STATE OF INDIANA

Notes to the Financial Statements and Required Supplementary Information
June 30, 2001

STATE OF INDIANA
Notes to the Financial Statements
June 30, 2001
(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units (entities for which the government is considered to be financially accountable). 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 four separate columns, one column for the governmental fund type, one for proprietary fund types, one for pension trust fund types, and one for colleges and universities, in the combined financial statements. This is to emphasize that, as well as legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 2000 year end.

Blended Component Units.

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

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

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three governor 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, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

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

Discretely Presented Component Units.

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All component units, except colleges and universities and the pension trust funds, are audited by outside auditors.

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

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

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

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

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority 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. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority and the Indiana Bond Bank were determined to be significant for note disclosure purposes involving the discretely presented proprietary 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 retirement funds: Public Employees Retirement Fund, Judges Retirement System Fund, Excise Police and Conservation Enforcement Officers' Retirement Fund, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Fund, the Legislators' Retirement System Defined Contribution Fund, and the Prosecuting Attorneys' Retirement Fund. For more information on PERF see Note IV (J) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation in the Discretely Presented Component Units' financial statements.

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

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

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

Indiana Transportation Finance Authority
One North Capital Suite 320
Indianapolis, IN 46204

Recreational Development Commission
Government Center South, W256
402 W. Washington Street
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 320
Indianapolis, IN 46204-2226

Secondary Market for Education Loans, Inc.
8425 Woodfield Crossing Boulevard
Suite 401
Indianapolis, IN 46204

Board for Public Depositories
101 W. Washington St., Suite 1301E
Indianapolis, IN 46204

Indiana Bond Bank
2980 Market Tower
10 West Market St.
Indianapolis, IN 46204

Indiana Housing Finance Authority
115 West Washington Street
Suite 1350, South Tower
Indianapolis, IN 46204

Accounting Services
1062 Freehafer Hall
Purdue University
West Lafayette, IN 47907-1062

Richard W. Schmidt
Vice President – Business Affairs
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

Office of the Vice President and Chief Financial Officer
Bryan Hall, Rm. 204
Indiana University
Bloomington, IN 47405-1202

Mark Husk Director of Budgeting and Accounting Indiana Vocational Technical College Indianapolis, IN 46206-1763	Phillip Rath Vice President-Financial Services Vincennes University 1002 North 1st Street Vincennes, IN 47591	William A. McCune, Controller Administration Bldg., 103A 2600 University Avenue Ball State University Muncie, IN 47305
Office of the Vice President for Planning and Budgets Parsons Hall, RM. 223 Indiana State University Terre Haute, IN 47809	State of Indiana Public Employees' Retirement Fund 143 West Market Street Indianapolis, IN 46204	Indiana State Teachers' Retirement Fund 150 West Market Street, Suite 300 Indianapolis, IN 46204

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. 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. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

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. 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.

Revenue relating to nonexchange transactions are susceptible to accrual when all recognition criteria have been met and the resources are available. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes (not expendable trusts or major capital projects).

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

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

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued before November 30, 1989 and those issued after which do not contradict any previously issued GASB pronouncement in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:
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.

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.

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.

The *expendable trust funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The *nonexpendable trust funds* and *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. The pension trust fund accounts for the assets of the government's employees pension plan.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups. The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. 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. Fair value is determined by quoted market prices. In addition, the pension trust funds and securities lending transactions are stated at fair value.

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

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

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

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

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

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

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

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

2. Receivables and Payables

Assets relating to derived tax revenues, including individual gross income taxes, corporation income taxes, sales taxes, motor fuel and motor carrier surcharge taxes, and alcoholic beverage taxes, are recognized in the period when the underlying exchange transaction has occurred or when the resources are received, whichever is first. Assets relating to imposed nonexchange revenues are recognized in the period when an enforceable legal claim has arisen or the resources are received, whichever is first. Government mandated and voluntary nonexchange transactions, 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. Other assets and liabilities are recognized when measurable and available.

The State of Indiana does not collect property taxes, which are 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

The State has the following types of interfund transactions:

Quasi-external Transactions **-** Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Residual Equity Transfers **-** Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Operating Transfers **-** Legally authorized transfers other than residual equity transfers are reported as operating transfers.

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

Advances from / to **-** These are balances arising from the long-term portion of interfund transactions, including loans.

Interfund receivables / payables **-** These are balances arising from the short-term portion of interfund transactions.

Due from / to **-** These are balances arising in connection with quasi-external transactions or reimbursements. Balances relating to discretely presented component units are presented as 'Due from / to component units.'

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 Assets

Certain assets of the following proprietary funds are classified as restricted assets because their use is completely restricted by bond indentures, contracts or statute.

State Office Building Commission - designated for construction projects or the liquidation of revenue bonds payable.
Recreational Development Commission - designated for the costs of expanding and, renovating, and improving recreational facilities at Indiana State parks.
State Lottery Commission - reserved for the prize pool of the Multi-State Lottery Association.
Toll Roads - held for future debt service, transportation improvements and construction.
Indiana Housing Finance Authority - restricted or pledged as provided by bond resolutions and indentures of the trust agreements.
Indiana Bond Bank – restricted to repayment of bonds and notes payable.

6. Fixed Assets

Fixed assets used in governmental fund types with a cost of $5,000 or greater are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, highway land and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the asset are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary and pension trust funds are recorded at cost or estimated historical cost. Property, plant and equipment donated to proprietary funds are recorded at their estimated fair value at the date of donation. Capital grants to the Inns & Concessions (grants restricted by the grantor for the acquisition and/or construction of fixed assets) are recorded as contributed capital; since these contributions are from the primary government, depreciation expense for these assets is included with depreciation of other assets. Contributed capital is reduced by the cost of assets returned to the contributor.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and similar trust funds using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20-40
Improvements other than buildings	10-20
Furniture, machinery and equipment	3-10
Software	3
Motor Pool Vehicles	10 ¢ / mile

7. Compensated Absences

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

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

8. Long-Term Obligations

Long-term debt of governmental funds is reported at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Fund Equity

Reservations of fund balance represent those portions of fund balances that are legally segregated 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 Special 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 Advances - established to recognize long-term loans and advances 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.

The proprietary funds' contributed capital represent equity acquired through capital grants and capital contributions from other funds.

10. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Legislation requires that the Governor submit 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 various special revenue funds that are not subject to appropriation pursuant to state law. Funds excluded are the Pension Relief Fund, the Transportation Finance Authority - Highway Revenue Bonds, and the State Revolving Fund. In addition there are various "Other Special Revenue Funds" excluded which are the Public Safety Death Benefit Fund, the Armory Board, the Recreation funds at state institutions and mental facilities, and the Transportation Finance Authority - Airport Facilities and Aviation Technology Funds. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

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

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

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

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

B. Budget/GAAP Reconciliation

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:

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over (under) expenditures and other financing uses (budgetary basis)	$ (1,050,778)	$ 190,972
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)	(43,543)	(8,396)
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	5,114	66,029
Funds not subject to legally adopted budget	-	154,622
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP basis)	$ (1,089,207)	$ 403,227

C. Deficit Fund Balance/Retained Earnings

At June 30, 2001, various funds had deficit fund balance/retained earnings caused by temporary cash overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as an interfund payable to the general fund. An exception to this is the Bureau of Motor Vehicles Commission fund which has a deficit equity balance of $66.1 million. $63.3 million of this was caused by long-term expenditures in excess of fund revenues. The funds used to cover the $63.3 million deficit are reported as an Advance from the Motor Vehicle Highway Fund.

Fund	Overdraft from pooled cash	Accrual deficits
Special revenue funds:		
County Welfare Administration	$ (716)	$ (9,597)
Medicaid Assistance	(5,252)	(29,725)
Federal Food Stamp Program	(1,363)	(199)
Property Tax Replacement Fund	-	(504,184)
Enterprise funds:		
Inns and Concessions	-	(104)
Internal service funds:		
Recreational Development Commission	-	(333)
State Police Benefit Fund	-	(17,599)
Expendable trust funds:		
Abandoned Property Fund	-	(8,238)

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments and Securities Lending

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

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

Blended component units that are included in the financial statements as described in Section 1(A) account for $453.8 million of the primary government's total investments included in these totals.

Primary Government

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 5,923	$ -	$ 515	$ 6,438
Corporate debt/equity securities				
Not on securities loan	26,882	-	22,545	49,427
Repurchase agreements				
Not on securities loan	7,771	263,024	-	270,795
US Treasury & agency obligations				
Not on securities loan	253,584	635,900	441,651	1,331,135
Mortgage securities				
Not on securities loan	136	-	-	136
Totals	$ 294,296	$ 898,924	$ 464,711	1,657,931
Investments - not categorized				
Investments held by broker-dealers under securities loans				
US Treasury & agency obligations				2,852,039
Securities lending S-T cash collateral investment pool				2,916,052
Mutual funds				1,040,992
Annuity/investment contracts				537,951
Total primary government				$ 9,004,965

The categories of investments for the Significant Discretely Presented Component Units is as follows:

Significant Discretely Presented Component Units

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 14,480	$ 381,582	$ 90,901	$ 486,963
Corporate debt/equity securities				
Not on securities loan	11,069,118	3,287	822,594	11,894,999
On securities loan	105	111,988	104,472	216,565
Foreign bonds				
Not on securities loan	119,957	-	-	119,957
Repurchase agreements				
Not on securities loan	25,000	76,780	428,851	530,631
On securities loan	45,683	477,140	-	522,823
US Treasury & agency obligations				
Not on securities loan	1,920,023	17,707	24,992	1,962,722
On securities loan	1,866	128,402	139,748	270,016
Mortgage securities				
Not on securities loan	1,142,335	2,403	-	1,144,738
Totals	$ 14,338,567	$ 1,199,289	$ 1,611,558	17,149,414
Investments - not categorized				
Guaranteed investment contracts and other				192,059
Investments held by broker-dealers under securities loans				
Equity securities				703,871
Corporate bonds				165,132
US Treasury & agency obligations				1,279,834
Foreign bonds				14,224
Mortgage securities				4,054
Securities lending S-T cash collateral investment pool				28,177
Securities lending S-T non-cash collateral investment pool				2,044
Mutual funds				83,036
Total significant discretely presented component units				$ 19,621,845

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% 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 a 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 maturity's generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

B. Interfund Transactions

The composition of interfund balances as of June 30, 2001 is as follows:

Due From and Due To Other Funds

	Due from other funds	Due to other funds
General fund:		
Internal service funds:		
Institutional Industries	$ -	$ 1,814
Administrative Services Revolving Fund	-	1,491
Total general fund	-	3,305
Special revenue funds:		
Debt service funds:		
Transportation Finance Authority:		
Aviation Technology bonds	-	318
Airport Facilities bonds	-	3,132
Internal service funds:		
Institutional Industries	-	722
Administrative Services Revolving Fund	-	3,084
Total special revenue funds	-	7,256
Capital projects funds:		
Internal service funds:		
Institutional Industries	-	2
Administrative Services Revolving Fund	-	3
Total capital projects funds	-	5
Debt service funds:		
Special revenue funds:		
Other	3,450	-
Total debt service funds	3,450	-

	Due from other funds	Due to other funds
Internal service funds:		
General fund	3,305	-
Special revenue funds:		
County welfare administration	693	-
Motor Vehicle Highway Fund	918	-
State and Federal Welfare Assistance	7	-
Bureau of Motor Vehicles Commission	35	-
Health and environmental programs	56	-
State Highway Department	244	-
Tobacco Settlement Fund	3	-
Other	1,850	-
Capital projects funds:		
Build Indiana Fund	2	-
Other	3	-
Expendable trust funds:		
Abandoned Property Fund	-	-
Internal service funds:		
Institutional Industries	-	5
Administrative Services Revolving Fund	5	-
Total internal service funds	7,121	5
Total due from / to	**$ 10,571**	**$ 10,571**

Component Units

	Due from primary government	Due to component unit
Special revenue funds:		
Discretely presented component units proprietary:		
Indiana Bond Bank	$ -	$ 638,853
Discretely presented component units pension trust:		
Public Employees Retirement Fund	-	934
Total special revenue funds	-	639,787
Enterprise funds:		
Discretely presented component units pension trust:		
State Teachers' Retirement Fund	-	7,500
Total enterprise funds	-	7,500
Internal service funds:		
Discretely presented component units pension trust:		
Public Employees Retirement Fund	-	78
Total internal service funds	-	78

	Due from primary government	Due to component unit
Discretely presented component units proprietary:		
Special revenue funds:		
State Revolving Fund	638,853	-
Total discretely presented component units proprietary	638,853	-
Discretely presented component units pension trust:		
Special revenue funds:		
Pension Relief Fund	858	-
Other	76	-
Enterprise funds:		
State Lottery Commission	7,500	
Internal service funds:		
State Employee Death Benefit Fund	78	
Total discretely presented component units pension trust	8,512	-
Total due from / to	**$ 647,365**	**$ 647,365**

The composition of interfund balances as of June 30, 2001 is as follows: (continued)

Within Component Units

	Due from component unit	Due to component unit
Discretely presented component units pension trust:		
Pension trust		
Public Employees' Retirement Fund	$ 5,557	$ 5,405
State Teachers' Retirement Fund	5,405	5,557
Total discretely presented component units pension trust	10,962	10,962
Total due from / to	**$ 10,962**	**$ 10,962**

Advances To and Advances From Other Funds

	Advances to other funds	Advances from other funds		Advances to other funds	Advances from other funds
General fund:			Enterprise funds:		
Special revenue funds:			Internal service funds:		
Other	$ 2,408	$ -	Recreational Development Commission	-	300
Total general fund	2,408	-	Total enterprise funds	-	300
Special revenue funds:			Internal service funds:		
General fund	-	2,408	Special revenue funds:		
Special revenue funds:			Other	-	500
Motor Vehicle Highway Fund	63,277	-	Enterprise funds:		
Bureau of Motor Vehicles Commission	-	63,277	Inns and concessions	300	-
Other	698	698			
Internal service funds:			Total internal service funds	300	500
Recreational Development Commission	500	-			
Total special revenue funds	64,475	66,383	**Total advances**	**$ 67,183**	**$ 67,183**

Interfund receivables and payables

	Interfund receivable	Interfund payable		Interfund receivable	Interfund payable
General fund:			Capital projects funds:		
Special revenue funds:			Special revenue funds:		
County Welfare Administration	$ 716	$ -	State Highway Department	-	8,596
Medicaid Assistance	5,252	-	Enterprise funds:		
Federal Food Stamp Program	1,363	-	State Lottery Commission	21,385	-
Total general fund	7,331	-	Total capital projects funds	21,385	8,596
Special revenue funds:			Enterprise funds:		
General fund	-	7,331	Special revenue funds:		
Capital projects funds:			Pension Relief Fund	-	7,500
Other	8,596	-	Capital projects funds:		
Enterprise funds:			Build Indiana Fund	-	21,385
State Lottery Commission	7,500	-			
			Total enterprise funds	-	28,885
Total special revenue funds	16,096	7,331			
			Total interfund receivable / payable	**$ 44,812**	**$ 44,812**

A summary of interfund operating transfers for the year ended June 30, 2001 is as follows:

	Operating transfers in	Operating transfers (out)	Operating transfers in - from primary government	Operating transfers (out) - to primary government	Operating transfers in - from component units	Operating transfers (out) - to component units	**Net transfers**
Governmental funds:							
General fund	$ 2,102,277	$ (3,254,432)	$ -	$ -	$ -	$ (7,169)	**$ (1,159,324)**
Special revenue funds	4,816,655	(3,583,741)	-	-	-	-	**1,232,914**
Debt service funds	63,166	-	-	-	-	-	**63,166**
Capital projects funds	368,363	(408,550)	-	-	-	(16,205)	**(56,392)**
Proprietary funds:							
Enterprise funds	-	(125,636)	-	-	-	(30,000)	**(155,636)**
Internal service funds	20,674	(16,690)	-	-	-	-	**3,984**
Trust and agency funds:			-				
Expendable trust and agency	1,440	(39,640)	-	-	2,328	-	**(35,872)**
Nonexpendable trust	56,251	(137)	-	-	-	-	**56,114**
Discretely presented component units:							
Governmental	-	-	23,374	-	-	-	**23,374**
Proprietary	-	-	-	(2,328)	-	-	**(2,328)**
Pension trust	-	-	30,000	-	-	-	**30,000**
	$ 7,428,826	**$ (7,428,826)**	**$ 53,374**	**$ (2,328)**	**$ 2,328**	**$ (53,374)**	**$ -**

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:

	General fund	**Special revenue funds**	**Capital projects funds**	**Expendable trust**	**Total**
Income taxes	$ 730,708	$ 5,095	$ -	$ -	**$ 735,803**
Sales taxes	322,803	225,449	-	-	**548,252**
Fuel taxes	-	80,910	-	-	**80,910**
Gaming taxes	-	758	-	-	**758**
Unemployment - employers' contributions	-	-	-	16,006	**16,006**
Inheritance taxes	38,628	-	-	-	**38,628**
Alcohol and tobacco taxes	6,609	66,915	1,623	-	**75,147**
Insurance taxes	1,250	-	-	-	**1,250**
Financial institutions taxes	-	36,058	-	-	**36,058**
Other taxes	165	1,278	-	-	**1,443**
Total taxes receivable	1,100,163	416,463	1,623	16,006	**1,534,255**
Less allowance for uncollectible accounts	(56,851)	(23,623)	(22)	-	**(80,496)**
Net taxes receivable	**$ 1,043,312**	**$ 392,840**	**$ 1,601**	**$ 16,006**	**$ 1,453,759**
Tax refunds payable	**$ 35,194**	**$ 2,805**	**$ -**	**$ -**	**$ 37,999**

D. Fixed Assets

Activity in the general fixed assets account group for the State for the year ended June 30, 2001, was as follows. Figures include assets with an individual cost of $5,000 or more. Infrastructure assets are not included.

	Balance, July 1, As restated	Additions	Deletions	Balance, June 30
Land	$ 128,843	$ 3,392	$ 197	$ 132,038
Buildings and improvements	1,157,061	35,403	60,928	1,131,536
Furniture, machinery, and equipment	395,935	34,711	21,399	409,247
Total general fixed assets	**$ 1,681,839**	**$ 73,506**	**$ 82,524**	**$ 1,672,821**

The following is a summary of proprietary fund type fixed assets at June 30, 2001. Infrastructure assets are included as they are presented on the respective balance sheets.

	Enterprise funds	Internal service funds
Buildings, land and improvements	$ 116,448	$ 675,909
Infrastructure	471,700	-
Furniture, machinery, and equipment	47,599	41,223
less: accumulated depreciation	(418,432)	(149,143)
Construction in progress	34,694	201,271
Total fixed assets	**$ 252,009**	**$ 769,260**

Fixed assets of the significant discretely presented component units include $2,617 million for Indiana University, less accumulated depreciation of $1,123 million; $1,555 million for Purdue University, less accumulated depreciation of $694 million.

E. Leases

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 $5,000 or more were $39.6 million for the year ended June 30, 2001. A table of future minimum lease payments (excluding executory costs) is presented below.

Capital Leases
The State has entered into various lease agreements with aggregate payments of $5,000 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 general fixed assets account group. The related lease obligations are reported in the general long-term debt account group.

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2001 and the assets acquired through capital lease during the fiscal year were as follows:

Future minimum lease payments

		Capital leases	
Year ending June 30,	**Operating leases**	**General Long-Term Debt Account Group**	**Proprietary funds**
2002	$ 38,154	$ 2,607	$ 71
2003	32,844	2,236	62
2004	25,776	1,590	16
2005	19,350	1,231	-
2006	14,737	767	-
Thereafter	76,476	-	-
Total minimum lease payments (excluding executory costs)	**$ 207,337**	**8,431**	**149**
Less:			
Amount representing interest		(920)	(9)
Present value of future minimum lease payments		**$ 7,511**	**$ 140**

Assets acquired through capital lease

Machinery and equipment	$ 11,662	$ 373
less accumulated depreciation	-	(234)
	$ 11,662	**$ 139**

The Indiana Housing Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $1.4 million. The Indiana Development Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $.5 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling $40.0 million, of which $10.6 million represents interest; Indiana University's liability for capital leases is $5.8 million , of which $.5 million represents interest.

Indiana University has future obligations under operating leases of $9.0 million.

F. Long-Term Debt

Long-term debt of the general long-term debt account group consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Other long term obligations of the general long term debt account group include capital lease obligations of governmental funds as presented in Section III(E), net pension obligations, and compensated absence obligations.

Long-term debt of the proprietary funds consists of revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, and the Indiana Transportation Finance Authority Toll Roads. It also includes the non-current portion of prize liability accrued by the Indiana State Lottery Commission. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term debt of the significant discretely presented component units consists of bonds issued or backed by the Indiana Development Finance Authority, the Indiana Housing Finance Authority, the Indiana Bond Bank, 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.

General Long-Term Debt Account Group:

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 December 11, 1996, the Indiana Transportation Finance Authority issued Highway Refunding Bonds Series 1996B in the amount of $27.1 million with interest rates from 4.50% to 6%. The refunding debt was used to refund the Series 1992A bonds. A portion of the proceeds was deposited in an escrow fund. As of June 30, 2001, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was $24.8 million.

On November 15, 2000, the Indiana Transportation Finance Authority issued Highway Revenue Bonds Series 2000 in the par amount of $269.5 million with interest rates from 4.50% to 5.75%. This included $21.9 million of refunding debt and $247.6 million of new money debt. The refunding debt was used to refund in advance of their stated maturity dates the Series 1990A bonds maturing on and after June 1, 2006 and the Series 1993A bonds maturing on and after June 1, 2006. A portion of the proceeds, was deposited in an escrow fund. The $247.6 million new money debt is being used for the payment of construction costs for the Series 2000 projects. As of June 30, 2001, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was $9.7 million for Series 1990A and $9.2 million for Series 1993A.

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

On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of $201.3 million. Additionally, Series 1995A parity bonds in the amount of $29.7 million were issued May 15, 1995, and Series 1996A refunding bonds of $138 million were issued in December, 1996 to partially refund in advance principal under series 1992A. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, the Authority issued Airport Facilities Lease Revenue Refund Bonds Series 1996A in the amount of $137.7 million with interest rates from 4.5% to 6%. A portion of the proceeds was deposited in an escrow fund to refund a portion of the 1992 issue. The amount of defeased debt still outstanding but removed from the General Long Term Debt Account Group at June 30, 2001 was $127 million.

Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds, Series A - On November 1, 1992, the Indiana Transportation Finance Authority issued Aviation Technology Center Lease Bonds - Series A, in the principal amount of $11.6 million. These bonds were issued to finance the costs of construction and equipping a new aviation technology center at Indianapolis International Airport. These bonds are payable from lease revenues as may be appropriated from the Indiana General Assembly for that purpose.

Changes in Long-Term Liabilities: During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group.

	Balance, July 1, as Restated	Accretions and Additions	Reductions	Balance, June 30
Compensated absences	$ 109,340	$ 64,632	$ 59,977	$ 113,995
Revenue bond debt	705,016	253,937	19,285	939,668
Net pension obligations	430	423	275	578
Capital leases	4,412	4,817	1,718	7,511
Totals	$ 819,198	$ 323,809	$ 81,255	$ 1,061,752

Proprietary Funds:

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 Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

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

On September 8, 1993, the Commission issued $178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. On January 1, 1998, Facilities Revenue Refinance Bonds Series 1998A in the amount of $93 million with interest rates from 3.9% to 5.125% were issued to fully refund in advance of their stated maturity dates the 1991 Series Bonds. The net proceeds were used to purchase U.S Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service for the refunded bonds. At June 30, 2001, the Commission had a total of $257.9 million defeased bonds outstanding.

On June 1, 2000 the Commission issued the Series 2000B Bonds to refund on a current basis a portion of the Commissions' outstanding Series 1990D Bonds. The net proceeds of $42.7 million were used to purchase U.S. Government securities. These securities, plus $6.6 million of restricted assets released, were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2000 refunding on a current basis a portion of the Series 1990D Bonds. The reacquisition price of these bonds exceeded their net carrying value resulting in an accounting loss of $1.2 million. Pursuant to GASB Statement 23, the Commission elected to capitalize the loss as a reduction of the related revenue bonds payable. The amount capitalized is amortized, using the effective interest method, over the shorter of the remaining life of the refunded or new bonds, which is equal to thirteen years. The Series 2000B Bonds were issued with interest rates that fluctuate based on the market rate. Accordingly, while the Commission believes an economic gain and lower cash flow requirements will result from the refunding, the amount of such benefits, if any, is not presently determinable because the interest rates fluctuate based on the market rate.

On April 10, 2001, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998 which provides up to $250 million of tax exempt commercial paper to provide interim financing for the acquisition and construction of various facilities. Outstanding borrowings under this facility at June 30, 2001 were $221.9 million and bears interest at the London Interbank Offered Rate (LIBOR) plus .25% or 70% of the bank's prime lending rate. The interest rates in effect at June 30, 2001 were between 2.25% and 4.35%. Accrued interest at June 30, 2001 was $1.3 million. The credit facility expires February 1, 2004. Upon completion of construction on the various facilities, the Commission plans to issue bonds to fund the outstanding balance on the Hoosier Notes. Subsequent to June 30, 2001, the Commission has made additional borrowings of $21 million persuant to this agreement.

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.

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

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

During September 1985, ITFA issued $256.9 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 for the refunding of the outstanding portion of the Indiana Toll Commission East-West Toll Road Revenue Bonds, 1980 Series. At June 30, 2001, the principal amount of the Series 1980 bonds, which have been defeased in substance, was $108.0 million.

Revenue bonds outstanding at June 30, 2001 (less unamortized discount of $16.7 million) are as follows.

	Interest rates	Amount
General Long-Term Debt Account Group		
ITFA Highway Revenue Bonds	4.25% - 6.25%	$ 712,553
ITFA Airport Facilities Bonds	4.50% - 6.50%	217,415
ITFA Aviation Technology Center Bonds	5.65% - 6.50%	9,700
		$ 939,668
Proprietary funds:		
Indiana State Office Building Commission	2.75% - 10.00%	$ 596,817
Recreational Development Commission	3.60% - 6.13%	23,808
ITFA Toll Roads	3.90% - 9.50%	234,235
		$ 854,860

State Lottery Commission Accrued Prize Liability - Accrued prize liability includes an estimate of unclaimed scratch-off and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2001, as well as installment amounts payable to past scratch-off, on-line and game show winners. Installment prizes payable are recorded at a discount based on interest rates that range from approximately 5% to 8% and reflect interest earned by investments held to fund related liabilities. At June 30, 2001, the accrued prize liability was $79.5 million including $35.2 million in current prize liability and $44.3 million in long-term prize liability.

Revenue bond debt service and accrued prize liability requirements to maturity, including $1,179.6 million of interest, are as follows:

Fiscal year ending June 30,	General Long-Term Debt Account Group	Proprietary funds	Total
2002	$ 73,546	$ 84,737	$ 158,283
2003	76,360	95,245	171,605
2004	76,624	94,700	171,324
2005	76,856	93,624	170,480
2006	78,095	92,865	170,960
Thereafter	1,207,408	1,019,466	2,226,874
Total	$ 1,588,889	$ 1,480,637	$ 3,069,526

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

Indiana Development Finance Authority - The Indiana Development Finance Authority (IDFA) was established by the General Assembly, in 1990, as a body corporate and politic to independently exercise essential public functions. IDFA's primary purpose is to provide job-creating industrial development projects with access to capital markets where adequate financing is not otherwise available.

IDFA is a party to a reimbursement agreement with Qualitech Steel Corporations (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds Series 1996. Qualitech filed a petition for relief under Chapter 11 of the Bankruptcy Code. As a result, IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling $27.5. Debt service reserve funds aggregating $3.6 million are currently held in trust and may be available to reduce the contingent obligation.

For more information, see Note IV E. Contingencies and Commitments – Loss from Reimbursement Agreement.

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 $1,481 million with interest rates ranging from 3.90% to 9.375%. The total outstanding debt associated with these bond issues as of December 31, 2000 was $900 million.

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A. The principal amount of this loan totaled $6.2 million as of December 31, 2000.

During 1999, GNMA Mortgage Program Fund redeemed the remaining bonds on the 1989 Series A, through an optional redemption, at a premium of 103%, resulting in a premium paid of $428,100. This transaction resulted in deferred debt issuance cost of $162,469.

During 2000 the Single Family Mortgage Program Fund issued 2000 Bond Series with a face value of $208.6 million and interest rates varying from 4.60% to 7.85%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner occupied housing.

The Indiana Housing Finance Authority borrowed $6.1 million during 2000 against its line of credit. The proceeds from this borrowing were at an interest rate of 5.5022%

During 2000 the GNMA Mortgage Program Fund redeemed the remaining bonds on the 1990 Series B, 2990 Series C, 1990 Series D, and 1990 Series F, through optional redemptions at a premium of 103% resulting in a premium paid of $1,003,900. These transactions resulted in extraordinary deferred debt issuance costs of $180,954.

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, 2001 was $1,378 million with interest rates ranging from 2.8% to 7.125%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to $26.8 million.

In January 2000, the Bond Bank issued its Special Program Series 2000A Refunding Bonds in the amount of $32,860,000. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1985B, 1986B, 1986C, 1986E, 1987A, 1989C, 1990A, 1990B, and Special Loan Program Bonds Series 1988A, 1988B, 1988C, and 1989A in entirety. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying amount of the defeased debt resulted in a deferred cost on defeasance of $1.2 million, which is being amortized over the life of the Special Program Series 2000A Refunding Bonds. However, the issuance of the Special Program Series 2000A Refunding Bonds will reduce the Bond Bank's aggregate debt service payments by $17.7 million over the 20-year period extending through February, 2020, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.9 million.

Special Program Bonds Series 1985A, 1989A, 1991B, 1992A, and 1992B are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately $67 million at June 30, 2001.

In August 2000, the Bond Bank issued Advance Funding Program Notes Series 2000B with a face amount of $2.4 million and an interest rate of 4.5%.

In December 2000 the Bond Bank issued State Revolving Bonds Series 2000B with a face amount of $100 million at interest rates varying from 5.25% to 5.35%. Also in December 2000 the Bond Bank issued State Revolving Bonds Series 2000B Taxable with a face amount of $5.6 million and an interest rate of 6.0%.

In January 2001, the Bond Bank issued Advanced Funding Interim Notes with a face amount of $87 million and an interest rate of 3.85%. This money goes out to all participants who want to receive their funds ahead of the Advance Funding Program Notes which are issued in February. These Advanced Funding Interim Notes are repaid when the Advance Funding Program Notes are issued.

In January 2001, the Bond Bank issued its Special Program Series 2001A Refunding Bonds in the amount of $20,840,000 at interest rates varying from 5.0% to 5.5%. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1992A and 1992B in entirety and retire the Special Program Bonds Series 1991C and 1991F. 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 value of the defeased debt resulted in a deferred cost on the defeased debt of $978,819, which is being amortized over the life of the Special Program Series 2001A Refunding Bonds. However, the issuance of the Special Program Series 2001A Refunding bonds will reduce the Bond Bank's aggregate debt service payments by $31.5 million over the 21 year period extending through February 2022, resulting in an economic gain of approximately $15.7 million.

In January 2001 the Bond Bank issued Special Program Bonds Series 2001B with a face amount of $9.5 million at interest rates varying from 3.35% to 5.5%.

In February 2001, the Bond Bank issued Advance Funding Program Notes Series 2001A with a face amount of $370.8 million and an interest rate of 4.0%.

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

Indiana University

The outstanding long-term bonded indebtedness at June 30, 2001 was $554.1 million with interest rates ranging from 4.0% to 6.6%.

On August 23, 2000, the university issued Indiana University Tax-Exempt Commercial Paper Notes Series 2000 (TECP 2000) in the amount of $25.3 million. The issue was able to provide interim financing for portions of the Science and Campus Services Building on the Kokomo campus and the Student Activities Center on the South Bend campus. The interest rate was 4.25% at issuance, and can be reset for intervals not to exceed 270 days.

On December 14, 2000, the university issued Indiana University Variable Rate Facility Revenue Bonds Series 2000 in the amount of $16.8 million. The purpose of the issue was to refinance a bond anticipation note issued in 1999, which financed the new parking facility located just south of the Kelley Center and Library on the Kokomo campus; finance a parking facility connected to the Graduate School of Business on the Bloomington campus; and finance a parking facility on the northwest corner of Michigan and Blackford Streets on the Indianapolis campus. The variable interest rate was set at an initial weekly rate of 4.25%

On June 28, 2001, the university issued Indiana University Student Fee Bonds, Series N, in the amount of $103.9 million. The purpose of the issue was to provide for a partial current refunding of Student Fee Bonds Series H, a partial advance refunding of the Student Fee Bonds Series I and a full current refunding of TECP 2000 (see above). The issue also included new money, which completed the financing for the Science and Campus Services Building on the Kokomo campus and the Student Activities Center on the South Bend campus. The true interest cost for the entire bond issue was 4.46%. The advance and current refunding resulted in the recognition of an accounting loss of $2.360 million for the year ending June 30, 2001. The refunding portion of the transaction achieved debt service savings of $2.515 million with a net present value savings of $2.367 million.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2001 was $31.6 million.

<u>Purdue University</u>

The outstanding long-term bonded indebtedness at June 30, 2001 was $315.8 million at 2.6% to 6.5% for Purdue University.

On July 1, 2000, series Q bonds were issued in the amount of $50.0 million. This series includes funding for three projects: renovation of the Purdue Memorial Union; Boiler Life Extension Phase II; and construction of the Visual and Performing Arts Building. As of June 30, 2001, the balance outstanding on these bonds was $50.0 million. The interest rates were 5.25% to 6.0%.

In prior years, Purdue University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2001 was $105.4 million.

G. Equity Reserves

Reserved fund balances/retained earnings are as follows:

Fund balance / retained earnings reserved for:	Encumbrances and prepaid items	Tuition support	Employees' pension benefits	Advances and inter-governmental loans	Debt service	Special purposes, future losses and other	Endowments and similar funds	Total reserves
Governmental funds:								
General fund	$ 75,760	$ 265,000	$ -	$ 9,874	$ -	$ 3,819	$ -	**$ 354,453**
Special revenue funds	966,273	-	-	554,769	-	98,818	-	**1,619,860**
Debt service funds	-	-	-	-	12,824	-	-	**12,824**
Capital projects funds	13,199	-	-	5,985	-	225	-	**19,409**
Proprietary funds:								
Enterprise funds	-	-	-	-	-	189,565	-	**189,565**
Internal service funds	-	-	-	300	-	25,680	-	**25,980**
Trust and agency funds:								
Expendable trust funds	-	-	-	-	-	1,024	-	**1,024**
Nonexpendable trust funds	-	-	-	326,578	-	-	-	**326,578**
Pension trust funds	-	-	306,895	-	-	-	-	**306,895**
Discretely presented component units:								
Governmental	5,948	-	-	-	-	-	-	**5,948**
Pension trust funds	-	-	15,874,528	-	-	-	-	**15,874,528**
Colleges and universities	-	-	-	-	-	-	422,750	**422,750**
Total	$ 1,061,180	$ 265,000	$ 16,181,423	$ 897,506	$ 12,824	$ 319,131	$ 422,750	$ 19,159,814

H. Contributed Capital

The changes in contributed capital for proprietary funds were as follows:

	Enterprise Funds	---------------------------Internal Service Funds---------------------------			
	Inns and concessions	Institutional industries	Administrative services revolving	State Office Building Commission	Total
Beginning balance, contributed capital, as restated	$ 9,308	$ 8,878	$ 1,490	$ 9,981	**$ 29,657**
Contributing sources:					
Captial grants	45	-	-	-	**45**
Ending balance, **Contributed Capital**	$ 9,353	$ 8,878	$ 1,490	$ 9,981	$ 29,702

I. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2001, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana

Prior Period Adjustments –Of the $597.3 million prior period adjustment for Special Revenue Funds, $599.0 million was for the Property Tax Replacement Fund. In connection with the implementation of GASB Statement No. 33 during FY 2001, amounts previously reported for FY 2000 have been restated to reflect changes in the recognition of intergovernmental payables. As presented on the Balance Sheet for FY 2000, Property Tax Replacement Fund Intergovernmental Payables increased by $599.0 million while Unreserved Fund Balance Designated for Allotments decreased by the same amount.

Of the $12.2 million prior period adjustment for the Internal Service Funds, $16.2 million was for the State Police Benefit Fund. A correction of the method of estimating incurred claims caused this prior period adjustment.

The State collects and distributes taxes for local units of government through the General Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund. This resulted in a restatement of beginning assets in the amount of $258.5 million. These assets are Securities Lending Collateral and were carried as an asset in the General Fund in FY 2000.

Of the $8.4 million prior period adjustment for Colleges and Universities, $5.8 million was for Ivy Tech State College. In connection with the implementation of GASB Statement No. 33 during FY 2001, amounts previously reported for FY 2000 have been restated to reflect changes in the recognition of deferred revenue. As presented on the Balance Sheet for FY 2000, Restricted Funds Deferred Revenue increased by $5.8 million while the Restricted Fund Balance decreased by the same amount.

Reclassifications – The State collects and distributes taxes for local units of government through the General Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund and are reclassified accordingly. This reclassification results in a reduction to the July 1, 2000 General Fund fund balance of $331 million and an corresponding increase to Agency fund assets.

The State collects and distributes child support payments under Title IV-D through a Special Revenue Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund and are reclassified accordingly This reclassification results in a reduction to the July 1, 2000 Special Revenue fund balance of $21.7 million and an corresponding increase to Agency fund assets.

Effective July 1, 2000, the Public Employees Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) became independent bodies corporate and politic. The funds are not departments or agencies for the State but are independent instrumentalities exercising essential government functions. Because of their change in legal status these funds are reclassified as discretely presented component units. This results in decrease of $15,876 million to the primary government's pension trust funds and a corresponding increase to discretely presented pension trust funds.

The following schedule presents a summary of restated beginning balances by fund type:

	June 30, 2000, As Reported	Prior Period Adjustments	Reclassifications	Balance July 1, As Restated
Primary government including blended component units:				
General Fund	$ 3,219,285	$ -	$ (331,002)	$ 2,888,283
Special revenue funds	2,153,788	(597,277)	(21,730)	1,534,781
Debt service funds	12,040	-	-	12,040
Capital projects funds	505,059	(4,717)	-	500,342
Enterprise funds	179,231	2,330	-	181,561
Internal service funds	53,620	(12,235)	-	41,385
Trust and agency funds:			-	
Expendable trust	2,122,464	-	-	2,122,464
Nonexpendable trust	451,091	-	-	451,091
Pension trust	16,186,104	-	(15,876,495)	309,609
Agency (asset)	379,993	258,535	352,732	991,260
			-	
Discretely presented component units:			-	
Governmental	30,771	-	-	30,771
Proprietary	437,008	-	-	437,008
Pension trust	-	62	15,876,495	15,876,557
Colleges & universities	4,048,539	(8,361)	-	4,040,178
	$ 29,778,993	$ (361,663)	$ -	$ 29,417,330

IV. 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, state employees' death benefits, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in five 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' death benefits are financed through a charge to each fund with payroll expenditures. The charge is a percentage of gross pay. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability for employee death benefit is based on claims submitted and paid during July for liabilities incurred prior to June 30. The liability of the State Police benefit fund was based on an estimate of the actuarial liability of death and disability payments. The surplus retained earnings in these funds is reserved for future catastrophic losses.

The unpaid claims of the State Disability Fund of $11.1 million reported at June 30, 2000, included a reserve of $4.0 million for workers' compensation claims. Since workers' compensation claims are paid by the agency, not the State Disability Fund, the unpaid claims as of July 1, 2000, was restated to $7.1 million.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	State Employees' Death Benefits Fund	State Police Death Benefits	Total
2001						
Unpaid Claims, July 1 As Restated	$ 2,013	$ 8,010	$ 7,142	$ -	$ 1,275	**$ 18,440**
Incurred Claims and Changes in Estimate	12,946	56,597	21,062	100	17,780	**108,485**
Claims Paid	(13,359)	(55,607)	(21,085)	(50)	(1,418)	**(91,519)**
Unpaid Claims, June 30	**$ 1,600**	**$ 9,000**	**$ 7,119**	**$ 50**	**$ 17,637**	**$ 35,406**
2000						
Unpaid Claims, July 1	$ 2,302	$ 6,315	$ 9,579	$ -	$ 1,175	**$ 19,371**
Incurred Claims and Changes in Estimate	13,208	57,275	20,151	-	1,362	**91,996**
Claims Paid	(13,497)	(55,580)	(18,612)	-	(1,262)	**(88,951)**
Unpaid Claims, June 30	**$ 2,013**	**$ 8,010**	**$ 11,118**	**$ -**	**$ 1,275**	**$ 22,416**

The trustees of Indiana University and Purdue University (discretely presented component units) 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, 2001 was $32.0 million.

B. Investment in Joint Venture

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

The ITFA deposited $159 million of the bond proceeds of the Series 1992A bonds into the project account of the construction fund to provide for a portion of the costs of constructing and equipping Phase I of the United Airlines Indianapolis Maintenance Center. Additional proceeds of $32.8 million, which consisted of capitalized and accrued interest, were deposited in the interest account of the construction fund.

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

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note 1A.

C. Segment Information -- Enterprise Funds

The State of Indiana has five enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Inns and Concessions provide lodging and dining throughout the year for state park tourists. The Toll Bridges collect fees for the repayment of construction costs and to provide maintenance of the bridges. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects. The Residual Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 2001.

	Inns and concessions	Toll bridges	Toll roads	State Lottery Commission	Malpractice Insurance Authority	Total
Operating revenue	$ 17,453	$ 807	$ 88,517	$ 548,288	$ 1,728	$ 656,793
Depreciation and amortization	510	105	11,054	1,095	-	12,764
Operating income (loss)	(778)	75	43,106	147,855	(824)	189,434
Operating transfers in (out)	-	-	-	(155,636)	-	(155,636)
Net income (loss)	(565)	82	34,956	(51)	304	34,726
Fixed asset additions	130	-	27,260	622	-	28,012
Net working capital	1,512	3,822	194,844	36,154	3,560	239,892
Total assets	13,855	4,373	450,148	128,176	15,814	612,366
Bonds/notes/loans payable	349	-	234,235	-	-	234,584
Total equity	9,249	4,357	203,474	5,000	3,560	225,640

D. Subsequent Events

During FY 2001, the State experienced actual revenue shortfalls and has reduced its revenue forecast for FY 2002 and FY 2003. Under the budget passed by the 2000 General Assembly, the State is expecting a deficit in the General Fund and the Property Tax Replacement Fund of $919.6 million for FY ending June 30, 2003. The Governor has indicated he will delay distribution of the higher education allotment and tuition support, which would reduce the deficit to $535.9 million. In addition, he will seek a delay in the property tax replacement credit, which would further reduce the deficit to $381.8 million on a cash basis. The Governor is working with the General Assembly on a plan to reduce the remaining deficit and balance the budget through a combination of spending reductions, tax increases, and existing funding sources that are not normally available to the General Fund.

On August 8, 2001, the Indiana State Office Building Commission issued Facilities Revenue Bonds, Series

2001A, aggregating $66.6 million related to the Miami Correctional Facility-Phase II.

Subsequent to June 30, 2001, the Bond Bank has closed the following new bond issues: Special Program Bonds, Series 2001A in the amount of $7.1 million, Advance Funding Program Notes, Series 2001B in the amount of $5.0 million, and Common School Fund, Series 2001A in the amount of $55.5 million.

E. Contingencies and Commitments

Litigation

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

The Indiana Attorney General's office estimates a liability of $6-8 million for open tort lawsuits. During fiscal year ending June 30, 2001, the State paid $7.2 million for tort settlements and judgements, and claims.

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

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at equal rates of pay. The plaintiffs seek class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. The State has filed a motion to dismiss for failure to exhaust administrative remedies. The motion was denied by the trial court, but the denial is being appealed. During fiscal year 1995, a similar action was filed in the Marion Superior Court. This matter is still pending, and if the State were ultimately unsuccessful, the loss would be approximately $4 million.

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

In September 2000, various Lake County residents and Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the indigent property tax and that the tax, therefore violates various constitutional provisions. A response to the petition was filed in November 2000. Plaintiffs are claiming that upwards of $20 million should be refunded to taxpayers. The parties filed cross-motions for summary judgment and oral arguments were made on December 4, 2001. The State is currently awaiting a decision.

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

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

In addition, the State Lottery Commission (the Commission) is the defendant in a class action suit. During 1997, a class action suit was filed in Marion County Court on behalf of all persons denied prizes on tickets submitted beyond the statutorily required, final sixty-day claim period. In October 1997, the Court granted the Commission's motion to dismiss the complaint. However, the Indiana Court of Appeals reversed the trial court decision and found that the plaintiff was entitled to trial on the merits of his claim. The case is now pending before the Indiana Supreme Court.

Management and its legal counsel intend to vigorously defend its position but are unable to predict at this time the final outcome of the appeals process. If the Supreme Court upholds the plaintiff's appeal and allows a trial on the merits of the case, the Commission will vigorously defend its position and believes it will prevail. However, the Commission cannot predict the final resolution of this matter or whether its resolution could materially affect the Commission's results of operations, cash flows or financial position.

Loss from reimbursement agreement

The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Qualitech Steel Corporation (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic

Development Revenue Bonds, Series 1996 (the Bonds). The proceeds of the Bonds were used by Qualitech to help construct Qualitech's special bar quality steel mini-mill facility in Pittsboro, Indiana. The company filed for Chapter 11 bankruptcy in 1999, and the senior lenders purchased the assets of Qualitech in a credit bid. The senior lenders operated Qualitech SBQ, LLC until it ceased operations in January 2001. ITFA and the State are working with local officials to encourage potential purchasers.

To induce the bank to issue a letter of credit used as a credit enhancement in the marketing of the Bonds, ITFA agreed to certain provisions in the original Reimbursement Agreement. These provisions require ITFA, in the event of certain defaults by Qualitech, to either I) pay bond and related expenses from certain monies legally available to ITFA, or II) 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 ITFA 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 fiscal year ending June 30, 2001, ITFA made bond and related payments of approximately $3.4 million for Qualitech. In the 2001-2003 biennial budget, the Indiana General Assembly appropriated $8.4 million for Qualitech bond and related payments, negating the need to access any ITFA guarantee funds in either FY 2002 or FY 2003.

ITFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling $27.5 million. Debt service reserve funds aggregating over $3.6 million are currently held in trust and may be available to reduce the contingent obligation.

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

Construction Commitments.
As of June 30, 2001, the Indiana Transportation Finance Authority Highway Bonds, which are included in the financial reporting entity of the State of Indiana as a special revenue fund, had $124.4 million committed for unfinished highway construction projects.

F. Other Revenue

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

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

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

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2001 was $525.1 million. Total outstanding loans were $.9 million, resulting in total assets of $526.0 million.

H. Deferred Compensation

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

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

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

I. Discretely Presented Component Units – Condensed Financial Statements

The Indiana Development Finance Authority (IDFA) is the only discretely presented component unit of a governmental fund type and is considered significant. On the following pages are the condensed financial statements of the proprietary fund types, colleges and universities, and pension trust funds giving separate detail of the balances and activity of those considered significant to the State reporting entity.

Condensed Balance Sheet
Major and Aggregate Non-major Discretely Presented Component Units
Proprietary fund types and Colleges and Universities
June 30, 2001

	Indiana University	Purdue University	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Assets						
Current assets	$ 817,111	$ 1,622,910	$ 109,127	$ 242,923	$ 1,196,992	**$ 3,989,063**
Non-current assets	-	-	1,310,423	801,152	166,824	**2,278,399**
Property, plant, and equipment net of accumulated depreciation	1,494,397	861,640	-	419	894,468	**3,250,924**
Total assets	**$ 2,311,508**	**$ 2,484,550**	**$ 1,419,550**	**$ 1,044,494**	**$ 2,258,284**	**$ 9,518,386**
Liabilities						
Current liabilities	$ 230,834	$ 326,701	$ 85,940	$ 2,251	$ 372,790	**$ 1,018,516**
Revenue bonds / notes payable	561,571	334,384	1,322,013	911,856	569,663	**3,699,487**
Total liabilities	792,405	661,085	1,407,953	914,107	942,453	**4,718,003**
Equity						
Net investment in plant	956,410	531,682	-	-	603,445	**2,091,537**
Endowments and similar funds	138,229	255,543	-	-	28,978	**422,750**
Unreserved retained earnings	-	-	11,597	130,387	360,512	**502,496**
Allocated fund balance	103,296	671,372	-	-	220,618	**995,286**
Unallocated fund balance	321,168	364,868	-	-	102,278	**788,314**
Total equity	1,519,103	1,823,465	11,597	130,387	1,315,831	**4,800,383**
Total liabilities and equity	**$ 2,311,508**	**$ 2,484,550**	**$ 1,419,550**	**$ 1,044,494**	**$ 2,258,284**	**$ 9,518,386**

Condensed Statement of Changes in Fund Balance
Major and Aggregate Non-major Discretely Presented Component Units
Colleges and Universities
For the Fiscal Year Ended June 30, 2001

	Indiana University	Purdue University	Non-major universities	Total
Revenues and other additions:				
Current fund revenues	$ 1,174,983	$ 726,723	$ 549,547	**$ 2,451,253**
Additions to plant and facilities	(80,494)	108,002	81,608	**109,116**
Retirement of indebtedness	115,078	25,440	22,148	**162,666**
Other additions	947,638	649,695	441,591	**2,038,924**
Total revenues and other additions	2,157,205	1,509,860	1,094,894	**4,761,959**
Expenditures and other deductions:				
Current fund expenditures	1,046,091	785,369	746,367	**2,577,827**
Expended for plant, facilities, and disposals	(116,692)	124,213	100,609	**108,130**
Bond issues, issuance costs, and retirements	175,748	60,168	48,157	**284,073**
Debt service requirements	23,875	43,494	19,732	**87,101**
Depreciation and amortization	86,154	64,746	36,577	**187,477**
Other deductions	803,828	338,622	117,192	**1,259,642**
Total expenditures and deductions	2,019,004	1,416,612	1,068,634	**4,504,250**
Net increase (decrease) for the year	138,201	93,248	26,260	**257,709**
Fund balance, July 1, as restated	1,380,902	1,730,217	929,059	**4,040,178**
Fund balance, June 30	**$ 1,519,103**	**$ 1,823,465**	**$ 955,319**	**$ 4,297,887**

Condensed Statement of Current Fund Revenues, Expenditures, and Other Changes
Major and Aggregate Non-major Discretely Presented Component Units
Colleges and Universities
For the Fiscal Year Ended June 30, 2001

	Indiana University	Purdue University	Non-major universities	Total
Revenues:	$ 1,782,500	$ 1,186,580	$ 919,946	$ 3,889,026
Expenditures and mandatory transfers:				
Expenditures:				
Educational and general	1,374,421	911,715	744,913	3,031,049
Auxiliary enterprises	298,449	136,374	109,129	543,952
Mandatory transfers	58,680	50,440	20,109	129,229
Total expenditures and mandatory transfers	1,731,550	1,098,529	874,151	3,704,230
Other transfers and additions (deductions):	(43,998)	(21,427)	(36,721)	(102,146)
Increase (decrease) in fund balance	**$ 6,952**	**$ 66,624**	**$ 9,074**	**$ 82,650**

Condensed Statement of Revenues, Expenses and Changes in Retained Earnings
Major and Aggregate Non-major Discretely Presented Component Units
Proprietary fund types
For the Fiscal Year Ended June 30, 2001

	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Operating revenues:	$ 70,489	$ 88,016	$ 56,839	**$ 215,344**
Operating expenses:	3,751	8,694	21,839	**34,284**
Operating income (loss)	66,738	79,322	35,000	**181,060**
Nonoperating revenues (expenses):	(66,968)	(38,493)	(7,783)	**(113,244)**
Income before operating transfers	(230)	40,829	27,217	**67,816**
Operating transfers in (out)	-	-	(2,328)	**(2,328)**
Net income (loss)	(230)	40,829	24,889	**65,488**
Retained earnings, July 1, as restated	11,827	89,558	335,623	**437,008**
Retained earnings, June 30	**$ 11,597**	**$ 130,387**	**$ 360,512**	**$ 502,496**

Condensed Statement of Plan Net Assets
Major Discretely Presented Component Units
Pension Trust Funds
June 30, 2001

	Public Employees' Retirement Fund	State Teachers' Retirement Fund	Totals
Assets			
Cash, cash equivalents and receivables	$ 742,915	$ 532,750	$ 1,275,665
Securities lending collateral	1,394,895	586,199	1,981,094
Investments	9,669,065	5,502,486	15,171,551
Property, plant, and equipment net of accumulated depreciation	46	13	59
Total assets	**$ 11,806,921**	**$ 6,621,448**	**$ 18,428,369**
Liabilities			
Payables	$ 348,257	$ 224,490	$ 572,747
Securities lending collateral	1,394,895	586,199	1,981,094
Total liabilities	1,743,152	810,689	2,553,841
Fund balance			
Reserved for employees pension benefits	10,063,769	5,810,759	15,874,528
Total fund balance	10,063,769	5,810,759	15,874,528
Total liabilities and fund balance	**$ 11,806,921**	**$ 6,621,448**	**$ 18,428,369**

Condensed Statement of Changes in Plan Net Assets
Major Discretely Presented Component Units
Pension Trust Funds
For the Year Ended June 30, 2001

	Public Employees' Retirement Fund	State Teachers' Retirement Fund	Totals
Additions	$ 129,336	$ 830,960	$ 960,296
Deductions	364,539	597,786	962,325
Net increase (decrease) in net assets	(235,203)	233,174	(2,029)
Net assets held in trust for pension benefits, July 1, as restated	10,298,972	5,577,585	15,876,557
Net assets held in trust for pension benefits, June 30	**$ 10,063,769**	**$ 5,810,759**	**$ 15,874,528**

J. Employee Retirement Systems and Plans

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

Summary of Significant Accounting Policies (Primary government and discretely presented component units)
Contributions are recognized when received with accrual adjustments at June 30, 2001. The accrual for contributions receivable is estimated for each retirement fund on the basis that best represents that fund's receivable. The different basis include actual third quarter contributions received during the quarter ended June 30, 2001, actual contributions received in July for work days in June, or a combination of the two. 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.

Benefits paid are recognized when paid with an accrual adjustment at June 30, 2001. The accrual for benefits payable is based on benefits due at June 30 but not paid until July. Refunds are recognized when paid.

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 part of primary government)

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

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

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

The State is required to contribute at an actuarially determined rate; the current rate is 18.3% of covered payroll.

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

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Fund (ECRF) 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 Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Fund 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 Fund. 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 15.7% of covered payroll.

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

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

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

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) 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' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

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

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

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

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

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

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

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

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2001, the number of participating political subdivisions was 1037.

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

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

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 5.0% 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:

	Primary Government	------------------------Discretely Presented Component Unit------------------------					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	$ 9,305.2	$ 61,762.0	$ 99,207.0	$ 1,701.9	$ 11,491.1	$ 425.6	$ 186.7
Interest on net pension obligation	(114.2)	(827.0)	(2,947.0)	(21.6)	(103.1)	31.2	(2.8)
Adjustment to annual required contribution	124.4	889.0	3,169.0	21.7	103.4	(33.1)	3.2
Annual pension cost	9,315.4	61,824.0	99,429.0	1,702.0	11,491.4	423.7	187.1
Contributions made	(9,587.0)	(84,354.0)	(128,754.0)	(1,937.3)	(11,775.0)	(275.3)	(170.1)
Increase (decrease) in net pension obligation	(271.6)	(22,530.0)	(29,325.0)	(235.3)	(283.6)	148.4	17.0
Net pension obligations, beginning of year	(1,631.5)	(11,407.0)	(40,648.0)	(297.7)	(1,422.4)	429.9	(38.5)
Net pension obligations, end of year	$ (1,903.1)	$ (33,937.0)	$ (69,973.0)	$ (533.0)	$ (1,706.0)	$ 578.3	$ (21.5)
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	2.70%	5.00%	5.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	6.00%	2.00%	2.00%	2.00%	N/A	N/A	2.00%
Contribution rates:							
State	17.90%	5.00%	5.00%	15.70%	35.40%	2.80%	*
Plan members	6.00%	3.00%	3.00%	3.00%	6.00%	6.00%	0.00%
Actuarial valuation date	7/1/01	7/1/00	7/1/00	7/1/00	7/1/00	7/1/00	7/1/00
Actuarial cost method	entry age	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	accrued benefit (unit credit)
Amortization method	level percent	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	40 years	40 years	40 years	30 years	40 years	30 years	30 years
Amortization period (from date)	7/1/97	7/1/97	7/1/97	7/1/97	7/1/97	N/A	7/1/92
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	smoothed basis	75% of expected actuarial value plus 25% of cost value	75% of expected actuarial value plus 25% of cost value	smoothed basis	smoothed market value	smoothed market value	smoothed market value
Historical Trend Information							
Year ended June 30, 2001							
Annual pension cost (APC)	$ 9,315.4	*	*	*	*	*	*
Percentage of APC contributed	102.9%	*	*	*	*	*	*
Net pension obligations (assets)	$ (1,903.1)	*	*	*	*	*	*
Year ended June 30, 2000							
Annual pension cost (APC)	$ 8,583.9	$ 61,824.0	$ 99,429.0	$ 1,702.0	$ 11,491.4	$ 423.7	$ 187.1
Percentage of APC contributed	111.7%	136.4%	129.5%	113.8%	102.5%	65.0%	90.9%
Net pension obligations (assets)	$ (1,631.5)	$ (33,937.0)	$ (69,973.0)	$ (533.0)	$ (1,706.0)	$ 578.3	$ (21.5)
Year ended June 30, 1999							
Annual pension cost (APC)	$ 8,583.9	$ 67,486.0	$ 100,043.0	$ 1,780.8	$ 11,101.1	$ 389.3	$ 208.9
Percentage of APC contributed	111.9%	115.3%	125.2%	101.1%	99.9%	47.4%	96.0%
Net pension obligations (assets)	$ (628.4)	$ (11,407.0)	$ (40,648.0)	$ (297.7)	$ (1,422.4)	$ 429.9	$ (38.5)
Year ended June 30, 1998							
Annual pension cost (APC)	$ 9,360.0	$ 81,546.0	$ 101,345.0	$ 1,675.7	$ 10,762.5	$ 275.3	$ 170.9
Percentage of APC contributed	98.3%	98.3%	114.4%	102.9%	99.0%	67.0%	117.9%
Net pension obligations (assets)	$ 157.0	$ (1,072.0)	$ (21,905.0)	$ (278.9)	$ (1,428.2)	$ 225.0	$ (46.7)

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

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

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

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

At June 30, 2001, the number of participating employers was 353.

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

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

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

At June 30, 2001, the number of participating employer units totaled 153 (244 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, 2000~~				
Annual required contribution	$	547,532.7	$	77,365.8
percentage contributed		118%		91%
~~Year ended June 30, 1999~~				
Annual required contribution	$	524,815.6	$	63,682.3
percentage contributed		117%		100%
~~Year ended June 30, 1998~~				
Annual required contribution	$	508,259.7	$	57,726.0
percentage contributed		92%		100%

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

Funding Policy Each participant shall make contributions of five percent of salary received for services after June 30, 1989. Contributions equal to twenty percent of the annual salary received by each participant for services after June 30, 1989, are to made from the biennial appropriation from the State's General Fund. Actual contributions for the year ended June 30, 2001 were $954,471.

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 $97.9 million for 12,508 participants for the year ended June 30, 2001. Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 2001 are included in the disclosures for PERF.

K. Required Supplementary Information

	Primary Government	------------------------Discretely Presented Component Unit------------------------					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
~~**Valuation Date: July 1, 2001**~~							
Actuarial value of assets	$ 307,072	*	*	*	*	*	*
Actuarial accrued liability (AAL)	338,867	*	*	*	*	*	*
Excess of assets over (unfunded) AAL	(31,795)	*	*	*	*	*	*
Funded ratio	91%	*	*	*	*	*	*
Covered payroll	51,395	*	*	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	-62%	*	*	*	*	*	*
~~**Valuation Date: July 1, 2000**~~							
Actuarial value of assets	$ 292,383	$ 1,960,018	$ 2,356,058	$ 34,368	$ 103,733	$ 9,781	$ 4,557
Actuarial accrued liability (AAL)	326,016	1,701,091	2,047,213	46,272	182,448	13,943	5,453
Excess of assets over (unfunded) AAL	(33,633)	258,927	308,845	(11,904)	(78,715)	(4,162)	(896)
Funded ratio	90%	115%	115%	74%	57%	70%	84%
Covered payroll	50,898	1,371,496	2,110,957	11,306	30,428	13,422	**
Excess (unfunded) AAL as a percentage of covered payroll	-66%	19%	15%	-105%	-259%	-31%	**
~~**Valuation Date: July 1, 1999**~~							
Actuarial value of assets	$ 273,032	$ 1,828,584	$ 2,179,129	$ 31,510	$ 91,073	$ 8,323	$ 4,319
Actuarial accrued liability (AAL)	303,805	1,583,486	1,904,943	43,368	176,301	13,712	5,473
Excess of assets over (unfunded) AAL	(30,773)	245,098	274,186	(11,858)	(85,228)	(5,389)	(1,154)
Funded ratio	90%	115.48%	114.39%	73%	52%	61%	79%
Covered payroll	46,361	1,271,756	1,978,441	11,317	30,963	12,566	**
Excess (unfunded) AAL as a percentage of covered payroll	-66%	19%	14%	-105%	-275%	-43%	**
~~**Valuation Date: July 1, 1998**~~							
Actuarial value of assets	$ 255,614	$ 1,626,450	$ 1,925,592	$ 28,663	$ 79,594	$ 7,144	$ 4,041
Actuarial accrued liability (AAL)	289,612	1,491,986	1,775,251	41,679	160,845	11,356	5,385
Excess of assets over (unfunded) AAL	(33,998)	134,464	150,341	(13,016)	(81,251)	(4,212)	(1,344)
Funded ratio	88%	109%	108%	69%	49%	63%	75%
Covered payroll	45,187	1,229,903	1,880,259	10,137	30,853	11,673	742
Excess (unfunded) AAL as a percentage of covered payroll	-75%	11%	8%	-128%	-263%	-36%	-181%

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 60 active participants. The unfunded liability per active participant is $14,940.