NOTES TO THE FINANCIAL STATEMENTS

STATE OF INDIANA

Notes to the Financial Statements
June 30, 2004

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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 one column in the government-wide financial statements. This column contains the governmental and proprietary fund types and colleges and universities. 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 Indiana Housing Finance Authority has a December 31, 2003, 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 proprietary funds.

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 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, public employees' retirement, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement Fund. 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. ISM 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 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(I) 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(I) 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 primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments.

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

Indiana Transportation Finance Authority
One North Capitol, Suite 900
Indianapolis, IN 46204

Recreational Development Commission
c/o Treasurer of Indiana
242 State House
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.
111 Monument Circle, Suite 202
Indianapolis, IN 46204

Board for Depositories One North Capitol Ave, Suite 444 Indianapolis, IN 46204	Indiana Bond Bank 10 West Market St. Suite 2980 Indianapolis, IN 46204	Indiana Housing Finance Authority 30 South Meridian, Suite 1000 Indianapolis, IN 46204
Accounting Services Attn: Purdue University 401 South Grant Street West Lafayette, IN 47907-2024	Diana M. Biggs Director of Internal Audit University of Southern Indiana 8600 University Boulevard Evansville, IN 47712	Office of the Vice President and CFO Attn: Kathleen McNeely Poplar's Room. 502, 107 S. Indiana Ave. Indiana University Bloomington, IN 47405-1202
Mark Husk Assistant Treasurer Ivy Tech State College One West 26th Street Indianapolis, IN 46208	Linda Waldroup, Controller Vincennes University 1002 North 1st Street Vincennes, IN 47591	William A. McCune, Controller Administration Bldg., 301 2000 West University Avenue Ball State University Muncie, IN 47306
Jeffery J. Jacso Assistant Controller Financial Accounting Office of the Controller Indiana State University Parsons Hall, Room P115 Terre Haute, IN 47809	State of Indiana Public Employees' Retirement Fund Harrison Building 143 West Market Street 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 *Build Indiana Fund* receives gaming revenues and uses them to fund local capital projects.

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 *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 *ITFA Aviation Technology Bond Fund* accounts for the financing of a portion of the costs of the Aviation Technology Center located at Indianapolis International Airport.

- The *ITFA Airport Facilities Bond Fund* accounts for the financing of improvements for the airport or aviation-related property or facilities, including the acquisition of real estate.

- 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 Public Employees' Retirement 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 Teachers' Retirement Fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, venture capital and partnerships, and real estate. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage pool investments, and repurchase agreements. 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, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, mutual funds, asset backed, commercial mortgage backed, international stocks, and real estate.

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.

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 Administration's 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. In addition, qualifying retiring employees are paid an additional payment up to a maximum of $5,000, which is made up of unused vacation leave over 30 days, unused personal leave, and unused 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 Armory Board and the Recreation funds at State institutions and mental facilities. 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. In addition, expenditures under many federal grants are required to be spent before they are reimbursed by the federal government. 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.

B. Deficit Fund Equity

At June 30, 2004, 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	$ (8,651)	$ (17,818)
Medicaid Assistance	(21,513)	-
Property Tax Relief Fund	-	(1,086,758)
County Welfare Administration	-	(9,807)
Federal Food Stamp Program	(310)	-
Major Construction Army National Guard	(480)	-

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, 2004:

Unreserved Fund Balance

	Designations of Unreserved Fund Balance			
	Designated for Appropriations	Designated for Allotments	Undesignated	Total Unreserved Fund Balance
Governmental Funds				
General Fund	$ 312,504	$ 373,151	$ 155,301	$ 840,956
Motor Vehicle Highway Fund	-	-	(34,152)	(34,152)
Medicaid Assistance	-	-	(21,562)	(21,562)
Build Indiana Fund	18,971	-	-	18,971
State Highway Department	-	-	(770,812)	(770,812)
Property Tax Replacement Fund	-	-	(1,086,758)	(1,086,758)
Tobacco Settlement Fund	231,812	-	53	231,865
Non-Major Special Revenue Funds	109,459	760,778	10,915	881,152
Non-Major Capital Projects Funds	41,713	37,738	6,815	86,266
Non-Major Permanent Funds	-	199,512	1,237	200,749
Total Governmental Funds	$ 714,459	$ 1,371,179	$ (1,738,963)	$ 346,675

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. An exception to this is $182 million in deposits of the Public Employees' Retirement Fund which exceeded federal depository insurance limitations.

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 Note I(A) account for $156.6 million of the primary government's total investments included in these totals.

Primary Government Including Fiduciary Funds

	Category 1	Category 2	Category 3	Reported Amount/ Fair Value
Commercial paper				
Not on securities loan	$ -	$ -	$ 1,499	$ 1,499
Corporate debt/equity securities				
Not on securities loan	187,760	-	424,782	612,542
Foreign corporate debt/equity securities				
Not on securities loan	31,880	-	14,544	46,424
Repurchase agreements				
Not on securities loan	-	-	473	473
US Treasury & agency obligations				
Not on securities loan	404,492	405	550,027	954,924
State and municipal obligations				
Not on securities loan	8,226	-	54,171	62,397
Mortgage securities				
Not on securities loan	68	-	-	68
Totals	$ 632,426	$ 405	$ 1,045,496	1,678,327
Investments - not categorized				
Guaranteed investment contracts and other				539,533
Investments held by broker-dealers under securities loans				
US Treasury & agency obligations				1,714,437
Securities lending S-T cash collateral investment pool				1,681,013
Mutual funds				1,075,605
Annuity/investment contracts				44,958
Total primary government				$ 6,733,873

The categories of investments for the Major Discretely Presented Component Units including colleges and universities at June 30, 2004 are as follows:

Major Discretely Presented Component Units

	Category 1	Category 2	Category 3	Reported Amount/ Fair Value
Commercial paper				
Not on securities loan	$ -	$ -	$ 8,818	$ 8,818
Corporate debt/equity securities				
Not on securities loan	11,817,099	95	-	11,817,194
On securities loan	1,954	16,610	-	18,564
Foreign bonds				
Not on securities loan	893,306	-	-	893,306
On securities loan	-	9,509	-	9,509
Repurchase agreements				
Not on securities loan	-	-	112,200	112,200
US Treasury & agency obligations				
Not on securities loan	2,046,815	31,527	-	2,078,342
On securities loan	307,454	98,922	-	406,376
Asset backed	89,685	-	-	89,685
Commercial mortgage backed	31,475	-	-	31,475
State and municipal obligations				
Not on securities loan	2,265	-	-	2,265
Mortgage securities				
Not on securities loan	1,505,426	-	-	1,505,426
Other investments	-	-	9,389	9,389
Totals	$ 16,695,479	$ 156,663	$ 130,407	$ 16,982,549
Investments - not categorized				
Guaranteed investment contracts and other				589,566
Investments held by broker-dealers under securities loans				
Equity securities				391,173
Corporate bonds				861,150
US Treasury & agency obligations				2,209,091
Foreign bonds and equity securities				156,215
Securities lending S-T cash collateral investment pool				1,492,279
Securities lending S-T non-cash collateral investment pool				17,535
Mutual funds				940,744
Annuity/investment contracts				74,536
Other				266,912
Total				$ 23,981,750

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

Interfund Loans

Interfund loans of $8.4 million represents amounts owed by the State Office Building Commission Fund (SOBC), an internal service fund, to the Family and Social Services Administration in the General Fund for additional enhancements on different buildings. Out of this total, $4.9 million is for the enhancement of Logansport State Hospital, $3.5 million is for the Southeast Regional Treatment Center and $71,000 is for the Department of Health Forensics Lab.

Interfund loans of $11.7 million represents amounts owed by the Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds Fund, an internal service fund, to the State Highway Department Fund, a special revenue fund, for construction expenses.

Interfund loans of $216,000 represents amounts owed by the Department of Correction in the General Fund to the SOBC for construction expenses of the New Castle Correctional Facility.

Interfund loans of $2.4 million are composed of $275,000 and $2.1 million that represent amounts owed by the Alcohol Beverage Commission Research Fund and the Excise Tax Special Education Research Fund, respectively, to the General Fund. The purpose of these loans was to cover a deficit cash balance in prior years.

As explained in Note III(B) above, temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2004 the following funds had temporary cash overdrafts covered by loans from the General Fund: the Motor Vehicle Highway Fund, $8.7 million, the Medicaid Assistance Fund, $21.5 million, the Federal Food Stamp Program Fund $0.3 million, and the Major Construction Army National Guard Fund, a non-major governmental fund, $0.5 million.

Interfund loans of $436,000 represents amounts owed by the Voluntary Compliance Research Fund to the Environmental Management Fund to cover a deficit cash balance in prior years. Both of these funds are nonmajor governmental funds.

The following is a summary of the Interfund Loans as of June 30, 2004:

Interfund Loans - Current

	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	$ 33,362	$ 8,425	$ -	$ 216
Motor Vehicle Highway Fund	-	-	8,651	-
Medicaid Assistance Fund	-	-	21,513	-
State Highway Department	11,700	-	-	-
Nonmajor Governmental Funds	436	-	3,634	-
Total Governmental Funds	45,498	8,425	33,798	216
Proprietary Funds				
Internal Service Funds	216	-	20,125	-
Total Proprietary Funds	216	-	20,125	-
Total Interfund Loans	**$ 45,714**	**$ 8,425**	**$ 53,923**	**$ 216**

Interfund Services Provided/Used

Interfund Services Provided of $6.96 million represents amounts owed by various governmental funds to the Institutional Industries Fund and the Administrative Services Revolving Funds, both internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2004:

Interfund Services Provided/Used	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
Governmental Funds		
General Fund	$ -	$ 2,905
Motor Vehicle Highway Fund	-	1,148
State Highway Department	-	483
Tobacco Settlement Fund	-	2
Nonmajor Governmental Funds	-	2,423
Total Governmental Funds	-	6,961
Proprietary Funds		
Internal Service Funds	6,964	3
Total Proprietary Funds	6,964	3
Total Interfund Services Provided/Used	**$ 6,964**	**$ 6,964**

Due From/Due Tos

Current - Interfund Balances of $98.6 million represents the total of payment delays from the General Fund to the seven discretely presented colleges and universities throughout the State of Indiana. The budget law gives the State the option to postpone one month of FY 2004 payments until FY 2005.

Interfund Balances of $1.49 billion represents the amount due to the Indiana Bond Bank at June 30, 2004 for bonds issued on behalf of the State Revolving Fund.

Long-Term – In June, 2004, the General Fund borrowed $50.0 million, interest free, from the Indiana Board for Depositories, a discretely presented component unit. This money is due to be repaid, either from the General Fund prior to January 1, 2013, or by a budget request submitted to the 2013 session of the general assembly. This appears on the government-wide statements, but not the fund statements.

The following is a schedule of Due From/Due Tos of Component Units, as of June 30, 2004:

Component Units	Due From Primary Government	Due To Component Units
Governmental Funds		
General Fund	$ -	$ 148,576
Total Governmental Funds	-	148,576
Proprietary Funds		
State Revolving Fund	-	1,485,652
Total Proprietary Funds	-	1,485,652
Component Units		
Indiana University	38,985	-
Purdue University	27,211	-
Nonmajor Universities	32,380	-
Board for Depositories	50,000	
Indiana Bond Bank	1,485,652	-
Total Component Units	1,634,228	-
Total Due From/To	**$ 1,634,228**	**$ 1,634,228**

Transfers of a member's reserves are made between the State Teachers' Retirement Fund (TRF) and the Public Employees' Retirement Fund (PERF) when a member has service at the time of retirement that is covered by both funds. Service covered by PERF and the related Annuity Savings Account balance will be used by TRF at the time of retirement in calculating the member's retirement benefit from TRF if the member was last employed in a TRF covered position. If the member was last employed in a PERF covered position, PERF will use the member's TRF service and Annuity Savings Account balance. At the time the retirement is calculated TRF sets up a receivable from PERF (Due from component unit) for both the Annuity Savings Account balance and the calculated reserve for the service credit brought in from PERF. This receivable is included as a line item in the "Receivables" section of TRF's Statement of Fiduciary Net Assets. On the reverse side, TRF recognizes a payable (Due to component unit) in the Liabilities section of the Statement of Fiduciary Net Assets for TRF amounts used in calculating a PERF retiree's benefit. The reverse of the above holds true for PERF.

The following is a schedule of Due From/ Due Tos within Component Units, as of June 30, 2004:

Within Component Units

	Due From Component Units	Due To Component Units
Discretely Presented Component Units Pension Trust:		
Pension Trust		
Public Employees' Retirement Fund	$ 7,448	$ 10,261
State Teachers' Retirement Fund	10,261	7,448
Total Discretely Presented Component Units Pension Trust	17,709	17,709
Total Due From / To	**$ 17,709**	**$ 17,709**

Interfund Transfers

Transfers constitute the movement of money from the fund that receives the resources to the fund that utilizes them. These numerous transfers generally result from legislation passed by the Indiana General Assembly that directs how the transfers are made. In the case of the General Fund, many appropriations are made in the General Fund and then transferred during the year to the funds where these appropriations are used. Also in the case of the General Fund, various taxes and other revenues are collected in other funds and transferred to the General Fund. Following are the principal purposes of the State's interfund transfers:

Governmental Funds

General Fund – The General Fund had the following transfers in: $1.6 billion was transferred in to reimburse the General Fund for the Property Tax Replacement Fund's share of tuition support per legislation in the budget bill. The General Fund's Motor Vehicle Excise Tax Replacement Account received $236.2 million in transfers in from the Build Indiana Fund per legislation. The General Fund received $26.7 million for the disproportionate share hospital (DSH) program and $130.9 million for federal reimbursement for Enhanced Federal Match from the Jobs and Growth Tax Relief Reconciliation Act of 2003. Both of these came from the Medicaid Assistance Fund. The General Fund also received $124.3 million in transfers in from the Mental Institutions Fund as reimbursement for Medicaid expense that the General Fund incurred throughout the year. $117.5 million was transferred in from the Collection Fund. This represents individual and corporate income taxes collected for the General Fund.

$103.9 million was transferred in from the Bureau of Motor Vehicles (BMV) Holding Account, representing motor vehicle sales tax collected for the General Fund. $56.8 million was transferred in from the Tobacco Settlement Fund, $31.0 million for health purposes and $25.8 million for welfare purposes. $35.0 million was received to transfer the balance of the Financial Institutions Tax Fund not needed for distributions to counties. $24.0 million represents appropriation transfers made by the Budget Committee from the Welfare-Medicaid Administration Fund to the General Fund for Family and Social Services Administration's Central Office and to the General Fund for the Division of Disability, Aging and Rehabilitative Services (DDARS) – Residential Services for the Developmentally Disabled. $12.6 million represents appropriation transfers made by the Budget Committee from the Title XX Fund to the General Fund for DDARS – Residential Services for the Developmentally Disabled.

The following were the transfers out from the General Fund: $1.35 billion was transferred to the Medicaid Assistance Fund for Medicaid and DDARS. $533.1 million in income taxes and $62.5 million of sales taxes were collected in the General Fund and transferred to the Property Tax Replacement Fund (PTRF). Another $153.4 million was transferred to the PTRF to make up the shortfall of tuition support money per legislation in the budget bill.

$105.7 million, $97.9 million, and $96.4 million of grant appropriations were transferred from the General Fund to the County Welfare Administration Fund, the Welfare State and Federal Assistance Fund and the Mental Health Center Fund, respectively. Another $29.9 million of grant appropriations were transferred to the Title XX Fund for aging and community service and welfare. $22.2 million of grant appropriations were transferred to the Vocational Rehabilitation Fund for vocational rehabilitation and case management. Grant appropriations of $19.6 million were transferred to the Welfare-Work Incentive Fund for Family and Social Services Administration (FSSA) and Temporary Aid to Needy Families (TANF). $17.0 million of grant appropriations were transferred to the Public Health Service Fund for environmental management operation, water management and auto emissions testing. $11.0 million represents grant appropriations transferred to the Title IVD Social Security Fund. $8.8 million represents transfer of federal grant money to pay claims at FSSA for the Mental Health Services Block Grant Fund.

$87.9 million, $54.0 million, $36.4 million, and $11.6 million represent appropriation transfers out to the Higher Education Fund, the Welfare-Medicaid Administration Fund, the Freedom of Choice Fund, and the Skills 2016 Fund, respectively. There was $8.8 million in transfer of appropriations to the Fish and Wildlife Fund. $7.0 million of appropriations was transferred to the Public Defense Fund.

$61.4 million was transferred from the General Fund to the Motor Vehicle Highway Fund to support the State Police. $18.6 million for administration and awards went to the 21st Century Scholars Fund. $15.9 million represents Department of Correction transfers to the Institutional Industries Fund, an internal service fund. This represents a return of funds which were previously transferred to the General Fund per legislation at the end of the prior fiscal year. $10.5 million of riverboat admissions tax was transferred to the Indiana Horse Racing Commission.

Motor Vehicle Highway Fund – The Motor Vehicle Highway Fund received transfers in of $61.4 million from the General Fund. $6.0 million was transferred in from the Indiana State Trooper Costs Account, representing State trooper overtime charged to riverboats. $5.7 million was transferred in from the Motor Carrier Regulation Fund. All three of these were to reimburse the Motor Vehicle Fund for expenses it incurred for the State Police. $29.6 million was transferred in from the International Registration Plan fund and represents Indiana's share of revenues collected under this plan. $27.3 million was transferred in from the Motor Carrier Clearing Account, representing collections for the motor carrier surtax. $114.8 million was transferred in from the Bureau of Motor Vehicles Holding Account, representing vehicle licenses and fees.

Transfers out included $314.5 million to the State Highway Department Fund. By legislation the remainder of the amount in the Motor Vehicle Highway Fund, after distributions to cities, towns, and counties, and after other legislative required transfers, goes to the State Highway Department Fund. $13.2 million was transferred out to the Road and Street Primary Highway Fund. $16.0 million was transferred out to the Underground Petroleum Storage Tank (UPST) Excess Liability Fund. This represents fees, fines and penalties assessed to owners of underground storage tanks.

Medicaid Assistance Fund – The Medicaid Assistance Fund had a transfer in of $1.35 billion from the General Fund for Medicaid and DDARS. There were also transfers in of $9.5 million from the Medical Assistance to Wards Fund, $18.5 million from the Hospital Care for the Indigent Fund, $84.8 million from the Mental Health Center Fund, $48.4 million from the Medicaid Indigent Care Trust Fund, and $23.1 million from the Tobacco Settlement Fund for the Children's Health Insurance Program (CHIP Assistance).

Transfers out included $26.7 million to the General Fund for the disproportionate share hospital (DSH) program and $130.9 million for federal reimbursement to the General Fund for Enhanced Federal Match from the Jobs and Growth Tax Relief Reconciliation Act of 2003. There was also a transfer out of $51.7 million to the Mental Institutions Fund for Medicaid DSH providers.

Build Indiana Fund – The purpose of all Build Indiana Fund transfers is to follow legislation enacted by the Indiana General Assembly. The Build Indiana Fund received transfers in of the following: $138.5 million from the Hoosier Lottery Commission, $3.0 million from the Charity Gaming Enforcement Fund, $1.9 million from the Pari-Mutuel Taxes Account of the General Fund, and $106.5 million from the Property Tax Replacement Fund. These transfers in are capped by legislation at $250.0 million, with the Property Tax Replacement Fund transfers being the variable. All of these transfers in represent gambling tax revenues, with the Property Tax Replacement Fund transfer representing Riverboat Wagering Tax. The Build Indiana Fund had transfers out of $236.2 million, all to the General Fund Motor Vehicle Excise Tax Replacement Account.

State Highway Department Fund – The State Highway Department had the following transfers in: $314.5 million was transferred in from the Motor Vehicle Highway Fund. This is a legislative transfer as described above under the Motor Vehicle Highway Fund. $20.0 million was transferred in from the Gasoline and Special Fuel Tax Fund. These transfers represent the State Highway Department's share of gas and special fuel taxes collected in that fund. In addition $143.5 million was transferred in from the Road and Street Primary Highway Fund. This represents 53% of the money deposited in that fund and is transferred as required by legislation.

Property Tax Replacement Fund – The Property Tax Replacement Fund (PTRF) received the following transfers in: $533.1 million in income taxes and $62.5 million of sales taxes were collected in the General Fund and transferred to the PTRF. $153.4 million came from the General Fund to charge it with the shortfall of tuition support money per legislation in the budget bill. $593.2 million in gaming taxes were collected in the State Gaming Fund and transferred to the PTRF. Another $23.7 million in sales taxes were collected in the Tax Collection Fund and transferred to the PTRF.

The PTRF had the following transfers out: $1.6 billion was transferred to reimburse the General Fund for the PTRF's share of tuition support per legislation in the budget bill. $106.5 million was transferred out to the Build Indiana Fund per legislation. $8.8 million represented Riverboat Admissions Tax transferred to the State Fair Commission, the Indiana Horse Racing Commission, and other special revenue funds.

Tobacco Settlement Fund – The Tobacco Settlement Fund had the following transfers out: $31.0 million was for health purposes in the General Fund, including $25.9 million for the Department of Health, $2.3 million for HIV/AIDS services, $2.1 million for the Minority Health Initiative and $.7 million for other health purposes. $25.8 million of the transfers out went for welfare purposes in the General Fund, including $21.3 million for Developmental Disability Client Services, $3.0 million for In-Home Services, and $1.5 million for DDARS. $23.1 million of the transfers out was for the 21st Century Research and Technology Fund, another $23.1 million was for the Children's Health Insurance Program (CHIP Assistance). Other transfers out were $3.9 million for the Local Maintenance Fund and $1.0 million for the

Title XX Aging and Community Service Fund.

Proprietary Funds

State Lottery Commission – After paying expenses, the State Lottery Commission transfers its profits to governmental funds. $138.5 million went to the Build Indiana Fund to support that fund's build Indiana projects. Another $1.8 million went to the General Fund for matching funds for the Help America Vote Act.

Nonmajor Enterprise Funds

The Inns and Concessions Fund – This fund had transfers in of $5.1 million, representing cash contributions from the Department of Natural Resources (DNR) in the General Fund for capital projects at the DNR Inns.

Internal Service Funds – The purpose of the Institutional Industries Fund transfers is to follow legislation enacted by the Indiana General Assembly. At year-end, cash in excess of $1.5 million, less encumbrances, is required to be transferred to a special account maintained by the Indiana Department of Correction in the General Fund. Accordingly, transfers out of $9.4 million were made to the Department. At the beginning of each fiscal year, amounts transferred out at the end of the prior fiscal year are transferred back into the fund. Institutional Industries had transfers in from the Department of $15.9 million. The Recreational Development Commission had transfers in of $3.8 million from the Department of Natural Resources in the General Fund. This represents an appropriation transfer.

Fiduciary Funds (Discrete)

Transfers between the Public Employees' Retirement Fund (PERF) and the State Teachers' Retirement Fund (TRF) occur when employees in a position covered by one retirement fund move to a position covered by the other retirement fund. In that case the service and account balance of the employee is transferred. During FY 2004, $2.4 million was transferred from TRF to PERF and $2.8 million was transferred from PERF to TRF.

A summary of interfund transfers for the year ended June 30, 2004 is as follows:

	Transfers in	Transfers out	**Net transfers**
Governmental Funds			
General Fund	$ 2,568,338	$ (3,040,735)	**$ (472,397)**
Motor Vehicle Highway Fund	252,985	(359,428)	**(106,443)**
Medicaid Assistance	1,546,091	(222,569)	**1,323,522**
Build Indiana Fund	250,264	(236,212)	**14,052**
State Highway Department	480,306	(5,191)	**475,115**
Property Tax Replacement Fund	1,366,516	(1,715,736)	**(349,220)**
Tobacco Settlement Fund	708	(108,684)	**(107,976)**
Nonmajor Governmental Fund	1,483,021	(2,134,757)	**(651,736)**
Proprietary Funds			
State Lottery Commission	-	(140,346)	**(140,346)**
Nonmajor Enterprise Funds	5,125	-	**5,125**
Internal Service Funds	19,677	(9,373)	**10,304**
Fiduciary Funds (Discrete)			
Public Employees' Retirement Fund	2,364	(2,781)	**(417)**
State Teachers' Retirement Fund	2,781	(2,364)	**417**
	$ 7,978,176	$ (7,978,176)	**$ -**

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	$ 1,026,354	$ -	$ -	$ -	**$ 1,026,354**
Sales taxes	304,915	314,713	-	-	**619,628**
Fuel taxes	-	99,908	-	-	**99,908**
Gaming taxes	1,060	4,582	-	-	**5,642**
Unemployment - employers' contributions	-	-	-	29,233	**29,233**
Inheritance taxes	26,271	-	-	-	**26,271**
Alcohol and tobacco taxes	28,688	3,979	1,426	-	**34,093**
Insurance taxes	3,923	-	-	-	**3,923**
Financial institutions taxes	-	52,881	-	-	**52,881**
Other taxes	1,403	159,986	-	-	**161,389**
Total taxes receivable	1,392,614	636,049	1,426	29,233	**2,059,322**
Less allowance for uncollectible accounts	(226,440)	(97,294)	(51)	-	**(323,785)**
Net taxes receivable	**$ 1,166,174**	**$ 538,755**	**$ 1,375**	**$ 29,233**	**$ 1,735,537**
Tax refunds payable	**$ 40,310**	**$ 2,278**	**$ -**	**$ -**	**$ 42,588**

D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2004, 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	$ 1,112,948	$ 41,455	$ (778)	$ 1,153,625
Infrastructure	7,469,046	38,869	(4,734)	7,503,181
Construction in progress	303,087	176,372	(71,203)	408,256
Total capital assets, not being depreciated	8,885,081	256,696	(76,715)	9,065,062
Capital assets, being depreciated:				
Buildings and improvements	2,167,305	105,091	(31,422)	2,240,974
Furniture, machinery, and equipment	291,223	28,663	(13,621)	306,265
Infrastructure	14,235	-	-	14,235
Total capital assets, being depreciated	2,472,763	133,754	(45,043)	2,561,474
Less accumulated depreciation for:				
Buildings and improvements	(725,550)	(53,053)	9,570	(769,033)
Furniture, machinery, and equipment	(170,985)	(23,468)	9,902	(184,551)
Infrastructure	(11,783)	(316)	-	(12,099)
Total accumulated depreciation	(908,318)	(76,837)	19,472	(965,683)
Total capital assets being depreciated, net	1,564,445	56,917	(25,571)	1,595,791
Governmental activities capital assets, net	$ 10,449,526	$ 313,613	$ (102,286)	$ 10,660,853

Primary Government – Business-Type Activities

Business-type Activities:	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated:				
Land	$ 28,213	$ 6	$ -	$ 28,219
Infrastructure	180,331	4,231	-	184,562
Construction in progress	6,626	7,857	(3,179)	11,304
Total capital assets, not being depreciated	215,170	12,094	(3,179)	224,085
Capital assets, being depreciated:				
Buildings and improvements	74,213	12,224	-	86,437
Furniture, machinery, and equipment	49,883	4,160	(418)	53,625
Total capital assets, being depreciated	124,096	16,384	(418)	140,062
Less accumulated depreciation for:				
Buildings and improvements	(47,830)	(1,649)	-	(49,479)
Furniture, machinery, and equipment	(35,767)	(3,578)	411	(38,934)
Total accumulated depreciation	(83,597)	(5,227)	411	(88,413)
Total capital assets being depreciated, net	40,499	11,157	(7)	51,649
Business-type activities capital assets, net	$ 255,669	$ 23,251	$ (3,186)	$ 275,734

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

Governmental activities:	
General government	$ 28,013
Public safety	19,373
Health	2,100
Welfare	5,074
Conservation, culture and development	8,533
Education	1,197
Transportation	13,593
Total depreciation expense - governmental activities	$ 77,883
Business-type activities:	
Toll Roads	$ 3,094
State Revolving Fund	1,203
State Lottery Commission	1,661
Other enterprise funds	472
Total depreciation expense - business-type activities	$ 6,430

Major Discretely Presented Component Units - Governmental and Proprietary

Capital Assets	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, being depreciated:				
Buildings and improvements	$ 57	$ 34	$ (57)	$ 34
Furniture, machinery, and equipment	1,567	53	-	1,620
Total capital assets, being depreciated	1,624	87	(57)	1,654
Less accumulated depreciation for:				
Buildings and improvements	(58)	(2)	57	(3)
Furniture, machinery, and equipment	(1,462)	(78)	-	(1,540)
Total accumulated depreciation	(1,520)	(80)	57	(1,543)
Total capital assets being depreciated, net	104	7	-	111
Business-type activities capital assets, net	$ 104	$ 7	$ -	$ 111

Major Discretely Presented Component Units - Colleges and Universities

Capital Assets	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated:				
Land	$ 63,136	$ 4,792	$ (7)	$ 67,921
Construction in progress	273,314	219,027	(204,952)	287,389
Total capital assets, not being depreciated	336,450	223,819	(204,959)	355,310
Capital assets, being depreciated:				
Buildings and improvements	3,151,882	276,678	(146)	3,428,414
Furniture, machinery, and equipment	938,838	102,018	(50,585)	990,271
Infrastructure	151,225	19,275	-	170,500
Total capital assets, being depreciated	4,241,945	397,971	(50,731)	4,589,185
Less accumulated depreciation for:				
Buildings and improvements	(1,349,195)	(91,944)	63	(1,441,076)
Furniture, machinery, and equipment	(485,998)	(76,266)	42,590	(519,674)
Infrastructure	(103,089)	(5,632)	-	(108,721)
Total accumulated depreciation	(1,938,282)	(173,842)	42,653	(2,069,471)
Total capital assets being depreciated, net	2,303,663	224,129	(8,078)	2,519,714
Business-type activities capital assets, net	$ 2,640,113	$ 447,948	$ (213,037)	$ 2,875,024

E. Leases

Investment in Direct Financing Lease
The Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds Fund has a direct financing lease with the Department of Transportation. The 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**
2005	$ 19,608	$ 71,360	$ 90,968
2006	24,734	70,707	95,441
2007	26,315	69,405	95,720
2008	27,481	67,811	95,292
2009	28,386	66,223	94,609
2010-2014	164,454	299,008	463,462
2015-2019	206,845	238,449	445,294
2020-2024	257,886	167,687	425,573
2025-2029	331,653	69,019	400,672
Premium/(discount)	(38,867)		(38,867)
Total	$ 1,048,495	$ 1,119,669	$ 2,168,164

	Business-type Activities		
Year Ending, June 30	**Principal**	**Interest**	**Total**
2005	$ 10,445	$ 10,949	$ 21,394
2006	11,485	10,288	21,773
2007	12,165	9,587	21,752
2008	12,820	8,914	21,734
2009	13,500	8,199	21,699
2010-2014	80,040	28,068	108,108
2015-2018	62,470	5,570	68,040
Total	$ 202,925	$ 81,575	$ 284,500

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 $33.4 million for the year ended June 30, 2004. A table of future minimum lease payments (excluding executory costs) is presented on the next page.

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, 2004 and the assets acquired through capital leases are as follows:

Future minimum lease payments

Year ending June 30,	Operating leases	Capital leases Governmental Activities
2005	41,727	$ 4,532
2006	36,286	4,109
2007	31,131	3,278
2008	25,291	3,223
2009	21,543	3,126
2010-2014	50,259	9,118
2015-2019	13,215	3,778
2020-2024	675	3,888
2025-2029	-	4,014
2030-2034	-	4,100
Total minimum lease payments (excluding executory costs)	**$ 220,127**	**43,166**
Less:		
Amount representing interest		(18,014)
Present value of future minimum lease payments		**$ 25,152**

Assets acquired through capital lease

Building	$ 32,393
Machinery and equipment	9,117
less accumulated depreciation	(5,989)
	$ 35,521

Discretely Presented Component Units

The Indiana Development Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $0.2 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling $138.3 million, of which $52.3 million represents interest.

Indiana University's liability for capital leases is $19.4 million, of which $5.5 million represents interest.

Indiana University has future obligations under operating leases of $51.9 million.

F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2004 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	$ 119,729	$ 72,290	$ (64,313)	$ 127,706	$ 76,104	$ 51,602
Construction retention	1,235	842	(195)	1,882	-	1,882
Due to component unit	96,347	52,229	-	148,576	98,576	50,000
Net pension obligation	1,149	2,499	-	3,648	-	3,648
Revenue bonds/notes payable	1,742,824	1,158,332	(589,800)	2,311,356	51,297	2,260,059
Salaries and benefits payable - SIRP	8,724	-	(8,724)	-	-	-
Interest payable	-	15,236	-	15,236	-	15,236
Amount due federal government	295	-	-	295	-	295
Capital leases	18,516	9,648	(3,211)	24,953	2,963	21,990
	$ 1,988,819	$ 1,311,076	$ (666,243)	$ 2,633,652	$ 228,940	$ 2,404,712
Business-type activities:						
Compensated absences	$ 278	$ 167	$ (145)	$ 300	$ 177	$ 123
Claims liability	20,366	16,256	(1,826)	34,796	1,889	32,907
Accrued prize liability	102,215	58,402	(49,328)	111,289	54,752	56,537
Amount due federal government	1,752	-	(905)	847	-	847
Due to component unit	1,078,634	541,396	(134,378)	1,485,652	39,365	1,446,287
Revenue bonds/notes payable	430,984	77	(19,131)	411,930	23,470	388,460
	$ 1,634,229	$ 616,298	$ (205,713)	$ 2,044,814	$ 119,653	$ 1,925,161

Changes in long-term obligations for the major discretely presented component units for the year ended June 30, 2004 are 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
Business-type activities:						
Compensated absences	$ 70,870	$ 65,640	$ 62,228	$ 74,282	$ 48,241	$ 26,041
Revenue bonds/notes payable	5,192,639	3,332,802	2,636,816	5,888,625	1,364,785	4,523,840
Capital leases	104,559	2,505	7,192	99,872	5,985	93,887
Other	173,408	95,513	28,539	240,382	87,531	152,851
	$ 5,541,476	$ 3,496,460	$ 2,734,775	$ 6,303,162	$ 1,506,542	$ 4,796,619

Long-term obligations of the governmental activities consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, the State Office Building Commission and Recreational Development Commission. Other long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Note IV(E), net pension obligations for the State Police Retirement Fund, the Prosecuting Attorney's Retirement Fund and Legislators' Retirement System as presented in Note V(I), construction retention, amount due the federal government and compensated absence obligations. The General Fund typically has been used to liquidate other long-term liabilities.

Long-term obligations 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 Indiana Transportation Finance Authority Aviation Technology, the Indiana Transportation Finance Authority Airport Facilities, and the Indiana Transportation Finance Authority Toll Roads. The State Revolving Fund has obligations due the Indiana Bond Bank. Long-term obligations 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 obligations 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, compensated absences, funds held in trust, and federal government advances 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.

Governmental Activities

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, 2004, the amount of defeased debt still outstanding, but no longer considered long-term debt, was $9.7 million with total Series 1990A capital appreciation bonds maturing at $14.1 million and total Series 1993A capital appreciation bonds maturing at $9.2 million.

In June 2003, the Authority issued $150.1 million of Highway Bond anticipation Notes to provide interim financing for highway and bridge projects under the Highway Revenue Bond Program. The interest rate on the notes was 1.50 percent (the yield was .95 percent). The Authority paid the notes on September 25, 2003, using a portion of the proceeds of the Authority's Highway Revenue Bonds, Series 2003A.

In September 2003, the Authority issued Highway Revenue Bonds, Series 2003A in the amount of $433.2 million, which mature serially through June 1, 2003 and include a term bond maturing on June 1, 2028. The bonds bear interest at rates 2.00% to 5.25%.

In June 2004, the Authority issued Highway Revenue Bonds, Series 2004A in the amount of $320.6 million, which mature serially from June 1, 2017 through June 1, 2029, and include a term bond maturing on June 1, 2029. The bonds bear interest at rates from 4.625% to 5.25%.

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.

The Hoosier Notes agreement provides interim financing for the acquisition and construction of the various facilities. On October 31, 2002, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998, which reduced the maximum advance of tax exempt commercial paper from $200 million to $150 million. On March 25, 2002, the Commission amended and restated the Hoosier Notes credit agreement and reduced the maximum advance from $250 million to $200 million effective on October 1, 2002. Borrowings outstanding under this facility at June 30, 2004 were $35.8 million, with interest computed at the LIBOR rate plus .25% or 70% of the Bank's prime lending rate. The interest rate in effect ranged from 0.93-1.01% at June 30, 2004. The credit facility expires on December 31, 2005.

In August 2003, the State Office Building Commission (SOBC) issued Capitol Complex Revenue Bonds, Series 2003A in the amount of $26.7 million at interest rates ranging from 2.5% to 4.25%. The 2003A Series Bonds were issued to fully refund the 1993A Series Bonds, which were issued to fully refund the 1986 Series Bonds and to partially refund the 1990A Series Bonds, which were originally issued to finance the acquisition, design, and construction of the Washington Street and Senate Avenue parking garages, respectively, in the amount of $26.9 million. The cash flow difference between the debt service on the 1993A Series Bonds and the new debt is $1.5 million and the economic gain is $1.4 million.

In August 2003, the SOBC issued Capitol Complex Revenue Bonds, Series 2003B in the amount of $73.2 million at interest rates ranging from 2.5% to 4.25%. The 2003B Series Bonds were issued to fully refund the 1993B Series Bonds, which were issued to fully refund the 1988 Series Bonds and to partially refund the 1990B Series Bonds, which were originally issued to finance the renovation and construction of Indiana Government Center-North, in the amount of $76.2 million. The cash flow difference between the debt service on the 1993B Series Bonds and the new debt is $4.0 million and the economic gain is $3.9 million.

In August 2003, The SOBC issued Capitol Complex Revenue Bonds, Series 2003C in the amount of $7.8 million at interest rates ranging from 2.5% to 4.25%. The 2003C Series Bonds were issued to fully refund the 1993C Series Bonds, which were issued to fully refund the 1987 Series Bonds and to partially refund the 1990C Series Bonds, which were originally issued to finance the acquisition, design, and construction of Indiana Government Center-South, in the amount of $7.8 million. The cash flow difference between the debt service on the 1993C Series Bonds and the new debt is $.4 million and the economic gain is $.4 million.

In November 2003, the SOBC issued Facilities Revenue Bonds, Series 2003B which consist of $24.9 million in serial bonds at interest rates ranging from 2.5% to 5.0% and $7.0 million in term bonds at an interest rate of 5.0%. The 2003B Series Bonds were issued to finance the remaining costs of constructing and equipping the Evansville State Hospital and to finance the acquisition, design, construction, and equipping of a mental health facility.

In December 2003, the SOBC issued Facilities Revenue Refunding Bonds, Series 2003C in the amount of $55.1 million at interest rates ranging from 2.0% to 3.0%. The 2003C Bonds were issued to partially refund the 1995A Bonds which were originally issued to finance the acquisition, design, construction and equipping of certain correctional facilities, in the amount of $50.3 million. The cash flow difference between the debt service on the 1995A Series Bonds and the new debt is $9.8 million and the economic gain is $8.8 million.

In December 2003, the SOBC issued Facilities Revenue Refunding Bonds, Series 2003D in the amount of $20.5 million at interest rates ranging from 2.0% to 3.0%. The 2003D Bonds were issued to partially refund the 1995B Bonds which were originally issued to finance the acquisition, design, construction, and equipping of certain correctional facilities, in the amount of $18.9 million. The cash flow difference between the debt service on the 1995B Series Bonds and the new debt is $3.0 million and the economic gain is $2.8 million.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004A which consist of $255 thousand in serial bonds at interest rates ranging from 2.0% to 2.375% and $45.9 million in term bonds at an interest rate of 5.25%. The 2004A Bonds were issued to partially refund the 1999A Series Bonds which were originally issued to finance the acquisition, design, construction, and equipping of Phase I of a medium security correctional facility, in the amount of $47.9 million. The cash flow difference between the debt service on the 1999A Series Bonds and the new debt is $1.8 million and the economic gain is $1.7 million.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004B which consist of $61.9 million term bonds at an interest rate of 5.25%. The 2004B Bonds were issued to partially refund the 2002A Series Bonds which were originally issued to finance the remaining costs associated with the acquisition, design, construction, and equipping of the New Castle Correctional Facility, in the amount of $65.5 million. The cash flow difference between the debt service on the 2002A Series Bonds and the new debt is $2.9 million and the economic gain is $2.7 million.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004C which consist of $150 thousand in serial bonds at interest ranging from 2.875% to 3.25% and $33.8 million in term bonds at an interest rate of 5.25%. The 2004C Bonds were issued to partially refund the 2003A Series Bonds which were originally issued to finance the remaining costs associated with the acquisition, design, construction, and equipping of the Indiana State Museum, in the amount of $35.5 million. The cash flow difference between the debt service on the 2003A Series Bonds and the new debt is $1.2 million and the economic gain is $1.2 million.

Pursuant to prior and FY 2004 advance refundings, the Commission had $549.2 million of defeased revenue bonds outstanding at June 30, 2004. In accordance with generally accepted accounting principles, these amounts are not included in the accounts of the Commission.

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.

On December 19, 2002, the Commission issued Revenue Bonds, Series 2002, with a face value of $14.4 million to finance the cost of the development of park facilities at Prophetstown State Park, located near Battle Ground, Indiana, in Tippecanoe County. The project will include construction of picnic areas, campground sites, trails, a gatehouse and maintenance facilities. Proceeds from the bond issue were also used to refund, in advance of their stated maturing dates, a portion of the 1994A Series Revenue Bonds. At June 30, 2004, outstanding revenue bonds of $10 million are considered to be defeased. The advance refunding was undertaken to reduce total debt service requirements. Cash funds needed for the new refunding debt decreased by $477,016 from that needed under the prior debt service requirements. The economic gain, or present value savings, on the refunding was $342,252.

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 $257 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 (Series 1985 Bonds), for the refunding of the outstanding portion of the $259.5 million Indiana Toll Road Commission East-West Toll Road Revenue Bonds, 1980 Series (Series 1980 Bonds). The Series 1985 Bonds are secured by the renewable lease between the ITFA and Indiana Department of Transportation (INDOT).

The Series 1980 Bonds are not reported as a debt of ITFA since repayment of principal and interest will be from escrowed funds and earnings. At June 30, 2004, the principal amount of the Series 1980 Bonds outstanding, which have been defeased in substance, total $108 million.

During October 1993, ITFA issued $76.1 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Refunding Bonds, Series 1993 (Series 1993 Bonds) to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1985. The Series 1993 Bonds are secured by the renewable lease between ITFA and INDOT.

As a result, the refunded portion of the Series 1985 Bonds are not reported as a debt of the ITFA since repayment of principal and interest will be from escrowed funds and earnings. The advance refunding of the Series 1985 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $14.2 million. This difference is being charged to interest expense in the amount of $1.2 million through the year 2005 using the straight-line method. Accordingly, $1.2 million through the period ended June 30, 2004 has been reported in the accompanying financial statements as a deduction from bond payable. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by $9.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $7.1 million.

During October 1996, ITFA issued $134.8 million of Indiana Transportation Finance Authority Toll Road Lease Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds), to refund a portion of the Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987. Proceeds from the sale of the Series 1996 Bonds were used to purchase assets placed in an irrevocable trust that will be used to pay principal and interest on the Series 1987 Bonds when due. The Series 1996 Bonds are secured by the renewable lease between ITFA and INDOT.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $15.5 million. The difference is being charged to interest expense in the amount of $1.2 million for the year ended June 30, 2004, using the effective interest rate method over the life of the bond. Accordingly $4.5 million through the year ended June 30, 2004 has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by $8.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $4.7 million.

At June 30, 2004, the ITFA was in compliance with all material requirements and restrictions contained in the Trust Indentures.

<u>Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds</u> – 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.

<u>Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds</u> – 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. During fiscal year 2003 the remaining bonds were paid in full. As of June 30, 2004, there was no defeased debt on Series 1992A still outstanding in a separate escrow account.

The following is a summary of long term-debt including revenue bonds outstanding at June 30, 2004.

Summary of Long-Term Obligations including current portion	**Interest Rates Range**	**Maturity Range**	**Annual Payment Range**	**Amount**
Governmental Activities				
Recreational Development Commission	2.10% - 6.125%	2005 - 2020	$1,405 - 2,976	$ 26,366
ITFA Highway Revenue Bonds	2.00% - 7.40%	2005 - 2029	$21,200 - 97,460	1,415,428
Indiana State Office Building Commission	2.0% - 7.5%	2005 - 2025	$10 - 11,625	$869,562
				$ 2,311,356
Business-type Activities:				
State Lottery Commission	N/A	2005 - 2028	$40 - 2,526	$ 111,289
ITFA East-West Toll Road	5.00% - 6.50%	2005 - 2016	$13,025 - 26,200	209,005
ITFA Airport Facilities Bonds	4.50% - 6.50%	2005 - 2018	$9,990 - 19,890	193,095
ITFA Aviation Technology Center Bonds	2.45% - 5.00%	2005 - 2018	$545 - 920	9,830
State Revolving Fund	1.74% - 7.00%	2005 - 2027	$16,953 - 131,072	1,485,652
				$ 2,008,871

State Lottery Commission Accrued Prize Liability – Accrued prize liability includes an estimate of unclaimed instant and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2004, as well as installment amounts payable to past instant, on-line and game show winners. Installment prizes are recorded at a discount based on interest rates that range from approximately 2% to 6% and reflect the interest earned by the investments held to fund the related liabilities. At June 30, 2004, the accrued prize liability was $111.3 million including $54.8 million in current prize liability and $56.5 million in long-term prize liability.

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

	Governmental Activities		
Year Ending, June 30	**Principal**	**Interest**	**Total**
2005	$ 51,297	$ 110,416	$ 161,713
2006	100,932	115,263	216,195
2007	77,455	115,467	192,922
2008	82,621	113,564	196,185
2009	85,899	109,608	195,507
2010-2014	489,210	470,446	959,656
2015-2019	530,595	364,461	895,056
2020-2024	489,350	214,809	704,159
2025-2029	446,020	69,080	515,100
Premium/(discount)	(42,023)	-	(42,023)
Total	$ 2,311,356	$ 1,683,114	$ 3,994,470

	Business-type Activities		
Year Ending, June 30	**Principal**	**Interest**	**Total**
2005	$ 117,587	$ 87,623	$ 205,210
2006	77,716	91,355	169,071
2007	82,001	88,060	170,061
2008	87,021	84,452	171,473
2009	91,736	80,579	172,315
2010-2014	553,294	330,938	884,232
2015-2019	563,605	183,803	747,408
2020-2024	385,528	60,923	446,451
2025-2029	57,033	4,960	61,993
Premium/(discount)	(6,650)	-	(6,650)
Total	$ 2,008,871	$ 1,012,693	$ 3,021,564

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 $1.77 billion with interest rates ranging from 1.20% to 7.85%. The total outstanding debt associated with these bond issues as of December 31, 2003 was $936 million.

The Authority has a line of credit of $ 53.7 million which is due on June 30, 2004. Interest is due on the outstanding borrowings at a variable rate based on LIBOR (1.328% at December 31, 2003).

During 2003, the Single Family Mortgage Program Fund issued 2003 Bond Series with a face value of $291.7 million and interest rates varying from 1.20% to 5.25%. 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, 2004 was $4.0 billion with interest rates ranging from 1.10% to 7.0%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to $16.6 million.

In January 2000, the Bond Bank issued its Special Program, Series 2000A Refunding Bonds with a face 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, 1992A, 1992B, and 1997B are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately $57.8 million at June 30, 2004.

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 1.15% at June 30, 2004.

In July 2002, the Bond Bank issued its Special Program Bond, Series 2002D with a face amount of $60.0 million at interest rates ranging from 3.25% to 5.375%. Proceeds from this issue were used to refund and redeem the Special Hospital Program Bonds, Series 1992A. The transaction will reduce the Bond Bank's aggregate debt service payments by $4.7 million over the 20-year period extending through April, 2023, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1.8 million.

In September 2002, the Bond Bank issued its Special Program Bond, Series 2002E with a face amount of $10.2 million at interest rates ranging from 1.65% to 5.25%.

In September 2002, the Bond Bank issued School Severance Program Bonds, Series 2 with a face amount of $32.3 million at interest rates ranging from 1.98% to 5.72%.

In December 2002, the Bond Bank issued School Severance Program Bonds, Series 3 with a face amount of $73.0 million at interest rates ranging from 1.65% to 5.85%.

In December 2002, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2002A with a face amount of $75.1 million at interest rates ranging from 1.86% to 4.84%. Proceeds from this issue were used to refund and redeem the State Revolving Fund Program Bonds, Series 1993. The transaction will reduce the Bond Bank's aggregate debt service payments by $12.0 million over the 20-year period extending through February, 2023, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.0 million.

In December 2002, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2002B with a face amount of $66.7 million at interest rates ranging from 4.0% to 5.375%.

In January 2003, the Bond Bank issued its Special Program Bond, Series 2003B with a face amount of $8.9 million at interest rates ranging from 2.0% to 5.0%.

In March 2003, the Bond Bank issued its Special Program Bond, Series 2003A with a face amount of $40.4 million at interest rates ranging from 2.75% to 5.25%.

In June 2003, the Bond Bank issued School Severance Program Bonds, Series 4 with a face amount of $50.0 million at interest rates ranging from 1.47% to 5.07%.

In June 2003, the Bond Bank issued its Special Program Bond, Series 2003C with a face amount of $10.4 million at interest rates ranging from 2.0% to 5.0%.

In June 2003, the Bond Bank issued its Special Program Bond, Series 2003D with a face amount of $27.5 million at interest rates ranging from 3.0% to 5.0%.

In July 2003, the Bond Bank issued Common School Fund Bonds, Series 2003A with a face amount of $35.6 million at interest rates ranging from 2% to 5%. The proceeds were used to refund Common School Fund Program Bonds, Series 1993A which were outstanding in the amount of $34.9 million. The cash flow difference between the debt service on the Common School Fund Program Bonds, Series 1993A and the new debt is $2.0 million and the economic gain is $2.0 million.

In July 2003, the Bond Bank issued Common School Fund Bonds, Series 2003B with a face amount of $107.9 million at interest rates ranging from 2% to 5%.

In July 2003, the Bond Bank issued Reassessment Assistance Bonds, Series 2003B with a face amount of $5.1 million and an interest rate of 2.0%. The Reassessment Assistance Bonds, Series 2003B were retired in their entirety in FY 2004.

In August 2003, the Bond Bank issued Reassessment Assistance Bonds, Series 2003 Midyear with a face amount of $22.6 million and an interest rate of 2.0%. The Reassessment Assistance Bonds, Series 2003 Midyear were retired in their entirety in FY 2004.

In December 2003, the Bond Bank issued its Special Program Bonds, Series 2003E with a face amount of $36.5 million at interest rates ranging from 2.0% to 5.0%.

In December 2003, the Bond Bank issued its Special Program Bonds, Series 2003F with a face amount of $18.3 million at interest rates ranging from 2.0% to 4.75%. The proceeds were used to refund Special Program Bonds, Series 1993A and 1994B in the amounts of $5.3 million and $5.9 million, respectively. The cash flow difference between the debt service on the Special Program Bonds, Series 1993A and 1994B and the new debt is $3.3 million and the economic gain is $2.3 million.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5A with a face amount of $184.7 million at interest rates ranging from 1.41% to 5.82%.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5B with a face amount of $15.2 million and an interest rate of 5.05%.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5C with a face amount of $4.0 million and an interest rate of 5.15%. In January 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004A with a face amount of $842.3 million and an interest rate of 2.0%.

In January 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004 Interim with a face amount of $196.6 million and an interest rate of 1.2%. The Advance Funding Program Notes, Series 2004 Interim were retired in their entirety in FY 2004.

In January 2004, the Bond Bank issued AF Year End Program Bonds, Series 2003 with a face amount of $350 million and an interest rate of 1.7%. The AF Year End Program Bonds, Series 2003 were retired in their entirety in FY 2004.

In February 2004, the Bond Bank issued its Special Program Bonds, Series 2004A in the amount of $17.2 million at interest rates ranging from 2.0% to 5.0%.

In February 2004, the Bond Bank issued its Special Program Notes, Series 2004A with a face amount of $12.4 million and an interest rate of 2.0%.

In March 2004, the Bond Bank issued its Special Program Bonds, Series 2004B with a face amount of $17.6 million at interest rates ranging from 2.0% to 5.0%. The proceeds were used to advance refund Special Program Bonds, Series 1997B which were outstanding in the amount of $17.5 million. The cash flow difference between the debt service on the Special Program Bonds, Series 1997B and the new debt is $4.4 million and the economic gain is $2.7 million.

In April 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004A with a face amount of $113.1 million at interest rates ranging from 1.74% to 3.98%. The proceeds were used to refund the State Revolving Fund Program Bonds, Series 1994A and 1995A (collectively referred to as the Refunded Bonds) in the amounts of $44.7 million and $65.0 million, respectively. The cash flow difference between the debt service on the refunded bonds and the new debt is $28.3 million and the economic gain is $15.7 million.

In April 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004B with a face amount of $200.0 million at interest rates ranging from 2.0% to 5.0%.

In June 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004C with a face amount of $200.0 million at interest rates ranging from 5.0% to 5.25%.

In June 2004, the Bond Bank issued its Special Program Bond, Series 2004C with a face amount of $35.0 million at interest rates ranging from 2.94% to 5.52%.

In June 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004A Midyear with a face amount of $182.8 million and an interest rate of 2.5%.

In June 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004B Midyear with a face amount of $11.1 million and an interest rate of 2.7%.

In June 2004, the Bond Bank issued Year End Warrant Assistance Program Bonds, Series 2004 with a face amount of $127.2 million and an interest rate of 1.7%.

In June 2004, the Bond Bank issued School Severance Program Bonds, Series 6A with a face amount of $163.0 million at interest rates ranging from 2.42% to 6.24%.

In June 2004, the Bond Bank issued School Severance Program Bonds, Series 6B with a face amount of $14.7 million and an interest rate of 5.79%.

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 indebtedness from bonds and notes at June 30, 2004 was $550.9 million with interest rates ranging from 1.04% to 7.25%.

On June 18, 2004, Indiana University issued Indiana University Student Residence System Bonds, Series 2004A and 2004B in the amount of $41.4 million to provide permanent financing for the campus Apartments on the Riverwalk on the Indianapolis campus. The proceeds of the bonds refunded outstanding Indiana University Tax-Exempt Commercial Paper Notes, Series 2002, which provided interim financing for the project. Series 2004A bonds in the amount of $20.8 million were issued as floating (variable) rate bonds. Series 2002B bonds in the amount of $20.6 million were issued as fixed rate bonds. The initial weekly rate for the Series 2004A floating rate portion was 1.07%. The true interest cost for the Series 2004B fixed rate portion of the bond issued was 5.0%. Effective June 18, 2004, the university purchased an interest rate cap on the floating rate 2004A bonds. The university paid the counterparty a fixed payment of $57,000 and would receive monthly payments should the Bond Market Association Municipal Swap Index (BMA) exceed 5.0%.

On June 18, 2004, Indiana University defeased Indiana University Tax-Exempt Commercial Paper Notes, Series 2002, with principal outstanding of $7.7 million at June 30, 2004 and with a final maturity of August 11, 2004. These Commercial Paper Notes, Series 2002, had a variable interest rate.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations or federal agency securities have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trusts with trustees. Neither the defeased bonds nor the related trusts are reflected on Indiana University's books.

The total amount of defeased debt outstanding at June 30, 2004 was $63.4 million.

Purdue University

The outstanding long-term indebtedness from bonds and notes at June 30, 2004 was $409.4 million with interest rates ranging from 2.0% to 6.0%.

On May 5, 2004, Student Facilities System Revenue Bonds, Series 2004A were issued in the amount of $28.1 million. This series was issued to finance student housing facilities and a parking garage at the Calumet campus. As of June 30, 2004, the balance outstanding on these bonds was $28.1 million. The interest rates were variable.

On June 16, 2004, Student Fee Bonds, Series S, were issued in the amount of $13.9 million. This series was issued to finance the Biomedical Engineering Building at the West Lafayette Campus. As of June 30, 2004, the balance outstanding on these bonds was $13.9 million. The interest rates were variable.

In prior years, Purdue University has defeased bond issues 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 Purdue University's books. The total amount of defeased debt outstanding at June 30, 2004 was $94.9 million.

G. Prior Period Adjustments

For the fiscal year ended June 30, 2004, 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.

For the government wide balance sheet, there is a $63.8 million dollar increase in penalties receivable. This is a change of accounting principles as a result of implementing GASB Technical Bulletin No. 2004-1. In FY 2004, the State began accruing the money due it under the Tobacco Master Settlement Agreement.

For the government wide balance sheet, there is an increase of $18.8 million in net assets for capital assets. This was the result of several State agencies not capitalizing fixed assets acquired prior to June 30, 2003 by that date.

In the fund statements for the General Fund and in the government wide statements, there is an increase of $99.2 million in fund balance/net assets. Per an audit conducted by the Indiana State Board of Accounts it was found that in the past, revenue estimates of the county option income tax (COIT), the county adjusted gross income tax (CAGIT), and the county economic development income tax (CEDIT) have been overstated. This caused a net overdistribution of these taxes to Indiana counties. As a result there is an increase in net assets. This has also resulted in increased revenue of $57.8 million for FY 2004 and an intergovernmental receivable of $127.3 million with the counties. As this CAFR is published, the counties have not yet agreed with this finding. Please see the Note V(E) Contingencies and Commitments with respect to Hamilton County.

The following schedule reconciles June 30, 2003 net assets as previously reported, to beginning net assets, as restated:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	All Discretely Presented Component Units
June 30, 2003, fund balance/retained earnings/net assets as reported	$ 12,655,335	$ 1,845,503	$ 875,348	$ 22,143,386
Prior period adjustments:				
Changes in accounting principle:				
Tobacco Settlement Accrual	63,823	-	-	-
Correction of errors	117,770	5,410	-	4
Balance July 1, 2003 as restated	$ 12,836,929	$ 1,850,913	$ 875,348	$ 22,143,390

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 three 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.)

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 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	Total
2004				
Unpaid Claims, July 1	$ 1,707	$ 14,754	$ 5,097	**$ 21,558**
Incurred Claims and Changes in Estimate	19,957	158,904	26,322	**205,183**
Claims Paid	(19,319)	(153,231)	(26,265)	**(198,815)**
Unpaid Claims, June 30	**$ 2,345**	**$ 20,427**	**$ 5,154**	**$ 27,926**
2003				
Unpaid Claims, July 1	$ 1,900	$ 9,750	$ 5,092	**$ 16,742**
Incurred Claims and Changes in Estimate	19,803	107,969	26,288	**154,060**
Claims Paid	(19,996)	(102,965)	(26,283)	**(149,244)**
Unpaid Claims, June 30	**$ 1,707**	**$ 14,754**	**$ 5,097**	**$ 21,558**

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, 2004 was $39.0 million.

B. Investment in Joint Venture

To finance the construction of the Indianapolis Maintenance Center (IMC) at Indianapolis International Airport, the Authority, a City of Indianapolis/Marion County-related financing authority (the City) and the Indianapolis Airport Authority (the Airport Authority) entered into a number of agreements, including leases, providing for the acquisition, construction, equipping and financing of the IMC (collectively, the Joint Venture).

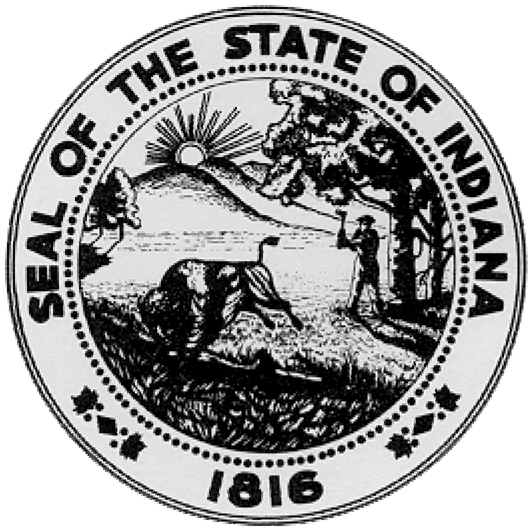
Under the Joint Venture, the Authority's undivided interest as a tenant in the IMC is determined in proportion to the money it contributes to the acquisition, construction and equipping of the IMC from proceeds of the Authority's revenue bonds issued to finance the IMC. The City's and the Airport Authority's undivided interests are established in the same way, but by reference to the amount of money they contribute to the IMC from their revenue bond proceeds.

The Authority leases its undivided interest in the IMC to the Airport Authority. Upon termination of that lease, the Airport Authority will succeed to the Authority's interest in the Joint Venture. The Airport Authority is obligated to pay the Authority lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay Authority expenses and ground rent obligations. The Airport Authority expects to pay the lease rentals through appropriations made by the General Assembly.

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

C. College and University Foundations

Following are condensed financial statements of the college and university fund-raising foundations. Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities. Because these foundations use a non-governmental GAAP reporting model, they are not included in the university financial statements.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State of Indiana
College and University Foundations
Condensed Schedule of Net Assets
June 30, 2004
(in thousands of dollars)

	Indiana University Foundation	Purdue University Research Foundation	Purdue University Alumni Foundation*	Ball State University Foundation	Indiana State University Foundation	Ivy Tech Foundation	University of Southern Indiana Foundation	Vincennes University Foundation	Total
Assets									
Current and other assets	$ 1,404,683	$ 545,811	$ 144,845	$ 148,795	$ 72,142	$ 27,537	$ 40,163	$ 20,779	$2,404,755
Capital assets	41,331	77,537	236	1,664	555	3,846	4,291	477	129,937
Total assets	1,446,014	623,348	145,081	150,459	72,697	31,383	44,454	21,256	2,534,692
Liabilities									
Revenue bonds/notes payable	31,362	21,072	-	12,008	1,646	1,917	3,706	-	71,711
Funds held in trust by others	142,112	-	-	-	-	-	-	2,563	144,675
Current and other liabilities	214,979	21,681	9,756	3,601	1,021	138	3,248	92	254,516
Total liabilities	388,453	42,753	9,756	15,609	2,667	2,055	6,954	2,655	470,902
Net assets									
Temporarily restricted	596,576	341,893	84,534	39,279	24,924	17,832	13,535	2,235	1,120,808
Permanently restricted	431,390	82,375	20,750	80,777	41,856	9,411	17,305	13,697	697,561
Unrestricted	29,595	92,208	9,368	14,794	3,250	2,085	6,660	2,669	160,629
Unrealized gain	-	64,119	20,673	-	-	-	-	-	84,792
Total net assets	$ 1,057,561	$ 580,595	$ 135,325	$ 134,850	$ 70,030	$ 29,328	$ 37,500	$ 18,601	$2,063,790

* Purdue University Alumni Foundation has a December 31, 2003 year-end.

State of Indiana
College and University Foundations
Condensed Schedule of Change in Net Assets
For the Year Ended June 30, 2004
(in thousands of dollars)

	Indiana University Foundation	Purdue University Research Foundation	Purdue University Alumni Foundation*	Ball State University Foundation	Indiana State University Foundation	Ivy Tech Foundation	University of Southern Indiana Foundation	Vincennes University Foundation	Total
Revenues									
Program revenues:									
Charges for services	$ 4,247	$ 9,495	$ -	$ -	$ 411	$ 920	$ 972	$ -	$ 16,045
Operating grants and contributions	126,088	72,225	33,281	46,205	6,561	13,623	6,499	4,049	308,531
General revenues:									
Investment earnings	148,082	10,802	2,659	2,046	6,097	590	4,388	1,298	175,962
Total revenues	278,417	92,522	35,940	48,251	13,069	15,133	11,859	5,347	500,538
Program expenses									
Investment expense	-	35	-	-	-	-	-	51	86
Expenses other than investment expense	171,555	30,168	14,832	12,763	8,951	3,886	3,115	1,898	247,168
Total expenses	171,555	30,203	14,832	12,763	8,951	3,886	3,115	1,949	247,254
Change in net assets	106,862	62,319	21,108	35,488	4,118	11,247	8,744	3,398	253,284
Beginning net assets, as restated	950,699	518,276	114,217	99,362	65,912	18,081	28,756	15,203	1,810,506
Ending net assets	$ 1,057,561	$ 580,595	$ 135,325	$ 134,850	$ 70,030	$ 29,328	$ 37,500	$ 18,601	$2,063,790

* Purdue University Alumni Foundation has a December 31, 2003 year-end.

D. Subsequent Events

During the first five months of FY 2004, the State experienced revenues of $186.1 million over forecast.

Subsequent to June 30, 2004, the Bond Bank has closed no new bond issues but the Board of Directors has authorized Taxable School Severance Funding Bonds, Series 7 in an amount not to exceed $140 million. As of June 30, 2004, 27 school corporations have been approved for participation in this series. The Bond Bank Board of Directors has also authorized pool applications for Northern Indiana Commuter Transportation District in an amount not to exceed $32 million and City of Beech Grove Sewage Works in an amount not to exceed $1.1 million.

On July 28, 2004, Indiana University issued Facility Revenue Bonds, Series 2004, in the amount of $24.3 million. This bond issue provided permanent financing for the construction of the Barnhill Street Garage on the Indiana University-Purdue University Indianapolis campus, and partial current refunding of Facility Revenue Bonds, Series 1994A. The true interest cost for the bonds is 4.32%. Net present value debt service savings of approximately $1.5 million on the refunding portion of this transaction will be realized by the campus parking operations which incurred the Series 1994A debt obligations.

In October 2004, Purdue University plans to issue Student Fee Bonds, Series T, in the approximate amount of $14.5 million, with a variable rate of interest. This series will be issued to assist in the financing of the Computer Science Building at the West Lafayette Campus.

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 $5.0 million for injury or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a total payment for liabilities of $5.5 million to be made from the Tort Claim Fund during the next fiscal year. During fiscal year ending June 30, 2004 the State paid $5.4 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

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

In 1998, a group of (1) pediatric dentists who are Medicaid providers, and (2) Medicaid recipients of those services, filed a class action lawsuit against the State and its agent, Electronic Data Systems (EDS). The suit challenged the Medicaid reimbursement system for pediatric dental services under both federal and state law. The Johnson County Superior Court granted summary judgment to the State on the federal law claims. The plaintiffs claim damages against the State in the amount of approximately $17 million. Mediation was not successful. The state law claims were set for a court trial in August 2004 and continued by agreement of the parties in order for the motion for summary judgment of EDS to be responded to by the plaintiffs and ruled on by the court. A date for the bench trial has not been re-set.

In 2000, a gaming corporation operating one of the riverboats 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 has been pending before the Tax Court on cross motions for summary judgment since 2001. The potential financial impact of this case is between $5 million and $10 million, with additional impact because of the precedent it would have on other riverboat casino operations.

In July 2002, a corporation filed a breach of contract action against the Department of Environmental Management (IDEM) alleging that IDEM failed to abide by the terms of an agreed order relating to clean-up costs directed by the federal government. The plaintiff is seeking $18 million in damages. On cross-motions for summary judgment the court held that IDEM's referral to EPA was a breach of contract, however, there is a conflict in facts as to whether EPA would have taken action anyway. The case is stayed pending interlocutory appeal.

In August 2002, a large accounting firm hired to conduct the reassessment of real property in Lake County filed a breach of contract suit seeking $12 million. Plaintiff asserts that the State approved invoices then failed to abide by contractual provision requiring it to take steps to force Lake County to pay invoices. Plaintiffs motion for Partial Summary Judgment was denied in April 2004.

In January 2003, a large business with facilities in East Chicago filed an amended complaint in Marion Superior Court that claims East Chicago improperly reduced the assessed value it reported from $1.2 billion to $750 million during the process of determining budgets, rates and levies for 2002.

Plaintiff claims that various local and State officials did not follow proper procedures, which resulted in a tax rate that was higher than it should have been and an increased tax burden on the plaintiff. In addition, plaintiff claims that IC 6-1.1-17-0.5 permits an unconstitutional non-uniform and unequal rate of assessment. Claims are asserted against the County and State in unspecified amounts but could be several million dollars. The State filed motion to dismiss in March 2003. The same allegations by the same business were filed as a new case in Tax Court in April 2003. Oral Arguments were held in March 2004 and the matter is under advisement.

In October 2003, a large group of financial services companies filed a case claiming that they are not subject to Indiana's financial institutions tax because they have no physical presence in this State and, therefore, the required nexus to tax is lacking. They claim that Indiana's requirements for doing business "within Indiana" are not consistent with recent decisions about what constitutes substantial nexus and that imposition of the financial institutions tax on them violates the Commerce Clause and the Equal Protection Clause of the U. S. Constitution. The State's exposure is approximately $5 million to $6 million.

A second case was also filed in November 2003 by a second set of financial services companies. This second set of companies alleged essentially the same thing against the assessment of financial institutions tax by the Department of Revenue. In this case exposure is also $5 to $6 million.

In March 2004 a class action complaint was filed challenging the constitutionality of the Indiana Unclaimed Property Act (Act). Pursuant to the Act, the State is mandated to hold in its custody all unclaimed properties. The Act permits the State to hold the unclaimed property without paying interest to the owner when the property is claimed. The plaintiff alleges that the Act is facially unconstitutional under the United States and Indiana Constitutions because it permits the State to take private property, specifically, the interest and other increments accruing on abandoned property in the State's custody, without just compensation. The Act states that an owner is entitled to receive dividends, interest or other increments accruing on the property at or before delivery to the Attorney General. The Act does not require the payment of any earnings on property, including dividends on securities, to the owner after the property has been delivered to the Attorney General. The State holds custody to more than $198 million in principal amount of unclaimed property plus the interest and earnings. Defendants' Motion to Dismiss was filed in June 2004 and an oral argument date has been set for January of 2005. The State's exposure is approximately $5 million.

In September 2004, Hamilton County filed a lawsuit against the Department of Revenue claiming miscalculation of the county option income tax that the Department collects and remits on the county's behalf. The complaint claims that the Department has under remitted the tax to Hamilton County since 1999. The Department's answer is due in December and we are scheduling a meeting between the parties to discuss the issues. If the Department fails to prevail, damages owed by the State could be approximately $15 million.

The State Lottery Commission (Commission) is the defendant in a 1997 suit 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 of trial.

In July 2003, the trial court conditionally certified two classes: (1) Class A – 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) Class B – all persons who, prior to 1997, purchased winning instant tickets and have never presented the tickets for payment.

In October 2003, the trial court granted the Commission's motion for summary judgment, thereby dismissing the action. Subsequently, the Court of Appeals reversed the lower court and reinstated the case regarding Class A and affirmed the lower court in dismissing Class B. The plaintiffs have asked the Court of Appeals to reconsider their decision regarding Class B.

The Recreational Development Commission has been named as a co-defendant in a lawsuit involving a personal injury claim at an Indiana State Park. While the results of such litigation cannot be predicted with certainty, management based upon the advice of counsel, believes that the final outcome will not have a material adverse effect on the financial condition of the Commission.

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

Loss from reimbursement agreements

Qualitech - 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 (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.

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 2003-2005 biennial budget, the Indiana General Assembly appropriated $5.7 million for Qualitech bond and related payments, negating the need to access any IDFA guaranty funds in either FY 2004 or FY 2005. 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 $25.0 million as of June 30, 2004. Debt service reserve fund aggregating $3.7 million are currently held in trust and may be available to reduce the contingency obligation.

Heartland - IDFA is also 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 (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 2003-2005 biennial budget, the Indiana General Assembly appropriated $2.4 million for Heartland bond and related payments. 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 $10.9 million as of June 30, 2004. Debt service reserve fund aggregating $2.2 million are currently held in trust and may be available to reduce the contingency obligation.

Natural Gas Procurement

Purdue University has entered into various forward contracts to purchase natural gas at a specified time in the future at a guaranteed price. This activity allows Purdue University to plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible that the market price before or at the specified time to purchase natural gas may be lower than the price at which Purdue University is committed to buy. This would reduce the value of the contract. Purdue University could sell the forward contract at a loss and then buy natural gas on the open market. Purdue University is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should Purdue University have to procure natural gas on the open market.

Limited Partnership Agreements

Under the terms of various limited partnership agreements approved by Purdue University's Board of Trustees, Purdue University is obligated to make periodic payments for commitments to venture capital, private equity, and real estate investments over the next several fiscal years. As of June 30, 2004, Purdue University had the following unfunded commitments: $31.8 million to eight Private Equity/Venture Capital managers, $3.5 million to two private real estate managers and $3.4 million to the Indiana Future Fund. These amounts are not included as liabilities in the Statement of Net Assets. Outstanding commitments are estimated to be paid based on the capital calls from the individual managers, subject to change due to market conditions, as follows:

Fiscal Year	Amount
2004-05	$9,667,018
2005-06	$9,667,019
2006-07	$9,667,019
2007-08	$9,667,019

Lease
The Indiana Housing Finance Authority had lease expense for 2003 and 2002 of $462,071 and $237,705, respectively. The Authority entered into a lease agreement for new office space in February 2003. The Indiana Housing Finance Authority paid $124,020 in December 2002 for termination of its existing office lease. The new lease requires payments of $29,464 per month ($353,568 per year) for the ten-year term of the lease. The move to the new office space was completed in April 2003.

Excess Investment Earnings
In order to preserve the exemption of federal and state income taxation on interest received by the bond holders, each bond issue of the Indiana Housing Finance Authority is subject to certain Internal Revenue Code (IRC) and U.S. Treasury Regulations. Under these regulations, the Indiana Housing Finance Authority is required to pay the federal government any excess earnings as defined by IRC Section 148(f) on all nonpurpose investments if such investments were invested at a rate greater than the yield on the bond issue. The Indiana Housing Finance Authority's liability, included in accounts payable and other liabilities on the combined balance sheet, for excess earnings at December 31, follows:

	2003	**2002**
Single Family Program Fund	$590,624	$401,517
Working Families Program Fund	140,430	140,430
	$731,054	$541,947

HOME Investment Partnerships Program
The Indiana Housing Finance Authority (IHFA) serves as a Participating Jurisdiction (PJ) for the HOME Investment Partnerships Program (HOME) monies for the State of Indiana from the U.S. Department of Housing and Urban Development (HUD). The HOME funds are used to develop affordable housing. Properties assisted with HOME money have an affordability period for which they must remain targeted for low-income persons. The affordability period varies depending on the amount of assistance the property received. In 2003, HUD published a policy newsletter that would make PJ's responsible for repaying HOME monies invested in properties that failed to meet their affordability periods, regardless of the circumstances. This policy is contrary to IHFA's understanding of the HOME statute, regulations, and implementation to date. IHFA, along with other recipients of HOME Funds, has asked that HUD reconsider the repayment guidance. Nonetheless, IHFA is making programmatic adjustments to be prepared should HUD continue to pursue implementation of this new repayment policy. No liability has been recorded for any amounts that may be due HUD if the revised policy is enforced.

Clifty Inn
The Recreational Development Commission has entered into a memorandum of understanding pursuant to Indiana Code (IC) 36-1-7 with the Department of Natural Resources to cooperate on the construction and renovation to Clifty Inn at Clifty Falls State Park. The total project cost is estimated at $8.0 million, of which the Recreational Development Commission will contribute approximately $4.2 million through use of current funds and/or an additional bond issue.

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.

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

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 2004 was $214.5 million. Total outstanding loans were $27.7 million, resulting in total assets of $242.2 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 pension and other employee benefit trust funds.

I. 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).

<u>Summary of Significant Accounting Policies (Primary government and discretely presented component units)</u>

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:

<u>State Police Retirement Fund (Presented as a pension fund)</u>

<u>Plan Description</u> The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-2 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust. It also authorizes the Department to make annual contributions as necessary to prevent any deterioration in the actuarial status of the trust.

<u>Funding Policy</u> The pre-1987 plan required 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 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. Under the terms of the Trust Agreement, in the event the Department fails to make the minimum contribution for five successive years, the Trust shall terminate and the fund shall be liquidated. 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.

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 18.3% 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 thirty 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 33-38-8 applies to judges beginning service after August 31, 1985. Indiana Code 33-38-6 and -7 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 33-38-6-7 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, 2004, the number of participating political subdivisions was 1,137.

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 1997. The amortization period for employers joining thereafter will be reduced 1 year per year until 2007 when it will be leveled at 30 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 5.0% 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	$ 10,374.5	$ 79,641.0	$ 139,143.0	$ 2,323.7	$ 9,561.2	$ 1,129.4	$ 233.7
Interest on net pension obligation	(74.5)	(3,414.0)	(8,446.5)	(50.5)	(394.8)	82.9	0.4
Adjustment to annual required contribution	82.8	3,891.0	9,625.4	51.5	449.9	(88.0)	(0.5)
Annual pension cost	10,382.8	80,118.0	140,321.9	2,324.7	9,616.3	1,124.3	233.6
Contributions made	(7,543.6)	(80,796.0)	(130,873.9)	(1,951.5)	(13,275.8)	(446.0)	(186.7)
Increase (decrease) in net pension obligation	2,839.2	(678.0)	9,448.0	373.2	(3,659.5)	678.3	46.9
Net pension obligation, beginning of year	(1,064.8)	(47,092.0)	(116,503.2)	(696.7)	(5,445.9)	1,143.2	5.3
Net pension obligation, end of year	$ 1,774.4	$ (47,770.0)	$ (107,055.2)	$ (323.5)	$ (9,105.4)	$ 1,821.5	$ 52.2
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	9.50%	3.50% - 17.00%	3.50% - 17.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	N/A	2.00%	2.00%	2.00%	N/A	N/A	2.00%
Contribution rates:							
State	22.70%	3.80%	4.70%	18.30%	39.60%	1.10%	*
Plan members	6.00%	3.00%	3.00%	3.00%	6.00%	6.00%	0.00%
Actuarial valuation date	7/1/2004	7/1/2003	7/1/2003	7/1/2003	7/1/2003	7/1/2003	7/1/2003
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	30 years	30 years	30 years	30 years	30 years	30 years
Amortization period (from date)	7/1/1997	7/1/2002	7/1/2002	7/1/2002	7/1/2003	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 market value	75% of expected actuarial value plus 25% of market value	smoothed basis	smoothed market value	smoothed market value	smoothed market value
Historical Trend Information							
Year ended June 30, 2004							
Annual pension cost (APC)	$ 10,382.8	*	*	*	*	*	*
Percentage of APC contributed	80.8%	*	*	*	*	*	*
Net pension obligation (asset)	$ 1,774.4	*	*	*	*	*	*
Year ended June 30, 2003							
Annual pension cost (APC)	$ 9,594.4	$ 80,118.0	$ 140,321.9	$ 2,324.7	$ 9,616.3	$ 1,124.3	$ 233.6
Percentage of APC contributed	87.4%	100.8%	93.3%	83.9%	138.1%	39.7%	79.9%
Net pension obligation (asset)	$ (1,064.8)	$ (47,770.0)	$ (107,055.2)	$ (323.5)	$ (9,105.4)	$ 1,821.5	$ 52.2
Year ended June 30, 2002							
Annual pension cost (APC)	$ 9,218.0	$ 72,609.0	$ 105,032.5	$ 2,048.0	$ 10,323.6	$ 903.5	$ 205.7
Percentage of APC contributed	104.0%	105.1%	122.5%	93.0%	121.5%	48.2%	90.7%
Net pension obligation (asset)	$ (2,272.2)	$ (47,092.0)	$ (116,503.3)	$ (696.7)	$ (5,445.8)	$ 1,143.2	$ 5.3
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)

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, Suite 300, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2004, the number of participating employers was 372.

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 State Teachers' Retirement Fund has a total unfunded actuarial liability as of June 30, 2004, of $8.2 billion. Indiana law provides that the STRF is on a "pay-as-you-go" basis. The Indiana General Assembly appropriated sufficient funds to provide for the State's estimated liability for the current 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, 2004, the number of participating employer units totaled 157 (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, 2004				
Annual required contribution	$	638,541.1	$	87,253.0
percentage contributed		69%		112%
Year ended June 30, 2003				
Annual required contribution	$	572,226.2	$	98,686.9
percentage contributed		106%		98%
Year ended June 30, 2002				
Annual required contribution	$	537,789.7	$	91,914.0
percentage contributed		106%		93%

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 For the Legislators' Defined Contribution Plan, each participant is required to contribute five percent of his annual salary. In addition, the State of Indiana is required to contribute 20% of the member's annual salary on behalf of the participant.

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 $120.7 million for 13,717 participants for the year ended June 30, 2004. Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 2004 are included in the disclosures for PERF.

SEAL OF THE STATE OF INDIANA

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