

STATE OF INDIANA

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2002**

Frank O'Bannon, Governor



Prepared by:

The Office of the Auditor of State

Connie K. Nass

Auditor of State

Room 240

State House

Indianapolis, Indiana 46204

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

The pictures in this report are of covered bridges found in the State of Indiana. The pictures were taken by **John Maxwell**, Indiana Department of Natural Resources. Reproduced with the permission of the photographer.

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**AUDITORS OF STATE
of
THE STATE OF INDIANA**

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

STATE OF INDIANA

Comprehensive Annual Financial Report For the Year Ended June 30, 2002

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INTRODUCTORY SECTION



Billie Creek Bridge, located in Billie Creek Village, Parke County, Indiana

Reproduced with permission from the photographer, John Maxwell, Indiana
Department of Natural Resources.



CONNIE KAY NASS
AUDITOR OF STATE



Auditor of State

Connie Kay Nass

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December 30, 2002

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

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2002.

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

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

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

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

The State has adopted GASB Statement No. 34 as required by Generally Accepted Accounting Principles. GASB 34 provides for two types of statements, government-wide and fund statements. The government-wide statements are very similar to the private sector's statements, using the full accrual basis of accounting and the economic resources measurement focus. The governmental funds financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. In the government-wide statements infrastructure (roads, bridges, dams) has been capitalized. Capital assets are depreciated like the private sector. We are very excited about GASB 34. For the first time we have statements that show all the State's activities, assets, and debt on a government-wide basis, comparable with the private sector. We believe these statements will be much easier to read and understand for people who are use to reading private sector financial statements.

GASB Statement No. 34 also provides for the first time the presentation of Management's Discussion and Analysis (MD&A) in the Financial Section. The MD&A introduces the basic financial statements and

provides an analytical overview of the government's financial activities. It is presented before the basic financial statements. We encourage you to read it to get an in-depth analysis of the State of Indiana's finances.

This CAFR is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section includes this transmittal letter, a list of former Auditors of State, the Table of Contents, the Certificate of Achievement for Excellence in Financial Reporting Award, the State Organizational Chart, and a listing of Selected State Officials.

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

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

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

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing State and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,114,745, which makes Indiana the nation's 14th largest State. The State is 64 percent urban and 36 percent rural. The five largest cities are Indianapolis, the capital, Fort Wayne, Evansville, South Bend and Gary.

Indiana became the 19th State of the Union on December 11, 1816. The constitution establishes the government in three separate departments: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100 member House of Representatives and a 50 member Senate. The Indiana General Assembly has the power to enact laws which are not prohibited by the State constitution and not in conflict with Federal laws and powers. The executive power of the State is vested with the Governor. The State constitution and legislation establish the following state-wide elected administrative officials: Lieutenant Governor, Auditor of State, Secretary of State, Treasurer of State, Attorney General, Superintendent of Public Instruction, and Clerk of the Courts. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 92 Circuit Courts, and one Tax Court.

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

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

The Indiana General Assembly meets every other year to adopt a biennial budget, which is submitted by the Governor. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated funding sources. Budgetary control is exercised in that agencies of the State may only expend appropriations as allotted by the Budget Agency or other statutory authority. The State Board of Finance, which consists of the Governor, Auditor of State, and Treasurer of State, is

empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign and reassign appropriations made for one specific purpose to another use or purpose within the same agency.

Factors Affecting Financial Condition

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

Local Economy

Over the last decade, Indiana's economy has grown in size and diversity. With an estimated 2000 Gross State Product of more than \$192.2 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel.

From 1991 to 2001, Indiana has witnessed a significant shift in the distribution of employment among sectors. Employment in the service sector increased by 38%, followed by a 32% gain in construction and a 16% increase in wholesale and retail trade. The service sector composes 25.7% of total employment in Indiana, an increase from 21.5% in 1991, and is now the largest single sector of employment in Indiana.

In 2000, Indiana's per capita personal income reached \$27,011, increasing 3.3% over 1999. Over the past ten years, Indiana's personal income has grown at an average annual rate of 3.96%. From 1990 to 2000 Indiana's median household income has grown faster than the U.S., averaging an annual growth rate of 1.66% versus 0.86% for the U.S. In 2000, median income was \$40,970 or 97% of the U.S. average, up from 90% in 1990. Indiana has the thirteenth lowest poverty rate in the nation, with 8.4% of the State living below the poverty level in 2000.

Cash Management and Investments

Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(D)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 3.70%. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and state depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is \$5.81 billion at June 30, 2002.

Risk Management

The State of Indiana assumes the cost of the risks associated with Unemployment Compensation Benefit Claims for State employees, Workers' Compensation Benefit Claims for State employees, Tort claims filed against the State, Medical Malpractice claims filed against State hospitals, accidents caused by State motor vehicles, and on State owned real property, including public buildings. The State administers self-insurance funds for certain employee health benefits, disability and death benefits.

Pension Benefits

The State of Indiana sponsors eight public employee retirement systems (PERS). One of these, the State Police Pension Fund, is part of the primary government. The Public Employees' Retirement Fund and the State Teachers' Retirement Fund are discretely presented component units. In addition to its own fund, the board of the Public Employees' Retirement Fund administers the following funds: the 1977 Police Officer and Firefighters' Pension and Disability Fund, the Excise Police and Conservation Enforcement Officers' Retirement Fund, the Prosecuting Attorneys' Retirement Fund, the Legislators' Retirement System, and the Judges' Retirement Fund.

Major Initiatives

Transportation – The Legislature increased the tax on gasoline by \$0.03 during the 2002 Special Session. \$0.01 is dedicated to the Indiana Department of Transportation (INDOT), \$0.01 is dedicated to a State bonding program and \$.01 is distributed to local units of government. This will allow INDOT to maintain a \$700 million construction program over the next three fiscal years.

Public Health – The Division of Family and Children received a \$10 million Temporary Aid to Needy Families (TANF) high performance bonus for helping TANF recipients find and keep jobs, and received a \$500,000 high-performance bonus for achieving the fourth-highest child adoption increase in the nation (48%).

Public Health - The Division of Family and Children created an automated child support system and developed a Web site for employers to process income withholdings. They also implemented the Electronic Benefits Transfer (EBT) card in all 92 counties, replacing the paper-based Food Stamp delivery system with a more efficient, cost-effective way of delivering assistance to Hoosiers.

Public Health - Indiana's Healthy Families program attained national certification and is recognized as a premier early intervention program in the nation. In 2002, Healthy Families Indiana was named a "National Center of Excellence," one of only two in the nation.

Public Health - The federal Rehabilitation Services Administration recognized the Work One Center in Evansville as an exemplary program and awarded it a \$789,653 grant to help expand its employment and training opportunities for people with disabilities.

Public Health – The Family and Social Services Administration collected more than \$401 million in child support in the 2001 calendar year, up 6% from \$377 million in 2000; and intercepted \$40.5 million in tax refunds for past due child support.

Higher Education - Indiana continues to roll out the Community College of Indiana (CCI). The partner institutions have entered into an agreement that would allow CCI to open at every Ivy Tech State College (ITSC) site in the State by the fall of 2003. Indiana is working with the State supported research institutions on a number of economic development initiatives, including advances in the bio-sciences, life-sciences, advanced manufacturing, logistics, and nanotechnology.

K-12 Education - Indiana continues to be a national leader in the area of developing rigorous academic standards and utilizing them in a system of shared accountability. The bipartisan Education Roundtable has created some of the nation's highest standards in math, reading and science. In the area of school finance, Indiana reduced the school funding burden on property owners by reducing property taxes by over \$1 billion beginning in calendar year (CY) 2003, and shifting that funding to the State general and property tax replacement funds. Indiana has maintained stable funding for K-12 general education programs through CY 2002.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2001. This was the ninth consecutive year that the State of Indiana has achieved this prestigious award.

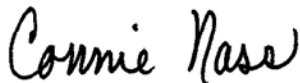
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

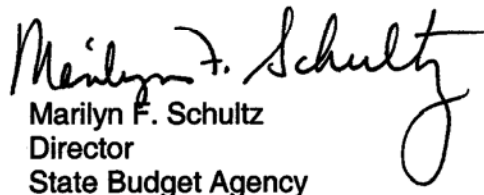
Acknowledgments

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

Sincerely,



Connie K. Nass
Auditor of State
State of Indiana



Marilyn F. Schultz
Director
State Budget Agency

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Indiana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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



President

Executive Director

