $514.9 million with interest rates ranging from 1.28% to 7.25%.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2002 was $23.1 million.

Purdue University

The outstanding long-term bonded indebtedness at June 30, 2002 was $326.2 million at 2.2% to 6.0% for Purdue University.

On January 1, 2002, Series R bonds were issued in the amount of $43.1 million. This series includes funding for the renovation of the Recreational Sports Center, a chiller to provide additional cooling capacity to the campus, and refunding of Series F and Series G bonds. As of June 30, 2002, the balance outstanding on these bonds was $43.1 million. The interest rates were 3.0% to 5.38%.

On January 1, 2002, Series E, Series H, Series K, Series L, and Series O bonds were changed from the variable-rate mode to the fixed-rate mode. The principal payment schedule remained unchanged.

In prior years, Purdue University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2002 was $124.1 million

G. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2002, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These restatements are reflected in the beginning net assets in the government-wide statement of activities.

Changes in Accounting Principle:

Capitalization of Capital Assets

The $942.1 million increase in net assets for governmental activities is due to the capitalization of fixed assets (net of depreciation) with the implementation of GASB Statement No. 34.

Capitalization of Infrastructure Assets

The $8,361.3 million increase in net assets for governmental activities is due to the capitalization of the Indiana Department of Transportation (INDOT) infrastructure assets with the implementation of GASB Statement No. 34.

Addition of Debt to Statement of Net Assets

The $699.2 million increase in net assets for governmental activities is due to the addition of revenue bonds issued by the Indiana Transportation Finance Authority to the Statement of Net Assets with the implementation of GASB Statement No. 34.

Conversion To Accrual from Modified Accrual

For governmental activities, the $522.5 million increase in net assets includes a $533.6 million increase to restate beginning net assets as if the accrual basis of accounting had been used.

Business-type activities saw an increase in net assets of $13.9 million due to the conversion of the State Revolving Fund from the modified accrual basis of accounting to the accrual basis of accounting.

Conversion To Modified Accrual from Accrual

For governmental activities, there was a $12.8 million decrease in net assets for the conversion of the Common School Fund to the modified accrual basis of accounting from the accrual basis of accounting.

Change in Capitalization Threshold

For governmental activities, there is a $6.9 million decrease in net assets because the capitalization threshold for capital assets was increased from $5,000 to $20,000.

Other

For governmental activities, there is a $20.3 million increase in net assets due to the removal of contributed capital, including $10.0 million for the State Office Building Commission, $8.9 million for Institutional Industries, and $1.5 million for Administrative Services. A $6.8 million decrease in net assets resulted from capital leases payable.

For business-type activities, there is a $9.4 million increase in net assets due to the removal of contributed capital related to Inns and Concessions.

Other Changes:

Prior Period Adjustment

Of the $52.1 million prior period adjustment for discretely presented component units, $49.5 million is due to a restatement of Net Investment in Plant to include Construction in Progress for Ball State University.

Reclassification of funds

Except where noted, the following reclassifications result in a decrease in net assets for the activities from which the funds are reclassified and an increase in net assets for the funds to which funds are reclassified.

$1,517.1 million was reclassified from fiduciary funds to business-type activities for Unemployment Compensation.

$523.8 million was reclassified from governmental activities to discretely presented component units for the Pension Relief Fund.

$487.3 million was reclassified from fiduciary funds to governmental activities for the Permanent Funds.

$460.4 million was reclassified from governmental activities to business-type activities for the State Revolving Fund.

$26.0 million was reclassified from agency funds to private-purpose trust funds. This resulted in an increase in net assets for fiduciary funds.

$14.7 million was reclassified from fiduciary funds to governmental activities for the Student Loan Program.

$4.9 million was reclassified from governmental activities to discretely presented component units for the Public Employees' Retirement Fund State Employee Death Benefit. This resulted in a decrease of net assets for governmental activities.

$3.1 million was reclassified from fiduciary funds to governmental activities for the Welfare Trust Clearance Fund.

The following schedule reconciles June 30, 2001 net assets as previously reported, to beginning net assets, as restated, to include the adoption of new pronouncements:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	All Discretely Presented Component Units
June 30, 2001, fund balance/retained earnings/net assets as reported	$ 4,463,082	$ 216,287	$ 2,816,948	$ 20,705,193
Prior period adjustments:				
Changes in accounting principle:				
Capitalization of fixed assets, net	942,055	-	-	-
Capitalization of infrastructure assets, net	8,361,315	-	-	-
Revenue bonds	(699,182)	-	-	-
Net pension obligation	(578)	-	-	-
Capital lease payable	(6,764)	-	-	-
Removal of contributed capital	20,349	9,353	-	-
Converting to $20,000 capitalization threshold	(6,918)	(125)	-	(45)
Change in acccrual method	522,545	13,902	(127)	(4,341)
Correction of errors	(2,553)	-	30	52,147
Reclassifications of funds	(486,951)	1,977,523	(1,996,211)	520,951
Balance July 1, 2001 as restated	$ 13,106,400	$ 2,216,940	$ 820,640	$ 21,273,905

V. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase immaterial amounts of commercial insurance. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the state employees' disability, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in four individual Internal Service Funds. The state employees' disability program is financed partially by state employees through payroll withholdings and by the funds from which employees are paid. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability of the State Police benefit fund was based on an estimate of the minimum liability of death and disability payments. The surplus retained earnings in these funds are reserved for future catastrophic losses.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	State Police Benefit Fund	Total
2002					
Unpaid Claims, July 1 As Restated	$ 1,600	$ 9,000	$ 7,119	$ 17,637	**$ 35,356**
Incurred Claims and Changes in Estimate	16,476	68,425	23,815	2,349	**111,065**
Claims Paid	(16,176)	(67,675)	(25,842)	(1,798)	**(111,491)**
Unpaid Claims, June 30	**$ 1,900**	**$ 9,750**	**$ 5,092**	**$ 18,188**	**$ 34,930**
2001					
Unpaid Claims, July 1	$ 2,013	$ 8,010	$ 7,142	$ 1,275	**$ 18,440**
Incurred Claims and Changes in Estimate	12,946	56,597	21,062	17,780	**108,385**
Claims Paid	(13,359)	(55,607)	(21,085)	(1,418)	**(91,469)**
Unpaid Claims, June 30	**$ 1,600**	**$ 9,000**	**$ 7,119**	**$ 17,637**	**$ 35,356**

The trustees of Indiana University and Purdue University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2002 was $35.0 million.

B. Investment in Joint Venture

The Indiana Transportation Finance Authority (ITFA) is a participant in a governmental joint venture with United Airlines. This participation is an investment, pursuant to an Agreement Among Tenants of Leasehold Estate in Airport Development Project (joint venture), dated as of December 1, 1991 and amended as of May 15, 1995 to obtain an individual ownership interest in the Site and facilities to be acquired and constructed by United Airlines, as outlined in the Site and Facilities Lease Agreement, dated as of December 1, 1991 and amended as of May 15, 1995.

The ITFA deposited $159 million of the bond proceeds of the Series 1992A bonds into the project account of the construction fund to provide for a portion of the costs of constructing and equipping Phase I of the United Airlines Indianapolis Maintenance Center. Additional proceeds of $32.8 million, which consisted of capitalized and accrued interest, were deposited in the interest account of the construction fund. The ITFA deposited $25.5 million of the bond proceeds of the Series 1995A bonds into the construction fund to provide for a portion of the costs of constructing and equipping Phase IA of the United Airlines Indianapolis Maintenance Center. Additional proceeds of $3.0 million and $0.2 million respectively were deposited into construction interest and expense accounts to pay interest expense during construction and to cover costs of issuance. Additionally, $0.5 million of cash on hand in the General Fund for the Series 1992A Bonds was used for additional Phase IA construction.

The construction fund transactions related to the investment in Joint Venture are not reported as part of the financial reporting relating to ITFA's Airport Facilities Lease Revenue bonds. The construction fund is used to account for the acquisition and construction of a portion of the United Airlines Facility.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note I(A).

C. Segment Information -- Enterprise Funds

The State of Indiana has four major enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Revolving Fund uses proceeds from bonds to assist qualified local governments in obtaining below market financing for water pollution control projects. The Unemployment Compensation Fund collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 2002.

	Toll Roads		State Revolving Fund		Unemployment Compensation Fund		State Lottery Commission		Other Enterprise Funds		Total
Type of goods or services provided		Collects tolls used to make payments on revenue bonds to finance construction of toll roads in Northern Indiana		Uses proceeds of bonds issued by Indiana Bond Bank to assist qualified entities in obtaining below market financing for water pollution control projects		Collects employer taxes and federal share of unemployment compensation and pays benefits to eligible individuals		Collects lottery revenues that are distributed to Pension Relief Fund, Teachers' Retirement Fund, and Build Indiana Fund			
Condensed Statement of Net Assets											
Assets											
Current assets	$	101,852	$	180,914	$	1,302,056	$	86,605	$	27,392	$	1,698,819
Property, plant and equipment net of accumulated depreciation		238,487		-		-		1,421		9,176		249,084
Other assets		112,309		1,449,437		-		62,013		-		1,623,759
Total assets		**452,648**		**1,630,351**		**1,302,056**		**150,039**		**36,568**		**3,571,662**
Liabilities												
Current liabilities		24,694		46,013		13,689		69,247		7,961		161,604
Interfund loans		-		-		-		24,625		300		24,925
Long-term liabilities		216,027		1,010,561		-		51,167		11,897		1,289,652
Total liabilities		**240,721**		**1,056,574**		**13,689**		**145,039**		**20,158**		**1,476,181**
Net Assets												
Invested in capital assets, net of related debt		10,690		-		-		-		9,085		19,775
Restricted		192,166		573,777		1,288,367		-		-		2,054,310
Unrestricted		9,071		-		-		5,000		7,325		21,396
Total net assets	**$**	**211,927**	**$**	**573,777**	**$**	**1,288,367**	**$**	**5,000**	**$**	**16,410**	**$**	**2,095,481**
Condensed Statement of Revenues, Expenses, and Changes in Net Assets												
Operating revenues												
Sales/rents/premiums	$	5,947	$	-	$	-	$	626,310	$	20,356	$	652,613
Taxes		-		-		230,178		-		-		230,178
Grants		-		92,327		257,344		-		590		350,261
Other operating revenues		83,375		57,490		-		-		867		141,732
Total operating revenue		89,322		149,817		487,522		626,310		21,813		1,374,784
Depreciation expense		3,350		755		-		861		453		5,419
Other operating expenses		64,913		49,595		804,882		460,415		23,185		1,402,990
Net operating income		21,059		99,467		(317,360)		165,034		(1,825)		(33,625)
Non-operating revenue (expense)												
Interest and other investment income		4,789		-		86,478		4,190		1,191		96,648
Interest and other investment expense		(16,797)		-		-		(2,769)		-		(19,566)
Capital contributions		-		-		-		-		-		-
Other non-operating revenue (expense)		(598)		-		-		(57,103)		-		(57,701)
Total non-operating revenue (expense)		(12,606)		-		86,478		(55,682)		1,191		19,381
Transfers		-		-		2,137		(109,352)		-		(107,215)
Change in net assets		8,453		99,467		(228,745)		-		(634)		(121,459)
Total net assets, July 1, as restated		203,474		474,310		1,517,112		5,000		17,044		2,216,940
Total net assets, June 30	**$**	**211,927**	**$**	**573,777**	**$**	**1,288,367**	**$**	**5,000**	**$**	**16,410**	**$**	**2,095,481**
Condensed Statement of Cash Flows												
Net cash provided (used) by:												
Operating activities	$	26,636	$	92,379	$	(304,035)	$	181,376	$	2,372	$	(1,272)
Noncapital financing activities		-		367,627		2,137		(162,509)		-		207,255
Capital and related financing activities		(25,244)		-		-		(391)		(127)		(25,762)
Iinvesting activities		84,838		(402,150)		86,478		(9,054)		46		(239,842)
Net increase (decrease) in cash and cash equivalents		86,230		57,856		(215,420)		9,422		2,291		(59,621)
Cash and cash equivalents, July 1 as restated		84,537		73,919		1,500,771		34,481		8,242		1,701,950
Cash and cash equivalents, June 30	**$**	**170,767**	**$**	**131,775**	**$**	**1,285,351**	**$**	**43,903**	**$**	**10,533**	**$**	**1,642,329**

D. Subsequent Events

During FY 2002, the State experienced actual revenue shortfalls and has reduced its revenue forecast for FY 2003.

The Governor has announced several cost-cutting initiatives, including an incentive program to encourage state employees to retire early and a voluntary furlough program where state employees can take unpaid leave from their jobs to help the State save money.

The budget bill passed during the General Assembly's special session, which was signed into law on July 1, 2002, increased the sales tax from 5% to 6% effective December 1, 2002, increased riverboat gaming, cigarette, and gasoline taxes, and reduced property taxes and corporate income taxes.

Subsequent to June 30, 2002, the Bond Bank has closed the following new bond issues: Special Program Bonds, Series 2002D and 2002E in the amounts of $60 million and $10.1 million, respectively, Advance Funding Program Notes, Series 2002B in the amount of $19.8 million, and Taxable School Severance Bonds, Series 2 in the amount of $32.3 million.

E. Contingencies and Commitments

Litigation

The State does not establish reserves for judgments or other legal or equitable claims. Judgments and other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to $300,000 for injury or death of one person in any one occurrence and $5 million for injury or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a liability of $4 to $5 million for open tort lawsuits. During fiscal year ending June 30, 2002, the State paid $3.3 million for tort settlements and judgments, and claims.

The Indiana Attorney General's office is currently handling the following cases that could result in significant liabilities to the State.

In a lawsuit filed against the State on January 19, 1993, the Marion Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in their medical condition. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of appeals recently affirmed the trial court's decision. The State sought transfer to the Supreme Court. In July 2001, the Supreme Court denied transfer, thus affirming the adverse trial court decision. As of December 2001, the State and the plaintiffs have agreed on Medicaid's manner of compliance with the judgment, and the agreement is awaiting court approval. The fiscal impact is estimated to be $25 million per year.

A gaming corporation operating one of the riverboats has challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions for summary judgment. The potential financial impact of this case is approximately $7.5 million, with additional impact because of the precedent it would have on other gaming operations.

In February 2001, a class action was brought on behalf of plaintiffs seeking injunctive relief to force FSSA to provide Medicaid-eligible children under the age of 21 who are eligible for the Early and Periodic Screening, Diagnostic and Treatment ("EPSDT") program with residential mental health placement. Currently Medicaid will pay for mental health treatment but will not pay for room and board. While plaintiffs are not seeking monetary damages, if they are successful, they would force the State to pay for residential placement for the class. On October 1, 2002, the Court granted summary judgment to plaintiffs on the Medicaid issue, and the appellate period is pending. The fiscal impact is estimated to be $5 million per year.

In 2001 and 2002, four riverboat casinos have filed cases claiming that the purchase of the riverboats are not properly subject to sales/use tax in Indiana. Each of the casinos claim the riverboats should not be taxable because they are entitled to the public transportation exemption and because for property tax purposes they are considered to be real estate, not personal property. The potential financial impact of this case is approximately $7.5 million.

In April 2002, six federal retirees claimed that the Indiana method of taxing federal employees' retirement benefits results in greater taxation than is collected from retirees who collect social security. They contend that this violates federal statutes and the U.S. Constitution and filed a class action complaint. The total exposure exceeds $5 million.

In August 2002, a large accounting firm hired to conduct the reassessment of real property in Lake County filed a breach of contract suit. The firm seeks $12 million. The plaintiff asserts that State approved invoices then failed to abide by contractual provision requiring it to take steps to force Lake County to pay invoices.

The State intends to vigorously defend each of the foregoing suits or other claims.

In addition, the State Lottery Commission (the Commission) is the defendant in a class action suit. During 1997, a suit was filed in Marion County Court seeking class action status on behalf of all persons denied prizes on tickets submitted beyond the final sixty (60) day claim period. Although the trial court granted the Commission's motion to dismiss the case, the Indiana Court of Appeals reversed that decision and ruled that the plaintiff was entitled to a trial on the merits. The Indiana Supreme Court chose not to alter the appellate decision thereby returning the matter to the original court for trial.

In July 2002, the trial court conditionally certified two classes: (1) A class of all persons who, prior to 1997, purchased and presented winning instant tickets for payment after the sixty (60) day claim period and were denied the associated prizes; and (2) A class of all persons who, prior to 1997, purchased winning instant tickets and have never presented the tickets for payment.

Management and its legal counsel intend to vigorously defend the Commission's position and believe the Commission will prevail. However, the Commission cannot predict the final resolution of this matter or whether its resolution could materially affect the Commission's results of operations, cash flows or financial position.

Loss from reimbursement agreement

The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Qualitech Steel Corporation (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (the Bonds). The proceeds of the bonds were used by Qualitech to help construct Qualitech's special bar quality steel mini-mill facility in Pittsboro, Indiana. The company filed for Chapter 11 bankruptcy in 1999 and the senior lenders purchased the assets of Qualitech in a credit bid. The senior lenders operated Qualitech SBQ, LLC until it ceased operations in January 2001. IDFA and the State are working with local officials to encourage potential purchasers.

To induce the bank to issue a letter of credit used as credit enhancement in the marketing of the bonds, the IDFA agreed to certain provisions in the Reimbursement Agreement. These provisions require the IDFA, in the event of certain defaults by Qualitech to either (1) pay bond and related expenses from certain monies legally available to the IDFA, or (2) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement. The Amended Reimbursement Agreement requires that IDFA maintain the debt service reserve fund at the "fully-funded" level, and it stipulates no declaration of default so long as bond and related payments are made.

In the fiscal year ending June 30, 2002, IDFA made bond and related payments of approximately $1.9 million for Qualitech. In the 2001-2003 biennial budget, the Indiana General Assembly appropriated $8.4 million for Qualitech bond and related payments, negating the need to access any IDFA guaranty funds in either FY 2002 or FY 2003.

IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the bonds totaling $27.5 million as of June 30, 2002. Debt service reserve fund aggregating $3.7 million are currently held in trust and may be available to reduce the contingency obligation.

The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Heartland Steel Corporation (Heartland) and a bank relating to the $13.8 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (the Bonds). The proceeds of the bonds were used by Heartland to help construct Heartland's steel mini-mill facility in Vigo County, Indiana. The company filed for Chapter 11 bankruptcy in January 2001 and CSN, a Brazilian steel company, purchased the assets of Heartland

To induce the bank to issue a letter of credit used as credit enhancement in the marketing of the bonds, the IDFA agreed to certain provisions in the Reimbursement Agreement. These provisions require the IDFA, in the event of certain defaults by Heartland to either (1) pay bond and related expenses from certain monies legally available to the IDFA, or (2) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement. The Amended Reimbursement Agreement requires that IDFA maintain the debt service reserve fund at the "fully-funded" level, and it stipulates no declaration of default so long as bond and related payments are made.

In the fiscal year ending June 30, 2002, IDFA made bond and related payments of approximately $0.7 million for Heartland. In the 2001-2003 biennial budget, the Indiana General Assembly appropriated $1.0 million for Heartland bond and related payments. However, bond and related payments for Heartland for the biennium are estimated at $3.5 million and will require the Authority to use guaranty funds if the successor company does not assume the obligation to repay the bonds. IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the bonds totaling $11.9 million as of June 30, 2002. Debt service reserve fund aggregating $2.2 million are currently held in trust and may be available to reduce the contingency obligation.

Federal Grants.
The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

Construction Commitments.
As of June 30, 2002, the Indiana Transportation Finance Authority Highway Bonds, which are included in the financial reporting entity of the State of Indiana as a special revenue fund, had $48.4 million committed for unfinished highway construction projects.

F. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

G. Economic Stabilization Fund
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In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2002 was $257.0 million. Total outstanding loans were $12.2 million, resulting in total assets of $269.2 million.

H. Deferred Compensation

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides $15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

I. Special Item

The Administrative Services Revolving Fund was charging more than its actual cost. The fund was accumulating excess income. As the result of a federal audit, the fund was charged $9.3 million. This charge was repaid during the current year and is also a special item in the statement of activities.

J. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements. They are reported and administered as described in Note I(A).

Summary of Significant Accounting Policies (Primary government and discretely presented component units)
The accrual basis is used for financial statement reporting purposes. Contributions are considered due when the related payroll is issued by the employer and recognized as a receivable at that time. Employers are not required to submit the contributions until the month following the end of the quarter. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds. According to the plans' policies, benefits and refunds are due at time of payment. Therefore no liability has been accrued.

Investments of defined benefit plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The buildings purchased as investments by the Public Employees Retirement Fund (PERF) are reported at cost as there has not been a recent independent appraisal. The buildings are immaterial to PERF's total investments.

The state sponsors the following defined benefit single-employer plans:

State Police Retirement Fund (Presented as a pension fund)

Plan Description The State Police Retirement Fund (SPRF), is a defined benefit, single-employer PERS, and is administered by the Indiana Department of State Police. Indiana Code 10-1-1 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust and to make the annual contributions necessary to prevent any deterioration in the actuarial status of the trust fund. The Department has a publicly available audit report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing the Department of State Police, Room N340, IGC-North, Indianapolis, IN 46204.

Funding Policy The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly base salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The State is required to contribute at an actuarially determined rate; the current rate is 20.0% of covered payroll.

Excise Police and Conservation Enforcement Officers' Retirement Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Plan (ECRP) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcohol and Tobacco Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Plan provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first $8,500 of annual salary to the Plan. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 17.0% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Plan provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing.

Prosecuting Attorneys' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at six percent (6%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Legislators' Retirement System – Legislators' Defined Benefit Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

Judges' Retirement System (Presented as part of PERF – a discretely presented component unit)

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-13-10.1 applies to judges beginning service after August 31, 1985. Indiana Code 33-13-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

The State sponsors the following defined benefit agent multiple-employer plan:

Public Employees' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits.

Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2002, the number of participating political subdivisions was 1,043.

Funding Policy The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 5.24% of covered payroll.

The Annual Pension Cost and Net Pension Obligations, the significant actuarial assumptions, and the historical trend information of the single and agent multiple employer defined benefit plans are as follows:

(amounts expressed in thousands)	Primary Government	----------Discretely Presented Component Unit----------					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	$ 9,205.2	$ 66,559.0	$ 103,693.0	$ 1,717.6	$ 10,756.8	$ 375.1	$ 177.6
Interest on net pension obligation	(133.2)	(2,460.0)	(5,050.5)	(38.7)	(123.7)	41.9	(1.6)
Adjustment to annual required contribution	146.0	2,660.0	5,460.2	39.0	124.7	(44.5)	1.8
Annual pension cost	9,218.0	66,759.0	104,102.7	1,717.9	10,757.8	372.5	177.8
Contributions made	(9,587.1)	(76,219.0)	(127,556.7)	(2,025.7)	(12,278.6)	(275.3)	(170.1)
Increase (decrease) in net pension obligation	(369.1)	(9,460.0)	(23,454.0)	(307.8)	(1,520.8)	97.2	7.7
Net pension obligation, beginning of year	(1,903.1)	(33,937.0)	(69,661.8)	(533.0)	(1,706.0)	578.3	(21.5)
Net pension obligation, end of year	$ (2,272.2)	$ (43,397.0)	$ (93,115.8)	$ (840.8)	$ (3,226.8)	$ 675.5	$ (13.8)
Significant Actuarial Assumptions							
Investment rate of return	7.00%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:							
Total	1.40%	3.50% - 17.00%	3.50% - 17.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	6.00%	2.00%	2.00%	2.00%	N/A	N/A	2.00%
Contribution rates:							
State	20.00%	5.20%	5.00%	17.00%	34.70%	6.60%	*
Plan members	6.00%	3.00%	3.00%	3.00%	6.00%	6.00%	0.00%
Actuarial valuation date	7/1/2002	7/1/2001	7/1/2001	7/1/2001	7/1/2001	7/1/2001	7/1/2001
Actuarial cost method	entry age	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	accrued benefit (unit credit)
Amortization method	level percent	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	40 years	40 years	40 years	30 years	40 years	30 years	30 years
Amortization period (from date)	7/1/1997	7/1/1997	7/1/1997	7/1/1997	7/1/1997	N/A	7/1/1992
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	smoothed basis	75% of expected actuarial value plus 25% of cost value	75% of expected actuarial value plus 25% of market value	smoothed market value	smoothed market value	smoothed market value	smoothed market value
Historical Trend Information							
Year ended June 30, 2002							
Annual pension cost (APC)	$ 9,218.0	*	*	*	*	*	*
Percentage of APC contributed	104.0%	*	*	*	*	*	*
Net pension obligation (asset)	$ (2,272.2)	*	*	*	*	*	*
Year ended June 30, 2001							
Annual pension cost (APC)	$ 9,315.4	$ 66,759.0	$ 104,102.7	$ 1,717.9	$ 10,757.8	$ 372.5	$ 177.8
Percentage of APC contributed	102.9%	114.2%	122.5%	117.9%	114.1%	73.9%	95.7%
Net pension obligation (asset)	$ (1,903.1)	$ (43,397.0)	$ (93,115.8)	$ (840.8)	$ (3,226.8)	$ 675.5	$ (13.8)
Year ended June 30, 2000							
Annual pension cost (APC)	$ 8,583.9	$ 61,824.0	$ 99,429.0	$ 1,702.0	$ 11,491.4	$ 423.7	$ 187.1
Percentage of APC contributed	111.7%	136.4%	129.5%	113.8%	102.5%	65.0%	90.9%
Net pension obligation (asset)	$ (1,631.5)	$ (33,937.0)	$ (69,661.8)	$ (533.0)	$ (1,706.0)	$ 578.3	$ (21.5)
Year ended June 30, 1999							
Annual pension cost (APC)	$ 8,583.9	$ 67,486.0	$ 100,043.0	$ 1,780.8	$ 11,101.1	$ 389.3	$ 208.9
Percentage of APC contributed	111.9%	115.3%	125.2%	101.1%	99.9%	47.4%	96.0%
Net pension obligation (asset)	$ (628.4)	$ (11,407.0)	$ (40,648.0)	$ (297.7)	$ (1,422.4)	$ 429.9	$ (38.5)

SPRF - State Police Retirement Fund
PERF - Public Employees' Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)
JRS - Judges' Retirement System (Administered by the PERF board of trustees)
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)
N/A - not applicable
* - information not available

The State sponsors the following cost-sharing multiple-employer plans:

State Teachers' Retirement Fund (Presented as a discretely presented component unit)

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2002, the number of participating employers was 357.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The pre July 1, 1995 plan is on a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. These appropriations include revenues from the State Lottery Commission.

1977 Police Officers' and Firefighters' Pension and Disability Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2002, the number of participating employer units totaled 154 (246 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	Discretely Presented Component Units	
	STRF	**PFPF***
Historical Trend Information		
Year ended June 30, 2002		
Annual required contribution	$ 572,226.2	$ 91,914.0
percentage contributed	99%	93%
Year ended June 30, 2001		
Annual required contribution	$ 537,789.7	$ 82,654.7
percentage contributed	128%	93%
Year ended June 30, 2000		
Annual required contribution	$ 547,532.7	$ 77,365.8
percentage contributed	118%	91%

STRF - State Teachers' Retirement Fund
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)

* - year ended December 31

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Each participant shall make contributions of five percent of salary received for services after June 30, 1989. Contributions equal to twenty percent of the annual salary received by each participant for services after June 30, 1989, are made from the biennial appropriation from the State's General Fund. Actual contributions for the year ended June 30, 2002 were $1,091,503.

Discretely Presented Component Units

Governmental and proprietary fund types Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF.

Colleges and Universities Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees' Retirement Fund (PERF).

The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends. Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-

CREF are determined by each institution. Indiana University and Purdue University contributed $101.6 million for 12,781 participants for the year ended June 30, 2002.

Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 2002 are included in the disclosures for PERF.