INDIANA FINANCE AUTHORITY
ANNUAL FINANCIAL STATEMENTS
June 30, 2011

KATZ, SAPPER & MILLER
Certified Public Accountants

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FINANCIAL STATEMENTS
June 30, 2011

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REPORT OF INDEPENDENT AUDITORS

Members of the Indiana Finance Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Indiana Finance Authority (the "IFA") as of and for the year ended June 30, 2011, which collectively comprise the IFA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the IFA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants,* issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the IFA as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

(Continued)

The accompanying required supplementary information, such as management's discussion and analysis on pages 3 through 16, budgetary comparison information on pages 81 through 82, and Indiana Toll Road infrastructure condition rating information on page 83 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the IFA's basic financial statements. The accompanying segment reporting schedules on pages 85 through 87 are presented for purposes of additional analysis of the basic financial statements and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2011, on our consideration of the IFA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 21, 2011

PART 1 - MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Indiana Finance Authority (the "IFA") financial report provides management's discussion and analysis of the financial performance during the year ended June 30, 2011. Please read it in conjunction with the Report of Independent Auditors at the beginning of this report and the financial statements, which follow this section.

This MD&A is an opportunity for management to make information concerning the IFA meaningful and understandable to IFA's constituents, including Indiana's citizens and their representatives and the investors who buy and sell the IFA's bonds. In addition to describing the IFA and its work, this MD&A briefly analyzes, discusses or presents:

- Basic financial statements
- Condensed financial information
- Overall financial position and results of operations
- Significant transactions within individual funds
- Significant capital assets and long-term debt activity
- Currently known facts

Background: Established on May 15, 2005, the 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 Program transferred to the IFA as the successor entity. On July 1, 2007, the duties and responsibilities of the Indiana Health and Education Facility Finance Authority were transferred to the IFA, and the responsibilities of the following programs were transferred from the IFA to the Indiana Economic Development Corporation: Guaranty Fund, Capital Access Program Fund, Business Development Loan Fund and Rural & Agriculture Development Fund.

The IFA is a body both corporate and politic, and though separate from the State of Indiana (the "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. These leases do not constitute State debt. Except as described elsewhere in this MD&A, lease rentals are payable solely from appropriations made by the General Assembly.

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, health care facilities, and educational facility projects.

(Continued)

The IFA's lease 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.

Financial Highlights: Management believes an important indicator of the IFA's financial health is whether or not the IFA receives sufficient lease rental revenue to pay debt service on the IFA's lease revenue bonds and meet its other obligations when due. In fiscal year 2011 and prior fiscal years since the IFA and its predecessor entities were established, the IFA received sufficient revenue to pay its debts and meet its other obligations.

To note some major accomplishments in fiscal year 2011, the IFA:

- paid $470 million of principal and interest on long-term bonds
- loaned $221.9 million to Indiana communities to fund drinking water and waste water infrastructure projects
- refinanced $78.1 million of Highway Revenue bonds resulting in present value savings of $8.1 million or 10.4% of the refunded bonds
- refinanced $66.5 million of State Revolving Fund bonds resulting in present value savings of $2.9 million or 4.4% of the refunded bonds
- cash defeased $25.1 million of State Revolving Fund bonds
- issued $100 million of State Revolving Fund bonds to fund drinking water and waste water infrastructure projects

IFA's revenue and net assets may increase or decrease in any particular fiscal year, but such increases and decreases primarily result from timing of receipts and expenditures, financings, including issuance of new lease revenue bond and note issues, and construction activities.

Although the IFA reports through a number of enterprise funds, the IFA is not a profit making enterprise. The IFA exists to benefit the State through its ability to finance and refinance important State infrastructure needs, and not to grow revenue and net assets over time.

BASIC FINANCIAL STATEMENTS

The basic financial statements include the kinds of statements required by the Governmental Accounting Standards Board ("GASB") that present different financial views of the IFA:

A. The first two statements are <u>government wide financial statements</u> that provide both long-term and short-term information about the IFA's overall financial status.

(Continued)

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

The financial statements also include notes that explain some of the information in the financial statements and provide data that is more detailed. Please note the breakdown of the statements is required by GASB and for financial statement reporting only.

A. Government Wide Financial Statements report information about the IFA as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the IFA's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Net assets, the difference between the IFA's assets and liabilities, are one way to measure the IFA's financial position. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the IFA is improving or deteriorating. The government wide financial statements of the IFA are divided into two categories:

1. **Governmental Activities** generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. These activities are reported in governmental funds or internal service funds. Although most internal service funds are associated with business-type activities, some of IFA's internal service funds have characteristics more closely associated with governmental activities. Internal service funds classified as governmental activities include the Highway Revenue Bonds, Transportation Finance General, Stadium and Convention Center Financing, and State Office Building Commission.

   Governmental Activities reported under governmental funds include the Operating Account (General Funds), Environmental Remediation Revolving Loan Fund, Petroleum Remediation Grant Fund, Brownfields Cleanup Revolving Fund, and Interstate Bridge Fund.

2. **Business-Type Activities** are financed in whole or in part by fees charged to external parties for goods or services. These activities are reported in proprietary funds or internal service funds. Business-Type Activities include the State Revolving Fund, Supplemental Fund, Airport Facilities Fund, Indiana Toll Road Lease Fund, Aviation Technology Center Fund, Toll Bridge Fund, Indiana Toll Road Project Fund, Conduit Debt Program Fund, and the Recreational Development Commission.

To determine the appropriate reporting, IFA has considered the following characteristics:

- The relationship between services received and resources provided by the consumer:
    - Governmental – Resources typically not derived from specific services.
    - Business-Type – Direct relationship between the charge and the service provided.

(Continued)

- Revenue-producing capital assets:
  - Governmental – Capital assets do not have a direct relationship to revenue raising capability.
  - Business-Type – Capital assets are typically revenue producing.

- Similarly designated activities and potential for comparison:
  - Governmental – Government may perform multiple or unique functions and are difficult to compare to other governments.
  - Business-Type – Government typically performs a single function that allows for comparability with other governments.

- Nature of funding and budgets:
  - Governmental – Typically part of overall legally adopted governmental budget process.
  - Business-Type – May involve rate setting and appropriations.

- Users and uses of financial reports:
  - Governmental – Emphasis is on financial condition and results of operations of multipurpose functions and broader group of users including citizens, legislative and oversight bodies, and investors/creditors.
  - Business-Type – Emphasis is on financial condition and results of operations of a single activity, related compliance and reasonableness of user charges.

B. Fund Financial Statements provide detailed information about the IFA's significant funds, not the IFA entity as a whole. IFA uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. IFA has two kinds of funds:

1. **Governmental Funds** report activities for IFA and other State Agencies that support the overall State's basic services. IFA uses the following governmental funds:

   Operating Account reports on the administrative functions of IFA, which includes salary, benefits and other expenses that support the related financings and refinancing activities.

   Environmental Remediation Revolving Loan Fund & Petroleum Remediation Grant Incentive Fund is a special revenue fund, which provides financing for environmental clean up to local Indiana communities.

   Brownfields Cleanup Revolving Loan Fund is a special revenue fund created by statute that provides financial, technical, legal, and educational assistance to eligible entities involved in Brownfield redevelopment.

(Continued)

Interstate Bridge Fund is a capital project fund created by statute for paying the cost of interstate bridges and improvements to such bridges. This fund is held by IFA and managed by the Indiana Department of Transportation (INDOT) on IFA's behalf.

2. **Proprietary Funds** report activities for which IFA charges lease amounts or user fees to customers that are similar. Under the proprietary funds, there are two types of sub-funds: 1) enterprise funds track business-type activities, while 2) internal service funds report activities providing general support for the IFA's programs.

a. Enterprise Funds

State Revolving Fund reports on low interest loans provided to Indiana communities to improve drinking water and wastewater infrastructure.

Supplemental Fund reports on low interest loans and grants provided to Indiana communities to improve drinking water and wastewater infrastructure.

Indiana Toll Road Lease Fund includes IFA's lease to the Indiana Toll Road Concession Company, LLC ("ITRCC"). The ITRCC is responsible for the operation and maintenance of the Indiana Toll Road.

Airport Facilities Fund reports on the direct financing activities for airport or aviation related property of facilities referred to by IFA as the Indianapolis Maintenance Center ("IMC").

Aviation Technology Center Fund reports on the direct financing activities for airport or aviation related property or facilities referred to by IFA as the Aviation Technology Center.

Conduit Debt Programs Fund reports on financing alternatives for projects eligible for tax-exempt financing under the Internal Revenue Code, Indiana health care organizations and private institutions of higher education.

Toll Bridge Fund is specified for accounting of the net assets and operations of the Wabash River Toll Bridge. IFA has full control and approval responsibilities for the Wabash River Toll Bridge. However, INDOT has responsibility for operation, maintenance, financial control and reporting for the Wabash River Toll Bridge.

(Continued)

b. Internal Service Funds

Indiana Toll Road Project was leased by IFA to INDOT prior to the lease with the ITRCC. INDOT was responsible for the operation and financing the Indiana Toll Road Project until June 29, 2006.

Highway Revenue Bonds is an internal service fund that provides financing for the construction of highway and bridge projects that are managed by INDOT. This fund reports on the direct financing activities and construction of such projects.

Stadium and Convention Center Financing is an internal service fund providing financing for the new Stadium and Convention Center expansion in Indianapolis. Construction of the expansion is managed by the Indiana Stadium and Convention Building Authority.

State Office Building Commission reports on the financing activities for State office buildings, garages, hospitals and correctional facilities. These facilities are owned by IFA but operated and maintained by the Indiana Department of Administration.

Recreational Development Commission reports on the financing activities of recreational facilities constructed in State parks. The Indiana Department of Natural Resources is responsible for the operation and maintenance of these facilities.

Transportation Finance General reports on the administrative functions of the Transportation Finance Authority, which includes salary, benefits and other expenses that support the related financings and refinancing activities.

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CONDENSED FINANCIAL INFORMATION; OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND SIGNIFICANT TRANSACTIONS WITHIN INDIVIDUAL FUNDS

This section provides an overview of the overall financial position, results of operations and significant transactions within individual funds.

Net Assets: The following is condensed from the Statement of Net Assets:

Indiana Finance Authority
Condensed Statement of Net Assets (in millions of dollars)
June 30, 2011

	Governmental Activities	Business-Type Activities	Total Activities
Assets			
Cash and investments	$ 330	$ 1,033	$ 1,363
Accounts, loans, and lease receivable	1,005	1,993	2,998
Investment in direct financing leases	1,200	140	1,340
Capital assets, net	829	569	1,398
Other assets	111	8	119
Total assets	$ 3,475	$ 3,743	$ 7,218
Liabilities and Net Assets (Deficiency)			
Liabilities			
Accounts payable and other liabilities	$ 7	$ 15	$ 22
Interest payable	31	37	68
Deferred revenue	3	3,502	3,505
Derivative instrument	106	-	106
Bonds payable and other long-term obligations	2,850	1,938	4,788
Total liabilities	2,997	5,492	8,489
Net assets (deficiency)			
Invested in capital assets, net of related debt	153	1	154
Restricted	200	1,115	1,315
Unrestricted	125	(2,865)	(2,740)
Total net assets (deficiency)	478	(1,749)	(1,271)
Total liabilities and net assets (deficiency)	$ 3,475	$ 3,743	$ 7,218

(Continued)

The total net assets (deficiency) at June 30 was as follows:

	2011	2010
Assets	$ 7,218	$ 7,229
Liabilities	(8,489)	(8,681)
Net assets (deficiency)	$ (1,271)	$ (1,452)

The net assets (deficiency) was ($1.3) billion at June 30, 2011, which represents a $181 million, or 12% increase from the prior year's net assets (deficiency). Total assets decreased by $11 million, while total liabilities decreased by $192 million.

Assets were lower because scheduled principal payments caused investments in direct financing leases to decrease by $60 million, cash and investments decreased $36 million, deferred outflows were $10 million lower and investment interest receivable decreased $6 million compared to prior year. These decreases were partially offset by the $103 million increase in environmental program loans. Liabilities decreased due to the $140 million reduction of debt from regularly scheduled principal payments and defeasances, the recognition of Indiana Toll Road lease revenue of $40 million and the reduction of the derivative investment liability of $11 million. On June 29, 2006, the IFA leased the Indiana Toll Road for a one-time payment of $3.8 billion to the ITRCC for 75 years. As required under the legislation passed by the Indiana General Assembly, the IFA transferred $3.6 billion of the lease payment to the State in July 2006 to fund the Major Moves initiative to improve both State and local transportation infrastructure. The IFA recognizes lease revenue over the life of the lease on a straight-line basis.

(Continued)

Change in Net Assets (Deficiency): The following is condensed from the Statement of Activities:

Indiana Finance Authority
Statement of Activities (in millions of dollars)
Year Ended June 30, 2011

	Governmental Activities	Business-Type Activities	Total Activities
Revenues			
Lease rental	$ 218	$ 75	$ 293
Investment earnings	1	18	19
Interest on loans	-	62	62
State appropriation and grants	7	1	8
Other	20	43	63
Total revenues	246	199	445
Expenses			
IFA operations and other	41	73	114
Interest expense	153	85	238
Distribution to primary government	-	8	8
Total expenses	194	166	360
Capital Contributions	11	85	96
Transfers in (out)	-	-	-
Change in net assets (deficiency)	63	118	181
Net assets (deficiency), beginning of year	415	(1,867)	(1,452)
Net assets (deficiency), end of year	$ 478	$ (1,749)	$ (1,271)

The change in net assets for the fiscal year ended June 30 was as follows:

	2011	2010
Revenues and Capital Contributions	$ 541	$ 557
Expenses	(360)	(380)
Change in net assets	$ 181	$ 177

The increase in net assets (deficiency) was $181 million for the fiscal year ended June 30, 2011, as compared to an increase of net assets (deficiency) of $177 million for the prior year. Revenue and capital contributions decreased by $16 million, which represents a 3% change from the prior year. Expenses decreased by $20 million, which represents an 5% change from the prior year. Revenue and capital contributions decreased due a reduction in grant revenue because the American Recovery and Reinvestment Act of 2009 (ARRA) program was winding down.

(Continued)

Expenses were lower due to a decrease in the provision for loan forgiveness of $27 million and lower interest expense of $9 million. An additional pollution remediation accrual of $11 million and higher professional service costs, which were up $2 million, partially offset the decrease.

SIGNIFICANT CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY

Analysis of Infrastructure Assets: The primary infrastructure assets related to the IFA are within the Highway Revenue Bonds and the Indiana Toll Road Lease Fund.

> **Highway Revenue Bonds** - The nature of the direct financing lease activity between the IFA and INDOT means that the IFA does not own infrastructure assets related to the Highway Revenue Bonds. Instead, the IFA has an interest in direct financing lease assets on the Statement of Net Assets for $1.2 billion. For such leases, the IFA is the lessor and INDOT is the lessee. INDOT is responsible for reporting information regarding the assessment condition and condition level of the road system funded through Highway Revenue Bonds.

> **Indiana Toll Road Lease** – Historically, the infrastructure assets related to the Indiana Toll Road were reported separate from IFA's reporting entity. IFA reported an equity interest in the overall assets held by the Indiana Toll Road Project. During fiscal year 2006, the IFA concluded its lease with INDOT, and leased the Indiana Toll Road to the ITRCC for 75 years. With the inception of the new lease, the IFA liquidated its equity interest in the Indiana Toll Road Project. IFA's investment in infrastructure assets, land and land improvements, is $541 million.

Capital Assets: Property and equipment used for IFA operations are land, bridges, buildings and equipment related to the following: the prior State Office Building Commission, the prior Recreational Development Commission, the Toll Bridge Fund, and the Indiana Toll Road Lease Fund. The State Office Building Commission assets have a cost basis of $1.195 billion and accumulated depreciation of $366 million. The total decrease in the State Office Building Commission's net capital assets is $9 million. Capital assets related to the Recreational Development Commission have a cost basis of $45 million and accumulated depreciation of $18 million, and net capital assets have decreased by $2 million over the prior year. Toll Bridge Fund capital assets have a cost basis of $1.4 million and accumulated depreciation of $0.1 million. Indiana Toll Road Lease Fund assets have a cost basis of $603 million and accumulated depreciation of $62 million, and net capital assets increased by $36 million over the prior year.

The IFA's investment in direct financing leases is presented on the Statement of Net Assets at $1.3 billion.

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Indiana Finance Authority
Capital and Infrastructure Assets (in millions of dollars)
June 30, 2011

	Governmental Activities	Business-Type Activities	Total Activities
Capital Assets			
Property, plant and equipment, net:			
State Office Building Commission	$ 829	$ -	$ 829
Recreational Development Commission	-	27	27
Toll Bridge Fund	-	1	1
Indiana Toll Road Lease Fund	-	541	541
Total	$ 829	$ 569	$ 1,398
Investment in direct financing leases:			
Aviation Technology Center Fund	$ -	$ 5	$ 5
Airport Facilities Fund	-	135	135
Highway Revenue Bonds	1,200	-	1,200
Total	$ 1,200	$ 140	$ 1,340

(Continued)

Debt Activity: Outstanding debt balances are presented as follows for governmental and business-type activities:

Governmental Activities:

Debt	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Highway Revenue bonds	$ 1,223,905,096	$ 2,916,262	$ 52,818,386	$ 1,174,002,972
State Office Building Commission	749,271,990	3,186,845	54,391,329	698,067,506
Stadium Project Bonds	987,058,286	9,745	9,125,000	977,943,031
	$ 2,960,235,372	$ 6,112,852	$ 116,334,715	$ 2,850,013,509

Business-Type Activities:

Debt	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Airport Facilities	$ 150,005,000	$ -	$ 15,315,000	$ 134,690,000
Aviation Technology Center	6,295,000	-	670,000	5,625,000
State Revolving Program Fund	1,782,689,424	168,947,538	180,275,000	1,771,361,962
Recreational Development Commission	25,055,923	59,930	2,070,000	23,045,853
	$ 1,964,045,347	$ 169,007,468	$ 198,330,000	$ 1,934,722,815

Lease Activity: Outstanding lease balances are presented as follows for governmental and business-type activities:

Governmental Activities:

Lease	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Highway Revenue Bonds	$ 1,244,052,311	$ 2,916,262	$ 47,210,000	$ 1,199,758,573

Business-Type Activities:

Lease	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Airport Facilities	$ 150,005,000	$ -	$ 15,315,000	$ 134,690,000
Aviation Technology Center	6,295,000	-	670,000	5,625,000
	$ 156,300,000	$ -	$ 15,985,000	$ 140,315,000

(Continued)

CURRENTLY KNOWN FACTS

Governmental Activities

Two series of Stadium bonds were converted to the index floating rate mode in September 2011. At that time, the stand-by bond purchase agreement, which was due to expire October 7, 2011, was terminated. The index floating rate bonds have a three-year term.

In October, the IFA refunded $50 million par value amount of Facilities Revenue Bonds. A total of $22 million Series 2002A bonds, $19 million Series 2003A and $9 million Series 2003B bonds were refunded with present value savings of $3.9 million or 7.9% of the refunded bonds.

Business-Type Activities

Agreement was reached in September with ITR Concession Company, LLC to settle certain environmental and design defects associated with its completion of mandatory expansion projects required by the 2006 Toll Road Lease Agreement. The IFA agreed to pay $10.5 million to settle all the claims.

The City of Indianapolis' wastewater utility was sold to a private entity in August 2011. All of the SRF obligations associated with the City of Indianapolis Sanitary District were defeased in their entirety under an Escrow Deposit Agreement between the Indianapolis Bond Bank and The Bank of New York Mellon Trust Company. The defeased Indianapolis SRF bonds are payable solely from the Indianapolis escrow funds.

In October, 2011 SRF Series 2011A bonds were issued in the amount of $191 million to provide additional subsidized loans to program participants.

DISCLOSURE

These annual financial statements are not a disclosure document, an offering memorandum, an official statement or prospectus for any revenue bond issued by the IFA, and no investor should rely on it as such. The information contained in the annual financial statements is limited information. Information and any expression of opinion (other than the report of the independent auditors) contained in the annual financial statements are subject to change. Such information and any opinion speak only as of their date.

REQUESTS OF INFORMATION

This financial report is designed to provide a general overview of the IFA's finances for all those interested in the IFA's finances. Questions concerning any of the information should be addressed to the IFA at One North Capitol, Suite 900, Indianapolis, IN 46204

PART 2 – BASIC FINANCIAL STATEMENTS

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
ASSETS			
Current assets:			
Cash	$ 677,173	$ 781,594	$ 1,458,767
Investments	329,043,567	639,876,452	968,920,019
Interest receivable on investments and loans	42,285	20,062,774	20,105,059
Lease income receivable	17,068,328	5,798,710	22,867,038
Grants and accounts receivable	3,280,270	39,242,196	42,522,466
Loans receivable	1,558,214	95,092,594	96,650,808
Interfund receivable	661,578	23,387	684,965
Investment in direct financing leases	44,735,000	16,255,000	60,990,000
Interest held in assets of the Toll Road Project	-	9,080	9,080
Construction escrows	56,957	-	56,957
Total current assets	397,123,372	817,141,787	1,214,265,159
Noncurrent assets:			
Investments	-	392,348,813	392,348,813
Investment in direct financing leases	1,155,023,573	124,060,000	1,279,083,573
Loans receivable	982,551,349	1,832,597,317	2,815,148,666
Deferred charges, net	105,725,028	-	105,725,028
Unamortized bond issue cost, net	4,899,339	8,514,513	13,413,852
Capital assets, net	829,491,638	568,946,039	1,398,437,677
Total noncurrent assets	3,077,690,927	2,926,466,682	6,004,157,609
Total Assets	$ 3,474,814,299	$ 3,743,608,469	$ 7,218,422,768

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Total Activities**
LIABILITIES AND NET ASSETS (DEFICIENCY)			
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$ 6,212,482	$ 13,382,539	$ 19,595,021
Interfund payable	531,538	153,427	684,965
Interest payable	30,539,867	36,506,185	67,046,052
Amount due to primary government	229,538	20,344	249,882
Deferred revenue	75,000	69,328,113	69,403,113
Revenue bonds payable - current	103,960,000	106,700,000	210,660,000
Construction retention	774,198	-	774,198
Amount due to federal government	-	1,302,905	1,302,905
Total current liabilities	142,322,623	227,393,513	369,716,136
Noncurrent liabilities:			
Derivative instrument liability	105,593,991	-	105,593,991
Revenue bonds payable	2,746,053,509	1,828,022,815	4,574,076,324
Pollution remediation	-	3,229,505	3,229,505
Amount due to federal government	-	536,634	536,634
Deferred revenue	2,550,000	3,433,133,887	3,435,683,887
Total noncurrent liabilities	2,854,197,500	5,264,922,841	8,119,120,341
Total Liabilities	2,996,520,123	5,492,316,354	8,488,836,477
Net Assets (Deficiency)			
Invested in capital assets, net of related debt	153,177,139	1,299,469	154,476,608
Restricted for:			
Debt service	200,248,269	7,687,165	207,935,434
Water pollution and drinking water projects	-	1,106,895,494	1,106,895,494
Unrestricted	124,868,768	(2,864,590,013)	(2,739,721,245)
Total Net Assets (Deficiency)	478,294,176	(1,748,707,885)	(1,270,413,709)
Total Liabilities and Net Assets (Deficiency)	$ 3,474,814,299	$ 3,743,608,469	$ 7,218,422,768

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets (Deficiency) Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating and Capital Grants**	**Governmental Activities**	**Business-Type Activities**	**Total**
Primary Government						
Governmental Activities:						
General Government	$ 3,870,314	$ 3,779,421	$ -	$ (90,893)	$ -	$ (90,893)
Conduit Debt Program	174,857	685,452	-	510,595	-	510,595
Environmental	4,929,192	1,023,725	3,281,226	(624,241)	-	(624,241)
Transportation Finance	64,378,809	67,564,353	-	3,185,544	-	3,185,544
State Office Buildings Finance	68,647,817	119,947,662	8,119,517	59,419,362	-	59,419,362
Stadium and Convention Center Finance	51,849,822	47,427,352	4,422,470	-	-	-
Total Governmental Activities	193,850,811	240,427,965	15,823,213	62,400,367	-	62,400,367
Business-Type Activities:						
Drinking Water and Wastewater	130,262,711	62,582,177	86,815,966	-	19,135,432	19,135,432
Airport Facilities Finance	6,884,985	14,687,326	-	-	7,802,341	7,802,341
Toll Road Lease	24,669,395	97,224,603	-	-	72,555,208	72,555,208
Aviation Technology Center Finance	344,447	523,828	-	-	179,381	179,381
Toll Bridges	437,517	669,052	-	-	231,535	231,535
Health and Education	296,387	399,138	-	-	102,751	102,751
Recreation Development Finance	3,141,360	3,480,318	-	-	338,958	338,958
Total Business-Type Activities	166,036,802	179,566,442	86,815,966	-	100,345,606	100,345,606
Total Primary Government	$ 359,887,613	$ 419,994,407	$ 102,639,179	$ 62,400,367	$ 100,345,606	$ 162,745,973
General Revenues						
Investment earnings, net				$ 302,119	$ 18,327,214	$ 18,629,333
Other Financing Sources						
Transfers in (out)				278,379	(278,379)	-
Total General and Other Sources				580,498	18,048,835	18,629,333
Change in net assets (deficiency)				62,980,865	118,394,441	181,375,306
Net Assets (Deficiency)- Beginning of year				415,313,311	(1,867,102,326)	(1,451,789,015)
Net Assets (Deficiency) - End of year				$ 478,294,176	$ (1,748,707,885)	$ (1,270,413,709)

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General	Other Governmental Funds	Totals
Assets			
Cash	$ 342,854	$ 150,362	$ 493,216
Investments	764,283	17,888,719	18,653,002
Interest receivable on investments	63	1,263	1,326
Interest receivable on loans	-	22,799	22,799
Accounts receivable	1,299,329	9,907	1,309,236
Loans receivable, net	-	6,166,532	6,166,532
Interfund receivable	328,965	322,611	651,576
Capital assets, net of accumulated depreciation	2,508	20,435	22,943
Total Assets	$ 2,738,002	$ 24,582,628	$ 27,320,630
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued expenses	$ 1,341,919	$ 274,805	$ 1,616,724
Interfund payable	-	394,502	394,502
Total Liabilities	1,341,919	669,307	2,011,226
Fund Balances			
Nonspendable			
Equipment	2,508	20,435	22,943
Restricted			
Environmental Automotive Sector	-	290,733	290,733
Committed			
Environmental Brownfield remediation	-	12,299,324	12,299,324
Assigned			
Environmental Brownfield remediation	-	10,585,365	10,585,365
Unassigned	1,393,575	717,464	2,111,039
Total Fund Balances	1,396,083	23,913,321	25,309,404
Total Liabilities and Fund Balances	$ 2,738,002	$ 24,582,628	$ 27,320,630

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2011

Total fund balances – governmental funds	$ 25,309,404
Amounts reported for governmental activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds for Highway Revenue Bonds, State Office Building Commission, Transportation Finance General and Stadium and Convention Center Financing are included in governmental activities in the statement of net assets.	452,984,772
Net assets of governmental activities	$ 478,294,176

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2011

	General	Other Governmental Funds	Totals
Revenues			
State appropriations	$ 2,478,933	$ -	$ 2,478,933
Investment earnings, net	(2,036)	23,212	21,176
Interest on loans	-	150,776	150,776
Financing fees and premiums	436,257	685,159	1,121,416
Other funding	867,079	873,242	1,740,321
Total revenues	3,780,233	1,732,389	5,512,622
Expenditures			
General Government	3,870,314	-	3,870,314
Business Development	-	174,857	174,857
Environmental	-	4,929,192	4,929,192
Total expenditures	3,870,314	5,104,049	8,974,363
Excess of Expenditures over Revenues	(90,081)	(3,371,660)	(3,461,741)
Other Financing Sources			
Capital Contributions	-	3,281,226	3,281,226
Transfers in (out)	800,000	(194,689)	605,311
Total other financing sources	800,000	3,086,537	3,886,537
Net Change in Fund Balances	709,919	(285,123)	424,796
Fund Balances- Beginning of Year	686,164	24,198,444	24,884,608
Fund Balances- End of Year	$ 1,396,083	$ 23,913,321	$ 25,309,404

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

Net change in fund balances – governmental funds	$ 424,796
Amounts reported for governmental activities in the statement of activities are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds for Highway Revenue Bonds, State Office Building Commission, Transportation Finance General and Stadium and Convention Center Financing are included in governmental activities in the statement of activities.	62,556,069
Change in net assets of governmental activities	$ 62,980,865

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2011

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Assets					
Current assets:					
Cash	$ 126,736	$ -	$ 654,858	$ 781,594	$ 183,957
Investments	520,645,389	93,698,945	23,009,050	637,353,384	312,913,633
Interest receivable on investments	4,980,768	1,747	1,676	4,984,191	18,201
Interest receivable on loans	15,010,692	-	67,850	15,078,542	-
Lease income receivable	-	1,705,196	4,093,514	5,798,710	17,068,328
Grants and accounts receivable	38,707,064	20,894	514,238	39,242,196	1,971,034
Loans receivable	93,414,969	-	1,677,625	95,092,594	1,000,000
Interfund receivable	-	-	23,387	23,387	10,002
Investment in direct financing leases	-	-	16,255,000	16,255,000	44,735,000
Interest held in assets of the Toll Road Project	-	-	-	-	9,080
Construction escrows	-	-	-	-	56,957
Total current assets	672,885,618	95,426,782	46,297,198	814,609,598	377,966,192
Noncurrent assets:					
Investments	391,335,676	-	1,013,137	392,348,813	-
Investment in direct financing leases	-	-	124,060,000	124,060,000	1,155,023,573
Loans receivable	1,818,610,242	-	13,987,075	1,832,597,317	976,943,031
Unamortized bond issue cost	8,213,518	-	-	8,213,518	5,200,334
Deferred charges, net	-	-	-	-	105,725,028
Capital assets, net of accumulated depreciation	44,590	540,722,966	1,299,469	542,067,025	856,347,709
Total noncurrent assets	2,218,204,026	540,722,966	140,359,681	2,899,286,673	3,099,239,675
Total Assets	$ 2,891,089,644	$ 636,149,748	$ 186,656,879	$ 3,713,896,271	$ 3,477,205,867
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	$ 272,675	$ 13,061,256	$ 46,465	$ 13,380,396	$ 4,597,901
Interfund payable	109,098	-	37,804	146,902	143,561
Interest payable	34,765,934	-	1,201,342	35,967,276	31,078,776
Amount due to primary government	-	20,344	-	20,344	229,538
Deferred revenue	-	69,328,113	-	69,328,113	75,000
Revenue bonds payable - current	88,245,000	-	16,255,000	104,500,000	106,160,000
Construction retention	-	-	-	-	774,198
Amount due to federal government	1,302,905	-	-	1,302,905	-
Total current liabilities	124,695,612	82,409,713	17,540,611	224,645,936	143,058,974
Noncurrent liabilities:					
Derivative instrument liability	-	-	-	-	105,593,991
Revenue bonds payable	1,683,116,962	-	124,060,000	1,807,176,962	2,766,899,362
Pollution remediation	-	3,229,505	-	3,229,505	-
Amount due to federal government	536,634	-	-	536,634	-
Deferred revenue	-	3,433,133,887	-	3,433,133,887	2,550,000
Total noncurrent liabilities	1,683,653,596	3,436,363,392	124,060,000	5,244,076,988	2,875,043,353
Total Liabilities	1,808,349,208	3,518,773,105	141,600,611	5,468,722,924	3,018,102,327
Net Assets (Deficiency)					
Invested in capital assets, net of related debt	-	-	1,299,469	1,299,469	153,177,139
Restricted for debt service	-	-	7,687,165	7,687,165	200,248,269
Restricted for water pollution and drinking water projects	1,082,740,436	-	24,155,058	1,106,895,494	-
Unrestricted	-	(2,882,623,357)	11,914,576	(2,870,708,781)	105,678,132
Total Net Assets (Deficiency)	$ 1,082,740,436	$ (2,882,623,357)	$ 45,056,268	$ (1,754,826,653)	$ 459,103,540

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS – PROPRIETARY FUNDS TO THE GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2011

Total net assets (deficiency) – enterprise funds	$(1,754,826,653)
Amounts reported for business-type activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds for the Indiana Toll Road Project and the Recreational Development Commission are included in business-type activities in the statement of net assets.	6,118,768
Net assets (deficiency) of business-type activities	$(1,748,707,885)

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
For the year ended June 30, 2011

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Operating Revenues					
State appropriations	$ -	$ -	$ 1,415,007	$ 1,415,007	$ -
Lease rental income	-	56,138,211	15,211,101	71,349,312	221,718,084
Interest on loans	61,692,618	-	319,519	62,012,137	-
Tolls	-	-	669,052	669,052	-
Financing fees and premiums	444,808	-	395,890	840,698	16,503,833
Other funding	-	41,086,392	84,984	41,171,376	197,768
Total operating revenue	62,137,426	97,224,603	18,095,553	177,457,582	238,419,685
Operating Expenses					
Personnel services	590,222	41	333,537	923,800	765,318
Nonpersonnel services	44,742	10,990	345,503	401,235	1,611,526
Professional services	1,099,566	428,325	122,082	1,649,973	1,197,662
Supplies	2,504	-	757	3,261	4,719
Equipment and building fixtures	3,640	-	4,495	8,135	123,069
Travel	4,651	-	3,469	8,120	1,554
Interest expense	76,492,305	-	7,159,001	83,651,306	153,856,023
Depreciation expense and amortization	1,246,208	5,147,972	89,988	6,484,168	30,457,937
Grants	-	-	4,174,908	4,174,908	-
Reimbursement agreement loss	418,747	-	-	418,747	-
Other expense (income)	2,219,349	10,656,108	(12,000)	12,863,457	-
Total operating expenses	82,121,934	16,243,436	12,221,740	110,587,110	188,017,808
Operating income (loss)	(19,984,508)	80,981,167	5,873,813	66,870,472	50,401,877
Nonoperating Revenues (Expenses)					
Investment earnings, net	18,782,646	169,755	(622,031)	18,330,370	274,939
Distribution to primary government	-	(8,425,959)	-	(8,425,959)	-
Loss on disposal of capital assets	-	-	(10,294)	(10,294)	-
Total nonoperating revenue (expenses)	18,782,646	(8,256,204)	(632,325)	9,894,117	274,939
Income before Capital Contributions, Forgivable Loan Expense and Transfers	(1,201,862)	72,724,963	5,241,488	76,764,589	50,676,816
Capital Contributions	85,400,959	-	43,549	85,444,508	12,541,987
Forgivable Loan Expense	(43,872,079)	-	-	(43,872,079)	-
Transfers out	(5,311)	(121,468)	(151,600)	(278,379)	(326,932)
Change in Net Assets (Deficiency)	40,321,707	72,603,495	5,133,437	118,058,639	62,891,871
Net Assets (Deficiency) - Beginning of year	1,042,418,729	(2,955,226,852)	39,922,831	(1,872,885,292)	396,211,669
Net Assets (Deficiency) - End of year	$ 1,082,740,436	$ (2,882,623,357)	$ 45,056,268	$ (1,754,826,653)	$ 459,103,540

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

Net change in net assets (deficiency) – enterprise funds	$ 118,058,639
Amounts reported for business-type activities in the statement of activities are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds for the Indiana Toll Road Project and the Recreational Development Commission are included in business-type activities in the statement of activities.	335,802
Change in net assets (deficiency) of business-type activities	$ 118,394,441

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the year ended June 30, 2011

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities					
Lease, rent and toll receipts	$ -	$ 16,208,371	$ 15,965,328	$ 32,173,699	$ 221,835,952
Other operating income	26,061	14,671	1,861,711	1,902,443	16,701,601
Payments for general and administrative expenses	(1,048,905)	(8,160,353)	(910,217)	(10,119,475)	(10,780,264)
Payments for grants	-	-	(4,174,908)	(4,174,908)	-
Transfer	-	-	-	-	(600,000)
Net Cash Provided (Used) by Operating Activities	(1,022,844)	8,062,689	12,741,914	19,781,759	227,157,289
Cash Flows from Investing Activities					
Principal repayments of loans	118,195,473	-	2,597,196	120,792,669	9,125,000
Issuance of loans	(221,882,135)	-	(1,367,184)	(223,249,319)	-
Change in investments	35,138,670	-	461,985	35,600,655	-
Interest received on loans and investments, net	86,693,982	173,320	(264,661)	86,602,641	291,208
Purchase of property and equipment	(22,011)	-	(872,001)	(894,012)	(19,173,860)
Net Cash Provided (Used) by Investing Activities	18,123,979	173,320	555,335	18,852,634	(9,757,652)
Cash Flows from Non-Capital Financing Activities					
Proceeds from debt issuance	164,925,000	-	-	164,925,000	-
Principal payments to reduce indebtedness including refunding	(176,252,462)	-	-	(176,252,462)	-
Payment of debt issuance costs, net of refunding	(1,114,249)	-	-	(1,114,249)	-
Change in amount due to federal government	(3,407,861)	-	-	(3,407,861)	-
Interest paid on debt	(76,794,211)	-	-	(76,794,211)	-
Net Cash Used from Non-Capital Financing Activities	(92,643,783)	-	-	(92,643,783)	-
Cash Flows from Capital Financing Activities					
Proceeds from debt issuance	-	-	-	-	59,932
Principal payments to reduce indebtedness	-	-	(15,985,000)	(15,985,000)	(112,301,610)
Interest paid on debt	-	-	(7,268,949)	(7,268,949)	(156,452,497)
Capital lease principal receipts	-	-	15,985,000	15,985,000	47,210,000
Acquisition of capital assets	-	-	-	-	(2,916,263)
Capital contributions (EPA grants)	98,597,862	-	(145,092)	98,452,770	12,541,987
Issuance of forgivable loans to participants	(43,872,079)			(43,872,079)	-
Net Cash Provided (Used) by Capital Financing Activities	54,725,783	-	(7,414,041)	47,311,742	(211,858,451)
Net Increase (Decrease) in Cash and Equivalents	(20,816,865)	8,236,009	5,883,208	(6,697,648)	5,541,186
Cash and Equivalents					
Beginning of Year	541,588,990	85,462,936	17,780,700	644,832,626	307,556,404
End of Year	$ 520,772,125	$ 93,698,945	$ 23,663,908	$ 638,134,978	$ 313,097,590
Cash and Equivalents					
Cash	$ 126,736	$ -	$ 654,858	$ 781,594	$ 183,957
Short-term Investments with original maturities of 90 days or less	520,645,389	93,698,945	23,009,050	637,353,384	312,913,633
	$ 520,772,125	$ 93,698,945	$ 23,663,908	$ 638,134,978	$ 313,097,590
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	$ (19,984,508)	$ 80,981,167	$ 5,873,813	$ 66,870,472	$ 50,401,877
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Interest on loans	(61,692,618)	-	(319,519)	(62,012,137)	-
Interest expense	76,492,305	-	7,159,001	83,651,306	153,856,023
Amortization of deferred charges	1,238,219	-	-	1,238,219	1,054,399
Amortization of deferred revenue	-	(49,395,540)	-	(49,395,540)	-
Depreciation	-	5,147,972	89,988	5,237,960	29,403,538
Contributed property and equipment	-	(41,071,721)	-	(41,071,721)	-
Distribution to primary government	-	(8,425,959)	-	(8,425,959)	-
Transfer for administrative reimbursement	(5,311)	(121,468)	(151,600)	(278,379)	(326,932)
Changes in assets and liabilities:					
Accounts receivable and other assets	2,811,263	80,595	39,005	2,930,863	18,932
Accounts payable and accrued expenses	117,806	11,401,943	51,226	11,570,975	(7,175,548)
Deferred revenue	-	9,465,700	-	9,465,700	(75,000)
	$ (1,022,844)	$ 8,062,689	$ 12,741,914	$ 19,781,759	$ 227,157,289
Supplemental disclosure of non-cash transactions:					
Contributed property and equipment	$ -	$ 41,071,721	$ -	$ 41,071,721	$ -

See accompanying notes to financial statements.

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION

The accompanying financial statements of the Indiana Finance Authority (IFA) as of June 30, 2011, and for the fiscal year then ended, conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles. IFA's significant accounting policies are as follows:

Reporting Entity: IFA's primary purpose is to oversee State-related debt issuance and provide efficient and effective financing solutions to facilitate state, local government, and business investment in the State of Indiana (State). IFA was constituted pursuant to changes made to Indiana Code 4-4-10 & 11 et seq., via Public Law 235-2005 as enacted by the Indiana General Assembly in 2005 ("PL 235").

In order to provide economic efficiencies and management synergies and enable the State to communicate as one voice with the various participants in the financial markets, the Indiana Development Finance Authority (IDFA), the State Office Building Commission (SOBC), the Indiana Transportation Finance Authority (ITFA), State Revolving Fund Programs (SRF) and the Recreational Development Commission (RDC) were consolidated under the new Indiana Finance Authority on May 15, 2005 in PL 235. On July 1, 2007, the Indiana Health and Education Finance Authority (IHEFA) was consolidated under IFA. For purposes of comparison, the previously existing entities are reported in a way that may give the impression that they are still in existence. However, IDFA, SOBC, ITFA, IHEFA and RDC are no longer existing legal entities.

IFA's primary programs include:

State Finance Programs: As the successor entity to these formerly separate debt issuing entities, IFA is authorized to issue revenue bonds payable from lease rentals under lease agreements with various State agencies and to finance or refinance the cost of acquiring, building and equipping structures for State use, including State office buildings, garages, highways, bridges, airport facilities, correctional facilities, State hospitals, and recreational facilities related to State parks.

Business Finance Programs: The following are IFA business finance programs:

- Volume Cap - Indiana's $616 million capacity to issue private activity bonds, competitively awarded based on jobs created and/or retained, wages, capital investment, project location, dedication to low-income housing and other factors.

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

- Tax-Exempt Bond - Industrial revenue bonds, refunding bonds, 501(c)(3) bonds, and smaller bonds issued monthly.

- Health and Education Facilities – financing alternatives for Indiana health care organizations and private institutions of higher education.

Environmental Finance Programs: The following are IFA environmental finance programs:

- Indiana Brownfields Program - The Program offers financial, technical, legal and educational assistance to eligible entities involved in Brownfields redevelopment. IFA works in partnership with the U.S. Environmental Protection Agency (EPA) and other State agencies to assist communities in making productive use of their Brownfield properties.

- State Revolving Fund Programs (SRF) - The SRF Loan Program provides low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure.

Segment Reporting: Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. A segment is an identifiable activity reported as, or within, an enterprise fund or other reporting entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt.

For the benefit of stakeholders and to address accounting and reporting requirements commonly set forth in bond indentures, IFA has disclosed condensed segment information for all non-conduit debt financing activities regardless of their reporting treatment as enterprise funds or other types of funds, and treatment as major versus non-major in the body of the basic financial statements.

The basic financial statements include statements required by the GASB that present different financial views of IFA:

- The first two statements are government wide financial statements that provide both long-term and short-term information about IFA's overall financial status.

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

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

The financial statements also include these notes that explain some of the information in the financial statements and provide data that is more detailed. Please note the breakdown of the statements is required by GASB and for financial statement reporting only.

A. Government Wide Financial Statements Basis of Presentation: IFA includes operating functions that conduct governmental activities and business-type activities, which collectively present a government wide summary of the financial position and activities of IFA. The Statement of Net Assets and the Statement of Activities display government wide information. IFA government wide financial statements are divided into two categories:

- **Governmental activities** include Operating Account (General Funds), Environmental Remediation Revolving Loan Fund, Petroleum Remediation Grant Fund, Brownfields Cleanup Revolving Fund, and Interstate Bridge Fund. Although most internal service funds are associated with business-type activities, some of IFA's internal service funds have characteristics more closely associated with governmental activities. Internal service funds classified as governmental activities include the Highway Revenue Bonds, Transportation Finance General, Stadium and Convention Center Financing, and State Office Building Commission.

- **Business-type activities** include the State Revolving Fund, Supplemental Fund, Airport Facilities Fund, Conduit Debt Program Fund, Aviation Technology Center Fund, Toll Bridge Fund, Indiana Toll Road Lease Fund, Recreational Development Commission, and Indiana Toll Road Project Fund.

B. Fund Financial Statements Presentation: These statements are reported in two categories: Governmental Funds and Proprietary Funds.

1) Governmental Funds - Governmental Funds report activities for IFA and other State Agencies that support the overall State's basic services. Governmental funds include:

General Fund: The General Fund is used to account for IFA activities not required to be accounted for in another fund. Examples of activities accounted for within the General Fund include IFA operating budget activity, program service revenue and expenses, and certain business and environmental finance programs, not included in special revenue funds or other fund types.

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

Special Revenue Funds: Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for a specified purpose. IFA's Special Revenue Funds include the following:

The **Environmental Remediation Revolving Loan Fund (Brownfields Fund)** was created in 1997 by the General Assembly to facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues.

The **Petroleum Remediation Grant Incentive Fund** is a component of the Environmental Remediation Revolving Loan Fund that provides assistance to cities, towns, and counties in Indiana to complete remediation of petroleum contamination at Brownfield sites. IFA administers the program in conjunction with technical staff of the Indiana Department of Environmental Management (IDEM).

The **Brownfields Cleanup Revolving Loan Fund** is a grant fund, which was capitalized by an award from the EPA. The purpose of the Fund is to establish a revolving loan within the grantee's organization, under a Cooperative Agreement with the EPA. The Fund is used solely to finance remediation activities at eligible Brownfield sites.

Capital Project Funds: Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). IFA's Capital Project Funds include the following:

- The **Interstate Bridge Fund** was created to pay for the cost of interstate bridges and improvements to such bridges. This fund is held by IFA and managed by Indiana Department of Transportation (INDOT) for IFA.

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

2) Proprietary Funds - Proprietary funds follow the economic resources measurement focus, which is concerned with the total resources necessary to operate a particular activity. Accordingly, these funds include capital assets and long-term debt that are not included in governmental funds**.** Proprietary funds include enterprise funds and internal service funds.

Enterprise Funds: Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities are reported as enterprise funds if any of the following criteria are met. Governments should apply each of these criteria in the context of an activity's principal revenue source:

- The activity is financed with debt that is secured solely by a pledge of the net revenue from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not solely from fees and charges of the activity.

- Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges rather than taxes or similar revenues.

- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

IFA's Enterprise Funds include:

State Revolving Fund reports on the Wastewater State Revolving Fund (WSRF) and Drinking Water State Revolving Fund (DWSRF) programs. The federal Water Quality Act of 1987, as amended in 1996, authorized the EPA to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State established a water pollution control revolving fund program to provide financial assistance, essentially, to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from the WSRF Program, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State has established a public drinking water system program to provide financial assistance for eligible projects. Prior to the program receiving funding as a result of the American Recovery and Reinvestment Act of 2009 (ARRA), financial assistance included making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems. ARRA and the EPA grant awards amounts prior to June 30, 2011 required the program to provide both loans and forgivable loans to public water systems for eligible projects.

Supplemental Fund reports on low interest loans or grants provided to Indiana communities to improve drinking water and wastewater infrastructure.

Conduit Debt Programs Fund reports on financing alternatives for projects eligible for tax-exempt financing under the Internal Revenue Code, Indiana health care organizations and private institutions of higher education.

Indiana Toll Road Lease Fund reports on the operating lease between IFA, as lessor, and Indiana Toll Road Concession Company, LLC (ITRCC), as lessee, to manage and operate the Indiana Toll Road, as approved by certain legislation adopted by the Indiana General Assembly. The operating lease began on June 29, 2006 with a term of 75 years.

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

IFA owns the 157-mile highway, and leases it to ITRCC, which will operate from the existing Indiana Toll Road headquarters in Granger, Indiana. IFA received a cash payment of approximately $3.8 billion upon closing of the lease agreement, and ITRCC will receive all tolls and concession revenues for the next 75 years.

Airport Facilities Fund reports on the direct financing activities for airport or aviation related property or facilities referred to by IFA as the Indianapolis Maintenance Center (IMC).

Aviation Technology Center Fund reports on the direct financing activities for airport or aviation related property or facilities referred to by IFA as the Aviation Technology Center.

Toll Bridge Fund accounts for the net assets and operations of the Wabash River Toll Bridge. By statute, IFA controls the Toll Bridge. However, INDOT is responsible for operation, maintenance and financial control and reporting for the Wabash River Toll Bridge.

Internal Service Funds: Internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. IFA's Internal Service Funds include:

Indiana Toll Road Project - The Indiana Toll Road Project was a lease between the IFA and INDOT to finance and operate the Indiana Toll Road. Separate reporting of the lease agreement was required and was done under the reporting entity entitled the Indiana Toll Road Project. The net assets of the Indiana Toll Road Project are owned by IFA and reported as interest held in assets of the Indiana Toll Road Project on the Statement of Net Assets. IFA and INDOT had specified responsibilities under the lease agreement. Indiana Toll Road Bonds were payable from lease rentals INDOT was obligated to pay under the Indiana Toll Road Lease. INDOT set and collected tolls sufficient to provide for operating expenses, major expense fund requirements and payment of base rent to IFA in an amount sufficient for payment of debt service on the Bonds.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

The Indiana Toll Road was leased to INDOT until June 29, 2006, when a subsequent lease was entered into between IFA and ITRCC. Activity related to the new lease is reported under the Indiana Toll Road Lease Fund.

Highway Revenue Bonds primary purpose is to finance construction of highway and bridge projects that are managed by INDOT. This fund reports on the direct financing activities and construction of such projects.

Stadium and Convention Center Financing Program reports on the financing of the Indiana Stadium and Convention Center project. Construction of the project is managed by the Indiana Stadium and Convention Building Authority (ISCBA). IFA issued $666 million of lease revenue bonds (Stadium), and $329 million of lease revenue bonds (Convention Center) to finance a portion of the construction projects. IFA then entered into a loan agreement with the ISCBA structured with a payment schedule to meet debt service requirements on the bonds.

The previously existing **State Office Building Commission's** primary purpose was to construct, equip and lease state facilities through revenue bonds as authorized by the Indiana General Assembly. This has now been transferred to IFA. The facilities are leased to the Department of Administration of the State (DOA) under use and occupancy agreements. IFA has been authorized to issue debt obligations to provide funds for:

- Financing the implementation of the Indiana Government Center Master Plan

- Infrastructure and transportation facilities in its vicinity, certain correctional facilities and certain hospitals

- Financing the Indiana State Museum acquisition, design and construction costs

- Conducting projects to reduce energy consumption costs and other operating costs at qualified state owned institutions

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

The previously existing **Recreational Development Commission's** primary purpose was providing funds for projects involving Department of Natural Resources' properties. The Recreational Development Commission (the Commission) was created in 1973 by an Act of the General Assembly. Effective May 15, 2005, all powers and duties of the Commission were transferred to IFA under IC 4-4-10.9 & 11.

The **Transportation Finance General** primary purpose was reporting on the administrative functions of the Transportation Finance Authority, which included salary and benefits and other expenses that supported the related financings and refinancing activities.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The government wide statements and the proprietary 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 non-exchange revenues and voluntary non-exchange revenues and certain grants and entitlements are recognized in the period when all applicable eligibility requirements have been met.

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 (that is, 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 IFA, “available” means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred. The governmental funds recognize expenditures for these liabilities to the extent they will be matured or liquidated with expendable financial resources.

Fund Accounting: IFA debt financing agreements and indentures may require the use of specific funds or subfunds to account for the activities within a specific bond issue or other IFA activities. As a result, governmental and proprietary funds may have subfunds and accounts that are considered separate accounting entities for internal reporting purposes. The operations of each specific fund are accounted for with a separate set of self-balancing accounts. IFA uses the following subfund types as applicable for debt financing and indenture agreements:

- General Funds
- Expense Funds
- Lease Revenue Funds
- Debt Service Funds
- Debt Service Reserve Funds
- Replacement Reserve Funds
- Construction Funds (including interest and clearing accounts)

Application of Accounting Principles Generally Accepted in the United States: For proprietary fund statements, IFA applies (a) all applicable FASB pronouncements issued before December 1, 1989, and (b) those issued after that date, provided they do not contradict GASB pronouncements. For governmental fund statements, IFA applies GASB pronouncements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Internal Balances and Activity Reporting in Government Wide Financial Statements: Transaction and balances are recorded as follows:

- **Between funds included in governmental activities** column - Eliminated within the governmental activities column.
- **Between funds included in business-type activities** column - Eliminated within the business-type activities column.
- **Between a fund included in governmental activities column and a fund included in the business-type activities column** - Internal balance; eliminated in the total activities primary government column.

Revenue Recognition: The primary revenue sources of IFA are accounted for as follows:

- State appropriations are made by the General Assembly on a biennial basis. Due to the uncertainty of allotment and release of appropriations, IFA records revenues when cash payments are received.
- Toll lease revenue is recognized on an accrual basis. (proprietary fund and government-wide statements)
- Direct financing lease revenue and operating lease revenue are recognized on an accrual basis. (proprietary funds and government-wide statements)
- Investment earnings are recognized on an accrual basis for proprietary funds and government-wide statements, and modified accrual basis for governmental funds.
- Loan interest income is recorded on a modified accrual basis for governmental funds and full accrual for proprietary funds and government-wide statements.
- Grant income is recognized on an accrual basis for proprietary funds and government-wide statements, and modified accrual basis for governmental funds.
- Program revenue is recognized on an accrual basis for proprietary funds and government-wide statements, and modified accrual basis for governmental funds.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other relevant policies related to revenues follow:

- Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizens as a whole. Program revenues are separately classified in three categories—(a) charges for services, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions.

- Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and interest on debt and depreciation on capital assets. Governmental fund transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income. For proprietary funds, revenue and expense transactions normally classified as other than operating cash flows are classified as operating revenues and expenses if those transactions constitute principal ongoing operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

- IFA's policy is to apply externally restricted and reserved funds first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Expense Classification: Expenses have been classified using functional and activity classifications using direct costs and estimated indirect cost allocations based upon time allocation and benefit. Direct expenses (charges based on actual use) are not eliminated, whereas indirect expense allocations made in the funds are reversed (unless reported in the separate column).

Net Assets and Fund Balances**:** Net assets are displayed in three components:

- The Invested in Capital Assets component consists of property or infrastructure that the IFA acquired, net of the related debt.

- The Restricted Net Assets component represents net assets with constraints placed on their use that are either (i) externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or (ii) imposed by law through constitutional provisions or enabling legislation, as defined in GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The Unrestricted Net Assets component consists of net assets that do not meet the definition of the preceding two components. IFA has reserved fund equity in special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by IFA's governing body.

- Governmental Funds: Fund balances are displayed in five components:

    - Non-spendable fund balance includes amounts not in spendable form.
    - Amounts listed in restricted fund balance are subject to constraints imposed by external organizations. For purposes of determining the ending fund balance, restricted funds are considered to be spent first when an expenditure occurs for which both restricted and unrestricted amounts are available.
    - Committed fund balance is amounts that are designated by an IFA Board resolution to be used for a specific purpose. If expenditure occurs for which committed, assigned or unassigned amounts are available, committed amounts are considered to be spent first, followed by assigned and then unassigned funds.
    - Assigned fund balance amounts are available for commitment by IFA Board resolution, to projects within the Brownfield program.
    - Unassigned fund balance is the residual classification for the general fund.

<u>Cash and Equivalents:</u> Cash and equivalents include deposits in financial institutions and short-term investments with original maturities of 90 days or less.

<u>Investments</u>: Investments are recorded at fair value based on quoted market prices of the investment or similar investments. Changes in the fair value of investments, including interest, dividends, realized and unrealized gains and losses are included in the statements of activities. Securities traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Securities traded in the over-the-counter market, and listed securities for which no sale was reported on that date, are valued at the last reported bid price.

<u>Capital Assets:</u> Capital assets are recorded at historical cost. Cost includes interest expense, net of interest income, incurred during construction until the asset is placed in service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Infrastructure Assets: The Indiana Toll Road Lease Fund, an enterprise fund, adopted the modified approach for recording infrastructure. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network (hereafter, eligible infrastructure assets) are not required to be depreciated. Condition assessments are performed annually and disclosed as required supplemental information. Expenditures that qualify as maintenance in nature are recorded by the lessee. Additions and improvements to eligible infrastructure assets are capitalized by IFA when those additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

Capital Leases: Direct financing leases are accounted for by IFA, as lessor, as the sum of minimum lease payments and indirect costs less unearned income. Direct costs and unearned income are amortized over the lease term using the interest rate method that mirrors the underlying long-term debt.

Grants and Accounts Receivable: Grants and accounts receivable balances consist of amounts billed or billable for services provided, net of an allowance for doubtful accounts. Grants and accounts receivable are recorded at net realizable value when earned. Grant revenue is recognized as earned as the eligible expenses are incurred or activities are completed. Grant expenditures are subject to audit and acceptance by the granting agency and, because of such audit, adjustments could be required.

An allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances, and general economic conditions. Periodically, management reviews grants and accounts receivable and considers the need for an allowance based on current circumstances. Management has estimated that no allowance is necessary at June 30, 2011.

Loans Receivable and Allowance for Loans: Loans are carried at the principal amount outstanding. Interest income is accrued on the principal balances of loans. IFA's sources of funding for loans are from state appropriations and grants. Because there are a small number of significant loans outstanding, management estimates the allowance for loan loss by identifying specific troubled loans. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that as of June 30, 2011, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the areas that funds are loaned would increase the likelihood of additional losses because of credit and market risks and could create the need for additional loss allowance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Lease Revenue: Operating lease cash receipts that have not been earned are recorded as deferred lease revenue and amortized over the life of the lease agreement on a straight-line basis. The primary deferred lease revenue is related to the Indiana Toll Road Lease Fund cash receipt of $3.8 billion from ITRCC that will be earned over the 75-year operating lease.

Due to Primary Government: This represents amounts that were due to the State at June 30, 2011 as follows:

	Governmental Activities	Business-type Activities
Liabilities - Due to primary government		
Current:		
State Police Project – IPSC	$ -	$ 20,344
Hoosier Safe-T Project – IPSC	35	-
Toxicology Lab Project – ISDH	229,503	-
	$ 229,538	$ 20,344

Long-term Debt: Bonds and notes payable are recorded at the principal amount outstanding, net of any applicable premium or discount.

Bond Discount and Issuance Costs: Bond discount and issuance costs are amortized using the interest method over the varying terms of the bonds issued.

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave, which has been earned but not paid, has been accrued in the accompanying financial statements. Compensation for holiday and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or vest.

Subsequent Events: IFA has evaluated the financial statements for subsequent events occurring through October 21, 2011, the date the financial statements were available to be issued. See Note 14.

NOTE 3 - DEPOSITS AND INVESTMENTS

IFA's Investment Policy:

I. Scope and Intent

The Investment Policy applies to the investment of all funds, including, but not limited to, bond proceeds and gross revenues for which IFA and appropriate trustee(s) have investment responsibility[1]. The Members of IFA are responsible for fiduciary oversight of these invested funds. The Members have approved the Investment Policy in furtherance of their goal to meet the investment objectives listed in Section II hereof.

II. Objectives

The primary objectives, in priority order, of IFA's investment program should be:

1. <u>Safety</u> -- Safety of principal should be the foremost objective of the investment program. Investments should be made in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk will be minimized both by diversification (limiting the potential for loss from any one issuer or any one type of security) and by limiting investments to the types of securities described in Section V hereof. Market risk will be minimized both by structuring the portfolio so that investments generally mature in time to meet anticipated cash requirements (limiting the need to sell securities prior to maturity) and by investing primarily in shorter-term securities.
2. <u>Liquidity</u> -- The investment portfolio should be structured so that investments generally mature in time to meet anticipated cash requirements. Further, since all cash requirements cannot be anticipated, the portfolio should consist primarily of cash equivalents and securities with active secondary or resale markets.
3. <u>Yield</u> -- The investment portfolio should be structured with the objective of attaining a market rate of return, taking into account the constraints of safety and liquidity described above. Return on investment is less important than safety and liquidity. Return on investment should be in excess of inflation, and should typically approximate or exceed the calculated yield on 3-month constant-maturity U.S. Treasury obligations.
4. <u>Full Investment</u> -- To the extent practicable, all funds should be fully deployed as earning assets.
5. <u>Minimal Turnover</u> -- Securities should typically not be sold prior to maturity, with the following exceptions: (1) A declining-credit security can be sold early to minimize the potential loss of principal. (2) A security can be sold and replaced

[1] As it relates to the investment of indentured funds, it relates only to the extent those funds are not invested in purpose investments, *i.e.* investments that are acquired to carry out the governmental purpose of the bond issue.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

with another if such action improves the quality or yield of the portfolio. (3) A security can be sold early to meet liquidity needs.

III. Delegation of Authority

The authority to operate and manage the investment program is granted to the Public Finance Director, together with any investment officer(s) that he or she designates as such (together, the "Investment Officers"). The Public Finance Director and any additional Investment Officers shall establish controls and procedures to implement the program which shall include regular reporting to the Members of IFA.

IV. Standard of Care

1. Prudence -- Investments should be made in accordance with the prudent person standard. This standard provides that an investor should act with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. Investment officers acting in accordance with the investment policy statement and any written procedures and exercising due diligence, should be relieved of personal liability for an individual security's credit risk or market price changes, provided that deviations from expected results are reported in a timely fashion and that appropriate action is taken to control adverse developments.
2. Ethics and Conflicts of Interest -- Investment Officers should refrain from personal business activity that could conflict with the proper execution and management of the IFA's investment program, or that could impair their ability to make impartial decisions. Investment Officers should also maintain knowledge of all applicable laws, rules, and regulations; and not knowingly violate, or participate or assist in the violation of, such laws, rules, and regulations.

V. Permitted Investments

1. IFA is only permitted to invest indentured funds in those securities authorized by the applicable trust indenture and statutes, which authorizations are made a part of the policy. In addition to restrictions under indentures, it is the policy of IFA to limit allowable investments to the following types of securities:
   - U.S. Treasury securities (*e.g.* bills, notes, bonds, SLGS, STRIPS, and TIPS), which are backed by the full faith and credit of the U.S. government

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Federal agency obligations (including both federally related institution securities and federally sponsored agency securities), including, but not limited to, Ginnie Mae, Fannie Mae, Freddie Mac, Farmer Mac, and Federal Home Loan Bank debt
  - any full-faith-and-credit securities are permitted
  - non-full-faith-and-credit debt securities are permitted if rated in one of the two highest rating categories by one of the following rating agencies: Fitch, Moody's, and Standard & Poor's (the Rating Agencies)

- Mortgage pass-through securities issued by Ginnie Mae, Fannie Mae, or Freddie Mac
  - any full-faith-and-credit securities are permitted
  - non-full-faith-and-credit pass-through securities are permitted if guaranteed by the issuing agency, and if the issuing agency is rated in one of the two highest rating categories by one of the Rating Agencies

- Obligations of state and local governments in the U.S. and their political subdivisions, if rated in one of the three highest rating categories by one of the Rating Agencies

- Repurchase agreements, if at least 102% collateralized by any of the above

- Money market mutual funds regulated by the Securities and Exchange Commission
  - only no-load funds are permitted (*i.e.* no commission or fee shall be charged on purchases or sales of shares)
  - permitted funds will be those that limit assets of the fund to U.S. Treasury securities, federal agency securities, and repurchase agreements collateralized by the same; or that are rated in the highest rating category by one of the Rating Agencies
  - these funds seek to maintain a stable net asset value of $1.00 per share
  - by definition these funds will meet the requirements for portfolio maturity, portfolio quality, and portfolio diversification in Rule 2a-7 under the Investment Company Act of 1940

- Commercial paper, if rated in the highest rating category by one of the Rating Agencies, with a maturity not to exceed 270 days

- Investment agreements, if the provider is rated the equivalent of Aa3 or higher by one of the Rating Agencies

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Time deposits with maturities not exceeding five years, in state- or nationally chartered banks whose deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"), with balances not to exceed the FDIC coverage limit

2. Additional securities may be added to the above approved list with the approval of the Public Finance Director. All such additions shall be reported to IFA Members at the next regular meeting.
3. Investments are not permitted in certain derivatives, or in certain mutual funds which invest primarily in such securities. Investments specifically prohibited are those characterized as being illiquid, highly volatile and difficult to value. Prohibited securities include, but are not limited to, mortgage derivatives such as Z-bonds, PAC-2s, and Re-REMICS.
4. Pursuant to IC 4-4-11-15(50), certain swap agreements (as defined in IC 8-9.5-9-4) are permissible as part of the bond issuance process, pursuant to the guidelines of IC 8-9.5-9-5 and IC 8-9.5-9-7. These agreements include rate swap agreements, basis swaps, forward rate agreements, interest rate options, rate cap agreements, rate floor agreements, rate collar agreements, and any similar agreements (including any option to enter into any such agreement).
5. At times, funds may be invested for the betterment of the State economy or that of local entities within the State. These development-oriented investments may not fit the permitted investments listed above. In the future, any such investments will be subject to the prior approval of the Members. The Indiana Seed Fund I, LLC, an existing equity investment under the former Indiana Health and Educational Facility Financing Authority, is an example that will not be subject to the requirements herein and was previously approved by that board.

VI. Investment Parameters

1. Maximum Maturity -- to the extent possible, investments will be matched with anticipated cash flow requirements. Unless matched to a specific cash flow, the IFA should not typically invest in securities maturing more than five years from the date of purchase. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years, if the maturities of such investments precede the expected use of funds.
2. Average Maturity -- The average weighted maturity of the portfolio should not typically exceed two years.
3. Diversification -- Investments shall be diversified by type of security and issuer. Except for cash equivalents and U.S. Treasury securities, the total portfolio should consist of no more than 40% of any single type of security.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

4. In lieu of specific investment directives, an Investment Officer may issue general directives to the appropriate trustee for the investment of certain funds. These directives should be consistent with this policy and the appropriate trust indenture.

VII. Authorized Broker/Dealers

1. All financial institutions currently serving as trustee for any component unit of IFA are authorized to provide investment services, including investment advice, to IFA. In addition, the Investment Officers shall maintain a list of broker/dealers authorized to provide IFA with investment services and advice. Such list should be reported to IFA on an annual basis. Broker/dealers may be primary dealers or regionally recognized dealers. However, any broker/dealer which desires to serve in any capacity other than advisor shall provide IFA with the following:

   - Current audited financial statements
   - Proof of National Association of Securities Dealers (NASD) certification
   - Certification of having read the Investment Policy

2. Each Investment Officer is authorized to enter into safekeeping agreements, wire transfer agreements or other agreements necessary or useful in administering the policy. A background check is required for each Investment Officer prior to this authorization.

3. The Investment Officers should conduct an annual review of the financial condition and registration of all broker/dealers on the authorized list.

VIII. Safekeeping and Custody

1. All investment transactions, including, but not limited to, those completed by telephone, should be supported in writing and approved by an Investment Officer. Written communication may be made by facsimile on IFA letterhead.

2. Book Entry -- IFA should strive to invest in book-entry securities, thus avoiding physical delivery of securities. No securities shall be physically stored or kept in the offices of IFA.

3. Custodial Safekeeping -- Securities purchased from any bank or dealer, including collateral when appropriate, should generally be placed with the appropriate trustee or with an independent third party for safekeeping.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Any security that is able to be wired over the FedWire will be kept safe in a customer or trust account in a Federal Reserve Bank through the appropriate custodial bank.

Any security not able to be wired over the FedWire, that is held by the Depository Trust Corporation (DTC), shall be held in the name of IFA or trustee through the appropriate custodial bank.

Securities may be held by a broker/dealer to the extent the broker/dealer serves as an agent for IFA or the appropriate trustee. No securities will be held by a broker/dealer without evidence of adequate Securities Investor Protection Corporation (SIPC) insurance (or protection judged to be equivalent by IFA or the appropriate trustee).

4. Delivery vs. Payment -- All securities will be held in accounts in the name of IFA or the appropriate trustee. Securities will be deposited prior to the release of funds. Securities held by a third party custodian will be evidenced by safekeeping receipts.

IX. Performance and Reporting

1. Annual Report -- The Investment Officers shall prepare an investment report at least annually which should provide a clear picture of the status of the portfolio and transactions made over the preceding year. Such report should be designed to allow Members of IFA to ascertain whether the investment activities during the reporting period have conformed to the policy.

2. Performance -- The portfolio should achieve a market rate of return during a market environment of stable interest rates. Portfolio performance should be compared at least annually to the yield on 3-month U.S. Treasury obligations. Such performance comparison should be included in the annual report.

X. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. IFA's Investment Policy Statement includes the following provisions:

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Maximum Maturities -- to the extent possible, investments will be matched with anticipated cash flow requirements. Unless matched to a specific cash flow, IFA will not directly invest in securities maturing more than five years from the date of purchase. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years, if the maturities of such investments precede the expected use of funds.
- Average Maturity -- The average weighted maturity of the portfolio should not typically exceed two years.
- Diversification –- investments will be diversified by type of security and issuer except for cash equivalents and U.S. Treasury securities, the total portfolio shall consist of no more than 40% of any single type of security.

At June 30, 2011, IFA had the following investments and maturities:

		Investment Maturities (in years)			
Governmental Activities: Investment Type	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	Greater than Ten Years
Money Market Investment	$ 329,043,567	$ 329,043,567	$ -	$ -	$ -
Total	$ 329,043,567	$ 329,043,567	$ -	$ -	$ -

		Investment Maturities (in years)			
Business-Type Activities: Investment Type	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	Greater than Ten Years
Money Market Investment	$ 550,427,052	$ 550,427,052	$ -	$ -	$ -
US Treasury	154,962,493	6,240,403	28,641,647	78,885,067	41,195,376
Government Obligations	71,733,897	25,059,048	22,348,278	14,465,154	9,861,417
Private Equity	1,013,137	-	1,013,137	-	-
Guaranteed Investment Contracts	205,272,047	9,333,310	40,138,974	54,606,757	101,193,006
Bank Deposits	48,816,639	48,816,639	-	-	-
Total	$ 1,032,225,265	$ 639,876,452	$ 92,142,036	$ 147,956,978	$ 152,249,799

XI. Custodial Credit Risk

Custodial credit risk is the risk that IFA 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 IFA, and are held by either the counterparty of the counterparty's trust department or agent but not in IFA's name.

Due to compliance with provisions within IFA's Investment Policy, there was no custodial credit risk.

(Continued)

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

XII. Credit Risk

IFA's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2011 are as follows:

Governmental Activities:

Investment Type	S & P	Moody's	Fitch	Fair Value
Money Market Investment	AAAm	Aaa-mf	AAAmmf	$ 317,329,174
	AAAm	Aaa-mf	unrated	9,205,209
	AAAm	unrated	unrated	2,509,184
				$ 329,043,567

Business-Type Activities:

Investment Type	S & P	Moody's	Fitch	Fair Value
Money Market Investment	AAAm	Aaa-mf	AAAmmf	$ 550,427,052
US Treasury	AA+	Aaa	AAA	154,962,493
Government Obligations	AA+	Aaa	AAA	32,774,200
	AA+	Aaa	NR	568,351
	unrated	unrated	AAA	797,950
	unrated	unrated	unrated	37,593,396
Private Equity	unrated	unrated	unrated	1,013,137
Guaranteed Investment Contracts	A	A3	A+	21,623,128
	AA+	NR	NR	89,624,628
	NR	NR	NR	94,024,291
Bank Deposits	A+	Aa3	AA-	48,816,639
				$ 1,032,225,265

XIII. 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. Under IFA's Investment Policy Statement, investments should be diversified by type of security and institution. Except for cash equivalents; indenture purpose investments, and U.S. Government Securities, the total portfolio should consist of no more than 40% of any single type of security. At June 30, 2011, there were no concentrations of credit risk.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

XIV. 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. Investments are not included as allowable investments per IFA's policy. At June 30, 2011, there was no foreign currency risk exposure.

XV. Securities Lending

In prior years the Interstate Bridge Fund had investments in U.S. Treasury Bills held and controlled by the State Treasurer, which is used in securities lending transactions. The State Treasurer is authorized by statute (IC 5-13-10.5) 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 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 50 percent 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 U.S., an agency of the U.S. government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities.

Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. The collateral securities cannot be pledged or sold by the State Treasurer 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 0-15 days. The contracts with custodians require 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 June 30, 2011, the investments had no credit risk exposure on securities lending.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

XVI. 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 three 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.

The carrying amount of demand deposits was $851,382, and bank balances were $1,056,058. IFA’s maximum risk was $796,218 at June 30, 2011.

NOTE 4 - LOANS RECEIVABLE

IFA has four programs that provide loans to qualified participants including:

Governmental Activities:

1) **Environmental Remediation Revolving Loan Fund (Brownfields) –** Loans facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues. Net loans receivable were $6,166,532 at June 30, 2011.

2) **Stadium\Convention Center Expansion Project –** Loans provided to the Indiana Stadium and Convention Center Building Authority (ISCBA) for the construction of Lucas Oil Stadium and the expansion of the Indianapolis Convention Center. Loans receivable were $977,943,031 at June 30, 2011.

Business-Type Activities:

3) **State Revolving Fund Loan Program -** Low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure**.** Net loans receivable were $1,912,025,211 at June 30, 2011.

4) **Supplemental Fund -** Low interest loans provided to Indiana communities to improve drinking water and wastewater infrastructure. Net loans receivable were $15,664,700 at June 30, 2011.

Additional disclosures are provided below for each loan program:

1) Environmental Remediation Revolving Loan Fund (Brownfields)

Loans receivable were comprised of the following at June 30, 2011:

Loans receivable - gross	$ 7,400,623
Less: allowance for uncollectible loans	(73,000)
Less: allowance for forgivable portion of Brownfields loans	(1,161,091)
	$ 6,166,532

There were approximately thirty-one loans and advances outstanding with Indiana municipalities at June 30, 2011. Approximately $2,004,000 was available for disbursement on eight outstanding loan commitments. Interest earned on these loans during the year ended June 30, 2011 was approximately $151,000 and accrued interest was approximately $23,000 at June 30, 2011.

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The program includes a partially forgivable loan program with certain eligibility requirements. Eligible participants have a provision for forgiveness of up to 20% of the original loan balance if certain performance criteria are met. IFA has recorded an allowance that represents the current amount available for forgiveness on loans that qualified under the program.

2) Stadium\Convention Center Expansion Project

Loans receivable is equal to the balance of the Stadium and Convention Center bonds issued by IFA.

Stadium	$648,835,000
Convention Center	329,108,031
	$977,943,031

Interest earned on loans receivable was approximately $47,427,000 during the year ended June 30, 2011 and accrued interest on loans was approximately $7,337,000 at June 30, 2011.

Due to the nature of the financing of these loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2011.

3) State Revolving Fund Loan Program

The loans receivable balance at June 30, 2011 includes actual advances for construction and related costs on eligible projects net of principal payments from participants as follows:

Wastewater Fund	$1,685,803,369
Drinking Water Fund	340,036,886
	2,025,840,255
Less: allowance for forgivable portion – Wastewater	(87,514,065)
Less: allowance for forgivable portion – Drinking Water	(26,300,979)
	$1,912,025,211

These amounts represent projects that have been submitted and approved by the SRF Programs, and the loans have been closed. Interest earned on loans receivable was approximately $62,000,000 during the year ended June 30, 2011 and accrued interest on loans was approximately $15,011,000 at June 30, 2011.

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

4) Supplemental Fund

Loans receivable were comprised of the following at June 30, 2011:

Loans receivable - gross	$ 15,822,700
Less: allowance for uncollectible loans	(158,000)
	$ 15,664,700

There were approximately fifty-nine loans and advances outstanding with Indiana municipalities for drinking water and wastewater projects at June 30, 2011. Interest earned on these loans during the year ended June 30, 2011 was approximately $320,000 and accrued interest was approximately $68,000 at June 30, 2011.

NOTE 5 - CAPITAL ASSETS

Capital assets used in governmental activities included the following for the State Office Building Commission Program, Operating Accounts and Environmental Remediation Revolving Loan Fund:

Governmental Activity:

	Balance at July 1, 2010	Increases	Decreases	Balance at June 30, 2011
Capital assets, not being depreciated				
Land	$ 54,807,366	$ -	$ -	$ 54,807,366
Infrastructure	-	-	-	-
Construction in progress	38,665,504	13,492,129	3,850,156	48,307,477
Total capital assets, not being depreciated	93,472,870	13,492,129	3,850,156	103,114,843
Capital assets being depreciated:				
Buildings and improvements	1,074,683,567	8,958,013	-	1,083,641,580
Furniture, machinery and equipment	8,144,971	573,874	-	8,718,845
Total capital assets, being depreciated	1,082,828,538	9,531,887	-	1,092,360,425
Less accumulated for:				
Buildings and improvements	334,798,880	26,686,801	-	361,485,681
Furniture, machinery and equipment	3,450,490	1,047,459	-	4,497,949
Total accumulated depreciation	338,249,370	27,734,260	-	365,983,630
Total capital assets being depreciated, net	744,579,168	(18,202,373)	-	726,376,795
Capital assets, net	$ 838,052,038	$ (4,710,244)	$ 3,850,156	$ 829,491,638

(Continued)

NOTE 5 - CAPITAL ASSETS (Continued)

Capital assets used in business-type activities included the following for the Toll Bridge Fund, Indiana Toll Road Lease Fund, Recreational Development Commission Program, and State Revolving Fund:

Business-type Activities:

	Balance at July 1, 2010	Increases	Decreases	Balance at June 30, 2011
Capital assets, not being depreciated				
Land	$ 31,077,462	$ -	$ -	$ 31,077,462
Infrastructure	265,251,880	1,566,015	-	266,817,895
Construction in progress	158,800,741	38,425,711	-	197,226,452
Total capital assets, not being depreciated	455,130,083	39,991,726	-	495,121,809
Capital assets being depreciated:				
Buildings and improvements	120,935,683	717	30,000	120,906,400
Furniture, machinery and equipment	31,403,445	1,981,278	-	33,384,723
Total capital assets, being depreciated	152,339,128	1,981,995	30,000	154,291,123
Less accumulated for:				
Buildings and improvements	65,083,891	3,714,967	19,009	68,779,849
Furniture, machinery and equipment	8,474,307	3,212,737	-	11,687,044
Total accumulated depreciation	73,558,198	6,927,704	19,009	80,466,893
Total capital assets being depreciated, net	78,780,930	(4,945,709)	10,991	73,824,230
Capital assets, net	$ 533,911,013	$ 35,046,017	$ 10,991	$ 568,946,039

At June 30, 2011, IFA had the following construction and related cost commitments:

Business-Type Activities:

Indiana Toll Road Lease Fund – Commitments related to the Indiana Toll Road were approximately $3,800,000 for environmental remediation projects.

(Continued)

NOTE 6 - CAPITAL LEASES

At June 30, 2011, IFA's future minimum lease amounts receivable under capital leases were as follows:

Governmental Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2012	$ 44,735,000	$ 56,159,763	$ 100,894,763
June 30, 2013	45,800,000	53,706,588	99,506,588
June 30, 2014	49,045,000	50,812,682	99,857,682
June 30, 2015	52,930,000	48,050,989	100,980,989
June 30, 2016	54,800,000	45,063,205	99,863,205
2017 - 2021	305,085,000	192,035,661	497,120,661
2022 - 2026	391,760,000	108,110,835	499,870,835
2027 - 2030	276,465,000	24,117,950	300,582,950
	1,220,620,000	578,057,673	1,798,677,673
Less remaining accretion / premium (discount)	(20,861,427)	-	(20,861,427)
	$ 1,199,758,573	$ 578,057,673	$ 1,777,816,246

Business-Type Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2012	$ 16,255,000	$ 6,575,068	$ 22,830,068
June 30, 2013	16,660,000	5,782,665	22,442,665
June 30, 2014	17,045,000	4,944,373	21,989,373
June 30, 2015	17,440,000	4,086,015	21,526,015
June 30, 2016	17,845,000	3,206,892	21,051,892
2017 - 2021	55,070,000	4,146,688	59,216,688
	$ 140,315,000	$ 28,741,701	$ 169,056,701

(Continued)

NOTE 6 - CAPITAL LEASES (Continued)

IFA's changes in capital leases were as follows based on type of activity:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year	Amount Due Thereafter
Governmental Activity						
Highway Revenue Bonds	$ 1,244,052,311	$ 2,916,262	$ 47,210,000	$ 1,199,758,573	$ 44,735,000	$ 1,155,023,573
Business-Type Activity						
Airport Facilities	150,005,000	-	15,315,000	134,690,000	15,555,000	119,135,000
Aviation Technology Center	6,295,000	-	670,000	5,625,000	700,000	4,925,000
	156,300,000	-	15,985,000	140,315,000	16,255,000	124,060,000
Total	$ 1,400,352,311	$ 2,916,262	$ 63,195,000	$ 1,340,073,573	$ 60,990,000	$ 1,279,083,573

Capital lease interest rates are structured based on the related bonds principal and interest schedules that are reflected in Note 7 of the financial statements for each bond issue.

Highway Revenue Bonds

IFA issues its highway revenue bonds to finance and refinance highway and bridge projects, as follows:

- INDOT leases right-of-way and other property, on which a highway or bridge project is to be situated, to IFA under a ground lease agreement and supplement for the particular project.
- INDOT constructs the project for IFA under a construction agreement and supplement for the particular project.
- Once constructed, IFA leases the project to INDOT under a master lease agreement and supplement for the particular project.

Lease payments made by INDOT under the master lease and supplements are used to pay debt service on the highway revenue bonds when due.

Under the construction and other agreement and supplements for the highway and bridge projects, IFA reimburses INDOT for construction and design costs incurred by INDOT. Costs not yet reimbursed are recorded in the construction fund as accrued expenses. There were no construction and design costs recognized as additions to capital leases or capital outlay reimbursements to INDOT during fiscal year 2011.

NOTE 6 - CAPITAL LEASES (Continued)

Airport Facilities

In order to finance the construction of the Indianapolis Maintenance Center (IMC) at Indianapolis International Airport, IFA, the City of Indianapolis (the City) and the Indianapolis Airport Authority (the IAA) entered into a number of agreements, including leases, providing for the acquisition, construction, equipping and financing of the IMC (collectively, the Joint Venture).

Under the Joint Venture, IFA's undivided interest as a tenant in the IMC is determined in proportion to the money it contributes to the acquisition, construction and equipping of the IMC from proceeds of IFA's revenue bonds issued to finance the IMC. The City's and the IAA's undivided interests are established in the same way, but by reference to the amount of money they contribute to the IMC from their revenue bond proceeds.

IFA leases its undivided interest in the IMC to the IAA. Upon termination of that lease, the IAA will succeed to IFA's interest in the Joint Venture. The IAA is obligated to pay IFA lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay IFA expenses and ground rent obligations. The IAA expects to pay the lease rentals through appropriations made by the General Assembly.

Aviation Technology Center

The Aviation Technology Center Lease Revenue Bonds were issued to finance and refinance an aviation technology education center at the Indianapolis International Airport. The center is used by Vincennes and Purdue universities to provide a variety of aviation-related post secondary education programs. IFA leases the center to the IAA under a lease agreement. The IAA is obligated to pay to IFA lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay IFA expenses and ground rent obligations. The IAA expects to pay the lease rentals through appropriations made by the General Assembly. The IAA is not obligated to use any other revenue to pay such lease rentals. IFA leases the ground on which the center is situated from the IAA under a ground lease agreement. Upon termination of the ground lease agreement, the center will become property of the IAA.

NOTE 7 – LONG-TERM DEBT ACTIVITY

During the fiscal year ended June 30, 2011, the debt service requirements for bonds payable under governmental and business-type activities were as follows:

Governmental Activities:

	Highway Revenue	State Office Building Commission	Stadium & Convention Center Projects	Governmental Total
Principal:				
June 30, 2012	$ 44,735,000	$ 58,225,000	$ 1,000,000	$ 103,960,000
June 30, 2013	45,800,000	62,620,000	-	108,420,000
June 30, 2014	49,045,000	60,555,000	660,000	110,260,000
June 30, 2015	52,930,000	63,560,000	1,325,000	117,815,000
June 30, 2016	54,800,000	66,780,000	1,900,000	123,480,000
2017 - 2021	305,085,000	248,540,000	36,490,000	590,115,000
2022 - 2026	391,760,000	107,135,000	68,785,000	567,680,000
2027 - 2031	276,465,000	22,500,000	211,755,000	510,720,000
2032 - 2036	-	-	373,840,000	373,840,000
2037 - 2041	-	-	282,310,000	282,310,000
	1,220,620,000	689,915,000	978,065,000	2,888,600,000
Remaining accretion / premium (discount)/ loss on advanced refunding	(46,617,028)	8,152,506	(121,969)	(38,586,491)
	$ 1,174,002,972	$ 698,067,506	$ 977,943,031	$ 2,850,013,509
Interest:				
June 30, 2012	$ 56,159,763	$ 33,543,334	$ 51,834,900	$ 141,537,997
June 30, 2013	53,706,587	30,548,970	51,527,462	135,783,019
June 30, 2014	50,812,682	27,429,686	51,503,539	129,745,907
June 30, 2015	48,050,989	24,162,454	51,443,731	123,657,174
June 30, 2016	45,063,205	20,659,701	51,351,360	117,074,266
2017 - 2021	192,035,661	63,470,272	252,713,116	508,219,049
2022 - 2026	108,110,835	15,301,662	238,099,059	361,511,556
2027 - 2031	24,117,950	1,092,250	208,102,555	233,312,755
2032 - 2036	-	-	126,884,142	126,884,142
2037 - 2041	-	-	26,229,389	26,229,389
	$ 578,057,672	$ 216,208,329	$ 1,109,689,253	$ 1,903,955,254
Total Debt Service	$ 1,752,060,644	$ 914,275,835	$ 2,087,632,284	$ 4,753,968,763

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Business-Type Activities:

	Enterprise				Internal Service	
	Airport Facilities	Aviation Technology Center	State Revolving Fund	Total	Recreational Development Commission	Business-Type Total
Principal:						
June 30, 2012	$ 15,555,000	$ 700,000	$ 88,245,000	$ 104,500,000	$ 2,200,000	$ 106,700,000
June 30, 2013	15,930,000	730,000	94,555,000	111,215,000	2,375,000	113,590,000
June 30, 2014	16,285,000	760,000	105,460,000	122,505,000	2,525,000	125,030,000
June 30, 2015	16,640,000	800,000	108,440,000	125,880,000	2,700,000	128,580,000
June 30, 2016	17,010,000	835,000	113,560,000	131,405,000	2,225,000	133,630,000
2017 - 2021	53,270,000	1,800,000	613,545,000	668,615,000	9,590,000	678,205,000
2022 - 2026	-	-	440,935,000	440,935,000	1,795,000	442,730,000
2027 - 2031	-	-	139,525,000	139,525,000	-	139,525,000
	134,690,000	5,625,000	1,704,265,000	1,844,580,000	23,410,000	1,867,990,000
Remaining accretion / premium (discount)/ loss on advanced refunding	-	-	67,096,962	67,096,962	(364,147)	66,732,815
	$ 134,690,000	$ 5,625,000	$ 1,771,361,962	$ 1,911,676,962	$ 23,045,853	$ 1,934,722,815
Interest:						
June 30, 2012	$ 6,320,299	$ 254,769	$ 83,171,904	$ 89,746,972	$ 1,046,327	$ 90,793,299
June 30, 2013	5,558,500	224,165	78,950,654	84,733,319	958,051	85,691,370
June 30, 2014	4,753,125	191,248	74,238,991	79,183,364	860,590	80,043,954
June 30, 2015	3,930,000	156,015	69,387,203	73,473,218	744,873	74,218,091
June 30, 2016	3,088,750	118,143	64,253,859	67,460,752	630,053	68,090,805
2017 - 2021	4,034,500	112,188	234,869,261	239,015,949	1,416,169	240,432,118
2022 - 2026	-	-	93,747,556	93,747,556	208,913	93,956,469
2027 - 2031	-	-	12,988,531	12,988,531	-	12,988,531
	$ 27,685,174	$ 1,056,528	$ 711,607,959	$ 740,349,661	$ 5,864,976	$ 746,214,637
Total Debt Service	$ 162,375,174	$ 6,681,528	$ 2,482,969,921	$ 2,652,026,623	$ 28,910,829	$ 2,680,937,452

Changes in long-term liabilities were as follows, based on type of activity:

	Balance at July 1, 2010	Increases	Decreases	Balance at June 30, 2011	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities:						
Revenue bonds and notes payable	$ 2,960,235,372	$ -	$ 110,221,863	$ 2,850,013,509	$ 103,960,000	$ 2,746,053,509
Derivative investment liability	116,570,594	-	10,976,603	105,593,991	-	105,593,991
Deferred revenue	2,700,000	-	75,000	2,625,000	75,000	2,550,000
	$ 3,079,505,966	$ -	$ 121,273,466	$ 2,958,232,500	$ 104,035,000	$ 2,854,197,500
Business-Type Activities:						
Revenue bonds payable	$ 1,964,045,347	$ 169,007,468	$ 198,330,000	$ 1,934,722,815	$ 106,700,000	$ 1,828,022,815
Due to federal government	5,247,400	925,176	4,333,037	1,839,539	1,302,905	536,634
Deferred revenue	3,542,391,840	30,206,245	70,136,085	3,502,462,000	69,328,113	3,433,133,887
Pollution Remediation	4,820,875	10,500,000	1,016,575	14,304,300	11,074,795	3,229,505
	$ 5,516,505,462	$ 210,638,889	$ 273,815,697	$ 5,453,328,654	$ 188,405,813	$ 5,264,922,841

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

The following is a summary of long-term debt outstanding at June 30, 2011, for each fund with the activity categories:

	Future Interest Rate Range	Maturity Range	Annual Principal Payment Range	Amount Outstanding
Governmental Activities:				
Highway Revenue	3% to 7.25%	2011 to 2029	36,409,025 to 96,240,000	$ 1,174,002,972
State Office Building Commission	2.87% to 7.40%	2011 to 2028	$10,480,000 to $66,780,000	698,067,506
Stadium Project	4.47% to 7.18%	2012 to 2037	$660,000 to $70,550,000	648,835,000
Convention Center Project	3.00% to 7.20%	2012 to 2039	$225,000 to $99,430,000	329,108,031
				$ 2,850,013,509
Business-type Activities:				
Airport Facilities	4.28% to 5.00%	2011 to 2019	$15,550,000 to $18,145,000	$ 134,690,000
Aviation Technology Center	4.25% to 5.00%	2011 to 2018	$700,000 to $920,000	5,625,000
State Revolving Fund	2.00% to 5.50%	2012 to 2030	$13,050,000 to $131,360,000	1,771,361,962
Recreational Development Commission	3.00% to 5.60%	2011 to 2026	$315,000 to $2,700,000	23,045,853
				$ 1,934,722,815

Variable rate long-term debt terms are as follows:

Governmental Activities:

Bond Series	Outstanding Amount	Interest Rate (Range)	Notes
Stadium Project 2005A	$ 400,000,000	0.05% to 0.97%	(1)
Stadium Project 2007A	211,525,000	0.05% to 0.35%	(1)
Stadium Project 2008A	37,310,000	0.08% to 0.31%	(2)
Convention Center Project 2008A	120,000,000	0.05% to 0.336%	(3)
Total Variable Rate Debt	$ 768,835,000		

Notes on Variable Rate Terms:

(1) *Hedged, tax-exempt variable rate debt*: An interest rate swap with a notional amount of $611,525,000 commenced for the Stadium Lease Appropriation Bonds, Series 2005A and 2007A on August 15, 2008 with IFA receiving the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA") and paying the swap counterparties a fixed rate of 4.231%. The purchase price of tendered but not remarketed 2005 and 2007 Bonds is payable from Standby Bond Purchase Agreements (the "SBPAs") in an aggregate amount of $416,530,948, expiring October 2011 – December 2013. A portion of the Series 2005A Bonds in the amount of $200,000,000, were directly purchased by two separate banking institutions and are not subject to

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

tender by the bondholders until March 2013 and 2014. The 2005A and 2007A Bonds are payable solely from and secured by a pledge of the trustee of the trust estate. The trust estate includes payments made by the Building Authority, pursuant to the promissory note; all monies are obligated to be paid under the revenue deposit agreement, the lease, and the sublease. The 2005A and 2007A Bonds are subject to optional redemption by IFA, in whole or in part, in authorized denominations on any business date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date. The average interest rate on the 2005A and 2007A Bonds for the fiscal year was 0.28%.

(2) *Partially hedged, tax-exempt variable rate debt*: An interest rate swap with a original notional amount of $46,875,000 commenced for the Stadium Lease Appropriation Bonds, Series 2008A Bonds, on August 15, 2008 with IFA receiving SIFMA and paying the swap counterparties a fixed rate of 3.796%. The purchase price of tendered but not remarketed 2008A Bonds is payable from a SBPA in the amount of $37,763,853, which expires February 1, 2035. The 2008A Bonds are payable solely from and secured by a pledge of the trustee of the trust estate. The trust estate includes payments made by the Building Authority, pursuant to the promissory note; all monies are obligated to be paid under the revenue deposit agreement, the lease, and the sublease. The 2008A Bonds are subject to optional redemption by IFA, in whole or in part, in Authorized Denominations on any business date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date. The average interest rate on the 2008A Bonds for fiscal year 2011 was 0.22%. Going forward, the budgeted interest rate on the unhedged portion of the 2008A Bonds is 6.00%.

(3) *Partially hedged, tax-exempt variable rate debt*: An interest rate swap with a notional amount of $98,114,750 commenced for the Convention Center Lease Appropriation Bonds, Series 2008A Bonds, on December 1, 2010 with IFA receiving SIFMA and paying the swap counterparties a fixed rate of 4.556%. The purchase price of tendered but not remarketed 2008A Bonds is payable from SBPAs in the amount of $121,459,728, expiring December 1, 2013 – February 1, 2039. The 2008A Bonds are payable solely from and secured by a pledge of the trustee of the trust estate. The trust estate includes payments made by the Building Authority, pursuant to the promissory note; all monies are obligated to be paid under the revenue deposit agreement, the lease, and the sublease. The 2008A Bonds are subject to optional redemption by IFA, in whole or in part, in Authorized Denominations on any business date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date. The average interest rate on the 2008A Bonds for fiscal year 2011 was 0.21%. Going forward, the budgeted interest rate on the unhedged portion of the 2008A Bonds is 6.00%.

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Self-Liquidity Program

The IFA maintains a self-liquidity program that pays the purchase price of 2008 A Lease Appropriation Bonds (Stadium Project) and the 2008A-1 Lease Appropriation Bonds (Convention Center Project) that have been tendered and not remarketed. As of June 30, 2011, the two sub-series have outstanding balances of $37,310,000 and $60,000,000, respectively. The aggregate amount payable by IFA will not exceed the sum of the principal balance outstanding plus an amount equal to 37 days' interest on the principal balance outstanding. As of June 30, 2011, the aggregate amount payable on the two sub-series will not exceed $37,763,853 and $60,729,863, respectively.

Interest Rate Swap Agreements

Objective of the Interest Rate Swap Agreements: In order to protect against the potential of rising interest rates, IFA entered into separate pay-fixed, receive-variable interest rate swap agreements with Goldman Sachs Bank USA ("Goldman Swap") and the Bank of New York Mellon ("Bank of New York Mellon Swap") and two separate pay-fixed, receive variable interest rate swap agreements with JP Morgan Chase Bank ("JPMorgan Swap" and together with the Goldman Swap and the Bank of New York Mellon Swap, the "Swaps"). The Swaps were entered into as cash flow hedges.

Terms, fair values, and credit risk. Fair values are based on quotes provided by the applicable swap counterparty. Changes in the fair value of the swap agreements are reported in the Statement of Net Assets as noncurrent assets and liabilities. The notional amounts of the swaps match the anticipated principal amounts of the associated debt. No cash was received or paid on the date the swap agreements were initiated. IFA's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in the associated "bonds payable" category. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2011, were as follows:

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value at June 30, 2010 [1]	Increase/ (Decrease)[1]	Fair Values at June 30, 2011[1]	Swap Termination Date
2005/2007 Stadium Project[2]	$ 611,525,000	8/15/2008	4.231%	SIFMA[3]	$ (95,093,309)	$ 10,175,206	$ (84,918,103)	2/1/2037
2008 Stadium Project	29,185,000	8/15/2008	3.796%	SIFMA[3]	(2,864,837)	597,740	(2,267,097)	2/1/2035
Convention Center	98,114,750	12/1/2010	4.556%	SIFMA[3]	(18,612,448)	203,657	(18,408,791)	2/1/2039
	$ 738,824,750				$ (116,570,594)	$ 10,976,603	$ (105,593,991)	

[1] Negative signifies a value in favor of the counterparty.
[2] Includes two swaps with separate counterparties.
[3] The Securities Industry and Financial Markets Association Municipal Swap Index.

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Credit Risk. Moody's Investors Service ("Moody's") rated JPMorgan Chase Bank Aa3, Goldman Sachs Bank USA A1, and The Bank of New York Mellon Aa2. Standard & Poor's (S&P) rated JPMorgan Chase Bank A+, Goldman Sachs Bank USA A and The Bank of New York Mellon AA-. The IFA is exposed to credit risk when any of the Swaps have a fair value in favor of IFA or a positive market price. To minimize its exposure to loss related to credit risk, IFA requires the swap counterparties to post collateral if the fair value is greater than a threshold amount specified in the respective swap agreements. The threshold amount in each of the swap agreements is adjusted lower following a downgrade by Moody's or S&P of the applicable counterparty's rating.

Termination Risk. IFA or the counterparties may terminate the Swaps if the other party fails to perform under the terms of the contract (as defined by the individual swap agreements). If at the time of termination the Swaps have a positive fair value, the counterparties would be liable to IFA for a payment equal to the fair value.

(Continued)

NOTE 8 – BOND REFUNDINGS AND ESCROW BALANCES ON BONDS

IFA analyzes its various bond issues to determine if any opportunities exist for debt service savings through the refinancing of long-term debt. IFA had refunding and defeasance activity as reported below. In addition, current period and previous refundings and defeasances had remaining bonds outstanding paid from escrow accounts that are not included in the IFA financial records based on accounting guidance.

Bond Refundings and Defeasances: The following represents bond refunding and defeasance during the year ended June 30, 2011:

Governmental Activities:

- **Highway Revenue:**
  On September 9, 2010, IFA issued $74,040,000 of Highway Revenue Refunding Bonds, Series 2010A, which refunded Series 2000A, 2003A, and 2004A bonds. The refunding was undertaken to reduce total future debt service payments. The proceeds were deposited in an escrow fund, which will pay principal and interest for the defeased debt. As a result of the refunding, an economic gain, or present value savings, of $8.089 million was realized, and future debt service payments were reduced by $9.983 million.

Business-Type Activities:

- **State Revolving Fund Program:**
  On October 20, 2010, IFA issued $64,925,000 of State Revolving Fund Program Refunding Bonds, Series 2010C, which refunded Series 2001A, 2002B, and 2004B bonds. The refunding was undertaken to reduce total future debt service payments. The proceeds were deposited in an escrow fund, which will pay principal and interest for the defeased debt. As a result of the refunding, an economic gain, or present value savings, of $2.902 million was realized, and future debt service payments were reduced by $3.542 million.

  In September 2010, IFA cash defeased the remaining maturities of the Series 1998A Bonds.

Escrow Balances on Refunded and Defeased Bonds: IFA has the following bond issues that have been refunded, but have remaining principal balances to be paid by escrow agents' accounts. The refunded bonds are not reported as a debt of IFA since payment of principal and interest are from escrowed funds and investment earnings. Activity includes:

Governmental Activities:

- **State Office Building Commission** –IFA issued Facilities Revenue Refunding Bonds, Series 2003 C and D bonds, which were used to refund certain Series 1995 A

(Continued)

NOTE 8 – BOND REFUNDINGS AND ESCROW BALANCES ON BONDS (Continued)

and B bonds. IFA issued Facilities Revenue Refunding Bonds, Series 2004 A, B, and C bonds, which were used to refund certain Series 1999A, 2002A, and 2003A bonds. IFA issued Facilities Revenue Refunding Bonds, Series 2009 A and B bonds, which were used to refund certain Series 1999A bonds. At June 30, 2011, the amount of defeased debt still outstanding, but no longer considered long-term debt, was $196,995,000.

- **Highway Revenue –** IFA issued Highway Revenue Bonds, Series 2000, which were used to refund certain Highway Revenue Bonds, Series 1990A and 1993A. IFA issued Series 2004 B and C, which were used to refund certain Series 2000 and Series 2003A bonds. IFA issued Series 2007A, which were used to refund certain Series 2000A, 2003A, and 2004A bonds. Series 2010A bonds were used to refund certain Series 2000A, 2003A, and 2004A bonds. As of June 30, 2011, the amount of defeased debt still outstanding, but no longer considered long-term debt, was $917,750,000.

Business-Type Activities:

- **State Revolving Fund** – IFA issued Series 2010C Refunding Bonds, which were used to refund certain maturities of Series 2001A, 2002B, and 2004B bonds. Series 2010A Refunding Bonds were issued and used to refund certain Series 2000B, 2001A, 2002B, 2004B, and 2004C bonds. IFA issued Series 2005A Refunding Bonds for the aggregate amount of $277,930,000, which included $258,815,000 of refunding debt. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 2000A, 2000B, 2001A, and 2002B Bonds. In March 2008, IFA cash defeased the remaining maturities of the Series 2000A Bonds. At June 30, 2011, the amount of defeased debt still outstanding, but no longer considered long-term debt, was $369,625,000.

- **Indiana Toll Road** - In 1985, IFA issued $256,970,000 of Indiana Toll Road Revenue Refunding Bonds, Series 1985, to refund the Indiana Toll Road Bonds, 1980 Series. At June 30, 2011, the amount of defeased debt still outstanding, but no longer considered long-term debt, was $107,965,000.

- **Airport Facilities -** In December 2004, IFA issued $204,550,000 of Airport Facilities Multi-Mode Lease Revenue Refunding Bonds, 2004 Series, which refunded Series 1996A bonds. At June 30, 2011, the amount of defeased debt still outstanding, but no longer considered long-term debt, was $13,535,000.

Conduit Debt Obligations: IFA is authorized by law to issue conduit and certain other types of revenue bonds to finance projects that serve Indiana public purposes outlined by statute. Except as described below, IFA's revenue bonds are payable solely from revenues of IFA specifically pledged thereto. The bonds are not in any respect a general obligation of IFA or

(Continued)

NOTE 8 – BOND REFUNDINGS AND ESCROW BALANCES ON BONDS (Continued)

the State, nor are they payable in any manner from revenues raised by taxation. IFA has no power to levy taxes. Pursuant to this authority, IFA has issued numerous revenue bonds.

IFA has issued debt obligations on behalf of certain manufacturers, utilities, 503c organizations, health and higher education facilities for the purpose of construction, improvement of facilities or the refinancing of outstanding debt. These bonds, notes, and other obligations and the interest thereof do not constitute debt or liability of IFA, the State, or any political subdivision thereof, but are special obligations between investors and the debtors payable solely from the payments received by the trustee under the loan agreements and meet the definition of conduit debt in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2011, IFA has outstanding conduit debt of $9.418 billion outstanding.

(Continued)

NOTE 9 – UNAMORTIZED BOND ISSUANCE COSTS AND DEFERRED CHARGES, NET

Bond issuance costs and deferred charges associated with long-term debt at June 30, 2011 were $13,544,889 and include the following activities:

Governmental Activities:

- State Office Building Commission – Amounts include bond issuance costs and other deferred charges, which are amortized using the interest method over the life of the related bond issue.

Gross amount	$ 19,467,710
Accumulated amortization	(14,437,335)
Net amount	$ 5,030,375

Amortization expense for the year ended June 30, 2011 was approximately $1,014,000. At June 30, future amortization of bond issuance costs and deferred charges is estimated as follows:

2012	$ 928,817
2013	751,690
2014	653,308
2015	557,116
2016	479,507
Thereafter	1,659,937
	$ 5,030,375

NOTE 9 – UNAMORTIZED BOND ISSUANCE COSTS AND DEFERRED CHARGES, NET (Continued)

Business-Type Activities:

- **State Revolving Fund** – Amounts represent bond issuance costs, which are amortized using the interest method over the life of the related bond issue.

Deferred charges	$ 21,129,935
Accumulated amortization	(12,916,417)
Net amount	$ 8,213,518

Amortization expense for the year ended June 30, 2011 was approximately $1,238,000. At June 30, future amortization of bond issuance costs is estimated as follows:

2012	$ 1,076,920
2013	1,006,237
2014	931,083
2015	857,510
2016	778,086
Thereafter	3,563,682
	$ 8,213,518

- **Recreational Development Commission** - Amounts represent bond issuance costs, which are amortized using the interest method over the life of the related bond issue.

Bond issuance costs	$ 667,540
Accumulated amortization	(366,545)
Net amount	$ 300,995

Amortization expense for the year ended June 30, 2011 was approximately $41,000. At June 30, future amortization of bond issuance costs is estimated as follows:

2012	$ 40,653
2013	40,653
2014	40,653
2015	40,653
2016	40,653
Thereafter	97,730
	$ 300,995

NOTE 10 - OPERATING LEASE COMMITMENTS

IFA has the following operating lessee and lessor agreements:

Lessee – Governmental Activities

- **General Fund**- IFA currently leases office space pursuant to a non-cancelable operating lease expiring in March 2021. The future total minimum rental payments of approximately $2,256,000 range from $212,000 to $248,000 per year from 2012 through 2021. Rental expense for the operating lease was approximately $113,000 for the year ended June 30, 2011. In fiscal year 2011 rental expense was reduced by one-time adjustments. Had those adjustments not occurred, rental expense would have been approximately $236,000 for the year ended June 30, 2011.

Lessor – Governmental Activities

- **State Office Building Commission** – Operating lease activity included:

  - The Commission leases state facilities to the Indiana Department of Administration based on use and occupancy agreements. The annual lease terms provide for renewals through supplement agreements. The lease rental payments are based on administrative costs, aggregate debt service requirements on related long-term debt, debt service reserve requirements, and replacement reserve for maintenance and improvements of facilities. During the year ended June 30, 2011, lease revenue of approximately $115 million was recognized.

  - In March of 1995, the Commission entered into a twenty-five year land lease agreement with the White River State Park Development Commission (WRSPDC) to lease a portion of the White River State Park for $1 per year while providing in excess of $15,000,000 of infrastructure improvements.

  - On April 14, 1998, the Commission purchased the IMAX Theatre building and land in White River State Park from the State for $10,000,000. Additionally, the Commission entered into a one hundred-year land lease agreement to lease certain real estate surrounding the IMAX Theatre building from the State for $1 per year. This real estate was required to be used to construct the Indiana State Museum and a parking garage.

(Continued)

NOTE 10 - OPERATING LEASE COMMITMENTS (Continued)

Lessor – Business-Type Activities

- **Indiana Toll Road** - On June 29, 2006, the Indiana Toll Road was leased for approximately $3.765 billion and a term of 75 years to the ITRCC. The entire amount was paid up front and there are no additional lease payments due for the remainder of the term of the lease. IFA recorded the transaction as an operating lease and recorded the payment as deferred revenue. Lease rental revenue net of related costs, totaling $3.705 billion, will be recognized on a straight-line basis over the life of the 75-year lease. The unamortized portion of this revenue (in thousands) will be recognized as follows for the fiscal years ending June 30:

2012	$ 49,396
2013	49,396
2014	49,396
2015	49,396
2016	49,396
2017 - 2021	246,977
2022 - 2026	246,977
2027 - 2031	246,977
2032 - 2036	246,977
2037 – 2041	246,977
2042 - 2046	246,977
2047 – 2051	246,978
2052 – 2056	246,978
2057 – 2061	246,978
2062 – 2066	246,978
2067 – 2071	246,978
2072 – 2076	246,978
2077 – 2081	246,978
Total	$ 3,457,688

NOTE 10 - OPERATING LEASE COMMITMENTS (Continued)

- **Recreational Development Commission -** The Commission leases various facilities to the Department of Natural Resources (DNR) that were constructed or renovated using bond issue proceeds. The lease is subject to the terms of the Master Use and Occupancy Agreement dated March 1, 1994, and is accounted for as an operating lease.

  Although the initial agreement terminated on June 30, 1995, both parties have extended the term of this agreement until June 30, 2026. The Commission and the DNR have the right to extend the term of the agreement from biennium to biennium. The Commission and the DNR are deemed to have exercised this right to extend. The term of the Master Use and Occupancy Agreement is extended, for each successive biennium, unless either the Commission or the DNR delivers written notice of non-extension to the other party not less than three months prior to the last day of any biennium, in which event the Master Use and Occupancy Agreement will terminate on the last day of such biennium.

  Minimum aggregate annual lease payments under the facilities leases are as follows for the fiscal years ending June 30:

2012	$ 3,318,580
2013	3,391,180
2014	3,450,725
2015	3,185,200
2016	2,913,656
2017 – 2021	9,213,200
2022 – 2025	1,633,525
Total	$ 27,106,066

NOTE 11- INTERFUND LOANS RECEIVABLE AND PAYABLE

Funds are transferred from one fund to support expenditures of other funds in accordance with authority established for the individual fund. To the extent that certain transactions between funds are not paid or received in the current period, net interfund receivable and payable balances are recorded at June 30, 2011, as follows:

	Interfund Receivable	Interfund Payable
General Fund	$ 328,965	$ -
Government Funds:		
Transportation Finance Fund	-	67,430
State Office Building Commission	10,002	69,606
Special Revenue Funds:		
Conduit Debt General Program Fund	-	23,927
Environmental Remediation Revolving Loan Fund	-	370,575
Petroleum Remediation Grant Incentive Fund	322,611	-
Enterprise Funds:		
State Revolving Fund Program	-	109,098
Supplemental Drinking Water & Wastewater Assistance Fd	23,387	-
Recreational Development Commission	-	6,525
Health & Education Finance Fund	-	37,804
	$ 684,965	$ 684,965

NOTE 12 – POLLUTION REMEDIATION

As part of the lease agreement with the ITRCC, IFA agreed to retain liability for sites along the Toll Road previously identified as being contaminated. IFA has contracted to clean up these sites and has recognized the $3,800,000 remaining on the contract. In addition, IFA agreed to accept liability for any undiscovered sites that may be found in the future that originated or were caused by actions taken during the time prior to the Toll Road lease. Contaminated sites were found during the construction of the mandatory expansion projects required by the 2006 Toll Road Lease Agreement and remediation cost of $10,500,000 was recognized. Other potential sites have been identified but no assessment has been made to determine whether IFA has any liability and therefore no estimate of the cost of remediation is available.

NOTE 13 - PENSION PLAN

IFA elected to become a participant in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective July 1, 2011. IFA contributes to the INPRS, an agent multiple-employer public employee retirement system, which acts as a common investment and administrative agent for state employees and employees of the various instrumentalities of the State. All full-time state employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give IFA the right to contribute and govern most requirements of the system, including the benefits, which vest after ten years of service. Employees who have reached age 50 may receive retirement benefits with fifteen years of service. An employee may receive benefits at age 65 with ten years of service.

Employees are required to contribute 3% of compensation to an annuity savings account. Effective July 1, 1986, legislation permits an INPRS employer to make the employee contributions on behalf of the employee. IFA elected to pay its employees' 3% contribution. The employer rate of contributions was 7.0% during fiscal year 2011. These accumulated employee contributions and allocated interest income are maintained by INPRS in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of the savings account.

INPRS holds and invest all plan assets. Investments are in obligations of the U.S. Government, federal agencies, corporate bonds and equity securities. There is no (i) pension benefit obligation information, (ii) assets available for benefits at cost information or (iii) an analysis of funding disclosed in the annual financial statements. However, INPRS performed an actuarial valuation of IFA's plan as of June 30, 2011, which is included in the Annual Report of the Indiana Public Retirement System for state employees and employees of the various subdivisions of the State. IFA's contributions to INPRS were in accordance with the requirements computed in the actuarial valuation performed June 30, 2010, the last date available. The following shows current year pension plan information relative to contributions:

Year	Employer Contributions	Employee Contributions	Total Contributions	Annual Covered Payroll	Percentage of Employer Contributions to Covered Payroll
2011	$ 117,008	$ 50,146	$ 167,154	$1,671,544	7.0%

Information regarding INPRS may be obtained from:

Indiana Public Retirement System
One North Capitol, Suite 001
Indianapolis, IN 46204

NOTE 14 – SUBSEQUENT EVENTS

The following subsequent events have been provided for users of the financial statements. None of the subsequent events resulted in changes to the financial statements at June 30, 2011.

Governmental Activities

On September 16, two series of Stadium bonds were converted to the index floating rate mode. On that date the stand-by bond purchase agreement, which was due to expire October 7, 2011, was terminated. The bonds will remain in the index floating-rate mode until the end of the initial mode in September 2014, which is three years after the conversion to the mode.

In October, IFA issued Facilities Revenue Refunding Bonds, Series 2011A, 2011B and 2011C in the amount of $47,505,000 refunding portions of Series 2002A New Castle Correctional Facility Bonds, Series 2003A Indiana State Museum Facility Bonds and Series 2003B Facilities Revenue Bonds. The refunding was undertaken to reduce total future debt service payments. As a result of the refunding an economic gain, or present value savings of $3.9 million was realized.

Business-Type Activities

In September 2011 an agreement was reached with ITRCC to settle certain environmental and design defect claims raised by ITRCC, with respect to its completion of mandatory expansion projects required by the 2006 Toll Road Lease Agreement. IFA agreed to pay $10.5 million to settle all claims.

On August 26, 2011, the City of Indianapolis' wastewater utility was sold to a private entity and as a result, all of SRF obligations associated with the City of Indianapolis Sanitary District were defeased in their entirety pursuant to an Escrow Deposit Agreement dated as of August 1, 2011 between the Indianapolis Bond Bank and The Bank of New York Mellon Trust Company, N.A. As a consequence, the defeased Indianapolis SRF Bonds are payable solely from the Indianapolis Escrow Funds.

In October 2011 IFA issued SRF Series 2011A bonds in the amount of $191 million to provide additional subsidized loans to program participants.

PART 3 - REQUIRED SUPPLEMENTARY INFORMATION

Budget Basis of Accounting: IFA's budget process is based on a modified cash basis and accounts for certain transactions on a basis other than GAAP. The most significant differences between the budget basis and the GAAP basis are the manner in which revenues and expenses are recorded. Under the modified cash budget basis, the portion of lease rental income apportioned to principal payments is recorded as revenue and the debt service expense portion related to principal is recorded as expense. For government wide reporting, the portion attributable to principal on capital lease assets and bonds payable are reflected as changes in assets and liabilities in the balance sheet funds and statement of net assets.

The following table shows budget and actual financial results reported under the budgetary basis of accounting. The activities of the Toll Road Lease, the Interstate Bridge Fund, and the Toll Bridge Fund are not included in the table below because these activities were not considered in the IFA budget presented.

	Budget Total	Actual Total	Difference
Revenue			
Lease rental income (Note 1)	$ 301,109,216	$ 293,067,396	$ (8,041,820)
Appropriations (Note 2)	1,712,214	1,415,007	(297,207)
Investment income (Note 3)	12,173,702	18,779,634	6,605,932
Program service, advisory and fees (Note 4)	4,271,683	3,779,847	(491,836)
Borrower interest payments (Note 5)	64,123,500	62,162,913	(1,960,587)
EPA Grant (Note 6)	80,660,000	89,144,481	8,484,481
Total revenues	464,050,315	468,349,278	4,298,963
Debt service			
Interest (Note 7)	251,887,938	245,396,199	6,491,739
Principal	137,650,000	137,650,000	-
Total debt service	389,537,938	383,046,199	6,491,739
Program expenses			
Grants, loans and other program (Note 8)	50,148,057	56,817,610	(6,669,553)
Total program expenses	50,148,057	56,817,610	(6,669,553)
Administrative expenses			
Personal services (Note 9)	2,563,941	2,524,277	39,664
Other IFA operations (Note 10)	3,191,053	2,993,426	197,627
Total administrative expenses	5,754,994	5,517,703	237,291
Net revenues over expenses	$ 18,609,326	$ 22,967,766	$ 4,358,440

(Continued)

Note 1: Variable rate debt rates were lower than budget.

Note 2: Sewer project associated with appropriation was not completed. Project will be finished in fiscal year 2012.

Note 3: Positive investment mark to market valuations resulted in unrealized gains.

Note 4: Reimbursement for expenses related to the Bi-State Bridge Project was not as high as expected.

Note 5: Wastewater and Drinking Water draws and loan closings were slower than anticipated.

Note 6: ARRA grant drawdowns were larger than expected.

Note 7: Realized savings on refunding and actual interest rates paid on IFA variable rate debt were lower than budget.

Note 8: More ARRA grants were disbursed than expected.

Note 9: Lower due to open staff positions.

Note 10: Reduced engineering and advisory fees because ARRA program is winding down.

CONDITION RATING OF THE INDIANA TOLL ROAD PROJECT'S HIGHWAYS AND BRIDGES

Roads

	Percentage of Lane Miles in Fair, Good or Better Condition		
	2011	2010	2009
Interstate Roads	94%	92%	89%

	Percentage of Lane Miles in Substandard Condition		
	2011	2010	2009
Interstate Roads	6%	8%	11%

The condition of road pavement is measured using a pavement quality index (PQI), which is based on a weighted average of six distress factors found in pavement surfaces. The PQI uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in fair, good or better condition (70-100), and substandard condition (less than 70). It is the State's policy to maintain at least 80% of its road system at a fair, good or better condition level. No more than 10% should be in substandard condition. Condition assessments are determined every year.

Bridges

	Average Sufficiency Rating of Bridges		
	2011	2010	2009
Interstate Bridges	85.9%	85.9%*	86.2%

The average sufficiency rating of the State's bridges is determined using the formula and guidelines provided by Federal Highway Administration. The bridge average sufficiency rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical sufficiency rating ranging from 0.0% (impaired or load restricted) to 100% (new). It is the State's goal to maintain an average bridge sufficiency rating of 85%. All bridges are inspected every two years.

*The sufficiency rating for 2010 reported as 86.4% in the prior year's report has been updated with new sufficiency data from INDOT.

PART 4 - OTHER SUPPLEMENTARY INFORMATION

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF NET ASSETS
June 30, 2011

	Business-Type Activities					Governmental Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Assets								
Current assets	$ 672,885,618	$ 2,523,109	$ 27,156,022	$ 2,121,177	$ 9,080	$ 270,404,015	$ 81,781,347	$ 10,220,581
Capital and infrastructure assets	44,590	26,879,014	-	-	-	829,468,695	-	-
Noncurrent assets	2,218,159,436	300,995	119,135,000	4,925,000	-	5,030,376	1,155,023,573	1,082,537,022
Total Assets	2,891,089,644	29,703,118	146,291,022	7,046,177	9,080	1,104,903,086	1,236,804,920	1,092,757,603
Liabilities								
Current liabilities	36,450,612	547,577	1,113,975	87,367	-	22,331,690	4,712,927	9,220,581
Long term debt, including current portions	1,771,361,962	23,045,853	134,690,000	5,625,000	-	698,067,506	1,174,002,972	977,943,031
Other noncurrent liabilities	536,634	-	-	-	-	2,550,000	-	105,593,991
Total Liabilities	1,808,349,208	23,593,430	135,803,975	5,712,367	-	722,949,196	1,178,715,899	1,092,757,603
Net Assets								
Invested in capital assets, net of related debt	-	-	-	-	-	153,177,139	-	-
Unrestricted	-	6,109,688	2,800,138	1,333,554	9,080	64,168,936	22,448,567	-
Restricted	1,082,740,436	-	7,686,909	256	-	164,607,815	35,640,454	-
Total Net Assets	$ 1,082,740,436	$ 6,109,688	$ 10,487,047	$ 1,333,810	$ 9,080	$ 381,953,890	$ 58,089,021	$ -

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2011

	Business-Type Activities					Governmental Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Operating Revenues								
Lease rental	$ -	$ 3,248,021	$ 14,687,273	$ 523,828	$ -	$ 115,326,333	$55,716,378	$ 47,427,352
Interest on loans	61,692,618	-	-	-	-	-	-	-
Other	444,808	232,297	53	-	-	4,621,329	11,847,975	-
Total Operating Revenues	62,137,426	3,480,318	14,687,326	523,828	-	119,947,662	67,564,353	47,427,352
Operating Expenses								
IFA Operations	4,383,421	235,774	-	70,431	-	1,707,854	604,262	714,215
Interest expense	76,492,305	1,182,480	6,884,985	274,016	-	38,205,132	63,332,804	51,135,607
Depreciation expense	1,246,208	1,723,106	-	-	-	28,734,831	-	-
Total Operating Expenses	82,121,934	3,141,360	6,884,985	344,447	-	68,647,817	63,937,066	51,849,822
Operating Income (Loss)	(19,984,508)	338,958	7,802,341	179,381	-	51,299,845	3,627,287	(4,422,470)
Nonoperating Revenues (Expenses)								
Investment earnings, net	18,782,646	(3,156)	1,299	(458)	-	192,793	73,813	-
Total nonoperating revenues (expenses)	18,782,646	(3,156)	1,299	(458)	-	192,793	73,813	-
Income Before Capital Contributions and Transfers	(1,201,862)	335,802	7,803,640	178,923	-	51,492,638	3,701,100	(4,422,470)
Capital contributions	85,400,959	-	-	-	-	8,119,517	-	4,422,470
Loan forgiveness	(43,872,079)	-	-	-	-	-	-	-
Transfer out	(5,311)	-	(75,800)	(75,800)	-	(600,000)	(197,738)	-
Change in Net Assets	40,321,707	335,802	7,727,840	103,123	-	59,012,155	3,503,362	-
Total net assets, beginning of year	1,042,418,729	5,773,886	2,759,207	1,230,687	9,080	322,941,735	54,585,659	-
Total net assets, end of year	$ 1,082,740,436	$ 6,109,688	$ 10,487,047	$ 1,333,810	$ 9,080	$ 381,953,890	$58,089,021	$ -

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF CASH FLOWS
For the year ended June 30, 2011

	Business-Type Activities					Governmental Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Net Cash Provided (Used) By:								
Operating activities	$ (1,022,844)	$ 3,249,462	$ 14,653,547	$ 419,993	$ -	$ 120,473,556	$ 55,599,510	$ (4,422,470)
Investing activities	18,123,979	(3,137)	869	(438)	-	(18,968,581)	76,584	61,305,201
Noncapital financing activities	(92,643,783)	-	-	-	-	-	-	-
Capital and related financing activities	54,725,783	(3,231,164)	(6,985,553)	(283,396)	-	(82,558,181)	(69,186,375)	(56,882,731)
Net Increase (Decrease) in Cash	(20,816,865)	15,161	7,668,863	136,159	-	18,946,794	(13,510,281)	-
Cash and cash equivalents, beginning	541,588,990	2,507,907	208,014	915,109	-	241,556,359	50,554,087	-
Cash and cash equivalents, ending	$ 520,772,125	$ 2,523,068	$ 7,876,877	$ 1,051,268	$ -	$ 260,503,153	$ 37,043,806	$ -