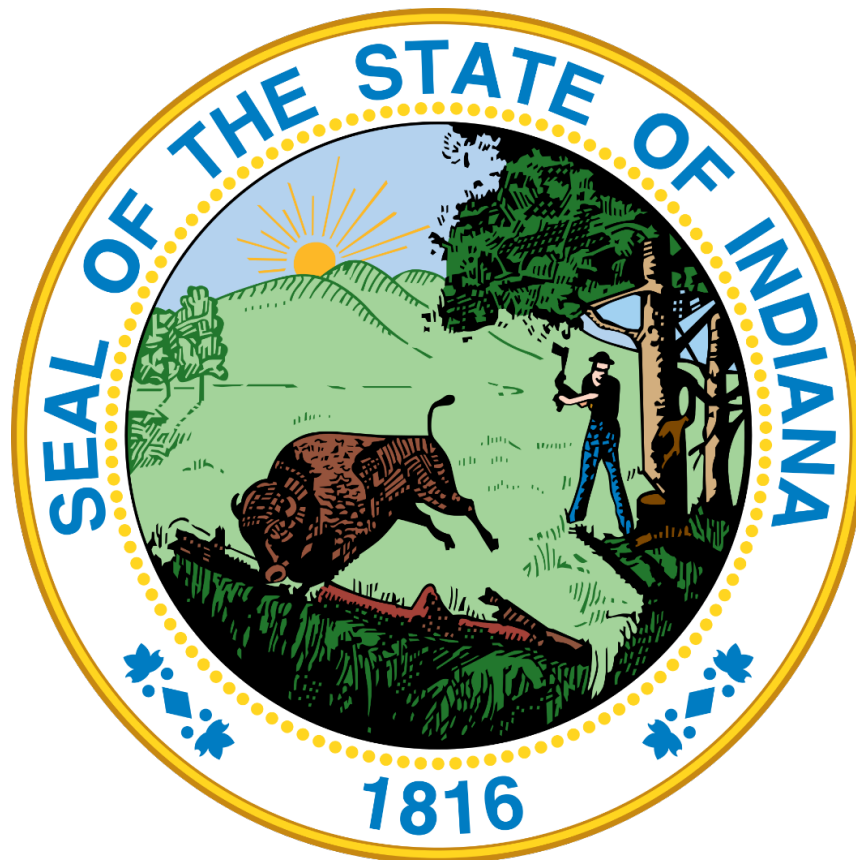


STATE OF INDIANA

Annual Comprehensive Financial Report
For the Fiscal Year Ended June 30, 2023

Eric J. Holcomb, Governor



Prepared by:

The Office of Indiana State Comptroller

Elise M. Nieshalla

State Comptroller

Room 240

State House

Indianapolis, Indiana 46204

Acknowledgments

This Annual Comprehensive Financial Report was prepared by:

The Office of Indiana State Comptroller
Statehouse, Room 240
200 West Washington Street
Indianapolis, Indiana 46204
(317) 232-3300

State Comptroller Staff:

Courtney Schaafsma, CGFM, Chief of Staff & Deputy Comptroller
Courtney Everett, Deputy Comptroller
Brent Plunkett, Deputy Comptroller
Adam Brill, CPA, ACFR Manager
Zachery Guest, CGFM, ACFR Accountant
Jill Onion, CPA, Accounting & Reporting and Local Government Assistant Director
Eric Jones, Accounts Payable Director
Paula Hart, Payroll Director
Stuart Williams, Information Technology Director
Emily Boesen, Communications Director
Tonya Armstrong, Staff Accountant
Liam Duncan, Staff Accountant
Christopher Gunter, Staff Accountant

We acknowledge the cooperation and assistance of the State Budget Agency and all other state agencies in the preparation of this report.

Please visit our web site at www.in.gov/comptroller/

Indiana State Comptroller Biography

Elise M. Nieshalla is the Indiana State Comptroller, fulfilling the duties of the Constitutional Office of State Auditor. Appointed by Governor Eric J. Holcomb on December 1, 2023, Comptroller Nieshalla is committed to serving our state and local governments by upholding the highest standards of fiscal responsibility in the:

- provision of accurate accounting and reporting of state funds;
- disbursement of tax revenues to local units of government;
- payment of Indiana's employees and vendors;
- administration of the state's deferred compensation plan; and
- enhancement of information delivered through the *Indiana Transparency Portal*.

Prior to becoming the State Comptroller, Nieshalla served on the fiscal side of local government as President of the Boone County Council, and President of the Indiana County Councils Association. In addition, Comptroller Nieshalla served as Chairwoman of the Association of Indiana Counties 2023 Legislative Committee and was named *2018 Indiana County Councilor of the Year*.

As a hard-working entrepreneur and economic development professional, Comptroller Nieshalla has worked over 20 years in real estate overseeing property acquisitions and business management for a portfolio of investments. From managing and appropriating millions within her local county budget, to reviewing revenue projections and planning for future needs, Comptroller Nieshalla has a proven record of trusted fiscal stewardship of hard-earned tax dollars, and she is a strong proponent for the essential combination of transparency and fiscal responsibility to undergird our birthright of freedom.

Comptroller Nieshalla earned her bachelor's degree from Oral Roberts University and a master's degree from Indiana University where she also taught as an adjunct faculty member in the O'Neill School of Public and Environmental Affairs. She resides with her husband, Chris, in Zionsville where they have raised their four children.



**STATE COMPTROLLER
Of THE STATE OF INDIANA**

Term	Name	Politics
1816-1828	William H. Lilley	Party Unknown
1828-1829	Benjamin I. Blythe	Party Unknown
1829-1844	Morris Morris	Party Unknown
1844-1847	Horatio J. Harris	Party Unknown
1847-1850	Douglas Maguire	Whig
1850-1853	Erastus W. H. Ellis	Democrat
1853-1855	John P. Dunn	Democrat
1855-1857	Hiram E. Talbot	Fusion-"peoples"
1857-1861	John W. Dodd	Democrat
1861-1863	Albert Lange	Republican
1863-1865	Joseph Ristine	Democratic Union
1865-1869	Thomas P. McCarthy	Republican
1869-1871	John D. Evans	Republican
1871-1873	John C. Shoemaker	Democrat
1873-1875	James A. Wilder	Republican
1875-1879	Ebenezer Henderson	Democrat
1879-1881	Mahlon D. Manson	Democrat
1881-1883	Edward H. Wolfe	Republican
1885-1887	James H. Rice	Democrat
1887-1891	Bruce Carr	Republican
1891-1895	John O. Henderson	Democrat
1895-1899	Americus C. Daily	Republican
1899-1903	William H. Hart	Republican
1903-1905	David E. Sherrick	Republican
1905-1906	Warren Bigler	Republican
1906-1910	John C. Billheimer	Republican
1910-1914	William H. O'Brien	Democrat
1914-1916	Dale J. Crittenberger	Democrat
1916-1920	Otto Clauss	Republican
1920-1922	William G. Oliver	Republican
1922-1924	Robert Bracken	Democrat
1924-1928	Lewis S. Bowman	Republican
1928-1930	Arch N. Bobbit	Republican
1930-1934	Floyd E. Williamson	Democrat
1934-1938	Laurence F. Sullivan	Democrat
1938-1940	Frank G. Thompson	Democrat
1940-1944	Richard T. James	Republican
1944-1948	Alvin V. Burch	Republican
1948-1950	James M. Propst	Democrat
1950-1954	Frank T. Millis	Republican
1954-1956	Curtis E. Rardin	Republican
1956-1958	Roy T. Combs	Republican
1958-1960	Albert A. Steinwedel	Democrat
1960-1964	Dorothy Gardner	Republican
1964-1966	Mark L. France	Democrat
1966-1968	John P. Gallagher	Republican
1968-1970	Trudy Slaby Etherton	Republican
1970-1978	Mary Aikins Currie	Democrat
1978-1982	Charles D. Loos	Republican
1982-1986	Otis E. Cox	Democrat
1986-1994	Ann G. DeVore	Republican
1994-1998	Morris Wooden	Republican
1998-2006	Connie K. Nass	Republican
2006-2013	Tim Berry	Republican
2013-2013	Dwayne Sawyer	Republican
2013-2017	Suzanne Crouch	Republican
2017-2023	Tera Klutz	Republican
2023-	Elise Nieshalla	Republican

STATE OF INDIANA
Annual Comprehensive Financial Report
For the Year Ended
June 30, 2023

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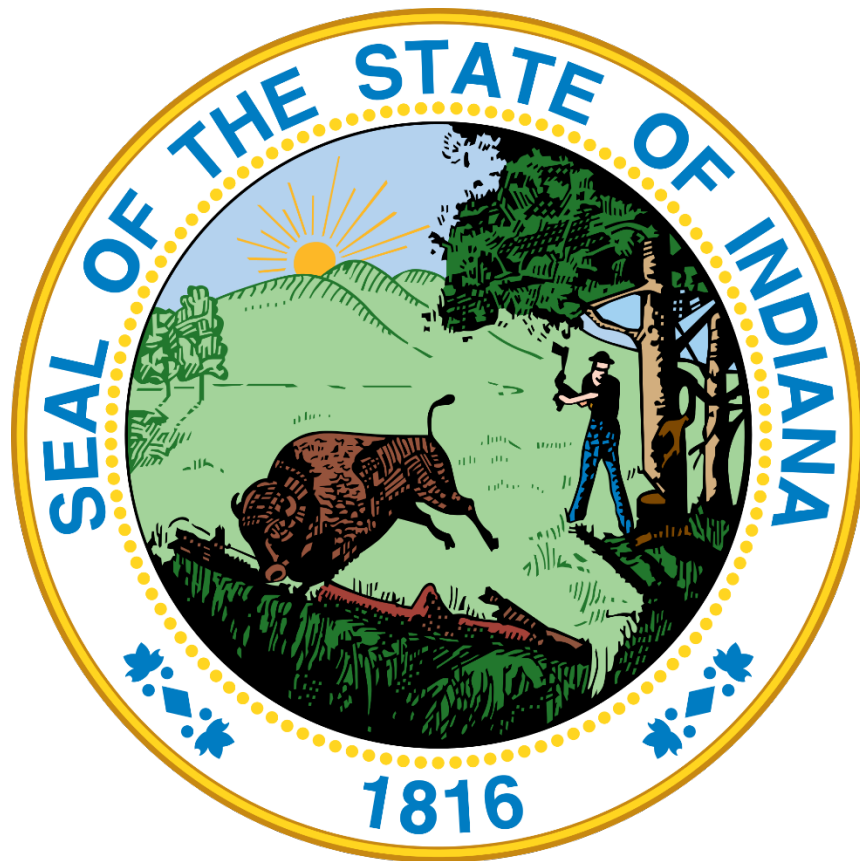
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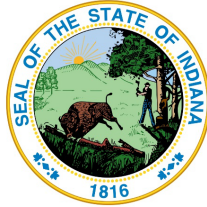
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INTRODUCTORY SECTION



ELISE M. NIESHALLA



STATE COMPTROLLER

January 18, 2024

The Honorable Eric J. Holcomb, Governor,
Honorable Members of the General Assembly,
Citizens of the State of Indiana:

We are proud to present the Annual Comprehensive Financial Report (ACFR) for the State of Indiana's fiscal year ended June 30, 2023.

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

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

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

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

Generally Accepted Accounting Principles provides for two types of statements: government-wide and fund statements. The government-wide statements are very similar to the private sector's statements, using the full accrual basis of accounting and the economic resources measurement focus. The governmental funds financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. In the government-wide statements, infrastructure (roads, bridges, dams) is capitalized. Capital assets, except for infrastructure using the modified approach, are depreciated like the private sector.

Management's Discussion and Analysis (MD&A) in the Financial Section introduces the basic financial statements and provides an analytical overview of the government's financial activities.

THE INDIANA STATE COMPTROLLER IS FULFILLING THE DUTIES OF THE CONSTITUTIONAL OFFICE OF STATE AUDITOR.

200 W. Washington Street - Room 240, Indianapolis, IN 46204 • (317) 232-3300 • www.in.gov/comptroller

It is presented before the basic financial statements and provides an in-depth analysis of the State of Indiana's finances.

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing state and a major agricultural producer. According to the 2020 Census results that were published in 2021, Indiana's population is approximately 6.8 million, which makes Indiana the nation's 17th largest State. The 2020 Census results show a 4.7% growth in residents since the 2010 Census. The five largest cities are Indianapolis (the capital), Fort Wayne, Evansville, South Bend, and Carmel.

Indiana became the 19th State of the Union on December 11, 1816. The State Constitution establishes the government in three separate branches: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100-member House of Representatives and a 50-member Senate. The Indiana General Assembly has the power to enact laws which are authorized and not prohibited by the State Constitution and not in conflict with the U.S. Constitution and laws made in pursuance thereof. The executive power of the State is vested with the Governor. The State Constitution and legislation establish the following statewide elected administrative officials: Lieutenant Governor; Treasurer of State; State Comptroller, who fulfills the constitutional duties of Auditor of State; Secretary of State; and Attorney General. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 319 Trial Courts (including Circuit Courts), and one Tax Court.

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

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

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

Factors Affecting Economic and Financial Conditions

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

Local Economy

Indiana employment and personal income indicators continue to grow, 3.0% and 4.4% respectively in Fiscal Year (FY) 2023, and trend above pre-pandemic levels. In addition to higher payroll, Indiana's unemployment rate is near 3.12% in FY 2023 compared to 3.14% in FY 2022 and 5.37% in FY 2021. Indiana's Gross State Product (GSP) in FY 2023 grew 0.7% in real value compared to 3.4% in FY 2022. This deceleration in real GSP follows the national trend as the economy transitions away from pandemic-related idiosyncratic factors (including monetary and fiscal policy, and more). Real Indiana Gross State Product growth from Q2 2022 to Q2 2023 was 1.1%.

In comparison to other states, Indiana's economy ranked 19th largest in the U.S. in terms of value of goods and services in calendar year 2022. Indiana's largest contributor to real GSP has been and continues to be the manufacturing sector. The manufacturing sector accounts for over 500,000 jobs and 16.7% of the non-farm jobs in Indiana. Canada and Mexico are Indiana's leading merchandise export markets with chemicals, transportation equipment, and machinery accounting for nearly two-thirds of total export categories in 2022.

Aside from the dominance of transportation equipment, steel, and chemical manufacturing in the State, Indiana's economy has a rich farming history. Nearly two-thirds of the State's 23 million acres is dedicated to agriculture of which corn, soybeans, and hogs are the top grossing commodities.

Cash Management and Investments

Cash temporarily idle during the year was invested in deposit accounts, obligations of the U.S. Treasury and U.S. Agencies, money market mutual funds, and repurchase agreements and other fixed income securities. The pension trust funds' portfolios include other investments as outlined in Note I(E)(1) in the notes to the financial statements. The average yield on the General Fund investments was 2.44% for the FY ended June 30, 2023. The average yield on the total investment of all funds, except for pension trust funds, was 2.17% for the FY ended June 30, 2023. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits held by the Treasurer of State are insured by federal and state depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is \$9.4 billion at June 30, 2023.

Financial Policies

The Office of Management and Budget ("OMB") directs the fiscal management and budget policy of the State. The Director of the OMB ("Director") is the chief financial officer of the State and reports directly to the Governor. The Director is responsible for and has authority over all functions performed by the Budget Agency, the Department of Revenue, the Management Performance Hub, and the Department of Local Government Finance, as well as all budgeting, accounting, and spending functions within the various agencies, departments, and programs of

State government. By statutory designation, the OMB Director also serves as the Chairman of the Indiana Finance Authority.

FY 2023 finished with revenue collections of \$21.1 billion. This was slightly below (-0.6%) revenue collections for FY 2022 but above the April 2023 revenue forecast by 0.1%. The state ended FY 2023 with combined General Fund balances of \$2.9 billion. The latest forecast projects total General Fund collections in FY 2024 to be \$21.5 billion (or 2.1% above FY 2023) and \$22.3 billion in FY 2025 (or 3.8% above FY 2024).

Strong revenue collections coupled with modest expenditure growth resulted in historic surplus levels in FY 2022 and FY 2023. Strategic one-time uses appropriated by the Indiana General Assembly along with statutory excess reserve transfers to pensions and taxpayer refunds brought total combined reserves down from \$6.1 billion to \$2.9 billion.

In response to Indiana's strong financial position in FY 2022 and FY 2023, Hoosier lawmakers passed various tax changes. These included a full repeal of the utility receipts tax and the utility services use tax along with a phased reduction in the individual adjusted gross income tax rate from the CY 2022 rate of 3.23% to an eventual rate of 2.9% by CY 2027. In addition to the \$125 automatic taxpayer refund resulting from the FY 2021 excess reserve calculation, lawmakers passed, and the Governor signed an additional automatic taxpayer refund in the amount of \$200 during the special legislative session in August 2022.

Long-Term Financial Planning

The Indiana Finance Authority is charged with developing, implementing, maintaining, and monitoring a debt management plan for all non-conduit debt or debt-related obligations issued by the State. This plan is intended to provide guidance in the structuring, sale, monitoring, and post-issuance compliance for all State-related debt.

Indiana continues to position itself as one of the lowest debt-level states in the country. Net tax supported debt (NTSD) represents just \$366 per capita, the 7th lowest in the country ("Moody's Investors Service – States – US: Ability to Service Long-term Liabilities and Fixed Costs Improves", September 26, 2023). Indiana has continued its low debt discipline by not issuing any appropriation debt over the last budget cycle. Due to Indiana's strong cash position, capital projects were cash funded as opposed to debt financed in order to maintain maximum financial flexibility.

Indiana is one of a minority of states that has the highest credit rating assigned by all three independent credit rating agencies: Fitch, Moody's, and Standard & Poor's Ratings Service (S&P). Fitch's October 2023 rating report affirmed the state's AAA rating with a long-term outlook of "stable" explains that "Indiana remains very well positioned to deal with economic downturns, with exceptionally strong gap-closing capacity in the form of ample budgetary reserves, robust control over revenues and spending, and a demonstrated willingness to take timely budgetary actions."

Major Initiatives

K-12 Education – Funding for elementary and secondary education is the State's largest operating expense. Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As part of the property tax reform legislation enacted by P.L.

146-2008, the State assumed responsibility for the local share of tuition support and provides 100% of the tuition support for school corporation general funds since January 2009.

For FY 2023, the K-12 tuition support appropriation was \$8.2 billion. This appropriation funds a statutory formula distribution to local schools. Of the appropriation, \$44.7 million was left remaining at the end of FY 2023 and reverted to the General Fund. The FY 2024 appropriation for K-12 tuition support was increased in the 2023 budget bill to \$8.8 billion.

In addition to the \$1.7 billion appropriated in FY 2023 for the teachers' pre-1996 retirement account, the Budget Agency transferred an additional \$2.5 billion from the General Fund to the pre-1996 account per a statutory excess reserves calculation. A provision in the 2023 budget bill requires any combined reserve balances in excess of \$3.0 billion at the end of FY 2024 and FY 2025 to be transferred to the pre-1996 account.

Higher Education – Through the General Fund, the State supports seven higher education institutions: Ball State University, Indiana University, Indiana State University, Ivy Tech Community College of Indiana, Purdue University, University of Southern Indiana, and Vincennes University. Higher education General Fund appropriations for FY 2023 totaled \$2.1 billion, which includes funding for university operating, fee-replaced debt service, line items, and State student aid.

Since FY 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding student fee and building facilities fee bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the Indiana Constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes. Estimated amount of debt outstanding at public universities at the end of FY 2023 was \$1.1 billion.

Public Safety – Appropriations for the Department of Correction (DOC), payable almost entirely from the General Fund, include funds for incarceration and rehabilitation of adult and juvenile offenders, as well as parole programs. General Fund expenditures for FY 2023 totaled \$822.7 million.

Offender population is the most significant driver of corrections expenditures. The total offender population, including those in contracted jail beds, decreased from 23,523 at the end of FY 2022 to 23,213 at the end of FY 2023. This represents a 1.13% decrease year over year.

Reduction of the recidivism rate among offenders has been a focus of the administration. In CY 2021, the DOC reported that roughly 33.82% of all offenders were recommitted to the DOC within three years of their release date, for either a new conviction or a violation of post-release supervision. In CY 2022 that number decreased to 29.79% of all offenders being recommitted. This is the largest annual decrease since 2014.

Transportation – The Indiana Department of Transportation (INDOT) has responded quickly to increase transportation construction, maintenance, and preservation activities as directed in the Governor's 20-year Next Level Roads plan which was made possible through the bipartisan passage of House Enrolled Act 1002 during the 2017 legislative session. INDOT manages and maintains 10,978 miles of roadway and 5,763 bridges.

During the 2023 legislative session, the final 10.735% of gasoline use tax revenue was accelerated from FY 2025 to FY 2024 into the State Highway Fund, and fuel tax indexing for gasoline and special fuels was extended three years through FY 2028. This additional funding potential will be invested across all INDOT asset classes beginning in FY 2024.

Through the first six years of Next Level Roads, INDOT invested over \$10 billion to improve the condition of existing assets, enhance safety, and prepare our transportation system to accommodate future demands. INDOT has resurfaced, rehabilitated, and reconstructed over 3,700 center lane miles of roadway and repaired or replaced over 4,200 bridges and large culverts.

Further, since 2016 and through FY 2023, INDOT has partnered with cities, towns, and counties to provide more than \$1.4 billion in state funds to support local road and bridge projects through the Community Crossings Matching Grant Program. This program is funded with gasoline use taxes, the special Transportation Infrastructure Improvement Fees, and supplemental registration fees for electric and hybrid vehicles.

The Bipartisan Infrastructure Law increased INDOT's core federal program by approximately \$970 million through FY 2026. In addition to increased core formula funding, INDOT was also the recipient of over \$1.1 billion of funding from the American Rescue Plan Act, all of which had been obligated through the end of FY 2023.

Conservation and Environment – Next Level Trails is the largest infusion of trail funding in state history. The grant program is divided into two components: regional projects and local projects. Each project will require a minimum 20 percent match, which can include monetary contributions, land value, and in-kind donations of materials and labor. Projects funded through this program must be open to the public. Next Level Trails is part of Governor Eric J. Holcomb's Next Level Connections, a \$1 billion statewide infrastructure program announced in September 2018.

The General Assembly appropriated an additional \$30 million in state funds to Next Level Trails in April 2023 bringing the total of the program to \$180 million for trail development: \$150 million of state funding and \$30 million in American Rescue Plan Act funding. Round 4 received 47 applications and awards will be announced in December 2023. 62.89 miles of trails have been constructed with \$53.7 million disbursed to grantees.

The Department of Natural Resources (DNR) will receive \$370 million from the federal Bipartisan Infrastructure Law over 15 years to conduct reclamation projects on abandoned mines across Indiana. DNR is continuously building an inventory of projects to dedicate funding towards that restore mining lands to their pre-mine status and make them available for beneficial use.

Health and Human Services – Medicaid is a state/federal shared fiscal responsibility. Average monthly enrollment has risen substantially since the beginning of the Public Health Emergency (PHE) due to the economic impacts from COVID-19 pandemic responses along with federal maintenance of effort requirements that prevented eligibility redetermination activities from January 2020 until March 31, 2023. Enrollment peaked at a total of 2,281,058 members in April 2023 with an average monthly enrollment of 2,205,325 for FY 2023. Indiana's base federal reimbursement rate equaled 66.30% for Federal Fiscal Year 2022 and 65.82% for Federal Fiscal Year 2023. The base rate is expected to be reduced to 65.62% for Federal Fiscal Year 2024. In addition, Congress authorized a phase-down of the pandemic era 6.2% federal medical assistance percentage (FMAP) increase through December 2023. The state General Fund Medicaid appropriations for Fiscal Year 2023 total \$3.9 billion.

In FY 2023, the Department of Child Services (DCS) continued the implementation of its practice to place children in the most stable, family-like setting and continued a downward trend in the number of cases handled by the Department. At the end of the fiscal year, DCS had a total of 11,485 open cases (figure includes informal adjustments and collaborative care for older youth), compared to 13,079 open cases at the close of FY 2022. The state General Fund appropriations supporting the DCS totaled \$885.6 million.

The Indiana Department of Health (IDOH) promotes, protects, and improves the health and safety of all Hoosiers, with the goal of every Hoosier reaching their optimal health regardless of where they live, learn, work, or play. In collaboration with Indiana's 94 locally controlled health departments, IDOH's work spans the entire State and impacts every Hoosier. In FY 2023, local departments of health received some grants from the State but were predominantly funded by local taxes and user fees. State funding for local health departments was increased to historic levels in the 2023 budget bill from less than \$15 million in the prior biennium to \$225 million for the FY 2024-2025 biennium with the programming of these dollars occurring on the local level to meet core needs. General Fund appropriations totaled \$12.6 million and other state dedicated funds, including user fees and Tobacco Master Settlement funding, totaled \$111.3 million in FY 2023 for the IDOH. The IDOH continued to receive an elevated amount of federal grant funding in FY 2023 to address the COVID-19 pandemic and other associated efforts.

Economic Development – The Indiana Economic Development Corporation (IEDC) is the State of Indiana's chief economic development agency. The IEDC seeks to bring new job creation and capital investment opportunities to Indiana through competitive company attractions, expansions, and consolidations. In FY 2023, an additional \$500 million was appropriated to support the IEDC economic development efforts. Indiana has received several accolades for its business environment. This includes favorable rankings of 6th in the nation in Chief Executive Magazine's annual "Best States for Business" survey (April 2023), top 10 best states for business tax climate according to the Tax Foundation 2024 index, and 1st in infrastructure according to CNBC.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its annual comprehensive financial report for the fiscal year ended June 30, 2022. This was the thirtieth consecutive year that the State of Indiana has achieved this prestigious award.

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

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

Acknowledgments

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

Sincerely,



Elise M. Nieshalla
State Comptroller
State of Indiana



Cristopher Johnston
Director
Office of Management and Budget



Government Finance Officers Association

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For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

Executive Director/CEO

