NOTES TO THE FINANCIAL STATEMENTS

STATE OF INDIANA

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June 30, 2010

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(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. Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in one column in the government-wide financial statements. This column contains the governmental fund types, proprietary fund types and colleges and universities. This is to emphasize that, as well as being legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Indiana Housing and Community Development Authority, Ports of Indiana, Indiana State Fair Commission, Indiana Comprehensive Health Insurance Association, and the Indiana Political Subdivision Risk Management Commission have a December 31, 2009, fiscal year-end.

Blended Component Units

The following component units are reported under the blended method as the primary government appoints a voting majority of the board and is able to impose its will. These units, although legally separate from the State, are reported as part of the State because they provide services entirely or almost entirely to the State. These component units are audited by the State Board of Accounts.

The Bureau of Motor Vehicle Commission (BMVC) was established by state law to develop and update Bureau of Motor Vehicles (BMV) policy, establish standards for the operation and maintenance of license branches, and submit budget proposals for the BMVC, BMV, and license branches. The BMVC has significant interrelated operations with the BMV and license branches. The BMV is responsible for the accurate and timely distribution of the fees and taxes (excise and wheel) collected at the license branches for driver licenses, auto and watercraft registrations, and license plates.

The BMVC consists of four individuals appointed by the governor and the chairperson who is the commissioner of the BMV. No more than three of the members may be of the same political party. The BMVC is reported as a non-major governmental fund.

The State Student Assistance Commission of Indiana (SSACI) was established by state law to increase the opportunity to receive a higher education for every person who resides in Indiana and who, though being highly qualified and desiring to receive a higher education, is deterred by financial considerations; and to accomplish this goal by establishing a system of higher education awards that will assist the student in selecting and attending a qualified public or private postsecondary institution.

The SSACI consists of ten citizens appointed by the governor. Each of Indiana’s nine congressional districts must be represented by a resident of the district. An at-large student member who is a student at an approved postsecondary educational institution is also an appointed member. The SSACI is reported as a non-major governmental fund.

Discretely Presented Component Units

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All governmental and proprietary component units are audited by outside auditors except for the Indiana Economic Development Corporation and State Fair Commission which are audited by the State Board of Accounts. The State Board of Accounts audits the colleges, universities, and the discrete pension trust funds. College and university foundations are audited by outside auditors.

The Indiana Economic Development Corporation (IEDC) was created to improve the quality of life for the citizens of Indiana by encouraging the diversification of Indiana’s economy, by the orderly economic development and growth of Indiana, the creation of new jobs, the retention of existing jobs, the growth and modernization of existing industry and the promotion of Indiana. The IEDC is composed of 12 members, none of whom may be members of the general assembly. These members consist of the governor and 11 individuals appointed by the governor. At least five members must belong to the same political party as the governor. At least three members must belong to a major political party other than the party of which the governor is a member. The IEDC is reported as a non-major governmental fund. The IEDC does not issue their own separately audited financial statements.

Formed on May 15, 2005, the Indiana Finance Authority (IFA) combined five formerly independent bodies under one entity. The entities combined included the Indiana Development Finance Authority, State Office Building Commission, Indiana Transportation Finance Authority, Recreational Development Commission and the State Revolving Fund. Effective July 1, 2005, all records, money, and other property held by the Auditor of State with respect to the Supplemental Drinking Water and Wastewater Assistance Programs were transferred to the IFA as the successor entity. The IFA is a body both corporate and politic, and though separate from the State of Indiana (State); the exercise by the IFA of its powers constitutes an essential governmental function. Indiana's constitution restricts State incurrence of debt. As a result, the General Assembly created the IFA and authorized it to issue revenue bonds and other obligations to finance projects for lease to the State.

The IFA finances and refinances state hospitals, state office buildings, state garages, correctional facilities, recreational facilities, highways, bridges, airport facilities, and other related facilities for the benefit of the State. The IFA also provides low interest loans to Indiana communities for environmental improvements. It also promotes business and employment opportunities by issuing tax-exempt financing for industrial development projects, rural development projects, childcare financing, and educational facility projects.

The IFA's revenue bonds and notes are special and limited obligations of the IFA, payable from lease rental revenue, bond or note proceeds and investment income. The IFA's revenue bonds are not general obligations of the IFA nor are they State debt within the meaning of any constitutional provision or limitation. The IFA cannot compel the General Assembly to make appropriations to pay lease rentals. The Authority 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 Public Finance 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 and Community Development Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority's board consists of the Public Finance Director of the Indiana Finance Authority, the Lieutenant Governor, the State Treasurer and four persons appointed by the Governor. The Lieutenant Governor chairs the board. The unit is reported as a proprietary fund.

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

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

The State Lottery Commission of Indiana is composed of five members appointed by the Governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, public employees' retirement, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement the Motor Vehicle Excise Tax Replacement Fund. The Commission is reported as a proprietary fund.

Effective May 15, 2005, the Indiana Stadium and Convention Building Authority was established pursuant to House Bill 1120, which has now been codified at Indiana Code 5-1-17, as an entity of the

State to finance, design, construct and own the new Indiana Stadium in Indianapolis and the upcoming expansion of the adjacent Indiana Convention Center. The Building Authority is governed by a seven member board, comprised of four appointments by the Governor, two appointments by the Mayor of the City of Indianapolis and one appointment by the Governor following nomination from one of the counties surrounding Marion County. The Authority is reported as a proprietary fund.

The White River State Park Development Commission has the responsibility to design and implement a plan for the establishment and development of park, exposition, educational, athletic, and recreational projects to be located within one mile from the banks of the Indiana White River in a consolidated first-class city and county. The Commission is reported as a non-major proprietary fund.

The Ports of Indiana is created under Indiana Code 8-10-1-3 to construct, maintain, and operate public ports with terminal facilities and traffic exchange points for all forms of transportation on Lake Michigan and the Ohio and Wabash Rivers. The Commission consists of seven members appointed by the governor. The Commission is reported as a non-major proprietary fund.

The State Fair Commission was established per Indiana Code 15-13-2 as the trustee for and on behalf of the people of the State of Indiana to administer the State Fairgrounds as trust property of the State of Indiana. The Commission is responsible for holding the annual Indiana State Fair in August, as well as providing accessible, cost-effective, secure and modern facilities for the variety of events held at the Fairgrounds and other properties it owns. The Commission consists of eight members appointed by the governor. The Commission is reported as a non-major proprietary fund.

The Indiana Comprehensive Health Insurance Association was created by the State of Indiana to assure that health insurance is made available throughout the year to each eligible Indiana resident applying to the Association for coverage. The board of directors of the Association consists of nine members whose principal residence is in Indiana. Four members are appointed by the insurance commissioner from the members of the Association, one of which must be a representative of a health maintenance organization. Two members are appointed by the commissioner and shall be consumers representing policyholders. Other members are the state budget director or designee and the commissioner of the department of insurance or designee. One member appointed by the commissioner must be a representative of health care providers. The Association is reported as a non-major proprietary fund.

The Indiana Political Subdivision Risk Management Commission was created per Indiana Code 27-1-29 to administer the Political Subdivision Risk Management Fund (Basic fund) and the Political Subdivision Catastrophic Liability Fund (Catastrophic fund). These funds aid political subdivisions in protecting themselves against liabilities. The Commission consists of eleven members appointed by the governor. The Commission is reported as a non-major proprietary fund.

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 and the director of the budget agency or the director's designee as an ex officio voting member of the board. The board of trustees administers the following funds: Public Employees' Retirement Fund, Judges' Retirement System, Excise Police, Gaming Agent and Conservation Enforcement Officers' Retirement Plan, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Plan, the Legislators' Retirement System Defined Contribution Plan, the Prosecuting Attorneys' Retirement Fund, the Pension Relief Fund, and two death benefit funds. For more information on PERF see Note V(E) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation from PERF's 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 and the director of the budget agency or director's designee as an ex officio voting member of the board. For more information on TRF see Note V(E) Employee Retirement Systems and Plans.

The Public Employees' Retirement Fund and the Teachers' Retirement Fund were determined to be significant for note disclosure purposes involving the discretely presented fiduciary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Ivy Tech Community College has a fourteen-member board of trustees. Appointments to the boards of trustees are made by the Governor and by election of the alumni of the respective universities. Indiana University and Purdue University are reported as a major discretely presented component unit.

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments.

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

Indiana Finance Authority
One North Capitol Ave., Suite 900
Indianapolis, IN 46204

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

State Lottery Commission of Indiana
Pan Am Plaza
201 S. Capitol, Suite 1100
Indianapolis, IN 46225

Indiana Stadium and Convention Building Authority
425 W. South Street
Indianapolis, IN 46225

Indiana Housing and Community Development Authority
40 South Meridian, Suite 1000
Indianapolis, IN 46204

Secondary Market for Education Loans, Inc.
Capital Center, Suite 400
251 N. Illinois
Indianapolis, IN 46204

Indiana Board for Depositories
One North Capitol Ave, Suite 444
Indianapolis, IN 46204

Indiana White River State Park Development Commission
801 West Washington Street
Indianapolis, IN 46204

Indiana Comprehensive Health Insurance Association
9465 Counselors Row, Suite 200
Indianapolis, IN 46240

Ports of Indiana
150 West Market Street, Suite 100
Indianapolis, IN 46204

Indiana State Fair Commission
1202 E. 38th Street
Indianapolis, IN 46205

Indiana Political Subdivision Risk Management Commission
c/o Indiana Department of Insurance
311 W. Washington St., Suite 300
Indianapolis, IN 46204

Ivy Tech Community College
Assistant Treasurer
50 West Fall Creek Parkway North Drive
Indianapolis, IN 46208

University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

Indiana University
Poplar's Room. 500, 107 S. Indiana Ave.
Bloomington, IN 47405-1202

Ball State University
Administration Bldg., 301
2000 West University Avenue
Muncie, IN 47306

Indiana State University
Office of the Controller
210 N. 7th Street
Terre Haute, IN 47809

Vincennes University
1002 North 1st Street
Vincennes, IN 47591

Purdue University
Accounting Services
401 South Grant Street
West Lafayette, IN 47907-2024

State of Indiana
Public Employees' Retirement Fund
One North Capitol Ave., Suite 001
Indianapolis, IN 46204

Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, IN 46204-2809

B. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information about the overall government. They exclude information about fiduciary activities, including component units, which are fiduciary in nature, such as the public employee retirement systems. They distinguish between the primary government and its discretely presented component units as defined under the reporting entity above. They also distinguish between governmental activities and business-type activities of the State. Governmental activities rely on taxes and intergovernmental revenues for their support. Business-type activities, on the other hand, rely on fees and charges for services provided for their support.

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. Certain indirect costs are included in the program expense reported for individual functions of government. Program revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes, even those levied for a specific purpose and are reported by type of tax. Investment income is also a general revenue.

Separate financial statements are presented for the State's governmental, proprietary and fiduciary funds. Governmental fund financial statements are the balance sheet and the statement of revenues, expenditures, and changes in fund balances. Major governmental funds are presented in separate columns and non-major funds are aggregated in a separate column. Proprietary and fiduciary funds are reported using the statement of net assets and the statement of changes in net assets. In addition proprietary funds include a statement of cash flows.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting

The government-wide statements and the proprietary and fiduciary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues, including federal government mandates on the State, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met.

For the government-wide financial statements and enterprise and fiduciary fund statements, the State applies all applicable FASB pronouncements issued before December 1, 1989, and those issued after that date which do not contradict any previously issued GASB pronouncements.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the State of Indiana, "available" means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual and corporate income tax, sales tax, inheritance tax, cigarette tax, alcoholic beverage tax, motor fuel tax, fines, and penalties are accrued using one month's revenues.

Gaming taxes and fees and vehicle licenses are received daily via electronic funds transfer with a one to three working day delay, so the first several working days in July revenues are reviewed for materiality and accrued accordingly.

Financial Statement Presentation

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Governmental funds are used to account for the government's general government activities. Governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds and permanent funds.

The *General Fund* is the State's primary operating fund. It is maintained to account for resources obtained and used for those services traditionally provided by State government, which are not required to be accounted for in another fund. The General Fund is a major fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes except for major capital projects.

The following special revenue funds are presented as major.

- The *Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid and Children's Health Insurance programs.

- The *State Highway Department Fund* receives federal grants and State appropriations that are used for State transportation programs.

- The *Major Moves Construction Fund* distributes money received from the Toll Road lease. This money is used for new construction and major preservation of highways and bridges throughout Indiana.

- The *ARRA of 2009* Fund is used to account for funds received under the American Recovery and Reinvestment Act of 2009 which became law on February 17, 2009. These funds are supplementing existing federal programs in areas such as Medicaid, education, transportation, housing, and employment services.

- The *U.S. Department of Health and Human Services Fund* receives federal grants that are used to carry out health and human services programs.

The *capital projects funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or fiduciary funds. There are no major capital project funds.

The *permanent funds* are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for the benefit of the government or its citizens. There are no major permanent funds.

Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows. Operating revenues and expenses are the revenues and expenses that pertain to the fund's principal operations. Nonoperating revenues and expenses are those revenues resulting from secondary or auxiliary activities of the fund. Nonoperating items include interest/investment revenue and expense. Proprietary funds include both enterprise funds and internal service funds.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The State reports the following major enterprise fund:

- The *Unemployment Compensation Fund* collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals.

Internal service funds account for operations that provide goods and services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The goods and services provided include fleet management, information technology and communication, aviation, printing, products of correctional industries, and self-insurance. Major fund reporting requirements do not apply to internal service funds. Combined totals for all internal service funds are reported as a separate column on the face of the proprietary fund financial statements.

When both restricted and unrestricted resources are available for use, it is the primary government's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others. They cannot be used to support the State's own programs. Fiduciary funds include pension (and other employee benefit) trust funds, private-purpose trust funds, investment trust funds, and agency funds.

Pension (and other employee benefit) trust funds are used to report resources held in trust for the members and beneficiaries of defined benefit pension plans, and defined contribution pension plans. Pension and other employee benefits trust funds include the Public Employees' Retirement Fund, Teachers' Retirement Fund, State Police Pension Fund and the Retiree Health Benefit Trust Fund.

Private-purpose trust funds are used to account for trust arrangements in which both the principal and interest may be spent for the benefit of individuals, private organizations or other governments. Private Purpose funds include the Abandoned Property Fund and the Private Purpose Trust Fund.

Investment trust funds are used to report the external portion of investment pools operated by a sponsoring government. The Treasurer of State, local units of government, and quasi-governmental units in Indiana have the opportunity to invest in a common pool of investments that preserves the principal of the public's funds, remains highly-liquid, and maximizes the return on the investment of public funds. The State's investment trust fund is TrustINdiana operated by the state treasurer. The amounts reported represent the external portion of the pool.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity. Agency Funds include Employee Payroll Withholding and Benefits, Local Distributions, Child Support and Department of Insurance.

D. Eliminating Internal Activity

Interfund loans including those from cash overdrafts in funds, interfund services provided or used, and prepaid expenditures of internal service funds are eliminated as internal balances in the government-wide statement of net assets. This is to minimize the "grossing-up" effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, interfund loans and interfund services provided and/or used reported in the governmental funds balance sheet have been eliminated in the government-wide statement of net assets.

Eliminations were made in the statement of activities to remove the "doubling-up" effect of internal service fund activity. The effect of similar internal events that are, in effect, allocations of overhead expenses from one function to another or within the same function have also been eliminated, so that the allocated expenses are reported only by the function to which they were allocated. The effect of interfund services provided and used between functions has not been eliminated in the statement of activities since to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function.

E. 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 balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost, which approximates fair value. Fair value is determined by quoted market prices which approximate fair value.

Indiana Code 5-13-9 and 5-13-10.5 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; securities issued by any U.S. government agency; AAA money market mutual funds with a portfolio limited to direct obligations of the U.S., obligations of any federal agency, and/or repurchase agreements fully collateralized with U.S. government obligations or U.S. agency obligations; AAA rated commercial paper, 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% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Investments which are authorized for the State Teachers' Retirement Fund (TRF) include: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, banker's acceptances, limited liability partnerships, real estate securities, options, and swaps. The investments of TRF are subject to the provisions of IC 5-10.4-3-10.

Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage pool investments, and repurchase agreements. The investments of the State Police Retirement fund are subject to the provisions of IC 10-12-2-2.

The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund (PERF) Board of Trustees. The PERF Board of Trustees is required to diversify investments in accordance with the prudent investor standard. The investment policy statement adopted by the PERF Board of Trustees and the asset allocation approved by the PERF Board of Trustees contain limits and goals for each type of investment portfolio and specifies prohibited transactions. These guidelines authorize investments of: U.S. Treasury and Agency obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, mutual funds, collective trust funds, asset backed, commercial mortgage backed, international stocks, and real estate. The investments of PERF are subject to the provisions of IC 5-10.3-5-3.

2. Receivables and Payables

In the government-wide and proprietary fund financial statements, revenues are recognized on the flow of economic resources measurement focus. Material receivables are recognized as follows. Uncollected taxes due in the following periods are subject to accrual.

> Individual income tax – Individual withholding tax is due from employers by the 20th day after the end of the month collected. Estimated payments are due from individuals by the 15th of the month immediately following each quarter or the calendar year.

> Corporate income tax - Due quarterly on the 20th day of April, June, September, and December with the last payment due on April 15th for a calendar year taxpayer.

> Sales tax – Due by the 20th day after the end of the month collected.

> Fuel tax – Gasoline tax is due the 20th day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15th day after the end of the month collected or the 15th day after the end of the quarter collected. Motor carrier surtax is due at the end of the month following the end of the quarter.

> Financial institutions tax – same laws as corporate income taxes (see above) for making payments.

> Alcohol and tobacco taxes – Cigarette distributors must purchase tax stamps within 6 days after they accept delivery of the cigarettes. Cigarette tax is due within 30 days of the issuance of the tax stamp. Alcoholic beverage tax is due by the 20th day after the end of the month collected.

> Inheritance tax – except as otherwise provided in IC 6-4.1-6-6(b), the inheritance tax imposed as a result of a decedent's death is due twelve (12) months after the person's date of death.

In the governmental fund financial statements, revenue is recognized on the flow of current financial resources. Material receivables are subject to accrual for receipts collected in the month of July.

The State of Indiana does not collect property tax, which is collected by local units of government; a minor portion is remitted to the State semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

Deferred revenue is the liability for the full accrual income taxes receivable net of the allowance for doubtful accounts plus cash on hand from federal grant programs.

3. Interfund Transactions and Balances

The State has the following types of interfund transactions in the governmental fund and proprietary financial statements:

> Interfund service provided and used (reciprocal interfund activity) – Charges for goods or services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

> Interfund Transfers (non-reciprocal interfund activity) – Legally authorized transfers whereby the two parties do not receive equivalent cash, goods or services are reported as transfers.

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

> Interfund loans – These are balances arising from the short-term and long-term portion of interfund transactions.

> Interfund services provided/used – These are balances arising in connection with reciprocal interfund activity or reimbursements. Balances relating to discretely presented component units are presented as 'Due from/to component units'.

> Interfund services provided and interfund loans are eliminated in the government-wide statements because they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another.

4. Inventories and Prepaid Items

Inventories for the Inns & Concessions, Institutional Industries and Administrative Services Revolving funds are valued at cost. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Net Assets

Certain net assets are classified as restricted net assets because their use is completely restricted by bond indentures, contracts, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.

6. Capital Assets

Capital outlays are reported as expenditures in the governmental funds and as assets in the government-wide statements to the extent the State's $20,000 capitalization threshold for external financial reporting is met. In accordance with GASB Statement No. 34, all infrastructure assets have been capitalized retroactively.

The Indiana Department of Transportation (INDOT) uses the modified approach for reporting its infrastructure. The Department of Natural Resources (DNR) uses the depreciation approach for reporting its infrastructure.

Under the modified approach, the State has determined that the condition level for INDOT infrastructure assets to be maintained is:

- a network average International Roughness Index (IRI) of no more than 95 and no more than 10% of all pavements in the unacceptable range for Interstates, National Highway Safety (NHS) Non-Interstate roads, and Non-NHS roads,
- an average sufficiency rating of 87% for interstate bridges,
- an average sufficiency rating of 85% for NHS Non-Interstate bridges, and
- an average sufficiency rating of 83% for Non-NHS bridges.

The Program Engineering Division of INDOT is responsible for determining the appropriate condition level of the infrastructure assets.

No amounts are capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential.

INDOT projects are capitalized based on capitalization and preservation percentages assigned to three hundred sixty-two (362) work types. For example, the cost for constructing a new bridge would likely be 100% capitalized; whereas, the cost for adding travel lanes to a road would likely be assigned a work type code resulting in capitalization at 50% and preservation at 50%.

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Road pavement condition assessments are performed annually on all INDOT state routes, including interstates. Condition assessments of all bridges are determined on a bi-annual basis. Sufficiency ratings of all bridges are determined on an annual basis by the Federal Highway Administration based on annual submittal of bridge condition data.

The State makes annual estimates of the amounts that must be expended to preserve and maintain these infrastructure assets at the predetermined condition levels.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Capital assets are depreciated in the proprietary and similar trust funds using the straight-line method on both the fund basis and the government-wide basis. Both the government-wide statements and proprietary and similar trust funds use the following estimated useful lives:

Assets	Months
Buildings and other structures including improvements to buildings and other structures	240-480
Computer software	36
Infrastructure (not using modified approach)	240-720
Furniture, machinery and equipment	12-168
Motor pool vehicles	96-168

The State of Indiana maintains several collections of works of art, historical treasures, and similar assets that are not capitalized. While the collections are maintained by different agencies, each collection is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organizational policy that either prohibits sale or requires the proceeds from

sales of collection items to be used to acquire other items for collections.

The State's major collections are:

- The State Museum Collection, which is a part of the Indiana Department of Natural Resources, consists of historical buildings and furnishings; personal artifacts; tools and equipment; communication, transportation, recreational and societal artifacts; and art objects.
- The Commission on Public Records, State Archives Collection consists of historical and legal documents, that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics.
- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

Other collections include the Historical Bureau's Indiana Governors' Portrait Collection, the Department of Administration's Statehouse Collection, and the Indiana Arts Commission's Collection. These collections consist primarily of art objects.

7. Compensated Absences

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment.

Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days. In addition, qualifying retiring employees are paid an additional payment up to a maximum of $5,000, which is made up of unused vacation leave over 30 days, unused personal leave, and unused sick leave.

Employees of the legislative and judicial branches as well as those of the Auditor of State may convert a portion of accrued but unused vacation and sick leave into the deferred compensation plan. An employee must have at least 300 hours of vacation or sick leave accrued in order to participate in this plan. There is a sliding scale which determines how many hours are converted from those hours the employee has accrued. The hours converted are deposited into the deferred compensation program's 401(a) plan at 60% of the employee's hourly rate. However, due to budgetary constraints there were no participants in this plan for FY 2011.

Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long term liabilities in the government-wide, proprietary, and fiduciary fund financial statements.

8. Long-Term Obligations

Long-term debt and other obligations are reported in the government-wide statements and the proprietary funds statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund.

In the governmental fund financial statements, bond issuance costs and bond discounts are treated as period costs in the year of issue. Proceeds of long term debt, issuance premiums or discounts and certain payments to escrow agents for bond refundings are reported as other financing sources and uses.

9. Fund Equity

In the fund financial statements, reservations of fund equity represent those portions of fund balances that are legally restricted by outside parties for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

Reserve for 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 that money has been set aside for specific purposes as designated by the governmental entity or fund pursuant to its management's direction or in accordance with any rules, laws, or procedures.

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 Interfund Loans – established to recognize short-term and long-term loans issued to other funds within this government and therefore not currently available for expenditure.

Reserve for Long-Term Loans and Advances – established to recognize short-term and long-term loans issued by various governmental activities' funds to entities outside this government and therefore, not currently available for expenditure. The majority of these loans are made from the Common School Fund to school corporations for construction and/or technology initiatives.

Reserve for Restricted Purposes – established to recognize legal limitations that specify the purpose or purposes for which resources derived from government-mandated and voluntary nonexchange transactions are to be used.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

As described in Note I, Summary of Significant Accounting Policies, differences exist between the government-wide and the governmental fund financial statements. These differences are summarized in the reconciliations that follow the governmental fund financial statements.

A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

In the government-wide financial statements, capital assets are considered economic resources and are capitalized at cost or estimated historical cost at time of acquisition. Where applicable these costs are offset by accumulated depreciation.

The government-wide statements use the flow of economic resources and accrue receivables that are not available soon enough in the subsequent period to pay for the current period's expenditures. Also under the flow of economic resources, expenses reported in the statement of activities do not require the use of current financial resources. Both these receivables and payables are accrued in the government-wide statements, but not in the fund financial statements.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

In the government-wide financial statements, the cost for capital outlays, except for governmental infrastructure, is allocated over the assets' useful lives and is reported as depreciation expense. In the fund financial statements, capital outlays are reported as expenditures in the functional line items.

The government-wide statements use the flow of economic resources and therefore do not report revenues and expenses dependent on the availability of financial resources, as is reported in the fund financial statements. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the fund financial statements. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces long-term liabilities in the statement of net assets.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the expenses of internal service funds are included in governmental activities in the statement of activities. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

At June 30, 2010, various funds had a deficit fund balance caused by overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as interfund loans from the general fund.

Fund	Overdraft from pooled cash	Accrual deficits
Governmental Funds		
ARRA of 2009	(272,807)	(17,096)
US Department of Health & Human Services	(86,214)	15,274
Motor Vehicle Highway	(10,094)	11,653
Motor Vehicle Commission	-	(13,901)
US Department of Agriculture	(55,647)	38,495
US Department of Labor	(9,500)	-
US Department of Education	(57,345)	31,572

B. Unreserved Fund Balance

The State of Indiana designates its unreserved fund balance as designated for appropriations, designated for allotments, and undesignated. In order for money to be spent out of a fund it must be appropriated by the legislature and then allotted by the State Budget Agency. The following are the designations of unreserved fund balance at June 30, 2010:

Unreserved Fund Balance

	Designations of Unreserved Fund Balance			
	Designated for Appropriations	Designated for Allotments	Undesignated	Total Unreserved Fund Balance
Governmental Funds				
General Fund	$ 101,262	$ 230,043	$ 1,457,683	$ 1,788,988
Medicaid Assistance	27,800	44,194	-	71,994
State Highway Department	-	-	(636,920)	(636,920)
Major Moves Construction Fund	764,665	-	1,289,653	2,054,318
ARRA of 2009	-	-	(550,133)	(550,133)
US Department of Health and Human Services	-	-	(194,109)	(194,109)
Non-Major Special Revenue Funds	655,805	810,125	(152,659)	1,313,271
Non-Major Capital Projects Funds	-	84,313	5,516	89,829
Non-Major Permanent Funds	658	135,250	609,681	745,589
Total Governmental Funds	$ 1,550,190	$ 1,303,925	$ 1,828,712	$ 4,682,827

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits, Investments and Securities Lending

1. Primary Government – Other than Major Moves Construction Fund and Next Generation Trust Fund, Investment Trust Funds, and Pension and Other Employee Benefit Trust Funds.

Investment Policy

Indiana Code, Title 5, Article13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Major Moves Construction Fund and the Next Generation Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and Indiana Code 8-14-15, respectively. The Treasurer of State shall invest these funds in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5 with the exception that monies may not be invested in equity securities. For more information, please see the PERF policy in note IV(A)3. There is no formal investment policy for the investment of these funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statute does not establish any parameters or guidelines related to interest rate risk.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2010:

Primary Government (Amounts in thousands)				
	Fair	**Investment Maturities (in Years)**		
Investment Type	**Value Totals**	**Less than 1**	**1 - 5**	**6- 10**
U.S. Treasuries	$ 1,755,272	$ 1,755,272	$ -	$ -
U.S. Agencies	831,114	435,915	395,199	-
Municipal Bonds	12,572	3,315	-	9,257
Local Govt Investment Pool	181,968	181,968	-	-
Non-U.S. Fixed Income	10,000	-	10,000	-
Certificate of Deposits	219,681	219,681	-	-
Money Market Mutual Funds	733,700	733,700	-	-
Total	$ 3,744,307	$ 3,329,851	$ 405,199	$ 9,257

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2010, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Indiana Code 5-13-9-2 authorizes the State Treasurer to invest or reinvest in securities fully guaranteed and issued by (1) the United States Treasury, (2) a federal agency, (3) a federal instrumentality, or (4) a federal government sponsored enterprise. The State Treasurer also may invest or reinvest in money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940. The portfolio of the investment company or investment trust must be limited to direct obligations of the United States, a federal agency, a federal instrumentality, a federal government sponsored enterprise, or repurchase agreements fully collateralized by obligations described in numbers (1) through (4) above. The statute also states the securities of or interests in an investment company or investment trust must be rated as one of the following: (1) AAA, or its equivalent, by Standard & Poor's Corporation or its successor; or (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

The following table provides information on the credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities:

Primary Government
(Amounts in thousands)

Investment Type	S & P	Moody's		Fair Value
U.S. Treasuries	AAA	Aaa	$	1,755,272
U.S. Agencies	AAA	Aaa		831,114
Certificate of Deposits	NR	NR		219,681
Municipal Bonds	NR	NR		12,572
Non-US Fixed Income Bonds	A	A		10,000
Local Govt Investment Pool	NR	NR		181,968
Money Market Mutual Funds	AAA	Aaa		733,700
Total			$	3,744,307

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Indiana Code 5-13-10-3 states that the State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Treasurer.

Investments in any one issuer, other than securities issued or guaranteed by the US government, that represent 5% or more of the total investments are (amounts in thousands):

Federal Home Loan Bank	8.91%	$381,009
Federal Home Loan Mortgage Corp.	7.41%	$317,004

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There was no foreign currency risk.

Securities Lending Credit Risk

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise, in excess of the total market value of the loaned securities. The Treasurer of State is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository, 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 or (2) a financial institution located either in or out of Indiana aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities. 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% of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees' Retirement Fund and the State Teachers' Retirement Fund (discretely presented component units), which allow no more than 40% to be lent at one time.

The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-35 days. The weighted average maturity gap at June 30, 2010 was 25 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.

At year end, the State had no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

Major Moves Construction Fund/Next Generation Trust Funds

Investment Policy

Indiana Code, Title 5, Article13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Major Moves Construction Fund and the Next Generation Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and Indiana Code 8-14-15, respectively. The Treasurer of State shall invest these funds in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5, except the funds may not be invested in equity securities. Investment Policy Statements for the investment of these two funds has been adopted by the Treasurer of State. The Investment Policy Statements are written in conformity with the applicable investment statutes and in accordance with prudent investor standards. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk. The Investment Policy Statements establish asset allocations for both Funds and set limits for the exposure in securities from any one issuer to not more than 5% of a Core Fixed Income Investment Manager's portfolio and not more than 10% of a Core Plus Fixed Income Investment Manager's portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Fund's policy for controlling its exposure to interest rate fluctuations should be viewed with the appropriate perspective. A long-term strategy was employed to achieve the Fund's objectives, but there was consideration given to the short-term liquidity needs to meet disbursements required by the Fund. The asset allocation and investment manager structure was designed to tolerate some interim fluctuations in market value while maintaining a long-term return objective of 5.25%.

The following table provides the interest rate risk disclosure for the Major Moves/Next Generation Trust Fund as of June 30, 2010:

Major Moves/Next Generation Funds
(Amounts in thousands)

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1 - 5	6- 10	More than 10
U.S Treasuries	$ 492,644	$ 63,142	$ 213,955	$ 136,213	$ 79,334
U.S. Agencies	94,545	44,328	28,740	17,102	4,375
Government Asset and Mortgage Backed	331,020	-	1,161	52,720	277,139
Collateralized Mortgage Obligations					
Government CMOs	39,483	-	6,104	2,019	31,360
Corp CMOs	83,820	-	431	6,413	76,976
Corporate Bonds	728,191	14,419	216,629	322,206	174,937
Corporate Asset Backed	189,666	-	67,238	10,584	111,844
Private Placements	370,689	5,795	177,990	108,972	77,932
Municipal Bonds	28,714	1,751	1,870	7,760	17,333
Miscellaneous Other Fixed Income	99,143	5,604	27,299	39,538	26,702
Money Market Mutual Funds	175,827	175,827	-	-	-
Total	$ 2,633,742	$ 310,866	$ 741,417	$ 703,527	$ 877,932

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2010, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The investment managers must adhere to the following guidelines:

Intermediate and Core Fixed Income Managers

a. The average credit quality of each manager's portfolio shall not be lower than Aa3/AA-

b. All securities at the time of purchase shall have a Moody's, S&P's and/or Fitch's credit quality rating of no less than BBB
c. In the event a holding is downgraded to less than BBB, the manager will have the discretion over when to sell the security, generally, no later than 90 days following the downgrade.

Core Plus Fixed Income Managers

d. At least 60% of the securities held in the portfolio shall have a credit rating of no less than BBB
e. Investments in high-yield and non-US debt are permitted, but combined exposure to those sectors should not exceed 40%
f. The average credit quality of each manager's portfolio shall not be lower than single A

Hybrid Fixed Income Managers

g. High-yield and non-US debt securities are permitted
h. Non US-dollar currency exposure is permitted

The following table provides information on the credit quality ratings for investments in debt securities, short-term money market funds, bond mutual funds and bond commingled funds, municipal securities, asset-backed, and mortgage-backed securities as of June 30, 2010.

Major Moves/Next Generation Funds
(Amounts in thousands)

Investment Type	S & P Ratings	S & P Fair Value	Moody's Ratings	Moody's Fair Value
U.S. Treasuries	AAA	$ 492,644	Aaa	$ 492,644
U.S. Agencies	AAA	94,545	Aaa	94,545
Government Asset And Mortgage Backed	AAA	227,836	Aaa	227,836
	NR	103,184	NR	103,184
Collateralized Mortgage Obligations				
Government CMO's	AAA	39,483	Aaa	39,483
Corporate CMO's	AAA	31,276	Aaa	14,561
	AA	955	Aa	2,202
	A	2,515	A	2,383
	BBB	3,257	Baa	1,668
	BB	1,780	Ba	3,312
	B	4,409	B	10,324
	CCC&Below	27,876	Caa&Below	13,619
	NR	11,752	NR	35,751
Non US Govt/Corp Bonds	AAA	40,273	Aaa	31,400
	AA	7,472	Aa	10,074
	A	13,680	A	865
	BBB	6,777	Baa	23,211
	BB	13,377	Ba	12,545
	B	1,252	B	930
	CCC&Below	85	Caa&Below	85
	NR	16,227	NR	20,033
Corporate Bonds	AAA	18,912	Aaa	22,097
	AA	37,897	Aa	50,940
	A	223,320	A	186,205
	BBB	273,152	Baa	279,369
	BB	75,909	Ba	92,414
	B	61,617	B	57,915
	CCC&Below	16,361	Caa&Below	26,035
	NR	21,023	NR	13,216
Corporate Asset Backed	AAA	104,692	Aaa	113,369
	AA	9,224	Aa	15,146
	A	23,012	A	6,520
	BBB	13,815	Baa	2,058
	BB	2,596	Ba	2,969
	B	1,002	B	2,657
	CCC&Below	6,994	Caa&Below	7,502
	NR	28,331	NR	39,445
Private Placements	AAA	32,493	Aaa	34,629
	AA	24,107	Aa	31,581
	A	45,355	A	48,378
	BBB	65,825	Baa	68,183
	BB	27,972	Ba	27,752
	B	37,605	B	36,447
	CCC&Below	9,754	Caa&Below	12,641
	NR	127,578	NR	111,078
Municipal Bonds	AAA	2,092	Aaa	662
	AA	5,875	Aa	8,183
	A	13,493	A	8,747
	BBB	1,980	Baa	5,465
	BB	-	Ba	-
	NR	5,274	NR	5,657
Money Market Mutual Funds	NR	175,827	NR	175,827
Total		$ 2,633,742		$ 2,633,742

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools. For Intermediate and Core Fixed Income Managers, securities in any one issuer should be limited to not more than 5% of the investment manager's portion of the Fund portfolio measured at market value. For Core Plus Fixed Income Managers, the exposure of each manager's portfolio should be limited to not more than 10% of the manager's portion of the Fund portfolio measured at market value.

Investments in any one issuer that represent 5% or more of the total investments are:

FNMA	9.43%	$250,526,611

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Major Moves/Next Generation Trust Fund's foreign currency exposure is focused primarily in fixed income securities. The exposure to foreign currency fluctuation is as follows:

Currency	Total Market Value (amount in thousands)	Percent of Total Fund Market Value
Australian Dollar	$ 4,794	0.18%
Brazil Real	5,853	0.22%
British Pound	4,857	0.18%
Canadian Dollar	6,031	0.23%
Indian Rupee	4,113	0.15%
Japanese Yen	10,168	0.38%
Mexico New Peso	7,223	0.27%
Polish Zloty	1,253	0.05%
Other	19,501	0.73%
Total	$ 63,793	2.40%

Securities Lending Credit Risk

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise, in excess of the total market value of the loaned securities.

At year end, the State had no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

TrustINdiana, Local Government Investment Pool (Investment Trust Funds)

Investment Policy

Indiana Code, Title 5, Article13, Chapter 9, Section 11 established the local government investment pool (TrustINdiana) within the office and custody of the Treasurer of State. The Treasurer of State shall invest the funds in TrustINdiana in the same manner, in the same type of instruments, and subject to the same limitations provided for the deposit and investment of state funds by the Treasurer of State under Indiana Code 5-13-10.5. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk. However, pursuant to IC 5-13-9-11(g)(7), no less than fifty percent of funds available for investment shall be deposited in banks qualified to hold deposits of participating local government entities. Investment criteria have been established to create the principles and procedures by which the funds of TrustINdiana shall be invested and to comply with state statute relating to the investment of public funds.

Valuation of Investments

Consistent with the provisions of a 2a-7 like pool as defined by GASB Statement No. 31, TrustINdiana securities are valued at amortized cost, which approximates market value.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2010:

TrustINdiana - Local Government Investment Pool
(Amounts are in thousands)

Investment Type	Amortized Cost	Investment Maturities (in Years) Less than 1
U.S. Agencies	$ 41,560	$ 41,560
Money Market Mutual Funds	2,150	2,150
Total	$ 43,710	$ 43,710

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2010, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. TrustINdiana limits its investments in any one issuer to the highest rating category issued by one nationally recognized statistical rating organization.

The following table provides information on the credit quality ratings for investments in TrustINdiana:

TrustINdiana - Local Government Investment Pool
(Amounts are in thousands)

Investment Type	S & P Ratings	S & P Fair Value	Moody's Ratings	Moody's Fair Value
U.S. Agencies	AAA	$ 41,560	Aaa	$ 41,560
Money Market Mutual Funds	AAA	2,150	Aaa	2,150
Total		$ 43,710		$ 43,710

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. As noted above, TrustINdiana is required to be comprised of no less than 50% of deposits in banks from an approved list maintained by the State of Indiana. In addition, TrustINdiana limits its investments in any one issuer to 40% of net assets if the issuer is rated A1+/P1 and 25% of net assets if the issuer is rated A1/P1. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

Investments in any one issuer, not exempt from disclosure, that represents 5% or more of the total investments were (amounts in thousands):

Federal Home Loan Bank	9.30%	$ 38,145

Securities Lending Credit Risk

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent under an agreement which requires the loaned securities to be collateralized in the form of (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise, in an amount at least equal to 102% of the current market value of the loaned securities. The net income earned through securities lending is recorded as additional income to the Pool.

At year end, there were no securities on loan, and therefore, no credit risk exposure.

2. *Pension and Other Employee Benefit Trust Funds – Primary Government*

State Police Pension Fund

Investment Policy – The Indiana State Police Pension Trust was established in 1937 to provide pension, death, survivor, and other benefits to present and former employees of the department and their beneficiaries who meet the statutory requirement for such benefits.

Indiana Code 10-1-2-2(c), established the prudent investor standard as the primary statutory provision governing the investment of the Trust's assets. IC 10-1-2-2 (c) reads as follows:

The trust fund may not be commingled with any other funds and shall be invested only in accordance with Indiana laws for the investment of trust funds, together with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities:

State Police Pension
(Amounts in thousands)

	S & P		Moody's	
Investment Type	Ratings	Fair Value	Ratings	Fair Value
U.S. Treasuries	AAA	$ 14,809	Aaa	$ 14,809
U.S. Agencies	AAA	1,354	Aaa	1,354
Government Assets and Mortgage Backed Securities	AAA	14,482	Aaa	14,482
Collateralized Mortgage Obligations				
Corporate CMO's	AAA	2,229	Aaa	1,394
	AA	105	Aa	356
	A	305	A	-
	BBB	356	Baa	-
	BB	-	Ba	305
	B	-	B	509
	CCC & Below	362	CCC & Below	78
	NR	633	NR	1,348
Government CMOs	AAA	4,687	Aaa	4,687
Corporate Bonds	AA	1,528	Aa	2,369
	A	10,264	A	7,558
	BBB	7,279	Baa	9,668
	BB	982	Ba	1,794
	B	759	B	162
	CCC & Below	-	CCC & Below	-
	NR	813	NR	74
Corporate Asset Backed	AAA	2,882	Aaa	2,839
	AA	-	Aa	231
	A	215	A	1,050
	BBB	-	Baa	394
	BB	96	Ba	-
	B	-	B	-
	CCC & Below	365	CCC & Below	365
	NR	2,163	NR	842
Foreign Bonds	A	310	A	310
Private Placements	AAA	364	Aaa	717
	AA	361	Aa	295
	A	2,323	A	2,508
	BBB	1,783	Baa	1,759
	BB	149	Ba	212
	B	284	B	146
	CCC & Below	-	CCC & Below	-
	NR	896	NR	523
Municipal Bonds	AAA	1,227	Aaa	-
	AA	105	Aa	1,453
	A	89	A	-
	BBB	163	Baa	-
	NR	121	NR	252
Money Market Mutual Funds	AAA	-	Aaa	-
	NR	44,598	NR	44,598
Total		$ 119,441		$ 119,441

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2010, the balance of the State Police Pension Trust deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the customer. None of the Indiana State Police Pension Trust's investments are exposed to custodial credit risk because they are held in the name of the Indiana State Police Pension Trust. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Indiana State Police Trust has thirteen different investments managers. The purchase of securities in any one nongovernmental corporation shall be limited to an initial cost of 5% of the market value of an investment manager's portfolio. Additionally, the following limits are set to further limit credit exposure:

Large/Mid/Small Capitalization Equity Managers: equity holdings in any one company should not exceed 7.5% of the market value of the investment manager's portion of the Fund's portfolio. Equity holdings in any one industry should not exceed 25% of the market value of the investment manager's portion and equity holdings in any one sector should not exceed 35% of the investment manager's portfolio market value.

Non-US Equity Investment Managers: equity holdings in any one international company shall not exceed 7.5% of the total value of all investments in international equity securities and equity holdings in any one country shall not exceed 35% of all investments in international equity securities.

Domestic Core Fixed/ Domestic Core Plus/Hybrid Managers: securities of any one issuer is limited to not more that 5% of the investment manager's portion of the portfolio measured at market value. Securities backed by the full faith and credit of the United States Government or any of its instrumentalities shall not be subject to exposure limitations. Investments in high-yield and non-US debt securities should be limited to 20% high-yield and 20% non-U.S. debt with a combined exposure to those sectors not to exceed 30%.

There were no investments in any one issuer that represents 5% or more of the total investments.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Fund's policy for controlling its exposure to interest rate fluctuations should be viewed with the appropriate perspective. A long-term strategy was employed to achieve the Fund's objectives, but there was consideration given to the short-term liquidity needs to meet disbursements required by the Fund. The asset allocation and investment manager structure was designed to tolerate some interim fluctuations in market value while maintaining a long-term return objective to exceed the actuarial assumed interest rate of 7%.

The following table provides the interest rate risk disclosure for the Indiana State Police Pension Fund:

State Police Pension
(Amounts in thousands)

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1 - 5	6- 10	More than 10
U.S. Treasuries	$ 14,809	$ -	$ 6,982	$ 4,470	$ 3,357
U.S. Agencies	20,523	-	1,986	4,372	14,165
Collateralized Mortgage Obligations					
Corporate CMO's	3,990	-	90	155	3,745
Corporate Bonds	21,625	32	5,009	11,198	5,386
Corporate Asset Backed	5,721	-	3,212	-	2,509
Foreign Bonds	310	40	270	-	-
Private Placements	6,160	336	1,892	2,248	1,684
Municipal Bonds	1,705	-	105	89	1,511
Money Market Mutual Funds	44,598	44,598	-	-	-
Total Fixed Income Securities	$ 119,441	$ 45,006	$ 19,546	$ 22,532	$ 32,357

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State Police Pension Trust's foreign currency exposure is focused primarily in international and global equity holdings. The exposure to foreign currency fluctuation is as follows:

Currency	Market Value (amount in thousands)	Percent of Total Market Value
Australian Dollar	$ 638	0.2%
Brazil Real	487	0.2%
British Pound	913	0.3%
Canadian Dollar	822	0.3%
Danish Krone	1	0.0%
Euro	3,208	1.0%
Hong Kong	39	0.0%
Japanese Yen	888	0.3%
Singapore Dollar	94	0.0%
Swiss Franc	1,066	0.3%
Thailand Baht	82	0.0%
Total	$ 8,238	2.6%

Securities Lending Credit Risk - The Treasurer of State is authorized by Indiana Cod 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash of (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, and agency of the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise in excess of the total market value of the loaned securities.

At year end, the State Police Pension Trust had no credit risk exposure to any borrowers because the amount the State Police Pension Trust owes the borrowers exceeds the amounts the borrowers owe the State Police Pension Trust.

State Employee Retiree Health Benefit Trust Fund

Investment Policy – Indiana Code, Title 5, Article13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Retiree Health Benefit Trust Fund has separate investment authority as established under Indiana Code 5-10-8-8.5 (b). The Treasurer of State shall invest the money in the trust fund not currently needed to meet the obligations of the trust fund in the same manner as other public money may be invested. There is no formal investment policy for the investment of these funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in State Retiree Health Benefit Trust Fund:

State Employee Retiree Health Benefit Trust Fund (Amounts are in thousands)	S & P		Moody's	
Investment Type	Ratings	Fair Value	Ratings	Fair Value
U.S. Treasuries	AAA	$ 13,978	Aaa	$ 13,978
U.S. Agencies	AAA	31,008	Aaa	31,008
Total		$ 44,986		$ 44,986

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2010, the balance of the State of Indiana's deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodians failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

Investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments were:

Federal Farm Credit Bank	57.82%	$ 26,009,533
Federal Home Loan Mortgage Corp.	11.11%	4,998,500

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There was no foreign currency risk.

Securities Lending Credit Risk - The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the united states, an agency of the United State, an agency of the united States government, a federal instrumentality, or a federal government sponsored enterprise in excess of the total market value of the loaned securities.

At year end, there were no securities on loan and therefore, no credit risk exposure.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2010:

State Retiree Health Benefit Trust (Amounts in thousands)		Investment Maturities (in Years)
Investment Type	Fair Value	Less than 1
U.S. Treasuries	$ 13,978	$ 13,978
U.S. Agencies	31,008	31,008
Total Fixed Income Securities	$ 44,986	$ 44,986

3. Pension Trust Funds – Discrete Component Units

Public Employees' Retirement System

Investment Guidelines and Limitations – The Indiana General Assembly enacted the prudent investor standard to apply to the PERF Board of Trustees and govern all its investments. Under the statute (IC 5-10.3-5-3(a)), the PERF Board of Trustees must "invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The PERF Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the PERF Board of Trustees has broad authority to invest the assets of the plans. The PERF Board of Trustees utilizes external investment managers, each with specific mandates to implement the investment program. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the PERF Board of Trustees.

The PERF Board of Trustees approved a new asset allocation for the Consolidated Retirement Investment Fund (CRIF) on October 17, 2008 as follows:

Asset Classes	Target Norm - %	Allowable Ranges - %
Equities - Domestic	40	30 - 50
Fixed Income - Core & Core-Opportunistic	20	15 - 25
Fixed Income - TIPS	10	5 - 15
Alternatives – Private Equity	10	5 - 15
Alternatives – Real Assets	10	5 - 15
Alternatives – Absolute Return	10	5 - 15

Investments in the PERF annuity savings accounts and Legislators' Defined Contribution plan are directed by the members in each respective plan and as such the asset allocation will differ from that of the CRIF. The Pension Relief Fund is invested 100 percent in a money market fund. The Special Death Benefit Funds are one hundred percent fixed income.

Investment constraints are set forth in PERF's investment policy statement (IPS) for each individual asset class. PERF's Board of Trustees approved the latest restatement of the IPS in February 2010.

Deposit Risks – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the two demand deposit accounts are carried at cost and are insured up to $250,000 each. Deposits in the demand accounts held in excess of $250,000 are not collateralized. Deposits with the Indiana Treasurer of State are entirely insured. Deposits held with the investment custodian are insured up to $250,000.

Cash Deposits (dollars in thousands)	Total	JP Morgan Chase	PNC Bank	Bank of New York Mellon
Demand deposit account – carrying value	$1,350.0	$980.1	$27.7	$342.2
Demand deposit account – bank balance	11,114.9	4,971.4	28.2	6,115.3
Held with Treasurer of State	7,699.0	-	-	-
Held with investment custodian: Cash	39,694.0	-	-	-

Credit Risk – PERF's IPS sets credit quality rating guidelines and benchmark indices for each of its sub-asset classes and is outlined in each portfolio manager contract. The guidelines and benchmarks are as follows: the Core fixed income portfolio (excluding TIPS) must maintain an average credit quality rating of at least A1 (Moody's) or the equivalent; securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the PERF Board of Trustees. In the case of a split rating, the higher rating will be used. The Core-Opportunistic fixed income portfolio must maintain an average credit quality rating of at least investment grade by Moody's or the equivalent. The benchmark for the fixed income portfolio is the Barclays Capital Aggregate Bond Index and Barclays Capital Universal Bond Index. The Treasury Inflation Protection Securities (TIPS) and global linkers portfolio must substantially match the quality of its benchmarks, the Barclays Capital US TIPS Index and the Global Customized Benchmark, respectively. The quality rating of investments in debt securities as described by the Nationally Recognized Statistical Rating Organization (NRSRO) Standard and Poor's at June 30, 2010 is as follows:

Quality Rating (dollars in millions)	Fair Value	Percent of Portfolio
AAA	$2,738.6	51.0
AA	106.3	2.0
A	406.2	7.6
A-1	227.4	4.2
BBB	378.7	7.0
BB	103.3	1.9
B	87.8	1.6
CCC	78.2	1.5
CC	15.0	0.3
C	0.2	0.0
D	5.8	0.1
Not Rated	1,226.1	22.8
Total	$5,373.6	100.0

The credit risk schedule includes debt securities, short-term money market funds, bond mutual funds and bond commingled funds. Of the total fair value reported, approximately $2.3 billion (43.3 percent) is AAA rated US Treasury, US Agency or US Agency Mortgage Backed Securities. The remaining balance of approximately $3.0 billion (56.7 percent) consists of corporate debt, short-term custodial money market funds, commingled or mutual funds, municipal securities, asset-backed, mortgage-backed securities, and emerging markets debt of various credit quality ratings.

The $1.2 billion not rated by Standard & Poor's is primarily in money market funds, mutual funds or commingled funds.

Custodial Credit Risk – Custodial credit risk is the risk that PERF will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of PERF and are held by either the counterparty or the counterparty trust department's agent, but not in PERF's name.

There was no custodial credit risk for investments including investments related to securities lending collateral as of June 30, 2010. Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5, securities held for the fund are held by banks under custodial agreements in the fund's name. While PERF's Investment Policy Statement does not specify custodial risk, statutes provide certain custodial requirements.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. PERF's IPS limits the purchase of securities of any one issuer (with the exception of the US Government and its agencies) to an initial cost of 5 percent or two times the benchmark weight of the market value of an investment manager's portfolio, whichever is greater. Through capital appreciation, no such holding should exceed 10 percent of the market value of the total holdings of such investment manager's portfolio, unless the Board approves an exception.

For investment managers contracted to manage concentrated portfolios, exposure to the securities issued by a single issuer (with the exception of the U.S. Government and its agencies) is limited to 7.5 percent or two times the benchmark weight of the market value of the investment manager's portfolio, whichever is greater. Through capital appreciation, no such holdings should exceed 15 percent of the market value of the total holdings of the investment manager's portfolio, unless the Board approves an exception.

At June 30, 2010, there was no concentration of credit risk for the CRIF.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The greater the duration of a bond or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration, measured in years, is an indicator of a bond price's sensitivity to a 100 basis point change in interest rates.

PERF's IPS sets duration guidelines for the fixed income investment portfolio. The fixed income portfolios must substantially match the duration characteristics of the benchmark index. The Core fixed income portfolio limits the duration of the portfolio to not vary more than 20 percent above or below the duration of the applicable benchmark index. The duration of the Core-Opportunistic portfolio may not vary more than 5 years above or below the duration of the benchmark index.

Duration information is provided below:

Investment Type (dollars in millions)	Net Asset Fair Value	% of Net Asset Fair Value	Duration
Short-term Investment Fund	$1,039.2	18.1	0.00
Government & Agency Obligations	2,000.8	34.9	4.02
Residential & Commercial Mortgage-Backed Securities	790.2	13.8	1.52
Corporate Bonds	1,082.5	18.9	5.13
Asset-backed	180.6	3.1	0.72
Municipal Securities	21.7	0.4	8.25
Other[1]	620.7	10.8	0.57
Total Net Asset Fair Value	**$5,735.7**	**100**	**2.70**

[1] Includes mutual funds, collective trusts, and derivatives

PERF investments are directly, or indirectly, sensitive to changes in the interest rate environment. Some derivative products, identified in the derivatives financial instruments section, are also sensitive to interest rate risk. Debt securities, debt securities mutual funds and commingled funds, and short-term cash and cash-equivalents represent the portions of the portfolio most sensitive to interest rate risk and are included in the duration information.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. PERF's foreign currency exposure is focused primarily in international equity holdings. Futures currency contracts are reported in the following schedule at gross exposure value. Forward currency contracts values include both receivables and payables.

PERF's IPS refers to foreign currency guidelines that are linked directly, or indirectly, to the benchmark indices for each sub-asset class or as outlined in each portfolio manager contract. The equity portfolio sub-asset classes have specific guidelines for international equities and global equity investments. Certain sub-asset classes do not allow emerging markets investments while some allow up to 30 percent of market value to be held in emerging markets. PERF has exposure to foreign currency fluctuation as follows:

Currency	Total Fair Value (dollars in millions)	% of Foreign Currency
Euro	$870.0	28.6
Pound Sterling	510.7	16.8
Japanese Yen	473.3	15.5
Hong Kong Dollar	170.2	5.6
Australian Dollar	155.0	5.1
Swiss Franc	126.9	4.2
Other	740.1	24.2
Total	**$3,046.2**	**100.0**

Securities Lending – Indiana Code 5-10.2-2-13(d) provides that the PERF Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which securities held by the custodian on behalf of PERF may be loaned. The purpose of such a program is to provide additional revenue for PERF.

Statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total market value of the loaned securities. The PERF Board of Trustees requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent. No more than 40 percent of CRIF's total assets may be lent at one time. The custodian bank and/or its securities lending subagents provide 100 percent indemnification to the PERF Board of Trustees and the CRIF against borrower default, overnight market risk and failure to return loaned securities. Securities received as collateral cannot be pledged or sold by the PERF Board of Trustees unless the borrower defaults. PERF retains the market value risk with respect to the investment of the cash collateral. Per the disclosure regarding last year's credit event PERF injected capital into the pool during fiscal year 2010 to bring the value of the collateral pool back to 102% of the market value of securities lent.

Cash collateral investments are subject to the investment guidelines specified by PERF's IPS. It states that the maximum weighted average days to maturity may not exceed 60. The average term to maturity of the cash collateral portfolio was approximately 25 days at June 30, 2010. The securities lending agent matches the maturities of the cash collateral investments with stated securities loans' termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

The fair value of securities lent for cash collateral at June 30, 2010, was:

Investment Type (dollars in millions)	Loan Value
Government Obligation	$1,058.4
Corporate Bonds	159.5
Equities	936.2
Total Fair Value	**$2,154.1**

The credit quality of the cash collateral investments as described by Standard and Poor's at June 30, 2010, was:

Cash Collateral Investments Quality Rating (dollars in millions)	Fair Value	Percent of Portfolio
AAA	$ 183.5	6.5
AA	110.0	4.9
A-1 and A-1+	1,830.7	84.2
Not Rated	97.9	4.4
Total	**$ 2,222.1**	**100**

The majority of A-1 and A-1+ collateral investments are commercial paper. The majority of the Not Rated collateral investments are money market funds.

At June 30, 2010, PERF had loaned approximately $238.3 million US Treasury and government agency obligations for securities collateral. The securities collateral value was approximately $241.9 million which represented 102 percent coverage.

Derivative Financial Instruments – Derivative transactions involve, to varying degrees, the following risks:

Market risk – Market risk is the possibility that a change in the referenced position will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake.

Interest Rate Risk — Interest rate risk is the risk of change in the market value of the assets due to a change in interest rates. Bond futures, interest rate swaps and interest rate swaptions are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date. Interest rate swap agreements involve the exchange by the Master Trust, with a counterparty, of respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments, with respect to the notional amount of principal. Interest rate swaptions are options to enter into an interest rate swaps based off a set of predetermined conditions. Refer to the interest rate risk note of the Fund.

Credit Risk — Credit risk is the risk of change in the market value of assets due to the change in creditworthiness of the underlying issuer. Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index.

Currency Risk — Currency risk is the risk of a change in market value due to the change in foreign currency exchange rates. Generally, currency futures, forward contracts and options are used to achieve the desired currency exposure, generate value-added performance, or rebalance the total portfolio to the target asset allocation. Foreign currency futures and forwards are agreements between two parties to buy and sell a set of currencies at a set exchange rates on a specified future dates. A currency option gives the buyer the right, but not the obligation, to buy one currency or sell another currency at a set exchange rate on or before a given date.

Equity Risk — Equity risk is the risk of a change in market value of assets due to the change in equity or equity index prices. Equity futures are generally used to achieve the desired market exposure of a security or index or rebalance the total portfolio to the target asset allocation. An equity futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

Future Settlement Risk — Future settlement risk is the risk of not receiving the asset or associated gains specified in the contract. Associated gains are derived from the change in market value of the contract due to a change in price of the underlying security. Mortgage to be announced (TBAs) and treasury forwards are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration. A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date; similarly, a treasury forward is a contract for the purchase or sale of U.S. Treasury securities to be delivered at a future agreed-upon date.

PERF's IPS authorizes the use of derivative instruments as a meaningful component of the strategies within the absolute return and commodities allocations. The fair value of total investments in the absolute return portfolio was

$1.1 billion and the fair value of total investments in the commodities portfolio was $568 million at June 30, 2010. PERF's directly held investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or buy a put option), the reference security is held in the portfolio. During the year, PERF's derivative investments included but were not limited to, foreign currency forward contracts, swaps, options, TBAs and futures. The table below summarizes PERF's derivative information for the year ending June 30, 2010 (dollars in thousands):

	Change in Fair Value		Fair Value at June 30, 2010		
Investment Derivatives	Classification	Amount	Classification	Amount	Notional
Fiduciary funds					
Investment derivatives					
Futures	Realized and unrealized gain (loss)	$ 35,154.9	Equity	$ 1,383.6	$ 12.1
Options	Realized and unrealized gain (loss)	3,872.7	Other	(1,798.4)	(214,100.7)
Swaps	Realized and unrealized gain (loss)	3,725.0	Other	2,154.4	890,191.7
TBAs	Realized and unrealized gain (loss)	9,760.9	Debt	135,912.9	126,900.0
Forward currency contracts	Realized and unrealized gain (loss)	4,562.4	Cash	(775.4)	224,830.2

Foreign currency forward contracts are used to hedge against the currency risk in PERF's foreign equity stock and debt security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis.

At June 30, 2010, PERF's investments included the following currency forwards balances (dollars in millions):

Forward Currency Contract Receivables	$ 783.7
Forward Currency Contract Payables	$ 779.6

PERF's investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, PERF's investment managers use futures contracts to adjust the portfolio risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. Futures contracts may be used for the purpose of investing cash flows or modifying duration but in no event may leverage be created by any individual security or combination of securities.

A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty; this would typically be referred to as an "over the counter (OTC) contract" such as swaps, forward contracts and TBAs. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Inherent in the use of OTC derivatives, the Master Trust is exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2010, the Master Trust counterparty risk was not deemed to be significant, whether evaluating counterparty exposure outright or netting collateral against net asset positions on contracts with each counterparty. Additionally, with the use of collateral, master netting agreements assist in mitigating counterparty credit risk.

The quality ratings and fair value exposure of counterparties as of June 30, 2010 was:

Counterparty	Quality Ratings of Counterparty	Fair Value of Exposure
HSBC Bank USA	AA	$ 1,200.5
Barclays Bank	AA-	991.9
J.P. Morgan	AA-	973.4
Bank of America	A+	910.8
Bank of New York Mellon	AA	639.0
Societe Generale SA	A+	610.8
Royal Bank of Canada	AA-	410.9
Brown Brothers Harriman	A+	225.1
BNP PARIBAS S.A.	AA	87.8
Standard Chartered Bank	A	77.1
State Street Bank & Trust	AA-	39.2
Royal Bank of Scotlan	A+	24.9
Citibank	A+	10.5
Goldman Sachs & Co.	A	3.9
Morgan Stanley Capital Services Inc.	A	(0.9)
Credit Suisse	A+	(86.2)
Deutsche Bank	A+	(416.8)

The aggregate amount of plan collateral with brokers was $1.06 million, while the aggregate amount of collateral posted by counterparties was $2.8 million. The aggregate amount of liabilities included in netting arrangements was $1.2 million. Securities eligible as collateral are typically United States government bills and US dollar cash. Collateral movement threshold is typically zero with a $.25 million minimum transfer account per counterparty, per account. It is important to note that margin may be called at a minimum weekly, with the ability to call as frequently as daily.

The Master Trust may be subject to credit-related contingent features for those contracts governed by an International Swaps and Derivatives Association Master Agreement (generally swaps) with each counterparty for each open contract in a net liability position. In those instances, the Master Trust is generally regarded as having liquidity risk. In the event the Master Trust's assets decline by various, pre-specified rates over predetermined time periods, the Master Trust is either required to post more collateral or may be required to pay off the open liability contracts given the counterparties right to terminate the contract. At June 30, 2010, the Master Trust had a fair value of $29.6 million in contracts in a net liability position with contingent features; $1.1 million was posted in collateral against those positions. Contingent features that could result in an immediate payment from the counterparty include a downgrade of the counterparty below a specified rating, commonly A-/A3. Additionally, immediate payment can be made to the counterparty in the event assets under management of the portfolio falls below certain thresholds. It is important to note that these contingent features are not compulsory, rather they are voluntary.

Long Term Commitments for Alternative Investments – PERF had entered into long term commitments for funding alternative investments in private equity, private real estate, and absolute return of approximately $3.7 billion as of June 30, 2010. The fund has disbursed approximately $1.76 billion toward the commitments as of June 30, 2010. The expected investment term of these commitments extend through 2028. These amounts include five Euro-denominated and one Norwegian Kroner-denominated commitments to limited liability partnerships converted to United States dollars at the closing exchange rate as of June 30, 2010.

State Teachers' Retirement Fund (TRF)

Investment Policy - The Fund's Investment policy states the following:

Description of TRF

The Indiana State Teachers' Retirement Fund ("TRF" or the "Fund") is a defined benefit plan under Internal Revenue Code Section 401(a) and is governed by federal law, the Indiana Constitution, Indiana Code, Indiana Administrative Code, and policies set by the TRF Board of Trustees (the "Board"). Pursuant to Indiana law and the Internal Revenue Code, TRF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. In order to provide the ensuing tax advantages to its members, TRF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code. In addition, TRF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code.

Objectives

All aspects of this policy statement should be interpreted in a manner consistent with the Fund's objectives. The objectives of the Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements. These objectives are:

1. To have the ability to pay all benefit and expense obligations when due;
2. To achieve the actuarial rate of return while limiting downside risk; and
3. To control the costs of administering the Fund and managing the investments.

Description of the Primary Statutory Investment Provision

The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996. The primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards. See IC 5-10.4-3-10. Other pertinent investment requirements in the Indiana Code ("IC") include the following:

1. Fund investments must be held for the Fund by banks or trust companies under a custodial agreement or agreements. All Custodians must be domiciled in the United States. IC 5-10.4-3-13;
2. The Board may not engage in any prohibited transaction, as described in Section 503(b) of the Internal Revenue Code. IC 5 10.2-2-1.5(9); and

3. The Board must divest from firms that do business with Sudan under IC 5-10.2-9 and State Sponsors of Terror under IC 5-10.2-10.

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets in accordance with allowable legal limits.

The strategic asset allocation for employer assets effective on June 30, 2010 is as follows:

Global Equity	41%
Global Fixed Income	37%
Inflation Sensitive	18%
Absolute Return	4%
Total	100%

The asset allocation for the Guaranteed Fund, which are employee assets in the members' Annuity Savings Accounts, is 100% fixed income securities.

Credit Risk - The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by national rating agencies such as Moody's and Standard and Poor's. The Fund's credit risk of investments policy is set on a manager by manager basis.

The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's investments in debt securities. Ratings were obtained from Moody's.

Rating	Fair Value	Percentage of Portfolio
Aaa	$ 1,353,621	29.0%
US Government Guaranteed	642,318	13.7%
Aa	254,140	5.4%
A	466,480	10.0%
Baa	672,068	14.4%
Ba	174,782	3.7%
B	55,752	1.2%
Caa	17,671	0.4%
Ca	599	0.0%
C	105	0.0%
Unrated	1,034,960	22.2%
Total	$ 4,672,496	100.0%

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the Fund.

There was no custodial credit risk for investments including investments related to securities-lending collateral. Per IC 5-10.4-3-13, all Fund investments are held by banks or trust companies under custodial agreements and all custodians must be domiciled in the United States.

Deposit Risks – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit account are carried at cost and are insured up to $250,000 each. Deposits in the demand accounts held in excess of $250,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash deposits held with the custodian, brokers and counterparty are carried at cost and are not insured or collateralized.

Assets Exposed (dollars in thousands):	
Demand Deposit Accounts – Bank Balance	$37,529
Margin Deposits with Brokers	6,647
Cash Collateral with Counterparty	2,400
Cash Held with Custodian	5,701
Total Exposed	$52,277

Concentration of Credit Risk – As of June 30, 2010, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. government that represented more than 5% of net investments.

Interest Rate Risk – The Fund uses the Barclays Capital Aggregate Index as the benchmark for performance measurement of domestic fixed income managers and various other indices for international fixed income managers.

As of June 30, 2010, the Fund had the following duration information (dollars in thousands):

Investment Type:	Net Asset Fair Value	% of Net Asset Fair Value	Effective Duration
Short Term Investment Funds	$ 175,373	3.8%	0.00
Short Term Bills and Notes	42,406	0.9%	0.12
Commercial Paper	48,797	1.0%	0.03
Asset-Backed Securities	208,789	4.5%	0.81
Commercial Mortgage-Backed Securities	243,708	5.2%	3.34
Corporate Bonds	1,500,081	32.2%	4.12
Government Issued Commercial Mortgage-Backed Securities	2,108	0.0%	2.27
Index Linked Government Bonds	102,482	2.2%	4.42
Guaranteed Fixed Income	15,032	0.3%	0.56
Government Agencies	104,695	2.2%	3.36
Government Bonds	969,976	20.9%	4.16
Government Mortgage Backed Securities	389,601	8.3%	1.78
Bank Loans	1,378	0.0%	0.02
Municipal/Provincial Bonds	16,169	0.3%	5.95
Collateralized Mortgage Obligations	76,473	1.6%	1.88
Other Fixed Income	700	0.0%	1.56
Duration Not Available	774,728	16.6%	N/A
Total	$4,672,496	100.0%	3.32

Foreign Currency Risk – As of June 30, 2010, 11.0% of the Fund's investments were in foreign currencies. The Fund does not have a formal policy relating to foreign currency risk. The table below breaks down the Fund's exposure to each foreign currency (in thousands of dollars):

Currency	Total Fair Value	Percent of Total Fund Fair Value
Euro Currency Unit	$ 303,515	3.7%
Japanese Yen	182,902	2.3%
British Pound Sterling	127,394	1.6%
Australian Dollar	63,706	0.8%
Swiss Franc	48,702	0.6%
Hong Kong Dollar	36,069	0.4%
Canadian Dollar	34,239	0.4%
Swedish Krona	21,336	0.3%
South Korean Won	19,974	0.3%
Other	51,806	0.6%
Totals	$ 889,643	11.0%

Securities Lending – State statutes and the Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition, the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of domestic securities lent and 105% on international securities lent. Collateral is adjusted to the market on a daily basis. No more than 40% of TRF's total assets may be lent at any one time. At year-end, TRF has no credit risk exposure to borrowers because the amount TRF owes the borrowers exceeds the amounts the borrowers owe TRF.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Total cash collateral of $916 million is invested in a pooled fund.

As of June 30, 2010, the Fund had the following securities on loan (dollars in thousands):

Security Type	Market Value of Loaned Securities Collateralized by Cash	Market Value of Loaned Securities Collateralized by Noncash	Total Securities Loaned
Global Equities	$ 87,518	$ 356	$ 87,874
U.S. Agencies	11,720	-	11,720
U.S. Corporate Fixed	195,007	-	195,007
U.S. Equities	246,886	411	247,297
U.S. Gov't Fixed	349,180	1,022	350,202
Total	$ 890,311	$ 1,789	$ 892,100

Outstanding Short Sales – Short sales occur when investments have been sold which are not yet owned by the Fund. Prior to settlement of the sale, the investments will be procured. For the investments directly held by the Fund within the custody accounts, the outstanding short sales are included as accounts receivable from sales of investments and as negative investments. A schedule of the negative investments as of June 30, 2010, is listed below. These investments reduced the debt securities investments shown on the balance sheet. These transactions involve market risk, as the asset to be delivered may become more costly to procure and then losses would be realized.

A schedule of the outstanding short sales at June 30, 2010 follows (dollars in thousands):

Type of Investment	Total Short Sales
Government Mortgage Backed	$ 51,639

Derivative Financial Instruments – Derivative transactions involve, to varying degrees, the following risks:

Market risk – Market risk is the possibility that a change in the referenced position will cause the value of a financial instrument to decrease or be-come more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake.

Interest Rate Risk — Interest rate risk is the risk of change in the market value of the assets due to a change in interest rates. Bond futures, interest rate swaps and interest rate swaptions are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date. Interest rate swap agreements involve the exchange by the Master Trust, with a counterparty, of respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments, with respect to the notional amount of principal. Interest rate swaptions are options to enter into an interest rate swaps based off a set of predetermined conditions. Refer to the interest rate risk note of the Fund .

Credit Risk — Credit risk is the risk of change in the market value of assets due to the change in creditworthiness of the underlying issuer. Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index.

Currency Risk — Currency risk is the risk of a change in market value due to the change in foreign currency exchange rates. Generally, currency futures, forward contracts and options are used to achieve the desired currency exposure, generate value-added performance, or rebalance the total portfolio to the target asset allocation. Foreign currency futures and forwards are agreements between two parties to buy and sell a set of currencies at a set exchange rates on a specified future dates. A currency option gives the buyer the right, but not the obligation, to buy one currency or sell another currency at a set exchange rate on or before a given date.

Equity Risk — Equity risk is the risk of a change in market value of assets due to the change in equity or equity index prices. Equity futures are generally used to achieve the desired market exposure of a security or index or rebalance the total portfolio to the target asset allocation. An equity futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

Future Settlement Risk — Future settlement risk is the risk of not receiving the asset or associated gains specified in the contract. Associated gains are derived from the change in market value of the contract due to a change in price of the underlying security. Mortgage TBAs and treasury forwards are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration. A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date; similarly, a treasury forward is a contract for the purchase or sale of U.S. Treasury securities to be delivered at a future agreed-upon date.

TRF’s directly held investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or buy a put option), the reference security is held in the portfolio. During the year, TRF’s derivative investments included but were not limited to, foreign currency forward contracts, SWAPS, options, TBAs and futures.

The table below summarizes TRF's derivative information for the year ending June 30, 2010 (dollars in thousands):

	Change in Fair Value		Fair Value at June 30, 2010		
Investment Derivatives	Classification	Amount	Classification	Amount	Notional
Fiduciary funds					
Investment derivatives					
Futures	Investment Income	$ 38,603	Investments	$ -	$ 60,899
Options	Investment Income	125	Investments	212	
Swaps	Investment Income	(7,984)	Investments	424	
Rights/Warrants	Investment Income	1,623	Investments	66	
Forwards	Investment Income	7,111	Investments	-	
Broker Commissions					
Recaptured	Investment Income	119	Investments	N/A	
Total		$ 39,597		$ 702	$ 60,899

Foreign currency forward contracts are used to hedge against the currency risk in TRF's foreign equity stock and debt security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis.

At June 30, 2010, TRF's investments included the following currency forwards balances:

Forward Currency Contract Receivables	$ 117.8
Forward Currency Contract Payables	$ 115.5

TRF's investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, TRF's investment managers use futures contracts to adjust the portfolio risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. Futures contracts may be used for the purpose of investing cash flows or modifying duration but in no event may leverage be created by any individual security or combination of securities.

A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty; this would typically be referred to as an "OTC contract" such as swaps, forward contracts and TBAs. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Inherent in the use of OTC derivatives, the Master Trust is exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2010, the Master Trust counterparty risk was not deemed to be significant, whether evaluating counterparty exposure outright or netting collateral against net asset positions on contracts with each counterparty. Additionally, with the use of collateral, master netting agreements assist in mitigating counterparty credit risk.

Counterparty	Quality Ratings of Counterparty	Fair Value of Exposure
Barclays Capital	AA-	$ 144.0
BNP PARIBAS S.A.	AA	(462.0)
Citibank, New York	A+	318.0
Credit Suisse	A+	(108.0)
Deutsche Bank AG	A+	692.0
Standard Chartered Bank	A	(28.0)
UBS (Warburg)	A+	(2,155.0)
Bank of America NA	A+	230.0
Goldman Sachs Bank USA	A	26.0
Goldman Sachs International	A	921.0
JP Morgan Chase Bank N.A.	AA-	23,600.0
Merrill Lynch Capital Services Inc.	A	1.0
Morgan Stanley Capital Services Inc.	A	144.0
Royal Bank of Canada	AA-	59.0
Royal Bank of Scotland PLC	A+	1,157.0

The aggregate amount of plan collateral with brokers was $1,960,000, while the aggregate amount of collateral posted by counterparties was

$2,950,000. The aggregate amount of liabilities included in netting arrangements was $1,090,105. Securities eligible as collateral are typically United States government bills and U.S. dollar cash. Generally, any positive movement in market value requires the counterparty to transfer a minimum of $250,000 in collateral. It is important to note that margin may be called at a minimum weekly with the ability to call as frequently as daily.

The Master Trust may be subject to credit-related contingent features for those contracts governed by an International Swaps and Derivatives Association Master Agreement (generally swaps) with each counterparty for each open contract in a net liability position. In those instances, the Master Trust is generally regarded as having liquidity risk. In the event the Master Trust's assets decline by various, per-specified rates over predetermined time periods, the Master Trust is either required to post more collateral or may be required to pay off the open liability contracts given the counterparties right to terminate the contract. At June 30, 2010, the Master Trust had a fair value of $1,090,105 in contracts in a net liability position with contingent features; $1,960,000 was posted in collateral against those positions. Contingent features that could result in an immediate payment from the counterparty include a downgrade of the counterparty below a specified rating, commonly A-/A3. Additionally, immediate payment can be made to the counterparty in the event assets under management of the portfolio falls below certain thresholds. It is important to note that these contingent features are not compulsory, rather they are voluntary.

Long Term Commitments for Alternative Investments – TRF had entered into long term commitments for funding alternative investments in private equity and private real estate of $1,497.4 million as of June 30, 2010. These investments had a net asset value of $692.3 million as of June 30, 2010. The funding period for the amounts that TRF has already committed is from April, 2002 to approximately June, 2018. The outstanding commitments at June 30, 2010, totaled $614.1 million.

B. Interfund Transactions

Interfund Loans

Interfund loans of $36.7 million represents amounts owed by the Bureau of Motor Vehicles Commission Fund to the Motor Vehicle Highway Fund.

As explained in Note III(A) above, temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2010, the following funds had temporary cash overdrafts covered by loans from the General Fund: Motor Vehicle Highway Fund, $10.1 million, ARRA of 2009 Fund, $272.8 million, US DHHS Fund, $86.2 million, US Department of Agriculture Fund, $55.6 million, US Department of Labor Fund, $9.5 million, and the U.S. Department of Education Fund, $57.3 million.

The following is a summary of the Interfund Loans as of June 30, 2010:

Interfund Loans - Current	Loans To Governmental Funds	Loans From Governmental Funds
Governmental Funds		
General Fund	$ 491,607	$ -
Motor Vehicle Highway Fund	36,665	-
ARRA of 2009	-	272,807
US DHHS	-	86,214
Nonmajor Governmental Funds	-	169,251
Total Governmental Funds	528,272	528,272
Total Interfund Loans	$ 528,272	$ 528,272

Interfund Services Provided/Used

Interfund Services Provided of $10.9 million represents amounts owed by various governmental funds to the Institutional Industries Fund and the Administrative Services Revolving Funds, both internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2010:

Interfund Services Provided/Used

	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
Governmental Funds		
General Fund	$ -	$ 3,848
State Highway Department	-	773
U.S. Department of Health & Human Services	-	1,687
Nonmajor Governmental Funds	-	4,563
Total Governmental Funds	-	10,871
Proprietary Funds		
Internal Service Funds	10,871	-
Total Proprietary Funds	10,871	-
Total Interfund Services Provided/Used	$ 10,871	$ 10,871

Due From/Due Tos

Current – Interfund balance of $36.8 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund. The Indiana Finance Authority owed $205 thousand to governmental funds with $204 thousand due the General Fund and the balance of $1 thousand due non-major governmental funds.

Non-current – The interfund balance of $50.0 million represents funds the General Fund borrowed in June 2004, interest free, from the Indiana Board for Depositories, a discretely presented component unit. This money is due to be repaid, either from the General Fund prior to January 1, 2013, or by a budget request submitted to the 2013 session of the general assembly. This non-current interfund balance appears on the government-wide statements, but not the General Fund statements.

The following are current and non-current schedules of Due From/Due Tos of Component Units, as of June 30, 2010:

Component Units - Current

	Due From Primary Government	Due To Component Units	Due From Component Units	Due To Primary Government
Governmental Funds				
General Fund	$ -	$ 7,075	205	$ -
Nonmajor Governmental Funds	-	-	36,809	-
Total Governmental Funds	-	7,075	37,014	-
Component Units				
Indiana University	1,914	-	-	-
Purdue University	15	-	-	-
Nonmajor Universities	5,146	-	-	-
Indiana Finance Authority	-	-	-	205
State Lottery Commission	-	-	-	36,809
Indiana State Fair Commission	-	-	-	-
Total Component Units	7,075	-	-	37,014
Total Due From/To	**$ 7,075**	**$ 7,075**	**$ 37,014**	**$ 37,014**

Component Units - Non-current

	Due From Primary Government	Due To Component Units
Governmental Funds		
General Fund	$ -	$ 50,000
Total Governmental Funds	-	50,000
Component Units		
Board for Depositories	50,000	-
Total Component Units	50,000	-
Total Due From/To	**$ 50,000**	**$ 50,000**

Effective July 1, 2008, members who have at least one year of service in both the Public Employees' Retirement Fund (PERF) and the State Teachers' Retirement Fund (TRF) have the option of choosing from which of these funds they would like to retire. The fund that the employee chooses pays the retirement benefits to the employee. The employee's pension is computed and vested status determined on the basis of the combined creditable service in both funds. The annuity, if any, is computed on the basis of amounts credited to the employee in the annuity savings accounts in both funds.

The fund in which the employee was a member must pay to the fund responsible for paying the employee's benefits:

(1) the amount credited to the employee in the employee's annuity savings account, minus any amount withdrawn by the employee; and
(2) the proportionate actuarial cost of the employee's pension.

At the time the retirement benefit is calculated, PERF and TRF will set up a receivable (Due from component unit) or payable (Due to component unit) in their respective Statements of Fiduciary Net

Assets based on which retirement fund will pay benefits to the member.

The following is a schedule of Due From/ Due Tos within Component Units, as of June 30, 2010:

Within Component Units	Due From Component Units	Due To Component Units
Discretely Presented Component Units Pension Trust:		
Pension Trust		
Public Employees' Retirement Fund	$ 167	$ 1,371
State Teachers' Retirement Fund	1,371	167
Total Discretely Presented Component Units Pension Trust	1,538	1,538
Total Due From /To	$ 1,538	$ 1,538

The State has established a due from agency fund in the General Fund and a due to General Fund in the Local Distributions agency fund for the over distribution of taxes collected on behalf of local units of government computed as of June 30, 2010. It is the State's intention to have the total repaid through adjustments in future distributions in accordance with state law (CAGIT: IC 6-3.5-1.1-9(b)(2); COIT: IC 6-3.5-6-17(b)(2); and CEDIT: IC 6-3.5-7-11(b)(2). The following schedule presents the Due from/Due to between the General Fund and the Agency Fund:

Between General Fund and Agency Funds (Amounts in thousands)	Due from Agency Funds	Due to General Fund
Governmental Funds		
General Fund	$ 360,138	$ -
Agency Funds		
Local Distributions	-	360,138
Total Due From/To	**$ 360,138**	**$ 360,138**

Interfund Transfers

Major Governmental Funds

Transfers constitute the movement of money from the fund that receives the resources to the fund that utilizes them. These numerous transfers generally result from legislation passed by the Indiana General Assembly that directs how the transfers are made. In the case of the General Fund, many appropriations are made in the General Fund and then are transferred during the year to the funds where these appropriations are used. Also in the case of the General Fund, various taxes and other revenues are collected in other funds and transferred to the General Fund. Following are the principal purposes of the State's interfund transfers:

General Fund – The General Fund had the following transfers in: $945.7 million was transferred in from the State Tuition Reserve Fund per a determination made by the budget director per IC 4-12-1-15.7 that it was needed to cover tuition support distributions. The State Gaming Fund transferred in $655.5 million of wagering taxes from riverboats and slot machines at horse tracks. The Welfare, Child Service Fund transferred in $277.5 million for use in the Family and Children Fund to make social services payments direct support including adoption assistance. The General Fund's Motor Vehicle Excise Tax Fund received $236.2 million in transfers in from the Build Indiana Fund per IC 4-30-17-3.5. The Fund 6000 Programs transferred in $157.8 million from income, sales and financial institutions taxes collected and received by the Department of Revenue, from allocations of commercial vehicle excise tax and financial institutions tax ultimately for local civil taxing units and school corporations and to support various administration such as of the Indiana Veterans Home, the State Police Motor Vehicle Highway Fund, and the Employment and Training Administration of the Department of Workforce

Development. The Public Welfare-Medicaid Assistance Fund received transfers in totaling $142.0 million of which $33.3 million was for quality assessment fees collected throughout the fiscal year which can only be used for the State's share of Medicaid services under Title XIX of the Social Security Act, $58.7 million was received by the State's psychiatric hospitals for the disproportionate share program, and $50.0 million was received by the Office of Medicaid Policy and Planning for administration and Medical Assistance to Wards. $86.8 million was transferred in from the Tobacco Settlement Fund for various health and welfare purposes including the Children's Health Insurance Program. The Mental Institutions Fund transferred in $44.5 million to reimburse the General Fund for the federal share of revenue accruing to the state development centers under IC 12-15 based on the federal Medicaid assistance percentage from the hospital's fiscal year 2010 revenues. $36.4M was transferred in from the Mental Health Centers Fund to the State's Serious Mentally Ill State Appropriation fund per June 2010 administrative action of the State Budget Agency. Per February 2010 administrative action of the State Budget Agency, the State's Medicaid State Appropriation fund received transfers in of $44.6 million from the County Welfare Administration Fund. Per July 2009 administrative action of the State Budget Agency, the State's Hospital Care for the Indigent Fund State Appropriation account received transfers in of $33.0 million from the Hospital Care for the Indigent Fund.

The following were transfers out from the General Fund: The Public Welfare Medicaid Assistance Fund received $1.4 billion in transfers for Medicaid current obligations for the purpose of enabling the Office of Medicaid Policy and Planning to carry out all services under IC 12-8-6. These services include, but may not be limited to the provision of care and treatment for individuals with mental illness, developmental disability, long term care needs, and family and child services needs. $419.2 million was transferred to the Welfare, Child Service Fund, administered by the Department of Child Services for family and children services including welfare-case services and adoption assistance. The U.S. Department of Health and Human Services Fund received transfers in of $282.5 million in support of: the State Medicaid program; child care services and the temporary assistance for needy families program both administered through the Division of Family Resources; county child care services offices' administration and child welfare services administration both administered through the Department of Child Services; information systems for the Division of Family Resources and Department of Child Services; the Division of Mental Health's Child Psychiatric Service Fund; client services provided through the Division of Disability and Rehabilitation Services; administrative costs of the Department of Child Services; and other health and human services programs and services. The State Student Assistance Commission of Indiana received transfers in totaling $199.2 million for the Frank O'Bannon Grant program which provides tuition and regularly assessed fees support for Hoosier students to attend eligible postsecondary institutions. The Frank O'Bannon Grant program was formerly the Higher Education Award and Freedom of Choice Award. The Build Indiana Fund received $126.4 million from riverboat wagering and pari-mutuel taxes which went to the Lottery and Gaming Surplus Account and the David C. Ford Education Technology Program. The Mental Health Centers Fund received transfers in totaling $95.0 million for services to adults who are seriously mentally ill in comprehensive community health centers and for administration by the Department of Mental Health. The Department of Child Services Local Office Administration Fund received transfers in of $105.0 million for administration of children's services in the counties. The County Welfare Administration Fund received transfers in of $57.3 million for Division of Family Resources' District Welfare Administration. $53.0 million was transferred from the General Fund to the Motor Vehicle Highway Fund primarily for State Police administration and pensions. $45.8 million was transferred to the Hospital Care for the Indigent Fund for the Hospital Care for the Indigent Program. The Twenty-first Century Scholars Fund received transfers in of $30.3 million to support the Twenty-first Century Scholars Program which offers tuition support to Indiana colleges for enrolled students of low and moderate income families that fulfill a pledge of good citizenship. $26.2 million was transferred to close out the Property Tax Replacement Fund.

Medicaid Assistance Fund – The Medicaid Assistance Fund had a transfer in of $1.4 billion from the General Fund to support the state Medicaid program administered through the Office of Medicaid Policy and Planning. $35.6 million was transferred in from the Mental Institutions Fund for funds collected from providers of services to the seriously mentally ill for the local/State set-aside match. $60.5 million was transferred in from the Medicaid Indigent Care Trust Fund for reimbursement of hospital care for the indigent supplement payments made from the Medicaid Assistance Fund. $33.0 million was transferred in from the Hospital Care for the Indigent Fund to support care of indigents at state hospitals. There was also a transfer in of $21.3 million from the U.S. Department of Health and Human Services (US DHHS) Fund to support the state Medicaid program.

Transfers out included $142.0 million to the General Fund of which $38.0 was to support Medicaid administration, $33.3 million went to the State Budget Agency for qualifying assessment fees that can only be used for the state's share of Medicaid services under Title XIX of the Social Security Act, $58.7 million was paid to the state psychiatric hospitals for disproportionate share hospital (DSH) payments, and $12.0 million was for medical assistance to wards. The US DHHS Fund received $8.6 million for Medicaid administration and $1.8 million for the Money Follows the Person Program, a special project to assist Hoosiers moving from a nursing facility or hospital to a residential setting in the community. $8.0 million was transferred to the District Welfare Administration Fund to support county welfare administration.

Major Moves Construction Funds – The Major Moves Construction Fund had a transfer out of $535.3 million to the State Highway Department for construction and maintenance of the State's highways, roads, and bridges.

State Highway Department Fund – The State Highway Department Fund had the following major transfers in: $276.8 million was transferred in from the Motor Vehicle Highway Fund for use by the Indiana Department of Transportation for maintenance services, access road construction, and the research and highway extension program. Another $6.3 million was received from the Motor Vehicle Highway Fund for distributions to local governments for highway projects, State Police administration, pension, and benefits, and traffic safety initiatives of the Indiana Criminal Justice Institute. $129.8 million was transferred in from the Road and Street Primary Highway Fund's collection of motor fuel taxes, motor carrier surtaxes, and vehicle registration fees. $535.3 million was transferred in from the Major Moves Construction Fund as described above for construction and maintenance of the State's highways, roads, and bridges. $20.0 million was transferred in from the Gasoline and Special Fuel Tax Fund for highway maintenance services. $17.3 million was received from the Public Mass Transportation Fund for the promotion and development of efficient and effective public transportation in Indiana.

The State Highway Department Fund had the following transfers out: $3.3 million was transferred to the U.S. Department of Interior (USDOI) Fund for use in Fish and Wildlife Division programs of the Indiana Department of Natural Resources. The General Fund received $1.1 million for a surplus adjustment.

ARRA of 2009 Fund – The American Recovery and Reinvestment Act of 2009 Fund received $6.3 million from the General Fund. Of this $6.3 million, $5.0 million is to provide for various repairs at the Indiana Veterans' Home and to provide for renovations to dormitories at the Adjutant General's Hoosier Youth Challenge Academy Knightstown; $645.4 thousand was received from the DNR GF Construction Fund for state match to support repairs and improvements to the West Beach Parking Lot at Indiana Dunes State Park; and $622.5 thousand was received from the Adjutant General's State Match Fund for sustainment, restoration, and modernization projects at National Guard facilities throughout the State. $505 thousand was received from the State Highway Department Fund for institutional road construction.

The American Recovery and Reinvestment Act of 2009 Fund transferred out $732 thousand to the U.S. Department of Justice Fund to support the Supreme Court's Edward Byrne Memorial Justice Assistance subgrant.

U.S. Department of Health and Human Services Fund – The U.S. Department of Health and Human Services (USDHHS) Fund received $282.5 million from the General Fund for the support of: the State Medicaid program; child care services and the temporary assistance for needy families program both administered through the Division of Family Resources; county child care services offices' administration and child welfare services administration both administered through the Department of Child Services; information systems for the Division of Family Resources and Department of Child Services; the Division of Mental Health's Child Psychiatric Service Fund; client services provided through the Division of Disability and Rehabilitation Services; administrative costs of the Department of Child Services; and other health and human services programs and services. $37.9 million was received from the Tobacco Settlement Fund for the programs and services of the Indiana Family and Social Services' Division of Disability and Rehabilitation Services and Office of Medicaid Policy and Planning. The Fund 6000 Programs transferred in $21.8 million to support aging, disability, and rehabilitation programs and services administered through the Indiana Family and Social Services Administration.

The USDHHS Fund transferred out $21.3 million to the Medicaid Assistance Fund to support the state Medicaid program. $20.0 million was transferred to the County Welfare Administration Fund for local office family and children administration. The General Fund received transfers in totaling $8.6 million which was primarily for FSSA Medicaid Fund administrative expenses and reimbursement of federal indirect costs. The Division of Family Resources received $4.5 million for the Federal Food Stamp Program Fund that covers administrative costs. $4.0 million was transferred to the U.S. Department of Education Fund for education grant programs and services at the Indiana Department of Education and Division of Disability and Rehabilitation Services. The Welfare-Work Incentive Fund received $3.4 million for reimbursement of administrative costs per FSSA's approved cost allocation plan.

Proprietary Funds

Non-Major Enterprise Funds

The Inns and Concessions Fund – This fund had transfers out of $2.6 million, representing cash contributions to the Department of Natural Resources (DNR) which are to be used for repayments of bonds made by the Indiana Finance Authority.

Internal Service Funds

$2.0 million was transferred from the Institutional Industries Fund, an Internal Service Fund, to the General Fund at the request of the State Budget Agency.

$36.7 million was transferred from the Administrative Services Revolving Fund, an Internal Service Fund, to the General Fund. $35.3 million was to close unencumbered cash, $1.0 million was to help supplement the General Fund, and $0.4 million was for State Employee Retiree Medical Benefits.

A summary of interfund transfers for the year ended June 30, 2010 is as follows:

	Operating transfers in	Operating transfers (out)	**Net transfers**
Governmental Funds			
General Fund	$ 2,858,825	$ (3,044,075)	**$ (185,250)**
Public Welfare-Medicaid Assistance Fund	1,534,157	(160,632)	**1,373,525**
Major Moves Construction Fund	-	(535,271)	**(535,271)**
State Highway Department	991,834	(7,281)	**984,553**
ARRA of 2009	8,467	-	**8,467**
U.S. DHHS Fund	366,585	(67,830)	**298,755**
Nonmajor Governmental Fund	3,120,919	(5,024,387)	**(1,903,468)**
Proprietary Funds			
Inns and Concessions	-	(2,572)	**(2,572)**
Internal Service Funds	-	(38,739)	**(38,739)**
Total	$ 8,880,787	$ (8,880,787)	**$ -**

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities			
	General Fund	Special Revenue Funds	Capital Projects Funds	Total Primary Government
Income taxes	$ 1,165,557	$ 539	$ -	**$ 1,166,096**
Sales taxes	859,724	7,258	-	**866,982**
Fuel taxes	-	146,086	-	**146,086**
Gaming taxes	3,913	8,283	-	**12,196**
Inheritance taxes	31,751	-	-	**31,751**
Alcohol and tobacco taxes	28,189	16,521	1,735	**46,445**
Insurance taxes	2,366	-	-	**2,366**
Financial institutions taxes	(21)	33,407	-	**33,386**
Other taxes	21,372	16,767	-	**38,139**
Total taxes receivable	2,112,851	228,861	1,735	**2,343,447**
Less allowance for uncollectible accounts	(528,208)	(43,679)	(7)	**(571,894)**
Net taxes receivable	**$ 1,584,643**	**$ 185,182**	**$ 1,728**	**$ 1,771,553**
Tax refunds payable	**$ 35,554**	**$ 5,822**	**$ -**	**$ 41,376**

D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2010, was as follows:

Primary Government – Governmental Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Governmental Activities:				
Capital assets, not being depreciated/amortized:				
Land	$ 1,405,144	$ 99,217	$ (3,894)	$ 1,500,467
Infrastructure	7,930,840	113,603	(5,950)	8,038,493
Construction in progress	1,285,594	359,764	(156,462)	1,488,896
Total capital assets, not being depreciated/amortized	10,621,578	572,584	(166,306)	11,027,856
Capital assets, being depreciated/amortized:				
Buildings and improvements	1,531,575	37,376	(122,674)	1,446,277
Furniture, machinery, and equipment	486,324	29,200	(29,363)	486,161
Computer software	34,645	682	-	35,327
Infrastructure	24,002	-	-	24,002
Total capital assets, being depreciated/amortized	2,076,546	67,258	(152,037)	1,991,767
Less accumulated depreciation/amortization for:				
Buildings and improvements	(756,805)	(29,987)	65,814	(720,978)
Furniture, machinery, and equipment	(287,312)	(53,462)	20,473	(320,301)
Computer software	(22,785)	(11,634)	-	(34,419)
Infrastructure	(15,203)	(3,360)	4,698	(13,865)
Total accumulated depreciation/amortization	(1,082,105)	(98,443)	90,985	(1,089,563)
Total capital assets being depreciated/amortized, net	994,441	(31,185)	(61,052)	902,204
Governmental activities capital assets, net	$ 11,616,019	$ 541,399	$ (227,358)	$ 11,930,060

Primary Government – Business-Type Activities

Business-Type Activities:	Balance July 1, As restated	Increases	Decreases	Balance June 30
Capital assets, being depreciated:				
Buildings and improvements	$ 149	$ -	$ -	$ 149
Furniture, machinery, and equipment	232	-	-	232
Total capital assets, being depreciated	381	-	-	381
Less accumulated depreciation for:				
Buildings and improvements	(67)	(15)	-	(82)
Furniture, machinery, and equipment	(193)	(18)	-	(211)
Total accumulated depreciation	(260)	(33)	-	(293)
Total capital assets being depreciated, net	121	(33)	-	88
Business-type activities capital assets, net	$ 121	$ (33)	$ -	$ 88

Depreciation/amortization expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	$ 8,335
Public safety	38,597
Health	1,073
Welfare	13,667
Conservation, culture and development	13,028
Education	1,106
Transportation	22,637
Total depreciation/amortization expense - governmental activities	$ 98,443
Business-type activities:	
Inns and Concessions	$ 33
Total depreciation expense - business-type activities	$ 33

E. Leases

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2010 and the assets acquired through capital leases are as follows:

Future minimum lease payments

Year ending June 30,	Operating leases	Capital leases Governmental Activities
2011	$ 27,457	$ 107,207
2012	22,264	104,905
2013	18,762	102,461
2014	14,024	102,464
2015	12,939	103,528
2016-2020	36,427	509,454
2021-2025	22	508,926
2026-2030	-	408,859
2031-2035	-	5,983
2036-2040	-	-
Total minimum lease payments (excluding executory costs)	**$ 131,895**	**1,953,787**
Less:		
Remaining premium(discount)		(23,777)
Amount representing interest		(660,201)
Present value of future minimum lease payments		**$ 1,269,809**

Assets acquired through capital lease

Land	$ -
Infrastructure	51,773
Building	3,574
Machinery and equipment	1,244,052
less accumulated depreciation	(18,902)
	$ 1,280,497

Operating Leases

The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of $20,000 or more were $31.6 million for the year ended June 30, 2010. A table of future minimum lease payments (excluding executory costs) is presented above.

Capital Leases Liabilities

The State has entered into various lease agreements with aggregate payments of $20,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the government-wide statements.

F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2010 were as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Compensated absences	$ 147,274	$ 2,756	$ (4,228)	$ 145,802	$ 79,181	$ 66,621
Construction retention	-	-	-	-	-	-
Due to component unit	50,000	7,075	-	57,075	7,075	50,000
Net pension obligation	957,499	5,779	(15,198)	948,080	-	948,080
Other postemployment benefits	71,831	40,574	-	112,405	-	112,405
Pollution remediation	66,677	-	(8,416)	58,261	14,547	43,714
Intergovernmental payable	175,035	-	(12,590)	162,445	122,445	40,000
Capital leases	1,300,727	14,472	(45,390)	1,269,809	47,106	1,222,703
	$ 2,769,043	$ 70,656	$ (85,822)	$ 2,753,877	$ 270,354	$ 2,483,523
Business-type activities:						
Compensated absences	$ 508	$ 271	$ (283)	$ 496	$ 200	$ 296
Claims liability	45,704	3,115	(3,346)	45,473	3,331	42,142
	$ 46,212	$ 3,386	$ (3,629)	$ 45,969	$ 3,531	$ 42,438

Long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Note IV(E), net pension obligations for the State Police Retirement Fund and the Prosecuting Attorney's Retirement Fund as presented in Note V(E), other postemployment benefits, pollution remediation, amounts due to component units, amounts due the federal government and compensated absence obligations. The General Fund typically has been used to liquidate any other long-term liabilities.

Long-term obligations of the business-type activities consist of claims liability of the Indiana Residual Malpractice Insurance Authority and compensated absences of the Inns and Concessions Fund.

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.

G. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2010, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These prior period adjustments and restatements are reflected in the beginning net assets in the government-wide statement of activities.

Prior Period Adjustments

In the fund statements for Special Revenue Funds, and the government-wide statements, there is an increase of $2.0 million in net assets for existing receivables that were not recorded by June 30, 2009.

In the fund statements for Special Revenue Funds, and the government-wide statements, there is a decrease of $12.1 million in net assets for existing liabilities that were not recorded by June 30, 2009.

In the fund statements for governmental funds and the government-wide statements, there is an increase of $69.8 million due to an overstatement in accounts payable in 2009.

For the government-wide statements, there is an increase of $42.3 million in net assets for INDOT infrastructure not capitalized by June 30, 2009 that were completed work-in-progress projects prior to this date.

For the government-wide statements, there is an increase of $4.1 million in net assets for Department of Administration (DoA) work in process. This was the result of not capitalizing projects by June 30, 2009 that had been initiated prior to this date per DoA's work in process records.

For the government-wide statements, there is an increase of $110.6 million in net assets for capital assets. This was the result of not capitalizing capital assets by June 30, 2009 that were acquired prior to this date, for corrections to acquisition cost by state agencies, for implementation of GASB 51, Accounting and Financial Reporting for Intangible Assets, and for the elimination of duplicate assets found in the 2009 report.

For the government-wide statements, there is a decrease of $14.6 million in net assets for capital leases entered into and not recorded as a liability by June 30, 2009.

For the government-wide statements, there is an increase of $24.1 million in net assets for capital assets acquired through leases that were completed by June 30, 2009.

The net assets for business type activities decreased by $14.4 as a result of capital assets reclassified from Inns and Concessions to the Indiana Department of Natural Resources.

For the Internal Service funds and the government-wide statements, there is an increase of $6.1 million in net assets. Net assets for the Administrative Services Revolving fund decreased by $41.0 thousand due to the Motor Pool's gasoline inventory being understated by $2.4 thousand and for deferred revenue that is no longer being recognized by the Indiana Office of Technology in the amount of $43.4 thousand. The State Police Health Insurance Fund's net assets decreased by $1.5 million because of health claims payable being understated by this amount in fiscal year 2009. Net assets increased by $1.2 million for the addition of the State Police 20% LTD fund, a new internal service fund. The net assets of the State Employees' Health Insurance fund increased by $6.5 million which was the result of accounts receivable being understated by $14.9 million, and health/dental claims payable being understated by $8.4 million in fiscal year 2009.

For the discrete component units, there was an increase of $86 thousand due to the Indiana State Fair Commission establishing a skate shop inventory for items that had been expensed in prior years. In addition, the Indiana Economic Development Corporation was added as a component unit which increased net assets by $155.5 million.

There was an increase of $1.2 million in beginning net assets for the correction of errors by Ivy Tech Community College. Ivy Tech Community College's beginning net assets increased by this amount due to the Ivy Tech Foundation's change in basis of accounting from the modified cash basis to the accrual basis.

The following schedule reconciles June 30, 2009 net assets as previously reported, to beginning net assets, as restated:

	Governmental Activities	Business-Type Activities	Discretely Presented Component Units (Non Fiduciary)
June 30, 2009, fund balance/retained earnings/net assets as reported	$ 17,646,102	$ (770,680)	$ 8,374,186
Correction of errors	231,562	-	1,268
Reclassifications of funds	1,237	(14,403)	155,538
Balance July 1, 2009 as restated	$ 17,878,901	$ (785,083)	$ 8,530,992

V. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State purchases commercial insurance related to certain employee health benefits and also some insurance coverage exists for DNR Inns properties. The State also purchases immaterial amounts of commercial insurance related to errors, omissions, and theft by employees. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the State employees' disability, certain State employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in three individual Internal Service Funds.

The State employees' disability program is financed partially by State employees through payroll withholdings and by the funds from which employees are paid. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.)

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The surplus retained earnings in these funds are reserved for future catastrophic losses.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Employee Disability Fund	Total
2010				
Unpaid Claims, July 1, as restated	$ 4,584	$ 40,515	$ 4,137	**$ 49,236**
Incurred Claims and Changes in Estimate	28,638	277,708	21,189	**327,535**
Claims Paid	(29,218)	(278,582)	(20,394)	**(328,194)**
Unpaid Claims, June 30	**$ 4,004**	**$ 39,641**	**$ 4,932**	**$ 48,577**
2009				
Unpaid Claims, July 1	$ 2,883	$ 30,138	$ 4,281	**$ 37,302**
Incurred Claims and Changes in Estimate	25,877	293,397	23,696	**342,970**
Claims Paid	(25,723)	(291,414)	(23,840)	**(340,977)**
Unpaid Claims, June 30	**$ 3,037**	**$ 32,121**	**$ 4,137**	**$ 39,295**

B. Contingencies and Commitments

Litigation

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any.

With respect to tort claims only, the State's liability is limited to: (A) $300,000 for a cause of action that accrues before January 2006; (B) $500,000 for a cause of action that accrues between 2006 and 2008; or (C) $700,000 for a cause of action that accrues on or after January 2008, for injury to or death of one person in any one occurrence and $5 million for injury to or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a total payment for liabilities and litigation expenses of $14 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2010, the State paid $5 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

The following is a summary of certain significant litigation and claims currently pending against the

State involving amounts exceeding $5 million individually or in the aggregate. This summary is not exhaustive, either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

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

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The District Court entered its final judgment in 1981 holding the State responsible for most of the costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court for some school corporations and a 13-year phase out of the desegregation plan for the school corporations that had already began the desegregation plan. State expenditures will be gradually reduced as the plan is phased out.

In 1993, Plaintiffs filed a breach of employment contract lawsuit in a state trial court alleging that the State has failed to pay certain similarly classified state employees at an equal rate of pay from 1973 to 1993. The Court certified Plaintiffs' class and class notification was completed. Plaintiffs seek to recover damages as well as attorney fees and costs. A four-day bench trial was conducted. The Court took the matter under advisement and gave the parties time to submit proposed findings of fact and conclusions of law. In July 2009, the Court entered judgment against the State in the total amount of $43 million ($21 million awarded to merit, overtime eligible employees; $17 million awarded to non-merit, overtime eligible employees; $3 million awarded to merit, overtime exempt employees; $2 million awarded to non-merit, overtime exempt employees). In November 2009, Plaintiffs reduced their settlement demand to $20 million. The State responded with an offer of $8.5 million (inclusive of fees and costs) and later increased the offer to $10 million. The matter is fully briefed in the Court of Appeals. In its October 2010 opinion, the Court of Appeals affirmed in part, reversed in part (applying 10-day limitation period to reduce back pay period for merit employees from 20 years to about eight weeks), and remanded with instructions to recalculate the amount of back pay to which the merit employees are entitled. Impact of the opinion is a reduction in the trial court's judgment from $43 million to approximately $19 million. In November 2010, both Plaintiffs and the State have filed Petitions for Rehearing. The State filed a Brief In Opposition to Appellees/Plaintiffs' Petition for Rehearing.

In 2000, Plaintiffs along the Fawn River in northeastern Indiana, brought action against the State alleging violations of the Clean Water Act, unconstitutional takings of property and federal civil rights violations. Plaintiffs are seeking in excess of $38 million in damages, costs and attorney fees. The federal trial court granted summary judgment in favor of the State and Plaintiffs appealed. A federal appeals court remanded the case to the trial court on one issue under the federal Clean Water Act. This matter was reassigned to outside counsel. Plaintiffs renewed their request for attorney fees. In a 2008 order, the District Court ruled in favor of Plaintiffs and awarded nearly $1 million interim fees and costs which the State paid. The parties met with the consultants, IDEM, and the Army Corps to discuss next steps in getting federal and state approval for the removal of the sediment from the river. A Settlement Conference was held in November 2010 with another Settlement Conference set for December 2010.

The State on behalf of the Indiana Family and Social Services Administration (FSSA) is currently involved in the following case that could result in significant liability to the State:

Other Litigation

In May 2010 the State of Indiana, on behalf of the Indiana Family and Social Services Administration (FSSA), and counterclaim Plaintiff sued each other regarding counterclaim Plaintiff's state welfare system contract entered into in 2006. In October 2009 the State announced its intention to terminate the 10-year contract early effective December 2009 due to counterclaim Plaintiff's deficient performance. The State and counterclaim Plaintiff engaged in a series of informal dispute resolution meetings to try to resolve the competing claims. The State, represented by outside counsel, filed suit against counterclaim Plaintiff for breach of contract and unjust enrichment seeking to recover $438 million in payments, indemnification, damages, costs, fees, interest, treble damages, declaratory judgment, and other relief. Counterclaim Plaintiff filed suit against the State seeking deferred costs and fees, costs for Plaintiff's equipment retained by the State and other fees and costs related to the termination of the contract in excess of $100 million. Trial is set for September 2011.

Other Loss Contingencies

The U.S. Office of Inspector General (USOIG) has issued four audit reports that are dated September 2008 through October 2010 on Indiana's Medicaid Assistance Program. Findings in these reports identify several issues including state psychiatric hospitals that were ineligible to receive Medicaid Inpatient payments, coding issues, and unreported Medicaid overpayments. The reports request repayments totaling $70 million, but FSSA believes the possible loss contingency for these findings totals $34.3 million. FSSA management is working to arrange a settlement of these findings. It is unknown how much of this loss contingency, if any, will have to be repaid to the federal government.

Construction Commitments

As of June 30, 2010, the Indiana Department of Transportation had outstanding construction commitments totaling $1.6 billion for road and bridge projects. It is anticipated that these projects will be financed with approximately 6% State funds, 6% local funds, 51% Federal funds, and 37% from the Major Moves Construction Fund.

The Indiana Department of Administration, Public Works Division, had remaining construction commitments totaling $8.7 million for building and improvement projects of the State's business units as of June 30, 2010. These projects are to be funded through State appropriations, the State Highway Department Fund, capital projects funds, and federal funds.

C. 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.

D. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund").

This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature.

In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. 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 to the State General 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 2010 was $0.00. Total outstanding loans were $18.3 million, resulting in total assets of $18.3 million. Because the API declined by more than 2%, $371.0 million was transferred from the Rainy Day Fund to the General Fund.

E. Employee Retirement Systems and Plans

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

<u>Summary of Significant Accounting Policies (Primary government and discretely presented component units)</u>

The accrual basis is used for financial statement reporting purposes. Receivables are not maintained on the accounting records, but are calculated or estimated for financial statement reporting purposes. Throughout the year, the investments are maintained on the accounting records at the net asset value per the custodian banks. The custodian banks maintain records of the detailed holdings and accounts that comprise the net asset value. At fiscal year end, the accounting records and financial statements recognize investment receivables and payables using investment unit trust accounting. Investments of defined benefit plans are reported at fair value. Short-term investments are reported at market value when available, or at cost, which approximates fair value.

Securities traded on a national or international exchange are valued at the official closing price at current exchange rates. Collective trust funds' fair values are determined by the fair value per share of the pool's underlying portfolio as provided by the trustee. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Values for limited partnership interests are those estimates most recently provided by the general manager, plus or minus cash flows transacted since the valuation date. Investments that do not have an established market are reported at estimated fair value.

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

State Police Retirement Fund (Presented as a pension fund)

Plan Description The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-2 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust. It also authorizes the Department to make annual contributions as necessary to prevent any deterioration in the actuarial status of the trust.

The State Police Retirement Fund does not issue a stand-alone financial report. The SPRF's financial statements are included in the State of Indiana's CAFR as part of the statements presented with fiduciary funds.

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

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal cost actuarial method. Normal cost is funded on a current basis. Under the terms of the Trust Agreement, in the event the Department fails to make the minimum contribution for five successive years, the Trust shall terminate and the fund shall be liquidated. The unfunded actuarial accrued liability is being funded over a thirty-year closed period which commenced July 1, 2007. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level dollar 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.

Funded Status and Funding Progress As of June 30, 2010, the most recent actuarial valuation date, the plan was 81 percent funded. The actuarial accrued liability for benefits was $447.1 million, and the actuarial value of assets was $363.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of $83.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $66.6 million, and the ratio of the UAAL to the covered payroll was 125 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (ECRP) is a single employer defined benefit plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for certain employees of the Indiana Department of Natural Resources, the Indiana Alcohol and Tobacco Commission, and any State excise police officer, Indiana state conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties.

The Excise Police, Gaming Agent and Conservation Enforcement Officers' Retirement Plan provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, 143 West Market Street, 5th Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, www.in.gov/perf.

Funding Policy Members are required by statute to contribute 4 percent of the member's annual salary to the Plan. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially fund the benefits. The funding policy for employer contributions of the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for thirty years, and prevent the State's unfunded accrued liability from increasing.

Funded Status and Funding Progress As of July 1, 2009, the most recent actuarial valuation date, the plan was 76 percent funded. The actuarial accrued liability for benefits was $89.3 million, and the actuarial value of assets was $68.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $21.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $25.2 million, and the ratio of the UAAL to the covered payroll was 84 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, and survivor benefits for individuals who serve as a prosecuting attorney, chief deputy prosecuting attorney, or certain other deputy prosecuting attorneys paid by the state of Indiana.

These individuals' salaries are paid from the General Fund of the State of Indiana. Indiana Code 33-39-7 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, 143 West Market Street, 5th Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, www.in.gov/perf.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at six percent (6%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Funded Status and Funding Progress As of July 1, 2009, the most recent actuarial valuation date, the plan was 59 percent funded. The actuarial accrued liability for benefits was $44.6 million, and the actuarial value of assets was $26.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of $18.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $20.8 million, and the ratio of the UAAL to the covered payroll was 87 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Legislators' Retirement System – Legislators' Defined Benefit Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Benefit Plan (IC 2-3.5-4), a single-employer defined benefit plan, applies to each member of the Indiana General Assembly who was serving on April 30, 1989 and filed 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. That report may be obtained by writing the Public Employees Retirement Fund, 143 West Market Street, 5th Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, www.in.gov/perf.

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 the actuary, is to be appropriated from the State's General Fund.

Funded Status and Funding Progress As of July 1, 2009, the most recent actuarial valuation date, the plan was 93 percent funded. The actuarial accrued liability for benefits was $5.1 million, and the actuarial value of assets was $4.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.4 million. The benefit formula is determined based on service rather than compensation. The unfunded liability per active participant was $10,817 as of the most recent actuarial valuation.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, and is governed by IC 33-38-6, 33-38-7, and IC 33-38-8. The Judges' Retirement System provides retirement, disability, 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; or county courts including Circuit, Superior, Criminal, Probate, Juvenile, and Municipal Courts. The system consists of two plans: the 1977 system and the 1985 system. IC 33-38-7 applies to judges who began service before September 1, 1985. IC 33-38-8 applies to judges beginning service after August 31, 1985. 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, 143 West Market Street, 5th Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, www.in.gov/perf.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation paid by the state of Indiana, deducted from the member's salary and remitted by the Auditor of State. However, no contribution is required and no such amounts shall be paid by the member for more than 22 years of service.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State's General Fund. Indiana Code 33-38-6-17 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. The statutes also provide for remittance of docket fees and court fees. These are considered employer contributions.

Funded Status and Funding Progress As of July 1, 2009, the most recent actuarial valuation date, the plan was 73 percent funded. The actuarial accrued liability for benefits was $330.6 million, and the actuarial value of assets was $241.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $89.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $36.2 million, and the ratio of the UAAL to the covered payroll was 248 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 for units of state and local governments administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability, 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. That report may be obtained by writing the Public Employees Retirement Fund, 143 West Market Street, 5th Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, www.in.gov/perf. At June 30, 2010, the number of participating political subdivisions was 1,208.

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 contributions are determined by the PERF Board of Trustees based on actuarial investigation and valuation. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of compensation. These contributions are credited to the member's annuity savings account that is a separate benefit from the defined pension benefit. The State is required to contribute for State employees at an actuarially determined rate; the current rate is 7.0% of covered payroll.

Funded Status and Funding Progress Funded status and funding progress information is being disclosed for the State of Indiana employee portion of the plan. The funded status and funding progress information presented is for non-retired assets.

State of Indiana Employees: As of July 1, 2009, the most recent actuarial valuation date, the state employees portion of the plan was 87 percent funded. The actuarial accrued liability for benefits was $2.4 billion, and the actuarial value of assets was $2.1 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $0.3 billion. The covered payroll (annual payroll of active employees covered by the plan) was $1.7 billion, and the ratio of the UALL to the covered payroll was 18 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension Cost and Net Pension Obligation The annual pension cost and net pension obligations, the significant actuarial assumptions, and three-year historical trend information of the single and agent multiple employer defined benefit plans are as follows:

(amounts expressed in thousands)	Primary Government	Discretely Presented Component Units					
	SPRF	PERF -State	ECRF	JRS	PARF	LRS	TRF - Pre-1996 Account
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	$ 14,229.9	$ 107,981.0	$ 4,426.7	$ 16,131.1	$ 1,340.1	$ 44.6	$ 700,307.0
Interest on net pension obligation	635.0	(4,389.0)	(125.6)	(1,545.7)	246.5	(13.0)	70,878.0
Adjustment to annual required contribution	(747.5)	5,002.0	143.1	1,799.2	(283.8)	20.9	(80,017.0)
Annual pension cost	14,117.4	108,594.0	4,444.2	16,384.6	1,302.8	52.5	691,168.0
Contributions made	(9,471.1)	(111,214.0)	(5,293.5)	(20,861.1)	(170.0)	(100.0)	(706,366.0)
Increase (decrease) in net pension obligation	4,646.3	(2,620.0)	(849.3)	(4,476.5)	1,132.8	(47.5)	(15,198.0)
Net pension obligation, beginning of year	9,071.9	(60,540.9)	(1,731.8)	(21,320.5)	3,400.1	(179.7)	945,027.0
Net pension obligation, end of year	$ 13,718.2	$ (63,160.9)	$ (2,581.1)	$ (25,797.0)	$ 4,532.9	$ (227.2)	$ 929,829.0
Significant Actuarial Assumptions							
Investment rate of return	7.00%	7.25%	7.25%	7.25%	7.25%	7.25%	7.50%
Projected future salary increases:							
Total	3.50 - 9.00%	4.00%	4.50%	4.00%	4.00%	3.00%	3.50 - 12.50%
Attributed to inflation	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.25%
Cost of living adjustments	N/A	1.50%	1.50%	4.00%	N/A	1.50%	1.50%
Contribution rates:							
State	18.40%	7.00%	20.75%	pay-as-you-go	8.00%	Flat Dollar Amount ***	N/A
Plan members	5.00% - 6.00%	3.00%	4.00%	6.00%	6.00%	0.00%	3.0%
Actuarial valuation date	7/1/2010	7/1/2009	7/1/2009	7/1/2009	7/1/2009	7/1/2009	6/30/2009
Actuarial cost method	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	accrued benefit (unprojected unit credit)	entry age normal cost
Amortization method	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	30 years ****	30 years	30 years	30 years	30 years	30 years	30 years
Amortization period (from date)	7/1/2010 ****	7/1/2008	7/1/2007	7/1/2006	7/1/2007	7/1/1992	N/A
Amortization period (open or closed)	closed	closed	closed	closed	closed	closed	N/A
Asset valuation method	smoothed basis	smoothed market value	smoothed market value	smoothed market value	smoothed market value	smoothed market value	4-year smoothed market value with corridor
Historical Trend Information							
Year ended June 30, 2010							
Annual pension cost (APC)	$ 14,117.4	*	*	*	*	*	*
Percentage of APC contributed	67.1%	*	*	*	*	*	*
Net pension obligation (asset)	$ 13,718.2	*	*	*	*	*	*
Year ended June 30, 2009							
Annual pension cost (APC)	$ 10,266.8	$ 108,594.0	$ 4,444.2	$ 16,384.6	$ 1,302.8	$ 52.5	$ 691,168.0
Percentage of APC contributed	92.3%	102.4%	119.1%	127.3%	13.0%	190.7%	102.2%
Net pension obligation (asset)	$ 9,071.9	$ (63,160.9)	$ (2,581.1)	$ (25,797.0)	$ 4,532.9	$ (227.2)	$ 929,829.0
Year ended June 30, 2008							
Annual pension cost (APC)	$ 9,082.8	$ 99,674.7	$ 3,681.5	$ 10,199.4	$ 1,014.4	$ 71.9	$ 667,175.0
Percentage of APC contributed	103.6%	107.2%	131.9%	156.1%	16.9%	139.0%	101.3%
Net pension obligation (asset)	$ 8,277.6	$ (60,540.9)	$ (1,731.8)	$ (21,320.6)	$ 3,400.1	$ (179.7)	$ 945,027.0
Year ended June 30, 2007							
Annual pension cost (APC)	$ 9,361.2	$ 97,043.2	$ 3,130.9	$ 12,384.3	$ 1,026.1	$ 126.3	$ 592,436.0
Percentage of APC contributed	129.4%	92.5%	107.3%	118.4%	18.5%	79.2%	107.4%
Net pension obligation (asset)	$ 8,607.0	$ (53,348.3)	$ (559.1)	$ (15,599.6)	$ 2,555.7	$ (151.6)	$ 953,534.0

SPRF - State Police Retirement Fund
PERF - Public Employees' Retirement Fund
ECRF - Excise Police, Gaming Agent 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)
TRF - Teachers' Retirement Fund
N/A - not applicable
* - information not available.
*** - $63,407 based on July 1, 2009 actuarial valuation.
**** - 30 year amortization "fresh started" effective with the July 1, 2010 actuarial valuation. 40 year period was permitted for 10 years after the effective date (July 1, 1997 for Indiana) of GASB 27.

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 5-10.4-2 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Suite 300, Indianapolis, IN 46204, by calling 317-232-3860, or at STRF's website, www.in.gov/trf.

At June 30, 2010, the number of participating employers was 394.

Funding Policy Each member is required to contribute 3% of his/her compensation to the plan. The Indiana State Teachers' Retirement Fund is funded on a "pay as you go" basis for employees hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund. For employees hired on or after July 1, 1995; or hired before July 1, 1995, and prior to June 30, 2005, were either hired by another school corporation or institution covered by the Fund or were re-hired by a covered prior employer; the individual employer will make annual contributions. These contributions are set as a percentage of the employee's salary at a rate recommended by the Fund's actuaries and approved by the Fund's Board of Trustees.

As of June 30, 2009, TRF was 42% funded. Members in the Pre-1996 Account are funded on a "pay as you go" method for the employer portion of the pension and members in the 1996 Account are funded with employer contributions as they work. TRF accounts for these two classes of members as "Pre-1996 Account" and "1996 Account", respectively. The Pre-1996 Account is 32% funded and the 1996 Account is 93% funded.

The funded ratio of the Fund has decreased from 45% at June 30, 2004, to the ratio of 42% at June 30, 2009. The actuarial value of the Fund's assets as of the June 30, 2009 valuation was $8.0 billion and the actuarial accrued liability was $19.1 billion. The difference is the Fund's unfunded actuarial accrued liability of $11.1 billion. The annual covered payroll as of the June 30, 2009, actuarial valuation was $4.3 billion and the ratio of the unfunded actuarial liability to the annual covered payroll was 257%.

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. Indiana Code 36-8-8 governs the requirements of the Fund that provides retirement, disability, and survivor benefits. 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, 143 West Market Street, 5th Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, www.in.gov/perf.

At June 30, 2010, the number of participating employer units totaled 163 (which include 258 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first class officer's or firefighter's salary for the term of their employment up to 32 years. Employer contributions are determined actuarially and the current rate is 19.5 percent of the salary of a first-class officer or firefighter. 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 three-year historical trend information, for the cost sharing, multiple-employer plans are as follows:

	Discretely Presented Component Units	
	STRF	PFPF *
Historical Trend Information (dollars in thousands)		
Year ended June 30, 2009		
Annual required contribution	$ 700,307.0	$ 62,881.3
Percentage contributed	101%	102%
Employer contribution	$ 706,366.0	$ 64,285.3
Year ended June 30, 2008		
Annual required contribution	$ 678,050.0	$ 89,673.7
Percentage contributed	100%	137%
Employer contribution	$ 675,682.0	$ 122,711.6
Year ended June 30, 2007		
Annual required contribution	$ 602,904.0	$ 102,964.2
Percentage contributed**	105%	139%
Employer contribution	$ 636,039.0	$ 143,271.7

STRF - State Teachers' Retirement Fund - Pre-1996 Account
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)
* - year ended December 31 for 2007 and 2008, but June 30 for 2009. Actuarial valuation date changed and calculations were adjusted for the short plan year.
n/a - not available

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan 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, 143 West Market Street, 5th Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, www.in.gov/perf.

Funding Policy For the Legislators' Defined Contribution Plan, each participant is required to contribute 5 percent of annual salary. In addition, the state of Indiana is required to contribute a percentage of the member's annual salary on behalf of the participant as determined by PERF and confirmed by the State Budget Agency each year. Effective January 1, 2010 the rate was established at 9.5 percent. For the LDB Plan, the amount required to actuarially fund participants' retirement benefits, as determined by the PERF Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund.

F. Other Postemployment Benefits

Defined Benefit Plans

Plan Descriptions The State of Indiana sponsors and contributes to four single-employer defined benefit healthcare plans: State Personnel Plan (SPP); Legislature Plan (LP); Indiana State Police Plan (ISPP); and the Conservation and Excise Police Plan (CEPP). The SPP and LP are administered by the State Personnel Department. The Indiana State Police administer the ISPP. The

CEPP is administered by the Indiana State Excise Police and Indiana Conservation Officers Health Insurance Committee. All four plans provide medical plan health care benefits to eligible State employee retirees and beneficiaries. The medical benefits provided to retirees are the same benefit options afforded active employees. Benefit provisions for each plan are established and may be amended by Indiana Code 5-10-8 *et seq*. Separate financial reports are not issued for these plans.

Funding Policy and Annual OPEB Cost The contribution funding policy for each of the four plans is on a pay-as-you-go cash basis. The State of Indiana's annual other postemployment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The State of Indiana's annual OPEB cost for the current year and the related information for each plan are as follows (dollar amounts in thousands):

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
Contribution rates:				
State of Indiana	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Plan members (monthly premium)	See next chart	See next chart	See next chart	See next chart
Annual required contribution	$ 6,292	$ 519	$ 42,106	$ 5,373
Interest on net OPEB obligation	514	19	2,421	279
Amortization adjustment to ARC	(701)	(25)	(3,302)	(381)
Annual OPEB Cost	6,105	513	41,225	5,271
Contributions made	(1,913)	(313)	(9,009)	(1,303)
Change in net OPEB obligation	4,192	200	32,216	3,968
Net OPEB obligation - beginning of year	11,423	408	53,787	6,212
Net OPEB obligation - end of year	$ 15,615	$ 608	$ 86,003	$ 10,180

The plan administrators (see plan descriptions above) establish the contribution requirements of plan members.

Plan members (retirees and eligible dependents) who participate in these healthcare plans must pay the full 2010 monthly premiums (except for grandfathered LP current retirees) as shown in the following chart.

	Monthly Premium
State Personnel Healthcare Plan (SP) and Legislature's Healthcare Plan (LP)	
High Deductible Health Plan #1	
Single (Non-Tobacco)	$ 278.07
Family (Non-Tobacco)	865.02
High Deductible Health Plan #2	
Single (Non-Tobacco)	369.33
Family (Non-Tobacco)	1,064.31
Anthem Traditional II	
Single (Non-Tobacco)	558.61
Family (Non-Tobacco)	1,573.39
Indiana State Police Healthcare Plan (ISPP)	
Basic Plan - Medical Only	
Retiree Only (Pre-Medicare)	201.58
Retiree Plus One Dependent (Pre-Medicare)	259.72
Retiree Only (Post-Medicare)	109.47
Retiree Plus One Dependent (Post-Medicare)	131.79
Optional Plan - Medical, Dental, & Vision	
Retiree Only (Pre-Medicare)	235.68
Retiree Plus One Dependent (Pre-Medicare)	322.15
Retiree Only (Post-Medicare)	127.57
Retiree Plus One Dependent (Post-Medicare)	168.18
Conservation and Excise Police Health Care Plan (CEPP)	
Single - Under Age 60 (Pre-Medicare)	240.00
Family - Under Age 60 (Pre-Medicare)	360.00
Single - Age 60 -64 (Pre-Medicare)	160.00
Family - Age 60-64 (Pre-Medicare)	240.00
Single (Post-Medicare)	21.43
Family (Post-Medicare)	56.48

The State of Indiana's annual OPEB cost, the percentage of annual OPEB cost contributed , and the net OPEB obligation for June 30, 2008 (first year of OPEB reporting) through June 30, 2010 (third year of OPEB reporting) for each of the plans were as follows (dollar amounts in thousands):

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
State Personnel Healthcare Plan	6/30/2010	$ 6,105	31.3%	$ 15,615
	6/30/2009	7,624	23.6%	11,423
	6/30/2008	7,231	22.6%	5,595
Legislature's Healthcare Plan	6/30/2010	$ 512	61.1%	$ 608
	6/30/2009	493	61.0%	409
	6/30/2008	492	56.1%	216
Indiana State Police Healthcare Plan	6/30/2010	$ 41,224	21.9%	$ 86,003
	6/30/2009	34,831	22.7%	53,787
	6/30/2008	34,275	21.6%	26,867
Conservation and Excise Police Health Care Plan	6/30/2010	$ 5,271	24.7%	$ 10,180
	6/30/2009	4,128	23.8%	6,212
	6/30/2008	3,965	22.7%	3,067

Funded Status and Funding Progress The funded status of the plans as of June 30, 2010, was as follows (dollar amounts in thousands):

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
Actuarial accrued liability (a)	$ 51,306	$ 8,402	$ 407,846	$ 57,305
Actuarial value of plan assets (b)	-	-	-	-
Unfunded actuarial accrued liability (funding excess) (a) - (b)	$ 51,306	$ 8,402	$ 407,846	$ 57,305
Funded ratio (b)/(a)	0.0%	0.0%	0.0%	0.0%
Covered payroll (c)	N/A	N/A	N/A	N/A
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a)-(b)]/(c))	N/A	N/A	N/A	N/A

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. Accordingly, the State has elected to use the actuarial results for the period ending on June 30, 2009 for the period ending June 30, 2010.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
Actuarial valuation date	6/30/2009	6/30/2009	6/30/2009	6/30/2009
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar amount, open	Level dollar amount, open	Level dollar amount, open	Level dollar amount, open
Remaining amortization period	30 years	30 years	30 years	30 years
Asset valuation method	N/A	N/A	N/A	N/A
Actuarial assumptions:				
Investment rate of return	4.5%	4.5%	4.5%	4.5%
Projected salary increases	4.0%	4.0%	4.0%	4.0%
Healthcare inflation rate	9.2%	9.2% pre-65 & 10.0% post-65	9.2% pre-65 & 10.0% post-65	9.2% pre-65 & 10.0% post-65

GASB 45 regulations permit employers to use the most recent available actuarial information up to

two years prior to the current period. Accordingly, the State has elected to use the actuarial results for the period ending on June 30, 2009 for the period ending June 30, 2010.

Defined Contribution Plan

Plan Description The State of Indiana sponsors one single employer defined contribution OPEB plan established as a trust fund, the Retiree Health Benefit Trust Fund, in IC 5-10-8-8.5. The State established this trust fund to provide funding for the retiree health benefit plan developed under IC 5-10-8.5. The plan is a benefit to employees who retire and are eligible for and have received a normal, unreduced or disability retirement benefit (as determined by statutes and codes governing a State public employee retirement fund). Qualified retirees of the State are eligible to receive retirement medical benefits from this Plan. Retirees' and/or covered dependents' qualifying health insurance and medical costs are eligible for reimbursement from their reimbursement account, subject to Plan conditions and limitations.

Plan Provisions Benefit provisions for this plan are established or may be amended by the State legislature. The State Budget Agency of the State of Indiana is the administrator of the plan pursuant to Indiana Code 5-10-8-8.5. The plan establishes a retirement medical benefits account for elected officers, appointed officers, and employees of the executive, legislative, and judicial branches of state government to pay for participants' medical insurance after retirement. Benefits are entitled to be received from this account for a participant who: a) is eligible for and has applied to receive a normal, unreduced or disability retirement benefit under the Public Employees' Retirement Fund; or b) has completed at least 10 years of service as an elected or appointed officer; or c) has completed at least 15 years of service with the state for an employee. A surviving spouse or IRS dependent of a retired participant is allowed to receive the benefit from this account. Amounts credited to a retired participant are forfeited if the participant dies without a surviving spouse or IRS dependent.

The new trust meets the requirements of a qualified OPEB trust. The trust is qualified under section 115 of the Internal Revenue Code.

Contributions The State is required to make annual contributions to the account based on the following schedule:

Employee's Age	Annual State Contributions
Less than 30	$500
At least 30, but less than 40	$800
At least 40, but less than 50	$1,100
At least 50	$1,400

An additional bonus contribution is to be made upon a participant's retirement with normal unreduced benefits if the retirement occurs between July 1, 2007 and July 1, 2017, and the retiree on the last day of service has completed at least 15 years of service or 10 years of service as an elected or appointed officer. The additional bonus contribution amount is one thousand dollars ($1,000) multiplied by the participant's years of service (rounded down to the nearest whole year).

At June 30, 2010, the plan participants consisted of:

Description	Number
Active participants with accounts, not yet retired	32,341
Retired participants with accounts	2,700
Total	**35,041**

At June 30, 2010, plan participants' retirement medical plan account balances totaled $164.4 million which consisted of $100.8 million in unretired active participants' accounts and $63.6 million in retired participants' accounts.

This plan is a defined contribution individual account for GASB 45 purposes. The employer subsidy is defined in terms of an annual contribution to an individual account. Plan assets are maintained in the Retiree Health Benefit Trust Fund created by the State as a dedicated trust fund.

The trust fund consists of cigarette tax revenues deposited in the fund under IC 6-7-1-28.1(7) and other appropriations, revenues, or transfers to the trust fund under IC 4-12-1. The plan benefits satisfy the condition of being a defined contribution OPEB benefit and by definition, there is no unfunded liability.

For the fiscal year ending June 30, 2010, the State contributed $27.3 million to the State Retiree Health Fund. Another $28.2 million was contributed by state agencies that are funded by federal or dedicated funds for their portion of funding. The total contribution for the fiscal year was $55.5 million. The retiree contribution includes the bonus contributions of $1,000 per year of service to employees retiring after July 1, 2007 who also met certain minimum age and service requirements. The annual required contribution for the year is $55.5 million.

G. Pollution Remediation Obligations

Nature and source of pollution remediation obligations: Five state agencies have identified themselves as responsible or potentially responsible parties to remediate eighty-six pollution sites pursuant to the State's implementation of GASB 49, Accounting and Financial Reporting for Pollution Remediation Obligations effective July 1, 2008. Obligating events for the cleanup of these sites include the federal Superfund law, being named by a regulator to remediate hazardous wastes and contamination, violation of the Resource Recovery and Conservation Act, being named in a lawsuit, and voluntarily assuming responsibility because of imminent threats to human health and the environment.

Amount of the estimated liability, methods and assumptions used for the estimate, and the potential for changes: The State's total estimated liability is $58.3 million of which $14.6 million is estimated to be payable within one year and $43.7 million estimated to be payable in more than one year. State agencies calculated their estimated liabilities using various approaches including existing agreements, contractor bids, records of decisions from regulators, matching requirements under the Superfund law, previous actual costs to cleanup similar sites, investigation activities, well known and recognized estimation methods, court established fee structure, and through the sampling and knowing the size and volume of existing contamination at a site. Superfund site estimated liabilities also applied a rolling thirty year liability as this was the number of years determined to be reasonably estimable. The estimated liabilities of state agencies are subject to annual review and adjustment for changes in agreements, laws, regulations, court decisions, price increases or decreases for goods and services used in cleanup, and other relevant changes that come to light.

Estimated recoveries reducing the liability: The estimated recoveries total $9.2 million. Of this total, $0.4 million is unrealizable or has not yet been realized and has been applied to reduce the State's total estimated liability. Estimated recoveries include the proceeds from the sale of stock from a bankruptcy court settlement, coverage of allowable costs by the State's Excess Liability Trust Fund (ELTF), a credit received for work performed on another Superfund site, and a court order. The ELTF state law states that if insufficient funds exists to pay claims neither the State nor the Fund are liable for unpaid claims