STATE OF INDIANA

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2009

Mitchell E. Daniels, Jr., Governor

Prepared by:

The Office of the Auditor of State
Tim Berry
Auditor of State
Room 240
State House
Indianapolis, Indiana 46204

Acknowledgments

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We extend special thanks to Stacey Halvorsen, CPA, and all employees of State agencies throughout Indiana. Your cooperation and assistance in the preparation of this Comprehensive Annual Financial Report has been invaluable.

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

Tim Berry was elected Indiana's 54th State Auditor in November of 2006, taking office January 1, 2007.

As Auditor, Berry serves as the Chief Financial Officer for the State of Indiana, compiling all financial reports, overseeing in excess of 6,000,000 distributions annually to vendors and units of local government. Tim Berry is committed to making state finances more transparent to all taxpayers, and to implement a state financial accounting system as a management tool to provide more efficient state government operations. Berry is also committed toward greater financial literacy for all Hoosiers and providing retirement education to public employees saving through the state's Hoosier Start Deferred Compensation plan. As Auditor, Berry serves as the administrator of this plan. During his inauguration speech Berry said, "As Auditor we won't often make headlines, but we will continue to listen – continue to lead – continue to make a difference for all Hoosiers".

Prior to his election as State Auditor, Tim served two successive terms as Indiana's 51st State Treasurer, first being elected in 1998. A fiscal conservative, Berry keeps taxpayers first in recognizing that taxpayers deserve a government that is equipped to do more with less, as Berry returned in excess of 10% of his budget appropriation back to the state general fund throughout his tenure.

As Treasurer, Berry earned a record $1.7 billion through the prudent investment of Hoosier tax dollars. Through Tim's leadership Hoosiers saved millions of dollars in communities across the state through the efficient use of the Indiana Bond Bank. As Chair of the Wireless 911 Advisory Board, Indiana built the most advanced wireless 911 network in the country while providing over $96 million to counties so that they could upgrade their 911 technology. As Chair of the Education Savings Authority, Berry worked to provide greater opportunities and incentives for families to save for college, and obtained legislation to provide a 20% tax credit up to $1000 on contributions to a College Choice 529 Investment Plan. Additionally, Tim Berry led the effort to provide a creative solution to assist local communities with their unfunded police and fire pension liabilities, providing over $50 million to cities across the state without increasing taxes between 2001 and 2006.

Tim Berry's leadership has been recognized by many across the country. He served as President of the National Association of State Treasurers and Chair of the College Savings Plans Network. Berry was awarded the Jesse Unruh Distinguished State Treasurer Award in 2005, the 2003 Presidential Award of Excellence by the Association of Public-Safety Officials, is the 2003 recipient of the American Heart Association's Heartsaver Award, was recognized for leadership by the State of Israel in 2003 through the State of Israel Bonds, and in 2000 the Indianapolis Business Journal recognized Tim with their "40 under 40" designation.

Tim Berry
Indiana Auditor of State

Tim Berry is a 1980 graduate of Fort Wayne's, Wayne High School, and a member of Trinity English Lutheran Church in Fort Wayne. He serves as Treasurer of the Fishers Youth Hockey Association, and a coach in the Fall Creek Little League where his sons Ian and Colin both play. Tim holds a BS in Business Administration from Bowling Green State University and a MBA from Indiana University. Tim and his wife Kim are the proud parents of two sons, Ian and Colin. Kim has served since 2001 as the State Director of the Cystic Fibrosis Foundation.

AUDITORS OF STATE
Of THE STATE OF INDIANA

Term	Name	Politics
1816-1828	William H. Lilley	Party Unknown
1828-1829	Benjamin I. Blythe	Party Unknown
1829-1844	Morris Morris	Party Unknown
1844-1847	Horatio J. Harris	Party Unknown
1847-1850	Douglas Maguire	Whig
1850-1853	Erastus W. H. Ellis	Democrat
1853-1855	John P. Dunn	Democrat
1855-1857	Hiram E. Talbot	Fusion-"peoples"
1857-1861	John W. Dodd	Democrat
1861-1863	Albert Lange	Republican
1863-1865	Joseph Ristine	Democratic Union
1865-1869	Thomas P. McCarthy	Republican
1869-1871	John D. Evans	Republican
1871-1873	John C. Shoemaker	Democrat
1873-1875	James A. Wilder	Republican
1875-1879	Ebenezer Henderson	Democrat
1879-1881	Mahlon D. Manson	Democrat
1881-1883	Edward H. Wolfe	Republican
1885-1887	James H. Rice	Democrat
1887-1891	Bruce Carr	Republican
1891-1895	John O. Henderson	Democrat
1895-1899	Americus C. Daily	Republican
1899-1903	William H. Hart	Republican
1903-1905	David E. Sherrick	Republican
1905-1906	Warren Bigler	Republican
1906-1910	John C. Billheimer	Republican
1910-1914	William H. O'Brien	Democrat
1914-1916	Dale J. Crittenberger	Democrat
1916-1920	Otto Clauss	Republican
1920-1922	William G. Oliver	Republican
1922-1924	Robert Bracken	Democrat
1924-1928	Lewis S. Bowman	Republican
1928-1930	Arch N. Bobbit	Republican
1930-1934	Floyd E. Williamson	Democrat
1934-1938	Laurence F. Sullivan	Democrat
1938-1940	Frank G. Thompson	Democrat
1940-1944	Richard T. James	Republican
1944-1948	Alvin V. Burch	Republican
1948-1950	James M. Propst	Democrat
1950-1954	Frank T. Millis	Republican
1954-1956	Curtis E. Rardin	Republican
1956-1958	Roy T. Combs	Republican
1958-1960	Albert A. Steinwedel	Democrat
1960-1964	Dorothy Gardner	Republican
1964-1966	Mark L. France	Democrat
1966-1968	John P. Gallagher	Republican
1968-1970	Trudy Slaby Etherton	Republican
1970-1978	Mary Aikins Currie	Democrat
1978-1982	Charles D. Loos	Republican
1982-1986	Otis E. Cox	Democrat
1986-1994	Ann G. DeVore	Republican
1994-1998	Morris Wooden	Republican
1999-2006	Connie K. Nass	Republican
2007-	Tim Berry	Republican

STATE OF INDIANA

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For the Year Ended
June 30, 2009

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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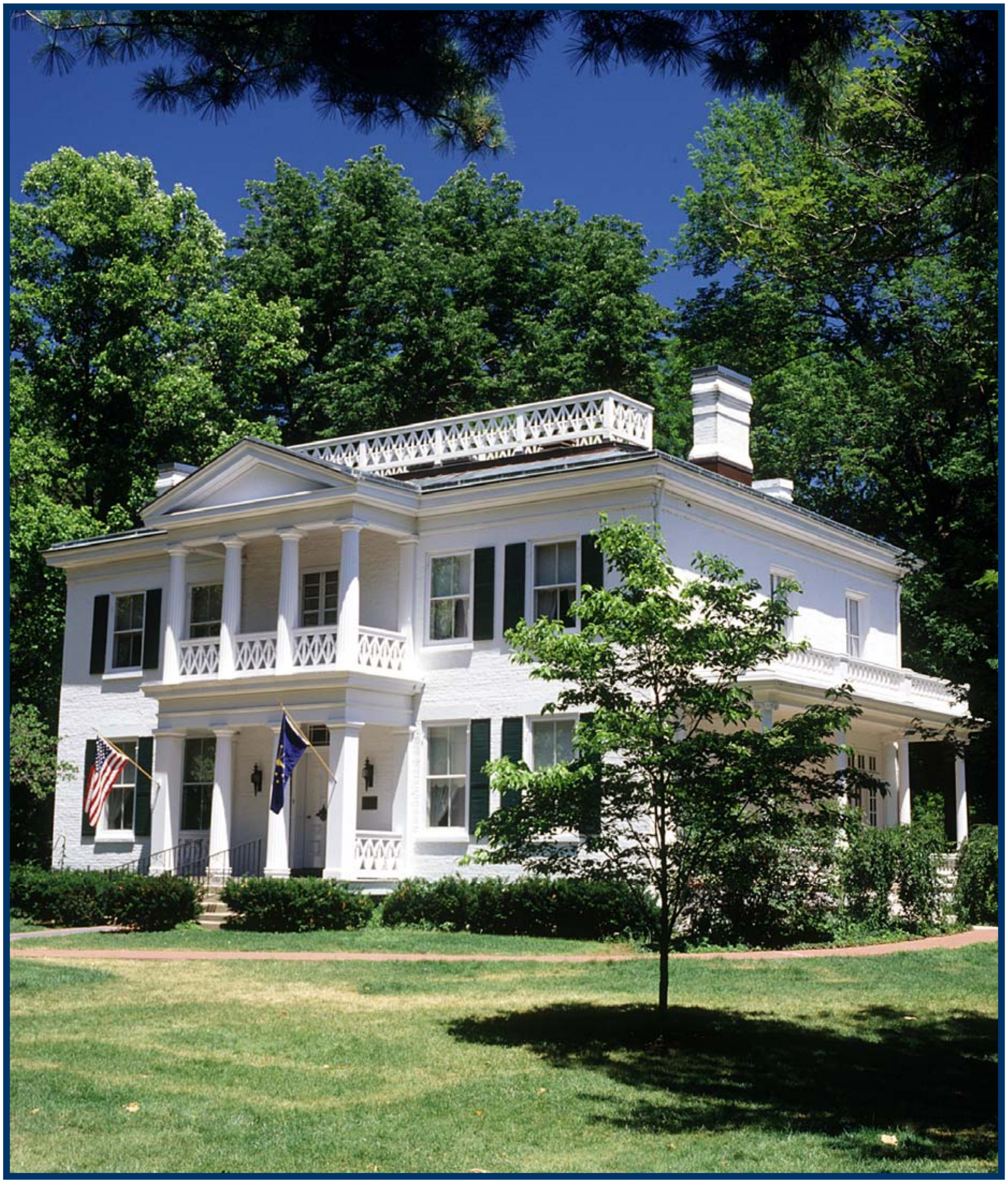

Lane Place Antebellum Mansion

Montgomery County ~ Crawfordsville, Indiana


SEAL OF THE STATE OF INDIANA
1816

AUDITOR OF STATE

Tim Berry

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December 30, 2009

Governor,
Members of the General Assembly,
Citizens of the State of Indiana:

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2009.

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

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

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

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

The State has adopted GASB Statement No. 34 as required by Generally Accepted Accounting Principles. GASB 34 provides for two types of statements, government-wide and fund statements. The government-wide statements are very similar to the private sector's statements, using the full accrual basis of accounting and the economic resources measurement focus. The governmental funds financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. In the government-wide statements, infrastructure (roads, bridges, dams) has been capitalized. Capital assets, except for infrastructure using the modified approach, are depreciated like the private sector.

GASB Statement No. 34 provides for the presentation of Management's Discussion and Analysis (MD&A) in the Financial Section. The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities. It is presented before the basic financial statements. We encourage you to read it to get an in-depth analysis of the State of Indiana's finances.

This CAFR is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, a list of former Auditors of State, the Table of Contents, the Certificate of

Achievement for Excellence in Financial Reporting Award, and the State Organizational Chart that includes a listing of selected State Officials.

The Financial Section includes the independent auditor's report, Management's Discussion and Analysis, the basic financial statements, required supplementary information, and other supplementary information.

The financial statements include government-wide and fund financial statements, representing all funds for which the State of Indiana is accountable, based on criteria for defining the financial reporting entity prescribed by the Governmental Accounting Standards Board. The criteria for inclusion are based on fiscal dependency, financial accountability, selection of governing authority, and ability to significantly influence operations. Based on these criteria, the various funds and entities shown in this report are considered as part of the reporting entity.

The Statistical Section includes selected financial, demographic, and operating information, generally presented on a multi-year basis.

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing state and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,376,792 which makes Indiana the nation's 16th largest State. The State is 64.7% urban and 35.3% rural. The five largest cities are Indianapolis, the capital, Fort Wayne, Evansville, South Bend and Gary.

Indiana became the 19th State of the Union on December 11, 1816. The State Constitution establishes the government in three separate departments: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100 member House of Representatives and a 50 member Senate. The Indiana General Assembly has the power to enact laws which are not prohibited by the State Constitution and not in conflict with Federal laws and powers. The executive power of the State is vested with the Governor. The State Constitution and legislation establish the following Statewide elected administrative officials: Lieutenant Governor, Auditor of State, Secretary of State, Treasurer of State, Attorney General, and the Superintendent of Public Instruction. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 313 Trial Courts (including Circuit Courts), and one Tax Court.

The State government provides a wide range of services to the citizens of Indiana, including education, transportation, public health, public safety, welfare, conservation, and economic development.
This report includes the financial activities and balances of the State of Indiana and its component units. The component units are legally separate entities for which the State of Indiana has financial responsibility and include State funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Indiana. More information on the financial reporting entity can be found in Note I(A) in the notes to the financial statements.

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

Factors Affecting Economic and Financial Conditions

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

Local Economy

With an estimated 2008 Gross Domestic Product of $254.9 billion, Indiana's economy ranked 17th largest in the U.S. in terms of the value of goods and services. In 2007, Indiana ranked 3rd among the fifty states in terms of the value of primary metals production. Indiana ranked 8th in the value of fabricated metal products, 10th in the production of manufacturing machinery, 4th in the value of motor vehicles bodies and parts, and 6th in chemical manufacturing. According to published U.S. Census Bureau data, Indiana ranked 13th in 2008 in exports of manufactured goods.

In 2008, the manufacturing sector accounted for 18% of the jobs in Indiana compared to 21.5% in 2001. The share of employment accounted for by the health care and social services sector increased from 11.1% in 2001 to 18% in 2007. Between 2004 and 2008, per capita personal income increased at an average annual rate of 3.2%. In 2008, the State's unemployment rate averaged 5.9%. The seasonally adjusted unemployment rate in June 2009 was 10.7% and the preliminary rate for October 2009 was 9.8%.

Cash Management and Investments

Cash temporarily idle during the year was invested in deposit accounts, obligations of the U.S. Treasury and U.S. Agencies, money market mutual funds, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(D)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 2.39%. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and State depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is $13.27 billion at June 30, 2009.

Financial Policies

In 2005, Governor Daniels created the Office of Management and Budget (OMB) as an umbrella organization to better coordinate the State's financial policies. The OMB consists of the Department of Government Efficiency and Financial Planning, the Department of Local Government Finance, the Department of Revenue, the Public Employees' Retirement Fund, the State Board of Accounts, the State Budget Agency, the Teachers' Retirement Fund, and the Indiana Finance Authority.

In June 2009, Indiana achieved its fourth consecutive balanced budget, with annual revenues exceeding expenditures by $29 million. Controlling the growth of spending has enabled Indiana to not only achieve balanced budgets, but also repay debts to local government, schools, and universities, which at their peak, totaled over $750 million. One-time revenues, such as those generated by the Tax Amnesty program several years ago, have been used to repay one-time debt rather than being built into revenue forecasts to support on-going expenditures.

For the first time in the State's history, Indiana's credit rating has been raised to AAA, the highest rating assigned by the independent credit rating agency Standard & Poor's Ratings Service (S&P). The rating increase means, for example, that 228 of the State's school corporations can borrow money at a lower interest rate.

The S&P report noted that the administration has made significant financial management changes and strengthened budgeting practices. S&P cited four areas in issuing the AAA credit rating: a stable and diversifying economic base despite continued manufacturing concentration, a conservative biennial budget that will add to the fund balance by the end of the biennium, property tax reform that has clarified the state's financial responsibilities, and low overall debt levels.

Long-Term Financial Planning

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

The OMB continues to make modifications and improvements to the capital budgeting process to provide a more comprehensive analysis of the State's capital assets and corresponding budgetary needs to maintain existing infrastructure. Comprehensive, 10-year master plans are being developed and/or updated for all State facilities that will consist of very detailed information on each facility, including use, square footage, systems information, replacement reserve schedules, preventive maintenance, renovations, new construction, and how all of this aligns with available resources.

In 2008, the Pew Center on the States and *Governing* magazine released a report from the Government Performance Project assessing the quality of management in the 50 states. In this report, Indiana was highlighted as having "moved into fiscal balance by going beyond one-time budget fixes" and for having a four-year horizon to make fiscal decisions.

Major Initiatives

K-12 Education – Governor Daniels and the 2008 General Assembly enacted HB 1001 which provided for sweeping property tax reform. Part of this reform included the assumption by the State's general fund of the share of tuition support previously paid by local property tax dollars. Beginning January 2009, the State assumed 100% of K-12 tuition support. This allowed school corporations to receive payments monthly and without delay. The state utilized $536.4 million of American Recovery and Reinvestment Act (ARRA) Fiscal Stabilization funds during FY 2009 in lieu of state general fund dollars. The general fund dollars were transferred to the State Tuition Reserve Fund, which closed FY 2009 with $941.7 million.

Governor Mitch Daniels and the 2007 General Assembly increased funding for full-day kindergarten by $50.0 million in FY 2009 over the FY 2007 level.

Higher Education – Indiana continued its commitment to Higher Education through annual increases in University and aid related funding. Appropriations for state aid to students attending public and private colleges and universities, provided through the State Student Assistance Commission for Indiana, increased 3.1% in FY 2009. The General Assembly increased Higher Education non-capital funding by 4.72% in FY 2009, although the state withheld 1% of higher education operating appropriations during FY 2009 to address state revenue shortfalls. This reduction in state funding was restored using ARRA Fiscal Stabilization Funds.

In addition, the 2007-2009 budget authorized 31 new capital projects resulting in $397.3 million of estimated state appropriation fee replaced debt service, $121.0 million of estimated non-state appropriation fee replaced debt service, and $20.4 million of direct appropriations for capital projects. The Office of Management and Budget and the Commission for Higher Education prioritized the release of authorized projects due to the unprecedented level of authorized bonding authority. Additionally, higher education institutions received the final payment delay repayments during FY 2009 in the form of additional funds for Repair and Rehabilitation projects.

Public Safety – The Hoosier Youth Challenge Academy serves as an opportunity to challenge selected 16-18 year old Hoosier youths to change their life styles to become productive citizens. This program aims to enhance the education level of the selected youths who have dropped out of high school by helping them attain a General Education Degree (GED). In FY 2009, this program held two classes, each 22 weeks in length, graduating a total of 105 students with 46 earning a GED. Over 5,500 hours of community service were completed by both classes. The Indiana National Guard will be moving the Hoosier Youth Challenge Academy from Camp Atterbury to Knightstown in the near future, occupying the campus previously used by the Soldiers and Sailors Childrens' Home.

With the addition of more than 250 troopers to Indiana's roads, the Indiana State Police has dramatically increased its overall traffic safety efforts, resulting in a reduction in deaths on Indiana roadways. Total annual traffic arrests and warnings increased for the first 10 months of calendar year 2009 by 140% compared with the same time period in 2006 (from 345,403 to 830,031). The result of increased traffic enforcement efforts was a reduction of traffic fatalities from 938 in 2005 to fewer than 815 in 2008. Traffic fatalities have continued to decline in 2009, with 82 fewer fatalities through October (604 in 2009 compared with 686 in 2008). Likewise, Driving Under the Influence (DUI) arrests through October have also increased from 3,834 in 2006 to 8,062 in 2009, an increase of 110%. Consequently, alcohol-related fatal crashes through October decreased by 43%, from 203 in 2006 to 142 in 2009.

Transportation – Four years into Governor Daniels' Major Moves program, Indiana has seen record construction, as INDOT is executing the $12B construction program made possible by the lease of the Indiana Toll Road. INDOT is aggressively working to advance as much work as possible from later construction years to take advantage of favorable price conditions that currently exist in the construction industry. This also helps deliver the benefits of the new highways much earlier.

For a second consecutive year, State and federal program expenditures for engineering, right-of-way, construction, and maintenance exceeded one billion dollars. In fact, actual FY 2009 expenditures were nearly $1.5 billion. This is more than double the annual amount spent a decade ago, capping off another record-setting year for Hoosier transportation infrastructure.

Health and Human Services – Created by Governor Daniels and the Indiana General Assembly in 2007, the Healthy Indiana Plan (HIP) will provide health insurance to approximately 130,000 Hoosiers, including childless adults. Funding for HIP comes from an increase in the Indiana cigarette tax and is expected to bring in $1.1 billion in new federal funds to Indiana over five years. To date, the State has received nearly 130,000 applications, and approximately 49,000 Hoosiers are currently on the program.

The Children's Health Insurance Plan (CHIP) spent $118.0 million in FY 2009, an increase of $9.0 million from FY 2008 (or 7.6%). The average number of clients served by CHIP in FY 2009 was 72,807, a 2.3% increase from FY 2008.

As of June 30, 2009, Medicaid enrollment was 862,362, which excludes CHIP, HIP, and retroactive eligibility. This represents a 6.0% increase compared to average enrollment of 814,200 in FY 2008.

In its fourth year of operations, the Department of Child Services (DCS) continued the implementation of a practice reform initiative designed to improve outcomes for children and families by strategically funding and assessing prevention initiatives. As a result, the Department's statewide removal percentage for FY 2009 trended downward by 3% compared to FY 2008. The downward trending is important because unnecessarily removing a child from his or her home is traumatic for the child and costly for taxpayers.

Since July 1, 2005, the DCS has increased the total number of filled FCM (Family Case Manager) positions by 750, from 842 to 1,592. Pursuant to IC 31-25-2-5, enacted in the spring of 2007, the Department of Child Services is required to ensure that staffing levels of family case managers are maintained so that each county has enough family case managers to allow caseloads to be at not more than: (1) twelve active cases relating to initial assessments, including investigations of an allegation of child abuse or neglect; or (2) seventeen children monitored and supervised in active cases relating to ongoing services. The 12/17 standard represents that of the Child Welfare League of America. As of June, 2009, 88.9%, or 16 of 18 regions, were in compliance with the caseload averages of 12 and 17. The two regions that were not in compliance ended the quarter within one staff member of meeting the 12 and 17 requirements.

The DCS works to reduce the amount of child support which is past due. The percentage of cases paying past due amounts has increased from 55 percent to 64.7 percent since 2004, exceeding the national average of 63.3 percent.

General Government – Retirement Medical Benefits accounts have been established as Health Reimbursement Arrangements (HRAs) for all employees and elected officials of the State. The purpose of this defined contribution plan is to allow retirees from State government to have a means to assist with the payment of health insurance premiums in retirement. The source of funds for this will come from annual contributions by the State that will be credited to each employee's account based upon their age. There is also a catch up provision allowing for additional contributions based upon the number of years of service completed by the qualified retiree who retires prior to June 30, 2017. The total cost of the program in FY 2009 exceeded $67 million.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the sixteenth consecutive year that the State of Indiana has achieved this prestigious award.

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

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

Acknowledgments

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

Sincerely,

Tim Berry
Auditor of State
State of Indiana

Ryan Kitchell
Director
Office of Management and Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Indiana

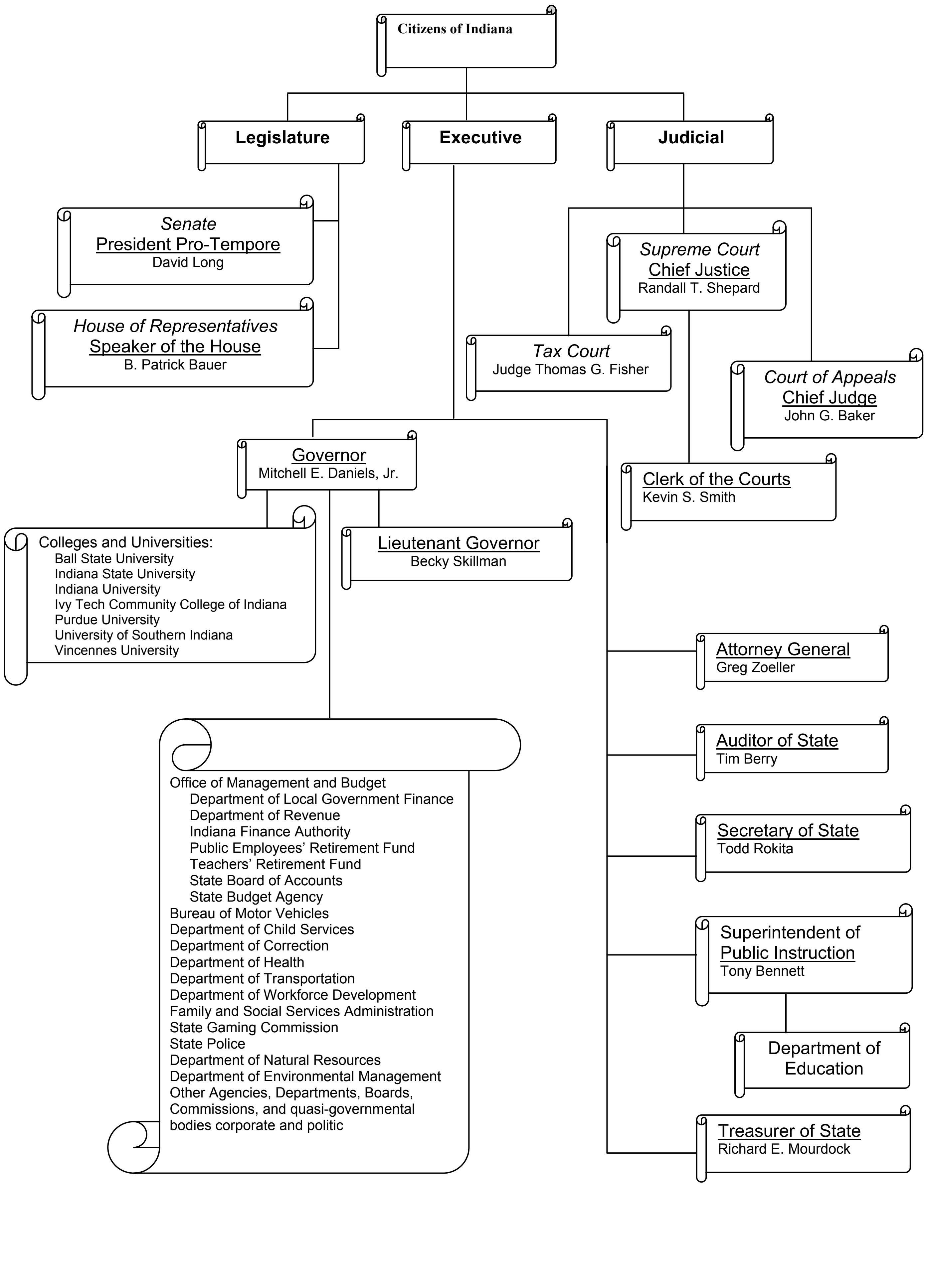
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director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B. Patrick Bauer
Supreme Court
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Randall T. Shepard
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