B24926

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

STATE OF INDIANA

SINGLE AUDIT REPORT

July 1, 2003 to June 30, 2004

TABLE OF CONTENTS

TABLE OF CONTENTS
(Continued)

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: The Honorable Joseph E. Kernan,
The Members of the General Assembly, and
The Citizens of the State of Indiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Indiana, as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which represent 13.2% and .7% of the assets and revenues of the governmental activities, 80.4% and 62.1% of the business-type activities and 100% of the assets and revenues of the governmental and proprietary discretely presented component units. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and, our opinions, insofar as they relate to those units, are based upon the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Indiana as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note IV(G) to the financial statements, the State of Indiana has restated certain beginning fund balances and net assets. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 2003, year-end.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2004, on our consideration of the State of Indiana's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

STATE BOARD OF ACCOUNTS

December 28, 2004

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: The Honorable Joseph E. Kernan,
The Members of the General Assembly, and
The Citizens of the State of Indiana

We have audited the financial statements of the State of Indiana, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Indiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Indiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Indiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2003-CAFR-1 and 2003-CAFR-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information of the State of Indiana's management, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than the specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts.

STATE BOARD OF ACCOUNTS

December 28, 2004

STATE OF INDIANA
Management's Discussion and Analysis
June 30, 2004

The following discussion and analysis of the State of Indiana's financial performance provides an overview of the State's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the transmittal letter at the front of this report and the State's financial statements, which follow this section.

Financial Highlights

- For FY 2004, on a government-wide basis, the assets of the State of Indiana exceeded its liabilities by $14.0 billion. This compares with $14.7 billion for FY 2003, as restated. Of this amount, $2.7 billion may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $841.0 million, or 11.0% of the total general fund expenditures.
- On a government-wide basis for the primary government, the State incurred expenses net of program revenue of $13.3 billion, which are partially offset by general revenues and transfers of $12.6 billion, giving a decrease in net assets of $715.8 million. The financial position of the State has deteriorated as can be seen in this decrease in net assets. This compares with a decrease in net assets of $202.1 million for FY 2003.
- Indiana continues to feel the effects of the economic recession. While the service-producing employment increased by 0.3% in Calendar Year (CY) 2003, the overall unemployment rate increased from 4.9% to 5.1%. In addition, there have been increases in personal bankruptcies. According to the American Bankruptcy Institute, for FY 2004, the State ranks eleventh worst in non-business bankruptcy filings. During calendar year (CY) 2003, the State had a 4.3% increase in personal bankruptcy filings, compared to a 3.7% increase nationally. As of June 2003, Indiana experienced a decrease of 0.72% in the number of welfare recipients, compared to a 1.03% decrease nationwide, according to the U.S. Department of Health and Human Services.
- General revenue for the primary government increased by $0.87 billion, or 7.5%, from FY 2003. Unemployment taxes, gaming taxes, sales taxes, and income taxes were the driving force behind this increase, with growth rates of 21.1%, 16.0%, 11.5% and 5.1% respectively.
- The State of Indiana is rated AA with a stable outlook by Standard & Poor's (on a scale where AAA is the best). The State's credit rating was downgraded from AA+ and a negative outlook on January 20, 2004. As of August 26, 2004, Standard & Poor's rated 18% of the States AAA, 14% AA+, and 38% were rated AA. Each bond issue of the State's component units is rated separately by Moody's and Fitch. Moody's rates 151 bond issues of the State's component units whereas Fitch rates 168 bond issues. Out of a total of 151 bond issues rated by Moody's, 106 of them were rated Aaa (on a scale where Aaa is the best). As for Fitch, 157 of 168 bond issues were rated AAA (on the scale where AAA is the best).

Key Economic Indicators

	Dec 31, 2003	Dec 31, 2002	% Change
Total Employment	2,928,400	2,933,200	-0.2%
Service-Producing Employment	2,205,300	2,198,600	0.3%
Goods-Producing Employment	723,100	734,600	-1.6%
Unemployment Rate [1]	5.1%	4.9%	0.2%
Median Household Income [2]	$ 42,206	$ 41,974	0.6%

[1] Preliminary number.

[2] Two year average median money income. The 2-year-average median is the sum of two inflation-adjusted single-year medians divided by 2.

Sources: Bureau of Labor Statistics, Current Employment Statistics Series and Local Area Unemployment Statistics, US Census Bureau, Income, Poverty, and Health Coverage in the United States: 2003.

Salaries and benefits for State employees represent approximately 9-10% of governmental fund expenditures. The following table shows a five year history of the count of full time State employees.

Full Time State Employees Paid
Through The Auditor of State's Office

	Governor's Authority	Judiciary	Other Elected Officials	On Disability Leave	Total
2000	36,284	836	1,014	1,235	39,369
2001	36,134	862	1,018	1,263	39,277
2002	35,907	869	1,021	1,315	39,112
2003	35,753	899	1,039	1,217	38,908
2004	36,276	899	1,039	1,288	39,502

For more information on people paid through the Auditor of State's Office, please see pages 214-218 in the Statistical Section.

Overview of the Financial Statements

This Financial Section consists of four parts: management's discussion and analysis (this part), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the State. The first two statements are government-wide financial statements that provide both long-term and short-term information about the State's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the State government, reporting the State's operations in more detail than the government-wide statements.

- The governmental fund statements tell how general government services such as public safety, education, and welfare were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the State Lottery Commission and the Indiana Transportation Finance Authority's Toll Roads.
- Fiduciary fund statements provide information about the financial relationships in which the State acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong, such as the retirement plan for the State's employees.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* and *other supplementary information* that further explain and support the information in the financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the State's net assets and how they have changed. Net assets, the difference between the State's assets and liabilities, is one way to measure the State's financial health, or position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State of Indiana is improving or deteriorating. To assess the overall health of the State, additional non-financial factors should be considered, such as changes in the State's tax base, the condition of the State's roads and the State's student population. The government-wide financial statements of the State are divided into three categories:

- **Governmental activities**. Most of the State's basic services are included here, such as the State's roads and bridges, and health and environmental programs. State sales and income taxes and federal grants finance most of these activities.
- **Business-type activities**. The State provides goods and services through these activities that are

financed or recovered primarily through fees and user charges. The Hoosier Lottery and the East-West Toll Road are included here.

- **Discretely Presented Component Units**. These are legally separate discretely presented entities for which the State is financially accountable. These include, among others, the Indiana Bond Bank, the Board for Depositories, the Indiana Housing Finance Authority, and colleges and universities that receive State funding.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds, not the State as a whole. Funds are accounting devices that the State uses to keep track of specific sources of funding and spending for particular purposes. The State of Indiana uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The State has three kinds of funds: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds**. Most of the State's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

   Relationship and Reconciliation. Because the information provided in the governmental funds statements does not encompass the additional long-term focus of the government-wide statements, reconciliation pages are provided. On the page following each governmental fund's financial statement, these reconciliations explain the differences between the government-wide and the fund financial statement. Government-wide statements use full accrual accounting. Revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred, regardless of the timing of related cash inflows and outflows. Governmental fund financial statements use the modified accrual basis of accounting. Revenues are recognized when earned so long as they are collectible within the current period or soon enough afterwards to pay liabilities of the current period. Debt service payments and a number of specific accrued liabilities are recognized as expenditures when payment is due because that is when they are normally liquidated with expendable available financial resources.

   Noncurrent assets such as infrastructure, land, and property, plant and equipment appear on the government-wide statements but not on the governmental fund statements where they are expensed as acquired rather than capitalized. Noncurrent liabilities such as revenue bonds payable and net pension obligations also appear on the government-wide statements but not on the fund statements. Internal service funds are included as part of the governmental activities in the government-wide statements but not the governmental fund financial statements because they provide services to the governmental funds.

2. **Proprietary funds**. Services for which the State charges customers a fee are generally reported in proprietary funds. These funds use the economic resources measurement focus and the accrual basis of accounting. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. In fact the State's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information such as cash flows. The State uses internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for the State's other programs and activities. An example would be the State Office Building Commission.

3. **Fiduciary funds**. The State is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds use the economic resources measurement focus and the accrual basis of accounting. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

Financial Analysis of the State As a Whole

Net Assets

The following is condensed from the Statement of Net Assets:

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

	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 8,283.7	$ 7,962.1	$ 3,467.8	$ 3,302.4	$ 11,751.5	$ 11,264.5
Capital assets	10,660.9	10,429.6	275.7	255.7	10,936.6	10,685.3
Total assets	18,944.6	18,391.7	3,743.5	3,558.1	22,688.1	21,949.8
Current liabilities	4,197.3	3,972.8	188.9	167.8	4,386.2	$ 4,140.6
Long-term liabilities	2,404.7	1,763.6	1,925.2	1,544.8	4,329.9	3,308.4
Total liabilities	6,602.0	5,736.4	2,114.1	1,712.6	8,716.1	7,449.0
Net assets:						
Invested in capital assets, net of related debt	9,828.3	9,664.9	68.1	36.9	9,896.4	$ 9,701.8
Restricted	580.9	534.1	834.0	1,218.2	1,414.9	1,752.3
Unrestricted	1,933.4	2,456.3	727.3	590.4	2,660.7	3,046.7
Total net assets	$ 12,342.6	$ 12,655.3	$ 1,629.4	$ 1,845.5	$ 13,972.0	$ 14,500.8

At the end of the current fiscal year, unrestricted net assets for governmental activities were $1.9 billion, or 9.0% of the total governmental activities' expenses, as compared to $2.5 billion, or 12.8%, for FY 2003. Unrestricted net assets were 43.9% of expenses for business-type activities, as compared to 36.1% in FY 2003.

The State maintains a Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue of the State's general fund during periods of economic recession. The fund had total assets of $214.5 million or 11.1% of the total governmental activities' unrestricted net assets.

Changes in Net Assets

The following is condensed from the Statement of Activities:

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

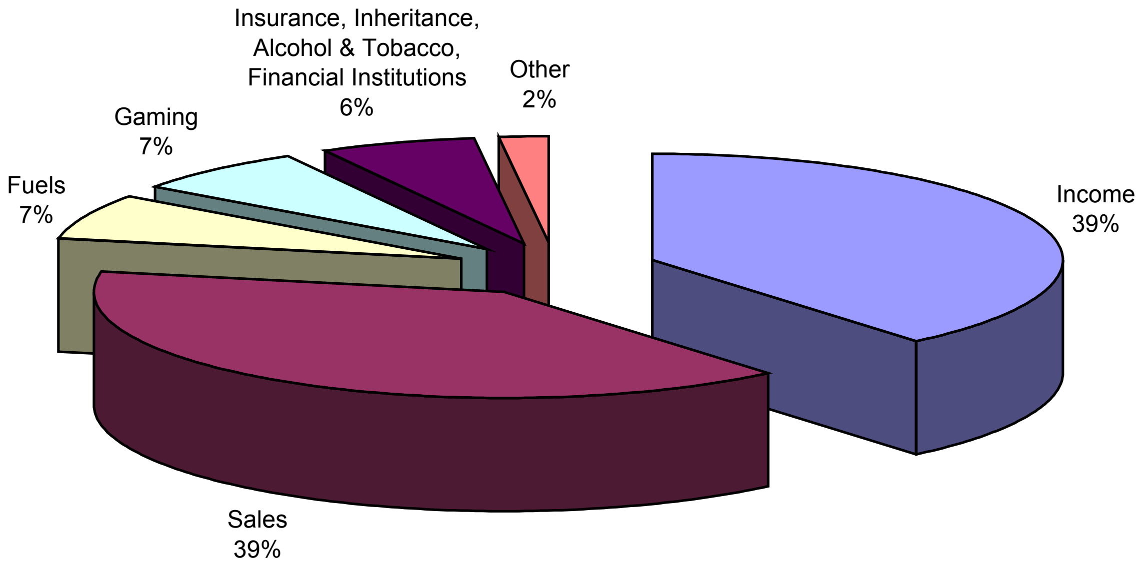
	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	$ 1,206.1	$ 1,210.4	$ 937.2	$ 853.1	$ 2,143.3	$ 2,063.5
Operating grants and contributions	7,469.2	6,677.2	122.2	170.5	7,591.4	6,847.7
Capital grants and contributions	14.1	15.6	62.8	17.8	76.9	33.4
General revenues						
Individual and corporate income taxes	4,653.8	4,428.3	-	-	4,653.8	4,428.3
Sales taxes	4,694.9	4,210.5	-	-	4,694.9	4,210.5
Other	2,755.6	2,632.1	449.5	408.8	3,205.1	3,040.9
Total revenues	20,793.7	19,174.1	1,571.7	1,450.2	22,365.4	20,624.3
Program Expenses						
General government	4,149.8	3,049.7	-	-	4,149.8	3,049.7
Public safety	1,211.8	1,198.6	-	-	1,211.8	1,198.6
Health	413.3	323.6	-	-	413.3	323.6
Welfare	7,039.6	6,534.7	-	-	7,039.6	6,534.7
Conservation, culture and development	511.8	480.8	-	-	511.8	480.8
Education	6,360.3	6,243.7	-	-	6,360.3	6,243.7
Transportation	1,641.7	1,278.9	-	-	1,641.7	1,278.9
Interest expense	94.9	80.9	-	-	94.9	80.9
Toll roads	-	-	75.7	90.8	75.7	90.8
Aviation Technology Bonds	-	-	0.7	0.7	0.7	0.7
Airport Facilities Revenue Bonds	-	-	13.0	12.0	13.0	12.0
State revolving fund	-	-	61.0	62.6	61.0	62.6
Unemployment compensation fund	-	-	868.9	887.5	868.9	887.5
State lottery commission	-	-	599.1	552.2	599.1	552.2
Other	-	-	39.6	29.7	39.6	29.7
Total expenses	21,423.2	19,190.9	1,658.0	1,635.5	23,081.2	20,826.4
Excess (deficiency) before transfers	(629.5)	(16.8)	(86.3)	(185.3)	(715.8)	(202.1)
Transfers	135.2	105.8	(135.2)	(105.8)	-	-
Change in net assets	(494.3)	89.0	(221.5)	(291.1)	(715.8)	(202.1)
Beginning net assets, as restated	12,836.9	12,566.3	1,850.9	2,136.6	14,687.8	14,702.9
Ending net assets	$ 12,342.6	$ 12,655.3	$ 1,629.4	$ 1,845.5	$ 13,972.0	$ 14,500.8

Governmental Activities

Expenses exceeded program revenues by $12.7 billion. General revenues and transfers were $12.2 billion, leaving a decrease in net assets of $494.3 million, which is 2.4% of total revenues. Last year the State had an increase in net assets of $89.0 million, which was 0.5% of total revenues. Although total revenues increased from $19.2 billion in FY 2003 to $20.8 billion in FY 2004, expenses increased even more from $19.2 billion to $21.4 billion. The major driver behind the increase in expenses was general government expenses which increased by $1.1 billion or 36.1% year to year.

Tax revenues for governmental activities were broken down as follows:

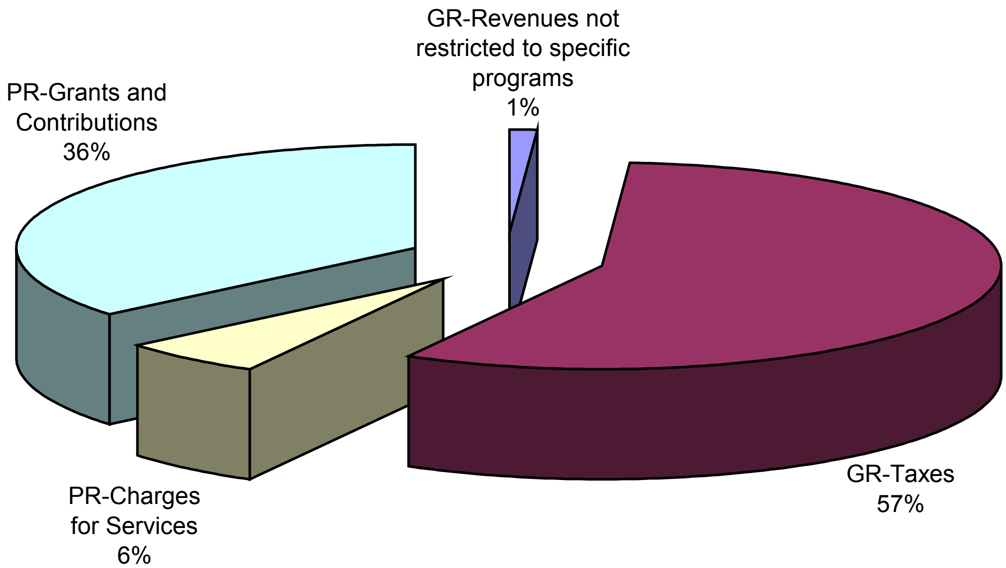
Tax Revenues - Governmental Activities



Tax revenues of $12.0 billion represent 57.5% of total revenues for governmental activities. This compares to $11.1 billion in FY 2003 or 57.9% of total revenues in FY 2003. Program revenues accounted for $8.7 billion or 42% of total revenues. In FY 2003 program revenues accounted for $7.9 billion or 41% of total revenues. Revenues not restricted to specific programs were $150 million or 0.7% of total revenues. Of this $150 million, $43.1 million was investment earnings, which decreased from $60.3 million in FY 2003 due to historically low interest rates.

Total revenues for governmental activities were broken down as follows:

Revenues to Support Governmental Activities



PR = program revenues
GR = general revenues

Total revenues were 97.1% of expenses, as compared to 99.9% in FY 2003, which explains most of the decline in net assets. In other words expenses went up faster than the revenues to cover them in FY 2004.

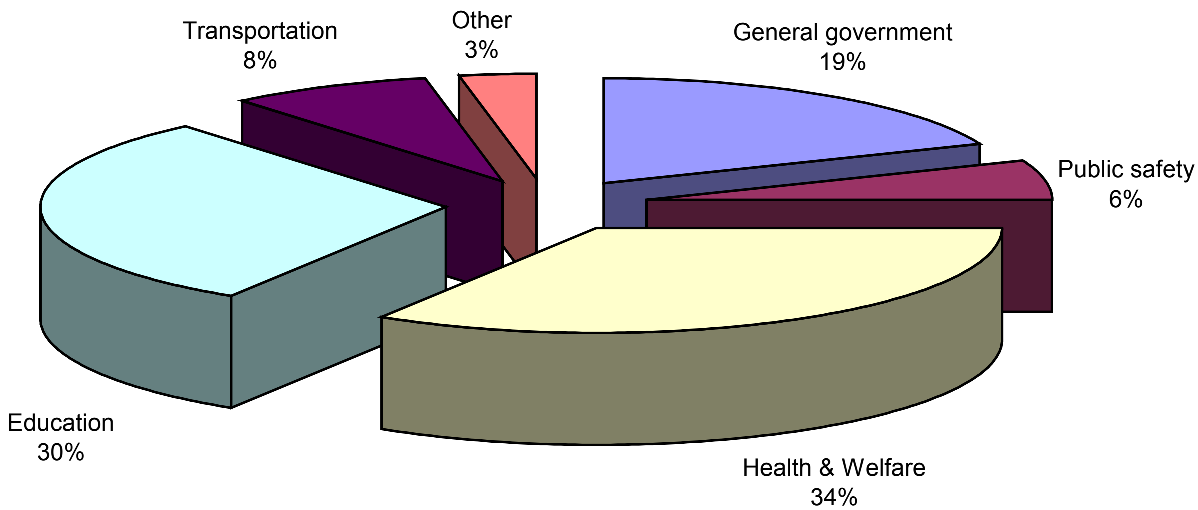
The largest portion of the State's expenses is Health and Welfare, which is $7.5 billion, or 34% of total expenses. This compares with $6.9 billion, or 36% of total expenses in FY 2003. 70% is funded through operating grants, with the majority of the remainder funded from general revenues. $4.6 billion was spent for Medicaid assistance, as compared to $4.1 billion in FY 2003.

Education comprises 30%, or $6.4 billion, of the State's expenses. In FY 2003, Education accounted for 32%, or $6.2 billion, of expenses. All but $718.4 million of this is funded from general revenues. The expenses are composed of tuition support, transportation, and the ADA (average daily attendance) flat grant distribution. The National School Lunch Program is another area of expense, which is funded through program revenues.

$4.1 billion, or 19% of expenses, was spent for General Government. General Government, which comprised $3.0 billion (16%) of expenses in FY 2003, includes local distributions and money for State administration and those functions that serve the State as a whole. Examples of local distributions are the property tax replacement credit, which subsidizes local property tax collections, and the motor vehicle excise replacement credit, which subsidizes automobile license fees. Examples of State administration would be the executive branch of government, the State legislature, and the judiciary.

Total expenses for governmental activities were broken down as follows:

Expenses - Governmental Activities



Business-type Activities

Business-type activities represent 7.0% of the Primary Government's revenues and 7.2% of the expenses. The State Lottery Commission accounts for 65.5% of business-type activities' program revenues and 36.1% of expenses. Profits of the State Lottery Commission help to fund the State's retirement plans, and, through the Build Indiana Fund, the motor vehicle excise tax credit, and capital projects for local governments. The Unemployment Compensation Fund's expenses make up 52.4% of business-type activities' expenses.

Net Cost of Primary Government
(in millions)

	June 30, 2004	June 30, 2003	% change
Governmental Activities:			
General government	$ 3,646.3	$ 2,502.3	45.7%
Public safety	366.5	425.9	-13.9%
Health	146.3	140.0	4.5%
Welfare	1,936.4	1,931.6	0.2%
Conservation, culture, and development	196.1	193.0	1.6%
Education	5,641.9	5,636.0	0.1%
Transportation	705.4	378.0	86.6%
Other	94.9	80.9	17.3%
Business-type Activities:			
Toll Roads	(17.0)	1.8	-1044.4%
State Revolving Fund	(67.2)	(16.8)	300.0%
Unemployment Compensation Fund	746.7	717.0	4.1%
State Lottery Commission	(135.8)	(112.2)	21.0%
Other	9.1	4.4	106.8%
TOTAL	**$ 13,269.6**	**$ 11,881.9**	**11.7%**

This schedule shows the net expense (revenue) attributable to each function of government. Each function of Indiana government is either self-supporting (a negative number) or requires additional general revenues to cover expenses (a positive number).

Financial Analysis of the State's Funds

The following is an analysis of the State's major governmental funds. Please note that transfers in and transfers out for these funds are explained in much greater detail in the Notes to the Financial Statements IV(B).

General Fund

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund. The fund balance of the General Fund at June 30, 2004 was $1.24 billion, which is 35.5% of assets. This compares to a fund balance at June 30, 2003 of $1.26 billion, which was 34.4% of assets. This indicates that the State's financial position in the General Fund is slightly worse than the prior year by $0.02 billion. The fund balance of $1.24 billion is composed of reserves of $401 million and unreserved of $841 million. Major reserves are:

- Encumbrances of $29 million, which is money set aside to pay for future obligations.
- Loans of $76.3 million, which consists of $34.5 million in loans to entities outside the primary government and $41.8 million in interfund loans.
- Tuition support of $290.5 million, which is money set aside for distributions to schools.

The State calculates a cash basis surplus balance monthly. The year-end surplus balance is combined with estimated revenue forecasts to assess and determine the State's budget. This surplus balance is contained in the General Fund. As of June 30, 2004, the surplus balance was $505.2 million. The balance decreased by $184.5 million from the June 30, 2003 balance of $689.7 million. This surplus balance is composed of:

- $290.5 million tuition support, which is money set aside to pay for distributions to schools.
- $214.5 million rainy day fund, which is to assist in stabilizing revenue during periods of economic recession and is part of designated unreserved.
- $0.2 million, which represents the excess of revenues over expenditures.

The $0.2 million is on a cash basis. Accrual adjustments of $155.1 million reconcile this to the General Fund unreserved, undesignated fund balance on a GAAP basis of $155.3 million. For more information on the cash basis surplus, see page 168 in the Statistical Section. The unreserved, undesignated fund balance of $155.3 million plus the unreserved fund balance designated for appropriations of $312.5 million, plus the unreserved fund balance designated for allotments of $373.2 million give the total unreserved fund balance of $841.0 million. This ties to the Balance Sheet for the General Fund. For more information on designations of unreserved fund balance, see the chart at the bottom of page 64.

The General Fund's revenues increased 3.8%, or $293.5 million, from FY 2003, primarily due to a 5.2% increase, or $214.4 million, in income tax revenue and a 4.5% increase, or $96.6 million, in sales tax revenue. The General Fund's expenditures increased by 1.4%, or $103.2 million, from FY 2003. This was caused by an increase of 5.1% or $30.4 million in public safety expenditures, an increase of 3.0% or $27.8 million in general government expenditures, and an increase of 1.0% or $53.5 million in education expenditures.

The General Fund had transfers in of $2.6 billion compared to $3.0 billion in FY 2003. Transfers out were $3.0 billion which was the same as FY 2003. More detail on transfers can be found in the Notes to the Financial Statements IV(B). In addition, per legislation the General Fund borrowed $50.0 million from the Indiana Board for Depositories, a nonmajor discretely presented component unit, which insures the safekeeping of public funds deposited in any depository, to the extent that they are not covered by insurance of any federal deposit insurance agency.

Motor Vehicle Highway Fund

The Motor Vehicle Highway Fund receives portions of gas and special fuel tax, motor vehicle registration fees, the motor carrier surtax, federal revenue, and other revenues. These are distributed to cities and towns, counties and the State Department of Transportation and are used to help fund the State Police, the Bureau of Motor Vehicles, the Department of Revenue and others. The fund collected $478.4 million in taxes vs $463.5 million in FY 2003, $56.9 million in International Registration Plan (IRP) fees from motor carriers vs $56.1 million in FY 2003, $17.2 million in federal grants vs $15 million in FY 2003, and $18 million in other fees vs $12.5 million in FY 2003. The fund received $253 million in transfers in, which are taxes collected in other funds. This compares to $246.4 million in FY 2003. The fund distributed $282 million to local units of government, $189.1 million for public safety, and transferred $359.4 million to other funds, which include the Department of Transportation and the General Fund. These amounts compare to FY 2003 distributions of $290 million to local units of government, $191.5 million for public safety, and transfers of $315 million to other funds.

Medicaid Assistance Fund

Medicaid is an insurance program for low-income people. It is jointly funded by the Federal government and the State. The Medicaid Assistance Fund received $3.3 billion in Federal revenue as compared to $2.6 billion in FY 2003. State funding comes through the $1.5 billion in transfers in. Transfers out were $222.6 million. The Fund distributed $4.6 billion in Medicaid assistance. This compares to $4.1 billion in FY 2003.

Build Indiana Fund

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

The Build Indiana Fund received $250.0 million in gaming revenue which was transferred in from other funds. The revenue is the same as FY 2003 because the General Assembly capped Build Indiana Fund revenue. The Fund distributed $3.5 million to the School and Library Internet Connection Fund, $1.7 million for the Digital Television Conversion Project, $1.3 million for the 21st Century Research and Technology Fund, and $3.6 million for other technology and local grants. Transfers out of the Fund were made up of a $236.2 million transfer to the Motor Vehicle Excise Replacement account in the General Fund. This transfer out is mandated by legislation and the amount is the same as FY 2003.

State Highway Department Fund

The State Highway Department Fund was created to fund the construction, reconstruction, operation, maintenance, and control of State highways and tollways. The fund collected $811.4 million in grants and received $480 million in transfers in, which are taxes and revenues collected in other funds, compared with $706 million and $456 million in FY 2003, respectively. The fund expended $1.4 billion during the year, compared with $1.2 billion in FY 2003.

Property Tax Replacement Fund

The Property Tax Replacement Fund collects sales and gaming taxes that are dedicated to tuition support and to property tax replacement distribution to local units of government. This is to relieve the property tax burden for the citizens of Indiana who own property. In FY 2004, the fund collected $2.3 billion in sales taxes, as compared to $1.9 billion in FY 2003.

The fund received transfers in of $533.1 million for income taxes and $62.5 million in sales taxes collected in the General Fund. This compares to FY 2003 tax transfers of $281.9 million from the General Fund. The fund received a transfer in of $593.2 million from the State Gaming Fund, as compared to $430.9 million in FY 2003. The fund received transfers in of $153.4 million from the General Fund for a shortfall in tuition support, and $23.7 million in sales taxes collected in the Tax Collection Fund.

The fund transferred out $1.6 billion to the General Fund for tuition support. This compares to $1.5 billion in FY 2003. $106.5 million was transferred to the Build Indiana Fund, in contrast to FY 2003 when $136.2 million was transferred. $1.1 billion was distributed to local units of government for property tax relief, as compared to $1.4 billion in FY 2003.

Tobacco Settlement Fund

The Tobacco Settlement Fund is used to receive and distribute revenue received from the Tobacco Settlement Agreement entered into on November 23, 1998, by the State and leading United States tobacco product manufacturers. During fiscal year 2004, the State collected $129.9 million from tobacco product manufacturers as compared to $148.0 million in FY 2003. The State expended $16.7 million for tobacco education, prevention, and use control, $15.7 million to fund operating and capital expenses associated with community health centers, $8.6 million for the Hoosier Rx Prescription Drug program, $3.0 million for the Indiana Local Health Department Trust Account, and $14.4 million for 21st Century Research and Technology. Transfers out of the Fund were $108.7 million as compared to $171 million in FY 2003. The State earned $1.7 million on investments of this money while it was in the fund, compared to $1.1 million in FY 2003.

General Fund Budgetary Highlights

An economic downturn that began in Indiana in 2000 affected the State's General Fund. Because of a continuing decline in revenue, a special session of the General Assembly was convened in May, 2002. During that session, the governor and legislature succeeded in passing a major tax restructuring plan, saving taxpayers from significant increase in their property taxes by raising the State support for public school's general funds and increasing the homestead and renters' exemptions. This restructuring was necessitated by a court ordered change in the assessment. The 2002 legislation increased the sales tax by 1 percent, the cigarette tax by 40 cents per pack and the gas tax by 3 cents per gallon. Revenue was also enhanced through an increase in the tax imposed on riverboats. Owners of the riverboats, in turn, were granted their request that dockside gambling be allowed.

Actual revenue collections for fiscal year 2004 were 0.6% over the revenue forecast of January, 2004.

In all, for fiscal year 2005 a total of $1.5 billion in taxes ($842 million alone from the sales tax increase) will be raised from these increases, and over $1.1 billion of that is earmarked for property tax relief. The State's increase in the homestead exemption could not totally offset the tax implications of a court order mandating that property assessments be based on market value. In response, lawmakers reduced schools' reliance on local property taxes. With the restructuring, 67 percent of the property taxes levied for a school general fund will be paid through a State property tax replacement credit. This will result in the State being responsible for 85% of the funding of the school general fund.

Even with the tax restructuring, a series of spending reductions, transfers, and reallocations of other revenues were used to offset the reduced General Fund revenues caused by the national recession. The following summarizes the differences between the original and final budget amounts for fiscal year 2004:

- Agencies controlled spending to create budgetary savings of $63.4 million.
- Transfers of certain restricted funds were made to the General Fund in the amount of $130.2 million.
- The State Rainy Day Fund transferred $43.3 million to the General Fund.
- The Federal Jobs & Growth Tax Relief Reconciliation Act of 2003 provided $103.4 million of General Fund revenues and an additional $130.9 million in enhanced Medicaid matching funds.

Spending during State fiscal year 2005 will be carefully monitored and other measures will be used, if necessary, to maintain an acceptable General Fund balance.

Public hearings for the fiscal years 2006 and 2007 budget have begun. Over the next several weeks the State Budget Committee will be hearing from agencies and elected officials. These hearings will be used to examine the cost of maintaining the status quo with respect to programs and administration. Administrative budgets will begin at 98% of an agency's fiscal year 2005 base. Agencies will also identify cost saving opportunities and other changes in performance to achieve peak efficiency and to better serve the citizens of Indiana.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $10.9 billion, which was 48.2% of total assets for the primary government. Related debt was $1.0 billion. Total capital assets net of related debt for the primary government was $9.9 billion. The ratio of capital assets to related debt was 1,051%. Total capital assets increased by $251.3 million or 2.4%. $128 million of this was an increase in property, plant and equipment, most of which was attributable to increases in capital assets held by agencies ($43.3 million), the State Office Building Commission ($36.8 million) and a prior period adjustment ($23.4 million). Construction in progress grew by $110 million. The Indiana Department of Transportation (INDOT) accounted for $69.1 million and the Department of Administration accounted for $25.3 million of this $110 million. INDOT infrastructure grew by $34.1 million. More detailed information about the State's capital assets is presented in Note IV(D) to the Financial Statements.

The following table shows the percentage change from fiscal year 2003 to fiscal year 2004.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2004	2003	2004	2003	2004	2003	
Land	$ 1,153.6	$ 1,111.7	$ 28.2	$ 28.2	$ 1,181.8	$ 1,139.9	3.7%
Infrastructure	7,517.5	7,480.9	184.5	180.3	7,702.0	7,661.2	0.5%
Construction in Progress	408.3	303.1	11.3	6.6	419.6	309.7	35.5%
Property, plant and equipment	2,547.2	2,435.2	140.1	124.1	2,687.3	2,559.3	5.0%
Less accumulated depreciation	(965.7)	(901.3)	(88.4)	(83.5)	(1,054.1)	(984.8)	7.0%
Total	**$ 10,660.9**	**$ 10,429.6**	**$ 275.7**	**$ 255.7**	**$ 10,936.6**	**$ 10,685.3**	**2.4%**

Long-term Obligations

Major long-term obligations items are included in the following table. These major items comprised 100% of total long-term liabilities and 49.7% of total liabilities.

The following table shows the percentage change from fiscal year 2003 to fiscal year 2004.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2004	2003	2004	2003	2004	2003	
Accrued liability for compensated absences	$ 51.6	$ 48.0	$ 0.1	$ 0.1	$ 51.7	$ 48.1	7.5%
Accrued prize liability	-	-	56.5	58.1	56.5	58.1	-2.8%
Capital lease payable	22.0	18.5	-	-	22.0	18.5	18.9%
Interest payable	15.2	-	-	-	15.2	-	N/A
Claims payable	-	-	32.9	18.5	32.9	18.5	77.8%
Construction retention	1.9	1.2	-	-	1.9	1.2	58.3%
Salaries, health, disability, and benefits payable	-	4.4	-	-	-	4.4	N/A
Net pension obligations	3.6	1.1	-	-	3.6	1.1	227.3%
Due to component units	50.0	-	1,446.3	1,057.3	1,496.3	1,057.3	41.5%
Revenue bonds/notes payable	2,260.4	1,690.4	389.4	410.8	2,649.8	2,101.2	26.1%
Total	**$ 2,404.7**	**$ 1,763.6**	**$ 1,925.2**	**$ 1,544.8**	**$ 4,329.9**	**$ 3,308.4**	**30.9%**

Total long-term liabilities increased by 30.9% or $1.0 billion. Revenue bonds/notes payable increased by 26.1% or $548.1 million. Most of the revenue bond increase is explained by net revenue bonds of $583.8 million issued by the Indiana Transportation Finance Authority. Due to component units increased by 41.5% or $439 million. Most of the amount due to component units is money due to the Indiana Bond Bank from the State Revolving Fund.

The Indiana Bond Bank is a separate body corporate and politic from the State and is reported as a discretely presented component unit. The State Revolving Fund is administered by the State Budget Agency and the Indiana Department of Environmental Management, which are agencies of the State. Proceeds from State revolving bonds issued by the Indiana Bond Bank are used by the State Revolving Fund to assist qualified entities in obtaining below market financing for water pollution control projects. The net amount of these bonds issued for the benefit of the State Revolving Fund increased by $407 million from FY 2003 to FY 2004. The repayment of these loans is used by the State Revolving Fund to repay the Indiana Bond Bank, which makes the bond payments.

More detail about the State's debt is presented in Note IV(F) of the Notes to the Financial Statements.

Infrastructure

As required by GASB Statement No. 34, the State has capitalized its infrastructure. This amounts to $7.5 billion in roads and bridges using the modified approach, $943 million in right of way classified as land, and $14 million in dams being depreciated. In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at or above the established condition level.

Under the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 23,000 lane miles of roads and approximately 5,100 bridges that the State is responsible to maintain.

The State has consistently maintained the assessed conditions of roads over the past three years. It is the State's policy to maintain Interstate and National Highway System (NHS) Non-Interstate roads at an average Pavement Quality Index (PQI) of 75 and Non-NHS roads at an average PQI of 65. The most recent condition assessment, completed for FY 2004, indicated that the average PQI for roads exceeded the minimum acceptable standard.

The State has maintained the assessed conditions of bridges at levels which are above the established benchmarks. It is the State's policy to maintain Interstate bridges at an average sufficiency rating of 87%, NHS Non-Interstate bridges at an average sufficiency rating of 85%, and Non-NHS bridges at an average sufficiency rating of 83%. The most recent condition assessment, completed in FY 2004, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

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

Economic Factors

The economic forecast upon which the State budget for fiscal years (FY) 2004 and 2005 was based was updated in January 2004. At that time, real Gross Domestic Product was projected to average 4.3% growth over the first two quarters of calendar year (CY) 2004 with real GDP growth for the 2004 fiscal year totaling 4.5%. The U.S. Bureau of Economic Analysis currently estimates that real GDP grew by 4.4% during the 2004 fiscal year. The January 2004 forecast for real GDP growth during the 2005 fiscal year was 4.0%.

The January 2004 forecast projected that Indiana non-farm personal income growth would accelerate through the first two quarters of CY 2004. For FY 2004, Indiana non-farm personal income was projected to increase by 3.3%. The U.S. Bureau of Economic Analysis currently estimates that Indiana non-farm personal income increased by 4.4% in FY 2004. The January 2004 forecast for Indiana non-farm personal income growth during the 2005 fiscal year was 4.9%.

The January forecast projected baseline growth in General Fund and Property Tax Replacement Fund revenues of 2.2% in FY 2004 and 4.8% in FY 2005. Factoring in revenue measures that became effective in FY 2003, the January forecast projected growth in General Fund and Property Tax Replacement Fund revenues of 6.9% in FY 2004 and 4.2% in FY 2005. General Fund and Property Tax Replacement Fund revenues increased by 7.5% in FY 2004.

Contacting the Auditor of State

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the State’s finances and to demonstrate the State’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Auditor of State, 240 State House, 200 West Washington Street, Indianapolis, Indiana 46204-2793.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE

FINANCIAL STATEMENTS

State of Indiana
Statement of Net Assets
June 30, 2004
(amounts expressed in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets:				
Current assets:				
Cash, cash equivalents and investments	$ 3,609,805	$ 1,535,650	**$ 5,145,455**	$ 1,090,380
Securities lending collateral	1,673,272	-	**1,673,272**	452,578
Receivables (net)	1,472,848	127,539	**1,600,387**	299,878
Intergovernmental receivable	127,278	-	**127,278**	-
Inventory	6,610	3,028	**9,638**	31,016
Prepaid expenses	5,058	2,753	**7,811**	12,255
Loans	87,237	41,038	**128,275**	5,520
Intergovernmental loans	-	-	**-**	1,180,140
Due from primary government	-	-	**-**	137,941
Investment in direct financing lease	-	10,445	**10,445**	-
Funds held in trust by others	-	-	**-**	66,139
Other current assets	-	-	**-**	23,700
Total current assets	6,982,108	1,720,453	**8,702,561**	3,299,547
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	150,769	685,350	**836,119**	1,763,587
Taxes, interest, and penalties receivable	603,393	-	**603,393**	3,998
Other receivables	64,632	-	**64,632**	1,193,027
Investments - unrestricted	-	-	**-**	846,931
Loans	309,857	856,483	**1,166,340**	-
Bond issuance costs net of amortization	8,746	1,422	**10,168**	39,772
Intergovernmental loans	-	-	**-**	1,187,269
Due from primary government	-	-	**-**	1,496,287
Investment in direct financing lease	-	192,480	**192,480**	-
Net pension assets	164,254	-	**164,254**	-
Other noncurrent assets	23	11,568	**11,591**	13,954
Capital assets:				
Land	1,153,625	28,219	**1,181,844**	149,718
Infrastructure	7,517,416	184,562	**7,701,978**	229,984
Construction in progress	408,256	11,304	**419,560**	339,796
Property, plant, and equipment	2,547,239	140,062	**2,687,301**	5,952,512
Less accumulated depreciation	(965,683)	(88,413)	**(1,054,096)**	(2,722,677)
Total capital assets, net of depreciation	10,660,853	275,734	**10,936,587**	3,949,333
Total noncurrent assets	11,962,527	2,023,037	**13,985,564**	10,494,158
Total assets	**18,944,635**	**3,743,490**	**22,688,125**	**13,793,705**
Liabilities:				
Current liabilities:				
Accounts payable	315,781	25,053	**340,834**	217,453
Claims payable	-	1,889	**1,889**	-
Interest payable	24,919	29,640	**54,559**	53,266
Current portion of long-term debt	51,297	23,470	**74,767**	1,392,699
Line of credit	-	-	**-**	102,470
Intergovernmental payable	1,691,713	-	**1,691,713**	-
Due to component unit	98,576	39,365	**137,941**	-
Capital lease payable	2,963	-	**2,963**	5,985
Accrued prize liability	-	54,752	**54,752**	-
Salaries, health, disability, and benefits payable	98,225	3,260	**101,485**	23,782
Tax refunds payable	42,588	-	**42,588**	-
Deferred revenue	120,457	8,125	**128,582**	148,136
Accrued liability for compensated absences	76,104	177	**76,281**	54,292
Securities lending payable	1,414	-	**1,414**	-
Securities lending collateral	1,673,272	-	**1,673,272**	452,578
Deposits held in custody for others	-	-	**-**	30,181
Other current liabilities	1	3,176	**3,177**	29,836
Total current liabilities	4,197,310	188,907	**4,386,217**	2,510,678

State of Indiana
Statement of Net Assets
June 30, 2004
(amounts expressed in thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Long-term liabilities:				
Accrued liability for compensated absences	$ 51,602	$ 123	**$ 51,725**	$ 37,060
Claims payable	-	32,907	**32,907**	-
Interest payable	15,236	-	**15,236**	-
Construction retention	1,882	-	**1,882**	-
Accrued prize liability	-	56,537	**56,537**	-
Net pension obligations	3,648	-	**3,648**	-
Due to component unit	50,000	1,446,287	**1,496,287**	-
Capital lease payable	21,990	-	**21,990**	93,887
Funds held in trust for others	-	-	**-**	44,821
Advances from federal government	295	-	**295**	20,543
Revenue bonds/notes payable	2,260,059	388,460	**2,648,519**	5,208,887
Other noncurrent liabilities	-	847	**847**	89,625
Total long-term liabilities	2,404,712	1,925,161	**4,329,873**	5,494,823
Total liabilities	**6,602,022**	**2,114,068**	**8,716,090**	**8,005,501**
Net Assets:				
Invested in capital assets net of related debt	9,828,279	68,151	**9,896,430**	2,525,849
Restricted-nonexpendable:				
Grants/constitutional restrictions	518,597	-	**518,597**	-
Permanent funds	4,698	-	**4,698**	-
Instruction and research	-	-	**-**	96,804
Student aid	-	-	**-**	91,513
Other purposes	-	-	**-**	77,909
Total restricted-nonexpendable	523,295	-	**523,295**	266,226
Restricted-expendable:				
Instruction and research	-	-	**-**	131,094
Grants/constitutional restrictions	-	-	**-**	3,400
Future debt service	51,750	50,564	**102,314**	132,432
Pension fund distribution	-	-	**-**	3,830
Public safety programs	5,873	-	**5,873**	-
Transportation programs	-	9,405	**9,405**	-
Student aid	-	-	**-**	99,258
Auxiliary enterprises	-	-	**-**	2,713
Capital projects	-	104,092	**104,092**	166,244
Unemployment compensation	-	669,630	**669,630**	-
Other purposes	-	319	**319**	420,568
Total restricted-expendable	57,623	834,010	**891,633**	959,539
Unrestricted	1,933,416	727,261	**2,660,677**	2,036,590
Total net assets	**$ 12,342,613**	**$ 1,629,422**	**$ 13,972,035**	**$ 5,788,204**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Activities
For the Year Ended June 30, 2004
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 4,149,762	$ 287,985	$ 215,461	$ 65	$ (3,646,251)	$ -	$ (3,646,251)	$ -
Public safety	1,211,825	621,619	210,717	13,027	(366,462)	-	(366,462)	-
Health	413,339	19,758	246,348	983	(146,250)	-	(146,250)	-
Welfare	7,039,564	165,544	4,937,494	-	(1,936,526)	-	(1,936,526)	-
Conservation, culture and development	511,773	97,756	217,917	-	(196,100)	-	(196,100)	-
Education	6,360,264	9,627	708,743	-	(5,641,894)	-	(5,641,894)	-
Transportation	1,641,740	3,797	932,534	2	(705,407)	-	(705,407)	-
Unallocated interest expense	94,881	-	-	-	(94,881)	-	(94,881)	-
Other	-	-	-	-	-	-	-	-
Total governmental activities	21,423,148	1,206,086	7,469,214	14,077	(12,733,771)	-	(12,733,771)	-
Business-type activities								
Toll Roads	75,697	92,661	-	-	-	16,964	16,964	-
Aviation Technology Bonds	685	711	-	-	-	26	26	-
Airport Facilities Revenue Bonds	13,036	12,916	-	-	-	(120)	(120)	-
State Revolving Fund	60,990	65,413	-	62,790	-	67,213	67,213	-
Unemployment Compensation Fund	868,940	-	122,200	-	-	(746,740)	(746,740)	-
State Lottery Commission	599,117	734,872	-	-	-	135,755	135,755	-
Other	39,568	30,605	-	-	-	(8,963)	(8,963)	-
Total business-type activities	1,658,033	937,178	122,200	62,790	-	(535,865)	(535,865)	-
Total primary government	$ 23,081,181	$ 2,143,264	$ 7,591,414	$ 76,867	(12,733,771)	(535,865)	(13,269,636)	-
Component units:								
Governmental and proprietary	390,671	61,914	288,135	-	-	-	-	(40,622)
Colleges and universities	4,258,826	2,093,587	896,796	88,806	-	-	-	(1,179,637)
Total component units	$ 4,649,497	$ 2,155,501	$ 1,184,931	$ 88,806	-	-	-	(1,220,259)
General Revenues:								
Income tax					4,653,807	-	4,653,807	-
Sales tax					4,694,868	-	4,694,868	-
Fuels tax					827,525	-	827,525	-
Gaming tax					780,643	-	780,643	-
Unemployment tax					-	402,222	402,222	-
Inheritance tax					136,382	-	136,382	-
Alcohol & Tobacco tax					357,370	-	357,370	-
Insurance tax					180,705	-	180,705	-
Financial Institutions tax					81,181	-	81,181	-
Other tax					241,543	-	241,543	-
Total taxes					11,954,024	402,222	12,356,246	-
Revenue not restricted to specific programs								
Investment earnings					43,146	43,746	86,892	158,429
Payments from State of Indiana					-	-	-	1,311,462
Other					107,064	3,627	110,691	142,002
Transfers within primary government					135,221	(135,221)	-	-
Total general revenues and transfers					12,239,455	314,374	12,553,829	1,611,893
Changes in net assets					(494,316)	(221,491)	(715,807)	391,634
Net assets - beginning, as restated					12,836,929	1,850,913	14,687,842	5,396,570
Net assets - ending					$ 12,342,613	$ 1,629,422	$ 13,972,035	$ 5,788,204

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

State of Indiana
Balance Sheet
Governmental Funds
June 30, 2004
(amounts expressed in thousands)

	General Fund	Motor Vehicle Highway Fund	Medicaid Assistance Fund	Build Indiana Fund
Assets:				
Cash, cash equivalents and investments-unrestricted	$ 1,024,515	$ -	$ -	$ 20,211
Securities lending collateral	1,083,518	-	-	-
Receivables:				
Taxes (net of allowance for uncollectible accounts)	1,166,174	15,530	-	-
Securities lending	871	-	-	-
Accounts	8,929	-	-	-
Grants	4,868	2,098	28,195	-
Interest	1,781	-	-	-
Interfund loans	41,787	-	-	-
Intergovernmental	127,278	-	-	-
Prepaid expenditures	435	1,538	-	-
Loans	34,914	-	-	3,247
Total assets	$ 3,495,070	$ 19,166	$ 28,195	$ 23,458
Liabilities:				
Accounts payable	$ 79,239	$ 2,017	$ 49	$ 294
Salaries and benefits payable	33,784	4,295	-	-
Interfund loans	216	8,651	21,513	-
Interfund services used	2,905	1,148	-	-
Intergovernmental payable	324,990	24,509	-	-
Due to component unit	98,576	-	-	-
Tax refunds payable	40,310	10	-	-
Deferred revenue	586,402	4,942	-	-
Accrued liability for compensated absences-current	2,366	63	-	-
Securities lending payable	871	-	-	-
Securities lending collateral	1,083,518	-	-	-
Total liabilities	2,253,177	45,635	21,562	294
Fund balance:				
Reserved:				
Encumbrances	29,235	5,585	-	1,029
Special purposes	4,868	2,098	28,195	-
Tuition support	290,500	-	-	-
Interfund loans	41,787	-	-	-
Long-term loans and advances	34,547	-	-	3,164
Restricted purposes	-	-	-	-
Unreserved fund balance reported in:				
General fund	840,956	-	-	-
Special revenue funds	-	(34,152)	(21,562)	18,971
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total fund balance	1,241,893	(26,469)	6,633	23,164
Total liabilities and fund balance	$ 3,495,070	$ 19,166	$ 28,195	$ 23,458

The notes to the financial statements are an integral part of this statement.

State Highway Department Fund	Property Tax Replacement Fund	Tobacco Settlement Fund	Non-major Governmental Funds	Total
$ 275,809	$ -	$ 238,066	$ 1,548,260	**$ 3,106,861**
3,553	-	59,973	526,229	**1,673,273**
-	278,132	-	246,468	**1,706,304**
3	-	52	487	**1,413**
857	-	-	32,321	**42,107**
84,961	-	-	83,944	**204,066**
11	-	54	496	**2,342**
11,700	-	-	436	**53,923**
-	-	-	-	**127,278**
-	-	-	866	**2,839**
8,215	-	-	350,719	**397,095**
$ 385,109	$ 278,132	$ 298,145	$ 2,790,226	**$ 7,317,501**
$ 12,773	$ -	$ 828	$ 151,619	**$ 246,819**
8,661	-	41	21,550	**68,331**
-	-	-	3,633	**34,013**
483	-	2	2,423	**6,961**
-	1,291,306	-	50,909	**1,691,714**
-	-	-	-	**98,576**
-	-	-	2,267	**42,587**
592	73,584	-	268,794	**934,314**
610	-	1	1,681	**4,721**
3	-	52	487	**1,413**
3,553	-	59,973	526,229	**1,673,273**
26,675	1,364,890	60,897	1,029,592	**4,802,722**
1,024,970	-	5,383	163,711	**1,229,913**
84,961	-	-	73,935	**194,057**
-	-	-	-	**290,500**
11,700	-	-	436	**53,923**
7,615	-	-	351,872	**397,198**
-	-	-	2,513	**2,513**
-	-	-	-	**840,956**
(770,812)	(1,086,758)	231,865	881,152	**(781,296)**
-	-	-	86,266	**86,266**
-	-	-	200,749	**200,749**
358,434	(1,086,758)	237,248	1,760,634	**2,514,779**
$ 385,109	$ 278,132	$ 298,145	$ 2,790,226	**$ 7,317,501**

State of Indiana
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2004
(amounts expressed in thousands)

Total fund balances-governmental funds			$	2,514,779
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:				
Land	$	1,101,499		
Infrastructure assets		7,517,416		
Construction in progress		361,266		
Property, plant, and equipment		1,561,427		
Accumulated depreciation		(756,401)		
Total capital assets				9,785,207
The State's pension funds have net pension assets not reported as assets in the funds.				164,254
Recreational Development Commission startup is a noncurrent asset not reported in the funds				500
Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.				981,393
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.				(54,600)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.				189,379
Elimination of internal balance relating to investment in direct financing lease between internal service funds and governmental funds.				(1,048,495)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:				
Accrued liability for compensated absences		(120,831)		
Loan from the Indiana Board for Depositories		(50,000)		
Capital lease payable		(15,325)		
Net pension obligations		(3,648)		
Total long-term liabilities				(189,804)
Net assets of governmental activities			$	12,342,613

The notes to the financial statements are an integral part of this statement.


SEAL OF THE STATE OF INDIANA
1816

State of Indiana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	General Fund	Motor Vehicle Highway Fund	Medicaid Assistance Fund	Build Indiana Fund
Revenues:				
Taxes:				
Income	$ 4,363,143	$ -	$ -	$ -
Sales	2,258,415	-	-	-
Fuels	-	478,387	-	-
Gaming	85,907	-	-	-
Inheritance	136,382	-	-	-
Alcohol and tobacco	299,506	-	-	-
Insurance	177,751	-	-	-
Financial Institutions	-	-	-	-
Other	154,414	-	-	-
Total taxes	7,475,518	478,387	-	-
Current service charges	190,189	18,032	-	-
Investment income	40,444	-	-	-
Sales/rents	1,252	13	-	-
Grants	120,218	17,163	3,252,681	-
Other	105,715	63,820	27	141
Total revenues	7,933,336	577,415	3,252,708	141
Expenditures:				
Current:				
General government	941,421	281,998	67	8,050
Public safety	629,864	189,054	-	-
Health	102,565	130	-	-
Welfare	364,587	-	4,627,541	-
Conservation, culture and development	56,922	-	-	1,618
Education	5,526,576	242	-	67
Transportation	3,517	2,492	-	332
Total expenditures	7,625,452	473,916	4,627,608	10,067
Excess (deficiency) of revenues over expenditures	307,884	103,499	(1,374,900)	(9,926)
Other financing sources (uses):				
Transfers in	2,568,338	252,985	1,546,091	250,264
Transfers (out)	(3,040,735)	(359,428)	(222,569)	(236,212)
Proceeds of loan from component unit	50,000	-	-	-
Total other financing sources (uses)	(422,397)	(106,443)	1,323,522	14,052
Net change in fund balances	(114,513)	(2,944)	(51,378)	4,126
Fund Balance July 1, as restated	1,356,406	(23,525)	58,011	19,038
Fund Balance June 30	**$ 1,241,893**	**$ (26,469)**	**$ 6,633**	**$ 23,164**

The notes to the financial statements are an integral part of this statement.

State Highway Department Fund	Property Tax Replacement Fund	Tobacco Settlement Fund	Non-Major Governmental Funds	Total
$ -	$ -	$ -	$ 127,715	**$ 4,490,858**
14	2,334,367	-	85,732	**4,678,528**
1	-	-	356,344	**834,732**
-	8,524	-	686,209	**780,640**
-	-	-	-	**136,382**
-	-	-	57,891	**357,397**
-	-	-	2,954	**180,705**
-	-	-	79,625	**79,625**
-	-	-	101,843	**256,257**
15	2,342,891	-	1,498,313	**11,795,124**
14,514	-	129,852	836,637	**1,189,224**
72	-	1,670	11,209	**53,395**
1,870	-	-	27,643	**30,778**
811,392	-	-	2,878,056	**7,079,510**
75,226	-	12	222,560	**467,501**
903,089	2,342,891	131,534	5,474,418	**20,615,532**
35	2,398,307	25,090	578,798	**4,233,766**
-	-	-	409,211	**1,228,129**
-	-	34,431	261,917	**399,043**
-	-	1,302	2,043,114	**7,036,544**
-	-	40	443,483	**502,063**
-	-	-	847,593	**6,374,478**
1,401,218	-	-	179,308	**1,586,867**
1,401,253	2,398,307	60,863	4,763,424	**21,360,890**
(498,164)	(55,416)	70,671	710,994	**(745,358)**
480,306	1,366,516	708	1,483,021	**7,948,229**
(5,191)	(1,715,736)	(108,684)	(2,134,757)	**(7,823,312)**
-	-	-	-	**50,000**
475,115	(349,220)	(107,976)	(651,736)	**174,917**
(23,049)	(404,636)	(37,305)	59,258	**(570,441)**
381,483	(682,122)	274,553	1,701,376	**3,085,220**
$ 358,434	**$ (1,086,758)**	**$ 237,248**	**$ 1,760,634**	**$ 2,514,779**

State of Indiana
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004
(amounts expressed in thousands)

Net change in fund balances-total governmental funds	$	(570,441)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report net capital outlays for infrastructure as expenditures. However in the statement of activities these outlays are capitalized and under the modified approach not depreciated. This is the amount of the net capital outlays for infrastructure under the modified approach in the current period		142,401
Governmental funds treat the loan from the Board of Depositories to the General Fund as an other financing source, but it is not reported on the statement of activities.		(50,000)
Governmental funds report net capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which net capital outlays ($84,604) exceeds depreciation ($49,433) in the current period.		35,171
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		175,566
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(245,878)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, data processing, telecommunications, fleet management, and printing, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		18,865
Change in net assets of governmental activities.	$	(494,316)

The notes to the financial statements are an integral part of this statement.


SEAL OF THE STATE OF INDIANA
1816

State of Indiana
Statement of Fund Net Assets
Proprietary Funds
June 30, 2004

(amounts expressed in thousands)

	Enterprise Funds			
	Toll Roads	Transportation Finance Authority Aviation Technology Bonds	Transportation Finance Authority Airport Facilities Bonds	State Revolving Fund
Assets				
Current assets:				
Cash, cash equivalents and investments - unrestricted	$ 107,551	$ 395	$ 1,236	$ 660,835
Receivables:				
Accounts	3,882	139	1,805	40,704
Taxes	-	-	-	-
Interest	-	-	1	24,514
Grants	-	-	-	-
Interfund services provided	-	-	-	-
Interfund loans	-	-	-	-
Loans	-	-	-	41,038
Investment in direct financing lease	-	545	9,900	-
Inventory	2,154	-	-	-
Prepaid expenses	1,475	-	-	-
Total current assets	115,062	1,079	12,942	767,091
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	78,763	-	-	539,938
Interest receivable - restricted	-	-	-	-
Loans	-	-	-	856,483
Investment in direct financing lease	-	9,285	183,195	-
Bond issuance costs - net of amortization	1,422	-	-	-
Capital assets:				
Land	28,219	-	-	-
Infrastructure	184,066	-	-	-
Construction in progress	11,283	-	-	-
Property, plant, and equipment	100,258	-	-	-
Less accumulated depreciation	(64,575)	-	-	-
Total capital assets, net of depreciation	259,251	-	-	-
Other assets	-	-	-	11,568
Total noncurrent assets	339,436	9,285	183,195	1,407,989
Total assets	**454,498**	**10,364**	**196,137**	**2,175,080**
Liabilities				
Current liabilities:				
Accounts payable	7,131	-	24	148
Claims payable	-	-	-	-
Interfund loans	-	-	-	-
Salaries and benefits payable	2,916	-	-	-
Interest payable	4,255	139	1,805	23,441
Capital lease payable	-	-	-	-
Current portion of long-term debt	13,025	545	9,900	-
Accrued prize liability	-	-	-	-
Health/disability benefits payable	-	-	-	-
Accrued liability for compensated absences	-	-	-	-
Interfund services used	-	-	-	-
Due to component unit	-	-	-	39,365
Deferred revenue	-	-	-	-
Other liabilities	-	-	-	431
Total current liabilities	27,327	684	11,729	63,385
Noncurrent liabilities:				
Construction retention	-	-	-	-
Accrued liability for compensated absences	-	-	-	-
Capital lease payable	-	-	-	-
Claim payable	-	-	-	-
Interest payable	-	-	-	-
Due to component unit	-	-	-	1,446,287
Interfund loans	-	-	-	-
Accrued prize liability	-	-	-	-
Amount due federal government	-	-	-	-
Revenue bonds/notes payable	195,980	9,285	183,195	-
Other liabilities	-	-	-	847
Total noncurrent liabilites	195,980	9,285	183,195	1,447,134
Total liabilities	**223,307**	**9,969**	**194,924**	**1,510,519**
Net assets				
Invested in capital assets net of related debt	51,668	-	-	-
Restricted-expendable:				
Transportation programs	9,405	-	-	-
Future debt service	50,564	-	-	-
Construction	104,092	-	-	-
Unemployment compensation	-	-	-	-
Other purposes	-	319	-	-
Unrestricted	15,462	76	1,213	664,561
Total net assets	**$ 231,191**	**$ 395**	**$ 1,213**	**$ 664,561**

The notes to the financial statements are an integral part of this statement.

Enterprise Funds				
Unemployment Compensation Fund	State Lottery Commission	Other Enterprise Funds	Total	Internal Service Funds
$ 652,757	$ 70,807	$ 42,069	**$ 1,535,650**	$ 502,943
-	26,192	357	**73,079**	19,599
29,233	-	-	**29,233**	-
-	144	445	**25,104**	235
123	-	-	**123**	-
-	-	-	**-**	6,964
-	-	-	**-**	216
-	-	-	**41,038**	-
-	-	-	**10,445**	19,608
-	314	560	**3,028**	6,610
-	1,235	43	**2,753**	2,219
682,113	98,692	43,474	**1,720,453**	558,394
-	66,649	-	**685,350**	150,769
-	-	-	**-**	124
-	-	-	**856,483**	-
-	-	-	**192,480**	1,028,887
-	-	-	**1,422**	8,746
-	-	-	**28,219**	52,126
-	-	496	**184,562**	-
-	-	21	**11,304**	46,990
-	16,982	22,822	**140,062**	985,812
-	(13,020)	(10,818)	**(88,413)**	(209,282)
-	3,962	12,521	**275,734**	875,646
-	-	-	**11,568**	23
-	70,611	12,521	**2,023,037**	2,064,195
682,113	**169,303**	**55,995**	**3,743,490**	**2,622,589**
12,483	4,740	527	**25,053**	15,590
-	-	1,889	**1,889**	-
-	-	-	**-**	20,125
-	-	344	**3,260**	739
-	-	-	**29,640**	24,919
-	-	-	**-**	266
-	-	-	**23,470**	51,297
-	54,752	-	**54,752**	-
-	-	-	**-**	27,926
-	-	177	**177**	1,250
-	-	-	**-**	3
-	-	-	**39,365**	-
-	320	7,805	**8,125**	2,856
-	2,208	537	**3,176**	1
12,483	62,020	11,279	**188,907**	144,972
-	-	-	**-**	1,882
-	-	123	**123**	904
-	-	-	**-**	9,362
-	-	32,907	**32,907**	-
-	-	-	**-**	15,236
-	-	-	**1,446,287**	-
-	-	-	**-**	500
-	56,537	-	**56,537**	-
-	-	-	**-**	295
-	-	-	**388,460**	2,260,059
-	-	-	**847**	-
-	56,537	33,030	**1,925,161**	2,288,238
12,483	**118,557**	**44,309**	**2,114,068**	**2,433,210**
-	3,962	12,521	**68,151**	43,071
-	-	-	**9,405**	**-**
-	-	-	**50,564**	51,750
-	-	-	**104,092**	**-**
669,630	-	-	**669,630**	**-**
-	-	-	**319**	-
-	46,784	(835)	**727,261**	94,558
$ 669,630	**$ 50,746**	**$ 11,686**	**$ 1,629,422**	**$ 189,379**

State of Indiana
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

(amounts expressed in thousands)

	Enterprise Funds			
	Toll Roads	Transportation Finance Authority Aviation Technology Bonds	Transportation Finance Authority Airport Facilities Bonds	State Revolving Fund
Operating revenues:				
Sales/rents/premiums	$ 7,025	$ 711	$ 12,916	$ -
Taxes	-	-	-	-
Grants	-	-	-	62,790
Interest income	-	-	-	65,413
Charges for services	-	-	-	-
Toll receipts	85,039	-	-	-
Other	597	-	-	937
Total operating revenues	92,661	711	12,916	129,140
Cost of sales	-	-	-	-
Gross margin	92,661	711	12,916	129,140
Operating expenses:				
General and administrative expense	57,182	126	112	2,459
Interest expense	-	-	-	57,328
Claims expense	-	-	-	-
Health / disability benefit payments	-	-	-	-
Unemployment compensation benefits	-	-	-	-
Depreciation and amortization	3,094	-	-	1,203
Other	108	-	-	-
Total operating expenses	60,384	126	112	60,990
Operating income (loss)	32,277	585	12,804	68,150
Nonoperating revenues (expenses):				
Interest and other investment income	1,434	2	35	-
Interest and other investment expense	(15,313)	(559)	(12,924)	-
Capital outlay reimbursement	-	-	-	-
Distributions to component units	-	-	-	-
Gain (Loss) on disposition of assets	-	-	-	-
Other	-	-	-	-
Total nonoperating revenues (expenses)	(13,879)	(557)	(12,889)	-
Income before contributions and transfers	18,398	28	(85)	68,150
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Change in net assets	18,398	28	(85)	68,150
Total net assets, July 1, as restated	**212,793**	**367**	**1,298**	**596,411**
Total net assets, June 30	**$ 231,191**	**$ 395**	**$ 1,213**	**$ 664,561**

The notes to the financial statements are an integral part of this statement.

Enterprise Funds				
Unemployment Compensation Fund	**State Lottery Commission**	**Other Enterprise Funds**	**Total**	**Internal Service Funds**
$ -	$ 734,872	$ 29,651	**$ 785,175**	$ 456,216
402,222	-	-	**402,222**	-
122,200	-	-	**184,990**	-
-	-	-	**65,413**	-
-	-	-	**-**	1,487
-	-	830	**85,869**	-
-	-	124	**1,658**	232
524,422	734,872	30,605	**1,525,327**	457,935
-	518,879	3,242	**522,121**	22,693
524,422	215,993	27,363	**1,003,206**	435,242
-	16,043	19,972	**95,894**	88,691
-	-	-	**57,328**	-
-	-	15,823	**15,823**	-
-	-	-	**-**	205,183
868,940	-	-	**868,940**	-
-	1,661	472	**6,430**	28,450
-	-	59	**167**	457
868,940	17,704	36,326	**1,044,582**	322,781
(344,518)	198,289	(8,963)	**(41,376)**	112,461
40,542	880	853	**43,746**	2,493
-	(2,534)	-	**(31,330)**	(94,881)
-	-	-	**-**	(11,440)
-	(60,000)	-	**(60,000)**	-
-	-	-	**-**	(72)
-	2,690	-	**2,690**	-
40,542	(58,964)	853	**(44,894)**	(103,900)
(303,976)	139,325	(8,110)	**(86,270)**	8,561
-	-	5,125	**5,125**	19,677
-	(140,346)	-	**(140,346)**	(9,373)
(303,976)	(1,021)	(2,985)	**(221,491)**	18,865
973,606	**51,767**	**14,671**	**1,850,913**	170,514
$ 669,630	**$ 50,746**	**$ 11,686**	**$ 1,629,422**	$ 189,379

State of Indiana
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004
(amounts expressed in thousands)

	Enterprise Funds			
	Toll Roads	Transportation Finance Authority Aviation Technology Bonds	Transportation Finance Authority Airport Facilities Bonds	State Revolving Fund
Cash flows from operating activities:				
Cash received from customers	$ 92,570	$ 711	$ 12,916	$ -
Cash received from federal government	-	-	-	39,942
Payments to ticket winners	-	-	-	-
Cash paid for general and administrative	-	(132)	(102)	(2,669)
Cash paid for salary/health/disability benefit payments	(22,686)	-	-	-
Cash paid to suppliers	(34,045)	-	-	-
Cash paid for claims expense	-	-	-	-
Other operating income	-	-	-	937
Net cash provided (used) by operating activities	35,839	579	12,814	38,210
Cash flows from noncapital financing activities:				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from debt issuance	-	-	-	539,964
Principal payments to reduce indebtedness	-	-	-	(133,634)
Payment of debt issue costs	-	-	-	(3,350)
Interest paid on bonds and note payable	-	-	-	(56,210)
Other	-	-	-	(473)
Net cash provided (used) by noncapital financing activities	-	-	-	346,297
Cash flows from capital and related financing activities:				
Acquisition/construction of capital assets	(20,507)	-	-	-
Proceeds from sale of assets	-	-	-	-
Proceeds from issuance of notes payable/bonds payable	-	-	-	-
Principal payments -- capital leases	-	-	8,965	-
Principal payments -- bonds/notes	(12,380)	-	(8,965)	-
Repayment of interfund payable	-	-	-	-
Interfund loan	-	-	-	-
Capital contributions	-	-	-	-
Interest paid	(12,862)	(559)	(12,916)	-
Debt issue expense	-	-	-	-
Net cash provided (used) by capital and related financing activities	(45,749)	(559)	(12,916)	-
Cash flows from investing activities:				
Proceeds from sales of investments	6	-	-	165,042
Purchase of investments	(8,338)	-	-	(146,249)
Interest income (expense) on investments	1,422	2	27	65,652
Net cash provided (used) by investing activities	(6,910)	2	27	84,445
Net increase (decrease) in cash and cash equivalents	(16,820)	22	(75)	468,952
Cash and cash equivalents, July 1, as restated	129,996	373	1,311	191,883
Cash and cash equivalents, June 30	**$ 113,176**	**$ 395**	**$ 1,236**	**$ 660,835**
Reconciliation of cash , cash equivalents and investments:				
Cash and cash equivalents at end of year	$ 113,176	$ 395	$ 1,236	$ 660,835
Restricted cash and investments	-	-	-	-
Investments unrestricted	73,138	-	-	539,938
Cash, cash equivalents and investments per balance sheet	**$ 186,314**	**$ 395**	**$ 1,236**	**$ 1,200,773**
Noncash investing, capital and financing activities:				
Increase in fair value of investments	$ -	$ -	$ -	$ -
Acquisition of Capital Assets through Capital Leases	-	-	-	-

Enterprise Funds				
Unemployment Compensation Fund	State Lottery Commission	Other Enterprise Funds	Total	Internal Service Funds
$ 395,723	$ 738,938	$ 32,126	**$ 1,272,984**	$ 456,376
122,077	-	-	**162,019**	9
-	(427,545)	-	**(427,545)**	-
-	-	(18,360)	**(21,263)**	(87,206)
-	(12,635)	(464)	**(35,785)**	(198,814)
-	(86,541)	(3,334)	**(123,920)**	(22,694)
(873,960)	-	(2,528)	**(876,488)**	-
-	-	-	**937**	-
(356,160)	212,217	7,440	**(49,061)**	147,671
-	-	-	**-**	19,677
-	(200,346)	-	**(200,346)**	(9,373)
-	-	-	**539,964**	-
-	-	-	**(133,634)**	-
-	-	-	**(3,350)**	-
-	-	-	**(56,210)**	-
-	3,743	-	**3,270**	-
-	(196,603)	-	**149,694**	10,304
-	(934)	(3,850)	**(25,291)**	(454,434)
-	48	-	**48**	172,294
-	-	-	**-**	1,162,417
-	-	-	**8,965**	(581)
-	-	(391)	**(21,736)**	(599,200)
-	-	-	**-**	(1,768)
-	-	-	**-**	7,800
-	-	5,124	**5,124**	-
-	-	-	**(26,337)**	(96,513)
-	-	-	**-**	(4,835)
-	(886)	883	**(59,227)**	185,180
-	-	21,611	**186,659**	490,072
-	350	(31,806)	**(186,043)**	(476,645)
40,542	838	1,387	**109,870**	2,431
40,542	1,188	(8,808)	**110,486**	15,858
(315,618)	15,916	(485)	**151,892**	359,013
968,375	42,977	10,072	**1,344,987**	140,208
$ 652,757	**$ 58,893**	**$ 9,587**	**$ 1,496,879**	**$ 499,221**
$ 652,757	$ 58,893	$ 9,587	**$ 1,496,879**	$ 499,221
-	-	-	**-**	150,691
-	11,914	32,482	**657,472**	3,800
$ 652,757	**$ 70,807**	**$ 42,069**	**$ 2,154,351**	**$ 653,712**
$ -	$ -	$ (196)	**$ (196)**	$ -
-	-	-	**-**	626

State of Indiana
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended
June 30, 2004

(amounts expressed in thousands)

	Enterprise Funds			
	Toll Roads	**Transportation Finance Authority Aviation Technology Bonds**	**Transportation Finance Authority Airport Facilities Bonds**	**State Revolving Fund**
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	$ 32,277	$ 585	$ 12,804	$ 68,150
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation/amortization expense	3,094	-	-	1,204
(Gain)/loss on sale of fixed assets	-	-	-	-
Other provisions	-	-	-	-
(Increase) decrease in receivables	(92)	-	-	(30,933)
(Increase) decrease in interfund services provided	-	-	-	-
(Increase) decrease in inventory	(110)	-	-	-
(Increase) decrease in prepaid expenses	(325)	-	-	-
Increase (decrease) in accrued prize liability	-	-	-	-
Increase (decrease) in benefits payable	-	-	-	-
Increase (decrease) in accounts payable	513	(6)	10	(211)
Increase (decrease) in deferred revenue	-	-	-	-
Increase (decrease) in salaries payable	482	-	-	-
Increase (decrease) in compensated absences	-	-	-	-
Increase (decrease) in other payables	-	-	-	-
Net cash provided (used) by operating activities	**$ 35,839**	**$ 579**	**$ 12,814**	**$ 38,210**

The notes to the financial statements are an integral part of this statement.

Enterprise Funds				
Unemployment Compensation Fund	**State Lottery Commission**	**Other Enterprise Funds**	**Total**	**Internal Service Funds**
$ (344,518)	$ 198,289	$ (8,963)	$ (41,376)	$ 112,461
-	1,661	472	6,431	28,450
-	(41)	-	(41)	-
-	402	-	402	16
(6,622)	4,579	(301)	(33,369)	(21,880)
-	-	-	-	1,904
-	327	(45)	172	(639)
-	(360)	6	(679)	898
-	8,967	-	8,967	-
-	-	-	-	6,368
(5,020)	(1,362)	149	(5,927)	22,997
-	(855)	1,822	967	(2,540)
-	-	40	522	(548)
-	-	23	23	183
-	610	(193)	417	1
$ (356,160)	**$ 212,217**	**$ 7,440**	**$ (49,061)**	**$ 147,671**

State of Indiana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004
(amounts expressed in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets:			
Cash, cash equivalents and investments	$ 20,393,517	$ 49,231	$ 461,050
Securities lending collateral	3,088,341	7,741	-
Receivables:			
Taxes	-	-	7,251
Contributions	163,048	-	-
Interest	30,001	5	-
Securities lending	-	5	-
Member loans	8,532	-	-
Due from other funds	17,363	-	-
Due from component unit	17,709	-	-
From investment sales	1,136,533	-	-
Other	-	-	56
Other assets	-	-	320,954
Property, plant and equipment net of accumulated depreciation	79	-	-
Total assets	**24,855,123**	**56,982**	**$ 789,311**
Liabilities:			
Accounts/escrows payable	9,891	3,634	744,856
Securities purchased payable	1,730,901	-	-
Salaries and benefits payable	277	-	-
Due to other funds	17,363	-	-
Securities lending payable	-	5	-
Due to component unit	17,709	-	-
Compensated absences	602	-	-
Securities lending collateral	3,088,341	7,741	-
Death benefits payable	300	-	-
Other	246	-	44,455
Total liabilities	**4,865,630**	**11,380**	**$ 789,311**
Net assets:			
Held in trust for:			
Employees' post-employment benefits	19,989,493	-	
Trust beneficiaries	-	45,602	
Total net assets	**$ 19,989,493**	**$ 45,602**	

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Private-Purpose Trust Funds
Additions:		
Member contributions	$ 343,462	$ 57,842
Employer contributions	797,466	-
Contributions from the State of Indiana	61,717	-
Net investment income (loss)	2,560,797	400
Less investment expense	(68,193)	-
Donations/escheats	-	106,701
Transfers in	5,145	-
Other	1,649	-
Total additions	3,702,043	164,943
Deductions:		
Pension benefits	1,082,946	-
Disability and other benefits	10,712	-
Payments to participants/beneficiaries	-	150,092
Refunds of contributions and interest	71,320	-
General government	-	39
Administrative	21,690	-
Pension relief distributions	103,463	-
Capital projects	2,600	-
Depreciation	26	-
Transfers out	5,145	-
Other	6,026	-
Total deductions	1,303,928	150,131
Net increase (decrease) in net assets	2,398,115	14,812
Net assets held in trust, July 1, as restated	17,591,378	30,790
Net assets held in trust, June 30	**$ 19,989,493**	**$ 45,602**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units
June 30, 2004
(amounts expressed in thousands)

	Governmental and Proprietary	Colleges and Universities	Total
Assets:			
Current assets:			
Cash, cash equivalents and investments	$ 359,551	$ 730,829	**$ 1,090,380**
Securities lending collateral	134,957	317,621	**452,578**
Receivables (net)	56,139	243,739	**299,878**
Inventory	-	31,016	**31,016**
Prepaid expenses	-	12,255	**12,255**
Loans	5,520	-	**5,520**
Intergovernmental loans	1,180,140	-	**1,180,140**
Due from primary government	39,365	98,576	**137,941**
Funds held in trust by others	-	66,139	**66,139**
Other current assets	2,487	21,213	**23,700**
Total current assets	1,778,159	1,521,388	**3,299,547**
Noncurrent assets:			
Cash, cash equivalents and investments - restricted	446,892	1,316,695	**1,763,587**
Taxes, interest, and penalties receivable	3,998	-	**3,998**
Other receivables	1,042,637	150,390	**1,193,027**
Investments - unrestricted	98,525	748,406	**846,931**
Bond issuance costs net of amortization	39,772	-	**39,772**
Intergovernmental loans	1,187,269	-	**1,187,269**
Due from primary government	1,496,287	-	**1,496,287**
Other noncurrent assets	2,396	11,558	**13,954**
Capital assets:			
Land	-	149,718	**149,718**
Infrastructure	-	229,984	**229,984**
Construction in progress	-	339,796	**339,796**
Property, plant, and equipment	2,137	5,950,375	**5,952,512**
Less accumulated depreciation	(1,979)	(2,720,698)	**(2,722,677)**
Capital assets, net of accumulated depreciation	158	3,949,175	**3,949,333**
Total noncurrent assets	4,317,934	6,176,224	**10,494,158**
Total assets	**6,096,093**	**7,697,612**	**13,793,705**
Liabilities:			
Current liabilities:			
Accounts payable	2,680	214,773	**217,453**
Interest payable	51,881	1,385	**53,266**
Current portion of long-term debt	1,296,092	96,607	**1,392,699**
Line of credit	102,470	-	**102,470**
Capital lease payable	-	5,985	**5,985**
Salaries, health, disability, and benefits payable	-	23,782	**23,782**
Deferred revenue	-	148,136	**148,136**
Accrued liability for compensated absences	-	54,292	**54,292**
Securities lending collateral	134,957	317,621	**452,578**
Deposits held in custody for others	724	29,457	**30,181**
Other current liabilities	470	29,366	**29,836**
Total current liabilities	1,589,274	921,404	**2,510,678**
Long-term liabilities:			
Accrued liability for compensated absences	-	37,060	**37,060**
Capital lease payable	-	93,887	**93,887**
Funds held in trust for others	-	44,821	**44,821**
Advances from federal government	-	20,543	**20,543**
Revenue bonds/notes payable	3,880,133	1,328,754	**5,208,887**
Other noncurrent liabilities	2,912	86,713	**89,625**
Total long-term liabilities	3,883,045	1,611,778	**5,494,823**
Total liabilities	**5,472,319**	**2,533,182**	**8,005,501**
Net Assets:			
Invested in capital assets net of related debt	158	2,525,691	**2,525,849**
Restricted-nonexpendable:			
Instruction and research	-	96,804	**96,804**
Student aid	-	91,513	**91,513**
Other purposes	-	77,909	**77,909**
Total restricted-nonexpendable	-	266,226	**266,226**
Restricted-expendable:			
Instruction and research	-	131,094	**131,094**
Grants/constitutional restrictions	3,400	-	**3,400**
Future debt service	132,432	-	**132,432**
Pension fund distribution	3,830	-	**3,830**
Student aid	-	99,258	**99,258**
Auxiliary enterprises	-	2,713	**2,713**
Capital projects	-	166,244	**166,244**
Other purposes	-	420,568	**420,568**
Total restricted-expendable	139,662	819,877	**959,539**
Unrestricted	483,954	1,552,636	**2,036,590**
Total net assets	**$ 623,774**	**$ 5,164,430**	**$ 5,788,204**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2004
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental and Proprietary	Colleges and Universities	Net (Expense) Revenue
Governmental and proprietary	$ 390,671	$ 61,914	$ 288,135	$ -	(40,622)	-	(40,622)
Colleges and universities	4,258,826	2,093,587	896,796	88,806	-	(1,179,637)	(1,179,637)
Total component units	$ 4,649,497	$ 2,155,501	$ 1,184,931	$ 88,806	(40,622)	(1,179,637)	(1,220,259)
		General Revenues:					
		Investment earnings			14,597	143,832	158,429
		Payments from State of Indiana			22,317	1,289,145	1,311,462
		Other			112	141,890	142,002
		Total general revenues			37,026	1,574,867	1,611,893
		Change in net assets			(3,596)	395,230	391,634
		Net assets - beginning, as restated			627,370	4,769,200	5,396,570
		Net assets - ending			$ 623,774	$ 5,164,430	$ 5,788,204

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units - Governmental and Proprietary Funds
June 30, 2004
(amounts expressed in thousands)

	Governmental	Proprietary			
	Indiana Development Finance Authority	Indiana Bond Bank	Indiana Housing Finance Authority	Non-Major Component Units	Total Component Units
Assets					
Current assets:					
Cash, cash equivalents and investments	$ 45,026	$ 36,817	$ 54,232	$ 223,476	**$ 359,551**
Securities lending collateral	-	-	-	134,957	**134,957**
Receivables (net)	295	44,738	341	10,765	**56,139**
Loans	5,520	-	-	-	**5,520**
Intergovernmental loans	-	1,180,140	-	-	**1,180,140**
Due from primary government	-	39,365	-	-	**39,365**
Other current assets	-	-	1,340	1,147	**2,487**
Total current assets	50,841	1,301,060	55,913	370,345	**1,778,159**
Noncurrent assets:					
Cash, cash equivalents and investments - restricted	-	74,536	372,356	-	**446,892**
Taxes, interest, and penalties receivable	-	-	3,998	-	**3,998**
Other receivables	-	-	744,818	297,819	**1,042,637**
Investments - unrestricted	-	-	-	98,525	**98,525**
Bond issuance costs, net of amortization	-	30,889	8,883	-	**39,772**
Intergovernmental loans	-	1,187,269	-	-	**1,187,269**
Due from primary government	-	1,446,287	-	50,000	**1,496,287**
Other noncurrent assets	-	-	498	1,898	**2,396**
Capital assets:					
Property, plant, and equipment	-	97	1,557	483	**2,137**
Less accumulated depreciation	-	(77)	(1,466)	(436)	**(1,979)**
Total capital assets, net of depreciation	-	20	91	47	**158**
Total noncurrent assets	-	2,739,001	1,130,644	448,289	**4,317,934**
Total assets	**50,841**	**4,040,061**	**1,186,557**	**818,634**	**6,096,093**
Liabilities					
Current liabilities:					
Accounts payable	98	615	921	1,046	**2,680**
Interest payable	-	51,288	254	339	**51,881**
Current portion of long-term debt	-	1,283,286	12,806	-	**1,296,092**
Line of credit	-	-	53,670	48,800	**102,470**
Securities lending collateral	-	-	-	134,957	**134,957**
Deposits held in custody for others	-	-	724	-	**724**
Other current liabilities	465	-	-	5	**470**
Total current liabilities	563	1,335,189	68,375	185,147	**1,589,274**
Long-term liabilities:					
Revenue bonds/notes payable	-	2,692,705	926,628	260,800	**3,880,133**
Other noncurrent liabilities	-	597	1,165	1,150	**2,912**
Total long-term liabilities	-	2,693,302	927,793	261,950	**3,883,045**
Total liabilities	**563**	**4,028,491**	**996,168**	**447,097**	**5,472,319**
Net assets					
Invested in capital assets net of related debt	-	20	91	47	**158**
Restricted-expendable					
Grants/constitutional restrictions	-	-	3,400	-	**3,400**
Future debt service	-	1,125	130,157	1,150	**132,432**
Pension fund distribution	-	-	-	3,830	**3,830**
Total restricted-expendable	-	1,125	133,557	4,980	**139,662**
Unrestricted (deficit)	50,278	10,425	56,741	366,510	**483,954**
Total net assets	**$ 50,278**	**$ 11,570**	**$ 190,389**	**$ 371,537**	**$ 623,774**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units - Governmental and Proprietary Funds
For the Fiscal Year Ended June 30, 2004
(amounts expressed in thousands)

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Indiana Development Finance Authority	Indiana Bond Bank	Indiana Housing Finance Authority	Non-Major Component Units	Net (Expense) Revenue
Indiana Development Finance Authority	$ 23,920	$ 695	$ -	(23,225)	-	-	-	(23,225)
Indiana Bond Bank	123,817	693	121,924	-	(1,200)	-	-	(1,200)
Indiana Housing Finance Authority	223,041	60,526	140,135	-	-	(22,380)	-	(22,380)
Non-Major Component Units	19,893	-	26,076	-	-	-	6,183	6,183
Total component units	$ 390,671	$ 61,914	$ 288,135	(23,225)	(1,200)	(22,380)	6,183	(40,622)
General revenues:								
Investment earnings				553	360	13,684	-	14,597
Payments from State of Indiana				22,317	-	-	-	22,317
Other				-	-	112	-	112
Total general revenues				22,870	360	13,796	-	37,026
Change in net assets				(355)	(840)	(8,584)	6,183	(3,596)
Net assets - beginning				50,633	12,410	198,973	365,354	627,370
Net assets - ending				$ 50,278	$ 11,570	$ 190,389	$ 371,537	$ 623,774

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units - Colleges and Universities
June 30, 2004
(amounts expressed in thousands)

	Indiana University	Purdue University	Non-Major Colleges and Universities	Totals
Assets				
Current assets:				
Cash, cash equivalents and investments	$ 238,913	$ 258,350	$ 233,566	**$ 730,829**
Securities lending collateral	87,923	229,698	-	**317,621**
Receivables (net)	107,358	75,700	60,681	**243,739**
Inventory	15,748	6,018	9,250	**31,016**
Prepaid expenses	-	2,681	9,574	**12,255**
Due from primary government	38,985	27,211	32,380	**98,576**
Funds held in trust by others	-	205	65,934	**66,139**
Other current assets	8,281	11,353	1,579	**21,213**
Total current assets	497,208	611,216	412,964	**1,521,388**
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	-	1,316,242	453	**1,316,695**
Other receivables	66,807	68,135	15,448	**150,390**
Investments - unrestricted	536,024	16,971	195,411	**748,406**
Other noncurrent assets	-	-	11,558	**11,558**
Capital assets:				
Land	46,429	21,492	81,797	**149,718**
Infrastructure	133,719	36,781	59,484	**229,984**
Construction in progress	167,256	120,133	52,407	**339,796**
Property, plant, and equipment	2,580,869	1,837,816	1,531,690	**5,950,375**
Less accumulated depreciation	(1,221,112)	(848,359)	(651,227)	**(2,720,698)**
Total capital assets, net of depreciation	1,707,161	1,167,863	1,074,151	**3,949,175**
Total noncurrent assets	2,309,992	2,569,211	1,297,021	**6,176,224**
Total assets	**2,807,200**	**3,180,427**	**1,709,985**	**7,697,612**
Liabilities				
Current liabilities:				
Accounts payable	144,480	39,084	31,209	**214,773**
Interest payable	-	-	1,385	**1,385**
Current portion of long-term debt	42,965	25,728	27,914	**96,607**
Capital lease payable	2,190	3,795	-	**5,985**
Salaries, health, disability, and benefits payable	-	8,060	15,722	**23,782**
Deferred revenue	87,531	37,135	23,470	**148,136**
Accrued liability for compensated absences	28,140	20,101	6,051	**54,292**
Securities lending collateral	87,923	229,698	-	**317,621**
Deposits held in custody for others	-	19,782	9,675	**29,457**
Other current liabilities	-	24,490	4,876	**29,366**
Total current liabilities	393,229	407,873	120,302	**921,404**
Long-term liabilities:				
Accrued liability for compensated absences	10,329	15,712	11,019	**37,060**
Capital lease payable	11,757	82,130	-	**93,887**
Funds held in trust for others	35,171	9,650	-	**44,821**
Advances from federal government	-	20,543	-	**20,543**
Revenue bonds/notes payable	507,922	396,585	424,247	**1,328,754**
Other noncurrent liabilities	73,269	12,456	988	**86,713**
Total long-term liabilities	638,448	537,076	436,254	**1,611,778**
Total liabilities	**1,031,677**	**944,949**	**556,556**	**2,533,182**
Net assets				
Invested in capital assets net of related debt	1,168,783	697,257	659,651	**2,525,691**
Restricted-nonexpendable				
Instruction and research	-	96,804	-	**96,804**
Student aid	-	87,364	4,149	**91,513**
Other purposes	56,973	20,936	-	**77,909**
Total restricted-nonexpendable	56,973	205,104	4,149	**266,226**
Restricted-expendable				
Instruction and research	53,106	77,446	542	**131,094**
Student aid	17,940	57,911	23,407	**99,258**
Auxiliary enterprises	-	2,713	-	**2,713**
Capital projects	9,476	99,389	57,379	**166,244**
Other purposes	19,179	386,781	14,608	**420,568**
Total restricted-expendable	99,701	624,240	95,936	**819,877**
Unrestricted (deficit)	450,066	708,877	393,693	**1,552,636**
Total net assets	**$ 1,775,523**	**$ 2,235,478**	**$ 1,153,429**	**$ 5,164,430**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units - Colleges and Universities
For the Fiscal Year Ended June 30, 2004
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Indiana University**	**Purdue University**	**Non-Major Colleges and Universities**	**Net (Expense) Revenue**
Indiana University	$ 1,995,358	$ 1,089,578	$ 404,542	$ 17,859	(483,379)	-	-	(483,379)
Purdue University	1,277,467	617,994	265,913	66,540	-	(327,020)	-	(327,020)
Non-Major Colleges and Universities	986,001	386,015	226,341	4,407	-	-	(369,238)	(369,238)
Total component units	$ 4,258,826	$ 2,093,587	$ 896,796	$ 88,806	(483,379)	(327,020)	(369,238)	(1,179,637)
General revenues:								
Investment earnings					30,123	106,554	7,155	143,832
Payments from State of Indiana					516,469	355,042	417,634	1,289,145
Other					51,255	85,852	4,783	141,890
Total general revenues					597,847	547,448	429,572	1,574,867
Change in net assets					114,468	220,428	60,334	395,230
Net assets - beginning, as restated					1,661,055	2,015,050	1,093,095	4,769,200
Net assets - ending					$ 1,775,523	$ 2,235,478	$ 1,153,429	$ 5,164,430

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

STATE OF INDIANA

Notes to the Financial Statements
June 30, 2004

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 20^{th} 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.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds – In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon.

ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

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

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

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

Year Ending, June 30	Governmental Activities 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

Year Ending, June 30	Business-type Activities 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.


SEAL OF THE STATE OF INDIANA
1816

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.

<u>Heartland</u> - 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).

Summary of Significant Accounting Policies (Primary government and discretely presented component units)

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

Investments of defined benefit plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value.

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

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

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

State Police Retirement Fund (Presented as a pension fund)

Plan Description The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the 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.

Funding Policy 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
1816

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
Employee Retirement Systems and Plans

(amounts expressed in thousands)	Primary Government	------------------------------------Discretely Presented Component Unit------------------------------------					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Valuation Date: July 1, 2004							
Actuarial value of assets	$ 311,707	*	*	*	*	*	*
Actuarial accrued liability (AAL)	378,770	*	*	*	*	*	*
Excess of assets over (unfunded) AAL	(67,063)	*	*	*	*	*	*
Funded ratio	82%	*	*	*	*	*	*
Covered payroll	53,095	*	*	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	-126%	*	*	*	*	*	*
Valuation Date: July 1, 2003							
Actuarial value of assets	$ 313,123	$ 2,078,952	$ 2,478,161	$ 37,286	$ 126,151	$ 12,758	$ 4,199
Actuarial accrued liability (AAL)	360,502	1,860,101	2,437,632	52,006	206,846	15,685	4,947
Excess of assets over (unfunded) AAL	(47,379)	218,851	40,529	(14,720)	(80,695)	(2,927)	(748)
Funded ratio	87%	112%	102%	72%	61%	81%	85%
Covered payroll	51,204	1,491,661	2,460,569	11,944	25,400	13,158	**
Excess (unfunded) AAL as a percentage of covered payroll	-93%	15%	2%	-123%	-318%	-22%	**
Valuation Date: July 1, 2002							
Actuarial value of assets	$ 304,773	$ 2,061,790	$ 2,445,113	$ 37,360	$ 121,155	$ 11,957	$ 4,446
Actuarial accrued liability (AAL)	349,772	2,010,178	2,666,590	55,884	188,434	22,386	5,503
Excess of assets over (unfunded) AAL	(44,999)	51,612	(221,477)	(18,524)	(67,279)	(10,429)	(1,057)
Funded ratio	87%	103%	92%	67%	64%	53%	81%
Covered payroll	50,895	1,475,076	2,350,458	12,654	25,805	14,437	**
Excess (unfunded) AAL as a percentage of covered payroll	-88%	3%	-9%	-146%	-261%	-72%	**
Valuation Date: July 1, 2001							
Actuarial value of assets	$ 307,072	$ 2,063,627	$ 2,484,339	$ 36,921	$ 115,040	$ 11,073	$ 4,665
Actuarial accrued liability (AAL)	338,867	1,896,506	2,249,835	52,024	188,610	20,418	5,508
Excess of assets over (unfunded) AAL	(31,795)	167,121	234,504	(15,103)	(73,570)	(9,345)	(843)
Funded ratio	91%	109%	110%	71%	61%	54%	85%
Covered payroll	51,395	1,429,768	2,157,252	12,486	29,748	13,636	**
Excess (unfunded) AAL as a percentage of covered payroll	-62%	12%	11%	-121%	-247%	-69%	**

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)

* Information not available
** The benefit formula is determined based on service rather than compensation. The unfunded liability is expressed per active participant and there are 55 active participants. The unfunded liability per active participant is $13,604

State of Indiana
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	General Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ 3,860,500	$ 3,860,500	$ 4,323,867	$ 463,367
Sales	2,421,600	2,421,600	2,246,152	(175,448)
Fuels	3,469	3,469	-	(3,469)
Gaming	-	-	84,847	84,847
Inheritance	120,000	120,000	139,985	19,985
Alcohol and tobacco	332,400	332,400	297,876	(34,524)
Insurance	177,100	177,100	178,303	1,203
Other	17	17	159,953	159,936
Total taxes	6,915,086	6,915,086	7,430,983	515,897
Current service charges	142,337	142,337	193,138	50,801
Investment income	30,000	30,000	40,703	10,703
Sales/rents	7,078	7,078	1,252	(5,826)
Grants	70,000	70,000	116,619	46,619
Other	62,114	62,114	105,811	43,697
Total revenues	7,226,615	7,226,615	7,888,506	661,891
Expenditures:				
Current:				
General government	631,460	961,017	931,399	29,618
Public safety	648,101	650,593	630,262	20,331
Health	117,469	106,093	104,807	1,286
Welfare	2,081,374	384,340	371,681	12,659
Conservation, culture and development	98,816	116,596	59,243	57,353
Education	5,706,407	5,539,860	5,522,341	17,519
Transportation	465	5,525	3,515	2,010
Other	10,723	-	-	-
Total expenditures	9,294,815	7,764,024	7,623,248	140,776
Excess of revenues over (under) expenditures	(2,068,200)	(537,409)	265,258	(802,667)
Other financing sources (uses):				
Total other financing sources (uses)	3,247	3,247	(422,397)	(425,644)
Net change in fund balances	$ (2,064,953)	$ (534,162)	$ (157,139)	$ 377,023
Fund balances July 1, as restated			1,227,090	
Fund balances June 30			**$ 1,069,951**	

Motor Vehicle Highway Fund				Medicaid Assistance			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
458,760	458,760	483,373	24,613	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
458,760	458,760	483,373	24,613	-	-	-	-
12,677	12,677	18,032	5,355	-	-	-	-
-	-	-	-	-	-	-	-
15	15	13	(2)	-	-	-	-
13,173	13,173	18,139	4,966	2,607,705	2,607,705	3,239,993	632,288
58,145	58,145	63,820	5,675	-	-	27	27
542,770	542,770	583,377	40,607	2,607,705	2,607,705	3,240,020	632,315
6,788	284,287	284,287	-	-	67	67	-
184,285	192,960	192,960	-	-	-	-	-
-	130	130	-	-	-	-	-
-	-	-	-	-	4,638,221	4,627,542	10,679
-	-	-	-	-	-	-	-
259	250	250	-	-	-	-	-
-	2,696	2,696	-	-	-	-	-
-	-	-	-	-	-	-	-
191,332	480,323	480,323	-	-	4,638,288	4,627,609	10,679
351,438	62,447	103,054	(40,607)	2,607,705	(2,030,583)	(1,387,589)	(642,994)
(112,981)	(112,981)	(106,443)	6,538	1,296,778	1,296,778	1,323,522	26,744
$ 238,457	$ (50,534)	$ (3,389)	$ 47,145	$ 3,904,483	$ (733,805)	$ (64,067)	$ 669,738
		(5,263)				42,554	
		$ (8,652)				**$ (21,513)**	

continued on next page

State of Indiana
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	Build Indiana Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ -	$ -	$ -	$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	-	-
Current service charges	-	-	-	-
Investment income	931	931	-	(931)
Sales/rents	-	-	-	-
Grants	-	-	-	-
Other	3,007	3,007	141	(2,866)
Total revenues	3,938	3,938	141	(3,797)
Expenditures:				
Current:				
General government	-	19,106	9,197	9,909
Public safety	-	2	-	2
Health	-	26	-	26
Welfare	-	-	-	-
Conservation, culture and development	-	4,698	1,748	2,950
Education	-	96	67	29
Transportation	-	466	332	134
Other	-	-	-	-
Total expenditures	-	24,394	11,344	13,050
Excess of revenues over (under) expenditures	3,938	(20,456)	(11,203)	(9,253)
Other financing sources (uses):				
Total other financing sources (uses)	145,748	145,748	14,052	(131,696)
Net change in fund balances	$ 149,686	$ 125,292	$ 2,849	$ (122,443)
Fund balances July 1, as restated			20,612	
Fund balances June 30			**$ 23,461**	

State Highway Department				Property Tax Replacement Fund			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
$ -	$ -	$ -	$ -	$ 73,486	$ 73,486	$ -	$ (73,486)
42	42	14	(28)	1,881,946	1,881,946	2,321,710	439,764
53	53	1	(52)	-	-	-	-
-	-	-	-	-	-	8,524	8,524
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
95	95	15	(80)	1,955,432	1,955,432	2,330,234	374,802
12,068	12,068	14,250	2,182	-	-	-	-
59	59	29	(30)	-	-	-	-
589	589	1,870	1,281	-	-	-	-
654,734	654,734	831,557	176,823	-	-	-	-
120,883	120,883	75,226	(45,657)	-	-	-	-
788,428	788,428	922,947	134,519	1,955,432	1,955,432	2,330,234	374,802
-	-	-	-	-	1,981,014	1,981,014	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,107,610	1,415,106	1,399,301	15,805	-	-	-	-
-	-	-	-	-	-	-	-
1,107,610	1,415,106	1,399,301	15,805	-	1,981,014	1,981,014	-
(319,182)	(626,678)	(476,354)	(150,324)	1,955,432	(25,582)	349,220	(374,802)
451,206	451,206	475,115	23,909	(770,395)	(770,395)	(349,220)	421,175
$ 132,024	$ (175,472)	$ (1,239)	$ 174,233	$ 1,185,037	$ (795,977)	$ -	$ 795,977
		285,264				-	
		$ 284,025				**$ -**	

continued on next page

State of Indiana
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	Tobacco Settlement Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ -	$ -	$ -	$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	-	-
Current service charges	147,988	147,988	129,852	(18,136)
Investment income	194	194	1,140	946
Sales/rents	-	-	-	-
Grants	-	-	-	-
Other	32	32	12	(20)
Total revenues	148,214	148,214	131,004	(17,210)
Expenditures:				
Current:				
General government	-	25,148	24,381	767
Public safety	-	-	-	-
Health	-	35,016	35,016	-
Welfare	-	1,385	1,303	82
Conservation, culture and development	-	38	38	-
Education	-	-	-	-
Transportation	-	-	-	-
Other	-	-	-	-
Total expenditures	-	61,587	60,738	849
Excess of revenues over (under) expenditures	148,214	86,627	70,266	16,361
Other financing sources (uses):				
Total other financing sources (uses)	(35,115)	(35,115)	(107,976)	(72,861)
Net change in fund balances	$ 113,099	$ 51,512	$ (37,710)	$ (89,222)
Fund balances July 1, as restated			275,778	
Fund balances June 30			**$ 238,068**	

Budget/GAAP Reconciliation
Major Funds

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

(amounts expressed in thousands)	GENERAL FUND	MOTOR VEHICLE HIGHWAY FUND	MEDICAID ASSISTANCE	BUILD INDIANA FUND	STATE HIGHWAY DEPARTMENT	PROPERTY TAX RELIEF FUND	TOBACCO SETTLEMENT FUND	Total
Net change in fund balances (budgetary basis)	$ (157,139)	$ (3,389)	$ (64,067)	$ 2,849	$ (1,239)	$ -	$ (37,710)	**$ (260,695)**
Adjustments necessary to convert the results of operations on a budgetary basis to a GAAP basis are:								
Revenues are recorded when earned (GAAP) as opposed to when cash is received (budgetary)	35,336	(5,962)	12,689	-	(19,893)	12,657	54	**34,881**
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	7,290	6,407	-	1,277	(1,917)	(417,293)	351	**(403,885)**
Net change in fund balances (GAAP basis)	**$ (114,513)**	**$ (2,944)**	**$ (51,378)**	**$ 4,126**	**$ (23,049)**	**$ (404,636)**	**$ (37,305)**	**$ (629,699)**

Infrastructure - Modified Reporting
Condition Rating of the State's Highways and Bridges

Roads	**Average Pavement Quality Index (PQI)**		
	2004	**2003**	**2002**
Interstate Roads (including Rest Areas and Weigh Stations)	87	87	89
NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)	82	83	84
Non-NHS Roads	79	80	81

The condition of road pavement is measured using a pavement quality index (PQI), which is based on a weighted average of three distress factors found in pavement surfaces. The PQI uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in excellent condition (90-100), good condition (80-89), fair condition (70-79), and poor condition (less than 70).
It is the State's policy to maintain Interstate and NHS Non-Interstate roads at an average PQI of 75 and Non-NHS roads at an average PQI of 65. Condition assessments are determined on an annual basis for Interstates and on a biennial basis for other roads. The ratings provided are based on data gathered during the summer (July and August) of the corresponding fiscal year. The data are evaluated and compared to standard critera by the end of the fiscal year.

Bridges	**Average Sufficiency Rating**		
	2004	**2003**	**2002**
Interstate Bridges	91.5%	91.1%	91.2%
NHS Bridges - Non-Interstate	91.2%	90.1%	91.2%
Non-NHS Bridges	88.4%	87.8%	88.1%

The condition of the State's bridges is measured based on a sufficiency rating, which is based on a weighted average of four factors indicative of a bridge's sufficiency to remain in service. The sufficiency rating uses a measurement scale that ranges from zero for an entirely insufficient or deficient bridge to 100 for an entirely sufficient bridge. The sufficiency rating is used to classify bridges in excellent condition (90-100), good condition (80-89), fair condition (70-79), marginal condition (60-69) and poor condition (below 60). It is the State's policy to maintain Interstate bridges at a minimum sufficiency rating of 87%, NHS Non-Interstate bridges at 85%, and Non-NHS bridges at 83%. Sufficiency ratings are determined at least on a biennial basis for all bridges. Sufficiency ratings are determined more frequently for certain bridges depending on their design.

Infrastructure - Modified Reporting
Comparison of Needed-to-Actual Maintenance/Preservation
(dollars in thousands)

	2004	2003	2002	2001	2000
Roads					
Interstate Roads (including Rest Areas and Weigh Stations):					
Needed	$ 194,098	$ 113,469	$ 101,574	N/A	N/A
Actual	253,555	167,472	198,144	N/A	N/A
NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)					
Needed	71,244	52,857	67,392	N/A	N/A
Actual	55	2,450	2,618	N/A	N/A
Non-NHS Roads					
Needed	185,437	196,063	185,909	N/A	N/A
Actual	414,964	390,020	311,757	N/A	N/A
Roads at State Institutions and Properties					
Needed	2,689	4,000	5,000	N/A	N/A
Actual	4,381	6,044	1,603	N/A	N/A
Total					
Needed	453,468	366,389	359,875	N/A	N/A
Actual	672,955	565,986	514,122	N/A	N/A
Bridges					
Interstate Bridges					
Needed	$ 19,946	$ 11,220	$ 42,634	N/A	N/A
Actual	28,723	36,736	27,838	N/A	N/A
NHS Bridges - Non-Interstate					
Needed	26,411	25,618	35,384	N/A	N/A
Actual	7,766	12,324	11,265	N/A	N/A
Non-NHS Bridges					
Needed	34,929	44,659	41,116	N/A	N/A
Actual	73,356	60,314	74,388	N/A	N/A
Bridges at State Institutions and Properties					
Needed	926	-	-	N/A	N/A
Actual	702	-	-	N/A	N/A
Total					
Needed	82,212	81,497	119,134	N/A	N/A
Actual	110,547	109,374	113,491	N/A	N/A

N/A - Information is not available

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE STATE OF INDIANA

Compliance

We have audited the compliance of the State of Indiana with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The State of Indiana's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State of Indiana's compliance based on our audit.

The State of Indiana's basic financial statements include the operations of Purdue University, Indiana University, Indiana State University, Ball State University, Vincennes University, University of Southern Indiana, and Ivy Tech State College, which expended a total of $647,614,843 in federal awards that are not included in the schedule for the year ended June 30, 2004. Our audit, described below, did not include the operations of these units because they have separate audits performed in accordance with OMB Circular A-133. See Note 3 of the Notes to the Schedule of Expenditures of Federal Awards for federal funds expended by each unit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Indiana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Indiana's compliance with those requirements.

As described in the findings in the accompanying Schedule of Findings and Questioned Costs or in the Summary Schedule of Prior Findings accompanying this report, the State of Indiana did not comply with certain requirements that are applicable to certain federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Indiana to comply with requirements applicable to each program. The following list includes the findings, federal programs involved, and the requirements affected:

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Finding Number	Federal Program Name	Requirements Not Complied With
2001-FSSA-3	Block Grants for Prevention and Treatment of Substance Abuse	Subrecipient monitoring
2002-FSSA-3	Social Services Block Grant	Allowable cost/cost principles, Subrecipient monitoring
2002-FSSA-4	Social Services Block Grant	Subrecipient monitoring

In our opinion, except for the noncompliance described in the findings listed in the preceding paragraph, the State of Indiana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as 96-FSSA-33, 2000-FSSA-1, 2000-FSSA-3, 2000-FSSA-5, 2003-FSSA-8, 2004-FSSA-5, and 2004-IDOE-1.

Internal Control Over Compliance

The management of the State of Indiana is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Indiana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Indiana's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questions Costs as Findings 2004-FSSA-1, 2004-FSSA-2, 2004-FSSA-3, 2004-FSSA-4, 2004-FSSA-5, 2004-FSSA-6, 2004-FSSA-7, and 2004-FSSA-8. Reportable conditions per the prior audit that are still considered a reportable condition are Findings 99-FSSA-7, 2000-FSSA-1, 2000-FSSA-2, 2000-FSSA-3, 2000-FSSA-5, 2001-FSSA-3, 2002-FSSA-3, 2002-FSSA-4, 2003-FSSA-1, 2003-FSSA-3, 2003-FSSA-6, 2003-FSSA-9, 2003-FSSA-11, and 2003-FSSA-16.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider Findings 99-FSSA-7, 2000-FSSA-3, 2000-FSSA-5, 2001-FSSA-3, 2002-FSSA-3 and 2002-FSSA-4 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the State of Indiana as of and for the year ended June 30, 2004, and have issued our report thereon dated December 28, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the major programs and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the State of Indiana's management, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than the specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts.

STATE BOARD OF ACCOUNTS

March 16, 2005

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE					
Food Stamps Cluster					
Food Stamps	10.551	FSSA	N/A	$ 531,384,788	$ -
State Administrative Matching Grants for Food Stamp Program	10.561	FSSA	2003 IS 2514 42	6,970,610	-
			2004 IS 2514 42	24,669,638	-
			2003 IE 2518 42	956,007	-
			2004 IE 2518 42	1,360,395	-
			2004 IS 2519 42	1,968,925	-
			2002 IS 2519 42	(225)	-
			2003 IS 2519 42	890,916	-
			2004 IS 2520 42	288,363	-
			2002 IS 2520 42	50	-
			2003 IS 2520 42	115,452	-
			2004 IS 2522 42	420,012	-
			2003 IS 2522 42	860,649	-
			2003 IS 8036 42	11,804	-
			2004 IS 8036 42	3,911	-
Total for Program				38,516,507	-
Total for Cluster				569,901,295	-
Child Nutrition Cluster					
School Breakfast Program	10.553	IDOE	2004IN109942	27,045,812	27,045,812
National School Lunch Program	10.555	IDOE			
National School Lunch			2004IN109942	122,605,573	122,605,573
Food Commodities			N/A	19,564,974	19,564,974
Total for Program				142,170,547	142,170,547
Special Milk Program for Children	10.556	IDOE	2004IN109942	268,599	268,599
Summer Food Service Program for Children	10.559	IDOE			
Summer Food Service Program			2004IN109942	3,134,846	3,134,846
Summer Food Service State Administration			2004IN109942	94,285	-
Total for Program				3,229,131	3,134,846
Total for Cluster				172,714,089	172,619,804
Emergency Food Assistance Cluster					
Emergency Food Assistance Program	10.568	FSSA	2003 CY 8105 42	4,761	-
			2003 IY 8105 42	284,320	-
			2004 IS 2202 42	147,683	-
			2004 IY 8105 42	500,127	-
Total for Program and Cluster				936,891	-
Plant and Animal Disease, Pest Control, and Animal Care	10.025				
Computer Data and Storage 2003		BOAH	03-9518-0004-CA	3,675	-
Computer Data and Storage 2004		BOAH	04-9518-0004-CA	11,025	-
Scrapie Program 2003		BOAH	03-9618-00039CA	74,643	-
Scrapie Program 2004		BOAH	04-9618-00039CA	110,238	-
Johne's Program 2003		BOAH	03-9618-0159-CA	122,091	-
Surveillance of BSE, FAD, and Animal Management 2003		BOAH	03-9618-0197-CA	46,329	-
Exotic NewCastle Disease Surveillance 2004		BOAH	03-9618-0292-CA	8,200	-
Noxious Weed Surveys		DNR	3-8218-302-CA	17,000	-
Noxious Weed Surveys		DNR	3-8218-302-CA	4,777	-
Cooperative Agricultural Pest Survey		DNR	03-8218-0332-CA	144,251	144,251
Chronic Wasting Disease		DNR	W3CED3	50,756	26,876
Total for Program				592,985	171,127

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE (continued)					
Conservation Reserve	10.069	DNR	02CRP,Contact #198	50	-
			03-DP-112444225-570	11,111	-
Total for Program				11,161	-
Federal-State Cooperation in Warehouse Examination Agreement	10.071	LtGov			
Grian Storage Comprehensive Cooperative Agreement			N/A	72,838	-
Specialty Crop and Agriculture Promotion			N/A	168,395	165,375
Total for Program				241,233	165,375
Market Protection and Promotion	10.163				
National Organic Certification Cost Sharing		LtGov	12-25-A-4150	14,399	14,399
State Mediation Grants	10.435	COM			
07/1/01 - 09/30/01			150010355000159	48,193	-
10/1/01 - 06/30/02			150010355000159	36,984	-
Total for Program				85,177	-
Cooperative Agreements With States for Intrastate Meat and Poultry Inspection	10.475	BOAH			
Meat and Poultry Program 2003			318-B-1-983	457,981	-
Meat and Poultry Program 2004			318-B-1-983	1,290,624	-
Total for Program				1,748,605	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	ISDOH			
USDA WIC Program - 2002			MWSSHP2-3:WFM2	29,287,033	29,287,033
USDA WIC Program - 2003			MWSSHP2-3:WFM2	21,953,276	11,966,783
USDA WIC Program - 2004			MWSSHP2-3:WFM2	50,412,833	47,565,783
Total for Program				101,653,142	88,819,599
Child and Adult Care Food Program	10.558	IDOE			
Child Care Food Service Program			2004IN109942	31,325,459	31,325,459
Child Care Audit Program			2004IN109942	315,883	46,905
Total for Program				31,641,342	31,372,364
State Administrative Expenses for Child Nutrition	10.560	IDOE	2004IN253342	2,089,455	-
Commodity Supplemental Food Program	10.565	FSSA	2003 IY 8005 42	133,080	-
			2004 IY 8005 42	158,401	-
Total for Program				291,481	-
Nutrition Services Incentive	10.570	FSSA	2001 4F 6111 42	48,300	-
Forestry Research	10.652	DNR			
I & D Plot Research - 2000			00-CA-11231300-083	2,604	-
I & D Plot Research - 2001			00-CA-11231300-083	15,510	-
Slow the Spread			02-01-04	129,767	-
Cooperative Law Enforcement Agreement			N/A	10,500	-
Total for Program				158,381	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE (continued)					
Cooperative Forestry Assistance	10.664	DNR			
Conservation Education - 2000			00-DG-11244225-315	10	-
Conservation Education - 2001			01-DG-11244225-209	2,437	-
Conservation Education - 2002			02-DG-11244225-229	5,894	-
Conservation Education - 2003			03-DG-11244225-213	1,887	-
Nursery and Tree Improvement - 2001			01-DG-11244225-209	4	-
Nursery and Tree Improvement - 2002			02-DG-11244225-229	5,513	-
Forest Stewardship Watershed			NA-99-0310	966	-
Forest Stewardship Watershed			03-DG-11244225-213	1,390	-
Cooperative Lands - 2003			03-DG-11244225-213	685	-
Cooperative Lands - 2004			04-DG-11244225-019	1,106	-
Forest Health Monitoring - 2004			04-DG-11244225-019	1,035	-
Forest Health Monitoring - 2003			03-DG-11244225-213	6,826	-
Forest Health Monitoring - 2001			01-DG-11244225-209	24,860	-
Forest Health Monitoring - 2002			00-CA-11231300-083	31,277	-
Forest Health Monitoring - 2002			02-DG-11244225-229	23,875	-
Slow the Spread - 2000			00-DG-11244225-315	53,901	-
Slow the Spread -2003			03-01-04	25,268	-
Slow the Spread -2004			04-01-04	25,710	-
Volunteer Fire - 2001			01-DG-11244225-226	5,273	2,800
Volunteer Fire - 2001			01-DG-11244225-226	17,852	3,500
Volunteer Fire - 2002			02-DG-11244225-251	69,695	64,945
Volunteer Fire - 2002			02-DG-11244225-251	61,615	61,615
Volunteer Fire - 2003			02-DG-11244225-214	169,260	169,260
Wild/Urban Interface - 2000			00-DG-11244225-456	6,320	-
State Fire Assistance - 2001			01-DG-11244225-209	133,821	-
State Fire Assistance - 2001			01-DG-1124425-72	11,139	11,140
State Fire Assistance - 2002			02-DG-11244225-229	32,848	-
State Fire Assistance - 2003			03-DG-11244225-213	28,123	-
State Fire Assistance - 2004			04-DG-11244225-019	1,719	-
Urban Forestry - 1999			NA-99-0120	50,571	26,588
Urban Forestry - 2000			00-DG-11244225-149	26,176	24,273
Urban Forestry - 2001			01-DG-11244225-209	82,851	74,688
Urban Forestry - 2002			02-DG-11244225-229	68,020	54,626
Urban Forestry - 2003			03-DG-11244225-213	71,079	2,327
State Forestry Life UF (Educ) - 2000			00-DG-11244225-149	13,981	-
Urban Forestry Health Monitoring Survey - 2001			01-DG-11244225-220	7,261	-
Stewardship - 2000			00-DG-11244225-149	12,101	-
Stewardship - 2001			01-DG-11244225-209	54,380	7,709
Stewardship - 2002			02-DG-11244225-229	96,582	6,429
Stewardship - 2003			03-DG-11244225-213	22,804	12,939
Stewardship - 2004			04-DG-11244225-019	118	-
Forest Land Enhancement			03-DG-11244225-544	55,444	55,444
Forest Legacy - 2000			00-DG-11244225-159	854	-
Forest Legacy - 2001			01-DG-11244225-096	9,741	-
Forest Legacy - 2000 (Hills of Gold)			00-DG-11244225-159	544,687	-
Forest Legacy - 2001 (Gnaw Bone Camp)			01-DG-1244225-096	1,282,244	-
Forest Legacy - 2001 (Rivers Edge)			01-DG-11244225-096	235	-
Legacy 2002 Administration			01-DG-11244225-252	15,791	-
Legacy 2003 Administration			01-DG-11244225-216	374	-
Forest Health Evaluation 2002			02-DG-11244225-359	2,400	-
Gypsy Moth Survey 2003			03-CA-1244225-212	2,000	-
Sirex Detection 2003			03-DG-11244225-217	129	-
Emerald Ash Borer 2004			04-DG-11244225-019	3,183	-
Emerald Ash Borer 2003			03-DG-11244225-412	3,797	-
Research St. Paul 2003			03-CS-11231300-069	770	-
Survey and Technical Assistance - 2002			02-DG-11244225-229	9,607	-
Total for Program				3,187,489	578,283

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE (continued)					
Rural Development, Forestry and Communities	10.672	DNR			
Rural Development - 2001			01-DG-11244225-210	6,956	-
Rural Development - 2002			02-DG-11244225-247	6,396	-
Total for Program				13,352	-
Rural Business Enterprise Grants	10.769	SRDC			
State Rural Development Council 07/1/02 - 6/30/03			43-3157-0-INP14	76,928	-
State Rural Development Council 07/1/03 - 6/30/04			OCD-04-15-IN	15,000	15,000
Total for Program				91,928	15,000
Other Assistance					
Meat Source Safety	10	BOAH	FSIS-C-27-2002	17,585	-
			FSIS-C-27-2002	51,086	-
Total for Program				68,671	-
Homeland Security	10	BOAH	03-9618-0057CA	65,787	-
Fresh Fruit and Vegetable Pilot Program	10	IDOE	2002IN452042	537,291	629,721
WIC/CHIP Demonstration Project (Hoosier Healthwise) - 2003	10	ISDOH	58-31198-01-033	188,405	188,405
Mammography Inspection Program	10	ISDOH			
2002			223-01-4413	109,536	-
2003			223-01-4413	2,988	-
Total for Program				112,524	-
Total for Other Assistance				972,678	818,126
Total U.S. Department of Agriculture				886,393,383	294,574,077
U.S. DEPARTMENT OF COMMERCE					
Coastal Zone Management Administration Awards	11.419	DNR			
Great Lakes Coastal Restoration Grant			NA170Z1381	18,233	-
Great Lakes Coastal Restoration Grant			NA170Z2334	2,864	-
Total for Program				21,097	-
Total U.S. Department of Commerce				21,097	-
U.S. DEPARTMENT OF DEFENSE					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	IDEM			
Defense Environmental Restoration					
DERA Air Force			IN 02-1	75,995	-
BRAC 91 Air Force			IN 02-1	33,375	-
BRAC 88 Army			IN 02-1	22,063	-
BRAC 95 Navy			IN 02-1	11,064	-
FUDS MAP			IN 02-1	568	-
Newport Army Chemical Demilitarization			N/A	140,424	-
Total for Program				283,489	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF DEFENSE (continued)					
Military Construction, National Guard	12.400	MD			
Water System Improvement - ARFTA			DAHA12-00-2-2001	520,424	-
ADRS Projects			DAHA12	3,185,175	-
Battle Simulation Center - ARFTA			NGB12-99-C-0002	2,873,914	-
Total for Program				6,579,513	-
National Guard Military Operations and Maintenance Projects	12.401	MD			
Real Property Operation and Maintenance			W912L9-04-2-1001	8,976,834	-
ARNG Environmental			W912L9-04-2-1002	726,303	-
ARNG Security Personnel			W912L9-04-2-1003	450,012	-
ARNG Electronic Security			W912L9-04-2-1004	250,072	-
ARNG Telecommunications			W912L9-04-2-1005	1,935,017	-
Ranges and Training Land Program			W912L9-04-2-1007	1,192,544	-
State Family Program Activities			W912L9-04-2-1041	28,855	-
ANG Real Property Operation and Maintenance - Baer Field			W912L9-04-2-1021-1	602,534	-
ANG Real Property Operation and Maintenance - Hulman Field			W912L9-04-2-1021-2	610,012	-
ANG Security Guard Activities - Baer Field			W912L9-04-2-1023-1	469,573	-
ANG Security Guard Activities - Hulman Field			W912L9-04-2-1023-2	445,321	-
ANG Fire Protection Activities - Baer Field			W912L9-04-2-1024-1	512,964	-
ANG Fire Protection Activities - Hulman Field			W912L9-04-2-1024-2	1,113,314	-
Total for Program				17,313,355	-
Total U.S. Department of Defense				24,176,357	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
CDBG-Entitlement and (HUD-Administered) Small Cities Cluster					
Development Block Grant/Entitlement Grant	14.218	DWD	City of Ft. Wayne	5,074	-
Total for Program and Cluster				5,074	-
Section 8 Project-Based Cluster					
Lower Income Housing Assistance Program - Section 8	14.856	FSSA			
Moderate Rehabilitation - Voucher Housing Program			IN 901 V00082107	20,491,543	1,505,199
Total for Program and Cluster				20,491,543	1,505,199
Manufactured Home Construction and Safety Standards	14.171	IDFBS	N/A	207,400	-
Community Development Block Grants/State's Program	14.228	COM			
			B-96-DC-180001	17,452	9,363
			B-97-DC-180001	12,574	12,240
			B-98-DC-180001	6,603	6,603
			B-99-DC-180001	276,982	275,352
			B-00-DC-180001	1,639,345	1,148,564
			B-01-DC-180001	4,382,434	4,382,433
			B-02-DC-180001	26,793,404	26,793,404
			B-03-DC-180001	6,533,149	6,528,778
Total for Program				39,661,943	39,156,737
Emergency Shelter Grants Program	14.231	FSSA	S-02DC180001	200,287	-
			S 02DC180001	1,584,519	-
Total for Program				1,784,806	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (continued)					
Shelter Plus Care	14.238	FSSA	IN36C203011	77,548	-
			IN36C80-4005	199,177	-
			IN36C103018	19,524	-
			IN36C903002	189,039	-
			IN36C94-0099	15,549	-
			IN36C97-0503	79,026	-
Total for Program				579,863	579,863
HOME Investment Partnerships Program	14.239	IGPC	SR-03-02	10,689	10,689
Fair Housing Assistance Program - State and Local	14.401	ICRC	N/A	259,100	-
Fair Housing Initiatives Program (FHIP) Education and Outreach Initiative	14.409	ICRC	FH400G00025	21,893	-
Other Assistance					
Home Partnership Funds	14	ICRC	SR-02-08	73,881	-
Total for Other Assistance				73,881	-
Total U.S. Department of Housing and Urban Development				63,096,192	41,252,488
U.S. DEPARTMENT OF INTERIOR					
Fish and Wildlife Cluster					
Sport Fish Restoration	15.605	DNR			
Statewide Fisheries Management			F-10-D-36	1,118,233	-
Statewide Fisheries Management			F-10-D-37	493,317	-
Arnold Creek Ramp			F-15-D-57	87,000	87,000
Indiana Waters - Kimmel Park			F-15-D-62	21,156	21,156
Indiana Waters - Troy Boat Ramp			F-15-D-66	21,470	21,470
Margaret Prickett Marina Park			F-15-D-67	80,540	80,540
North Webster Fishing Pier			F-15-D-69	57,670	57,670
Hayden Park Fishing Pier			F-15-D-70	18,413	18,413
Hazel Landing Park			F-15-D-71	55,050	55,050
Fish Hatchery Research			F-18-R-16	248,879	248,879
Fish Hatchery Operations			F-21-D-13	757,143	-
Fish Hatchery Operations			F-21-D-14	732,811	-
Aquatic Education Program			F-24-E-08	66,000	-
Aquatic Education Program			F-24-E-09	111,780	-
Federal Aid Coordination			FW-14-C-49	266	-
Federal Aid Coordination			FW-14-C-50	33,529	-
Public Access			FW-21-D-36	482,183	-
Public Access			FW-21-D-37	384,437	-
Fish and Wildlife Area Development			FW-22-D-36	8,636	-
Fish and Wildlife Area Development			FW-22-D-37	12,576	-
Acquisition Marshall Property			FW-24-L-09	420,000	-
Technical Assistance			FW-26-T-12	7	-
Technical Assistance			FW-26-T-13	152,854	-
Facility Construction			FW-28-D-02	153,800	-
Total for Program				5,517,750	590,178
Wildlife Restoration	15.611	DNR			
Federal Aid Coordination			FW-14-C-49	266	-
Federal Aid Coordination			FW-14-C-50	24,850	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF INTERIOR (continued)					
Wildlife Restoration (continued)					
Fish and Wildlife Area Development			FW-22-D-36	1,648,536	-
Fish and Wildlife Area Development			FW-22-D-37	1,160,775	-
Technical Assistance			FW-26-T-11	62,822	-
Revocation Huntington			FW-28-D-03	242,407	-
Statewide Wildlife Research			W-26-R-35	405,742	-
Crooked Creek Gun Club			W-32-S-08	54,323	54,323
Kosko Shooting Range Project			W-32-S-10	100,649	100,649
Total for Program				3,700,370	154,972
Total for Cluster				9,218,120	745,150
Payments in Lieu of Taxes	15.226	AOS	N/A	124,416	-
Abandoned Mine Land Reclamation Program	15.252	DNR			
Administration and Enforcement - 2003			GR303183	653,679	-
Administration and Enforcement - 2004			GR403183	438,485	-
Abandoned Mine Lands Simplified Grant - 2001			GR107180	222,458	-
Abandoned Mine Lands Simplified Grant - 2002			GR207180	482,588	-
Abandoned Mine Lands Simplified Grant - 2003			GR307180	1,930,218	-
Abandoned Mine Lands Simplified Grant - 2004			GR407180	509,237	-
Total for Program				4,236,665	-
Cooperative Endangered Species Conservation Fund	15.615	DNR			
Indiana and Ohio Status of Copperbelly			E-1-14	14,210	14,210
Karner Blue Butterfly Safe Harbor			E-1-15	928	-
Kissel Tract HCP Land Acquisition			E-2-HL-1	5,216	-
Habitat Conservation/Indiana Bat			E-3-HP-1	64,857	51,363
Total for Program				85,211	65,573
Clean Vessel Act	15.616	IDEM			
Clean Vessel Pumpout			CV-1-6	23,196	-
Clean Vessel Pumpout			CV-1-7	96,267	-
Clean Vessel Pumpout			CV-1-8	10,820	-
French Island Marina			Y-2-B-1	52,523	-
Total for Program				182,806	-
Wildlife Conservation and Restoration	15.625	DNR			
WCRP Surveys and Monitoring			R0102	108,680	28,925
WCRP Research			R0202	51,649	1,501
WCRP Management			R0302	63,750	-
WCRP Education			R0401	331,851	-
Total for Program				555,930	30,426
Landowner Incentive	15.633	DNR	I01T01	11,755	-
State Wildlife Grant	15.634	DNR			
Restore and Manage Rare Habitat			TO101	32,432	-
ACQ Baseline Habitat Information			TO2P01	40,974	40,871
Comprehensive Wildlife Plan			TO2P02	21,278	17,236
Wildlife Diversity Surveys			TO3S01	60,201	33,267
Wildlife Diversity Research			TO4R01	46,241	5,505
Wildlife Diversity Management			TO5M01	20,711	-
Total for Program				221,837	96,879

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF INTERIOR (continued)					
Historic Preservation Fund Grants-In-Aid	15.904	DNR			
2002 NPS - HPF Grant			18-02-17544	378,889	349,426
2003 NPS - HPF Grant			18-03-18214	427,835	370,626
2004 NPS - HPF Grant			18-04-17595	13,670	13,670
Network to Freedom Grant			6059C001	2,710	2,710
Total for Program				823,104	736,432
Outdoor Recreation - Acquisition, Development and Planning	15.916	DNR			
NPS-LWCF			1800532	425,125	425,125
NPS-LWCF			1800520	95,384	95,384
NPS-LWCF			1800525	19,217	19,217
NPS-LWCF			1800528	10,000	10,000
NPS-LWCF			1800529	150,465	150,465
NPS-LWCF			1000530	105,606	105,606
Total for Program				805,797	805,797
Total U.S. Department of Interior				16,265,641	2,480,257
U.S. DEPARTMENT OF JUSTICE					
Juvenile Accountability Incentive Block Grants	16.523	ICJI	98JBVX0018	729,224	-
			00JBVX0018	(2,588)	-
			01JBBX0018	2,157,964	1,941,561
			02JBBX0021	1,607,966	1,524,578
Total for Program				4,492,566	3,466,139
Training Grant to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities	16.528	IDSP	2003-EW-BX-1	40,895	-
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	ICJI			
JJDP Formula Grant			00JFFX0018	21	-
JJDP Formula Grant			01JFFX0018	88,871	64,730
JJDP Formula Grant			02JFFX0018	1,158,828	1,085,764
JJDP Formula Grant			03JFFX0019	111,091	102,710
Total for Program				1,358,811	1,253,204
Missing Children's Assistance	16.543	IDSP	2003-MC-CX-K002	197,368	-
Title V - Delinquency Prevention Program	16.548	ICJI	00-JP-FX-0018	16,890	16,890
Incentive Grants for Local Prevention Programs			01-JP-FX-0018	53,257	82,033
Incentive Grants for Local Prevention Programs			02-JP-FX-0018	341,307	341,307
Total for Program				411,454	440,230
Part E - State Challenge Activities	16.549	ICJI			
Juvenile Challenge Grant - 2001			02-JE-FX-0018	114,662	114,663
National Criminal History Improvement Program	16.554	SC	2000-RG-CX-K6	784,800	-
		ICJI	00RGCXK006	1,503,777	1,503,777
Total for Program				2,288,577	1,503,777

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF JUSTICE (continued)					
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	IDSP			
Project Hoosier Safe-T			2001-LT-BX-K003	3,991,692	-
Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	16.564	IDSP			
			2002-DN-BX-K015	92,689	-
			2002-DN-BX-K018	400,727	-
Total for Program				493,416	-
Crime Victim Assistance	16.575	ICJI	99-VA-GX-0018	(151,188)	-
			00-VA-GX-0018	32,404	58,738
			01-VA-GX-0018	530,933	152,668
			02-VA-GX-0018	1,371,461	77,956
			01-VA-GX-0029	5,720,782	5,720,782
		FSSA	001 VA GX	150,000	150,000
Total for Program				7,654,392	6,160,144
Crime Victim Compensation	16.576	ICJI	99-VC-GX-0018	(1,427)	-
			00-VC-GX-0018	387	-
			02-VC-GX-0018	6,717	-
			03-VC-GX-0019	769,677	-
Total for Program				775,354	-
Byrne Formula Grant Program	16.579	ICJI	96-DB-MU-0018	22,109	-
Drug Control and System Improvement			97-DB-MU-0018	426,027	-
Drug Control and System Improvement			98-DB-MU-0018	(13,520)	-
Drug Control and System Improvement			99-DB-MU-0018	328,968	-
Drug Control and System Improvement			00-DB-MU-0018	685,699	425,275
Drug Control and System Improvement			01-DB-BX-0018	3,844,268	2,991,023
Drug Control and System Improvement			02-DB-BX-0018	3,769,554	3,162,143
Drug Control and System Improvement			03-DB-BX-0018	1,058,827	1,008,954
Total for Program				10,121,932	7,587,395
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	DOC	96-CV-VX-0018	2,263,787	-
Violence Against Women Formula Grant	16.588	ICJI	98-WFVNX-0018	3,251	-
			01-WFBNX-0054	23,698	-
			02-WFBNX-0052	551,861	490,018
			03-WFBNX-0197	2,128,920	2,072,258
Total for Program				2,707,730	2,562,276
Rural Domestic Violence and Child Victimization Enforcement	16.589	ICJI	03WRBX0034	21,928	21,928
Local Law Enforcement Block Grants Program	16.592	ICJI	00-LB-VX-1876	6,795	6,795
			01-LB-BX-0991	18,633	18,633
			03-LB-BX-1698	552,840	522,840
Total for Program				578,268	548,268

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF JUSTICE (continued)					
Residential Substance Abuse Treatment for State Prisoners	16.593	ICJI	00-RT-VX-0044	(59,223)	-
			01-RT-BX-0024	947,380	947,380
Total for Program				888,157	947,380
Public Safety Partnership and Community Policing Grants	16.710	IDSP	2002-CK-WX-0171	335,592	-
			2003-CK-WX-0092	225,643	-
			2002-CK-WX-0053	55,609	-
			2002-CK-WX-0386	147,425	-
				764,269	-
Enforcing Underage Drinking Laws Program	16.727	ICJI	99AHF8-0018	7,999	-
Combating Underage Drinking			00AHF8-0018	-	-
Combating Underage Drinking			01AHF8-0018	150,800	150,800
Combating Underage Drinking			02AHF8-0018	200,361	200,361
Total for Program				359,160	351,161
Other Assistance	16				
Marijuana Eradication		IDSP	ME 2002-55	31,326	-
Marijuana Eradication		IDSP	ME 2003-55	613,462	-
Marijuana Eradication		IDSP	ME 2004-57	38,462	-
Total for Program				683,250	-
Project Safe Neighborhood	16	ICJI	03GPCX0528	84,020	84,020
National Forensic Science Formula Grant	16	ICJI	03DNBX0018	69,410	69,410
			03DNBX0043	3,294	3,294
Total for Program				72,704	72,704
Serious and Violent Offender Reentry Initiative	16	DOC	2002-RE-CX-2	624,362	-
Total Other Assistance				1,464,336	156,724
Total U.S. Department of Justice				40,988,754	25,113,289
U.S. DEPARTMENT OF LABOR					
Employment Services Cluster					
Employment Services	17.207	DWD			
SESA National Award			916000	3,255	-
WOTC			ES-12131-02-55	307,126	-
WOTC			ES-11528-03-55	485	-
ES Reemployment			ES-12131-02-55	58,455	-
ES Reemployment			ES-12131-02-55	623,328	-
W/P 7A Employment Service			ES-13053-03-55	6,923,052	508,424
W/P 7A Employment Service			ES-12131-02-55	4,384,317	17,319
W/P 7B			ES-13053-03-55	228,178	-
W/P 7B			ES-12131-02-55	893,724	17,174
W/P 7B			ES-11528-01-55	7,528	10,467
IPIC Work Incentive			ES-11528-01-55	(72)	-
W/P 7A Employment Service			ES-11528-01-55	4,617	-
One Stop LMI			ES-13053-03-55	759,203	-
Work Keys 7B			ES-13053-03-55	10,052	-
Total for Program				14,203,248	553,384

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (continued)					
Disabled Veterans' Outreach Program	17.801	DWD	E-9535064	346,411	4,139
			E-9545064	1,050,799	35,906
Total for Program				1,397,210	40,045
Local Veterans Employment Representative Program	17.804	DWD	E-9535064	400,586	6,431
			E-9545064	1,539,504	46,440
Total for Program				1,940,090	52,871
Total for Cluster				17,540,548	646,300
WIA Cluster					
WIA Adult Program	17.258	DWD			
WIA Administration			AA-10297-00-50	1,650	-
Adult WIA			AA-10297-00-50	(2,500)	(2,500)
WIA ADM STAT AC			AA-10297-00-50	16,055	16,055
WIA Administration			AA-10297-00-50	14	-
WIA Program Supplement			AA-10297-00-50	105,523	105,523
WIA ADM STAT AC			AA-11250--01-50	1,316	1,316
WIA Administration			AA-11250--01-50	(730)	-
WIA Program Supplement			AA-11250--01-50	371,653	193,012
WIA Administration			AA-12009-02-50	263,998	263,998
Adult WIA			AA-12009-02-50	1,303,977	1,303,977
WIA ADM STAT AC			AA-12009-02-50	9,584	9,584
WIA Administration			AA-12009-02-50	207,324	569,026
WIA Program Supplement			AA-12009-02-50	595,534	583,167
WIA Administration			AA-12924-03-50	583,167	7,698,946
Adult WIA			AA-12924-03-50	7,698,946	-
WIA Administration			AA-12924-03-50	212,828	491,618
WIA Program Supplement			AA-12924-03-50	494,478	-
Total for Program				11,862,817	11,233,722
WIA Youth Activities	17.259	DWD			
WIA Program Supplement			A-7361-9-00-87-50	-	(22,844)
WIA Administration			AA-10297-00-50	1,700	-
WIA Youth			AA-10297-00-50	-	-
WIA ADM STAT AC			AA-10297-00-50	16,542	16,542
WIA Administration			AA-10297-00-50	15	-
WIA Program Supplement			AA-10297-00-50	108,720	108,720
WIA ADM STAT AC			AA-11250--01-50	1,645	1,645
WIA Administration			AA-11250--01-50	(913)	-
WIA Program Supplement			AA-11250--01-50	464,567	241,264
WIA Administration			AA-12009-02-50	371,552	371,552
WIA Youth			AA-12009-02-50	2,763,906	2,763,906
WIA ADM STAT AC			AA-12009-02-50	13,488	13,488
WIA Administration			AA-12009-02-50	291,790	-
WIA Program Supplement			AA-12009-02-50	838,159	800,852
WIA Administration			AA-12924-03-50	762,603	762,603
WIA Youth			AA-12924-03-50	8,677,889	8,677,889
WIA Administration			AA-12924-03-50	278,313	-
WIA Program Supplement			AA-12924-03-50	646,625	642,885
Total for Program				15,236,601	14,378,502
WIA Dislocated Workers	17.260	DWD			
WIA Program Supplement			A-7361-9-00-87-50	-	(16,562)
WIA Administration			AA-10297-00-50	1,650	-
Adult Dislocated Worker W			AA-10297-00-50	(2,500)	(2,500)

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (continued)					
WIA Dislocated Workers (continued)					
Rapid Response W			AA-10297-00-50	54,766	54,625
WIA ADM STAT AC			AA-10297-00-50	16,055	16,055
WIA Administration			AA-10297-00-50	14	-
WIA Program Supplement			AA-10297-00-50	105,523	105,523
Rapid Response W			AA-11250--01-50	93,671	93,671
WIA ADM STAT AC			AA-11250--01-50	1,151	1,151
WIA Administration			AA-11250--01-50	(638)	-
WIA Rapid Response			AA-11250--01-50	-	-
WIA Program Supplement			AA-11250--01-50	325,197	168,885
WIA Administration			AA-12009-02-50	342,219	342,219
Adult Dislocated Worker W			AA-11250--01-50	970,998	970,998
WIA ADM STAT AC			AA-12009-02-50	12,424	12,424
WIA Administration			AA-12009-02-50	268,754	-
WIA Rapid Response			AA-12009-02-50	77,172	-
WIA Program Supplement			AA-12009-02-50	771,988	737,627
Rapid Response W			EM-11649-02-60	700,834	700,834
Tornadoes Disaster			EM-11649-02-60	11,017	9,501
Tornadoes Disaster			EM-11649-02-60	120,634	115,940
Air National RE			EM-11649-02-60	5,239	-
Air National RE			EM-11649-02-60	718,799	709,567
NW Steel & Manu			EM-11649-02-60	311,522	301,468
WIA Administration			AA-12924-03-50	897,180	897,180
Adult Dislocated Worker W			AA-12924-03-50	7,725,611	7,725,611
Rapid Response W			AA-12924-03-50	3,086,186	3,086,186
WIA Administration			AA-12924-03-50	327,427	-
WIA Rapid Response			AA-12924-03-50	336,449	-
WIA Program Supplement			AA-12924-03-50	760,735	756,335
Total for Program				18,040,077	16,786,738
Total for Cluster				45,139,495	42,398,962
Labor Force Statistics	17.002	DWD			
BLS-CES			W9J380183A	109,027	-
BLS-LAUS			W9J380183B	27,252	-
BLS-OES			W9J380183L	94,593	-
ES 202			W9J380183D	129,486	-
BLS-MLS			W9J380183E	19,587	-
BLS-CES			W9J380183A	303,353	-
BLS-LAUS			W9J380183B	60,266	-
BLS-OES			W9J380183L	280,325	-
ES 202			W9J380183D	386,964	-
BLS-MLS			W9J380183E	45,010	-
Total for Program				1,455,863	-
Labor Certification for Alien Workers	17.203	DWD			
Alien Labor Certification			ES-12131-03-55	60,539	-
Unemployment Insurance	17.225	DWD			
State Unemployment Benefits			N/A	818,606,148	-
FECA-UCFE, UCPE, and UCS			N/A	104,200,936	-
Internet Grant			UI-10934-00-55	28,155	-
UI Teuc			UI-11818-02-55	63,516	-
UI Operations			UI-12637-03-55	14,904,043	58,423
UI Teuc			UI-12637-03-55	2,322,268	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (continued)					
Unemployment Insurance (continued)					
Teuc Airlines			UI-12637-03-55	26,217	-
FUBA			UI-12637-03-55	2,202,325	-
UI Crossmatch			UI-12637-03-55	43,216	-
UI Operations			UI-13546-04-55	23,498,359	429,210
UI Teuc			UI-13546-04-55	96,804	-
FUBA			UI-13546-04-55	12,217,048	-
Total for Program				978,209,035	487,633
Senior Community Service Employment Program	17.235	FSSA			
			AD 12314 HWO	308,623	-
			AD 11679 FK	1,902,414	-
Total for Program				2,211,037	-
Trade Adjustment Assistance - Workers	17.245	DWD			
Trade Adjustment Assistance			TA-12690-03-55	4,944,071	-
Trade Adjustment Assistance			TA-13493-04-55	2,025,114	-
NAFTA Trade Benefits			UI-12637-03-55	56,530	-
NAFTA Trade Benefits			UI-13546-04-55	183,404	-
NAFTA Trade Act			TA-1117-01-60	278,031	-
NAFTA Trade Act			TA-11886ILO	103,500	-
NAFTA Trade Act			TA-12690-03-55	85,578	-
NAFTA Trade Act			TA-13493-04-55	6,695	-
Total for Program				7,682,922	-
Employment Services and Job Training Pilot-Demonstration and Research Programs	17.249				
JTPA School to Work		DWD	U-4410-4-00-88-60	5,306	(8,063)
Job Training Partnership Act	17.250	DWD			
TAT			DOL FUNDS	28,500	-
Welfare-to-Work Grants to States and Localities	17.253	DWD			
WTW State Administration			Y-6654-8-00-81-50	18,294	-
WTW Req Benefits-7			Y-6654-8-00-81-50	199,094	199,094
WTW State Administration			Y-7415-9-00-81-50	9,648	-
WTW Req Benefits-7			Y-7415-9-00-81-50	512,453	512,452
Total for Program				739,489	711,546
One-Stop Career Center Initiative	17.257	DWD			
WIA Faith Based			ES-11444-01-60	517,666	266,502
WIA Incentive			IG-11709-01-55	138,552	138,552
Total for Program				656,218	405,054
Employment & Training Admin. Pilots, Demonstrations and Research	17.261	DWD	AK-12252-02-60	1,378	-
Work Incentive Grants	17.266	DWD	IG-12356-02-60	7,161	-
WIA Incentive Grants Sec. 503	17.267	DWD	IG-12356-02-60	1,839,844	1,672,612
Consultation Agreements	17.504	DOL			
Occupational Safety and Health Program OSHA/IH/Training			60F2-0051	399,034	-
Occupational Safety and Health Program OSHA/IH/Training			60F3-0051	637,417	-
Occupational Safety and Health Program OSHA/IH/Training			60F4-0051	1,596,234	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (continued)					
Consultation Agreements (continued)					
Occupational Safety and Health Program OSHA Consult			E9F2-0951	31	-
Occupational Safety and Health Program OSHA Consult			E9F3-0951	119,386	-
Occupational Safety and Health Program OSHA Consult			E9F4-0951	439,921	-
Occupational Safety and Health Program OSHA Survey			E9F3-3751	35,866	-
Occupational Safety and Health Program OSHA Survey			E9F4-3751	56,405	-
Statistical Grant Program			E9J38118	15,591	-
Statistical Grant Program			E9J48118	70,551	-
Total for Program				3,370,436	-
Veterans' Employment Program	17.802	DWD	E-9-5-2-0018	5,709	5,790
			E-9-5-2-0018	797,922	783,432
Total for Program				803,631	789,222
Other Assistance					
Youth Offender Demonstration Grant	17	DOC	F7453-6-00-80-60	540,392	-
Veterans	17	DWD	920495	173	-
Total Other Assistance				1,344,196	789,222
Total U.S. Department of Labor				1,060,291,967	47,103,266
U.S. DEPARTMENT OF TRANSPORTATION					
Highway Planning and Construction Cluster					
Highway Planning and Construction	20.205				
Highway Planning and Construction		INDOT	N/A	589,646,044	-
Total for Program and Cluster				589,646,044	-
Federal Transit Cluster					
Federal Transit-Capital Investment Grants	20.500	INDOT	IN-03-0109	765,501	765,501
Total for Program and Cluster				765,501	765,501
Highway Safety Cluster					
State and Community Highway Safety	20.600				
NHTSA Section 402		ICJI	N/A	2,087,380	2,087,380
Odometer Fraud Investigation		AG	DTNH22-01-H-01141	2,253	-
Total for Program				2,089,633	2,087,380
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	ICJI	N/A	188,877	188,877
Occupant Protection	20.602	ICJI	N/A	440,009	440,009
Safety Incentive Grants for Use of Seatbelts	20.604	ICJI	N/A	884,337	884,337
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	ICJI	N/A	4,999,683	4,999,683
Total for Cluster				8,602,539	8,600,286

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION (continued)					
Boating Safety Financial Assistance	20.005	DNR	12.01.18	112,606	-
			13.01.18	318,188	-
			14.01.18	164,534	-
Total for Program				595,328	-
Airport Improvement Program	20.106	INDOT	3-18-1800-SI	18,252	-
National Motor Carrier Safety	20.218				
Motor Carrier Assistance		IDSP	MC-03-18-001	3,717,379	-
Motor Carrier Assistance		IDSP	MC-04-18-001	1,117,056	-
Motor Carrier Assistance		IDOR	MC-01-18-444	789,936	-
Total for Program				5,624,371	-
Recreation Trails Program	20.219	DNR	RTP-1999-0006	5,000	5,000
			RTP-1999-0004	3,140	3,140
			RTP-2001-0003	23,924	23,924
			RTP-2000-05	82,745	82,745
			DNR 2000(006)	71,096	71,096
			DNR 2000(010)	30,543	30,543
			DNR 1999-01	65,870	65,870
Total for Program				282,318	282,318
Federal Transit-Metropolitan Planning Grants	20.505	INDOT	80-2009	20,764	34,716
			80-2010	295,368	146,810
			80-2011	314,494	309,723
			80-2012	398,874	435,506
Total for Program				1,029,500	926,755
Formula Grants for Other Than Urbanized Areas	20.509	INDOT	IN-18-X019	117,553	121,408
			IN-18-X020	500,805	506,393
			IN-18-X021	4,719,495	4,546,322
			IN-18-X022	1,300,205	1,300,205
Total for Program				6,638,058	6,474,328
Capital Assistance Program for Elderly Persons and Persons With Disabilities	20.513	INDOT	16-0024	(1,260)	-
			16-0025	71,600	5,515
			16-0026	5,627	5,627
			16-0027	121,980	117,851
			16-0028	637,319	637,319
			16-0029	1,767,543	1,812,205
Total for Program				2,602,809	2,578,517
Interagency Hazardous Material Public Sector Training and Planning Grants	20.703	SEMA	N/A	105,891	-
			N/A	242,170	-
			N/A	31,621	-
Total for Program				379,682	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION (continued)					
Other Assistance					
Crash Data Outcome Evaluation	20	SEMA	DTNH22-02-H-17270	5,600	-
Fatal Accident Reporting System	20	IDSP	DTNH22-92-Y-07028	33,771	-
Total U.S. Department of Transportation				616,223,773	19,627,705
U.S. DEPARTMENT OF THE TREASURY					
Other Assistance					
Jobs Growth and Tax Relief Reconciliation Act of 2003	21	SBA	N/A	103,384,091	-
Total U.S. Department of the Treasury				103,384,091	-
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION					
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	ICRC	N/A	397,486	-
Total Equal Employment Opportunity Commission				397,486	-
GENERAL SERVICES ADMINISTRATION					
Donation of Federal Surplus Personal Property	39.003	IDOA	N/A	3,140,487	202,042
Election Reform Payments	39.011	SOS			
HAVA Early Payments			N/A	6,520,857	-
HAVA Requirements Payments			N/A	345,078	6,122,259
Total for Program				6,865,935	6,122,259
Total General Services Administration				10,006,422	6,324,301
NATIONAL ENDOWMENT FOR THE ARTS AND HUMANITIES					
Promotion of the Arts - Partnership Agreements	45.025	IAC			
Basic State Grant			02-6100-2024	82,091	-
Basic State Grant			03-6100-2036	287,903	61,448
Arts In Education			02-6100-2024	2,997	2,505
Arts In Education			03-6100-2036	40,000	40,000
Underserved			02-6100-2024	280	-
Underserved			03-6100-2036	52,500	5,200
Challenge America			03-6100-2036	97,000	97,000
Total for Program				562,771	206,153
Promotion of the Arts - Leadership Initiatives	45.026	IAC	02-5500-3098	9,300	9,300
State Library Program	45.310	ISL			
LSTA Grant - 2003			LS-00030015-03	2,730,446	2,544,563
LSTA Grant - 2004			LS-00040015-04	585,449	560,080
Total for Program				3,315,895	3,104,643
Total National Foundation on the Arts and the Humanities				3,887,966	3,320,096

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF VETERANS AFFAIRS					
Veterans State Domiciliary Care	64.014	IVA	N/A	221,753	-
Veterans State Nursing Home Care	64.015	IVA	N/A	4,749,199	-
All-Volunteer Force Educational Assistance	64.124				
Veteran Education		IDVA	V101 (223B) P4317	45,502	-
Veteran Education		IDVA	V101 (223B) P4417	145,329	-
Veteran Education		ICPE	V101 (223B) P4373	24,370	24,370
Veteran Education		ICPE	V101 (223B) P4473	83,391	4,000
Total for Program				298,592	28,370
Total U.S. Department of Veterans Affairs				5,269,544	28,370
ENVIRONMENTAL PROTECTION AGENCY					
State Indoor Radon Grant	66.032	IDEM	K1965129-01	871	-
Survey, Studies and Investigations relating to the Clean Air Act	66.034	IDEM	PM985773-02	603,118	
			X975889-01	7,096	-
Total for Program				610,214	-
State Underground Water Source Protection	66.433				
Underground Injection Control Program		DNR	G995901-03	28,725	-
Underground Injection Control Program		DNR	G995901-04	90,225	-
Total for Program				118,950	-
Water Quality Management Planning	66.454	IDEM			
Water Quality Management 205(j)(1)			C6975152-01	13,587	-
Water Quality Management 205(j)(1)			C6975219-00	8,750	-
Water Quality Management 205(j)(1)			C6975496-01	7,056	-
Water Quality Management 205(j)(1)			C6975750-01	179,598	-
Water Quality Management 205(j)(1)			C6975750-02	78,750	-
Total for Program				287,741	-
Capitalization Grants for State Revolving Funds	66.458	IDEM	CS180001-03	22,135,524	22,135,524
Revolving Loan Fund		SBA	CS180001-04	31,939,281	31,939,281
Total for Program				54,074,805	54,074,805
Nonpoint Source Implementation Grants	66.460	IDEM			
319 NPS Surface Water			C9995008-95	27,507	-
319 NPS Surface Water			C9995008-98	76,102	-
319 NPS Surface Water			C9995008-99	87,946	-
319 NPS Surface Water			C9995008-00	245,577	-
319 NPS Surface Water			C9975482-01	958,499	-
319 NPS Surface Water			C9975482-02	886,755	-
319 NPS Surface Water			C9975482-03	1,052,978	-
319 NPS Surface Water			C9975482-04	35,240	-
319 NPS Surface Water			C9975482-03	443	-
319 NPS Groundwater			C9995008-95	22,471	-
319 NPS Groundwater			C9995008-98	21,901	-
319 NPS Groundwater			C9975482-03	166,533	-
319 NPS Groundwater			C9975482-04	2,835	-
Total for Program				3,584,787	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (continued)					
Wetlands Grants	66.461				
Wetlands		IDEM	CD985482-01	4,025	-
Wetlands		IDEM	CD005518-01	14,001	
Wetlands		IDEM	CD975308-01	6,969	-
Wetlands Floristic		IDEM	CD975586-01	1,190	-
Total for Program				26,185	-
Water Quality Cooperative Agreements	66.463				
Watershed		IDEM	CP985898-01	11,427	-
Watershed		IDEM	CP975649-01	73,385	
Watershed		IDEM	CP975773-01	98,618	-
Watershed		IDEM	CP965041-01	64,215	-
Watershed		IDEM	X7965099-01	1,725	-
Total for Program				249,370	-
Capitalization Grants for Drinking Water State Revolving Fund	66.468	IDEM			
Drinking Water SRF - Administration			FS985655-98	180,786	-
Drinking Water SRF - Source Water			FS985655-98	571,928	-
Drinking Water SRF - Technical Assistance			FS985655-98	120,778	-
Drinking Water SRF - Technical Assistance			FS975486-01	24,143	-
Drinking Water SRF - Technical Assistance			FS975486-02	37,000	-
Drinking Water SRF - PWSS			FS975486-02	120,684	-
Drinking Water SRF - Grants			FS975486-03	8,022,272	8,022,272
Drinking Water SRF - Grants			FS975486-04	8,764,342	8,764,342
Total for Program				17,841,933	16,786,614
Great Lakes Program	66.469	DNR	GL-97558301	40,641	-
Beach Monitoring & Notification Program Implementation Grants	66.472	IDEM	CU975678-01	13,985	-
			CU965109-01	162	-
Total for Program				14,147	-
Water Protection Grants - Counter Terrorism	66.474	IDEM	WP975634-01	66,113	-
Environmental Protection Consolidated Research	66.500	IDEM	BW965172-01	48,282	-
Performance Partnership Grants	66.605	IDEM	BG985432-00	5,110	-
			BG985432-02	361	-
			BG985432-02	505,123	-
			BG985432-03	5,349	-
			BG985432-03	62,187	-
			BG985432-03	23,959	-
			BG985432-03	11,892	-
			BG985432-03	61,777	-
			BG985432-03	141,262	-
			BG985432-03	980,138	-
			BG985432-03	840,684	-
			BG985432-04	78,851	-
			BG985432-04	11,267	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (continued)					
Performance Partnership Grants (continued)					
			BG985432-04	14,421	-
			BG985432-04	225,532	-
			BG985432-04	1,417,396	-
			BG985432-04	2,954,904	-
			BG985432-04	2,197,341	-
			BG985432-04	2,324,982	-
Total for Program				11,862,536	-
Surveys, Studies, Investigations and Special Purpose Grants	66.606	IDEM			
Lakewide Management Plan			X975948-01	5,857	-
Lakewide Management Plan			X975933-01	4,522	-
Lakewide Management Plan			GL965217-01	7,669	-
Watershed TMDL			X995484-01	95,966	-
Coastal Environ. Mgmnt			X975338-01	7,041	-
Ambient Air Monitoring			PM985773-01	317,875	-
E-coli Monitoring			X975267-01	533	-
Auto Salvage			X975270-01	23,318	-
Drinking Water Web			X975760-01	9,817	-
Air Toxics Monitoring			X975735-01	24,035	-
Total for Program				496,633	-
Training and Fellowships for the Environmental Protection Agency	66.607	IDEM			
Outreach Operator Training			T005757-01	7,566	-
Outreach Operator Training			T985627-01	16,364	-
Total for Program				23,930	-
Environmental Information Exchange Network	66.608	IDEM	OS985886-01	237,849	-
Protection of Children and Older Adults from Environmental Health Risks	66.609	ISDOH	CH-915956601-0	10,378	10,378
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707	IDEM			
HUD Lead			PB985526-02	2,085	-
Lead-Based Paints			PB975551-01	3,056	-
Lead-Based Paints			PB985526-03	125,582	-
Lead-Based Paints			PB985526-04	5,426	-
Total for Program				136,149	-
Pollution Prevention Grants Program	66.708	IDEM			
Mercury Reduction			NP965037-01	4,700	-
Pollution Prevention			NP985074-04	13,555	-
Total for Program				18,255	-
Capacity Building Grants and Cooperative Agreements	66.709	IDEM	EA965310-01	9,258	-
Superfund State Site - Specific Cooperative Agreements	66.802	IDEM			
RCRA 3012 Program			V005849-01	923,500	-
Ninth Avenue Dump			V005995-01	367	-
Ninth Avenue Dump			V005995-02	3,156	-
Elkhart Main Street Well Field-East			V005995-01	3,497	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (continued)					
Superfund State Site - Specific Cooperative Agreements (continued)					
Elkhart Main Street Well Field-East			V005995-02	2,533	-
Core Superfund			V005990-01	594,107	-
Galen Myers Remedial Action			V985768-01	41,403	-
Continental Steel-remedial action			V985768-01	14,209	-
Continental Steel-remedial design			V985768-01	140,673	-
Continental Steel-remedial action			V985768-01	42,967	-
Waste			V005995-01	399	-
Conrail Yard Site			V005899-01	18,418	-
Third Site			V005899-01	6,133	-
Third Site			V965003-01	3,102	-
Prestolite Battery			V005899-01	7,092	-
Prestolite Battery			V965003-01	3,859	-
Himco Dump			V005899-01	7,118	-
Himco Dump			V965003-01	5,295	-
International Minerals & Chem			V965003-01	931	-
American Chemical Services			V005899-01	5,871	-
American Chemical Services			V965003-01	5,850	-
Douglas Road Landfill			V005899-01	6,812	-
Lemon Lane			V005899-01	5,539	-
Lemon Lane			V965003-01	13,584	-
Lakeland Disposal			V005995-01	4,966	-
Lakeland Disposal			V005995-02	4,097	-
Neal's Landfill			V005899-01	5,227	-
Neal's Landfill			V965003-01	5,279	-
Bennet Stone			V005899-01	8,556	-
Bennet Stone			V965003-01	3,853	-
Cam-Or			V005899-01	14,961	-
Little Mississinewa			V965003-01	8,223	-
Total for Program				1,911,577	-
Leaking Underground Storage Tank Trust Fund Program	66.805	IDEM			
Leaking Underground Storage Tank			LS005931-09	199,243	-
Leaking Underground Storage Tank			LS005931-10	187,242	-
Leaking Underground Storage Tank			LS005981-11	227,403	-
Leaking Underground Storage Tank			LS005981-12	898,717	-
Leaking Underground Storage Tank			LS005981-13	279,613	-
UST pilot- Indianapolis			LP975969-01	39,393	-
Total for Program				1,831,611	-
State and Tribal Response	66.817	IDEM	RP965078-01	68,996	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	IDEM	BL985740-01	720,211	-
Total Environmental Protection Agency				94,291,422	70,871,797
U.S. DEPARTMENT OF ENERGY					
State Energy Program	81.041	COM			
State Energy Program			DE-FG45-02R530542	1,399,631	355,966
Weatherization Assistance for Low-Income Persons	81.042	FSSA	R530350	118,645	-
			Y-G00R530350	6,832,633	-
Total for Program				6,951,278	-
Regional Biomass Energy Program	81.079	COM	CGL-89-009	30,000	30,000

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF ENERGY (continued)					
NICE3-Hot Eye In-Process Steel Quality	81.105	COM	DE-FG45-02R530540	426,963	426,963
State Energy Program Special Projects	81.119	COM			
Central Clean Cities Coordinator			DE-FG45-02R530554	15,000	15,000
Energy Information Administration			DE-FC01-96E129058	4,958	4,958
Indiana Industries of the Future			DE-FC45-02R530565	94,450	94,450
Small Power Unit Operating on Pulley			DE-FG45-00R530453	18,170	18,170
Northwest IN 3-85 Transportation - Codes and Standards			DE-FG45-01R530490	28,869	28,869
Northwest IN 3-85 Transportation - Industrial Technologies			DE-FG45-01R530489	12,426	12,426
Northwest IN 3-85 Transportation - Codes and Standards			DE-FG45-01R530491	27,893	-
Research & Development of Switched Reluctance Machine			DE-FC36-02GO12020	498,889	498,889
Tall Tower Wind Study			DE-FG45-02R530583	48,624	48,624
Coalition Support-South Shore Clean Cities			DE-FG45-03R530665	5,025	5,025
Total for Program				754,304	726,411
Other Assistance					
Petroleum Violation Escrow Funds	81	COM			
Stripper Well			N/A	1,559,756	-
Exxon - New Energy			N/A	17,753	-
Total for Program				1,577,509	-
Council of State Governments Cooper Sub Grant Agreement	81	SEMA	CSGMW-RM-IN-03-01	110,272	-
Total Other Assistance				1,687,781	-
Total U.S. Department of Energy				11,249,957	1,539,340
U.S. DEPARTMENT OF EDUCATION					
Special Education Cluster					
Special Education - Grants to States	84.027	IDOE	H027A980084	51,907	51,907
			H027A990084	26,145	26,145
			H027A000084	115,490	115,490
			H027A010084	2,174,924	2,174,924
			H027A020084	28,003,427	27,459,062
			H027A030084	161,878,955	160,253,798
Total for Program				192,250,848	190,081,326
Special Education - Preschool Grants	84.173	IDOE	H0173A10104	(19,720)	(19,720)
			H0173A20104	837,492	837,492
			H0173A02104	8,355,999	8,355,999
Total for Program				9,173,771	9,173,771
Total for Cluster				201,424,619	199,255,097
Adult Education - State Grant Program	84.002	IDOE	V002A000015	(30,216)	(30,216)
			V002A010014	(115,913)	(115,907)
			V002A020014	136,137	136,137
			V002A030014	9,439,964	8,918,844
Total for Program				9,429,972	8,908,858

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Title 1 Grants to Local Educational Agencies	84.010	IDOE	S010A990014	171,736	-
			S010A000014	940	-
			S010A010014	(30,762)	(30,762)
			S010A020014	23,240,961	22,446,611
			S010A030014	130,241,660	130,071,660
Total for Program				153,624,535	152,487,509
Migrant Education - Basic State Grant Program	84.011	IDOE	S011A010014	29,487	-
			S011A020014	3,886,088	2,659,204
Total for Program				3,915,575	2,659,204
Title 1 Program for Neglected and Delinquent Children	84.013	IDOE	S013A020014	321,428	321,428
			S013A030014	986,241	986,241
Total for Program				1,307,669	1,307,669
Vocational Education - Basic Grants to States	84.048	DWD			
State Leadership			V048A970014	(27,186)	(27,186)
CP SECONDARY B/			V048A970014	(15,000)	(15,000)
State Leadership			VO48A010014A	674,640	410,286
CP SECONDARY B/			VO48A010014A	-	(405)
COMM TECH ED			VO48A020014A	(1,095)	-
State Leadership			VO48A020014A	1,488,279	1,077,827
CP SECONDARY B/			VO48A020014A	3,958,977	3,962,590
POST 2ND VOC E			VO48A020014A	1,982,197	1,982,197
COMM TECH ED			VO48A030014A	476,431	-
State Leadership			VO48A030014A	221,940	172,796
CP SECONDARY B/			VO48A030014A	10,957,578	10,957,577
POST 2ND VOC E			VO48A030014A	5,957,517	5,957,517
Total for Program				25,674,278	24,478,199
Leveraging Education Assistance Partnership	84.069	SSACI			
Special Leveraging Education Assistance Partnership			P069B020012	730,777	-
Leveraging Education Assistance Partnership			P069B010016	599,588	-
Total for Program				1,330,365	-
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FSSA			-
			H126A020019	49,209	-
			H126A030019	25,596,972	-
			H126A040019	38,289,088	46,205,408
Total for Program				63,935,269	46,205,408
Rehabilitation Services - Client Assistance Program	84.161	IPAS			
			H161A030015	103,069	-
			H161A040015	114,445	-
Total for Program				217,514	-
Independent Living - State Grants	84.169	FSSA	H 169A 020020	109,418	-
			H 169A 030020	146,566	211,221
Total for Program				255,984	211,221

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Douglas Teacher Scholarships	84.176	SSACI	P176A40014	218,974	-
Rehabilitation Services - Independent Living Services	84.177	FSSA	H177B020014	135,062	-
			H177B030014	410,611	528,521
Total for Program				545,673	528,521
Special Education - Grants for Infants and Families With Disabilities	84.181	FSSA			
First Steps Program			H181A020030	7,811,731	-
Safe and Drug-Free Schools and Communities - National Programs	84.184	IDOE	S184C020015	519,251	519,251
Byrd Honors Scholarships	84.185	IDOE	P185A000015	152,500	152,500
			P185A010015	50,000	50,000
			P185A020015	216,000	216,000
			P185A030015	301,500	301,500
Total for Program				720,000	720,000
Safe and Drug-Free Schools and Communities - State Grants	84.186				
		FSSA	S186010015	(8,532)	-
		FSSA	S186020015	661,098	-
		FSSA	S186030015	793,796	1,446,362
		IDOE	S186A980015	(5,823)	(5,823)
		IDOE	S186A990015	(2,476)	(2,476)
		IDOE	S186A000015	(7,182)	(7,182)
		IDOE	S186A010015	(29,052)	(29,052)
		IDOE	S186A020015	1,964,159	1,923,474
		IDOE	S186A030015	2,286,023	2,286,023
Total for Program				5,652,011	5,611,326
Supported Employment Services for Individuals With Severe Disabilities	84.187	FSSA	H187A040020	721,637	721,637
Education for Homeless Children	84.196	IDOE	S196A020015	108,821	-
			S196A030015	505,760	518,474
Total for Program				614,581	518,474
Javits Gifted and Talented Students Education	84.206	IDOE	S206A020001	71,940	70,639
Even Start - State Educational Agencies	84.213	IDOE	S213C020015	1,248,544	1,163,850
			S213A030015	2,515,395	2,515,395
Total for Program				3,763,939	3,679,245
Fund for Improvement of Education	84.215	IDOE	R215V980024	7	1,596
Capital Expenses	84.216	IDOE	S216A990014	66,804	66,804
			S216A000014	2,177	2,177
			S216A010014	(68,981)	(68,981)
Total for Program				-	-
Assistive Technology	84.224	FSSA	H224A900027	412,732	407,124

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Program of Protection and Advocacy of Individual Rights	84.240	IPAS	H240A030015E	267,636	-
			H240A040015E	37,028	-
Total for Program				304,664	-
Tech-Prep Education	84.243	DWD			
COM TECH ED-PRE 2001			V243A010014	771,446	769,188
COM TECH ED-PRE 2002			V243A020014	1,887,952	1,844,963
COM TECH ED-PRE 2003			V243A030014	378,182	377,536
Total for Program				3,037,580	2,991,687
Rehabilitation Services-American Indians with Disabilities	84.250		S250B010069	159,087	99,600
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	FSSA	H 265A 00 0040	47,397	-
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	IDOE	S276A990014	-	-
			S276A000014	(127,850)	(127,850)
Total for Program				(127,850)	(127,850)
Eisenhower Professional Development State Grants	84.281				
State Grant 2000		IDOE	S284A990014	(4,453)	(4,453)
State Grant 2001		IDOE	S281A000014	(53,078)	(53,078)
State Grant 2002		IDOE	S281A010014	524,368	502,855
Standard, Assessment and Accountability		IDOE	S281C010014	361,074	131,711
Mathematics and Science Grants		CHE	S281B010014	241,201	241,201
Total for Program				1,069,112	818,236
Charter Schools	84.282	IDOE	S282A010058	3,428,747	3,370,218
Twenty-First Century Community Learning Centers	84.287	IDOE	S287C020014	2,767,040	2,684,116
			S287C030014	5,374,104	5,258,016
Total for Program				8,141,144	7,942,132
State Grants for Innovative Programs	84.298	IDOE	S298A990014	(1,849)	(1,849)
			S298A000014	12,553	-
			S298A010014	161,524	-
			S298A020014	3,657,710	3,251,732
			S298A030014	2,842,140	2,842,140
Total for Program				6,672,078	6,092,023
Education Technology State Grants	84.318	IDOE	S318X020014	6,122,666	5,923,245
			S318X030014	1,098,190	1,098,190
Total for Program				7,220,856	7,021,435
Social Education - State Program Improvement Grants	84.323	IDOE	H323A030003	940,152	940,152
Special Education - Technical Assistance and Dissemination	84.326	IDOE	H326X030005	106	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Advanced Placement Incentive Program	84.330	IDOE	S330A000034-0	46,023	11,400
Grants to States for Incarcerated Youth Offenders	84.331	DOC	V331A020011	176,245	-
Comprehensive School Reform Demonstration	84.332	IDOE	S332A020014	4,219,819	4,219,819
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	SSACI	P334A990352	1,981,781	-
Gear-Up			P334A990352	4,153,963	-
Total for Program				6,135,744	-
Teacher Quality Enhancement Grants	84.336	IPSB	P336A 990018-00	719,193	-
Reading Excellence	84.338	IDOE	S338A010016	9,945,710	9,268,829
Class Size Reduction	84.340	IDOE	S340A010015	21,756	21,756
Assistive Technology - State Grants for Protection and Advocacy	84.343	IPAS	H343A030015	79,284	-
			H343AO00015	2,695	-
Total for Program				81,979	-
Occupational and Employment Information State Grants	84.346	DWD			
Career Resource 2002			V346A000018	(1)	-
Career Resource 2003			V346A000018	135,204	135,157
Total for Program				135,203	135,157
Title I Accountability Grants	84.348	IDOE	S348A010014	2,163,024	2,163,024
Transition to Teaching	84.350	IPSB	S350b020019	200,275	-
School Renovation Grants	84.352	IDOE	S352A010015	611,400	533,819
Reading First	84.357	IDOE	S357A020015	10,149,997	9,471,664
Rural Education	84.358	IDOE	S358B020014	75,281	75,281
Literacy through School Libraries	84.364	IDOE	S365A020014	121,120	121,120
			S365A030014	3,434,758	3,371,972
Total for Program				3,555,878	3,493,092
Math/Science Partnerships	84.366	IDOE	S366B030015	72,761	71,462
Improving Teacher Quality	84.367	IDOE	S367A020013	20,570,485	20,102,298
		IDOE	S367A030013	20,616,305	20,616,305
		CHE	S367B030014	70,461	1,737
		CHE	S281B020014	662,960	662,960
Total for Program				41,920,211	41,383,300
State Assessments & Related Activities	84.369	IDOE	S369A020015	3,472,711	279,026
			S369A030015	6,847,058	-
Total for Program				10,319,769	279,026

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Pass-Through Indiana Chamber of Commerce					
Vocational Education - National Programs	84.051	CHE	V051U0Z001	162,589	-
Total Pass-Through				162,589	-
Total U.S. Department of Education				603,774,186	548,566,240
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Aging Cluster					
Special Programs for the Aging -Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	FSSA	03AA IN 1320	5,853,435	-
Special Programs for the Aging -Title III, Part C - Nutrition Services	93.045	FSSA	03 AA IN 1712, 1713	8,960,009	8,960,009
Nutrition Services Incentive Program	93.053	FSSA	2 03 AA IN NSIP	923,325	923,325
			2 04 AA IN NSIP	1,171,738	1,171,738
Total for Program				2,095,063	2,095,063
Total for Cluster				16,908,507	11,055,072
Child Care Cluster					
Child Care and Development Block Grant	93.575	FSSA			
			G 03 01 IN TANF	15,643,963	15,643,963
			G 02 01 IN CCDF	1,673,439	1,673,439
			G 03 01 IN CCDF	24,589,595	20,628,365
			G 04 01 IN CCDF	5,313,136	-
Total for Program				47,220,133	37,945,767
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF)	93.596	FSSA			
Child Care Development Fund (CCDF)			G 02 01 IN CCDF	13,522,907	13,522,907
Child Care Development Fund (CCDF)			G 03 01 IN CCDF	33,408,024	33,408,024
Child Care Development Fund (CCDF)			G 04 01 IN CCDF	37,701,000	32,150,148
Total for Program				84,631,931	79,081,079
Total for Cluster				131,852,064	117,026,846
Medicaid Cluster					
State Medicaid Fraud Control Units	93.775	AG	01-0301-IN-5050	236,657	-
			01-0401-IN-5050	1,629,240	-
Total for Program				1,865,897	-
State Survey and Certification of Health Care Providers and Suppliers	93.777				
State Survey and Certification of Health Care Providers		FSSA	5 03 05 IN 5001	2,076,609	-
State Survey and Certification of Health Care Providers		FSSA	5 04 05 IN 5001	2,142,646	-
Medicare Title XVIII - 2003		ISDOH	05-0305-IN-5000	2,464,144	-
Medicare Title XVIII - 2004		ISDOH	05-0405-IN-5000	3,024,031	195,060
Clinical Lab Improvement Act - 2002		ISDOH	05-0005-IN-5002	7,126	-
Clinical Lab Improvement Act - 2003		ISDOH	05-0105-IN-5002	51,616	-
Clinical Lab Improvement Act - 2004		ISDOH	05-405-IN-5002	179,953	-
Total for Program				9,946,125	195,060

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Medicaid Cluster (continued)					
Medical Assistance Program	93.778	FSSA			
Assistance			5 03 05 IN 5028	651,923,633	-
Assistance			5 04 05 IN 5028	2,470,126,131	-
Administration			5 03 05 IN 5048	25,851,501	-
Administration			5 04 05 IN 5048	97,373,701	-
Total for Program				3,245,274,966	-
Total for Cluster				3,257,086,988	195,060
Public Health and Social Services Emergency Fund	93.003	ISDOH			
Bioterrorism Hospital Planning			6 U3R MC 000151-01	2,246,134	1,928,426
Bioterrorism Hospital Planning			1 U3R MC 000151-02	425,639	294,500
Total for Program				2,671,773	2,222,926
Minority HIV/AIDS Demonstration Program	93.006	ISDOH	D92MP02001-01-0	55,852	-
			D92MP02001-02-2	79,564	-
Total for Program				135,416	-
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	FSSA	02 AA IN 1716	103,188	103,188
			03 AA IN 1716	106,202	-
			04 AA IN T3 SP	4,790,181	-
Total for Program				4,999,571	103,188
Special Programs for the Aging - Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	93.042	FSSA	02 AA IN 1715	42,992	42,992
			03 AA IN 1715	272,995	-
			04 AA IN T7 SP	116,450	-
Total for Program				432,437	42,992
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	FSSA			
			02AA IN 1717	95,976	95,976
			03AA IN 1717	378,964	-
Total for Program				474,940	95,976
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	93.048	FSSA			-
Alzheimer's Disease Grant			90 AZ 245902	280,488	-
Prevent and Combat Fraud			90 AM 226403	17,000	-
Total for Program				297,488	-
National Family Caregiver Support (NFCSP)	93.052	FSSA	01 AA IN 1719	160,121	160,121
			02 AA IN 1719	2,661,771	-
			03 AA IN 1719	1,375	-
Total for Program				2,823,267	160,121
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	FSSA			
Child MH Initiative			C H5 SM 52893 A	1,290,311	1,290,311

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Maternal and Child Health Federal Consolidated Programs	93.110	ISDOH			
MCH Services Federal Set-Aside Program - 2003			6 H18 MC 00017-06	10,284	-
MCH Services Federal Set-Aside Program - 2004			2 H18 MC 00017-08	43,373	-
Integrated Services Children with Special Health Care Needs - 2001			6H02MC001303S1RO	112	-
Genetics Implementation Grant - 2003			1 H46 MC 00222-01	301,296	21,167
Early Childhood Comprehensive System Planning			1 H25 MC 00263-01	18,848	18,174
Incarcerated Womens Passport for Healthy Families		DOC	1 H74 MC 00010-01	169,572	-
Total for Program				543,485	39,341
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	ISDOH			
Tuberculosis Control Program - 2003			U52/CCU500520-20	505,088	358,499
Tuberculosis Control Program - 2004			U52/CCU500520-21	259,130	202,405
Total for Program				764,218	560,904
Emergency Medical Services for Children	93.127	SEMA	EMC-2001-GR-0063	117,274	-
Primary Care Services - Resource Coordination and Development - Primary Care Offices	93.130	ISDOH			
Primary Care Offices - 2004			5 U68 CS 00182-14	98,844	39,736
Primary Care Offices - 2005			6 U68 CS 00182-15	15,289	-
Total for Program				114,133	39,736
Injury Prevention and Control Research	93.136	ISDOH	9 OCCU5222371	16,993	16,993
			U17/CCU5222371-02	34,412	34,412
Total for Program				51,405	51,405
Protection and Advocacy for Individuals With Mental Illness	93.138	IPAS	CSMX189700H	227,929	-
			CSMX189700I	208,592	-
Total for Program				436,521	-
Projects for Assistance in Transition From Homelessness	93.150	FSSA	S MX 060015 L	174,118	174,118
			S MX 060015 M	410,648	410,648
Total for Program				584,766	584,766
Health Program for Toxic Substances and Disease Registry	93.161	ISDOH			
Building State Capacity to Conduct Health Assessments - 03			U5O/ATU502884-13	77,709	-
Building State Capacity to Conduct Health Assessments - 04			U61/ATU502884-15	153,407	-
Total for Program				231,116	-
Community Prevention Coalitions (Partnership) Demonstration Grant	93.194	FSSA	C UFSP 08186 A	1,572,551	1,572,551
Indiana Grassroots Prevention Coalition					
Childhood Lead Poisoning Prevention Program	93.197	ISDOH	US7/CCU518545-03	34,810	34,810
			US7/CCU518545-03	402,499	189,129
Total for Program				437,309	223,939
Case Management Conference	93.218	FSSA	TI 13745 A	47,191	47,191

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Research on Healthcare Costs, Quality and Outcomes	93.226	ISDOH			
Cooperative Health Statistics - 2002			200-2000-07214		
Cooperative Health Statistics - 2003			200-2000-07214	555,204	-
Cooperative Health Statistics - 2004			200-2000-07214	302,199	-
Total for Program				857,403	-
Consolidated Knowledge Development and Application Program	93.230	FSSA			-
Indiana Statewide Treatment Needs Assessment			U1 TI 13458A	236,447	236,447
MI DIG			HR1 SM54201-01	25,749	25,749
Total for Program				262,196	262,196
Traumatic Brain Injury - State Demonstration	93.234	IPAS	1H83MC01577-01-00	15,949	47,191
Abstinence Education	93.235	ISDOH			
Abstinence Education Block Grant - 2003			2 X01 MC 00009-05	356,710	356,710
Abstinence Education Block Grant - 2004			6X01MC023780102	325,296	325,266
Total for Program				682,006	681,976
Cooperative Agreements for State Treatment Outcomes	93.238	FSSA	U1TI 14631A	137,138	137,138
State Rural Hospital Flexibility Program	93.241	ISDOH	1 H54 RH 0042-02	32	-
			1 H54 RH 0042-03	162,485	-
			1 H54 RH 0042-04	78,169	67,081
Total for Program				240,686	67,081
Substance Abuse and Mental Health Services	93.243	FSSA	H9 SM 55157A	51,202	51,202
Universal Newborn Hearing Screening	93.251	ISDOH			
Universal Newborn Hearing Screening - 2004			1 H61 MC 00059-02	104,466	8,981
Universal Newborn Hearing Screening - 2005			5 H61 MC 00059-02	11,078	9,762
Rape Prevention and Education - 2003			VF1/CCV1992-02	491,019	491,019
Rape Prevention and Education - 2004			VF1/CCV19921-03	322,156	321,881
Total for Program				928,719	831,643
Health Care Access Planning	93.256	FSSA	P09 OA 00050A01	319,189	-
Rural Access to Emergency Devices	93.259	IDSP	1H3DRH00025-01	188,449	-
Immunization Grants	93.268	ISDOH			
Immunization Program - 2003			H23/CCH504476-12	2,546,157	1,850,374
Immunization Program - 2003			H23/CCH522522-01	1,438,772	624,368
Immunization Program Noncash Assistance			H23/CCH504476	9,905,320	-
Total for Program				13,890,249	2,474,742
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	ISDOH			
Behavior Risk Factor Surveillance - 2003			U58/CCU500569-19	14,153	14,153
Behavior Risk Factor Surveillance - 2003			U58/CCU522814-01	124,505	121,864
State Epidemiology and Laboratory Surveillance and Response			U50/CCU514402-04	264,858	257,220
State Epidemiology and Laboratory Surveillance and Response			U50/CCU514402-05	321,142	12,000
Tobacco Use Prevention and Control - 2003			U1A/CCU516947-03	394,299	387,464

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Centers for Disease Control and Prevention - Investigations and Technical Assistance (continued)					
Tobacco Use Prevention and Control - 2004			U57/CCU522814013	589,717	586,154
Bioterrorism Preparedness & Response Supplemental - 2003			U90/CCU517024-03	7,178,648	3,817,939
Bioterrorism Preparedness & Response Supplemental - 2004			U90/CCU517024-04	7,018,598	2,189,793
Bioterrorism Preparedness & Response Non Cash Assistance			N/A	475,021	475,021
Bioterrorism Grant - 2003			U90/CCU517024-03	335,777	-
Addressing Asthma - 2003			U59/CCU520860-01-1	109,905	84,332
Addressing Asthma - 2004			U59/CCU520860-02-1	111,654	6,009
Comprehensive Cancer Control			U55/CCU521884-02	49,590	22,984
Early Hearing Detection and Intervention			UR3/CU523187-01	42,205	
Birth Defects Surveillance Program			U50/CCU521144-01	78,241	-
Birth Defects Surveillance Program			U50/CCU521144-03	8,458	8,458
National Program of Cancer Registries - 2003			U55/CCU521884-01	98,674	16,224
National Program of Cancer Registries - 2004			U55/CCU521884-02	372,494	194,106
Total for Program				17,587,939	8,193,721
Small Rural Hospital Improvement Grant	93.301	ISDOH	HCHRH00003-A0	107,026	107,026
			1H34RH00003-02	80,138	80,138
Total for Program				187,164	187,164
Promoting Safe and Stable Families	93.556	FSSA	G 02 01 IN OOFP	1,936,850	-
			G 03 01 IN OOFP	3,720,293	-
Total for Program				5,657,143	-
Temporary Assistance for Needy Families (TANF)	93.558	FSSA	G 02 01 IN TANF	989,077	-
			G 03 01 IN TANF	82,394,345	-
			G 04 01 IN TANF	107,060,303	-
Total for Program				190,443,725	-
Child Support Enforcement	93.563	FSSA			
			G 03 04 IN 4004	2,689,580	133,343
			G 04 04 IN 4004	18,434,751	-
			90 FD 007501	71,745	-
Total for Program				21,196,076	133,343
Refugee and Entrant Assistance - State Administered Programs	93.566	FSSA	G 02 AA IN 5110	71,840	-
			G 03 AA IN 5110	128,868	-
			G 04 AA IN 5110	83,060	-
			G 02 AA IN 5100	121,583	-
			G 03 AA IN 5100	45,140	-
			G 04 AA IN 5100	50,256	-
Total for Program				500,747	-
Low Income Home Energy Assistance	93.568	FSSA			
REACH Program			G 03 IN LIEA	42,899,827	37,272,775
REACH Program			G 04 IN LIEA	1,543,416	-
Total for Program				44,443,243	37,272,775
Community Services Block Grant	93.569	FSSA	G 03 IN COSR	8,311,801	-
			G 04 IN COSR	1,087,716	-
Total for Program				9,399,517	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Refugee and Entrant Assistance - Discretionary Grants	93.576				
Health Programs for Refugees - 2003		ISDOH	90RX0064/02	15,441	15,354
Health Programs for Refugees - 2004		ISDOH	90RX0132/01	47,031	46,181
Refugee Children School Impact 2004		IDOE	90ZE041/02	72,080	20,000
Total for Program				134,552	81,535
Indiana Court Improvement Program	93.586	SC	JTAC-CIP-FY03	50,000	-
Community-Based Family Resource and Support Grants	93.590	FSSA	G 01 01 IN FRPG	717,302	-
			G 00 02 IN FRPG	25,290	-
Total for Program				742,592	-
Grants to States for Access and Visitation Programs	93.597	FSSA			
Access and Visitation			G 01 01 IN SAVP	31,296	31,296
Access and Visitation			G 02 01 IN SAVP	106,567	106,567
Total for Program				137,863	137,863
Head Start	93.600	FSSA	G 05 CD 001202	62,002	-
			G 05 CD 001203	116,487	-
Total for Program				178,489	-
New Assets for Independence Demonstration Program	93.602	COM	90EY0001/03	1,383,852	-
Adoption Incentive Payments	93.603	FSSA	02 01 IN AIPP	223,873	-
Voting Access for Individuals with Disabilities	93.617	IGPC	G993299	11,825	-
Voting Access for Individuals with Disabilities	93.618	IPAS	G-0402INVOTP	8,768	-
Basic Center Grant	93.623	HRIC	90YS0011	12,600	-
Developmental Disabilities Basic Support and Advocacy Grants	93.630				
		IGPC	G0101INBS15	25,649	3,150
		IGPC	G-0201INBS15	560,724	545,100
		IGPC	G-0301INBS15	540,364	314,560
		IGPC	G-0401INBS15	359,168	24,104
		IPAS	G0401INPA15	749,690	-
Total for Program				2,235,595	886,914
Developmental Disabilities of National Significance	93.631	FSSA	90 DF 007001	140,904	-
		IGPC	90 DN 0124/01	75,714	74,271
		IGPC	90 DN 0124/02	83	-
Total for Program				216,701	74,271
Child Welfare Services - State Grants	93.645	FSSA	G 02 01 IN 1400	536,506	-
			G 03 01 IN 1400	5,978,891	-
Total for Program				6,515,397	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Foster Care - Title IV-E	93.658	FSSA	G 03 01 IN 1401	9,504,525	-
			G 04 01 IN 1401	32,949,982	-
Total for Program				42,454,507	-
Adoption Assistance	93.659	FSSA	G 03 01 IN 1407	5,965,087	-
			G 04 01 IN 1407	21,080,882	-
Total for Program				27,045,969	-
Social Services Block Grant	93.667	FSSA			
			G 03 01 IN SOSR	11,435,678	11,435,678
			G 04 01 IN SOSR	22,642,916	22,547,853
			G 04 01 IN TANF	2,000,000	-
Total for Program				36,078,594	33,983,531
Family Violence Protection and Services/Grants for Battered Womens' Shelters - Grants to States and Indian Tribes	93.671	FSSA	G 02 01 IN FVPS	640,211	-
			G 03 01 IN FVPS	1,171,710	-
Total for Program				1,811,921	-
Independent Living	93.674	FSSA			-
			G 02 01 IN 1420	413,563	-
			G 03 01 IN 1420	912,867	-
Total for Program				1,326,430	-
State Children's Insurance Program	93.767	FSSA	5 0105IN 5021	(44,466,279)	-
			5 0205IN 5R21	105,203,421	-
			5 0305IN 5R21	6,487,222	-
			5 0405IN 5R21	2,137	-
Total for Program				67,226,501	-
Medicaid Infrastructure Grant To Support Competitive Employment	93.768	FSSA	05 00000 91781	56,021	-
Health Care Financing Research, Demonstration and Evaluations	93.779				
Nursing Facility Transition		FSSA	05 00000 91655	151,049	-
DDARS OLMSTEAD		FSSA	05 00000 92095	218	-
Comm Integrated Personal Assist Service		FSSA	05 00000 91654	34,620	-
Real Choice Systems Change		FSSA	05 00000 91653	466,482	-
PAMP		FSSA	05 0205 IN PAMP	33,912	-
PAMP		FSSA	05 0305 IN PAMP	43,446	-
DMHA OLMSTEAD		FSSA	Direct	12,514	12,514
State Health Insurance Advisory Grants Program		IDOI	11-P-20202/5-11&12	241,850	-
Total for Program				984,091	12,514
Grants to States for Operation of Offices of Rural Health	93.913	ISDOH			
State Office of Rural Health - 2003			5 H95 RH 00136-11	40,962	35,000
State Office of Rural Health - 2004			2 H95 RH 00136-12	37,496	-
Total for Program				78,458	35,000

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
HIV Care Formula Grants	93.917	ISDOH			
Title II HIV Care Grants - 2004			5 X07 HA 00033-12	9,720,451	-
Title II HIV Care Grants - 2005			2 X07 HA 00033-11	1,011,743	-
Total for Program				10,732,194	-
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	ISDOH			
Breast and Cervical Cancer Early Detection - 2003			U55/CCU521884-01	667,715	112,404
Breast and Cervical Cancer Early Detection - 2004			U55/CCU521884-02	1,506,974	948,730
Total for Program				2,174,689	1,061,134
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	IDOE			
HIV-AIDS Education			CCU509016-10	260	-
HIV-AIDS Education			CCU509016-01	275,398	46,105
HIV-AIDS Education			CCU509016-02	3,959	-
Total for Program				279,617	46,105
HIV Prevention Activities - Health Department Based	93.940	ISDOH			
HIV Prevention Project - 2003			U62/CCU502048-17	1,775,569	573,328
HIV Prevention Project - 2004			U62/CCU523488-01	999,833	626,996
Total for Program				2,775,402	1,200,324
HIV/AIDS Surveillance	93.944	ISDOH			
HIV/AIDS Surveillance and Seroprevalence - 2003			U62/CCU506227-11	474,149	312,141
HIV/AIDS Surveillance and Seroprevalence - 2004			U62/CCU506227-12	72,824	-
Total for Program				546,973	312,141
Assistance Programs for Chronic Disease Prevention and Control	93.945	ISDOH			
Reducing the Impact of Arthritis - 2003			U58/CCU520313-01	21,891	21,891
Reducing the Impact of Arthritis - 2004			U58/CCU520314-01	113,231	-
Total for Program				135,122	21,891
Block Grants for Community Mental Health Services	93.958	FSSA			-
			03 B1 IN CMHS	5,656,493	5,656,493
			04 B1 IN CMHS	2,862,249	2,862,249
Total for Program				8,518,742	8,518,742
Block Grants for Prevention and Treatment of Substance Abuse	93.959	FSSA	02 B1 IN SAPT	1,439,661	-
			03 B1 IN SAPT	31,971,056	-
			04 B1 IN SAPT	472,724	-
Total for Program				33,883,441	-
Preventive Health Services - Sexually Transmitted Disease Control Grants	93.977	ISDOH			
Sexually Transmitted Disease Accel Prevention Campaign - 03-04			H25/CCH504340-12	2,219,396	1,775,742
Sexually Transmitted Disease - Noncash Assistance			H25/CCH504340	550,448	550,448
Total for Program				2,769,844	2,326,190

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	ISDOH			
Diabetes Grant - 2003			U32/CCU510612-08	401	-
Diabetes Grant - 2004			U32/CCU510612-08	197,135	-
Diabetes Grant - 2005			U32/CCU522713-02	35,481	16,637
Total for Program				233,017	16,637
Preventative Health and Health Services Block Grant	93.991	ISDOH			
Preventative Health and Health Services Block Grant - 2003			2000-BI-IN-PRVS-6	329,617	-
Preventative Health and Health Services Block Grant - 2004			2004-BI-IN-PRVS-04	1,703,628	766,971
Total for Program				2,033,245	766,971
Maternal and Child Health Services Block Grant to the States	93.994	ISDOH			
Maternal and Child Health Block Grant - 2002			6 B04 MC 00292-05	612,848	610,000
Maternal and Child Health Block Grant - 2003			6 B04 MC 00292-06	3,515,544	3,500,000
Maternal and Child Health Block Grant - 2004			6 B04 MC 02428-01-02	7,513,755	4,061,390
Total for Program				11,642,147	8,171,390
Other Assistance					
Drug and Alcohol Services Information System (DASIS)	93	FSSA	283 95 0016	5,660	-
Total Other Assistance				5,660	-
Total U.S. Department of Health and Human Services				3,995,506,163	243,305,650
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE					
State Commissions	94.003	CCSV			
Administrative			01SCSIN015	135,332	-
Administrative			04CAHIN001	146,583	-
Total for Program				281,915	-
Learn and Serve America - School and Community Based Programs	94.004				
Learn and Serve Grant 2003		IDOE	00LSHIN013-3	371,045	371,045
K-12 Formula Grant 2003		IDOE	00LSFIN102	376,892	304,550
Total for Program				747,937	675,595
AmeriCorps	94.006				
Americorps		CCSV	94ASCIN015	(363)	(363)
Americorps Competitive		CCSV	00ASCIN015	(255)	(255)
Americorps Competitive		CCSV	00ASCIN015	603,219	603,219
Americorps Competitive		CCSV	03ACHIN001	316,551	316,551
Americorps Formula		CCSV	00ASFIN015	29,555	29,555
Americorps Formula		CCSV	00ASFIN015	669,132	467,834
Americorps Formula		CCSV	03AFHIN001	467,835	467,835
Total for Program				2,085,674	1,884,376
Planning and Program Development Grants	94.007	CCSV			
AC Promise Fellows			01APSIN015	69,280	69,280

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
July 1, 2003 to June 30, 2004
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE (continued)					
Training and Technical Assistance	94.009	CCSV			
CCSV Program Development and Technical Assistance			02PDSIN015	71,710	-
Total Corporation for National and Community Service				3,256,516	2,629,251
SOCIAL SECURITY ADMINISTRATION					
Disability Insurance/SSI Cluster					
Social Security - Disability Insurance	96.001	FSSA			-
			02 04 IND I00	166,206	-
			03 04 IND I00	11,524,221	-
			04 04 IND I00	23,021,083	-
			Prior Year IND I	280,431	-
Total for Program and Cluster				34,991,941	-
Social Security State Grants for Work Incentives Assistance to	96.009	IPAS	17-A-20018-5-3	50,000	
Disabled Beneficiaries			17-A-20018-5-4	47,360	-
Total for Program				97,360	-
Other Assistance					
Reimbursement of Vocational Rehabilitation Funds	96	FSSA	N/A	657,896	-
Total Other Assistance				657,896	-
Total Social Security Administration				35,747,197	-
U.S. DEPARTMENT OF HOMELAND SECURITY					
State Domestic Preparedness Equipment Support Program	97.004	SEMA			
FY2000-2001			2002-TE-CX-0069	1,505,730	1,497,413
FY2002			2002-TE-CX-0145	4,122,461	3,935,729
FY2003 Part 1			2003-TE-TX-0198	6,865,450	6,477,025
FY'2003 Part 2			2003-MU-T3-0027	23,326,932	23,324,372
FY2004			2004-GE-T4-0029	4,719,597	4,719,597
Total for Program				40,540,170	39,954,136
Flood Mitigation Assistance	97.029	SEMA			
FMAP 03			EMC-2003-GR-7040	113,164	113,164
Disaster Unemployment Assistance	97.034	DWD	UI-12637-03-55	25,264	-
			UI-12637-03-55	21,349	-
			UI-13546-04-55	7,136	-
Total for Program				53,749	-
Individual and Family Grants	97.035	SEMA			
1433			N/A	8,311	8,311
Public Assistance Grants	97.036				
		INDOT	N/A	3,983	-
1418		SEMA	N/A	542,518	1,247,781
1433		SEMA	N/A	40,408	196,117
1476		SEMA	N/A	5,308,300	5,298,453
Total for Program				5,895,209	6,742,351

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY (continued)					
Hazard Mitigation Grant	97.039	SEMA			
Disaster 1234			N/A	9,537	9,537
Disaster 1418			N/A	109,474	109,474
Disaster 1433			N/A	45,000	45,000
Disaster 1217			N/A	8,707	8,707
Total for Program				172,718	172,718
Chemical Stockpile Emergency Preparedness Program	97.040	SEMA			
CAC			N/A	2,564	-
Chemical Stockpile - 2004			EMC-2004-GR-7002	1,731,670	1,459,018
Chemical Stockpile - 2003			EMC-2003-GR-7032	3,223,600	2,903,102
Chemical Stockpile - 2002			EMC-2002-GR-7008	2,783,558	174,592
Total for Program				7,741,392	4,536,712
National Dam Safety Program	97.041	DNR	EMW-2000-GR-0129	95,758	-
			EMW-2003-GR-0353	8,874	-
Total for Program				104,632	-
Emergency Management Performance Grants	97.042	SEMA	EMC-2004-GR-7004	437,728	-
			EMC-2003-GR-7002	2,310,888	2,008,905
TCMA - Terrorism 2002			EMC-2002-GR-7002	983	-
Total for Program				2,749,599	2,008,905
Pre-Disaster Mitigation	97.047	SEMA	EMC-2002-GR-7034	103,700	103,700
			EMC-2002-GR-7028	19,340	19,340
Total for Program				123,040	123,040
State and Local All Hazards Emergency Operations Planning	97.051	SEMA	EMC-2003-GR-7016	1,482,849	1,397,846
Emergency Operations Centers	97.052	SEMA	EMC-2003-GR-7046	100,000	-
Citizen Corps	97.053	SEMA	EMC-2003-GR-7018	169,099	120,831
Community Emergency Response Teams	97.054	SEMA	EMC-2006-GR-7063	104,236	32,790
Other Assistance					
National Fire Academy Training Grant	97	PSTI	N/A	11,006	120,831
Terrorism	97	PSTI			
			N/A	6,669	-
			N/A	22,859	-
			N/A	7,093	-
Total for Program				36,621	-
Total Other Assistance				47,627	120,831
Total U.S. Department of Homeland Security				59,405,795	55,331,635
Total Federal Awards Expended				$ 7,633,633,909	$ 1,362,067,762

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Scope of Schedule

All federal awards received by the State of Indiana, as a governmental unit, have been included in the Schedule of Expenditures of Federal Awards except for the programs administered by the component units listed in Note 3.

Note 2. Basis of Presentation

a. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the State of Indiana and is presented in accordance with requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of Federal Awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

b. The source of information for the schedule was obtained from the various agencies' grant records while the financial statements were prepared from the records of the Auditor of State. Therefore, the schedule may not necessarily coincide with the financial statements.

Note 3. Component Units

The entities listed below are component units for financial statement purposes and receive federal financial assistance. The federal transactions of these entities are not reflected in this schedule. Each of these entities has their own independent audits in compliance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Component Unit	Federal Funds Expended
Purdue University	$ 220,323,417
Indiana University	297,585,772
Indiana State University	15,593,445
Ball State University	20,766,108
Vincennes University	14,033,044
University of Southern Indiana	6,720,200
Ivy Tech State College	72,592,857
Total	$ 647,614,843

Note 4. State Agencies

The initials in the Agency column indicate the agency that receives the federal funds directly. The following table identifies the state agencies:

Agency	Agency Name
AG	Attorney General, Office of the
AOS	Auditor of State
BOAH	Board of Animal Health
CCSV	Governor's Commission on Community Service and Volunteerism
CHE	Commission for Higher Education
COM	Indiana Department of Commerce
DNR	Indiana Department of Natural Resources
DOC	Indiana Department of Correction
DOL	Indiana Department of Labor
DWD	Indiana Department of Workforce Development
FSSA	Family and Social Services Administration
IAC	Indiana Arts Commission
ICJI	Indiana Criminal Justice Institute
ICPE	Indiana Commission on Proprietary Education
ICRC	Indiana Civil Rights Commission
IDEM	Indiana Department of Environmental Management
IDFBS	Indiana Department of Fire and Building Services
IDOA	Indiana Department of Administration
IDOE	Indiana Department of Education
IDOI	Indiana Department of Insurance
IDOR	Indiana Department of Revenue
IDSP	Indiana Department of State Police
IDVA	Indiana Department of Veterans' Affairs
IGPC	Indiana Governor's Planning Council for People With Disabilities
INDOT	Indiana Department of Transportation
IPAS	Indiana Protection and Advocacy Services Commission
IPSB	Indiana Professional Standards Board
ISDOH	Indiana State Department of Health
ISL	Indiana State Library
IVH	Indiana Veterans' Home
LtGov	Lieutenant Governor – Office of Commissioner of Agriculture
MD	Military Department of State of Indiana
PSTI	Public Safety Training Institute
SBA	State Budget Agency
SC	Supreme Court
SEMA	State Emergency Management Agency
SRDC	State Rural Development Council
SSACI	State Student Assistance Commission of Indiana

Note 5. State Unemployment Insurance Benefits

State Unemployment Insurance Benefits represent the funds returned from the U.S. Treasury for nonfederal unemployment benefits. The State collects unemployment taxes from employers and deposits them in the Unemployment Insurance Trust Fund to be used by the State.

Note 6. Noncash Assistance

The State expended the following amount of noncash assistance for the year. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Noncash Assistance Expended
School Lunch	10.555	$ 19,564,974
Donation of Federal Surplus Personal Property	39.003	3,140,487
Immunization Grants	93.268	9,905,320
Bioterrorism Preparedness and Response	93.283	475,021
Preventive Health Services - Sexually Transmitted Disease Control Grants	93.977	550,448

Note 7. Social Security Vocational Rehabilitation Funds

The Social Security Administration (SSA) reimburses FSSA for counseling and tracking cost of Vocational Rehabilitation clients who have been successfully rehabilitated and have been removed from Social Security Disability Insurance. (The original costs were paid with Vocational Rehabilitation and state funds.) These reimbursements are considered and treated as program income by the federal government. The reimbursements from SSA have certain uses and restrictions. We consider these funds to be additional program money and thus have included them on the schedule.

There are certain time limits on the disbursement of these funds. If the Indiana Family and Social Services Administration (FSSA) does disburse these funds within the time limits, the funds become program income and FSSA must use the funds and reduce their draw of Vocational Rehabilitation funds.

Note 8. Pass-Through Funds

The State of Indiana's Commission for Higher Education is working with the Indiana Chamber of Commerce (a not-for-profit) in regard to the Vocational Education - National Programs CFDA 84.051. The funding for this program is awarded directly to the Chamber of Commerce before being passed on to the Commission.

Note 9. Subsequent Event-Department of Child Services

As of January 11, 2005, the Department of Child Service (DCS) was created. Several federal programs formerly under FSSA are now under DCS. Some of these programs have current federal findings in this report. Those finding numbers are: 96-FSSA-33, 99-FSSA-7, 2000-FSSA-1, 2000-FSSA-2, 2000-FSSA-3, 2000-FSSA-5, 2003-FSSA-1, and 2003-FSSA-3.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:

Material weaknesses identified	Yes
Reportable conditions identified that are not considered to be material weaknesses?	Yes

Type of auditor's report issued on compliance for major programs: Qualified for Block Grants for Prevention and Treatment of Substance Abuse (93.959) and Social Services Block Grant (93.667). Unqualified for all others.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Dollar threshold used to distinguish between Type A and Type B programs: $22,900,902

Auditee qualified as low-risk auditee?	No

Identification of major programs:

CFDA No.	Program Title
WIA	WIA Cluster (17.258, 17.259, 17.260)
21	Jobs Growth and Tax Relief Reconciliation Act of 2003
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services – Vocational Rehabilitation
84.367	Improving Teacher Quality State Grants
MC	Medicaid Cluster (93.778, 93.775, 93.777)
CCC	Child Care Cluster (93.575, 93.596)
93.563	Child Support Enforcement

CFDA No.	Program Title
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant (Title XX)
93.767	State Children's Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
DIC	Disability Insurance/SSI Cluster (96.001)
97.004	State Domestic Preparedness Equipment Support Program

Section II - Financial Statement Findings

The audit of the State of Indiana's financial statements disclosed reportable conditions that are required to be reported. Responses to the findings are on page 218.

FINDING 2003 - CAFR-1, CAPITAL LEASES

The Procurement Division of the Indiana Department of Administration maintains a database of lease activity. Procedures in place to update the lease database do not ensure that all qualifying leases are entered into the lease database. This results in the database not being complete.

Adequate lease records should be maintained by the Department of Administration to ensure that lease obligations are properly presented in the State's financial statements in accordance with standards issued by the Financial Accounting Standards Board.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FINDING 2003 - CAFR-2, INFRASTRUCTURE

The Indiana Department of Transportation (INDOT) does not have complete written internal procedures to ensure that all applicable infrastructure assets are capitalized on the Auditor of State's capital asset system. INDOT has not documented procedures that would enable employees to determine which costs and at what point in the process these costs should be capitalized. This results in an understatement of the State's capital assets.

The Governmental Accounting Standards Board requires the capitalization of additions and improvements of a government's infrastructure assets.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Section III - Federal Award Findings and Questioned Costs

The findings are numbered with the state year, then the initials of the state agency responsible (the initials are defined in Note 4 of the Notes to the Schedule of Expenditures of Federal Awards) and then a sequential number. Unless otherwise noted, prior report references are to the State of Indiana Single Audit Report for the period of July 1, 2002, to June 30, 2003, Report Number B22813.

PRIOR FINDINGS

Prior audit findings regarding procedures, compliance, or internal controls that continued to be findings per the criteria of OMB Circular A-133 during this audit period are not repeated in this Schedule of Findings and Questioned Costs. They are disclosed in the Summary Schedule of Prior Audit Findings. These findings include:

96-FSSA-33	Fund Balances - Child Support Enforcement Fund Centers
99-FSSA-7	ISETS Information Technology (IT) Controls
2000-FSSA-1	Lack of and Improper Supporting Documentation
2000-FSSA-2	Overpayment of Adoption Assistance Subsidies
2000-FSSA-3	Foster Care Provider Licensure
2000-FSSA-5	Child Support Enforcement Program Federal Reporting
2001-FSSA-3	Pass-Through Entity Responsibilities, Division of Mental Health
2002-FSSA-3	Title XX and Validation of Day Services Claims
2002-FSSA-4	Pass-Through Entity Responsibilities at Division of Mental Health for Title XX
2003-FSSA-1	Foster Care Payments
2003-FSSA-3	Allowable Costs/Cost Principles
2003-FSSA-6	Child Care and Development Fund (CCDF) - Monitoring of Registered Ministries
2003-FSSA-8	Child Care Development Fund (CCDF) - Fire Marshall
2003-FSSA-9	Child Care and Development Fund (CCDF) Local Offices of Family and Children
2003-FSSA-11	Child Care and Development Fund (CCDF) - Office of General Counsel
2003-FSSA-16	Ongoing Verification of Provider Medical Licenses

Our test of the Summary Schedule of Prior Audit Findings found the schedule to be materially correct except as noted in the current findings.

Findings 2004-FSSA-1 through 2004-FSSA-8 relate to programs administered by the Indiana Family and Social Services Administration (FSSA). Their response to the findings starts on page 219.

FINDING 2004 - FSSA-1, SOCIAL SECURITY – DISABILITY INSURANCE

Federal Agency: Social Security Administration (SSA)
Federal Program: Social Security–Disability Insurance
CFDA Number: 96.001
Auditee Contact: Pat Carew-Ceesay
Title of Contact Person: Deputy Director, Disability Determination Bureau (DDB)
Phone Number: 317-396-2007
Compliance Requirement: Reporting
Internal Control: Reportable Condition

The Time Report of Personnel Services for Disability Determination Services (Form SSA – 4514) is required to be filed quarterly by FSSA with SSA for the Social Security – Disability Insurance program. During our audit of this report, we found that the computer program utilized to compile the employee hours was not counting all the lines in the report. It was determined that if there were blanks in cells instead of zeros the program would omit the whole line for counting purposes. This has resulted in the under reporting of hours since 2003 when this computer program was first utilized. An analysis of the quarterly reports submitted during the audit period indicated the total employee hours and the Full Time Equivalent (FTE) employee calculation were three percent to seven percent less than the correct amounts. The Social Security Administration had communicated to the DDB that the hours reported appeared low. This report has no financial impact on this program; it is an analysis tool to determine the (FTE) employees working on the program during the quarter.

20 CFR 437.40 (a): "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function or activity."

We recommended that FSSA implement procedures to verify that amounts reported on the Form SSA – 4514 properly reconcile to the source records.

FINDING 2004 - FSSA-2, VOCATIONAL REHABILITATION SERVICES FUND (VR) – IRIS SYSTEM

Federal Agency: Department of Education
Federal Program: Vocational Rehabilitation Services
CFDA Number: 84.126
Auditee Contact Person: Mike Hedden
Title of Contact Person: Deputy Director, Vocational Rehabilitation Service
Phone Number: 317-232-1523
Compliance Requirement: Allowable Costs/Cost Principles
Internal Control: Reportable Condition

During our audit of FSSA, we found anomalies of counselor activities. Through inquiry we then found that FSSA had an ongoing investigation of a Vocational Rehabilitation Services (VR) counselor and vendor that had approved inappropriate expenditures. Procedures were inadequate to identify these inappropriate disbursements in a timely manner.

Currently VR has the Indiana Rehabilitation Information System (IRIS) which maintains eligibility and fiscal information for VR clients. Several different reports are generated from this system for management's use. However, upon inquiry we found that these reports were not being utilized by management as a risk assessment of counselor activity that would identify the aforementioned inappropriate disbursements. One method to identify inappropriate disbursements in a timely manner would be to develop reports that would identify the following:

(1) Analysis of counselors and vendors to determine that clients are directed to an appropriate vendor for their services and that the counselors are using an array of vendors;

(2) Analysis of the cost per case or average cost per case to isolate any counselor activity falling outside selected parameters.

Analysis should be done to determine that inappropriate activities are isolated and corrective actions are implemented.

The lack of monitoring and risk assessment are significant control weaknesses.

34 CFR 80.40(a) states: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

34 CFR 361.12 states: "The State plan must assure that the State agency, and the designated State unit if applicable, employs methods of administration found necessary by the Secretary for the proper and efficient administration of the plan and for carrying out all functions for which the State is responsible under the plan and this part. These methods must include procedures to ensure accurate data collection and financial accountability."

We recommended that FSSA implement procedures to adequately monitor program activity and assess risk.

FINDING 2004 - FSSA-3, DIVISION OF FAMILY AND CHILDREN-BUREAU OF PROGRAM INTEGRITY

Federal Agency: Department Health and Human Services
Federal Program: Medicaid
CFDA Number: 93.778
Auditee Contact Person: Karen Frazier
Title of Contact Person: Director, Quality Control
Phone Number: 317-232-4498
Compliance Requirement: Monitoring
Internal Control: Reportable Condition

The Bureau of Program Integrity (BPI) of FSSA is equivalent to an internal audit function that conducts annual reviews of the client population of Medicaid. This unit produces reports to quantify the case and file error rates for this program. These reports are forwarded to the Federal oversight agency, the Center for Medicaid and Medicare Services (CMS).

At present, the BPI is reporting to the Deputy Director of the Division of Family and Children (DFC), the program management that it is also auditing. Established internal control practices provide that internal audit functions should not report to management with direct lines of authority but to the highest level of management to ensure independence. Furthermore, for proper monitoring of grant supported activities to occur any internal audit function must report to top management of the entity. BPI's current organizational reporting structure to DFC does not ensure independence and proper monitoring. If BPI is to perform internal audit functions, even on a limited basis, a greater degree of freedom, independence, and objectivity would be achieved if this section reported directly to the agency head or to a senior manager who does not also have fiscal or program responsibilities. This is a control weakness.

45 CFR 92.40 (a) Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

We recommended that the BPI report directly to upper management at FSSA.

FINDING 2004 - FSSA-4, FAMILY AND SOCIAL SERVICES ADVISORY COMMITTEE

Federal Agency: Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Auditee Contact Person: Jeanne LaBrecque
Title of Contact Person: Director of Health Policy, OMPP, FSSA
Phone Number: 317-232-4448
Compliance Requirement: Activities Allowed or Unallowed
Internal Control: Reportable Condition

42 CFR 431.10 (b) states: "A State Plan must . . . (2) Include a certification by the State Attorney General, citing the legal authority for the single State agency to—(i) administer or supervise the administration of the plan; and (ii) make rules and regulations that it follows in administering the plan . . ."

IC 12-8-6-1 states: "The office of Medicaid policy and planning is established." IC 12-8-6-3 states: "The office is designated as the single state agency for administration of the state Medicaid program under IC 12-15." Attachment 1.1-A of the Indiana State Plan includes a certification by the State Attorney General regarding the legal authority of OMPP as the single State agency to administer the plan.

However, the certification is silent regarding OMPP's authority to make rules and regulations that it follows in administering the plan. IC 12-8-6-5 states: "The secretary [of the Family and Social Services Administration (FSSA)] may adopt rules under IC 4-22-2 to implement . . . the state Medicaid program." In past years, the Center for Medicare and Medicaid Services (CMS) has made inquiries regarding the apparent conflict between OMPP's and FSSA's rulemaking authority. In practice, FSSA's Office of General Counsel has resolved this conflict by submitting all Medicaid-related rules to both OMPP and the Secretary's office for approval.

IC 12-8-1-9 states ". . . any rules adopted by the secretary . . . must be approved by the family and social services committee established by IC 12-8-3-2 before submission to the attorney general . . ." IC 12-8-3-3 states: "The committee consists of fifteen (15) voting members appointed by the governor . . . The voting members may not be employees of the executive branch or legislative branch of the state. Not more than five (5) of the members may be health care providers . . ." These members must include at least one licensed physician, one representative of a disproportionate share (DSH) hospital, and "One (1) individual who serves as a provider on the Medicaid advisory committee (IC 12-15-33-2) who shall represent the interests of health care providers having representation on the Medicaid advisory committee."

Prior to 1995, the Family and Social Services Advisory Committee (Advisory Committee) consisted of a predecessor entity, the Family and Social Services Advisory Commission. The commission primarily consisted of executive branch members and did not have authority to approve rules.

We were informed of the rule-making authority of the Advisory Committee during an exit interview with senior FSSA management staff during December 2004. Upon further inquiry, we discovered that neither FSSA's Audit Division nor CMS were aware of the existence of the Advisory Committee and its rule-approval authority. The organization charts for OMPP and FSSA (Attachment 1.2-A of the Indiana State Plan) do not disclose the existence of the Family and Social Services Advisory Committee.

We also discovered that members of the Advisory Committee are not required to excuse themselves from voting unless they have a personal financial interest in the outcome of the vote. According to the Office of General Counsel, unless their personal compensation is directly affected by the proposed rule, potential conflicts of interest for their employer do not disqualify the member from voting.

We reviewed the minutes of the Advisory Committee during the audit period and discovered that votes were frequently taken if the minimum quorum of eight members were present. At times up to four representatives of the health care industry contributed to the minimum quorum, including an employee of a managed health care organization, a doctor, a member of Health and Hospital Corporation (a Marion County DSH provider), an employee of a mental health care center, and a former director of OMPP who now works for a health-care research and consulting firm periodically retained by FSSA.

42 CFR 431.10(e) states: "In order for an agency to qualify as the Medicaid agency—(1) The agency must not delegate, to other than its own officials, authority to…(ii) Issue policies, rules and regulations on program matters. (2) The authority of the agency must not be impaired if any of its rules, regulations, or decisions are subject to review, clearance, or similar action by other offices or agencies of the State."

The submission of Medicaid-related rules to an Advisory Committee which contains a significant voting bloc of health-care industry representatives represents a potential impairment of OMPP's rule-making authority. The potential impairment cannot be evaluated as to the extent that the existence of the Advisory Committee may effect what rules are proposed and submitted. The additional delays imposed on the rulemaking process through the introduction of several layers of approval, including the Secretary's office, also represents a potential impairment.

We recommended that OMPP communicate with CMS and, if necessary, members of the Indiana State Legislature regarding the potential impact of the existence of the Advisory Committee on its ability to serve as the single State agency.

FINDING 2004 - FSSA-5, SUPERVISION OF LOCAL OFFICES OF FAMILY AND CHILDREN (OFCs)

Federal Agency: Department of Health and Human Services
Federal Program: State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number: 93.767, 93.778
Auditee Contact Person: Ann Alley, Pat Nolting
Title of Contact Person: Director of SCHIP, FSSA and Director of Program Operations, OMPP, FSSA
Phone Number: 317-232-4390, 317-232-4318
Compliance Requirement: Allowability, Eligibility
Internal Control: Reportable Condition

As noted in Attachment 2.2-A of the Indiana State Plan, the agency that determines eligibility for coverage is "Each County Welfare Department under the supervision of the Family and Social Services Administration" (FSSA). In 1986, the County Welfare Departments were transformed into the local Offices of Family and Children (OFCs). FSSA's Division of Family and Children (DFC) has oversight responsibility for the local OFCs.

We reviewed monitoring and reporting mechanisms between DFC's central office and the local OFCs during the audit period. We discovered that the monitoring controls for central office oversight of local OFCs mainly concerned the Food Stamp program, and applicability to the Medicaid program was limited:

- Second-Party Review (SPR). Local supervisors perform an SPR or desk review on all cases authorized by caseworkers who are on probation or who have been employed less than six months. In prior years, SPRs were also performed for a sample of all experienced case-workers. However, as of 2003 targeted SPRs were implemented to review earned-income determinations for the Food Stamp program only.

- Management Evaluation Reviews (MERs). As part of the MER, a random sample of Food Stamp cases is selected for desk review. Since Medicaid cases are frequently handled by specialized staff, and program requirements significantly differ, MERs are of limited usefulness in monitoring Medicaid-related duties.

- Quality Control (QC) Reviews. During the audit period, DFC's Bureau of Family Resources (BFR) completed a Medicaid Eligibility Quality Control (MEQC) pilot project, as mandated by Center for Medicare & Medicaid Services (CMS). The scope of the MEQC project was limited to a highly technical area of nursing home admissions involving potential estate-shielding tactics. Although error rates identified were high, broad-based conclusions cannot be necessarily projected to the program as a whole.

- Audit Division Reports. FSSA's Audit Division performed on-site audits of local OFCs throughout 2002-2004. We reviewed the scope of these audits and found that, for all but two counties, the audits did not test any federally-funded Medicaid-related functions.

Through interviews with staff and management we verified that the primary purpose of these monitoring and reporting mechanisms was to achieve a lower statewide error rate for Food Stamp eligibility determinations. FSSA allocated quality control resources to lowering the Food Stamp error rate to avoid financial penalties imposed by the United States Department of Agriculture (USDA). In contrast, by opting for the pilot project option offered by CMS for Medicaid, the State was able to avoid potential exposure to the risk of broad-based penalties altogether. As resources were reallocated to lowering the Food Stamps error rate, residual coverage of Medicaid functions by the SPR process was eliminated.

Furthermore, we determined that FSSA management had fostered a culture that encouraged autonomy at the local level, to the point where the central office of the DFC served as a clearinghouse for information and technical assistance but not accountablility for program management, which rested with the local directors.

The association of quality control with penalty avoidance rather than a management responsibility in its own right, combined with an emphasis on local autonomy, constitutes a deficiency in the control environment at DFC. Upon inquiry, OMPP indicated it was unaware of the extent of these deficiencies and their potential impact on the Medicaid program. This lack of communication between divisions constitutes a deficiency in the control environment at OMPP and FSSA.

To test the potential impact of these control deficiencies on the Medicaid program, we focused on whether local offices were being held accountable to follow up on independent verifications of local office data against outside sources. As required by 42 CFR 435.940 through 435.960 and Section 4.32 of the State Plan, eligibility data entered by local caseworkers in the Indiana Client Eligibility System (ICES) is periodically verified against independent information including, but not limited to, information from the Social Services Administration (SSA), Internal Revenue Service (IRS) and Indiana's Department of Workforce Development (DWD). If a discrepancy is found, a data alert is generated by ICES to the caseworker. If the caseworker does not enter a code indicating what type of action was taken and the date action was taken, an alert is generated by ICES to the supervisor. Data will not be automatically overwritten in ICES as the result of a data exchange except for Social Security (SS) benefits or Supplemental Security Income (SSI) verified by SSA.

We were unable to identify any reporting mechanism by which DFC monitored the disposition of data alerts by local OFCs. We requested a custom query from the ICES data warehouse for alerts received during 2003 and 2004 that (1) remained uncompleted despite (2) having generated a supervisory alert. We verified that over 13,000 such alerts remained on the system, including over 2,000 new hire matches against Indiana's child support system and over 200 prison inmate matches against SSA.

More than 7,000 alerts belonged to St. Joseph County, including multiple repetitive alerts for the same case file across time periods. St. Joseph County was selected for a MER in 2000 and 2004. We reviewed the 2000 report and found that problems had been noted in this area, and a recommendation for additional training was issued. The same problems were noted in 2004, but no recommendation was made.

However, even for counties for which data alert screens are being completed by caseworkers, no effective oversight exists that these screens are being completed on other than a perfunctory basis unless the case file is selected as part of an SPR or QC sample. Medicaid files are not included in the selection process except under limited circumstances.

In short, the business processes in place do not generate meaningful information to enable the central office to monitor whether the local offices are enforcing Medicaid eligibility standards. The only information available for the central office to monitor relates to the timeliness, not accuracy, with which data alert screens are being completed by caseworkers. We found that this information was not monitored by the central office. In fact, some local offices (such as St. Joseph County's) had ceased completing this information altogether. The lack of meaningful performance indicators for quality control for the Medicaid function at the local level, combined with the lack of communication with the central office, constitutes a control deficiency at the local level.

The risk of inadequate follow-through for data alerts is exacerbated for pregnant women and children under the age of nineteen covered under Hoosier Healthwise, a health coverage program jointly funded by Medicaid and the State Children's Health Insurance Program (SCHIP). Applicants to Hoosier Healthwise are subject to simplified verification rules. Under simplified verification, the applicant's statement is accepted as verification of name, citizenship, address, residency, marital status, and date of birth so long as a valid Social Security number is submitted. Income may be verified by a single pay stub or child support receipt so long as the applicant states that monthly income did not fluctuate from the current level in the prior 3 months.

42 CFR 435.903 states: "The agency must---(a) Have methods to keep itself currently informed of the adherence of local agencies to the State plan provisions and the agency's procedures for determining eligibility; and (b) Take corrective action to ensure their adherence." 42 CFR 435.952 sets forth requirements for the timely review of information received through data matches. 42 CFR 435.952(f) states "The agency must use appropriate procedures to monitor the timeliness requirements of this section."

The control environment deficiencies that span FSSA, OMPP, DFC and local OFC's cannot be addressed by OMPP's initiative alone. However, as the single State agency for Medicaid, OMPP has the responsibility to communicate the seriousness of these deficiencies to all parties involved and involve itself in appropriate initiatives to improve accountability between the local and central offices of DFC.

FINDING 2004 - FSSA-6, DEATH VERIFICATIONS

Federal Agency: Department of Health and Human Services
Federal Program: State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number: 93.767, 93.778
Auditee Contact Person: Ann Alley, Jeanne LaBrecque
Title of Contact Person: Director of SCHIP, FSSA and Director of Health Policy, OMPP, FSSA
Phone Number: 317-232-4390, 317-232-4448
Compliance Requirement: Activities Allowed or Unallowed, Eligibility
Internal Control: Reportable Condition

On a daily basis, the Family and Social Services Administration (FSSA) submits the Social Security numbers of new applicants for programs served by the local Offices of Family and Children (OFCs) to the Social Security Administration (SSA) for verification that the number is valid, has been assigned to the corresponding name, and the number/name are not in the SSA death registry. In addition, FSSA verifies data for active household members against the SSA death registry on a quarterly basis for all recipients above 13 years of age.

If SSA records indicate that a recipient has died, an alert is generated to the caseworker. The Indiana Client Eligibility System (ICES) permits caseworkers to authorize file changes once daily. Most changes can be batched prior to authorization, but death information must be authorized in two sequential steps for the recipient to be properly removed from the household and the remaining household members' eligibility to be recalculated.

If a recipient is properly removed, the recipient's case should become inactive and, therefore, not be included in the next quarter's death verification request. We requested a query of the ICES data to determine if any death matches were returned for the same recipient from one quarter to the next. A query was generated to compare results for the 4th quarter of 2004 to results for the 4th quarter of 2005. We found 133 matches statewide. Of these matches, thirty-eight indicated some kind of benefit had been provided in 2005. Of these matches, ten indicated a date of death prior to June 2002.

For these ten matches, we obtained payment data for the audit period. Out of the ten matches, six recipients were identified who received a combined total of more than $200,000 in services during SFY04. We also tested a match for a date of death from 1957 and discovered that Medicaid payments had been provided through 2001.

These results are not conclusive until additional research is conducted. For example, if services were provided under a stolen identity, the sum of inappropriate payments could potentially span a longer time-frame than SFY04. Even if each instance of discrepant data can be traced to an error rather than the intentional misuse of an identity, the failure to detect and correct the discrepancies in a timely manner indicates control weaknesses over the payment function. In addition, failure to fully complete the two-step authorization required by ICES for death data affects the accuracy of eligibility determinations for remaining household members.

42 CFR 430.0 states "Title XIX of the Social Security Act, enacted in 1965, authorizes Federal grants to States for medical assistance to low income persons who are age 65 or older, blind, disabled, or members of families with dependent children or qualified pregnant women or children." Medical assistance cannot be provided to a person who is deceased.

We recommended that research be conducted to determine the cause of discrepant death verification data for repetitive data alerts. In addition, we requested that the ultimate disposition of each instance of discrepant data, whether correction of erroneous data, recoupment or referral to an appropriate investigative or law enforcement authority, be documented and reported to us.

We also recommended that adequate oversight be exercised to ensure timely and appropriate resolution of discrepant death data by local OFCs.

FINDING 2004 - FSSA-7, HOME AND COMMUNITY BASED SERVICE WAIVERS

Federal Agency: Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Auditee Contact Person: Jeanne LaBrecque
Title of Contact Person: Director of Health Policy, OMPP, FSSA
Phone Number: 317-232-4448
Compliance Requirement: Activities Allowed or Unallowed
Internal Control: Reportable Condition

42 CFR part 441 subpart G permits States to request a waiver of statutory requirements for the purposes of providing home and community based services to enable individuals to avoid institutionalization. The State of Indiana has obtained 8 home and community based service (HCBS) waivers to date, the largest of which is the Developmental Disability (DD) waiver (approximately $330.5M in services in state fiscal year 2004 [SFY04]), the Aged and Disabled (A&D) waiver ($33.6M) and the Support Services waiver ($27.5M). Combined activity under all other service waivers equaled $19.9M in SFY04.

Prior to the formation of the cross-divisional Waiver Unit between the Office of Medicaid Planning and Policy (OMPP) and the Division of Disability, Aging and Rehabilitative Services (DDARS) in early 2004, HCBS waivers were administered by DDARS. Providers applied to DDARS to be certified according to the particular requirements for a given type of service (including case management) under a particular waiver. Waiver participants retained case managers at will to select providers and prepare a plan of care (POC). Each line item on the POC indicated by provider the type of service, the number of units, and the corresponding date range.

Case managers file POCs and related cost comparison budgets (CCBs) with FSSA through a distributed processing system for case management known as INsite. A uniquely-numbered notice of action (NOA) is issued to the case manager and all affected providers upon approval of every POC or POC amendment.

However, waiver claims are paid by the Medicaid payment contractor, EDS, through its system, IndianaAIM (AIM). During the audit period, except for the DD and A&D waivers, information was not shared between INsite and AIM to allow verification of claims against the corresponding POC.

This absence of information sharing had potentially far-reaching consequences on front-end controls for waiver service payments because of the manner in which providers are enrolled for billing purposes. Each provider is assigned a provider type and a provider specialty. A particular provider type/specialty may be limited to billing only certain Healthcare Common Procedure Coding System (HCPCS) codes, or limited from billing others. However, waiver providers are only granted a provider type of "Waiver" and a specialty code corresponding to the particular waiver being billed. Therefore, HCPCS restrictions can only be applied at the waiver level, rather than by certification type. In the absence of compensating controls, each provider certified for a particular type of service becomes authorized to bill according to the full spectrum of services available under the waiver.

On November 1, 2002, the first prior authorization (PA) table was activated in AIM utilizing INsite data for the DD waiver. For each recipient/authorized service listed on the POC, the PA table included the date range, total dollar amount, and the outstanding available budget as calculated from historical payment data. Although the specific provider was not identified in the PA table, the available budget by service type acted as a control limit on potential cross-billing by unauthorized providers.

However, this control limit was potentially undermined by the practice of allowing case managers to obtain automatic approval for service budget increases of 10% or less. This practice was discontinued in January 2004 for the DD, A&D and Support Service waivers. Automatic approval for service budgets of 10% or less is still granted for all other waivers, without the compensating control of a mechanism to monitor volume of amendment activity by POC or case manager.

On April 1, 2003, a PA table was activated for the A&D waiver. PA tables were activated for all other HCBS waivers on October 1, 2004.

Even when activated, potential gaps existed in coverage by the PA tables. At the time each PA table was activated, claim payments were applied against the outstanding service budgets from the date of activation forward. Therefore, outstanding available budgets are potentially overstated until the initial budget expires or superseded by an amendment. Although some service types can only be authorized in monthly increments, others can be authorized in increments of up to one year.

On an ongoing basis, potential gaps may persist in coverage by the PA tables due to overlapping service dates between competing POCs. Since INsite is a distributed processing system, case managers have no means of cross-referencing proposed POCs against other case managers' records at the time of issuance. To avoid restricting applicant's ability to choose case managers at will, case managers are not required to submit POCs using unique date ranges. The PA table is updated on a line-by-line basis by the nightly INsite file transfer. If an overlapping date range is encountered for a particular service type, claims payment data for the overlapping dates is sequestered from the claims payment history applied to the outstanding budget going forward. Overlapping service dates do not create PA conflicts for those services which can only be authorized in standardized increments, such as per month. In such cases, the outstanding service budget transfers seamlessly between the prior authorization and the current one.

Any billing improprieties slipping through the gaps in front-end controls caused by partial PA data would potentially be detected by back-end controls, such as audits. However, from January through June 2004 audits of waiver providers were temporarily suspended because of a lapsed contract with EDS. In addition, EDS audit staff were not authorized to assess recoupment amounts until the new contract took effect in July 2004. New documentation standards for potential recoupments, including time-in and time-out according to the time of day, and staff signatures for each service line item, did not become enforceable until January 2005.

Potential gaps also may persist in OMPP's ability to monitor certain outlier activity by recipient, provider or caseload due to the ability to issue multiple POC amendments with overlapping service dates, and the absence of consistent sharing of provider-based data between INsite and AIM. A voluntary process exists for case managers to request payment histories by caseload, but participation is not widespread.

42 CFR 441.302 states: "Unless the Medicaid agency provides the following satisfactory assurances to CMS, CMS will not grant a waiver under this subpart and may terminate a waiver already granted . . . (b) *Financial Accountability.* The agency will assure financial accountability for funds expended for home and community based services."

Waiver controls continued to evolve throughout the audit period and beyond on an ad hoc basis. We recommended OMPP perform an overall risk assessment of the current status of waiver controls to identify any potentially significant risks that remain unaddressed and to address these risks accordingly.

FINDING 2004 - FSSA-8, PROVIDER ENROLLMENT (HCBS WAIVERS, FIRST STEPS)

Federal Agency: Department of Health and Human Services
Federal Program: State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number: 93.767, 93.778
Auditee Contact Person: Ann Alley, Jeanne LaBrecque
Title of Contact Person: Director of SCHIP, FSSA and Director of Health Policy, OMPP, FSSA
Phone Number: 317-232-4390, 317-232-4448
Compliance Requirement: Special Tests and Provisions – Provider Eligibility
Internal Control: Reportable Condition

Prior to the formation of the cross-divisional Waiver Unit between the Office of Medicaid Planning and Policy (OMPP) and the Division of Disability, Aging and Rehabilitative Services (DDARS) in early 2004, home and community based service (HCBS) waiver providers were enrolled by DDARS staff under a provider agreement that did not meet Medicaid disclosure standards. Some providers separately executed a Medicaid-compliant agreement with the Medicaid claims payment contractor, EDS, to provide traditionally covered services. An enrollment project to ensure that all waiver providers have executed a Medicaid-compliant agreement is scheduled for completion in early 2005.

In addition, during the audit period, providers participating in the First Steps early intervention program were enrolled by the Division of Family and Children's (DFC's) central reimbursement office (CRO) contractor, Covansys. These providers did not complete a Medicaid-compliant agreement, even though their services were submitted by DFC for reimbursement by EDS if provided to a Medicaid-eligible recipient, as confirmed by data matches to the Indiana Client Eligibility System (ICES).

42 CFR 455.104 enumerates various provider disclosure requirements for the Medicaid program. We recommended that adequate disclosures be obtained from all First Steps providers whose services are potentially billable to the Medicaid program. We also recommended completion of the HCBS waiver provider enrollment project.

Finding 2004-IDOE-1 relates to a program administered by the Indiana Department of Education (IDOE). Their response to the findings starts on page 225.

FINDING 2004 - IDOE-1, ALLOCATION OF SALARY EXPENSE
Federal Agency: Department of Education
Federal program: Improving Teacher Quality State Grants
CFDA Number: 84.367
Auditee Contact Person: Tracy Brown
Title of Contact Person: Fiscal Officer, Center for School Improvement, IDOE
Phone Number: 317-232-6974
Compliance Requirement: Allowable Costs/Cost Principles

In our testing of expenditures during our prior audit (see Summary Schedule of Prior Findings Finding 2003 – IDOE - 3), we found five employees whose total salaries and benefits had been paid out of the Improving Teacher Quality State Grants [ITQSG] program that were not working solely on this program. Four of these worked on the ITQSG program and other Federal programs. One did not work on any Federal program, but was paid from the ITQSG program between July 2003 and February 2004.

The Indiana Department of Education [IDOE] subsequently performed corrective action by returning funds to the ITQSG program for the one employee that did not work on any Federal program, and by coming up with percentage of salary allocations among the Federal programs that each respective employee worked on. In addition, a portion of the salary and benefits of another employee who had worked on the ITQSG program but was paid from another Federal program was added to the allocation of the ITQSG program. These percentage allocations, however, were not based on personnel activity reports or on a statistical sampling system or other substitute system that has been approved by the U.S. Department of Education.

According to OMB Circular A-87, Attachment B, section 11(h)(4), where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards of section 11(h)(5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency as defined in section 11(h)(6).

According to OMB Circular A-87, Attachment B, section 11(h)(1), charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

Since the allocation method used is not in compliance with OMB Circular A-87, there are potentially additional questioned costs to the ITQSG program.

We recommended that IDOE determine the distribution of these employees' salaries and fringe benefits that complies with the requirements of OMB Circular A-87 and determine the amount of funds to be returned to the Improving Teacher Quality State Grants program.

IDOE is planning to utilize personnel activity reports for each of the applicable employees in compliance with OMB Circular A-87 to correct this finding.

FINDING 96 - FSSA-33, FUND BALANCES – CHILD SUPPORT ENFORCEMENT FUND CENTERS

Federal Agency: Department of Health and Human Services—ACF
Federal Program: Child Support Enforcement Program (IV-D)
CFDA Number: 93.563
Auditee Contact Person: Peggy Boggs
Title of Contact person: Financial Manager, Child Support Bureau
Phone Number: 317-232-3450

Finding:

The Child Support Bureau of Family and Social Services Administration is responsible for the implementation of the Child Support Enforcement Program (IV-D) (93.563), including the collecting and the distribution of child support payments. The Bureau receives collections that must be either held as reimbursements to Federal, County and State governments to offset AFDC costs or forwarded to the child support client. 45 CFR S 302.15 states that the IV-D agency will maintain the records necessary to identify the amount, source, and distribution of collections.

As of June 30, 1996, Family and Social Services was holding $34,861,131 in several accounts identified for distribution to select entities or custodial parents. A reconcilement tying these funds to the Terminal Communication Access Method (TCAM) system which identify the amount, source and distribution had not been completed by the agency. We requested an accounting to identify the proper recipients of these funds. The agency responded by identifying potential reconciling items as follows:

Description of Funds Held	Amount
Federal AFDC Reimbursements	$ 6,827,069
State AFDC Reimbursements	3,456,123
County AFDC Reimbursements	919,195
Other Reimbursements in Process	4,086,144
Returned Monies Held by Agency	2,932,082
Potential Refunds to Payors and Other Undistributed Funds	10,387,617
June, 1996 Receipts Distributed in July, 1996	5,984,327
Unexplained Difference	286,574
Total	$ 34,879,131

We recommended that the funds in these accounts be reconciled to detailed source records. We also recommended that an aging account be maintained for funds that are held because the proper recipient either cannot be identified or located. We instructed that any funds deemed to be abandoned property as detailed in Indiana Code 32-9-1.5-20 and 4-10-10 be transferred to the Attorney General's Unclaimed Property Division.

Status of Finding as of February 2005:

The Child Support Bureau identified $543,645.78 in the TCAM system where the payee could not be located. This money was transferred to the Attorney General's Unclaimed Property Division on 10/08/03. However, there are still additional funds in the TCAM account that have not been identified for distribution.

Through much research and distribution of identified funds, the amount in the account has been reduced from over $32 million to less than $1 million. The Child Support Bureau continues to try to identify the remaining funds. However, the source of the remaining funds in the TCAM account will take extensive research and may be unidentifiable. The Child Support Bureau has hired an Accountant to work on a variety of issues relating to reconciliation of our child support accounts. Once all efforts to identify the remaining amount in the account have been exhausted, the Child Support Bureau will contact HHS to consult on the final disposition of these funds.

The Child Support Bureau is committed to timely reconciling all accounts in the future.

FINDING 99 - FSSA-7, ISETS INFORMATION TECHNOLOGY (IT) CONTROLS

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Auditee Contact Person: Peggy Boggs
Title of Contact Person: Financial Manager, Child Support Bureau
Phone Number: 317-232-3450
Compliance Requirement: Special Tests and Provisions
Internal Control: Reportable Condition, Material Weakness

Finding:

The Indiana Support Enforcement Tracking System (ISETS) is the computer system used to administer the collection and distribution of child support payments and manage other support enforcement activities. Our review of this system found the following:

Accounting Procedures and Controls

45 CFR 74.21 requires that the financial management system have effective control over and accountability for all funds. We found that the accounting of child support funds was inadequate. Deficiencies include the inability to balance and reconcile child support receipts and disbursements processed at the State level, inaccurate subaccount balances that track support delinquencies and Unreimbursed Past Public Assistance, and inaccurate tax intercept processing. These deficiencies were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA correct the accounting procedures and control deficiencies as documented in the management letter.

Cash Receipts Handling

45 CFR 302.20 states in part: "The IV-D agency will maintain methods of administration designed to assure that persons responsible for handling cash receipts of support do not participate in accounting or operating functions which would permit them to conceal in the accounting records the misuse of support receipts. Such methods of administration shall follow generally recognized accounting standards." We found deficiencies in the areas of batching, balancing, chain of custody, and timely deposit of cash receipts processed at the State level. These deficiencies were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA correct the cash receipts handling deficiencies as documented in the management letter.

Security

45 CFR 95.621(f) states that: ". . . state agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing." 45 CFR 95.621(h) also requires the designation of an Agency ADP Security Manager and the performance of periodic risk analyses. FSSA has not designated an ADP Security Manager nor has a risk analysis been performed for ISETS. These and other information technology control deficiencies within ISETS security implementation were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA designate an ADP Security Manager, conduct periodic risk analyses of ISETS, and correct the security implementation deficiencies as documented in the management letter.

Child Support Data Supplied to the Welfare System

45 CFR 307.10.b.10 states that child support data should be transmitted to the State's TANF system. Although such a transfer is occurring, we found errors in the data transmitted. Deficiencies in the transfer were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that the transfer of child support data to the welfare system be corrected as documented in the management letter.

Verification of Social Security Numbers

45 CFR 307.10.b.1 and 2 states that the Social Security Numbers (SSNs), names, and dates of birth for Absent Parents and Custodial Parents should be verified with Federal, State, and local agencies. We found that the SSNs, names, and dates of birth of ISETS participants have not been verified. This deficiency was communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA verify SSNs, names, and dates of birth as documented in the management letter.

Status of Finding as of September 2004:

Some of the ISETS programming changes have already been made and activated in ISETS in April 2004 and additional changes were put into production in July 2004. A few of the changes have been put on hold because of a change of vendors. CSB does not have a projected completion date for the changes on hold due to the comprehensive nature of the remaining modifications and the change in vendor. The status of each item is as follows:

- Agency Disbursement changes completed in April 2004
- Foster Care functionality completed in April 2004
- Adjustment process changes that added edits in the adjustment process completed in July 2004
- Share reimbursement recoupments and disbursements at the State completed in July 2004

- Auditor Warrants functionality (a portion of this was completed in May 2004). CSB is working with the contractor to establish a schedule to run the previous year's (1995 to present date) auditor files against ISETS to update the warrant status on ISETS. Once the warrant status is updated for the old files, we will initiate procedures to run current monthly files against ISETS to keep warrant status up-to-date. The remaining portion is put on hold because of vendor change.

- Daily Book Balancing and Monthly Reconciliation has been put on hold because of vendor change.

As these changes are put into production, internal procedures are addressed and written to establish acceptable processes for the tracking of Child Support payments.

FINDING 2000 - FSSA-1, LACK OF AND IMPROPER SUPPORTING DOCUMENTATION

Federal Agency: Department of Health and Human Services
Federal Program: Adoption Assistance Program
CFDA Number: 93.659
Audit Contact Person: Jane Bisbee
Title of Contact Person: Deputy Director, Division of Family and Children
Phone Number: 317-232-4432
Compliance Requirement: Eligibility
Internal Control: Reportable Condition

Finding:

45 CFR 1356.40 lists requirements that a state must meet in order to participate in the Adoption Assistance Program. FSSA has in its Child Welfare Manual detailed instructions that should be followed so that the agency will be in compliance with these requirements.

Paragraph 807 of the Manual requires form SF2973 (Application for Adoption Assistance) to be completed by the adoptive parent(s), and signed by the Director of the County Office of Family and Children (OFC), for each child prior to the final decree of adoption. However, in three (3) of the twenty-five (25) cases tested this form was executed after the final decree of adoption, and in two (2) cases the form was not found, for a total of 20% noncompliance.

Paragraph 808 of the Manual requires form SF2976 (Adoption Assistance: Child Certification) to be completed by the Director of the OFC for each child prior to the final decree of adoption. However, in four (4) of the twenty-five (25) cases tested this form was executed after the final decree of adoption, and in two (2) cases the form was not found, for a total of 24% noncompliance.

Paragraph 809 of the Manual requires form SF2974 (Adoption Assistance Agreement) to be completed by the adoptive parent(s) and signed by the Director of the OFC prior to the final decree of adoption. However, in four (4) of the twenty-five (25) cases tested this form was executed after the final decree of adoption for a 16% non-compliance. Also, paragraph 814 of the Manual requires this form to be renewed biennially and whenever there is a change in the amount of payment. However, in four (4) of the twenty-five (25) cases tested the current form was not found for a 16% noncompliance.

Paragraph 816.2 of the Manual requires that copies of forms SF2973, SF2974 and SF5374 be submitted to the Central Office Financial Management. From there they are routed to the Central Eligibility Unit for filing. The method used for filing documentation sent in by the OFC is by date received. In retrieving any case record it becomes impracticable to determine the date of receipt and, therefore, to be able to locate any particular record. In our testing for documentation controls we were not able to locate copies of documentation from the test cases that were to have been submitted to the Central Office by the OFC because of the filing method being used.

We recommended that FSSA complete and process forms in compliance with the Child Welfare Manual and maintain proper documentation to support the Adoption Assistance Program. We also recommended that documentation be filed in such a way that allows for an adequate audit trail.

Status of Finding as of September 2004:

The manual sections addressing adoption subsidies has been written. State Forms that required change are in forms management. New target date to be established.

Orientation Training for Family Case Managers which includes training of IV-E programs has been written and has been trained. Training began in August 2004. A curriculum for more in-depth training will be started the spring of 2005. This training will address the issues in this audit finding.

FINDING 2000 - FSSA-2, OVERPAYMENT OF ADOPTION ASSISTANCE SUBSIDIES

Federal Agency: Department of Health and Human Services
Federal Program: Adoption Assistance Program
CFDA Number: 93.659
Audit Contact Person: Jane Bisbee
Title of Contact Person: Deputy Director, Division of Family and Children
Phone Number: 317-232-4423
Compliance Requirement: Activities Allowed or Unallowed
Internal Control: Reportable Condition

Finding:

42 USC 673(a)(3) requires that adoption assistance subsidy payments not exceed the foster care maintenance payment. As stipulated in paragraph 810.3 of FSSA's Child Welfare Manual, FSSA's policy on the limitation on payments under the Adoption Assistance Program (AAP) is 75% of the county's rate for foster care per diem. Any amounts paid by the counties over this limitation is to be born by the county.

We found that two (2) of the twenty-five (25) payments tested were in excess of the 75% allowable amount. One, a case in Jennings county, was overpaid by $248.02 during the month tested, and another, a case in Vigo county, was overpaid by $142.97. Neither of these overpayments exceeded 100% of the foster care maintenance payment. We expanded our testing of payments in these two counties. In Jennings county we found the same amount of overpayment for the same child for the additional month tested. In Vigo county we found a different child was overpaid $775.07 for the additional month tested. This overpayment was a violation of both the State 75% policy and the 100% Federal requirement. The allowable foster care maintenance payment at 100% was $571.91 and so the overpayment exceeded the Federal threshold by $203.16.

Through inquiry we found that the Central Office did not review for payments in excess of limitation either on a systematic or sample basis. Further, we found that while reviews are completed by the agency's three state-wide consultants, these reviews are completed on a special case basis rather than systematically.

We recommended that the payments from the AAP not exceed limitations. We also recommended that a system of review to detect payments in excess of limitations be implemented.

Status of Finding as of September 2004:

As a result of receiving written clarification from the Department of Health and Human Services regarding the modification of our adoption subsidy agreement, Indiana has revised policy and the agreement. An Administrative letter dated March 15, 2004 was distributed to the Local Office of Family and Children and the Licensed Child Placing agencies. Indiana can now receive reimbursement on 100% of the negotiated adoption subsidy payment rather than 75%.

We are piloting "Best Practice" in Lake and Marion Counties. Monitoring each part of the process of IV-E from Eligibility to payment is a part of this "Best Practice."

We have set up a system similar to the IV-E foster care program to enter payments into a computer system. We plan to incorporate this program/payments into the "Best Practice" implementation.

FINDING 2000 - FSSA-3, FOSTER CARE PROVIDER LICENSURE

Federal Agency: Department of Health and Human Services
Federal Program: Foster Care Program
CFDA Number: 93.658
Audit Contact Person: Jane Bisbee
Title of Contact Person: Deputy Director, Division of Family and Children
Phone Number: 317-232-4423
Compliance Requirement: Eligibility
Internal Control: Reportable Condition, Material Weakness

Finding:

42 USC 671 and 672, and the approved Indiana State Plan both state that Foster Care Program payments may be made only to properly licensed or approved providers. We reviewed ten foster children cases to determine if licensure controls were in place. We found that five providers were not properly licensed. We also were not able to determine for an additional case as the case file could not be found.

Through inquiry we found several control issues. During our audit period the automated system known as the Indiana Child Welfare Information System used for data eligibility collection (which includes licensing status) was not linked to either county or central office accounting systems. Reliance had to be placed on manual forms of communication to stop ineligible payments. In addition, the central office did not review to ensure that payments were made only to properly licensed or approved providers, either on a systematic or sample basis. Further, we found that while reviews are completed by the agency's three state-wide consultants, these reviews are completed on a special case basis rather than systematically.

We recommended that controls be implemented to ensure payments are made only to properly licensed or approved providers.

Status of Finding as of September 2004:

All payments have been loaded into the computer from August 2003 to current information. This payment system file will be compared to a licensing file from ICWIS in order to detect potential payments to providers who are not properly licensed or approved. We are on target to have this piloted by December 31, 2004.

FINDING 2000 - FSSA-5, CHILD SUPPORT ENFORCEMENT PROGRAM FEDERAL

Federal Agency: Department of Health and Human Services - ACF
Federal Program: Child Support Enforcement Program (IV-D)
CFDA Number: 93.563
Auditee Contact Person: Peggy Boggs
Title of Contact Person: Financial Manager, Child Support Bureau
Phone Number: 317-232-3450
Compliance Requirement: Reporting
Internal Control: Reportable Condition, Material Weakness

Finding:

Collections of child support by the central office of FSSA are deposited with the Treasurer of State. These child support funds are separately accounted for within the State's accounting system which is maintained by the Auditor of State. The Treasurer of State reconciles the deposits to the State accounting system. The State accounting system is the official record for both the collections and disbursements of child support funds made by the central FSSA office.

The collection and disbursement of child support funds are also entered on the Indiana Support Enforcement Tracking System (ISETS) which maintains detailed information for each child support case.

We found that amounts recorded on the federal reports are pulled from both of these sources. However, there is no reconcilement of ISETS transactions and balances on the State's accounting system. (Details of possible reconciling items were communicated to FSSA management in a letter dated March 27, 2000.)

In addition, ISETS produces the WEAAC224 - Daily Book Balancing report which documents the balance of funds remaining within ISETS on a daily basis. At the counties the report is used to support the reconcilement of ISETS to their bank accounts. The left side of the report calculates the balance at the end of the day by taking the prior day's balance and applying the total receipts, disbursements, and other transactions processed for the day. The right side of the report breaks the balance down into undistributed receipts (held items) and undistributed checks (the items that will be in the next check run). The left side balance should always match the right side balance. Although the report balances for funds processed at the counties, it does not balance for funds processed at the State. At June 29, 2000, there was a difference between the two balances of $43,635,881.

Since we were not able to verify the ISETS transactions and balances to the official Auditor of State records, we were not able to determine the reliability of those ISETS amounts used in the federal reports.

45 CFR 74.21 defines the financial management standards for child support enforcement programs. The code requires that the financial management system provide effective control and accountability for all funds.

To ensure accurate and reliable federal reporting, we recommended that FSSA strengthen the accounting procedures and controls over the above areas as required by 45 CFR 74.21.

Status of Finding as of September 2004:

Several of the programming changes necessary to strengthen the accounting procedures and controls to ensure accurate and reliable federal reporting have been put into production as of July 2004. However, the final reconciliation enhancements for Auditor Warrants and Book Balancing have been put on hold because of a change in vendors effective October 2004. Once the new vendor is in place, the CSB will be able to project a new completion date for the remaining enhancements.

CSB is very committed to completing the remaining required reconciliation controls that are needed to strengthen the ISETS system and provide accurate and reliable federal reporting.

FINDING 2001 - FSSA-3, PASS-THROUGH ENTITY RESPONSIBILITIES, DIVISION OF MENTAL HEALTH

Federal Agency: Department of Health and Human Services
Federal Programs: Prevention and Treatment of Substance Abuse
CFDA Numbers: 93.959
Auditee Contact Person: Diana Williams
Title of Contact Person: Bureau Chief, Chronic Additions, DMH/FSSA
Phone Number: 317-232-7883
Compliance Requirement: Subrecipient Monitoring
Internal Control: Reportable Condition, Material Weakness

Finding:

The Division of Mental Health (DMH) at FSSA contracts with and provides funding to various providers for community mental health services. Part of the funding provided comes from the Block Grant for Prevention and Treatment of Substance Abuse (SAPT). In addition, these providers may receive funding from various other sources, including federal funds from other FSSA divisions.

According to OMB Circular A-133 Subpart D Section 400(d)(4), the pass-through entity is responsible to: "Ensure that subrecipients expending $300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Also, Section 400(d)(5) requires the pass-through entity to: "Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

DMH has not reviewed any of the subrecipient A-133 audit reports received since November 2000 and has not sent any reports on to FSSA Audit Services for a fiscal review. Thus, no determination has been made to confirm that the entities had an A-133 audit performed and no management decisions have been issued concerning any potential audit findings.

According to OMB Circular A-133 Subpart D Section 400(d)(3), the pass-through entity is responsible to: "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

DMH staff performs on-site programmatic reviews of subrecipients and reports those findings to the subrecipient. DMH did not request that subrecipients correct items of noncompliance and has not established a policy requiring subrecipients to report corrections made within a specified period of time. This is a lack of control over the corrective action and resolution of findings of noncompliance by the sub-recipients.

We recommended that DMH review and follow up on findings of A-133 audit reports of sub-recipients to ensure compliance with OMB Circular A-133. We also recommended that DMH request that subrecipients correct items of program noncompliance and provide documentation within a specified period of time.

Status of Finding as of February 2005:

DMHA has worked with the State Board of Accounts and FSSA Audit to update the Mental Health sub recipient audit log to track the receipt and review of sub recipients' A133 audit reports.

DMHA has had an audit log in place for several years to document the receipt of the audits. The problem has been insufficient staff to complete the necessary tasks. Further, there has been turnover in this staff position numerous times and this created a backlog in the tracking and logging of the audits and forwarding of the audits to Audit Services. DMHA is committed to keeping the audit log, following up on delinquent audits and ensuring in the future that all required audits are received and are forwarded to Audit Services within two weeks of receipt.

Audit Services prioritizes each independent audit as it is received and thoroughly reviews all audits with audit findings or other high risk indicators. Feedback is sent to the providers on all reviewed audits. Follow-up with the provider and/or audit firm is done when questions arise or additional information is required. Program areas are also notified when concerns arise from the desk reviews. A sampling of the lower risk audits is also done and appropriate feedback and follow-up is done.

FINDING 2001 - FSSA-9, CHILD SUPPORT ACCOUNTING SYSTEM WEAKNESS

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement Program (IV-D)
CFDA Number: 93.563
Auditee Contact Person: Karla Mantia
Title of Contact Person: Deputy Director, Child Support Bureau
Phone Number: 317-232-4482
Compliance Requirement: Special Tests and Provisions
Internal Control: Reportable Condition

Finding:

In Finding 96-FSSA-22 we documented six deficiencies in meeting requirements of 45 CFR 307 as it relates to accounting for child support collections and payments through the Indiana Support Enforcement Tracking System (ISETS). One of the deficiencies remains uncorrected. Balances of child support cases include errors resulting from data conversion, information not recorded during the period from data conversion to system implementation, computer application processing errors, and user errors. The errors are being corrected on a case-by-case basis as they are identified.

However, audit testing of case balances documented that approximately two-thirds of the counties had incorrect ISETS case balances. Incorrect case balances could result in erroneous enforcement activity such as intercepts of federal and state tax refunds, unemployment benefits and lottery winnings. It could also result in erroneous suspensions of drivers' licenses and professional licenses or incorrect income withholdings. Incorrect case balances could also result in the failure to collect funds owed to the state.

We recommended that FSSA work with the County Prosecutors to review case files and correct child support balances on the ISETS system.

Updated Status of Finding as of January 2005:.

Lake and Marion county had maintained STOPs on their cases due to incorrect balances, thereby NCPs (non-custodial parents) would not be submitted errorneously for tax offsets and other enforcement activities. Marion and Lake Counties worked on correcting their balances, which led to a determination in June 2004 for the Marion County Child Support Office to remove the STOPs from their cases and in October 2004 for Lake County Child Support Office to remove their STOPs. As stated previously, the OCSE Data Reliability Audit FFY 2003, found Indiana data to exceed the 95% efficiency rate.

CSB considers this finding as completed. However, we realize that maintaining reliable data is an ongoing matter.

FINDING 2002 - FSSA-3, TITLE XX AND VALIDATION OF DAY SERVICES CLAIMS

Federal Agency: Department of Health and Human Services
Federal Program: TITLE XX
CFDA Number: 93.667
Auditee Contact Person: Bill Green
Title of Contact Person: Director
Phone Number: 317-233-3828
Compliance Requirement: Allowability/Subrecipient Monitoring
Internal Control: Reportable Condition, Material Weakness

Findings:

The Bureau of Developmental Disabilities Services (BDDS) is a part of the Division of Disability, Aging, and Rehabilitative Services (DDARS) within FSSA. BDDS is responsible for the planning and administration of services in community based, residential alternatives for those who meet the criteria of developmentally disabled. The major goal of the Bureau is to support independent living in the least restrictive setting possible for the recipient. To fulfill its goal a variety of services are offered through approved providers. This includes services identified as community day services (i.e., facility-based sheltered employment, transportation, group habilitation, group speech therapy, etc.). Title XX is the funding source used by FSSA to pay providers for services that are identified as community day services. During our audit of Title XX we found internal control weaknesses in the procedures used by FSSA to determine the validity, appropriateness, and necessity of day services claims from providers.

FSSA requires that day service providers maintain sufficient documentation to support the claims that are presented to the State for payment of services. However, FSSA does not request this documentation at the time of payment for validation. Instead, FSSA relies on front and back end processes to provide assurance. We found that these processes are not applied consistently to day services.

A front end process that BDDS utilizes to ensure appropriate and reasonable services for the developmentally disabled is the developmentally disabled recipient plan. This plan details the appropriate services that will enable a recipient to meet the goal of independent living. Incorporated in the plan is a budget for the detailed services. However, a developmentally disabled recipient only has a plan if the recipient is receiving State funding for residential services or Medicaid Waiver funding. A plan is not required for a recipient receiving day services only. Furthermore, if a recipient has a plan and is receiving day services, the day services portion does not have a budget. This means that for day services funding there is no budgetary control per recipient. Whereas those services that have a budget are reviewed by FSSA's Financial Management before the payment of a claim on behalf of a recipient, this cannot be done for day services. In addition, while some day services are required to have a limit on the number of units allowed per recipient, this is tracked by the provider and not submitted to FSSA.

A back end process that is utilized by FSSA is the on-site review by FSSA's Audit Services. Audit Services is to determine whether or not a provider is in compliance with a completed contract. When a provider is selected, Audit Services does review for allowable costs and sufficient supporting documentation. However, as provider selection is a risk based approach, not all providers will have an on-site review. Also, as the personnel in Audit Services are not experts in the needs of the developmentally disabled, Audit Services may not be able to determine the appropriateness or necessity of a day service. In addition, Audit Services reviews transactions after the close of the contract period. While this may be used as one part of a system of assurance of the validity of claims, it is not a timely method and does not guarantee that all providers will be adequately reviewed.

We found that there is no substantial verification of the validity of day services claims at the time of payment processing. We also did not find consistent compensating controls that would provide assurance that the recipient was receiving appropriate and reasonable services. We recommended that FSSA implement adequate controls to assure the validity of Title XX expenditures for day services.

45 CFR 96.30 states that: ". . . a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditures of its own funds."

45 CFR 96.31(b)(2) states that the State shall: "Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations." If a commercial contract 45 CFR 96.31(b)(1) states that the State ". . . should use their own procedures to ensure that the contractor has complied with the laws and regulations affecting the expenditure of Federal funds."

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Agency approval procedures are those necessary to determine a correct, valid, and proper charge in order to certify the claim voucher. . . . Basic Expenditure Payment Procedures: . . . Determine that the expenditure is reasonable and necessary for the agency and is a proper charge to a specific fund or fund/object/center. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 5)

Status of Finding as of September 2004:

The Bureau of Developmental Disabilities Services is in the process of establishing a system to approve services for each recipient. Billing will be based on that approval. This will be similar to the process used for the Individual Community Living Budget (ICLB) for State Funding of residential services. This will allow for the verification of the validity of day service (Title XX) claims at the time of process.

Beginning in July 2003, we established a process to collect claims information by individual. In order to accomplish the verification of billing against the proper funding source, each provider must submit an electronic submission of a report indicating by client the services being billed on the claim. This data is then reconciled against the hard copy of the claim.

Additionally, a program has been written whereby Title XX paid claims are matched against OMPP records to determine if any past claims were paid for individuals that were Medicaid waiver eligible. For any individuals that were Medicaid waiver eligible, a letter is generated to the provider requesting that the provider pay back the Title XX moneys and bill Medicaid for those services. This is a temporary fix until we move to real-time billing and data sharing between DDARS and OMPP.

Additional progress that was made for the period from May to June 2004 was the collection and evaluation of proposals for the new systems consolidation project. This project will integrate all current systems and also build in the component that will allow the creation of individual budgets for individuals receiving Title XX services, as well as a check and balance for Title XX claims.

FINDING 2002 - FSSA-4, PASS-THROUGH ENTITY RESPONSIBILITIES
AT DIVISION OF MENTAL HEALTH FOR TITLE XX

Federal Agency: Department of Health and Human Services
Federal Programs: TITLE XX
CFDA Numbers: 93.667
Auditee Contact Person: Diana Williams
Title of Contact Person: Bureau Chief, Chronic Additions, DMH/FSSA
Phone Number: 317-232-7883
Compliance Requirement: Subrecipient Monitoring
Internal Control: Reportable Condition, Material Weakness

Finding:

The Division of Mental Health (DMH) at FSSA contracts with and provides funding to various providers for community mental health services. Part of the funding provided comes from Title XX.

According to OMB Circular A-133 Subpart D Section 400(d)(4), the pass-through entity is responsible to: "Ensure that subrecipients expending $300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Also, Section 400(d)(5) requires the pass-through entity to: "Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

DMH did not have a system in place to determine that subrecipient A-133 requirements had been met and had not reviewed any of the subrecipient A-133 audit reports received since November 2000. A new process was implemented in April 2002 whereby all A-133s reports were sent to FSSA's Audit Services for a fiscal review. However, neither DMH nor Audit Services had a system in place to determine that all required A-133 reports had been submitted. Thus, no determination has been made to confirm that subrecipients had an A-133 audit performed if required.

We recommended that FSSA implement a system that verifies the submission of required OMB Circular A-133 reports.

Status of Finding as of February 2005:

DMHA has worked with the State Board of Accounts and FSSA Audit to update the Mental Health sub recipient audit log to track the receipt and review of sub recipients' A133 audit reports.

DMHA has had an audit log in place for several years to document the receipt of the audits. The problem has been insufficient staff to complete the necessary tasks. Further, there has been turnover in this staff position numerous times and this created a backlog in the tracking and logging of the audits and forwarding of the audits to Audit Services. DMHA is committed to keeping the audit log, following up on delinquent audits and ensuring in the future that all required audits are received and are forwarded to Audit Services within two weeks of receipt.

Audit Services prioritizes each independent audit as it is received and thoroughly reviews all audits with audit findings or other high risk indicators. Feedback is sent to the providers on all reviewed audits. Follow-up with the provider and/or audit firm is done when questions arise or additional information is required. Program areas are also notified when concerns arise from the desk reviews. A sampling of the lower risk audits is also done and appropriate feedback and follow-up is done.

FINDING 2003 - FSSA-1, FOSTER CARE PAYMENTS

Federal Agency: Department of Health and Human Services
Federal Programs: Foster Care Program
CFDA Numbers: 93.658
Auditee Contact Person: Karen Kinder
Title of Contact Person: Director, Division of Budget and Finance
Phone Number: 317-234-0197
Compliance Requirement: Activities Allowed or Unallowed, Reporting
Internal Control: Reportable Condition

Finding:

Eligibility of children for the Foster Care, Foster Care Waiver, and Adoption Assistance programs are determined at FSSA's local offices of Family and Children. The claims for reimbursement from these programs are also prepared by these local offices. These claims are sent to FSSA's central office of Financial Management for processing. Financial Management makes payments from the appropriate program funds as indicated on the claims. There are separate federal funds for the Adoption Assistance Program and the Foster Care Program. Foster Care and Foster Care Waiver are both paid from the same federal program, but the amount that may be paid for Foster Care Waiver children is limited and must be identified for reporting and analysis purposes.

We tested ten payments to verify allowability and found two exceptions. One case had been identified on a claim as eligible for Foster Care and should have been identified as a Foster Care Waiver case. This resulted in the under reporting of Waiver payments. Another case had been identified on a claim as eligible for Foster Care and should have been Adoption Assistance. This resulted in $511.50 being paid from Foster Care funding instead of Adoption Assistance funding. Through further research we found that both cases had been properly classified on claims the following month. However, no corrections for the prior improper claims had been made. Through inquiry we found that there is no formal mechanism in place for the local offices to inform the central office of incorrect claims for these programs.

45 CFR 74.20 states that: ". . . (b) Recipients' financial management systems shall provide for the following: . . . (2) Records that identify adequately the source and application of funds for HHS-Sponsored activities. . . . (3) Effective control over and accountability for all funds, property and other assets."

We recommended that FSSA implement a process for the local offices to apprise financial management of incorrect claims.

Status of Finding as of September 2004:

1. Financial Management forwarded a letter, dated March 24, 2004, to the 92 Local Division of Family and Children Offices reminding them corrections need to be submitted to Central Office - Financial Management when errors in reimbursement occur at the Local Office. This letter also requested that the Local Office Bookkeeper call Financial Management if they are not sure on how to make corrections. A name and telephone number was included in this letter.

2. Central Office - Financial Management is continuing the automation of their claiming operations for Title IV-E, Assisted Guardianship and Title IV-A Emergency Assistance programs. Currently, Financial Management is working with the Indiana Child Welfare Information System (ICWIS) staff to further eliminate the possibilities of claiming errors. Financial Management is doing this by instituting a process that will allow the claiming information to be checked against ICWIS for accuracy.

3. Central Office - Financial Management has developed a new form called the *Record of Adjustments* that is used to communicate with the local offices any changes or errors that are found. This will help ensure that adjustments are tracked and communicated to all parties. In addition, Financial Management is adding a section in the new Local Office Accounting Manual regarding a process for correcting errors in reimbursement for the Title IV-E, Assisted Guardianship, Adoption Assistance and Title IV-A Emergency Assistance programs.

It should also be noted, that it was previously reported that adjustments were made for the two specific adjustments that were cited in the original audit report.

Finding 2003 - FSSA-2, NONCUSTODIAL PARENT LOCATION EFFORTS

Federal Agency: Department of Health and Human Services – OCSE – ACF
Federal Program: Child Support Enforcement Program (IV-D)
CFDA Number: 93.563
Auditee Contact Person: Karla Mantia
Title of Contact Person: Deputy Director, Child Support Bureau
Phone Number: 317-233-4482
Compliance Requirement: Special Tests and Provisions

Finding:

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), under 42 U.S.C. 653a, requires each State to develop a State Directory of New Hires (SDNH) that meets Federal requirements. The SDNH is used to gather information concerning the location of absent, non-custodial parents and their employment.

Under 45 CFR, Part 303.3 Section (b) provides that the IV-D agency must attempt to locate all noncustodial parents or sources of income:

- Subsection (1) requires the use of location sources, such as "current or past employers and State agencies and departments . . . which maintain records of . . . wages and employment, unemployment insurance . . .;"
- Subsection (2) requires the establishment of working relationships with all appropriate agencies in order to utilize locate resources effectively;
- Subsection (3) requires that: "Within no more than 75 calendar days of determining that location is necessary, access all appropriate location sources . . .;" and,
- Subsection (5) further requires that although repeat location attempts may be limited to automated sources, they must include accessing State employment security files.

42 U.S.C. 503 (e) (1) (A) requires the State agency charged with the administration of the State law (DWD) "to disclose upon request . . . any wage information contained in the records of such State agency." These records can be referred to as information contained in the agency's UC-1, UC-5a and UC-5b reports filed quarterly by employers.

We found that the Child Support Bureau (CSB) had requested access to employment information maintained by DWD. However, CSB failed to follow up and successfully gain such access as required. Consequently, CSB is not in compliance with the above cited code and regulations.

We recommended that CSB follow-up with DWD for proper access.

Status of Finding as of September 2004:

CSB met with DWD and although barriers to online access remain, we worked out a one time program to download from DWD to ISETS the quarterly wage data for the fourth quarter of 2003 and first quarter of 2004 for all active non-custodial parents. Therefore, if any state employer did not report new hires, the data from those quarters would be available to the IV-D Prosecutor offices via the locate menu in ISETS. Ongoingly, ISETS will use the data provided by DWD for the federal OCSE (office of child support enforcement). The second quarter data from DWD for the federal office has not yet been submitted. DWD submits weekly updates, so quarterly wage data will be updated in ISETS weekly.

DWD and PSI (new hire contractor) worked out an arrangement whereby DWD provided data to PSI for the fourth quarter of 2003 and first quarter of 2004. PSI used that data to determine noncompliant employers. Compliance follow-up action is being taken and will continue to be taken by PSI. Ongoingly, DWD will provide subsequent quarterly data to PSI for similar non-compliant mailings.

CSB has complied with this finding and thereby considers this finding as closed.

FINDING 2003 - FSSA-3, ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Health and Human Services
Federal Programs: Foster Care
CFDA Numbers: 93.658
Auditee Contact Person: Karen Kinder
Title of Contact Person: Director, Division of Budget and Finance
Phone Number: 317-234-0197
Compliance Requirement: Allowable Costs/Cost Principles
Internal Control: Reportable Condition

Finding:

During our audit of the FSSA Cost Allocation Plan (CAP) for the Division of Family and Children (DFC), we found that FSSA lacks adequate procedures for monitoring contract work. FSSA contracts with an independent contractor, Maximus, to develop and maintain their DFC CAP including compilations of various sampling and allocation measurements to support the allocation of program costs. Monthly, Maximus generates allocation reports which FSSA uses to charge indirect costs to their federal programs.

In April 2003, FSSA implemented a new email Random Moment Survey (RMS) process. The contractor selects the sample of employees to be surveyed, compiles the responses, and uses the results to determine the percentage of time employees worked on federal grants. Through our testing, we found that some caseworkers were unable to place a toll free phone call from their desk to answer the survey after their email link expired and, therefore, must disrupt their work to use their supervisor's phone when it is available. Neither FSSA nor Maximus were aware of this potential problem. Through further inquiry, we found that neither FSSA nor Maximus had made inquiries at the DFC offices for potential implementation issues.

As a result of our testing, a phone access survey was conducted. Results revealed that limited phone access affected twenty-seven of 130 offices; twenty-six of twenty-seven were among the thirty-nine Marion County offices. Although phone surveys are not done frequently, sufficient data has not been captured to determine the impact on the RMS sample results.

In addition, FSSA has not maintained adequate oversight of the monthly allocation reports generated by the contractor. Monthly cost reports prepared by FSSA Financial Management are given to Maximus for their compilation of allocated costs. The Maximus allocation reports are used by Financial Management to charge indirect costs via journal voucher. Financial Management does not verify that the costs on their cost reports submitted to Maximus agree with the costs in the Maximus allocation reports. This lack of monitoring could lead to errors made by Maximus that were not detected by FSSA Financial Management. Financial Management also does not review the contractor's allocation reports once necessary quarterly or bi-yearly updates are made due to revised sampling and allocation measurements.

45CFR302.10(c) states that: "The IV-D agency will assure that the plan is continuously in operation in all appropriate offices or agencies through . . . Regular planned examination and evaluation of operations in local offices by regular assigned State staff, including regular visits by such staff; and through reports, controls, or other necessary methods."

Plan requirements in 45CFR95.505(i), state: "That the information contained in the proposed cost allocation plan was prepared in conformance with Office and Management and Budget Circular A-87."

Per OMB A-87 Attachment A, "Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices."

We recommended that FSSA implement procedures to adequately monitor all aspects of the contractor's work on the DFC CAP.

Status of Finding as of September 2004:

1. Financial Management implemented a new process on February 20, 2004, where the accountant making the cost allocation entries compares the work of the contractor to the source documentation from another FSSA accountant. This comparison should help detect any errors made by the contractor.

2. Financial Management conducted the telephone accessibility survey referenced in the finding as a result of the State Board of Accounts review. Completing the telephone RMS is only necessary if the worker fails to respond to the RMS via e-mail. The e-mail link remains open for forty-eight hours. It is only when the worker fails to respond within forty-eight hours that a telephone response is necessary. FSSA does not find that using the supervisor's phone for long distance access is overly burdensome in these cases given the amount of time that is allowed to respond by other methods from the workers desk. Even after a telephone response, the HHS Division of Cost Allocation requires a confirming e-mail from the sampled employee thus making the telephone response optional.

3. Beginning in July 2004, Audit Services added a testing procedure for RMS in their audits of the county Offices of Family and Children to determine the reliability of the RMS responses of the benefits caseworkers and the child welfare caseworkers. Further procedures are being considered.

FINDING 2003 - FSSA-4, CHILD CARE AND DEVELOPMENT FUND (CCDF) – PROVIDER AGREEMENTS

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Care Cluster
CFDA Number: 93.575, 93.596
Auditee Contact Person: Lanier DeGrella
Title of Contact Person: Deputy Director, Bureau of Child Development
Phone Number: 317-234-2250
Compliance Requirement: Allowable Costs/Cost Principles
Internal Control: Reportable Condition

Finding:

The FFY 2002-2003 Child Care and Development Fund (CCDF) Plan for Indiana (the State Plan) states: "Providers, at the time of registration with the local voucher agent, sign an agreement that states parents will have unlimited access to their children while being cared for by the provider." This provision of the State Plan fulfills the requirements of 45 CFR 98.31 that the "Lead Agency shall provide a detailed description" of its "procedures to ensure that providers of child care services for which assistance is provided afford parents unlimited access to their children, and to the providers caring for their children, during normal hours of provider operation and whenever the children are in the care of the provider."

In voucher agent counties, each provider signed a Provider Statement with the voucher agent to acknowledge its responsibilities under the CCDF voucher program. The agreement included the statement: "I agree to allow the parents of children in my care to visit their children at all times and to see all areas used for child care." In intake agent counties, no corresponding agreement was executed between providers and intake agents or FSSA. Subsequent to the audit period, the Bureau of Child Development transitioned a limited number of counties to a new electronic debit card payment system managed by an outside contractor. In these CRO (Central Reimbursement Office) counties, providers have executed a Provider Statement with the CRO vendor.

We recommended that all providers be required to sign a provider agreement in accordance with the State Plan.

Status of Finding as of September 2004:

All provider statements continue to have statement that providers “Must allow parents/guardians to visit their child(ren) while in my care and allow access to all areas used for child care as noted in CFR 98.31”. Based upon federal regulations and legal interpretation, this will not change.

We believe this finding is resolved.

FINDING 2003 - FSSA-5, CHILD CARE AND DEVELOPMENT FUND (CCDF) – VERIFICATION OF REGISTERED MINISTRIES

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Care Cluster
CFDA Number: 93.575, 93.596
Auditee Contact Person: Lanier DeGrella
Title of Contact Person: Deputy Director, Bureau of Child Development
Phone Number: 317-234-2250
Compliance Requirement: Allowable Costs/Cost Principles
Internal Control: Reportable Condition

Finding:

IC 12-17.2-2-8(7) exempts from licensure "a child care ministry registered under IC 12-17.2-6." IC 12-7-2-28.8 states: " 'Child care ministry,' for purposes of IC 12-17.2, means child care operated by a church or religious ministry that is a religious organization exempt from federal income taxation under Section 501 of the Internal Revenue Code."

To verify that an applicant for registration as a ministry is a tax-exempt organization, FSSA's Bureau of Child Development (BCD) requires the applicant to submit a copy of the IRS letter that states: "we have determined you are exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3)." Section 501(c)(3) of the Internal Revenue Code authorizes a broad umbrella of purposes, including religious, charitable and educational purposes, for tax-exempt activity.

We found that BCD did not have a process to verify that an applicant for registration as a ministry is a religious organization. Formerly, the IRS stated for which purpose tax-exempt status was being granted in the 501(c)(3) determination letter. However, the IRS no longer differentiates among the various purposes for which tax-exempt status may be granted in the text of the 501(c)(3) determination letter, nor has it done so for a number of years. In the absence of an explicit IRS determination, BCD did not promulgate a rule regarding what constitutes a "religious organization" under IC 12-17.2-2-8(7). Neither did BCD require applicants for registered ministry status to submit a copy of their 501(c)(3) application, which contains detailed information regarding the nature and purpose of the applicant. Instead, BCD accepted an applicant's self-declaration that it is a religious organization.

Since 1990 the volume of registered ministries operating statewide has climbed from under 100 in 1990 to over 500 in 2003. Many of these ministries are independent ministries (not associated with a church or its auxiliary).

We requested copies of the 501(c)(3) application from a sample of registered ministries. Even though the 501(c)(3) application is a public record per IRS regulations, four of the ten tested did not respond to our request and an additional two responded with only partial documentation, refusing to provide the complete application. One independent ministry provided a copy of a Form 1023 which described its primary purpose as "to provide affordable childcare services" and did not otherwise indicate any criteria by which the organization might be considered religious. This ministry had previously operated as a licensed center until it failed its inspection.

Upon further inquiry we found that overall the requirements for licensed centers are more stringent than for registered ministries. We also found that during the audit period applicants that passed a sanitation inspection were allowed to operate under a temporary six-month permit upon submission of a letter acknowledging that the IRS had received their 501(c)(3) application. As a result, if a licensed daycare center failed its licensing inspection, it could reopen as a registered ministry with little delay.

The FFY 2002-2003 Child Care and Development Fund (CCDF) Plan for Indiana (the State Plan) states: "Procedures are in effect to ensure that child care providers that provide services for which assistance is provided under the Child Care and Development Fund comply with all applicable State or local health and safety requirements." This provision of the State Plan fulfills the requirement of 45 CFR 98.41 that the "Lead Agency shall certify that procedures are in effect to ensure that child care providers for which assistance is provided . . . comply with all applicable State, local or tribal health and safety requirements."

IC 12-17.2-2-4 requires the Division of Family and Children (DFC) to adopt rules concerning the licensing and inspection of child care centers and child care homes. Child care centers, as defined under IC 12-7-2-28.4, can be located in nonresidential buildings. Child care homes, as defined under IC 7-2-28.6, must be located in a residential structure. If DFC chooses to exempt a child care program from licensure, it must be one of the programs enumerated under IC 12-17.2-2-8. Nonresidential programs exempted from licensure under IC 12-17.2-8 include various after-school programs, recreation/scouting programs, and "a child care ministry registered under IC 12-17.2-6." According to IC 12-7-2-28.8, " 'Child care ministry,' for purposes of IC 12-17.2, means child care operated by a church or religious ministry that is a religious organization exempt from federal income taxation under Section 501 of the Internal Revenue Code."

By not having a procedure in effect to ensure that registered ministries for which CCDF assistance is provided are in fact religious organizations, the Lead Agency does not have a procedure in effect to ensure that registered ministries comply with State requirements for licensing exemptions.

We recommended that FSSA implement adequate procedures to ensure that child care providers granted an exemption from licensing requirements under IC 12-17.2-2-8(7) qualify for such an exemption as a religious organization.

Status of Finding as of September 2004:

All new registered ministry applications are now being reviewed using guidelines provided by the IRS and adopted by the Division. Facilities requesting to be a registered ministry must now provide documentation from the IRS that exempts them as a church or religious organization.

We believe this finding is resolved.

FINDING 2003 - FSSA-6, CHILD CARE AND DEVELOPMENT FUND (CCDF) – MONITORING OF REGISTERED MINISTRIES

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Care Cluster
CFDA Number: 93.575, 93.596
Auditee Contact Person: Lanier DeGrella
Title of Contact Person: Deputy Director, Bureau of Child Development
Phone Number: 317-234-2250
Compliance Requirement: Allowable Costs/Cost Principles
Internal Control: Reportable Condition

Finding:

Of the four major classes of child care providers that participate in Indiana's CCDF voucher program (licensed centers, licensed homes, registered ministries, and legally licensed-exempt in-home providers), only registered ministries are not subject to minimum staff/child ratios or total capacity limitations. In addition, the Bureau of Child Development (BCD) does not routinely verify attendance records against CCDF enrollment records during its periodic inspections of registered ministries. The absence of staff/child or total capacity restrictions, combined with the absence of cross-verification of records, creates unique opportunities for manipulation of enrollment records at registered ministries that participate in the CCDF voucher program. During the audit period, an investigation of a registered ministry by FSSA's Bureau of Investigation resulted in twenty-six felony charges related to the manipulation of enrollment records.

45 CFR 98.11 states: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors and (6) Monitor programs and services."

We recommended FSSA monitor registered ministries for allowable costs.

Status of Finding as of September 2004:

Effective 8-1-04, CCDF Provider Statements have been amended to include the following language:

I may not possess or use a Hoosier Works for Child Care card to authorize electronic attendance transactions for any CCDF children. This policy also applies to my child care staff, as well as any members of my household/facility in which child care is provided. I understand I may not require or coerce parents to violate this policy. Exceptions to this policy will only be accepted with written documentation from the Bureau of Child Development.

Further, a CCDF Provider Manual has been accepted in final draft form and is ready to be printed and disseminated. The Provider Manual includes the above statement. All providers will receive a copy of this manual before the next quarter.

The CCDF Program Manager and/or CCDF Fraud Coordinator continues to receive referrals if a Child Care Ministry Consultant observes provider possession and/or use of the Hoosier Works for Child Care swipe cards. A “warning” letter is then sent through certified mail that contains the above statement and information about possible termination from the program if allegations are confirmed.

Correspondence went to all CCDF Intake Agents informing them to make referrals to CCDF Fraud Coordinator if any parent reports provider possession or usage of the swipe cards. A “warning” letter is generated from this type of referral also.

FINDING 2003 - FSSA-7, CHILD CARE AND DEVELOPMENT FUND (CCDF) – COMPLAINT DISCLOSURES

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Care Cluster
CFDA Number: 93.575, 93.596
Auditee Contact Person: Lanier DeGrella
Title of Contact Person: Deputy Director, Bureau of Child Development
Phone Number: 317-234-2250
Compliance Requirement: Allowable Costs/Cost Principles
Internal Control: Reportable Condition

Finding:

Section 4.2 of the FFY02-FFY03 CCDF Plan for Indiana (the "State Plan") states: "Substantiated parental complaints on providers are maintained by the State at local Offices of Family and Children, and at the Central Office in Indianapolis. The information is available upon request or through the Indiana Family and Social Services Administration website at *www.carefinderindiana.org*. The public can access information on the site concerning the status of a child care provider’s license, read about the latest inspections and any problems uncovered. Complaints filed by parents are also listed, along with whether the complaint was substantiated, and what action was taken." This section of the State Plan fulfills the requirement of 45 CFR 98.32 for the Lead Agency to provide a detailed description of its plans to "(a) Maintain a record of substantiated parental complaints; (b) Make information regarding such complaints available to the public on request."

During the audit period, we found the following circumstances contradicted the State Plan regarding disclosure of substantiated complaints at CCDF providers:

- Information regarding substantiated complaints maintained at local Offices of Family and Children (OFCs) is not available to the public on request. This information is considered confidential per IC 31-33-18-1.

- No information is maintained regarding legally licensed-exempt in-home providers (LLEPs) at www.carefinderindiana.org. LLEPs provide a significant portion of CCDF services.

- The only information disclosed at www.carefinderindiana.org regarding registered ministries, another significant category of CCDF providers, concerns complaints that do not involve abuse or neglect. If a parent makes a complaint alleging abuse or neglect, the complaint will be referred to the Child Protection Service (CPS) at the local OFC for substantiation. Such complaints are covered by Indiana's confidentiality statutes. If a parent makes a complaint concerning a matter that does not involve abuse or neglect (such as sanitation violation), the complaint will be referred to Health Section inspectors from the Bureau of Child Development (BCD) for substantiation. Such complaints can be freely disclosed.

What www.carefinderindiana.org does disclose regarding abuse or neglect complaints is whether or not an action has been taken to revoke the license of a licensed home or center. When a local CPS substantiates a complaint against a licensed facility, it notifies the Licensing Section, and the Licensing Section issues a revocation letter to the facility. Although the facility can remain open during the appeals process, the action to revoke, and the reason for it, is disclosed at www.carefinderindiana.org. However, due to FSSA's understanding of confidentiality statutes, the local CPS will not notify BCD if it substantiates a complaint against an unlicensed facility, including an LLEP or registered ministry.

In addition, based on FSSA's understanding of confidentiality provisions, BCD will not disclose any information about a parental complaint substantiated by CPS even if it has independent knowledge of the complaint. For example, if a complaint involving abuse or neglect is made by a parent to a member of the Health Section staff, Health Section will refer the complaint to CPS for substantiation. Even if BCD finds out from the parent that the complaint has been substantiated by CPS, this information will not be disclosed to the public.

Prior to the audit period, the model provider agreement recommended by BCD for use by voucher agents included (1) a waiver by the provider of confidentiality rights in cases of substantiated cases of abuse and (2) an acknowledgement that the provider's rights to participate in the CCDF voucher program may be terminated at the voucher agent's discretion under various circumstances, including a "pending abuse/neglect charge." However, based on the advice of the Office of General Counsel, during the audit period the local OFC directors were instructed by BCD program staff that they could not share information regarding substantiated cases of abuse with voucher/intake agents unless the information was included in the central registry defined under IC 31-33-17. The central registry only contains a strictly defined subset of substantiated abuse cases, such as cases for which formal charges have been brought. The waiver language has been removed from the new version of the Provider Agreement being used in counties served by a Central Reimbursement Office (CRO).

We recommended that BCD disclose substantiated parental complaints for unlicensed providers which participate in the CCDF voucher program as required by 45 CFR 98.32 and the State Plan.

Status of Finding as of February 2005:

The Bureau of Child Development (BCD) agrees that the federal regulations governing the CCDF program require that information regarding substantiated parental complaints be available to the public on request. BCD further believes that this requirement has been met through the www.carefinderindiana.org website as well as maintaining files that are made available to the public. In order to respond to this finding, BCD consulted with Harlan Smith, Program Specialist in the Chicago office of the Administration for Children and Families (HHS), to get guidance on the intent of this regulation. Mr. Smith advised us that we are in compliance with CCDF requirements. He confirmed that CCDF law requires setting up procedures that deal with “parental” complaints only, but does not prescribe what that system should look like and does support State’s own laws and regulations regarding confidentiality. Mr. Smith stated that CPS complaints are not governed by the disclosure requirement in CCDF regulations.

BCD will document in the CCDF Plan due for submission in July 2005, what the procedures are for maintaining records and how information regarding such complaints are made available to the public on request.

We believe this finding has been resolved with the clarification received from HHS.

FINDING 2003 - FSSA-8, CHILD CARE DEVELOPMENT FUND (CCDF) – FIRE MARSHALL

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Care Cluster
CFDA Number: 93.575, 93.596
Auditee Contact Person: Lanier DeGrella
Title of Contact Person: Deputy Director
Phone Number: 317-234-2250
Compliance Requirement: Allowable Costs/Cost Principles

Finding:

Lead agencies receiving CCDF funding must certify: ". . . that procedures are in effect to ensure that child care providers of services for which assistance is provided . . . comply with applicable . . . safety requirements . . ." (45CFR98.41(d)). FSSA is the lead agency for the State of Indiana. Section 6.6 of FSSA's state plan for CCDF has as part of its assurance for building and physical premises safety, inspections by the State Fire Marshall. Specifically, the inspection of licensed centers and registered ministries are required by Indiana Code.

The Office of State Marshall has historically experienced difficulty in performing daycare inspections in a timely manner. To address this issue, FSSA's Bureau of Child Development (BCD) used CCDF quality funds to contract with the Fire Marshall to hire additional staff dedicated to daycare inspections, beginning in 2001. A total of $1.4 million in CCDF quality funds was awarded for the four-year period from FFY01-FFY04. Despite hiring six additional staff members with CCDF quality funds, the Fire Marshall still failed to perform timely inspections of daycare facilities during the audit period.

Because of the backlog in fire inspections, the Health Section at BCD began issuing certificates to new ministries whether an inspection had been performed or not. It also began renewing certificates for existing ministries who had not received a timely inspection. The Licensing Section at BCD continued to withhold licenses for new centers until a fire inspection had been performed, but permitted existing facilities to operate without a timely inspection.

We recommended that FSSA determine that safety procedures are in effect before certification or disclose in the state plan that such certification is not possible due to lack of timely inspections.

Status of Finding as of February 2005:

Contract amendment agreement with the State Fire Marshall is now in place and items addressed in the 2003 corrective action response have been implemented.

Bureau is in the process of implementing policies with the State Fire Marshal that will establish guidelines for action against facilities that have two failed inspections to eliminate multiple visits by the SFM. The SFM is currently sending updated reports every Friday of the status of inspections completed that week. SFM has changed their inspection schedule to ensure that facilities are inspected the quarter prior to the facilities license expiration dates. The electronic data transfer has been completed between data bases of both agencies. When all of the above procedures are fully implemented, we feel that the finding will have been corrected.

FINDING 2003 - FSSA-9, CHILD CARE AND DEVELOPMENT FUND (CCDF) – LOCAL OFFICES OF FAMILY AND CHILDREN

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Care Cluster
CFDA Number: 93.575, 93.596
Auditee Contact Person: Lanier DeGrella
Title of Contact Person: Deputy Director, Bureau of Child Development
Phone Number: 317-234-2250
Compliance Requirement: Eligibility
Internal Control: Reportable Condition

Finding:

During the audit period, to determine child care eligibility for a Temporary Aid to Needy Families (TANF) recipient, the voucher or intake agent examined a referral provided by the local Office of Family and Children (OFC).

We found that the Division of Family and Children (DFC) does not impose statewide standards on the TANF referral process other than to require in the CCDF Policies and Procedures Manual that the referral (1) be written and (2) include the identification number assigned to the applicant by the Indiana Client Eligibility System (ICES).

During the audit period, voucher agents were required by contract to execute a Memorandum of Understanding (MOU) with the County Team, which includes representative(s) of the local OFC, to outline the roles and responsibilities of members of the County Team. Intake agents were only required to appoint a liaison with the local OFC to facilitate communication.

We inspected the MOUs and procedures governing TANF referrals for a sample of voucher and intake agents. We found that procedures were inconsistently documented from county to county. In addition, several counties did not have a procedure in place to ensure that the local OFC communicated changes in TANF status to the voucher/intake agent after the initial referral. CCDF vouchers have a potential life of six months, and a change in TANF status should trigger an eligibility redetermination. In addition, we found that the Bureau of Child Development (BCD) does not monitor whether TANF referrals are updated in a timely manner.

45 CFR 98.11(a)(1) states: "The Lead Agency shall retain overall responsibility for the administration of the program."

45 CFR 98.20(a) states: "In order to be eligible for services under §98.50, a child shall: (2) Reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size."

45 CFR 98.50(e) states: "Not less than 70 percent of the Mandatory and Matching Funds shall be used to meet the child care needs of families who: (1) Are receiving assistance under a State program under Part A of title IV of the Social Security Act, (2) Are attempting through work activities to transition off such assistance program and (3) Are at risk of becoming dependent on such assistance program."

We recommended that DFC implement consistent standards and controls to ensure that local OFCs supply adequate and timely information to CCDF intake agents to verify and monitor the child care eligibility of TANF recipients.

Status of Finding as of September 2004:

CCDF Intake training identified two different forms used in different Division of Family and Children (DFC) regions. Neither form is an approved State of Indiana form. As a result of this finding the Child Care unit will seek approval for an approved State of Indiana form. This approved form will be developed in conjunction with staff from the Bureau of Family Resources. This form will include necessary information to ensure recertification of eligibility in a timely manner. In coordination with staff from the Bureau of Family resources, technology will be used to support the sharing of information to increase a timelier recertification process. This information will in turn be collected electronically.

In the interim while approval for this form is being obtained, the concerns of this finding will be included in the monitoring process for Intake agents. Training instructions to Intake agents, in regard to this issue, will also be sent via BCD Correspondence.

No progress to report. Program will prioritize this issue for next quarter.

FINDING 2003 - FSSA-10, CHILD CARE AND DEVELOPMENT FUND (CCDF) – AUDIT DIVISION

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Care Cluster
CFDA Number: 93.575, 93.596
Auditee Contact Person: Lanier DeGrella
Title of Contact Person: Deputy Director, Bureau of Child Development
Phone Number: 317-234-2250
Compliance Requirement: Allowable Costs/Cost Principles, Subrecipient Monitoring
Internal Control: Reportable Condition

Finding:

During the audit period, we found that management overrides of Audit Division recommendations regarding subrecipient (voucher agent) and vendor (intake agent) contracts were not sufficiently documented. The Audit Division performs a high-level role in the monitoring of voucher/intake agents. Each voucher/intake agent is inspected annually by program monitors, who examine a sample of records from the current federal fiscal year. Based on the results of the annual inspections, the Audit Division selects a sample of high risk voucher/intake agents for an in-depth audit of the prior federal fiscal year.

We identified the following circumstances during the audit period in which the Audit Division recommended the Bureau of Child Development (BCD) not enter into a contract with a voucher or intake agent:

1. In one county, the Audit Division subcontracted with an independent CPA to audit a voucher agent at which a staff member had embezzled over $200,000 in CCDF funding. The CPA issued the following recommendation in its July 2002 report: "It is our belief that [the voucher agent] was reckless in its management of CCDF monies . . . we believe [the voucher agent] had sufficient knowledge to correct the internal control deficiencies . . . we are recommending [the voucher agent's] contract be terminated." BCD renewed the voucher agent's contract for FFY03, after imposing a repayment agreement, a change in management, and new internal controls on the voucher agent.

2. In another county, audit staff raised concerns verbally and by e-mail regarding renewal of a contract with a voucher agent which also owned multiple provider sites. The voucher agent was converted into an intake agent prior to renewing its contract for FFY03. BCD instructed its staff that "because of audit's concerns regarding possible conflicts of interest leading to internal control weaknesses we must carefully monitor their contract performance."

3. When the Audit Division was asked to review the financial statements of a new intake agent proposed for Marion County (the largest user of CCDF funding), the Audit Division recommended in an e-mail that BCD not contract with the intake agent based on the Audit Division's concerns regarding the proposed intake agent's (1) solvency and (2) conflicts of interest posed by its ownership of multiple daycare provider sites. BCD entered into a contract with the proposed intake agent, after assuring the Audit Division that "[conflict-of-interest] . . . situations would be monitored systematically to determine whether there was a high registration of children to [the intake agent's] services."

In order to verify procedures for issuing management overrides of internal controls at BCD, we requested documentation of these decisions. We discovered that no formally documented process existed for issuing management overrides of internal controls at BCD. In addition, no formally articulated guidelines existed for such a process. Instead, the only available documentation consisted of e-mails, some of which had been accidentally deleted and had to be retrieved from electronic archives at our request. In the case of the voucher agent at which a significant embezzlement occurred, the only documentation provided to us consisted of a staff member's recollections.

In addition, we found that the additional monitoring measures related to conflict-of-interest situations, promised in response to concerns raised by the Audit Division, were not implemented.

The State Board of Accounts relies on the existence of the Audit Division in its evaluation of FSSA's internal controls, including the control environment maintained by management. To justify this reliance, the substantial recommendations of the Audit Division regarding fraud-related or internal control concerns at subrecipients or vendors should be issued and evaluated according to a formally documented set of procedures. Any follow-up procedures should be monitored and followed through.

45 CFR 98.11 states: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors and (6) Monitor programs and services."

We recommended that the Audit Division implement a formal process for communicating to management fraud-related or internal control concerns that rise to the level of making a recommendation for further action. We recommended that FSSA implement a formal process for reviewing fraud-related or internal control concerns raised by the Audit Division, articulate appropriate review criteria and document decisions accordingly. If a decision is conditioned on the implementation of additional procedures such as monitoring, the implementation should be followed through.

Status of Finding as of September 2004:

Recently FSSA established an Interdisciplinary Program Review Team (PRT) for all programs. These teams recently began meeting to consider new contracts, the budget, and major policy changes. Minutes are taken and kept for these meetings. Audit is represented on each of these teams. In addition, Audit is represented on numerous CCDF Steering Committees to ensure a more balanced perspective on any issues or potential procedural changes. Minutes are kept and distributed in order to ensure management's involvement in any concerns/risks raised by Audit or other support areas.

As previously reported, another written communication tool used between Audit and program management is the management letter. Management letters require a response that includes a corrective action plan that address audit's concerns. Audit reports that are issued also require timely corrective action plans.

We believe that the corrective actions taken resolve this finding.

FINDING 2003 - FSSA-11, CHILD CARE AND DEVELOPMENT FUND (CCDF) – OFFICE OF GENERAL COUNSEL

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Care Cluster
CFDA Number: 93.575, 93.596
Auditee Contact Person: Lanier DeGrella
Title of Contact Person: Deputy Director, Bureau of Child Development
Phone Number: 317-234-2250
Compliance Requirement: Allowable Costs/Cost Principles
Internal Control: Reportable Condition

Finding:

During the audit period, we found that control weaknesses in the communications process between the Office of General Counsel and program staff at the Bureau of Child Development (BCD) resulted in legal advice being issued that was not based on all available facts and/or not reviewed by senior program management prior to implementation. We found that some legal advice could no longer be located. In some cases advice had been issued by e-mail without taking steps to preserve a hard copy or archived electronic copy in easily retrievable form. In addition, we found that the communications process at times resulted in divergent perceptions among program and legal staff regarding the content of legal advice provided.

We identified the following instances during the audit period in which the Office of the General Counsel provided legal advice to the BCD under circumstances that indicate control weaknesses in the communications process:

- After losing its appeal of a license revocation issued in response to a child's death while in the provider's care, a provider continued to provide daycare to CCDF clients for approximately three weeks after the provider's license revocation was final. BCD sought advice from the Office of General Counsel when the provider threatened to sue for payment for services provided. The attorney who advised BCD was not aware that appeals procedures at the Licensing Section also affected the provider's status under IC 12-17.2-3.5 (the "minimum standards" statute), which sets eligibility standards for the CCDF voucher program. Specifically, the Licensing Section grants an automatic extension of the annual minimum standards inspection pending the outcome of an appeal. If the decision to revoke the license is upheld, the minimum standards inspection lapses at the same time the license revocation is final, unless the provider has made separate arrangements to qualify as a legally-licensed exempt in-home (LLEP) provider. Minimum standards inspections for LLEPs were performed during the audit period by the local Community and Childcare Resource & Referral (CCR&R) agent. Because the attorney did not have all available facts, based on the attorney's advice BCD issued a manual override of electronic payment controls to authorize payment.

- Based on the advice provided by the Office of General Counsel, during the audit period BCD program staff instructed local Office of Family and Children (OFC) directors that they could not share information regarding substantiated cases of abuse with voucher/intake agents unless the information was included in the central registry defined in IC 31-33-17. This registry contains a strictly defined subset of substantiated abuse cases, such as cases for which formal charges have been brought. Prior to the audit period, the model provider agreement recommended by BCD for use by voucher agents included (1) a waiver of the signing provider's confidentiality rights in cases of substantiated cases of abuse and (2) an acknowledgement that the provider's rights to participate in the CCDF voucher program may be terminated at the voucher agent's discretion under various circumstances, including a "pending abuse/neglect charge." This change in policy was implemented without the knowledge of senior management at the Division of Family and Children (DFC).

- Based on due process concerns raised by the Office of General Counsel, during the audit period the Licensing Section would not close down a licensed facility after revoking its license until after the appeals process was exhausted or abandoned by the provider. For the same reason, BCD would not deactivate any of the provider's CCDF vouchers during the same time frame unless the provider had committed a minimum standards violation under IC 12-17.2-3.5. The exception for minimum standards violations was based on additional legal research, completed by the Office of General Counsel, regarding how due process issues are affected by the minimum standards statute. However, neither the original nor additional research could be located when we requested it from the Office of General Counsel.

- During internal correspondence regarding BCD's decision to terminate a provider from the CCDF voucher program, legal staff from the Office of General Counsel raised multiple concerns regarding the consistency of BCD’s criteria and procedures for following through allegations of fraud. The concerns of legal staff were interpreted by program staff as a directive to stand down from the decision to terminate the provider from the CCDF voucher program. Instead, a repayment agreement was set up for approximately

> $18,000 in services that had been billed but not provided. In the correspondence, legal staff cited as precedent another situation in which a repayment agreement "only" had been negotiated with a voucher agent, without reference to additional consequences imposed by BCD (including a change in executive management, internal controls, and organizational structure) on this voucher agent. The correspondence was documented by e-mail only. No follow-up communication addressed the ongoing issue of establishing reasonable criteria that would resolve legal staff's concerns and preserve program staff's discretion to implement additional penalties for fraud.

The Office of General Counsel performs a critical role in establishing the control environment for management decisions at FSSA. Any control weaknesses in the communications process which potentially affect the content and implementation of legal advice provided by the Office of General Counsel weaken this environment.

45 CFR 98.11(a)(1) states: "The Lead Agency shall retain overall responsibility for the administration of the program." 45 CFR 98.11(b) states: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors and (6) Monitor programs and services."

We recommended that FSSA implement sufficient communication and review procedures to ensure that legal advice is (1) based on a thorough knowledge of the programs affected, (2) formally documented, and (3) implemented with the full knowledge of management. Such procedures should ensure that any ongoing concerns raised by legal staff are resolved in a manner which preserves program staff's discretion to act within appropriately set parameters.

Status of Finding as of February 2005:

The Bureau of Child Development routinely seeks advice from the Office of General Counsel (OGC). This communication is a vital piece in the day-to-day business of FSSA. The OGC agrees with the SBOA that recording any such advice is important, particularly in cases where it may be a change in how BCD conducts business, or conversely in cases where BCD may not desire to follow such advice. OGC attempts to obtain all the necessary facts before rendering any opinions, and will record the opinions. At times, OGC uses electronic mail to convey such messages, and will make every effort to keep and preserve these transmissions particularly when there is a turnover in staff. OGC will maintain its efforts to comply with the guidelines set forth by SBOA.

Furthermore, there have been organizational changes in the Bureau of Child Development that has improved the coordination of communication between the Bureau and OGC. The Bureau of Child Development is also committed to documenting correspondence, requests for legal opinion, and decisions that are made contrary to the legal advice provided.

FINDING 2003 - FSSA-12, MEDICAID REPORTING – RECONCILIATION ERRORS

Federal Agency: Department of Health and Human Services
Federal Program: State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number: 93.767 and 93.778
Auditee Contact Person: Ann Alley; Pat Nolting
Title of Contact Person: Director of SCHIP, FSSA and Director of Program Operations, OMPP, FSSA
Phone Number: 317-233-4390; 317-232-4318
Compliance Requirement: Reporting
Internal Control: Reportable Condition

Finding:

During our audit of FSSA's SCHIP/Medicaid federal report, CMS-64, we found that FSSA reported $9,659,261.60 less on the CMS-64 than the supporting financial records. The effect of this error on reporting could not be determined due to the inadequacy in the process of the supporting financial records. This is a control weakness. FSSA recognizes this inadequacy and is correcting the supporting financial records process.

45 CFR 74.21(b) states: " 'Recipients' financial management systems shall provide for the following: (1) Accurate, current and complete disclosure of the financial results of each HHS-sponsored project or program . . ."

We recommend that FSSA implement procedures to verify that amounts reported on the CMS-64 properly reconcile to accounting source records.

Status of Finding as of September 2004:

FSSA concurs that a reconciliation error occurred on a worksheet used to prepare the quarterly CMS-64 federal report. The sheet reconciling weekly invoices to current quarter expenditures reported on line 6 of the CMS-64 contained formulas which incorrectly added and subtracted items that were not included in the weekly invoices. These worksheets were modified to correct the formulas as of the QE 3/31/04 to prevent this error from reoccurring in the future.

This worksheet error was discovered during the 2002 audit period, however was not brought to the attention of OMPP until December 2002 thereby falling into the 2003 audit period. The worksheet changes made in the March 2004 CMS-64 clear up the reconciliation errors for both the 2002 and the 2003 audit findings.

We believe that this action resolves this finding.

FINDING 2003 - FSSA-13, RISK ALLOCATION/AUDIT LOG – MONITORING OF CONTRACTOR

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Audit Contact Person: Pat Nolting; Karen Filler
Title of Contact Person: Director of Program Operations, OMPP, FSSA; Long-Term Care Supervisor, OMPP, FSSA
Phone Number: 317-232-4318; 317-232-4651
Compliance Requirement: Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits
Internal Control: Reportable Condition

Finding:

FSSA contracts with an independent contractor, Clifton Gunderson, to perform audits of Medicaid eligible long-term care facilities. Clifton Gunderson generates an audit schedule monthly and provides it to FSSA. Based on various risk factors Clifton Gunderson informally rates each long-term-care facility as high, moderate or low audit risk. Each facility's audit risk rating is then used to determine the frequency of their audit schedule. However, each facility is to be audited at least once every three (3) years. During our audit of FSSA's Medicaid program, we found that FSSA does not monitor Clifton Gunderson's audit risk determination process of each long-term care facility. We also found that FSSA does not monitor the audit schedule to verify that all long-term care facilities have been audited at least once every three (3) years. As a result, FSSA could not determine that a long-term facility's assessed audit risk level was adequate nor could they verify that every long-term care facility was being audited at least once every three (3) years. This is a monitoring control weakness.

45 CFR 74.51 (a) states: "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

We recommended that FSSA monitor its contractor's audit risk determination process for long-term care facilities. In addition, we also recommended that FSSA monitor the audit schedules generated by their independent contractor to verify that all long-term care facilities are being audited at least once every three (3) years.

Status of Finding as of September 2004:

The Long Term Care Reimbursement Unit within the Office of Medicaid Policy and Planning is responsible for monitoring the Long Term Care Audit Contractor, Clifton Gunderson. Although the OMPP believes that there has been adequate monitoring of the auditing practice of enrolled long term care providers, the OMPP has implemented additional steps to identify and review an approval process conducted by the Long Term Care Reimbursement Supervisor.

The LTC Reimbursement Supervisor reviews the individual facility listing log kept by the audit contractor to ensure that all providers listed for selection are audited. The Supervisor further reviews the facility listing provided by Myers and Stauffer to Clifton Gunderson to ensure that all provider discrepancies are resolved and the facility selection log accurately reflects all current providers. Additional risk factor designations have been added to the facility log to quickly identify the criteria utilized for the provider audit selection.

The LTC Reimbursement Supervisor has requested an update for FYE 6-30-04 regarding the cumulative log of all audits performed during each contract year. This cumulative log will be combined with the facility log utilized for selecting audits and will also contain risk factors. This log will also include facilities that have closed, have changed ownership or are in bankruptcy and will be marked accordingly.

The OMPP believes that these steps resolve the finding.

FINDING 2003 - FSSA-14, MONITORING RECIPIENT FRAUD

Federal Agency: Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Auditee Contact Person: Pat Nolting
Title of Contact Person: Director of Program Operations, OMPP, FSSA
Phone Number: 317-232-4318
Compliance Requirement: Special Tests and Provisions - Utilization Control
Internal Control: Reportable Condition

Finding:

During our audit of FSSA's Medicaid Program we found that when a suspected case of recipient fraud is identified by Office of Medicaid Policy and Planning's (OMPP') surveillance and utilization review (SUR) contractor, it is referred to the Bureau of Investigation (B of I) located in FSSA's Office of General Counsel. However, the majority of potential Medicaid recipient fraud referrals are received by B of I from the local Offices of Family and Children (OFCs) managed by the Division of Family and Children (DFC).

DFC has established methods and criteria for local OFCs to identify, investigate, and where appropriate, refer for prosecution suspected cases of Medicaid recipient fraud. Caseworkers refer suspected cases of recipient fraud to the local Fraud Referral Coordinator (FRC) for initial review. The FRC may refer the case on to the B of I for additional investigation or directly to the county prosecutor, using criteria set by the county prosecutor.

DFC's Bureau of Program Integrity (BPI) performs quality control projects during which a sample of recipient files are tested to determine if the recipient's eligibility has been correctly determined. If BPI detects an error that may be due to misrepresentation by the recipient, BPI refers the file back to the local OFC. Neither BPI nor OMPP monitor the ultimate disposition of such files.

We found that, under the terms of the 1992 Memorandum of Understanding (MOU) between DFC and OMPP, DFC does not have any responsibility to report to OMPP regarding its Medicaid fraud referral activities. In addition, although the MOU provides for a liaison between DFC and OMPP, no liaison had been designated during the audit period.

Overall, methods and criteria for identifying suspected fraud cases are devised by the DFC, methods for investigating these cases are performed by the B of I, and procedures for referring suspected fraud cases to law enforcement officials are handled by DFC, B of I, and OMPP's SUR contractor. All of the above functions are not monitored by OMPP, with the exception of OMPP's SUR contractor. This is a monitoring control weakness.

42 CFR 455.13 thru 17 provides that the Medicaid agency must have - (a) methods and criteria for identifying suspected fraud cases; (b) methods for investigating these cases . . .; (c) procedures, developed in cooperation with State legal authorities for referring suspected fraud cases to law enforcement officials; and (d) responsibility for the oversight of all the recipient fraud activities.

We recommended that FSSA-OMPP monitor all Medicaid recipient fraud activities of the DFC, B of I, and BPI regarding the identification, investigation, and referral to law enforcement of suspected cases of Medicaid recipient fraud in order to fulfill its duties as the Lead Agency under 42 CFR 455 Subpart A. In addition, we further recommended that OMPP monitor the establishment of all methods and criteria for identifying suspected fraud cases, methods for investigating those cases, and procedures, developed in cooperation with State legal authorities for referring suspected fraud cases to law enforcement officials.

Status of Finding as of September 2004:

Finding 03-FSSA-14 reported a monitoring control weakness in the area of fraud activities, and maintained that additional oversight and review was necessary by the OMPP as the Lead Agency under 42 CFR 455 Subpart A. The OMPP concurred that there has been a failure to receive feedback on activities conducted by other offices related to recipient fraud. Efforts and communication have begun with FSSA's Office of General Counsel to develop additional processes to complete the informational circle so that the OMPP may be aware of dispositioning of all fraudulent activities, including recipient fraud that the Bureau of Investigations is involved with.

Further, it was identified that the coordination between the OMPP and the DFC regarding fraud activities was not addressed in the MOU between the two divisions. A revised MOU has now been completed to include this activity so that both divisions are sharing information. A point of contact, Angela Jackson, has also been designated as the liaison to support these procedures.

FINDING 2003 - FSSA-15, PROVIDER APPLICATION DISCLOSURES

Federal Agency: Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Auditee Contact Person: Pat Nolting
Title of Contact Person: Director of Program Operations, OMPP, FSSA
Phone Number: 317-232-4318
Compliance Requirement: Special Tests and Provisions - Provider Eligibility
Internal Control: Reportable Condition

Finding:

During our audit of FSSA's Medicaid Program, we found that certain required disclosures were not contained in the Medicaid provider application. Specifically the application did not include disclosures requiring the applying provider to disclose any information regarding the provider's relationship with its subcontractors, other Medicaid providers, or the relationships of the provider's owners to each other. In addition, we found that none of the required disclosures were being obtained from providers applying under the Waiver Program administered by the Division of Disability, Aging and Rehabilitative Services (DDARS). This is a control weakness.

42 CFR 455.104 states: "The Medicaid agency must require each disclosing entity to disclose the following information. . . :" prior to entering into a contract with a provider:

- "the name and address of each person with an ownership or control interest . . . in any subcontractor in which the disclosing entity has direct or indirect ownership of 5% or more"
- whether any persons so disclosed are "related to one another as spouse, parent, child or sibling" and
- "the name of any other disclosing entity in which a person with an ownership or control interest in the disclosing entity also has an ownership or control interest."

We recommended that FSSA require each provider to disclose all information as set out in the above disclosures from currently enrolled providers not subjected to the required disclosure process and all future applicant providers.

Status of Finding as of September 2004:

It was recommended that FSSA require each provider to disclose all information as set out in 42 CFR 455.104. The OMPP believes that this requirement was met in the provider agreement, however the Provider Application form has been revised to provide for a more comprehensible vehicle by which providers may disclose ownership and relationship information in a standard format to fulfill the regulation requirements. The revised form now includes Schedule C.1 – C.3 which allows a provider to fill out fields specific to the direct or indirect nature of ownership interests in a prospective or current provider entity or subcontractor, as well as disclosing the relationships of principal managers and owners. This new Provider Application will go into effect by October 15, 2004.

The issue of Waiver providers failing to disclose information will be addressed in response to Finding 2003-FSSA-16.

FINDING 2003 - FSSA-16, ONGOING VERIFICATION OF PROVIDER MEDICAL LICENSES

Federal Agency: Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Auditee Contact Person: Pat Nolting
Title of Contact Person: Director of Program Operations, OMPP, FSSA
Phone Number: 317-232-4318
Compliance Requirement: Special Tests and Provisions - Provider Eligibility
Internal Control: Reportable Condition

Finding:

FSSA's Medicaid Program contracts with an outside contractor, EDS, for determining provider eligibility. During our audit of FSSA's Medicaid Program, we found that the current status of provider medical licenses was not verified by EDS on a consistent basis. The Indiana Health Professions Bureau (IHPB) maintains a centralized database of health profession licenses. IHPB transmits to EDS on a monthly basis an electronic list of active licenses. EDS used this file to verify that new Medicaid providers applying for enrollment were licensed. However, EDS did not use this file to verify that the licenses of active providers were current. In one instance, we discovered a provider that remained actively enrolled whose license had been revoked more than two years previously. Upon inquiry, we found that EDS performed a limited verification of license revocations using manual procedures. However, these manual procedures were insufficient to assure that providers without a current license would be determined ineligible on a consistent basis. This is a control weakness.

42 CFR 440 Subpart A includes definitions of the various medical services eligible for reimbursement under Medicaid. 42 CFR 440.50 defines physicians' services as "services furnished by a physician . . . by or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

We recommended that FSSA implement procedures to ensure that providers whose medical licenses are not current do not remain eligible for participation in Medicaid.

Status of Finding as of September 2004:

Finding 03-FSSA-16 identified a lack of support to ensure current licensure of Medicaid providers. This issue was due to incomplete data sharing between the HPB and the EDS that required system modifications which allowed for additional information regarding changes of license status on a monthly basis. The system changes are in place, and reconciliation reports are now being generated and worked to identify all matching and non-matching license numbers as well as the current status of the license so that EDS may update the provider file to reflect current licensure monthly. Termination procedures of inactive providers are being fully implemented so that a standard method of closure is followed.

In addition, this Finding recommended that OMPP ensure verification of the licensure of all providers enrolled in the Waiver program and who may have met varying enrollment requirements. It is the intention of the OMPP to re-enroll all Waiver providers through a standard process developed and coordinated by all interested agencies. All Medicaid providers will be held to the same requirements. The Waiver providers will be required to complete the revised Medicaid provider application and disclose as required by 42 CFR 455.104 during this re-enrollment process. This process should be concluded by February 2005.

FINDING 2003 - FSSA-17, COST REPORT LISTS – MONITORING OF CONTRACTOR

Federal Agency: U.S. Department of Health and Human Services
Federal Program: State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number: 93.767 and 93.778
Audit Contact Person: Pat Nolting
Title of Contact Person: Director of Program Operations, OMPP, FSSA
Phone Number: 317-232-4318
Compliance Requirement: Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits
Internal Control: Reportable Condition

Finding:

FSSA contracts with an independent contractor, Myers and Stauffer, to receive cost reports from Medicaid hospital providers and perform desk review audits of those cost reports. The cost reports are used to calculate Medicaid reimbursement rates for inpatient hospital services known as Diagnosis Related Groups (DRG). During our audit of FSSA's Medicaid program, we found that FSSA does not monitor Myers and Stauffer to verify that all cost reports are received and that all cost reports received are also reviewed. As a result, FSSA did not confirm that cost reports supporting the DRG data were actually audited. This is a monitoring control weakness.

45 CFR 74.51 (a) states: "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

We recommended that FSSA monitor its contractor to verify that all cost reports are received and all cost reports received are also reviewed.

Status of Finding as of September 2004:

In the Myers and Stauffer's monthly invoice, a list is included that indicates which cost reports were received from providers during the month and which desk reviews of the cost reports have been completed during the month. Once a month, the OMPP conducts an onsite visit at Myers and Stauffer to verify the cost report list and the desk review list. The OMPP maintains a log that shows the verification results and highlights any discrepancies.

This log includes separate columns that show information regarding the OMPP's evaluation of Myers and Stauffer's desk reviews. Specifically, these columns show: 1) the desk review that was randomly selected for OMPP's evaluation, 2) an explanation of the outcome of the Myers and Stauffer desk review, and 3) any findings as a result of OMPP's evaluation of the desk review.

FINDING 2003-FSSA-18 UNSUPPORTED CLAIMS

Federal Agency: Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Auditee Contact Person: Pat Nolting
Title of Contact Person: FSSA and Director of Program Operations, OMPP, FSSA
Phone Number: 317-232-4318
Compliance Requirement: Activities Allowed or Unallowed

Finding:

Family and Social Services Administration (FSSA) Medicaid Program contracts with an outside contractor, EDS, for Medicaid claims processing. During our audit of FSSA's Medicaid program we found two claims where EDS could not provide the supporting documentation. Upon further review, we found that all supporting documentation for all 'Day versus Humphrey' lawsuit claims prior to November 18, 2002, were not available for audit. We were told by EDS staff that the supporting documentation was discarded. Upon further inquiry of FSSA, no evidence to the contrary could be provided. As a result, we then requested a list from FSSA of all applicable payments prior to November 18, 2002. Subsequent to our exit conference with FSSA, FSSA notified us that all claims prior to November 18, 2002, except for twelve claims totaling $10,976.19 ($6,809.63 federal portion), were located. The located claims were made available for inspection. The allowability of the twelve unlocated claim payments could not be determined.

42 CFR 433.32 provides that the Medicaid agency must maintain the supporting fiscal records to assure that claims for Federal funds are in accord with applicable Federal requirements.

We recommended that FSSA ensure that EDS retains all necessary supporting claim documentation and that all claims be available for timely audit.

Status of Finding as of September 2004:

EDS was unable to obtain documentation in support of the twelve claims for which payments were made to recipients on July 24, 2002, under the provisions of the Day lawsuit. The claims payment procedures that were put in place for handling the Day-related recipient claims were outside of the normal procedures used for claims processed through Indiana AIM. For example, these claim requests were not assigned internal control numbers nor were the submitted documents microfilmed. Therefore, there was no electronically maintained history of what was submitted for payment. On the one day cited in this finding, the paper claims documentation was misplaced and could not be located. This was a one-time-only error related to a one-time only claims payment process. We concur with this error and intend to refund the federal portion of the total claims value of these twelve undocumented claims. Once refunded, OMPP will consider the matter closed.

FINDING 2003 - FSSA-19, DUPLICATE FORCED LONG-TERM CARE CLAIMS

Federal Agency: Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Auditee Contact Person: Pat Nolting
Title of Contact Person: FSSA and Director of Program Operations, OMPP, FSSA
Phone Number: 317-232-4318
Compliance Requirement: Activities Allowed or Unallowed
Internal Control: Reportable Condition

Finding:

Family and Social Services Administration (FSSA) Medicaid Program contracts with an outside contractor, EDS, for Medicaid claims processing. During our audit of FSSA's Medicaid program we found a long-term care claim that was erroneously paid by the Medicaid claims processing system (AIMS) for a bedroom accommodation service code for the same recipient and the same dates of service as another previously paid claim. Thus, the provider billed and was paid for the same recipient occupying more than one bed for the same dates of service. AIMS properly suspended this claim as a possible duplicate claim. However, the duplicate claim was then erroneously forced to be paid by an EDS resolutions analyst. We found multiple duplicate claims that were forced to be paid under similar circumstances. Medicaid Policy allows a provider to be reimbursed a maximum of one unit of service for an accommodation code for long-term care claims. Upon further review we found that EDS stated that the resolutions analyst had not been properly trained in such circumstances. This is a control weakness. These claims totaled $417,058.37 for state fiscal year 2003. All but $28,081.42 have been recouped.

45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes.

We recommended that FSSA ensure that resolution analysts are adequately trained to properly audit claims in compliance with Medicaid policy. We consider the amount of $17,402.06 (the federal portion of the $28,081.42) to be a questioned cost.

Status of Finding as of September 2004:

The claims that were inappropriately forced to paid status have been reviewed and adjudicated appropriately. In cases of overpayment, program reimbursement procedures have been followed. The system change order, CO 357, to create a trending analysis report has been written and is in the process of being implemented. This report will allow the OMPP and the EDS claims management team to review percentages of claims paid and denied for various claim types and compare historical levels of adjudication and peer analysis. This will identify more quickly and efficiently claims processing performances that are not within a standard range and will lead on-going training on a continual basis.

FINDING 2003 - FSSA-20, MEDICAID – NON-COMMUNITY MENTAL HEALTH CENTERS

Federal Agency: Department of Health and Human Services
Federal Program: Medical Assistance Program
CFDA Number: 93.778
Auditee Contact Person: Pat Nolting; Karen Kinder
Title of Contact Person: Director of Program Operations, OMPP, FSSA; Director of Budget and Finance, FSSA
Phone Number: 317-232-4318; 317-234-0197
Compliance Requirement: Activities Allowed or Unallowed

Finding:

During our audit of FSSA's Medicaid program we found that FSSA certified non-Community Mental Health Center (non-CMHC) claims for state match for Medicaid federal reimbursement under the authority of 42 CFR 433.51. This CFR cite only allows certification for state match for public agencies. non-CMHCs are not public agencies. Therefore, certifying claims for state match for a non-CMHC is an unallowable process. In addition, non-public agencies are not allowed to provide Medicaid administrative services, unless it is under contract. The State did not have a contract with the non-CMHCs to provide Medicaid administrative services. Because the non-CMHCs were not public agencies and they did not have a contract to provide Medicaid administrative services, all Medicaid federal reimbursement for administrative services paid to the non-CMHCs are unallowable.

Furthermore, FSSA retained a 10% administrative fee of the federal portion claimed by the non-CMHCs. The corresponding 10% administrative fee was based on the unallowable federal portion of the claims and would therefore also be unallowable.

Effective for the quarter ending June 30, 2003, FSSA ceased paying non-CMHCs for Medicaid administrative claims and claiming the 10% administrative fee. These claims totaled $685,849.86 for state fiscal year 2003.

42 CFR 433.51 requires that certified claims are only allowable for public agencies. In addition, 45 CFR 74.21 requires that recipients of program funds assure that the funds are used solely for authorized purposes.

We recommended that FSSA not allow non-CMHCs to certify claims for state match for federal reimbursement, not reimburse the non-CMHCs with federal monies for Medicaid administrative services, and that FSSA not retain an administrative fee based on the corresponding unallowable claims. We consider the amount of $685,849.86 to be a questioned cost.

Status of Finding as of September 2004:

In May 2003, the Centers for Medicare and Medicaid Services (CMS) contacted the Office of Medicaid Policy and Planning (OMPP) about the method FSSA was using to certify non-CMHC state match for Medicaid administrative activities in the MHFRP. OMPP and the Division of Mental Health and Addiction (DMHA), which oversees the day-to-day operation of the MHFRP under a Memorandum of Understanding with OMPP as the single state Medicaid agency, withdrew the submission of non-CMHC claims in the MHFRP at that time and entered into a dialogue with CMS about the state match certification process. The non-CMHCs are not public agencies and they do not certify expenditures for state match. 42 CFR 433.51 permits public funds to be considered as the State's share in claiming FFP (federal financial participation) if the public funds are certified by the contributing public agency as representing expenditures eligible for FFP. DMHA certified that appropriated state funds had been paid to non-CMHCs. These funds were to serve as state match for the MHFRP.

The non-CMHCs do have a contract with FSSA to provide Medicaid administrative activities that are eligible for FFP. Sub-service attachment MHFR2-NonCMHC to the Hoosier Assurance Plan contract lists the special conditions for participation in the Mental Health Funds Recovery Program. Item 4 reads:

> "The Contractor understands and agrees that only those administrative activities that meet the activity definitions/descriptions specified in the Time Study Activity Codes, and Cost Allocation Plan submitted by the State and approved by CMS, and subject to Office of Management and Budget (OMB) Circular A-122 and 45 CFR Parts 74 and 95, all as may be amended from time to time, shall be eligible for reimbursement under the 'Program'."

> The sub-service attachment further states:

> "The DMHA may certify the availability if State Match on behalf of the Contractor pursuant to 42 CFR 433.51, as follows;

> a. The DMHA may identify an amount to be set aside and held as dedicated state match funds for the "Program", on behalf of the Contractor as the estimated portion of the State Match for allowable activities under the "Program".

> b. The total dollar amount claimed as FFP shall not exceed an amount for which State match is available and certified by DMHA, if any, as specified above."

FSSA in working with CMS considers this finding resolved with CMS. FSSA continues to work with CMS to develop a certification methodology that meets CMS' expectations to permit future claiming of non-CMHC recoveries for Medicaid administrative activities.

FINDING 2002 - DWD-1, Grant Receipts

Federal Agency: Department of Labor
Federal Programs: Workforce Investment Act Cluster
CFDA Numbers: 17.258, 17.259, 17.260
Auditee Contact Person: Diana Gushrowski
Title of Contact Person: Interim Deputy Commissioner of Finance and Administration/Controller, DWD
Phone Number: 317-232-7675
Compliance Requirement: Period of Availability
Internal Control: Reportable Condition

Finding:

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, subpart C, requires that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period. The grantee must liquidate all obligations incurred under the award not later than ninety days after the end of the funding period to coincide with the submission of the annual Financial Status Report. [29 CFR 97.23 (a) and (b)] Subpart D, requires that the grantee must immediately refund to the federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants. [29 CFR 97 50 (d)(2)]

At June 30, 2002, we determined that the Department of Workforce Development's records of total federal receipts for the Workforce Investment Act (WIA) program exceeded that of the federal records per the Payment Management System (PMS) by $1,358,197. To determine the source of the variance, DWD compared each receipt entry recorded in the WIA ledgers for the period July 1998 to June 2002, to the federal records of drawdowns per the PMS 272-E report. DWD identified the variance as the net result of the following:

1. A total of $1,579,134 consisted of transfers to WIA ledgers of excess receipts and cash balances held in closed JTPA ledgers for grant years P94 to P97. The transfers were recorded in DWD's accounting records in May 2002 and did not have corresponding adjusting entries to the federal PMS records.

2. A total of $213,754 was identified as having been drawn down from PMS awards for closed Dislocated Worker projects, but was recorded as revenue to WIA grant ledgers. These projects were not fully expended, yet the PMS records for A1893334A (Grissom) show the award as issued in full, and the draws issued for A189668S (Maytag) exceeded the expenditures.

3. A total of $434,691 was identified as owed to WIA ledgers on DWD's records, as the WIA draws were incorrectly recorded to ledgers for the Employment Service (17.207), School to Work (17.249), and Labor Certification for Alien Workers (17.203) programs.

We also found federal receipts posted during fiscal 2002 to an expired Dislocated Workers program ledger (7460 P97) that resulted in a cash balance of $48,013. Additionally, several P96 and P97 ledgers of the Dislocated Workers program retained negative cash balances going back to at least June 2000, which total ($46,569).

The errors were not identified by DWD in the course of business, as the receipt reconciliation between the PMS system 272 reports to the DWD records were incomplete for the account that included JTPA, WIA, ES, and School to Work. The reconciliation did not ensure that the grant receipts were posted to the correct grant award ledger, or program year of funds and did not compare the cumulative totals reported. The DWD grant closeout procedures were also incomplete for the JTPA and WIA grants. Even though final expenditure reports were filed, cash balances remained and receipts were not agreed to the federal records. Transfers of receipts and cash were also recorded on DWD records without assessing the need for corresponding transfers on the federal payment management system.

We recommended that DWD perform the necessary adjustments either to the federal records or the agency accounting records, as appropriate, in order to have the federal receipt records agree for each grant award. Refunds may be required for the draws obtained from expired funding periods. Reconciliation procedures should ensure that receipts are recorded to the correct grant ledger and fiscal year of funding. Closeout procedures must include analysis of cumulative cash receipts, and refund cash balances in accordance with 29 CFR 97(d)(2).

Status of Finding:

We made adjusting entries on our accounting system, Financial Accounting and Reporting System (FARS) or PMS and refunds to the USDOL as necessary that resolves the $1,358,197 variance cited as the net result of items 1 through 3 listed in this finding.

We corrected a duplicate revenue entry made in June 2002 on batch number 16 effective with our July 2002 reports and made an adjusting entry in November 2002 per batch number 516 that resolved the $48,013 cash balance for the Dislocated Workers program ledger (7460 P97). Additionally, we made adjusting entries for the several P96 and P97 Dislocated Workers program ledgers cited as having negative cash balances on batch number 525 in March 2003.

We have performed quarterly total receipts reconciliations since September 30, 1998. The Analysis and Reconciliations Unit (ARU) revamped its quarterly PMS to FARS revenue reconciliation for WIA funds to include the PMS subaccounts effective with the March 31, 2003, reconciliation. This reconciliation is now completed by PMS subaccount to FARS grant ledger and fiscal year. This change in the reconciliation format will help us to ensure that receipts are recorded correctly to our accounting system and help us to identify errors needing adjustments so that they can be made more timely.

Also, we have completed cumulative WIA receipts reconciliations between FARS and PMS for the periods ending March 31, 2003, June 30, 2003, and September 30, 2003, and we will continue to complete these reconciliations quarterly. These reconciliations were completed from P92 funds forward on FARS to their corresponding PMS subaccounts. We have made FARS or PMS adjustments and refunds as necessary that were identified from these reconciliations. However, we continue to have a FARS versus PMS total receipts difference of $1,529,062 (FARS receipts greater than PMS receipts) as of the September 30, 2003, reconciliation. We believe this difference pre-dates FARS and for this reason moved this difference to its own ledger (P96 7320). Additional research could not pin point a cause of this discrepancy, so DWD returned the funds to the Department of Labor on June 17, 2004.

The Grant Accounting and Budget and Analysis Units have established procedures to use a checklist including a worksheet to reconcile cumulative cash receipts between FARS and PMS at grant closeout.

DWD has made tremendous improvements to its reconciliation processes since February 28, 1997, upon establishment of the ARU. We shall continue to implement changes to our processes as necessary that will help us to ensure high levels of accountability and accuracy with our accounting system.

FINDING 2003 - IDOE -1, ALLOWABLE COSTS

Federal Agency: Department of Education
Federal Program: Title 1
CFDA Number: 84.010
Auditee Contact Person: Alice Harpel
Title of Contact Person: Director of Title 1, Division of Compulsory Education
Phone Number: 317-232-2595
Compliance Requirement: Allowable Costs/Cost Principles

Finding:

The Indiana Department of Education (DOE) is the state educational agency (SEA) who administers Title 1 funds to the local educational agencies (LEAs). DOE incurs Title 1 administrative costs associated with the program and pays settlements through claims processed by the Auditor of State.

During our audit of the Title 1 allowable costs requirement, we found that DOE has been paying for personal services through claims for "honorariums" to a retired DOE employee. The individual retired as of May 23, 2003, and began "honorarium" services on May 27, 2003. DOE processes these claims through their internal Request for Approval of Nonpayroll Personal Services form, which DOE refers to as the "yellow sheet." The "yellow sheet" contains objectives and activities for "honorarium" services and department approval for authorization of such services.

Per OMB A-87, costs must be reasonable and necessary for the performance and administration of Federal awards. The daily rate for services on these "honorarium" claims is $500 per day. That is more than twice the rate the individual was being paid as an employee when the cost of fringe benefits is considered. The objectives and activities stated on the claims for services provided are virtually identical to those services the individual performed as an employee. In addition, the documentation does not support that payments of these "honorarium" services are only temporary. As of February 1, 2004, for the period June 6, 2003, to January 8, 2004, DOE has paid claims to this individual in the amount of $48,500.00.

We determined that a reasonable rate of pay should be based on the individual's salary at time of retirement and, since the cost of fringe benefits are allowable, if reasonable, the cost of fringe benefits at an estimated forty percent of his/her salary. We calculated that a reasonable payment for the ninety-seven days of service from May 27 to December 30, 2003, should be $21,327.39.

OMB A-87, Attachment B, Selected Items of Cost, Compensation for Personal Services (11b), states in part: "Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit."

As of February 1, 2004, we consider the amount of $27,172.61 to be a questioned cost. We recommended that DOE ensure that Title 1 funds are used only for reasonable costs.

Status of Finding:

As noted in our response of March 29, 2004, we disagree with this finding.

Because of the complex and intricate Title I allocation formula and the attendant fiscal processes, it was necessary to obtain additional fiscal services to assist our Title I staff. Instead of contracting with a financial consulting services company that specializes in educational fiscal consulting and accounting services, we engaged the services of a former employee. The rate the consulting company, Education Services Company, would have charged was verified at $160 per hour, plus expenses. This amount is considerably higher that the rate we paid to our former employee. Also, a consultant employed by Education Services Company would not have had the experience and depth of knowledge of the Title I program that our former employee had; therefore we would have paid for additional time while the consultant became familiar with the Title I regulations.

As we stated in our response, we believe the payments to our former employee were not only reasonable and met the requirements of OMB A-87, but were less than we would have paid had we utilized another source. The individual in question is no longer being paid by claim voucher or receiving the questioned daily rate.

We have responded to an inquiry dated February 25, 2005, from the U. S. Department of Education regarding this finding. We have provided them with additional information and documentation.

FINDING 2003 - IDOE -2, ALLOCATION OF EXPENDITURES

Federal Agency: Department of Education
Federal program: Improving Teacher Quality State Grants, Title 1
CFDA Number: 84.367, 84.010
Auditee Contact Person: Yvette Hauser
Title of Contact Person: Director of Accounting, IDOE
Phone Number: 317-232-0511
Compliance Requirement: Allowable Costs/Cost Principles

Finding:

During our testing of expenditures, we found disbursements for computer hardware and software, some of which was allocated across various federal programs that benefited from the items purchased. There was no calculation method with a reasonable allocation base used to determine the amounts charged to the Improving Teacher Quality State Grants or Title 1 programs.

According to OMB Circular A-87, Attachment A, to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of OMB Circular A-87 and be determined in accordance with generally accepted accounting principles. A cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

According to OMB Circular A-87, Attachment C, indirect costs allocations must be allocated based on a reasonable and consistent basis, and supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

The amount of costs assigned to the Improving Teacher Quality State Grants program is $10,000.00. The amount of costs assigned to the Title 1 program is $60,000. These amounts are questioned costs for the respective programs.

We recommended that IDOE use a cost allocation base and calculation that complies with the requirements of OMB Circular A-87 and determine if any funds need to be returned to the respective programs.

Status of Finding:

In fiscal years 2002 and 2003, it was necessary for us to make extensive upgrades to our IT system in order to meet the data collection and reporting requirements of both State and federal education accountability laws and ensure the security and integrity of our system. A combination of State funds and federal grant funds was used to pay for these upgrades. Based on the aims and objectives of the Title I and Improving Teacher Quality grants, and the requirements of the federal No Child Left Behind Act (NCLBA), we believe the costs assigned to these two programs was fair and reasonable.

These two federal programs address fundamental components of the NCLBA and the administrative funds they provide are to help enable state education agencies to meet the stated requirements of the NCLBA, including data collection and reporting. Based on these program purposes, we feel the charges represented reasonable allocations.

In the future, when an expenditure is to be assigned to multiple funding sources, and these sources include federal funds, we will be sure that all costs meet the provisions of OMB circular A-87.

We have responded to an inquiry dated February 25, 2005, from the U.S. Department of Education regarding this finding. We have provided them with additional information and justification.

FINDING 2003 - IDOE -3, ALLOCATION OF SALARY EXPENSE

Federal Agency: Department of Education
Federal program: Improving Teacher Quality State Grants
CFDA Number: 84.367
Auditee Contact Person: Tracy Brown
Title of Contact Person: Fiscal Officer, Center for School Improvement, IDOE
Phone Number: 317-232-6974
Compliance Requirement: Allowable Costs/Cost Principles

Finding:

During our testing of expenditures, we found five employees paid completely out of the Improving Teacher Quality State Grants [ITQSG] program that were not working solely on the program. Four of these worked on the ITQSG program and other Federal programs. One did not work on any Federal program, but was paid from the ITQSG program between July 2003 and February 2004.

According to OMB Circular A-87, Attachment B, section 11(h)(4), where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards of section 11(h)(5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency as defined in section 11(h)(6).

According to OMB Circular A-87, Attachment B, section 11(h)(1), charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

The amount of salaries and fringe benefits, calculated at an estimated 32% of salary paid, for the four employees working on the ITQSG program and other Federal programs is $127,402.61 for the year ending June 30, 2003. The amount of salaries and fringe benefits, calculated at an estimated 32% of salary, for the employee working solely on non-Federal activities is $18,173.38. This is a total questioned cost to the ITQSG program of $145,575.98.

We recommended that IDOE determine the distribution of these employees' salaries and fringe benefits that complies with the requirements of OMB Circular A-87 and determine the amount of funds to be returned to the Improving Teacher Quality State Grants program.

Status of Finding:

We have implemented corrective action for this finding. The one individual who was incorrectly paid from Teacher Quality grant funds during part of fiscal year 2004 was moved to State funding effective with the pay date of February 25, 2004, and a total of $18,421 in salary and fringe benefit charges was reimbursed to the federal grant.

Five other individuals who work with multiple federal programs will be paid from a single source, but their salaries and fringe benefit charges will be pro-rated among the appropriate programs. Charge backs will be processed through the State Auditor's Office by journal voucher. Actual work activity and production will serve as the basis for the pro-rated amounts.

STATE OF INDIANA
SECTION II CORRECTIVE ACTIONS

The following are the corrective actions for section II findings.

FINDING 2003 - CAFR-1, CAPITAL LEASES

State Agency: Indiana Department of Administration
Auditee Contact Person: Jeff Underwood
Phone Number: 317-234-2409

In recognition that there was a possibility that some leases might not be included and in response to an audit finding by the Board of Accounts we included as a goal for the State's e-procurement project the capture of all leases in the State's procurement database. This project was implemented in October 2004. The new process requires that all agencies subject to or utilizing Department of Administration Procurement Division to enter all purchases above $500 for points 3, 4, and 5 into PeopleSoft via a requisition and then issue a PeopleSoft Purchase Order. Beginning with fiscal year 2005 the Department of Administration will be able to run a report that captures all purchases that might be eligible for consideration as a capital lease. For the 2004 fiscal year, we utilized the survey process that has been used in past years.

FINDING 2003 - CAFR-2, INFRASTRUCTURE

State Agency: Indiana Department of Transportation
Auditee Contact Person: Tony Hedge
Phone Number: 317-232-5358

Since the implementation of the GASB34 reporting requirements, INDOT has continued to work with the auditors in developing procedures for reporting infrastructure activity. The Auditors and INDOT staff have continued to refine the GASB34 reporting model for Fiscal Year 2005. Specific procedures are being developed and implemented to ensure that all applicable infrastructure assets from July 2004 be included on the Auditor of State's capital asset system. Thereafter, INDOT staff will document the process and procedures.

"People helping people help themselves"

Mitchell E. Daniels, Jr., Governor
State of Indiana

Indiana Family and Social Services Administration
402 W. WASHINGTON STREET, P.O. BOX 7083
INDIANAPOLIS, IN 46207-7083

E. Mitchell Roob Jr., Secretary

To: Mitchell E. Daniels, Jr., Governor
State of Indiana

Charles Johnson III, State Examiner
State Board of Accounts

From: E. Mitchell Roob, Jr., Secretary EMR
Family and Social Services Administration

Date: March 30, 2005

Re: Response to State Board of Accounts' Audit for Period ending June 30, 2004

Attached is the FSSA response to the State Board of Accounts audit for the period ending June 30, 2004. This report identifies some weaknesses within FSSA that management is committed to correcting.

However, this audit report does not reflect the serious weaknesses of FSSA processes. The problems identified by new management since January 10, 2005 are numerous. Existing process controls and administrative oversight are not consistent with common business practices. We have been surprised by the depth and breadth of the problems.

We are equally surprised this current SBOA report or previous audits do not identify more material weaknesses in FSSA programs and processes. It appears many complicated issues and concerning trends have not been reviewed or reported. Rapid growth in Food Stamp participation and increasing Medicaid population are both inconsistent with the economic health of Indiana. Auditors are evidently aware that FSSA expenditure trends are inconsistent with the state's economic data. Explanations for these and other negative trends continue unanswered.

Further, we find the severity of the report's findings to be inconsistent with auditing staff comments made during the exit conference. Apparently additional knowledge and information is known, but not documented in the audit report. All critical information must be shared with management so that corrections can be made.

It is the intention of FSSA management to effectively correct all known weaknesses and inefficiencies within FSSA. We will ensure all programs and processes are fully compliant.

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
4TH FLOOR, ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.state.in.us/sboa

TO: E. Mitchell Roob, Jr., Secretary
Family and Social Services Administration

FROM: Charles Johnson III, State Examiner
State Board of Accounts

DATE: April 4, 2005

RE: FSSA Audit Response Memo dated March 30, 2005

Your response to the audit findings of the major federal programs administered by FSSA which are included in the statewide A-133 report as required by the U. S. Office of Management and Budget has made us aware that some confusion might exist in the understanding of the scope of this particular audit report. The response also brought to our attention a situation of which we were unaware and which may result in the expansion of one of our findings.

OMB Circular A-133 requires the auditor to audit major federal programs as defined in the Circular, and to limit the audit report to findings regarding those major programs with certain exceptions. If the state agency has already reported specific issues to the federal government, the auditor is not required to duplicate this reporting.

The State Board of Accounts also issues a compliance audit report for FSSA, in addition to management letters regarding weaknesses in computer systems. Our staff is continuing to work on these projects. Unfortunately, due to our limited staffing and the necessity to allocate staff to other state agencies as well, we cannot address FSSA issues in the depth to which we would prefer. That is one of the reasons why self-monitoring is such an important element of any agency; we have reported this as a deficiency in several of FSSA's prior compliance and federal reports. An agency's internal audit staff is a necessary tool to reveal inadequacies in certain processes. This is especially true of internal controls as internal auditors are there to review systems to determine if they comply with management's objectives. Our review of internal controls is for the sole purpose of meeting audit objectives.

In relation to comments presented verbally at the exit conference, we are discussing the nature of these comments and also why they were not included in the written report. If we find that sufficient audit evidence exists to support additional comments, we will revise the report accordingly.

If additions are necessary, we will call your office to set up a meeting to discuss these revisions.

cc: Governor Mitchell E. Daniels, Jr.

FINDING 2004-FSSA-1 SOCIAL SECURITY–DISABILITY INSURANCE

Federal Agency:	Social Security Administration (SSA)
Federal Program:	Social Security--Disability Insurance
CFDA Number:	96.001
Auditee Contact:	Patricia A. Carew-Ceesay
Title of Contact Person:	Deputy Director, Disability Determination Bureau (DDB)
Phone Number:	317-396-2007
Compliance Requirement:	Reporting

Audit Response:
FSSA Finance has implemented procedures to verify that amounts reported on form SSA-4514 properly reconcile to the source records. Finance will export the source records to a spreadsheet and create totals to verify the computer generated SSA-4514 report is correct.

FSSA Finance has revised all reports that were generated incorrectly and submitted them to the Disability Determination Bureau. Reports will also be submitted to SSA. This audit finding has been addressed and corrected.

FINDING 2004-FSSA-2 VOCATIONAL REHABILITATION SERVICES FUND (VR) – IRIS SYSTEM

Federal Agency:	U.S. Department of Education
Federal Program:	Vocational Rehabilitation Services
CFDA Number:	84.126
Auditee Contact Person:	Mike Hedden
Title of Contact Person:	Deputy Director, Vocational Rehabilitation Services
Phone Number:	317-232-1523
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Audit Response:
VR initially became aware of fiscal anomalies referenced in this audit in June 2004. The FSSA Office of General Counsel was immediately contacted to begin an internal investigation of the VR counselor in question. The anomalies were discovered via a combined routine review by the VR Region Manager, the Indiana Rehabilitation Information System (IRIS), and the Claims Management Unit of the Division of Budget and Finance. The investigation of this counselor is on-going to date.

VR has completed a fiscal review of all other VR Counselors statewide. No significant discrepancies have been found. Actions were initiated to assess potential areas of fiscal abuse or inappropriate expenditures, and a variety of safeguards have been implemented.

Effective January 1, 2005 VR Area Supervisor responsibilities were expanded to provide closer monitoring and approval of VR services and expenditures through the Individualized Plans for Employment (IPEs). Fiscal monitoring and management requirements were also tightened at all levels of the Agency.

IRIS reports (Report 290 & 294) specifically identify potential inappropriate financial relationships between Counselors and Vendors. These reports are monitored by Area Supervisors, Region Managers and VR Administration regularly. Counselors and Supervisors have received training regarding informed choice for VR customers, as well as price quote requirements for purchases exceeding $600.

Supervisor responsibilities have been expanded to identify outliers exceeding the average cost per case. Multiple reports have been implemented, IRIS fiscal edit limits are in place, and a second Supervisor level signature is required on all claim vouchers. Edits exist in the Claims Management System requiring Deputy VR Director approval of claims exceeding limits.

Multiple levels of analysis have been completed with no significant inappropriate activity identified to date. The new review and monitoring processes is ongoing, along with random case review. The quality assurance program is being revised to further strengthen case monitoring and fiscal accountability at all levels of the VR Agency.

FINDING 2004-FSSA-3 DIVISION OF FAMILY AND CHILDREN—BUREAU OF PROGRAM INTEGRITY

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Medicaid
CFDA Number:	93.778
Auditee Contact Person:	Karen Frazier
Title of Contact Person	Director, Quality Control
Phone Number:	317-232-4498
Compliance Requirement:	Monitoring
Internal Control:	Reportable Condition

Audit Response:
Effective March 9, 2005, the Bureau of Program Integrity (BPI) was elevated from reporting to the Deputy Director of the Bureau of Family Resources to the Assistant Director of the Division of Family Resources (DFR). This was prior to the issuance of the SBOA audit finding and was done to provide more direct, objective information to management. Based upon this recommendation, consideration may be given to further reorganization of BPI to ensure its objectivity.

FINDING 2004-FSSA-4 FAMILY AND SOCIAL SERVICES ADVISORY COMMITTEE

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person	Director of Health Policy, OMPP
Phone Number:	317-233-4448
Compliance Requirement:	Allowability
Internal Control:	Reportable Condition

Audit Response:
The Attorney General's certification and corresponding State Plan Amendment (TN 92-06) were submitted to the Health Care Financing Administration (HCFA, now CMS) and approved on April 24, 1992. It has been identified that the legal reference contained in the certification does not include the agency's rulemaking authority. FSSA will obtain the Attorney General's signature on a corrected certification and submit a state plan amendment to CMS to correct this oversight.

FSSA will review whether a potential conflict exists between OMPP's and FSSA's rulemaking authority. Federal law does not prohibit review or clearance of rules by other offices or agencies in the state, only that the single state agency's legal authority not be impaired by such action. See 42 CFR 431.10(e)(2). IC 12-8-3-5 limits the Committee's role to an advisory one with regard to policy. FSSA will further research the possibility that the FSSA Advisory Committee legally impairs OMPP's ability to serve as the single state agency administering the Medicaid program.

FINDING 2004-FSSA-5 SUPERVISION OF LOCAL OFFICES OF FAMILY AND CHILDREN (OFCS)

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person	Director of Health Policy, OMPP
Phone Number:	317-233-4448
Compliance Requirement:	Allowability, Eligibility
Internal Control:	Reportable Condition

Audit Response:
The Division of Family Resources (DFR) has 92 local county offices responsible for administering the Food Stamp program, cash assistance (TANF), and the Medicaid eligibility process. OMPP recognizes that, as the SSA, it holds the responsibility to ensure proper monitoring procedures and accountability guidelines are in place for the Medicaid program. Information sharing and joint decision-making between OMPP and DFR will be strengthened to ensure the SSA is aware of the challenges of within DFR. On an on-going basis, OMPP will participate in executive supervision of local county offices for issues pertaining to Medicaid.

FINDING 2004 - FSSA-6 DEATH VERIFICATIONS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person	Director of Health Policy, OMPP
Phone Number:	317-233-4448
Compliance Requirement:	Allowability, Eligibility
Internal Control:	Reportable Condition

Audit Response:
The SBOA cites in this finding a failure to properly ensure that death verification matches are acted upon in a timely fashion. It was determined through a query of the Social Security Administration data match with ICES that 133 matches were returned for the same recipient from one quarter to the next.

The proper disposition of data alerts will be resolved through Finding 2004-FSSA-05. It has been acknowledged by OMPP that the specific query and related information has been shared with FSSA management staff. Even though there may be numerous errors in these matches, OMPP will review the 133 files to determine the precise nature of the problems and identify necessary corrective action to improve the process. Legal referrals will be made as required.

FINDING 2004-FSSA-7 HOME AND COMMUNITY BASED SERVICE WAIVERS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person	Director of OMPP, FSSA
Phone Number:	317-233-4448
Compliance Requirement:	Allowability
Internal Control:	Reportable Condition

Audit Response:
All home and community based services waiver claims are paid by the Medicaid payment contractor, EDS, based upon prior authorization tables with data from the waiver case management system. Claims not authorized by the waiver plan of care for an individual waiver member are not reimbursed. At the time of this audit, only the DD and A&D waivers wee reviewed in this manner. However, this system is now in operation for all eight home and community based waivers. Services are authorized with either monthly or annual maximums.

OMPP contracts with EDS, by separate contract, to conduct post-reimbursement audits. Beginning June 1, 2004, EDS began audits of waiver providers, requesting funds to be recouped when indicated. Audits of all providers and case managers continue on a monthly basis. OMPP has closed the potential gap in identifying outlier activity by requiring case managers to utilize Medicaid payment histories when preparing waiver service plans.

OMPP recognizes potential weaknesses in the current case management system and has entered contract negotiations for a new, web-based, real time system with enhanced capability to share information with the claims payment system, and to provide tighter control of the payment process. OMPP will coordinate with the Division of Disability and Rehabilitative Services in conducting an overall risk assessment of the waiver programs.

FINDING 2004-FSSA-8 PROVIDER ENROLLMENT (HCBS WAIVERS, FIRST STEPS)

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person	Director of OMPP, FSSA
Phone Number:	317-233-4448
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

Audit Response:
OMPP has continued to work toward enrollment of all waiver providers in accordance with existing Medicaid enrollment policy. The waiver enrollment project is still on target to be completed by June 2005.

The Central Reimbursement Office (CRO) is enrolled in the Medicaid program as a provider entity for First Steps. Individual First Steps practitioners have agreements with the CRO under which the CRO is authorized to submit claims for payment to Medicaid. Individual practitioners remain subject to Medicaid provider qualification requirements and the CRO is responsible for ensuring qualifications are met. OMPP has established standardized Medicaid enrollment procedures for First Steps providers rendering services to eligible individuals. It is the intent to enroll all First Steps providers rendering Medicaid services by June 30, 2005.

Indiana Department of Education

Dr. Suellen Reed, Superintendent
Room 229, State House • Indianapolis, IN 46204-2798 • 317/232-6665

March 24, 20004

Mr. Charles Johnson, III
State Examiner
State Board of Accounts
Room E-418, IGCS
Indianapolis, IN 46204

Dear Mr. Johnson:

This letter is a response to the finding in your recent A-133 audit of federal programs administered by the Indiana Department of Education for the period July 1, 2003 – June 30, 2004.

Finding 2004-IDOE-1 Allocation of Salary Expense

Federal Agency:	Department of Education
Federal Program:	Improving Teacher Quality State Grants
CFDA Number:	84.367
Auditee Contact Person:	Tracy Brown
Title of Contact Person:	Fiscal Officer, Center for School Improvement, IDOE
Phone Number:	317/232-6974
Compliance Requirement:	Allowable Costs/Costs Principles

In our testing of expenditures during our prior audit, we found five employees whose total salaries and benefits had been paid out of the Improving Teacher Quality State Grants (ITQSG) program that were not working solely on this program. Four of these employees worked on the ITQSG program and other Federal programs. One did not work on any Federal program, but was paid from the ITQSG program between July 2003 and February 2004.

The Indiana Department of Education (IDOE) subsequently performed corrective action by returning funds to the ITQSG program for the one employee that did not work on any Federal program, and by coming up with percentages of salary allocations among the Federal programs that each respective employee worked on. In addition, a portion of the salary and benefits of another employee who had worked on the ITQSG program, but was paid from another Federal program, was added to the allocation of the ITQSG program. These percentage allocations, however, were not based on personnel activity reports or on a statistical sampling system or other substitute system that has been approved by the U.S. Department of Education.

According to OMB Circular A-87, Attachment B, section 11(h)(4), where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards of section 11(h)(5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency as defined in section 11(h)(6).

According to OMB Circular A-87, Attachment B, section 11(h)(1), charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

Since the allocation method used is not in compliance with OMB Circular A-87, there are potentially additional questioned costs to the ITQSG program.

We recommend that IDOE determine the distribution of these employees' salaries and fringe benefits that complies with the requirements of OMB Circular A-87 and determine the amount of funds to be returned to the Improving Teacher Quality State Grants program.

IDOE is planning to utilize personnel activity reports for each of the applicable employees in compliance with OMB Circular A-87 to correct this finding.

Response

Based on the 2003 finding, we implemented what we believed to be appropriate corrective action. By journal voucher transfer, $18,420.65 was credited to the ITQSG program; this amount represented the actual salary and benefit charges of the employee who was paid from ITQSG funds for the period July 2003 – February 2004, but worked for a State program.

A separate journal voucher transfer credited $100,729.52 to the ITQSG program. This amount was for the four employees paid in full from ITQSG funds, but working on multiple programs, and for the one employee paid from other Federal funds, but working in part on ITQSG activities. This amount covered the period July 2002 – June 2004. The salary and benefit charges for the five employees were pro-rated among the Federal programs they worked on. The employees did not maintain personnel activity reports. The percentages charged to the various Federal programs were based on actual work activity and production; this consisted of grant applications and related documents that were reviewed and processed.

We believed this method of allocating salary and fringe benefit costs to the appropriate Federal programs was sufficient and would satisfy the requirements of OMB Circular A-87. We did not submit our method of allocation based on actual work activity and production to the U.S. Department of Education and therefore did not receive approval for a substitute system of cost allocation.

We have now implemented personnel activity reports for all employees working on multiple Federal programs. The activity reports will be signed by the employee and will be reviewed by their supervisor. Journal voucher transfers to debit or credit the appropriate Federal programs will be based on these reports.

Although we failed to receive approval for the method of cost allocation we used following the 2003 audit, we believe the dollar amounts credited to the ITQSG program are substantially correct and would not materially change if we had used personnel activity reports at that time. As stated above, the percentages we used were based on actual work activity and production. Therefore, we believe there are no additional questioned costs.

Thank you for this opportunity to respond to the finding. We appreciate the information provided by the Board of Accounts examiners. Please contact me if you have any further questions.

Sincerely,

for Dr. Suellen Reed
State Superintendent of
Public Instruction