

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 18, 2012

NEW ISSUE  
BOOK-ENTRY-ONLY

RATINGS (See "RATINGS"): Moody's: "\_\_\_"  
S&P: "\_\_\_"  
Fitch: "\_\_\_"

In the opinion of Ice Miller LLP, Indianapolis, Indiana, Bond Counsel, under existing federal statutes, decisions, regulations and rulings, interest on the Series 2012 Bonds (as defined herein) is excludable for federal income tax purposes from gross income under Section 103 of the Internal Revenue Code of 1986, as amended, (the "Code") except for interest on any Series 2012M Bond for any period during which such Series 2012M Bond is held by a person who is a "substantial user" of the 2012M Projects (as hereinafter defined) or a "related person" within the meaning of Section 147(a) of the Code, and except as set forth under the heading "TAX MATTERS" herein. Further, under existing law, interest on the 2012 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations. Such opinion is conditioned on continuing compliance with the Tax Covenants (as defined herein). In the opinion of Ice Miller LLP, under existing statutes, decisions, regulations and rulings, interest on the Series 2012 Bonds is exempt from income taxation in the State of Indiana. See "TAX MATTERS" and APPENDIX E, "PROPOSED OPINION OF BOND COUNSEL."

INDIANA FINANCE AUTHORITY

\$4,485,000\* FACILITIES REVENUE BONDS, SERIES 2012L  
\$56,560,000\* FACILITIES REVENUE BONDS, SERIES 2012M

Dated: Date of Issuance

Due: July 1, as shown on the inside cover

The Indiana Finance Authority (the "Authority") will issue the Indiana Finance Authority Facilities Revenue Bonds, Series 2012L (the "Series 2012L Bonds"), and Indiana Finance Authority Facilities Revenue Bonds, Series 2012M (the "Series 2012M Bonds" and together with the Series 2012L Bonds, the "Series 2012 Bonds"), pursuant to the Trust Indenture, dated as of October 1, 2012 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), to finance: (1) lease rentals due, with respect to certain real property on which the Series 2012M Project (as defined herein) will be completed (the "Series 2012L Project"), from the Authority to the Indiana State Fair Commission (the "Commission") under the Base Lease, dated as of October 1, 2012, which lease rentals will be used by the Commission to prepay, redeem and defease the outstanding State Fair Commission Fairgrounds Revenue Bonds, Series 2002; and (2) the construction, reconstruction, rehabilitation, remodeling and renovation of the existing Coliseum and the New Arena (collectively, the "Series 2012M Project") for the use of the Commission. The Series 2012L Project and the Series 2010M Project (collectively, the "2012 Projects") will be leased by the Authority to the Commission pursuant to the Master Use and Occupancy Agreement, dated as of October 1, 2012, as amended and supplemented by the Series 2012L Supplemental Agreement to the Master Use and Occupancy Agreement (with respect to the Series 2012L Project) (the "Series 2012L Use Agreement") and the Series 2012M Supplemental Agreement to the Master Use and Occupancy Agreement (with respect to the Series 2012M Project) (the "Series 2012M Use Agreement" and together with the Series 2012 Use Agreement, the "2012 Agreements"), each dated as of October 1, 2012 (collectively, the "Use Agreement"), and each between the Authority and the Commission. See "PLAN OF FINANCE," "SOURCES AND USES OF FUNDS" and "2012 PROJECTS."

The Series 2012 Bonds will bear interest at the rates shown on the inside front cover, payable on January 1 and July 1 of each year, commencing July 1, 2013. The Series 2012 Bonds are issuable as fully registered bonds, in the denomination of \$5,000 and integral multiples thereof. The Series 2012 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company. See "DESCRIPTION OF SERIES 2012 BONDS—General" and APPENDIX F, "BOOK-ENTRY-ONLY SYSTEM."

The Series 2012 Bonds are limited obligations of the Authority, payable solely from and secured exclusively by a pledge to the Trustee of the Trust Estate (as defined herein), including rental payments to be received by the Authority from the Commission under the Series 2012 Agreements. Pursuant to the Use Agreement, both the Authority and the Commission have covenanted that each will do all things lawfully within its power to obtain and maintain funds from which to meet its rental payment obligations and its operation and maintenance obligations under the Use Agreement or the Indenture, as applicable, including, but not limited to, requesting an appropriation in an amount sufficient to meet those obligations. Neither the Authority, the Commission, the Trustee nor any holder of any Series 2012 Bonds may compel funds to be appropriated or to be made available for such purpose. **The Series 2012 Bonds do not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. Neither the Authority nor the Commission has any taxing power.** See "SECURITY AND SOURCES OF PAYMENT FOR BONDS."

A detailed maturity schedule is set forth on the inside cover.

The Series 2012 Bonds are subject to optional, mandatory and extraordinary redemption, as described herein. See "DESCRIPTION OF SERIES 2012 BONDS—Redemption."

This cover page contains certain information for quick reference only. It is *not* a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2012 Bonds are being offered when, as and if issued by the Authority and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Ice Miller LLP, Indianapolis, Indiana, bond counsel to the Authority. Certain legal matters will be passed on for the Authority and the Commission by their counsel, the Attorney General, State of Indiana, Indianapolis, Indiana, and for the Underwriters by their counsel, Barnes & Thornburg LLP, Indianapolis, Indiana. It is expected that the Series 2012 Bonds in definitive form will be available for delivery through The Depository Trust Company on or about November \_\_, 2012.

J.P. MORGAN

J.J.B. HILLIARD, W.L. LYONS, LLC

PIPER JAFFRAY

WELLS FARGO SECURITIES

The date of this Official Statement is October \_\_, 2012.

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change without notice. The Series 2012 Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2012 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**INDIANA FINANCE AUTHORITY**

**\$4,485,000\***

**FACILITIES REVENUE BONDS, SERIES 2012L**

**Maturity Schedule\***

| <b>Year<br/>(07/01)</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Price</b> | <b>CUSIP<sup>1</sup></b> | <b>Year<br/>(07/01)</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Price</b> | <b>CUSIP<sup>1</sup></b> |
|-------------------------|-----------------------------|--------------------------|--------------|--------------------------|-------------------------|-----------------------------|--------------------------|--------------|--------------------------|
| 2013                    | \$1,260,000                 |                          |              |                          | 2016                    | \$860,000                   |                          |              |                          |
| 2014                    | \$ 735,000                  |                          |              |                          | 2017                    | \$790,000                   |                          |              |                          |
| 2015                    | \$ 840,000                  |                          |              |                          |                         |                             |                          |              |                          |

**\$56,560,000\***

**FACILITIES REVENUE BONDS, SERIES 2012M**

**Maturity Schedule\***

**\$49,560,000\* Serial Bonds**

| <b>Year<br/>(07/01)</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Price</b> | <b>CUSIP<sup>1</sup></b> | <b>Year<br/>(07/01)</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Price</b> | <b>CUSIP<sup>1</sup></b> |
|-------------------------|-----------------------------|--------------------------|--------------|--------------------------|-------------------------|-----------------------------|--------------------------|--------------|--------------------------|
| 2016                    | \$ 660,000                  |                          |              |                          | 2027                    | \$2,400,000                 |                          |              |                          |
| 2017                    | \$ 685,000                  |                          |              |                          | 2028                    | \$2,520,000                 |                          |              |                          |
| 2018                    | \$1,545,000                 |                          |              |                          | 2029                    | \$2,645,000                 |                          |              |                          |
| 2019                    | \$1,625,000                 |                          |              |                          | 2030                    | \$2,780,000                 |                          |              |                          |
| 2020                    | \$1,705,000                 |                          |              |                          | 2031                    | \$2,915,000                 |                          |              |                          |
| 2021                    | \$1,790,000                 |                          |              |                          | 2032                    | \$3,060,000                 |                          |              |                          |
| 2022                    | \$1,880,000                 |                          |              |                          | 2033                    | \$3,215,000                 |                          |              |                          |
| 2023                    | \$1,975,000                 |                          |              |                          | 2034                    | \$3,375,000                 |                          |              |                          |
| 2024                    | \$2,075,000                 |                          |              |                          | 2035                    | \$3,545,000                 |                          |              |                          |
| 2025                    | \$2,175,000                 |                          |              |                          | 2036                    | \$3,720,000                 |                          |              |                          |
| 2026                    | \$2,285,000                 |                          |              |                          | 2037                    | \$ 985,000                  |                          |              |                          |

\$7,000,000\*, \_\_\_\_\_% Term Bonds due July 1, 2038\* - Price \_\_%, CUSIP \_\_\_\_\_

\*Preliminary, subject to change.

<sup>1</sup> Copyright 2012, CUSIP Global Services. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the holders of the Series 2012 Bonds only at the time of issuance of the Series 2012 Bonds, and the Authority does not make any representations with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2012 Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2012 Bonds.

## **STATE OF INDIANA**

MITCHELL E. DANIELS, JR.  
Governor of the State of Indiana

REBECCA S. SKILLMAN  
Lieutenant Governor of the State of Indiana

## **INDIANA FINANCE AUTHORITY**

ADAM M. HORST  
Director, Office of Management and Budget  
*Chairman*

KENDRA W. YORK  
*Public Finance Director of the State of Indiana*

## **INDIANA STATE FAIR COMMISSION**

ANDRE B. LACY  
*Chairman*

CYNTHIA C. HOYE  
*Executive Director*

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Series 2012 Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2012 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources which are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the information presented herein since the date hereof.

The Series 2012 Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended. In making an investment decision, investors must rely on their own examination of the Authority, the Commission and the terms of the offering, including the merit and risk involved.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2012 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SERIES 2012 BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

## TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| INTRODUCTION .....  | 1           |
| Indiana Finance Authority .....   | 1           |
| Plan of Finance .....   | 1           |
| Security and Sources of Payment for Series 2012 Bonds .....                             | 1           |
| Continuing Disclosure .....   | 2           |
| Official Statement .....  | 2           |
| PLAN OF FINANCE .....   | 2           |
| Use of Series 2012L Bond Proceeds; Defeasance of Prior Commission Bonds .....           | 2           |
| Series 2012M Project .....  | 3           |
| Other Bonds .....   | 3           |
| SOURCES AND USES OF FUNDS .....   | 3           |
| SECURITY AND SOURCES OF PAYMENT FOR BONDS .....   | 4           |
| Rental Payments .....   | 4           |
| No Mortgage .....   | 6           |
| Enforceability of Rights, Remedies .....  | 6           |
| DESCRIPTION OF SERIES 2012 BONDS .....  | 7           |
| General .....   | 7           |
| Redemption .....  | 7           |
| Transfer and Exchange .....   | 9           |
| Book-Entry-Only System .....  | 9           |
| 2012 PROJECTS .....   | 9           |
| Series 2012L Project .....  | 9           |
| Series 2012M Project .....  | 9           |
| INDIANA FINANCE AUTHORITY .....   | 10          |
| General .....   | 10          |
| Organization, Membership .....  | 10          |
| Powers .....  | 11          |
| Summary of Outstanding Debt .....   | 11          |
| INDIANA STATE FAIR COMMISSION .....   | 11          |
| General .....   | 11          |
| Powers .....  | 11          |
| Organization and Membership of the Commission .....                                     | 11          |
| Members and Executive Director .....  | 12          |
| INDEPENDENT CONSULTANT .....  | 12          |
| LITIGATION .....  | 12          |
| Authority .....   | 12          |
| Commission .....  | 13          |
| TAX MATTERS .....   | 13          |
| ORIGINAL ISSUE DISCOUNT .....   | 14          |
| AMORTIZABLE BOND PREMIUM .....  | 15          |
| ENFORCEABILITY OF REMEDIES .....  | 15          |
| APPROVAL OF LEGAL PROCEEDINGS .....   | 15          |
| UNDERWRITING .....  | 16          |
| RATINGS .....   | 16          |
| CONTINUING DISCLOSURE .....   | 16          |
| General .....   | 16          |
| Compliance with Previous Undertakings .....   | 16          |
| CERTAIN RELATIONSHIP .....  | 17          |
| MISCELLANEOUS .....   | 17          |
| <br>  |             |
| APPENDIX A - FINANCIAL AND ECONOMIC STATEMENT FOR STATE OF INDIANA .....                | A-1         |
| APPENDIX B – DEFINITIONS .....  | B-1         |
| APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE USE AGREEMENT AND THE INDENTURE ..... | C-1         |
| APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF CONTINUING DISCLOSURE AGREEMENT .....     | D-1         |
| APPENDIX E – PROPOSED OPINION OF BOND COUNSEL .....                                     | E-1         |
| APPENDIX F – BOOK-ENTRY-ONLY SYSTEM .....   | F-1         |

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## INDIANA FINANCE AUTHORITY

**\$56,560,000\***

### **FACILITIES REVENUE BONDS, SERIES 2012L**

**\$4,485,000\***

### **FACILITIES REVENUE BONDS, SERIES 2012M**

## INTRODUCTION

The purpose of this Official Statement (including the cover page, introductory pages and appendices) is to provide information about the Indiana Finance Authority (the “Authority”) and the offering of the Indiana Finance Authority Facilities Revenue Bonds, Series 2012L (the “Series 2012L Bonds”), and Indiana Finance Authority Facilities Revenue Bonds, Series 2012M (the “Series 2012M Bonds” and together with the Series 2012L Bonds, the “Series 2012 Bonds”). The Series 2012 Bonds are being issued pursuant to: (1) Indiana Code 4-4-10.9, as amended, and Indiana Code 4-4-11, as amended (collectively, the “Authority Act”); (2) the Trust Indenture, dated as of October 1, 2012 (the “Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A. (the “Trustee,” the “Bond Registrar” and the “Paying Agent,” as appropriate); and (3) a resolution adopted by the Authority on September 18, 2012. The Authority Act empowers the Authority to borrow funds and issue revenue bonds, payable solely from revenues as set forth in the Authority Act, or from the proceeds of bonds issued under the Authority Act and earnings thereon, for the purpose of carrying out its purposes under the Act, including paying all or any part of the cost of acquisition, construction and equipping of an industrial development project, as defined in the Authority Act (an “Industrial Development Project”). See “INDIANA FINANCE AUTHORITY—Powers.”

### **Indiana Finance Authority**

The Authority is a body politic and corporate, created under the Authority Act. Though separate from the State of Indiana (the “State”), the exercise by the Authority of its powers constitutes an essential governmental function. The Authority has no taxing power, and any indebtedness incurred by the Authority does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. See “INDIANA FINANCE AUTHORITY.”

### **Plan of Finance**

The Authority will issue the Series 2012 Bonds to finance: (1) lease rentals due, with respect to certain real property on which the Series 2012M Project (as defined herein) will be completed (the “Series 2012L Project”), from the Authority to the Indiana State Fair Commission (the “Commission”) under the Base Lease, dated as of October 1, 2012 (the “Base Lease”), which lease rentals will be used by the Commission to prepay, redeem and defease the outstanding State Fair Commission Fairgrounds Revenue Bonds, Series 2002, dated August 7, 2002 (the “Prior Commission Bonds”); (2) the construction, reconstruction, rehabilitation, remodeling and renovation of the existing Coliseum and the New Arena (collectively, the “Series 2012M Project”) for the use of the Commission; and (3) the costs and expenses of refunding the Prior Commission Bonds and issuing and securing the Series 2012 Bonds. The Series 2012L Project and the Series 2010M Project (collectively, the “2012 Projects”) will be leased by the Authority to the Commission pursuant to the Master Use and Occupancy Agreement, dated as of October 1, 2012, as amended and supplemented by the Series 2012L Supplemental Agreement to the Master Use and Occupancy Agreement (with respect to the Series 2012L Project) (the “Series 2012L Use Agreement”) and the Series 2012M Supplemental Agreement to the Master Use and Occupancy Agreement (with respect to the Series 2012M Project) (the “Series 2012M Use Agreement” and together with the Series 2012 Use Agreement, the “2012 Agreements”), each dated as of October 1, 2012 (collectively, the “Use Agreement”), between the Authority and the Commission. See “PLAN OF FINANCE,” “SOURCES AND USES OF FUNDS” and “2012 PROJECTS.”

### **Security and Sources of Payment for Series 2012 Bonds**

The Series 2012 Bonds are limited obligations of the Authority, payable solely from and secured exclusively by a pledge to the Trustee of the Trust Estate (as defined herein), including rental payments to be received by the Authority from the Commission under the Series 2012 Use Agreements. Pursuant to the Use Agreement, both the Authority and the Commission have covenanted that each will do all things lawfully within its power to obtain and maintain funds from which to meet its rental payment obligations and its operation and maintenance obligations under the Use Agreement or the Indenture, as applicable, including, but not limited to, requesting an appropriation in an amount sufficient to meet those obligations.

### **No Debt Service Reserve Fund has been established for the Series 2012 Bonds.**

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\* Preliminary, subject to change.

Neither the Authority, the Commission, the Trustee nor any holder of any Series 2012 Bonds may compel funds to be appropriated or to be made available for such purpose. **The Series 2012 Bonds do not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof.** Neither the Authority nor the Commission has any taxing power. See “SECURITY AND SOURCES OF PAYMENT FOR BONDS.”

### **Continuing Disclosure**

In order to assist the Underwriters in complying with subsection (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Act of 1934, as amended (“Rule 15c2-12”), the Authority and the State, acting by and through the Office of Management and Budget, will enter into a Continuing Disclosure Agreement with The Bank of New York Mellon Trust Company, N.A., as the counterparty (the “Continuing Disclosure Agreement”). See “CONTINUING DISCLOSURE” and APPENDIX D, “SUMMARY OF CERTAIN PROVISIONS OF CONTINUING DISCLOSURE AGREEMENT.”

### **Official Statement**

This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. This Introduction is only a brief description and a full review should be made of this entire Official Statement (including the cover page and appendices), as well as the documents summarized or described in this Official Statement. The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument.

The Authority does not certify as to the accuracy or sufficiency of the disclosure practices of or content provided by DTC and is not responsible for the information in APPENDIX F, “BOOK-ENTRY-ONLY SYSTEM.”

## **PLAN OF FINANCE**

### **Use of Series 2012L Bond Proceeds; Defeasance of Prior Commission Bonds**

The proceeds of the Series 2012L Bonds will be used to fund lease rentals to the Commission, which lease rentals will be paid by the Authority to the Commission pursuant to the Base Lease and used by the Commission to prepay, redeem and defease the Prior Commission Bonds. The Prior Commission Bonds were issued by the Commission pursuant to Indiana Code 15-13, as amended (the “Commission Act”), and the Master Trust Indenture, as amended and supplemented by the 2002 Supplemental Trust Indenture, both dated as of July 1, 2002 (collectively, the “Prior Commission Indenture”), between the Commission and The Bank of New York Mellon Trust Company, N.A. (successor to BNY Trust Company of Missouri) (the “Prior Commission Bond Trustee”), in the aggregate principal amount of \$23,190,000, of which \$9,565,000 is currently outstanding. The Commission issued the Prior Commission Bonds for the purpose of providing funds to: (1) advance refund all the State Fair Commission Fairgrounds Refunding Revenue Bonds of 2001 (the “2001 Commission Bonds”); (2) fund the cost of certain projects, as described in the next paragraph (the “2002 Projects”); (3) fund a debt service reserve fund; and (4) pay costs and expenses of issuing and securing the Prior Commission Bonds.

The cost of the 2002 Projects included the acquisition, construction, repair and refurbishment of the existing West Pavilion and East Pavilion of the 250-acre campus, comprising the State Fairgrounds (the “Fairgrounds”), and other additions and improvements to the Fairgrounds that were approved by the Commission by resolution, including the 4-H Complex.

The Prior Commission Bonds will be called for optional redemption on January 1, 2013 (the “Redemption Date”), at 100% of the principal amount thereof, plus accrued interest thereon. As a result, upon the defeasance of the Prior Commission Bonds, the Commission will not have any outstanding bonds.

The defeasance of the Prior Commission Bonds will be accomplished by depositing, concurrently with the issuance of the Series 2012 Bonds and the payment of rent by the Authority to the Commission pursuant to the Base Lease on the date of issuance of the Series 2012 Bonds from a portion of the proceeds of the Series 2012 Bonds, together with other moneys legally available therefor, in the escrow account (the “Escrow Account”), which will be held by the Prior Commission Bond Trustee, as escrow trustee for the Prior Commission Bonds, pursuant to the Escrow Agreement, dated as of October 1, 2012 (the “Escrow Agreement”), between the Commission and Prior Commission Bond Trustee. Moneys on deposit in the Escrow Account will be invested in direct obligations of the United States of America consisting of State and Local Government Series securities acquired from the Secretary of the United States Treasury (“SLGS”), the principal of and interest on which, when due, together with earnings thereon and cash, if any, will provide sufficient moneys for the payment of the principal of and interest on the Prior Commission Bonds when due and the redemption price of the Prior Commission Bonds called for optional redemption on the

Redemption Date. Upon the execution and delivery of the Escrow Agreement, the Prior Commission Bonds will no longer be outstanding under the Prior Commission Indenture, and the indebtedness with respect thereto will be discharged.

Causey Demgen & Moore P.C., Denver, Colorado, a firm of independent public accountants, will deliver to the Authority and the Commission its verification report indicating that it has examined, in accordance with standards established by the American Institute of Certified Accountants, the information and assertions provided by the Authority, the Commission and others. Included in the scope of its examination will be a verification of the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the SLGS deposited in the Escrow Account to pay the principal of and interest on the Prior Commission Bonds when due and the redemption price of the Prior Commission Bonds on the Redemption Date.

**Series 2012M Project**

The Series 2012M Project consists primarily of the renovation of the existing Coliseum and the construction of the New Arena adjacent to the south side of the Coliseum. See “2012 PROJECTS - Series 2012M Project.”

**Other Bonds**

Under the Indenture, one or more series of (1) additional bonds (“Additional Bonds”) may be issued to finance the cost of completing the purchase, erection, building, construction, reconstruction, renovation, refurbishment, replacement, extension, betterment, equipping, development, rehabilitation, remodeling, relocation, enlargement, expansion, making of additions to, alteration, modification, change, furnishing, repair or improvement (collectively, an “Acquisition”) of the Series 2012M Project or any Additional Project (as defined herein) (collectively the “Projects” and each, a “Project”), or to complete any of the foregoing, in each case to the extent the same constitutes a capital expenditure under applicable law, and the interest on the Series 2012 Bonds or any Additional Bonds, respectively, prior to the date on which a Completion Certificate (as defined herein) for the applicable Project, or such portion, is delivered by the Authority and accepted by a representative of the Commission; and (2) refunding bonds (“Refunding Bonds”) may be issued to refund all or a portion of any then outstanding Series 2012 Bonds or Additional Bonds or to refinance other obligations of the Authority issued to pay all or a portion of the reasonable and necessary costs incurred in the Acquisition of any Project or a portion thereof (the “Acquisition Costs”). The Series 2012 Bonds, any Additional Bonds and any Refunding Bonds issued pursuant to the Indenture are collectively referred to as the “Bonds”. See APPENDIX C, “SUMMARY OF CERTAIN PROVISIONS OF INDENTURE – Additional Bonds” and “ – Refunding Bonds.”

**SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds in connection with the issuance of the Series 2012 Bonds is summarized in the following table:

Sources:

|  |          |
|--|----------|
| Par Amount of Series 2012L Bonds   | \$ _____ |
| [Less Net Original Issue Discount] [Plus Net Original Issue Premium] (1) | _____    |
| Par Amount of Series 2012M Bonds   | _____    |
| [Less Net Original Issue Discount] [Plus Net Original Issue Premium] (1) | _____    |
| Other Available Funds (2)  | _____    |

Total Sources \$ \_\_\_\_\_

Uses:

|  |          |
|--|----------|
| Deposit to 2012 Expense Account of Construction Fund (3)       | \$ _____ |
| Deposit to 2012L Project Account of the Construction Fund (4)  | _____    |
| Remaining Cost of Defeasing Outstanding Prior Commission Bonds | _____    |
| Deposit to 2012M Project Account of the Construction Fund (5)  | _____    |
| Deposit to 2012M Interest Account of the Construction Fund (6) | _____    |

Total Uses \$ \_\_\_\_\_

(1) See “ORIGINAL ISSUE DISCOUNT” and “AMORTIZABLE BOND PREMIUM.”

(2) This amount represents \$ \_\_\_\_\_ on deposit under the 2002 Indenture and other moneys legally available to the Commission, which will be used to finance a portion of the cost to defease and redeem the outstanding Prior Commission Bonds.

(3) This amount represents proceeds of the Series 2012 Bonds that will be used to pay the costs of issuance of the Series 2012 Bonds. Such costs include Underwriters' discount in the amount of \$ \_\_\_\_\_, estimated legal, accounting, printing and fiduciary expenses and other expenses.

(4) This amount represents proceeds of the Series 2012L Bonds that will be used by the Authority to pay lease rentals to the Commission pursuant to the Base Lease, which the Commission will use to pay a portion of the cost to defease and redeem the outstanding Prior Commission Bonds.

(5) This amount represents proceeds of the Series 2012M Bonds that will be used to pay a portion of the cost of the Series 2012M Project.

(6) This amount represents proceeds of the Series 2012M Bonds that will be used to pay a portion of the interest due on the Series 2012M Bonds through and including January 1, 2015\*.

\*Preliminary, subject to change.

## SECURITY AND SOURCES OF PAYMENT FOR BONDS

### Rental Payments

**General.** The Series 2012 Bonds are limited obligations of the Authority, payable solely from and secured exclusively by a pledge to the Trustee of the Trust Estate, including rental payments to be received by the Authority from the Commission under the Use Agreement. The Authority expects the Commission to be able to pay from the Commission's revenues and other moneys, including moneys appropriated to the Commission by the General Assembly of the State (the "General Assembly"), amounts sufficient to maintain, operate, insure and protect the 2012 Projects and the other facilities and properties of the Commission, as well as the rental payments due from the Commission under the Use Agreement. Pursuant to the Use Agreement, both the Authority and the Commission have covenanted that each will do all things lawfully within its power to obtain and maintain funds from which to meet its rental payment obligations and its operation and maintenance obligations under the Use Agreement or the Indenture, as applicable, including, but not limited to, requesting an appropriation in an amount sufficient to meet those obligations.

The Series 2012 Bonds will not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. Neither the Authority nor the Commission has any taxing power.

Any series of Additional Bonds, the proceeds from which finance a particular Project, will be payable solely from and secured exclusively by a pledge to the Trustee of the Trust Estate, including rental payments to be received by the Authority from the Commission under the Use and Occupancy Agreement, as amended and supplemented by the Supplemental Agreement (as defined in the Use Agreement) entered into in connection with the issuance of such series of Additional Bonds.

**Trust Estate, Net Revenues.** In the Indenture, to secure the payment of the principal of and redemption premium, if any, and interest on all series of Bonds issued and outstanding under the Indenture and related to a particular Project, the Authority pledges, assigns and grants a security interest in the following (the "Trust Estate"):

(1) for any period, for the Projects, all fees, charges, revenues or receipts derived by the Authority from the operation or leasing of the Projects or any portion thereof pursuant to the terms of the Use Agreement, as the same may be supplemented or amended from time to time by any other Supplemental Agreements (as defined in the Use Agreement), or otherwise, or from the sale, transfer or conveyance (whether voluntary or involuntary) of the Projects or any portion thereof and shall include any rental payments received with respect to the Projects or any portion thereof from whatever sources, including, but not limited to, business interruption loss insurance, and receipts therefrom (such fees, charges, revenues or receipts, "Gross Revenues") during such period, *less* expenses of operation, maintenance and repair of the Projects or any portion thereof required to be paid by the Authority pursuant to the Use Agreement, as the same may be supplemented or amended from time to time by any other Supplemental Agreements, the Indenture, as further amended or supplemented by any other Supplemental Indentures, or otherwise during such period, all as calculated in accordance with generally accepted accounting principles and the Indenture (Gross Revenues, less such expenses, "Net Revenues");

(2) the proceeds of the sale of all such series of Bonds; and

(3) the following funds created under the Indenture, including any investments thereof: the Construction Fund, the Debt Service Fund, the Redemption Fund and the General Fund;

to the Trustee, in trust, but subject to the provisions of the Indenture requiring or permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth in the Indenture.

The pledge made by the Indenture is for the equal and proportionate benefit, security and protection of all series of Bonds issued and outstanding under the Indenture.

**Operation of Projects.** Under the Use Agreement, the Authority has agreed that the Commission will operate the Projects and use the facilities included in the Projects for the purposes of the Commission and the Commission Act in the manner permitted by the Use Agreement, including the lease and occupancy or operation of the same by tenants, licensees or customers of the Commission on such terms and conditions as the Commission shall prescribe. See APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF THE USE AGREEMENT AND THE INDENTURE."

**Availability.** Rentals are not payable under the Use Agreement for any Project until the construction of such Project is available for use and occupancy by the Commission. On the date of issuance of the Series 2012 Bonds, the Authority will certify and the Commission will acknowledge that the Series 2012L Project is available for use and occupancy by the Commission. It is anticipated that: (1) the portion of the Series 2012M Project consisting of the New Arena will not be available for use and occupancy until August 1, 2013; and (2) the portion of the Series 2012M Project consisting of the Coliseum will not be available for use and occupancy until August 1, 2014. As a result, a portion of the interest on the Series 2012M Bonds through and including January 1, 2015\*, will be funded from a portion of the proceeds of the Series 2012M Bonds. See "SOURCES AND USES OF FUNDS" and "2012 PROJECTS."

**Appropriations.** Payment of rentals under the Use Agreement is subject to and dependent upon funds being available for such purpose. In accordance with the Constitution and other laws of the State, the General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year and is to make appropriations for the biennium commencing on July 1 of each such year. The General Assembly also meets for a maximum period of 30 legislative days in intervening years and may make supplemental appropriations at such times. Although the State Budget Committee has reviewed and the State Budget Director has approved the execution of the Series 2012 Use Agreements, under State law, there is not, and there may not be, any requirement for the General Assembly to make appropriations to make the lease rental payments due thereunder.

The Indenture requires the Authority to use its best efforts to cause the General Assembly to appropriate to or for the benefit of the Commission moneys sufficient to enable the Authority to comply with its obligations to fix, establish and maintain the rents, rates, fees and charges described in "*Rent, Rates, Fees and Charges*" below. The Indenture also requires that the Use Agreement provide that the Commission must use its best efforts to cause the General Assembly to appropriate moneys sufficient to enable the Authority to comply with its obligations to fix, establish and maintain the rents, rates, fees and charges described in "*Rent, Rates, Fees and Charges*" below. Pursuant to the Use Agreement, both the Authority and the Commission have covenanted that each will do all things lawfully within its power to obtain and maintain funds from which to meet its rental payment obligations and its operation and maintenance obligations under the Use Agreement or the Indenture, as applicable, including, but not limited to, requesting an appropriation in an amount sufficient to meet those obligations. However, none of the Authority, the Commission nor any holder of any Bonds, including the Series 2012 Bonds, may legally compel the General Assembly to make all or any such appropriations. See APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR STATE OF INDIANA," for more information concerning State indebtedness, State finances and the State budget and appropriations process.

A portion of the proceeds from the Series 2012M Bonds will be applied to pay a portion of the interest on the Series 2012M Bonds through January 1, 2015\*. Otherwise, principal of and interest on the Series 2012 Bonds will be payable from rent under the Series 2012 Use Agreements. No moneys have yet been appropriated by the General Assembly to pay any such rent.

**No Debt Service Reserve Fund has been established for the Series 2012 Bonds.**

**Unjust Rent.** Under the Use Agreement, the Commission is not obligated to pay for the use and occupancy of either 2012 Project, and the Commission is required to vacate such 2012 Project if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust or unreasonable considering the value of the improvements thereby afforded. The Use Agreement provides that in determining just and reasonable amounts to be paid for the use and occupancy of the 2012 Projects, the Authority shall impose and collect amounts that in the aggregate will be sufficient to (1) pay the expenses of operations and maintenance of the 2012 Projects to the extent that the expenses are not otherwise provided, and (2) leave a balance of revenues from the 2012 Projects to pay the principal of and interest on the Series

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\* Preliminary, subject to change.

2012 Bonds, as well as any Additional Bonds to finance the completion of the 2012 Projects (including any reserve or sinking funds) as they become due and retire them at or before maturity. However, there can be no assurance that the terms and conditions of the Use Agreement and the amount to be paid for the use and occupancy of either 2012 Project will not be shown to be unjust or unreasonable.

**Initial Term.** The initial term of the Use Agreement will commence on the date of issuance of the Series 2012 Bonds and expire on June 30, 2013 (the “Initial Term”). The Commission is under no obligation to renew either the Series 2012L Use Agreement or the Series 2012M Use Agreement after expiration of the Initial Term or any subsequent two-year term. The Series 2012L Use Agreement or the Series 2012M Use Agreement will terminate pursuant to the terms thereof, if, among other things, (1) the General Assembly does not appropriate sufficient funds to allow the Commission to make rental payments thereunder or funds are not available to the Commission to pay, when due, any sum payable by the Commission thereunder, or (2) the Commission elects not to renew the Series 2012L Agreement or the Series 2012M Agreement, respectively, at the end of any two-year term. See APPENDIX C, “SUMMARY OF CERTAIN PROVISIONS OF THE USE AGREEMENT AND THE INDENTURE.”

Under the Indenture, in the event the Commission is required to vacate the Projects, because funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due pursuant to the Use Agreement or because the Commission elects not to renew the Agreement at the end of any term, the Authority would be required to use its best efforts to re-lease the Projects or such portions thereof to other users. However, the 2012 Projects are special purpose facilities that would not be suitable for most industrial or commercial use. In addition, use of the 2012 Projects is restricted by federal tax law. See APPENDIX C, “SUMMARY OF CERTAIN PROVISIONS OF INDENTURE—Tax Covenants.” Therefore, there can be no assurance that the Authority would be able to accomplish any such re-leasing, in whole or in part, or that, if accomplished, any such re-leasing would generate revenues sufficient to pay debt service on the Series 2012 Bonds when due.

**Rent, Rates, Fees and Charges.** The Indenture requires the Authority to fix, establish and maintain rents, rates, fees and charges which are reasonably expected to yield, during each fiscal year of the State (a “Fiscal Year”) in which a Project or any portion thereof is available for use and occupancy, an amount, which, together with any amounts in the Construction Fund or other fund or Account available therefor under the Indenture, is equal to at least (1) to the extent the Authority is obligated under the Use Agreement, or otherwise, to operate, maintain or repair such Project or any portions thereof at its expense, 100% of such expenses of operation, maintenance and repair during such Fiscal Year for such Project or such portion thereof, (2) 100% of the expenses to be incurred by the Authority in managing and administering such Project or such portion thereof and in complying with the covenants of the Indenture, (3) 100% of the Aggregate Debt Service (as defined herein) on all related series of Bonds for such Fiscal Year, and (4) one sixth of such amount as the Authority annually estimates is required to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Project to be incurred through the end of the sixth ensuing Fiscal Year commencing on the first day of such Fiscal Year. However, the Commission has the right not to renew its obligations at the end of any term under any Supplemental Agreement, thereby terminating such Supplemental Agreement and its right to use and occupy the corresponding Project, subject to such Supplemental Agreement, without affecting its right to use and occupy any other Project under any other Supplemental Agreement. The Indenture provides that, in such event, the Authority, in fixing rents, rates and fees and charges for the Projects which continue to be leased to the Commission, must not establish rents, fees or charges for such Projects in excess of such Projects’ allocable share of the amounts described in clauses (2) or (3) above, determined by taking into account the amount of the Bond proceeds used to finance such Projects under the Indenture. Rents, fees and charges for such Projects related to the amounts described in clauses (1) and (4) above will be based on the costs directly related to such Projects.

**If, for any of the foregoing reasons, the Authority is not receiving rentals from the Commission for the Series 2012 Projects under the Series 2012 Use Agreements, sufficient funds may not be available to pay Debt Service (as defined herein) on the Series 2012 Bonds, in full, on a timely basis. See APPENDIX C, “SUMMARY OF CERTAIN PROVISIONS OF INDENTURE—Defaults, Remedies.”**

#### **No Mortgage**

The Trust Estate does not include, and holders of the Series 2012 Bonds will not receive, any mortgage, lien or security interest in the 2012 Projects or any other Project or real property financed under the Indenture.

#### **Enforceability of Rights, Remedies**

The enforceability of the rights and remedies of the Trustee, the holders of the Bonds, the Authority and the Commission are limited. See “ENFORCEABILITY OF REMEDIES.”

## DESCRIPTION OF SERIES 2012 BONDS

### General

The Series 2012 Bonds are issuable as fully registered bonds. The Series 2012 Bonds are issuable in the denomination of \$5,000 and integral multiples thereof. The Series 2012 Bonds will be dated the date of issuance thereof.

Interest on the Series 2012 Bonds will be payable on January 1 and July 1 of each year, commencing July 1, 2013 (each, an "Interest Payment Date"). The Series 2012 Bonds will bear interest (calculated on the basis of twelve 30-day months and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Each Series 2012 Bond will bear interest from the Interest Payment Date next preceding the date on which it is authenticated, unless it is (1) authenticated after the fifteenth day of the month prior to an Interest Payment Date (a "Record Date") and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (2) authenticated prior to the closing of business on the Record Date preceding the first Interest Payment Date, in which event it will bear interest from the date of issuance of the Series 2012 Bonds. However, if, at the time of authentication of any 2012 Bond, interest is in default, such Series 2012 Bond will bear interest from the date to which interest has been paid.

So long as the Series 2012 Bonds are registered in the name of DTC or its nominee, payments of principal of and redemption premium, if any, and interest on the Series 2012 Bonds will be paid by the Paying Agent only to DTC or its nominee. Neither the Authority, the Paying Agent nor any other Fiduciary will have any responsibility for a Beneficial Owner's receipt from DTC or its nominee, or any from any Direct Participant or Indirect Participant (both as defined herein), of any payments of principal of or redemption premium, if any, or interest on any Series 2012 Bond. See APPENDIX F, "BOOK-ENTRY-ONLY SYSTEM."

### Redemption

***Mandatory Sinking Fund Redemption.*** The Series 2012M Bonds maturing on July 1, 2038\*, shall be subject to mandatory sinking fund redemption and payment prior to stated maturity on July 1 in the years, at 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

| <u>Year*</u>  | <u>Amount</u> |
|---------------|---------------|
| 2037          |               |
| Maturity 2038 |               |

\*Preliminary, subject to change.

The Trustee shall, in each year in which the Series 2012M Bonds are to be mandatorily redeemed as described above, make timely selection of such Series 2012 Bonds or portions thereof to be so redeemed by lot in authorized denominations of principal amount in such equitable manner as the Trustee may determine and shall give notice thereof without further instructions from the Authority. At the option of the Authority, to be exercised on or before the 75th day next preceding each mandatory redemption date, the Authority may: (1) deliver to the Trustee for cancellation Series 2012M Bonds in the aggregate principal amount desired; or (2) furnish to the Trustee funds, together with appropriate instructions, for the purpose of purchasing any of said Series 2012M Bonds from any Holder thereof in the open market at a price not in excess of 100% of the principal amount thereof, whereupon the Trustee shall expend such funds for such purposes to such extent as may be practical; or (3) elect to receive a credit in respect to the mandatory redemption obligation for any Series 2012M Bonds of the same maturity, which prior to such date have been redeemed (other than through the operation of the mandatory redemption requirements described above) and cancelled by the Trustee and not theretofore applied as a credit against any such mandatory redemption obligation.

Each Series 2012M Bond so delivered or previously purchased or redeemed shall be credited at 100% of the principal amount thereof on the obligation of the Authority to redeem Series 2012M Bonds of the same maturity on the next mandatory redemption date applicable to such Series 2012M Bonds that is at least 75 days after receipt by the Trustee of such instructions from the Authority, and any excess of such amount shall be credited on future mandatory redemption obligations for Series 2012M Bonds of the same maturity in chronological order or such other order as the Authority may designate, and the principal amount of Series 2012M Bonds of the same maturity to be redeemed on such future mandatory redemption dates shall be reduced accordingly. If the Authority intends to exercise any option described in clauses (1), (2) or (3) in the preceding paragraph, the Authority shall, on or before the 75th day next preceding the applicable mandatory redemption date, provide the Trustee with a certificate indicating to what extent the provisions of said clauses (1), (2) and (3) are to be complied with in respect to such mandatory redemption payment.

**Optional Redemption.** The Series 2012M Bonds maturing on \_\_\_\_\_ 1, 20\_\_ (the “Series 2012 M Term Bonds”), are subject to optional redemption in the principal amount selected by the Authority, in whole or in part at any time on or after \_\_\_\_\_, 20\_\_, at par, plus accrued interest to the redemption date.

The Series 2012M Bonds maturing on or after \_\_\_\_\_ 1, 20\_\_, except for the Series 2012 M Term Bonds, are subject to optional redemption in the principal amount and maturity or maturities selected by the Authority, and within any single maturity by lot in such manner as may be designated by the Trustee, in whole or in part at any time on or after \_\_\_\_\_, 20\_\_, at par, plus accrued interest to the redemption date.

**Extraordinary Redemption.** The Series 2012 Bonds are, at the option of the Authority, subject to extraordinary redemption prior to their stated maturities, at any time upon notice given within the time, in the manner and with the effect provided by the Indenture, upon the occurrence of any of the following events: (1) the Projects are totally or substantially destroyed and the amount of insurance money received on account thereof by the Trustee is sufficient to pay all of the principal of and accrued interest on the then outstanding Bonds; (2) there is a total or substantial failure of title with respect to the Projects; or (3) there is a taking by condemnation or eminent domain of the Projects; provided, that all outstanding Bonds (and only such Bonds), including the Series 2012 Bonds, must be redeemed if any Series 2012 Bonds are redeemed pursuant to the provision in the Indenture described in this sentence. In the event the 2012 Projects are damaged or destroyed, the 2012 Projects may under certain circumstances be repaired, replaced or reconstructed. See APPENDIX C, “SUMMARY OF CERTAIN PROVISIONS OF THE USE AGREEMENT AND THE INDENTURE—Insurance.”

In the event of such an extraordinary redemption, the redemption price of the Series 2012 Bonds will be 100% of the principal amount of the Series 2012 Bonds being redeemed, plus accrued interest to the redemption date.

**Selection of Bonds; Partial Redemption.** If fewer than all the Series 2012 Bonds or the Series 2012M Bonds within a single maturity are called for redemption prior to maturity, the particular Series 2012 Bonds or portions thereof to be redeemed will be selected by the Trustee in such manner as the Trustee, in its discretion, may deem to be fair and appropriate. For any Series 2012 Bond called for prior redemption in a denomination of more than \$5,000, the portion of such Series 2012 Bond to be redeemed will be in a principal amount equal to \$5,000 or a multiple thereof. In selecting portions of Series 2012 Bonds for redemption, the Trustee will treat each Series 2012 Bond as representing that number of Series 2012 Bonds of such minimum denomination which is obtained by dividing the principal amount of such Series 2012 Bond to be redeemed in part by \$5,000. In the event that any portion of a Series 2012 Bond is redeemed, the owner of such Series 2012 Bond, upon surrender of such Series 2012 Bond and without charge, will receive a Series 2012 Bond or Series 2012 Bonds of like series and maturity for the unredeemed balance of the principal amount of such Series 2012 Bond.

So long as the Series 2012 Bonds are registered in the name of DTC or its nominee, the Trustee will select for redemption only Series 2012 Bonds or portions thereof registered in the name of DTC or its nominee, as described in the preceding paragraph. Neither the Authority, the Trustee nor any other Fiduciary will have any responsibility for selecting for redemption any Beneficial Owners’ interests in the Series 2012 Bonds. See APPENDIX F, “BOOK-ENTRY-ONLY SYSTEM.”

**Notice of Redemption.** In the event that any Series 2012 Bonds are called for redemption, the Trustee will give notice not less than 15 days and not more than 60 days prior to the date fixed for any such redemption to the owners of the Series 2012 Bonds or portions thereof to be redeemed by sending a copy of the redemption notice required by the Indenture, by first class mail, to such owners at their last address appearing on the registration books maintained by the Bond Registrar as of the close of business on the last business day of the month prior to the month during which such notice is mailed. A conditional redemption notice may be given. Any failure or defect in the giving of any notice will not affect the validity of the redemption proceedings for those Series 2012 Bonds for which notice was properly given.

So long as the Series 2012 Bonds are registered in the name of DTC or its nominee, the Trustee will send notices of redemption of Series 2012 Bonds only to DTC or its nominee, as described in the preceding paragraph. Neither the Authority, the Trustee nor any other Fiduciary will have any responsibility for any Beneficial Owners’ receipt from DTC or its nominee or from any Direct Participant or Indirect Participant, of any notices of redemption. See APPENDIX F, “BOOK-ENTRY-ONLY SYSTEM.”

**Redemption Payments.** On or prior to the date fixed for redemption of any Series 2012 Bonds, there must be on deposit with the Paying Agent sufficient funds to pay the redemption price of the Series 2012 Bonds or portions thereof called. After the redemption date, if proper notice of redemption by mailing has been given and sufficient funds have been deposited with the Paying Agent, interest will cease to accrue on the Series 2012 Bonds or portions thereof that have been called.

For so long as the Series 2012 Bonds are registered in the name of DTC or its nominee, redemption payments on the Series 2012 Bonds will be paid by the Paying Agent only to DTC or its nominee, as described in the preceding paragraph. Neither the Authority, the Paying Agent nor any other Fiduciary will have any responsibility for any Beneficial Owners’ receipt

from DTC or its nominee, or from any Direct Participant or Indirect Participant, of any redemption payments on any Series 2012 Bonds. See APPENDIX F, "BOOK-ENTRY-ONLY SYSTEM."

### **Transfer and Exchange**

The Series 2012 Bonds may be transferred or exchanged by any Bondholder or any Bondholder's duly authorized attorney at the office of the Bond Registrar, to the extent and upon the conditions set forth in the Indenture, including the payment of a sum sufficient to cover any tax, fee or other governmental charge for any such transfer or exchange that may be imposed upon the Authority or the Bond Registrar. The Bond Registrar will not be required (1) to transfer or exchange any Series 2012 Bonds during the period of 15 days prior to any selection of such Series 2012 Bonds to be redeemed until after the mailing of a notice of redemption or (2) to transfer or exchange any Series 2012 Bonds called for redemption.

For so long as the Series 2012 Bonds are registered in the name of DTC or its nominee, the Bond Registrar will transfer and exchange Series 2012 Bonds only on behalf of DTC or its nominee, as described in the preceding paragraph. Neither the Authority, the Bond Registrar nor any other Fiduciary will have any responsibility for transferring or exchanging any Beneficial Owner's interests in the Series 2012 Bonds. See APPENDIX F, "BOOK-ENTRY-ONLY SYSTEM."

### **Book-Entry-Only System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2012 Bond certificate will be issued for each maturity of the Series 2012 Bonds, each in the aggregate principal amount of such maturity, and will be deposited on behalf of DTC with the Trustee, via DTC's FAST Delivery System. For information about DTC and the book-entry-only system, see APPENDIX F, "BOOK-ENTRY-ONLY SYSTEM."

## **2012 PROJECTS**

### **Series 2012L Project**

The Series 2012L Project consists of the lease of certain real property on which the Series 2012M Project will be completed by the Commission to the Authority pursuant to the Base Lease,

### **Series 2012M Project**

The Series 2012M Project consists primarily of the renovation of the existing Coliseum and the construction of the New Arena adjacent to the south side of the Coliseum.

The Coliseum is the most utilized and recognizable structure on the Fairgrounds. It plays host to hundreds of sporting events, concerts, livestock shows, consumer shows, youth activities, graduations and other special events each year. The New Arena offers a secondary area for public ice skating and various other events, allowing the Coliseum to better accommodate larger events and concerts.

The Commission intends to commence the renovation of the Coliseum concurrently with the construction of the New Arena. The Commission anticipates that the New Arena will open in time for the next State Fair occurring in August, 2013, and host livestock shows while the Coliseum is still under renovation. Assuming that the New Arena is completed in August, 2013, its completion would mitigate the financial impact of a closed Coliseum during year two of the renovations of the Coliseum by generating new operational revenue through hosting year-round events.

**Coliseum.** The Commission anticipates that the renovation of the Coliseum will be completed by August 1, 2014. The scope of the renovations will consist of: (1) the repair and restoration of the 1939 historic brick and limestone exterior building envelope; (2) the complete interior demolition of the antiquated seating/event bowl, code deficient support areas and infrastructure; and (3) the combined replacement, repair and retrofit to the existing mechanical power plant building. The historic preservation component consists of the typical masonry and building envelope restoration work required to preserve the brick, the limestone, the glass block windows, the street-level entries, the storefronts, the main entry lobby and the State Fair roof sign.

The interior demolition and new construction work will include completely demolishing all of the interior of the Coliseum and replacing the code deficient and functionally obsolete 1930's arena components with a new 172,495 sq. ft. interior multi-use arena seating 7,250 to 8,000 people. The ice rink and livestock event floor will be replaced. The concert and theatrical

infrastructure will be replaced. The entire seating bowl, all concourses, concessions, restrooms and public areas will be replaced making the facility compliant with all safety, public assembly and Americans with Disabilities Act codes.

All building mechanical, electrical and plumbing systems will be replaced with code compliant energy efficient systems. The event sports lighting, scoreboards and sound systems will be updated. All facility support areas including commissary, locker rooms, vertical transportation and building exiting will be updated.

The existing power plant building will receive the necessary exterior repairs and renovations to extend its life and improve its service. All existing heating, cooling, electrical, plumbing and ice plant equipment will be replaced or repaired, as needed, to meet the modern demands of current code and energy practices.

**New Arena.** The New Arena building scope of work will consist of an enclosed and environmentally controlled secondary arena with ice rink and livestock event floor to enhance operational viability and flexibility needed to accommodate increased event levels and the incorporation of State Fair concerts into the Fairgrounds.

## INDIANA FINANCE AUTHORITY

### General

The Authority is a body politic and corporate, not a State agency, but an independent public instrumentality, created under the Authority Act. Though separate from the State, the exercise by the Authority of its powers constitutes an essential governmental function. The Authority has no taxing power, and any indebtedness incurred by the Authority does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

### Organization, Membership

The Authority consists of the State Budget Director (or the State Budget Director's designee), who serves as Chairman of the Authority, the Treasurer of State (or the Treasurer of State's designee), and three members appointed by the Governor. No more than two of the Governor's appointees may be members of the same political party. In addition, the Governor's appointees must be residents of the State, serve for terms of four years and until their successors are appointed and qualified and may be reappointed by the Governor. The members of the Authority elect one of the members to serve as Vice Chairman and other officers as they may determine. Members are entitled to reimbursement for travel expenses and other expenses actually incurred in connection with their duties as provided by law, but are not entitled to any salary *per diem* while performing their duties.

Any three members of the Authority constitute a quorum, and the affirmative votes of at least three members are necessary for action to be taken by the Authority.

The following persons comprise the Authority:

ADAM M. HORST, State Budget Director, Chairman of the Authority. Residence: Indianapolis, Indiana. Principal occupation: State Budget Director.

RICHARD E. MOURDOCK, Treasurer of State. Residence: Evansville, Indiana. Principal occupation: Treasurer of State.

OWEN B. MELTON, JR., appointed member; term expired May 15, 2014. Residence: Carmel, Indiana. Principal occupation: Retired (former Chief Executive Officer of First Indiana Bank, N.A.).

HARRY F. MCNAUGHT, JR., appointed member; term expires May 15, 2011.\* Residence: Carmel, Indiana. Principal occupation: President and CEO, Denison Properties.

KERRY STEMLER, appointed member; term expires May 15, 2016. Residence: Sellersburg, Indiana. Principal occupation: President and CEO of KM Stemler Co Inc. and KM Stemler Trucking Inc.

\* Pursuant to the Authority Act, an Authority member continues to serve in such capacity until a successor member is appointed and qualified.

The financial affairs and activities of the Authority, including the issuance of Bonds, are administered, managed and directed by the Public Finance Director of the State of Indiana and employees of the Authority. Kendra W. York is the Public Finance Director of the State.

## **Powers**

Under State law, the Authority is authorized to issue revenue bonds to finance a wide variety of facilities, including buildings, highways, aviation facilities, stadiums, convention centers, recreation facilities, wastewater treatment projects, drinking water projects, toll roads, Industrial Development Projects, including educational facilities and pollution control facilities.

Pursuant to this authorization, the Authority and its predecessor agencies have issued revenue bonds to finance many such facilities, including various Industrial Development Projects. In addition, the Authority may in the future issue Additional Bonds under the Indenture, to finance additional Projects. See APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR STATE OF INDIANA—STATE INDEBTEDNESS—Obligations Payable from Possible State Appropriations *Indiana Finance Authority*" and "Contingent Obligations—*Toll Road*" and "*Economic Development*."

## **Summary of Outstanding Debt**

For a summary of certain of the Authority's outstanding indebtedness, see APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR STATE OF INDIANA—STATE INDEBTEDNESS."

## **INDIANA STATE FAIR COMMISSION**

### **General**

In 1851, the General Assembly established the Board of Agriculture, which hosted the inaugural Indiana State Fair in 1852. The State was the sixth state in the nation to organize such an event. The State Fair obtained land in Indianapolis in 1892 to be used as the Fairgrounds.

In 1990, the General Assembly created the Commission. The Commission is a separate body, corporate and politic. The Commission is not a State agency; however, it performs essential governmental functions.

### **Powers**

Under the Commission Act, the Commission is required to: (1) provide for the annual State Fair; (2) maintain and develop the Fairgrounds and other property owned by the Commission; and (3) administer the Fairgrounds and the property owned by the Commission to provide for the maximum utilization of the Fairgrounds and property of the Commission for the benefit of the citizens of the State. Under the Commission Act, the Commission may, among other things: (a) purchase, lease and sell personal and real property; and (b) make improvements to the Fairgrounds and property owned by the Commission.

The Commission will lease the Series 2012L Project to the Authority pursuant to the Base Lease and will lease the 2012 Projects from the Authority pursuant to the Use Agreement. See APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF THE USE AGREEMENT AND THE INDENTURE." Under the Commission Act, the Commission has the power to negotiate and execute the Base Lease and the Use Agreement.

### **Organization and Membership of the Commission**

The Commission consists of the following eight members: (1) five members appointed by the Governor, no more than three of whom may be affiliated with the same political party; (2) the presiding officer of the State Fair Board; (3) the Director of the Indiana Department of Agriculture (the "Department of Agriculture") or the Director's designee; and (4) the presiding officer of the Board of Trustees for the Center for Agricultural Science and Heritage (the "CASH Board"). Of the five members appointed by the Governor, at least two must have a recognized interest in agriculture or agribusiness, no more than one member may reside in the same agricultural district and one is expressly appointed by the Governor to be the presiding officer of the Commission.

The terms of the current Governor and Lieutenant Governor expire January 2013. The five members appointed by the Governor are each appointed to terms that expire on September 30, four years after the expiration of the term of the member's immediate predecessor.

## Members and Executive Director

| <u>Name</u>       | <u>Position</u>                           | <u>Occupation</u>   |
|-------------------|---|---|
| Andre B. Lacy     | Chairman and Appointed by Governor        | Chairman of the Board, LDI, Ltd.  |
| Steve Simmerman   | Presiding Officer of the State Fair Board | Associate Athletic Director, Purdue University  |
| Joseph Kelsay     | Department of Agriculture Director        | Department of Agriculture Director  |
| Matthew Rekeweg   | Presiding Officer of the CASH Board       | Food Chain/Industry Relations Leader, Dow AgroSciences  |
| Elizabeth Bechdol | Appointed by Governor                     | Director of Agribusiness Strategies, Ice Miller LLP   |
| Susan A. Hayhurst | Appointed by Governor                     | Freelance writer  |
| Dana Huber        | Appointed by Governor                     | Vice President, Marketing and Public Relations, Huber's Orchard, Winery & Vineyard (Starlight, Indiana) |
| Ted A. McKinney   | Appointed by Governor                     | Director, Global Corporate Affairs, Elanco Animal Health, a Division of Eli Lilly and Company           |

Cynthia C. Hoye is the Executive Director of the Commission.

## INDEPENDENT CONSULTANT

Sycamore Advisors LLC ("Sycamore") is an independent municipal financial advisory firm based in Indianapolis, Indiana, registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. Sycamore has been retained by the Commission as its independent financial advisor. In its capacity as financial advisor, Sycamore has assisted the Commission with the development of various financial projections and other matters related to the financing of the 2012 Projects. Sycamore has not undertaken to independently verify or assume the accuracy of the information in the Official Statement. Sycamore's fees are not contingent upon the issuance of the Series 2012 Bonds.

## LITIGATION

### Authority

Pursuant to the Bond Purchase Contract, dated October \_\_, 2012 (the "Purchase Contract"), between the Authority and the Underwriters, at the time of delivery of the Series 2012 Bonds, the Authority will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the best knowledge of the officer signing such certificate, threatened against the Authority seeking to prohibit, restrain or enjoin the issuance, sale, execution or delivery of the Series 2012 Bonds or the pledge pursuant to the Indenture of the Trust Estate or in any way contesting or affecting the validity or enforceability of the Bonds or the Purchase Contract, the Indenture, the Base Lease, the Use Agreement or the Continuing Disclosure Agreement (each, a "Bond Document"), or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting any authority for the issuance of the Series 2012 Bonds, or the execution and delivery of any Bond Document nor, to the best knowledge of the officer signing such certificate, is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Series 2012 Bonds or any Bond Document, but in lieu of or in conjunction with the matters set forth in this clause contained in such certificate, the Underwriters may, in their discretion, accept certificates or opinions of counsel to the Authority that, in such counsel's opinion, the issues raised in any pending or threatened litigation are without substance, or that the contentions of all plaintiffs therein are without merit. For a discussion of litigation involving the State, see APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR STATE OF INDIANA."

## **Commission**

Pursuant to the Purchase Contract, at the time of delivery of the Series 2012 Bonds, the Commission will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best knowledge of the Commission, threatened against the Commission affecting the titles of its officers to their respective offices, or contesting, affecting or seeking to prohibit, restrain or enjoin the execution or delivery of, or the performance by the parties of their obligations under, the Base Lease, the Use Agreement or the Escrow Agreement (each, a "Commission Document"), or contesting or affecting the corporate existence or powers of the Commission or any authority, right or power for the execution and delivery of any Commission Document, or performance of the Commission's obligations under, any Commission Document, nor, to the best knowledge of the Commission, is there any basis therefor, wherein an unfavorable, decision, ruling or finding would materially adversely affect the validity or enforceability of, or performance of the Commission's obligations under, any Commission Document.

On August 13, 2011, the temporary structure supporting spotlights and other equipment mounted on top of the Indiana State Fair Grandstand Stage collapsed. As a result of the collapse, seven people died and more than fifty others required medical treatment. A number of lawsuits were filed as a result of this incident. Under the Indiana Tort Claims Act, Indiana Code 34-13-3, claims are capped at \$5,000,000 per event and \$700,000 per person. The State, on behalf of the Commission, settled with many of the claimants, distributing the full cap amount of \$5,000,000 in amounts determined under a formula developed for this purpose in November 2011. The General Assembly supplemented the amount with an additional \$6,000,000 during the 2012 Session, which will be distributed pursuant to legislative directives. Tort claims were paid from the State General Fund and not the funds of the Commission. The remaining open litigation concerns the constitutionality of the tort claim caps and indemnification claims as a result of the August 13, 2011 incident.

## **TAX MATTERS**

In the opinion of Ice Miller LLP, Indianapolis, Indiana, Bond Counsel, under existing federal statutes, decisions, regulations and rulings, interest on the Series 2012 Bonds is excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Code except for interest on any Series 2012M Bond for any period during which such Series 2012M Bond is held by a person who is a "substantial user" of the 2012M Projects or a "related person" within the meaning of Section 147(a) of the Code. Further, under existing law, interest on the Series 2012 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations. This opinion is conditioned on continuing compliance by the Authority and the Commission with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the Series 2012 Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue.

In the opinion of Ice Miller LLP, under existing statutes decisions, regulations and rulings interest on the Series 2012 Bonds is exempt from income taxation in the State. This opinion relates only to the exemption from state income tax of interest on the Series 2012 Bonds. See APPENDIX A, "PROPOSED OPINION OF BOND COUNSEL."

The Code imposes certain requirements that must be met subsequent to the issuance of the Series 2012 Bonds as a condition to the exclusion from gross income of interest on the Series 2012 Bonds for federal income tax purposes. The Authority and the Commission will covenant not to take any action nor fail to take any action, within their respective power and control, with respect to the Series 2012 Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Series 2012 Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). The Indenture and certain certificates and agreements to be delivered on the date of delivery of the Series 2012 Bonds establish procedures under which compliance with the requirements of the Code can be met.

Indiana Code Section 6-5.5 imposes a franchise tax (as defined in Indiana Code Section 6-5.5) on certain taxpayers which generally include all corporations that transact the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisors regarding the impact of this statute on their ownership of the Series 2012 Bonds.

Although Bond Counsel will render an opinion in the form set forth in APPENDIX A, "PROPOSED OPINION OF BOND COUNSEL," the accrual or receipt of interest on the Series 2012 Bonds may otherwise affect a Bondholder's federal income tax or state tax liability with respect to the Series 2012 Bonds. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and a Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Series 2012 Bonds. Bond Counsel

expresses no opinion regarding any other tax consequences. Prospective purchasers of the Series 2012 Bonds should consult their own tax advisors with regard to other consequences of owning the Series 2012 Bonds.

Although Bond Counsel will render an opinion that interest on the Series 2012 Bonds is excludable from federal gross income, the accrual or receipt of interest on the Series 2012 Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and the Bondholder's other items of income or deductions. Bond Counsel expresses no opinion regarding any other such tax consequences.

Legislation affecting municipal bonds is considered from time to time by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Series 2012 Bonds will not have an adverse effect on the tax-exempt status of the Series 2012 Bonds or the market price of the Series 2012 Bonds.

A form of the opinion of Bond Counsel is set forth in APPENDIX A, "PROPOSED OPINION OF BOND COUNSEL." Copies of such opinion will be available at the time of the initial delivery of the Series 2012 Bonds.

### **ORIGINAL ISSUE DISCOUNT**

The initial public offering price of the Series 2012 Bonds maturing on July 1, \_\_\_\_\_ (the "Discount Bonds"), is less than the principal amount payable at maturity, and as a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds as set forth on the inside cover page of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity and who holds such Discount Bond to maturity may treat the full amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes and will not, under present federal income tax law, realize taxable capital gain upon payment of the Discount Bond at maturity.

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bonds on the basis of the yield to maturity determined on the basis of compounding at the end of each six month period (or shorter period from the date of the original issue) ending January 1 and July 1 (with straight line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of the Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

As described under "TAX MATTERS," the original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial public offering should consult their own tax advisors with regard to the other tax consequences of owning the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning Discount Bonds. It is possible under the applicable provisions governing the determination of state and local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

## **AMORTIZABLE BOND PREMIUM**

The Series 2012 Bond maturity schedules shown on the inside cover page of this Official Statement sets forth the interest rates and yield to maturity (or yield to the par call date) for each maturity of the Series 2012 Bonds. The Series 2012 Bonds maturing on July 1, \_\_\_\_\_, have a yield to maturity (or yield to the par call date) that is less than the stated interest rate (collectively, the “Premium Bonds”). The initial offering price of the Premium Bonds is greater than the principal amount payable at maturity, and as a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the “Bond Premium”). An owner who acquires a Premium Bond in the initial public offering of the Series 2012 Bonds will be required to adjust the owner's basis in the Premium Bond downward as a result of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Premium Bonds, including sale, redemption or payment at maturity. The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (1) the amount of amortizable Bond Premium and (2) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax exempt income for purposes of determining other tax consequences of owning Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax exempt securities, are found at Section 75 of the Code. Dealers in tax exempt securities are urged to consult their tax advisors concerning treatment of Bond Premium.

## **ENFORCEABILITY OF REMEDIES**

The enforceability of the rights and remedies of the Trustee or holders of the Series 2012 Bonds under the Indenture, the enforceability of the rights and remedies of the Authority under the Use Agreement, the enforceability of the rights and remedies of any other party under any other agreement in this financing, and the availability of remedies to any party seeking to enforce the pledge of the Trust Estate, including the pledge of the rentals under the Use Agreement (collectively, the “Pledges”), are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the rights and remedies provided (or which may be provided) under the Indenture, the Use Agreement and any other agreement in this financing, and the rights and remedies of any party seeking to enforce the Pledges, may not be readily available or may be limited.

The various legal opinions to be delivered concurrently with the Series 2012 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the exercise of judicial discretion in appropriate cases.

## **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters are subject to the approving opinion of Ice Miller LLP, Indianapolis, Indiana, bond counsel to the Authority, whose approving opinion will be delivered with the Series 2012 Bonds. See APPENDIX E, “PROPOSED OPINION OF BOND COUNSEL.” Certain legal matters will be passed upon for the Authority and the Commission by their counsel, the Attorney General, State of Indiana, Indianapolis, Indiana, and for the Underwriters by their counsel, Barnes & Thornburg LLP, Indianapolis, Indiana.

The various legal opinions to be delivered concurrently with the delivery of the Series 2012 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the State of Indiana and the United States of America and bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Such legal opinions express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. The rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction. See “ENFORCEABILITY OF REMEDIES.”

## UNDERWRITING

The Series 2012 Bonds are being purchased by the Underwriters set forth on the cover page of this Official Statement, for which J.P. Morgan Securities LLC is acting as representative. The Underwriters have jointly and severally agreed to purchase the Series 2012L Bonds at an aggregate purchase price of \$\_\_\_\_\_ (which represents the principal amount of the Series 2012L Bonds, [plus net original issue premium of \$\_\_\_\_\_] [less net original issue discount of \$\_\_\_\_\_] and less the Underwriter's discount of \$\_\_\_\_\_), and the Series 2012M Bonds at an aggregate purchase price of \$\_\_\_\_\_ (which represents the principal amount of the Series 2012M Bonds, [plus net original issue premium of \$\_\_\_\_\_] [less net original issue discount of \$\_\_\_\_\_] and less the Underwriter's discount of \$\_\_\_\_\_), pursuant to the Purchase Contract. The Purchase Contract provides that the Underwriters will purchase all of the Series 2012 Bonds if any are purchased. The initial offering prices may be changed from time to time by the Underwriters.

The Underwriters have agreed to make a bona fide public offering of all the Series 2012 Bonds at prices not in excess of the initial public offering prices set forth or reflected on the inside cover page of this Official Statement. The Underwriters may sell the Series 2012 Bonds to certain dealers (including dealers depositing Series 2012 Bonds into investment trusts) and others at prices lower than the offering prices set forth on the inside cover page.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association ("WFBNA"), one of the Underwriters of the Series 2012 Bonds, has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the Series 2012 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2012 Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

## RATINGS

Moody's Investor Services, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies ("S&P"), and Fitch Investors, Inc. ("Fitch"), have assigned long-term ratings of "\_\_\_\_\_" "\_\_\_\_\_" and "\_\_\_\_\_" respectively, to the Series 2012 Bonds. These ratings reflect only the views of Moody's, S&P and Fitch. An explanation of the ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007, from S&P at 55 Water Street, New York, New York 10041, and from Fitch at One State Street Plaza, New York, New York 10004.

The ratings are not a recommendation to buy, sell or hold any of the Series 2012 Bonds. There is no assurance that the ratings will remain in effect for any given period of time or that a rating will not be revised downward or withdrawn entirely by Moody's, S&P or Fitch if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market prices or marketability of the Series 2012 Bonds.

## CONTINUING DISCLOSURE

### General

In order to assist the Underwriters in complying with subsection (b)(5) of Rule 15c2-12, the Authority and the State, acting by and through the Office of Management and Budget, will enter into the Continuing Disclosure Agreement. For a summary of certain provisions of the Continuing Disclosure Agreement, see APPENDIX D, "SUMMARY OF CERTAIN PROVISIONS OF CONTINUING DISCLOSURE AGREEMENT."

Copies of the Continuing Disclosure Agreement are available from the Authority upon request. See "MISCELLANEOUS."

### Compliance with Previous Undertakings

In the previous five years, neither the Authority nor the State has ever failed to comply, in all material respects, with any previous undertakings in a written contract or agreement that it entered into pursuant to subsection (b)(5)(i) of Rule 15c2-12.

**CERTAIN RELATIONSHIP**

Elizabeth Bechdol, a member of the Commission, is an employee of Ice Miller LLP, bond counsel to the Authority in this transaction.

**MISCELLANEOUS**

Information contained in this Official Statement with respect to the Authority and the Commission and copies of the Indenture, the Base Lease, the Use Agreement and the Continuing Disclosure Agreement referred to in this Official Statement may be obtained from the Indiana Finance Authority, One North Capitol, Suite 900, Indianapolis, Indiana 46204; Attention: Public Finance Director of the State of Indiana.

This Official Statement is submitted in connection with the issuance and sale of the Series 2012 Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Authority and duly executed and delivered on its behalf by the officials signing below.

Any statements in this Official Statement involving matters of opinion, projections or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the Authority are fully set forth in the Indenture in accordance with the Authority Act. Neither any advertisement of the Series 2012 Bonds nor this Official Statement is to be construed as constituting a contract or agreement between the Authority and the purchasers or owners of the Series 2012 Bonds.

This Official Statement has been duly approved, executed and delivered by the Authority.

INDIANA FINANCE AUTHORITY

By: \_\_\_\_\_  
Adam M. Horst, Chairman

Attest:

\_\_\_\_\_  
Kendra W. York, Public Finance Director  
of the State of Indiana

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**APPENDIX A**  
**FINANCIAL AND ECONOMIC STATEMENT**  
**FOR**  
**STATE OF INDIANA**

**TABLE OF CONTENTS**

|  |    |
|--|----|
| INTRODUCTION.....  | 3  |
| STRUCTURE OF STATE GOVERNMENT .....  | 3  |
| Division of Powers.....  | 3  |
| Executive Department.....  | 3  |
| Legislative Department.....  | 4  |
| Judicial Department.....   | 4  |
| FISCAL POLICIES .....  | 4  |
| Fiscal Years .....   | 4  |
| Accounting System .....  | 4  |
| Fund Structure .....   | 5  |
| Budget Process.....  | 6  |
| State Board of Finance.....  | 7  |
| Office of Management and Budget.....   | 8  |
| Cash Management and Investments.....   | 8  |
| Audits.....  | 8  |
| 2011 Financial Report.....   | 8  |
| STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS .....               | 9  |
| Property Tax Reform .....  | 9  |
| Operating Revenue .....  | 9  |
| General Fund Revenue Sources .....   | 9  |
| Lottery and Gaming Revenue.....  | 11 |
| Revenue History .....  | 12 |
| Operating Expenditures .....   | 12 |
| Fund Balances.....   | 16 |
| Financial Results of Operations .....  | 17 |
| Revenue Forecast for Fiscal Years 2012 and 2013 .....                        | 17 |
| Combined Balance Statements .....  | 17 |
| Toll Road Lease.....   | 19 |
| STATE INDEBTEDNESS.....  | 19 |
| Constitutional Limitations on State Debt.....                                | 19 |
| Other Debt, Obligations.....   | 19 |
| Obligations Payable from Possible State Appropriations .....                 | 19 |
| Contingent Obligations .....   | 25 |
| Other Entities Issuing Debt.....   | 27 |
| INDIANA PUBLIC RETIREMENT SYSTEM AND STATE PENSION FUNDING OBLIGATIONS ..... | 28 |
| INPRS and State Retirement Plans .....                                       | 28 |
| State Pension Funding Obligations.....                                       | 43 |
| ECONOMIC AND DEMOGRAPHIC INFORMATION .....                                   | 45 |
| Summary.....   | 45 |
| Population .....   | 45 |
| Employment.....  | 47 |
| Income .....   | 48 |
| Gross Domestic Product by State.....   | 49 |
| Exports.....   | 50 |
| LITIGATION.....  | 51 |
| Employment Litigation .....  | 51 |
| Civil Rights Litigation .....  | 52 |
| Other Contingencies .....  | 52 |

**SCHEDULE OF TABLES**

|          |   |    |
|----------|---|----|
| Table 1  | State Operating Revenue   | 14 |
| Table 2  | Expenditures  | 15 |
| Table 3  | Schedule of Fee Replacement Debt  | 17 |
| Table 4  | General Fund and Property Tax Replacement Fund<br>Combined Statement of Actual and Estimated Unappropriated Reserve | 20 |
| Table 5  | Schedule of Long Term Debt Obligations Payable from Possible State Appropriations                                   | 23 |
| Table 6  | Scheduled Principal and Interest Payments<br>Obligations Payable from Possible State Appropriations                 | 25 |
| Table 7  | Ratios of Outstanding Debt Subject to Possible Appropriation<br>to Population and Personal Income                   | 26 |
| Table 8  | Schedule of Long Term Debt<br>Contingent Obligations  | 28 |
| Table 9  | Public Employees' Retirement Fund<br>Schedule of Funding Progress   | 34 |
| Table 10 | Public Employees' Retirement Fund<br>Schedule of Employer Contributions   | 34 |
| Table 11 | Pre 1996 Plan<br>Schedule of Funding Progress   | 35 |
| Table 12 | Pre 1996 Plan<br>Schedule of Contributions from the Employers and other Contributing Entities                       | 35 |
| Table 13 | 1996 Plan<br>Schedule of Funding Progress   | 36 |
| Table 14 | 1996 Plan<br>Schedule of Contributions from the Employers and other Contributing Entities                           | 36 |
| Table 15 | Total of TRF Plans<br>Schedule of Funding Progress  | 36 |
| Table 16 | Total of TRF Plans<br>Schedule of Contributions from the Employers and other Contributing Entities                  | 37 |
| Table 17 | Other State Pension Funds<br>Summary of Results of Actuarial Valuation as of June 30, 2010                          | 37 |
| Table 18 | 1977 Police Officers' and Firefighters' Pension Disability Fund<br>Schedule of Funding Progress                     | 38 |
| Table 19 | 1977 Police Officers' and Firefighters' Pension Disability Fund<br>Schedule of Employer Contributions               | 38 |
| Table 20 | Judges' Retirement System<br>Schedule of Funding Progress   | 39 |
| Table 21 | Judges' Retirement System<br>Schedule of Employer Contributions   | 40 |
| Table 22 | Prosecuting Attorneys' Retirement Fund<br>Schedule of Funding Progress  | 40 |
| Table 23 | Prosecuting Attorneys' Retirement Fund<br>Schedule of Employer Contributions  | 41 |

|          |   |    |
|----------|---|----|
| Table 24 | Legislators' Retirement System<br>Schedule of Funding Progress  | 41 |
| Table 25 | Legislators' Retirement System<br>Schedule of Employer Contributions  | 42 |
| Table 26 | State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement<br>Officer's Retirement Plan<br>Schedule of Funding Progress       | 43 |
| Table 27 | State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement<br>Officers' Retirement Plan<br>Schedule of Employer Contributions | 43 |
| Table 28 | Indiana State Police Pension Trust<br>Schedule of Funding Progress  | 44 |
| Table 29 | Indiana State Police Pension Trust<br>Schedule of Employer Contributions  | 44 |
| Table 30 | Public Employees' Retirement Fund<br>(Active, State-Related Portion, Not Including the PERF ASA)  | 45 |
| Table 31 | Indiana State Teachers' Retirement Fund<br>Pre 1996 Budgetary Impacts   | 46 |
| Table 32 | Indiana State Teachers' Retirement Fund<br>Pre 1996 Pension Stabilization Fund Balances   | 46 |
| Table 33 | Population<br>Educational Attainment, Indiana Population 25 Years & Over  | 48 |
| Table 34 | Population<br>Population, including Selected Indiana MSAs   | 48 |
| Table 35 | Employment<br>Indiana High Wage Subsectors  | 49 |
| Table 36 | Employment<br>Indiana Non-Farm Employment by Super Sector; December 2000 to December 2010   | 50 |
| Table 37 | Employment<br>Unemployment Rate   | 50 |
| Table 38 | Income<br>Growth in Per Capita Personal Income  | 51 |
| Table 39 | Gross Domestic Product by State<br>Indiana Gross Domestic Product by Sector: 2000 to 2010   | 51 |
| Table 40 | Exports<br>Annual Percentage Change   | 52 |
| Table 41 | Exports<br>Indiana's Leading Export Industries and Destinations   | 53 |

## INTRODUCTION

This Financial and Economic Statement (this “Appendix A”) for the State of Indiana (the “State”) includes a description of the State’s economic and fiscal condition, the results of operations and revenue and expenditure projections through the end of the biennium ending June 30, 2011. The information is compiled on behalf of the State by the State Budget Agency (the “Budget Agency”) and the Indiana Finance Authority and includes information and data taken from the Budget Agency’s unaudited reports. It also includes information obtained from other sources the State believes to be reliable.

This Appendix A should be read in its entirety, together with any supplements.

## STRUCTURE OF STATE GOVERNMENT

### Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any department may exercise any function of another department, unless expressly authorized to do so by the constitution.

### Executive Department

The Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General and Superintendent of Public Instruction comprise the executive department of the State. All are elected for four-year terms.

The executive power of the State is vested in the Governor. The State constitution requires the Governor to take care that the laws are faithfully executed. The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”), call special sessions of the General Assembly and veto any bill passed by the General Assembly (although any veto may be overridden if the bill is re-passed by a majority of all the members elected to each house of the General Assembly).

The Lieutenant Governor serves as the President of the State Senate. The Lieutenant Governor also serves as Secretary of Agriculture and Rural Development, is a member of the Indiana Housing and Community Development Authority, oversees the Office of Tourism Development, oversees the Office of Energy and Defense Development and chairs the Counter-Terrorism and Security Council.

The Secretary of State administers State laws regulating the chartering of new businesses, the filing of commercial liens and the issuance of trademarks, notaries public and summonses. In addition, the Secretary of State regulates the State’s securities industry and oversees the State’s elections.

The Treasurer of State is responsible for the investment and safekeeping of State moneys. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority. The Treasurer of State is a member of the State Board of Finance, Indiana Finance Authority, Indiana Housing and Community Development Authority, Indiana Wireless Enhanced 911 Advisory Board, Indiana Public Retirement System and Deferred Compensation Plan and is a Trustee of the Indiana State Police Pension Trust.

The Auditor of State maintains the State’s centralized financial accounting system for all State agencies. Responsibilities include accounting for State funds, overseeing and disbursing tax distributions to local governments, paying the State’s bills and paying the State’s employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is the administrator of the Deferred Compensation Plan, the secretary of the State Board of Finance and a member of the Board for Depositories and the Indiana Public Retirement System.

The Attorney General is the chief legal officer of the State and is required to represent the State in lawsuits in which the State is a party. The Attorney General, upon request, gives legal opinions to the Governor, members of

the General Assembly and officers of the State. In addition, the Attorney General investigates and prosecutes certain consumer complaints and Medicaid fraud.

The Superintendent of Public Instruction chairs the State Board of Education and directs the Department of Education.

### **Legislative Department**

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Special sessions of the General Assembly may be convened by the Governor at any time. A special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

### **Judicial Department**

The judicial power of the State is vested in a Supreme Court, a Court of Appeals, Circuit Courts and such other courts as the General Assembly may establish.

The Judicial Nominating Commission (comprised of the Chief Justice or his designee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a “yes” or “no” referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote serve a ten-year term, after which they are again subject to referendum.

## **FISCAL POLICIES**

### **Fiscal Years**

The State’s fiscal year is the twelve-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a “Fiscal Year”).

### **Accounting System**

The State maintains a central accounting system that processes all payments for State agencies and institutions, except State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of

its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

## **Fund Structure**

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

***Governmental Funds.*** Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when susceptible to accrual (that is, when it is "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

General Fund. The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Special Revenue Funds include the Motor Vehicle Highway Fund, which receives revenue from gasoline taxes and motor vehicle registrations and operator licensing fees, and distributes that revenue among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds. Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund ("BIF"), Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

***Proprietary Funds.*** Proprietary Funds are used to account for a government's business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds: Enterprise Funds and Internal Service Funds.

Enterprise Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions.

Internal Service Funds. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government. For example, the Indiana Office of Technology and the State Personnel Department provide centralized resources to state agencies.

***Fiduciary Funds.*** Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of Fiduciary Funds: Pension Trust Funds, Private-purpose Trust Funds and Agency Funds.

Pension Trust Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans or other employee benefit plans. Examples are the State Police Pension Fund and the Employees' Deferred Compensation Fund.

Private-purpose Trust Funds. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund.

Agency Funds. Agency Funds are used to account for situations where the government's role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

## **Budget Process**

***State Budget Agency.*** The Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

***State Budget Committee.*** The Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President pro tempore of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

***Budget Development.*** The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request. In the fall of each even-numbered year, the Budget Committee begins hearings on budget requests. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

***Revenue Projections.*** Revenue projections are prepared by the State's Technical Forecast Committee (the "Forecast Committee"). Starting with the December 2008 forecast, Global Insight, Inc. provided the forecasted independent variables. Global Insight, Inc. was chosen following a thorough evaluation of submitted proposals based on forecasting capabilities and detailed knowledge of the State, national, and international economies.

The Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenue. Each regular member of the Budget Committee appoints a member of the Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Forecast Committee are individuals with expertise in public finance.

***Budget Report.*** The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bill are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers the budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes a budget bill first and sends it to the Senate for consideration.

The budget report includes (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, (e) the requests for appropriations by State agencies and (f) the Budget Agency's recommended appropriations.

**Appropriations.** Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

**Intra-Agency Transfers.** The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may, with the approval of the Governor and the State Budget Director, transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

**Contingency Appropriations.** The General Assembly may also make "contingency appropriations" to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. The Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following: (a) necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made; (b) repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made; (c) emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made; or (d) supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if it is found necessary to accomplish the orderly administration of the agency or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

### **State Board of Finance**

The State Board of Finance (the "Finance Board") consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting “casual deficits” in State revenue. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenue is not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenue.

### **Office of Management and Budget**

The Office of Management and Budget (“OMB”) directs the fiscal management and budget policy of the State. The Director (“Director”) of the OMB is the chief financial officer of the State, and reports directly to the Governor. The Director is responsible for and has authority over all functions performed by the Budget Agency, the Department of State Revenue, and the Department of Local Government Finance, as well as all budgeting, accounting and spending functions within the various agencies, departments and programs of State government. The Director may also serve as the State Budget Director. By statutory designation, the State Budget Director also serves as the Chairman of the Indiana Finance Authority. Pursuant to Executive Order 05-02, the OMB oversees and coordinates the functions, responsibilities and duties of the Indiana Public Retirement System and the State Board of Accounts to the fullest extent permitted by law.

The Division of Government Efficiency and Financial Planning of the OMB conducts operational and procedural audits of State government, performs financial planning, designs and implements efficiency projects, and carries out such other responsibilities as may be designated by the Director.

### **Cash Management and Investments**

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund and more than 60 other funds. The investments in which the Treasurer of State may invest State funds are limited to: (a) securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by the United States Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise; (b) obligations issued by (i) agencies or instrumentalities of the United States government, (ii) federal government sponsored enterprises or (iii) the Indiana Bond Bank that are secured by tax anticipation time warrants or notes that (A) are issued by a political subdivision of the State and (B) have a maturity date not later than the end of the calendar year following the year of issuance; (c) certain money market mutual funds, the portfolio of which is limited to (i) direct obligations of the United States, (ii) obligations issued by any federal agency, federal instrumentality or federal government sponsored enterprise or (iii) repurchase agreements fully collateralized by obligations described in (i) or (ii); (d) deposit accounts of certain designated depositories; or (e) certain other securities. Investments may be made only in securities having a maturity of up to two years, except that up to 25% of the total portfolio of funds invested by the Treasurer of State may be invested in securities having a maturity of up to five years.

### **Audits**

The State Board of Accounts is the State agency responsible for (a) auditing all State and local units of government and (b) approving uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

### **2011 Financial Report**

The Indiana Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2011 (the “2011 Financial Report”), contains certain financial information about the State, including the financial statements of the State as of and for the Fiscal Year ended June 30, 2011, as set forth therein. The 2011 Financial Report,

which is available to the public on the Municipal Securities Rulemaking Board's Internet Web site, is included in this Appendix A by specific reference.

A copy of the 2011 Financial Report is available from the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") System. In addition, the 2011 Financial Report may be found at: <http://www.in.gov/auditor/>.

The 2011 Financial Report speaks only as of its date. The inclusion of the 2011 Financial Report in this Appendix A does not imply that there has been no change in the information therein since the date thereof.

## **STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS**

### **Property Tax Reform**

In 2008, the General Assembly enacted significant property tax legislation, P.L. 146-2008. The plan included both short-term relief and long-term reform. Short-term relief, \$620 million of additional State homestead credits in calendar year 2008, was funded through the revenues generated from the 1% increase, from 6% to 7%, in the state sales and use tax which was effective April 1, 2008. The long-term reform is based on the State assumption of costs historically funded through property taxes levied by local units of government. These expenses include but are not limited to the school general fund, five child welfare levies, certain police and fire pension benefit payments, juvenile incarceration costs, and certain levies for state purposes. Funding for these expenditures are provided by the increase in sales tax, the retention and redirection of funds deposited and formerly used for state property tax replacement and homestead credits, and gaming revenue from the taxation of slot machines operated at two licensed horse racing facilities.

Other elements of the reform plan include caps on the amount property owners must pay. Any impact on local budgets resulting from the caps will be borne by the local unit of government. The State has no obligation to compensate local units of government for any lost property tax revenue as a result of the caps. The caps were subject to state-wide user referendum, which was overwhelmingly approved to be incorporated into the State of Indiana Constitution on November 2, 2010.

P.L. 146-2008 increased the state Earned Income Tax Credit rate from 6% to 9%. In addition, the renter's deduction was increased from \$2,500 to \$3,000.

### **Operating Revenue**

While certain revenue of the State is required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenue is general revenue until applied. No lien or priority is created to secure the application of such revenue to any particular purpose or to any claim against the State. All revenue not allocated to a particular fund is credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

The combined State receipts in the General Fund are referred to as "State Operating Revenue" or "Operating Revenue." Operating Revenue is defined as the General Fund and other revenue forecasted by the Technical Forecast Committee. Total Operating Revenue together with "DSH revenue" transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State's unappropriated balance reflected on the General Fund Unappropriated Reserve Statement. "DSH" is an acronym for "Disproportionate Share for Hospitals (federal funds)," and DSH revenue constitutes additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people.

### **General Fund Revenue Sources**

Sales and use taxes, corporate and individual income taxes and wagering taxes are the three primary sources of State Operating Revenue. Table 1 provides annual revenue by source and growth rates over time. The following is a summary of Operating Revenue by source.

***Sales and Use Taxes.*** As part of the property tax reform legislation enacted in P.L. 146-2008, the sales and use tax rate was increased from 6.0% to 7.0%, effective April 1, 2008. This tax is imposed on the sale and rental of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 7.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, research and development equipment after July 1, 2007, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

### ***Corporate Income Taxes.***

**Corporate Adjusted Gross Income Tax.** The corporate adjusted gross income tax is applicable to corporations doing business in the State. The corporate adjusted gross income tax rate is 8.5% of apportioned Indiana adjusted gross income (AGI). P.L 172-2011 reduced the corporate AGI tax rate from 8.5% to 6.5% in 0.5% increments over four years beginning on July 1, 2012. The phase-in of the tax rate reduction will be complete on July 1, 2015. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations, limited liability companies, partnerships and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the corporate adjusted gross income tax. Corporate adjusted gross income tax collections are allocated to the General Fund.

**Financial Institution Tax.** This tax is applicable to a financial institution for the privilege of exercising its franchise or the corporate privilege of transacting the business of a financial institution in Indiana. It applies to any business which is primarily engaged in extending credit, or engaged in leasing. The tax base is a taxpayer's apportioned adjusted gross income with statutory deductions and additions. Insurance companies, international banking facilities, federally chartered credit unions, and S corporations are exempt. The tax rate is 8.5%. Local units of government are guaranteed revenue based on the former Financial Institution Taxes in 1989. Any remaining revenue collected is deposited in the state General Fund.

**Utilities Receipts Tax.** The utilities receipts tax is based on gross receipts from retail utility sales and is imposed at a rate of 1.4%. All revenue is deposited in the state General Fund. Utilities must also pay the corporate adjusted gross income tax. Effective July 1, 2007, a use tax was imposed on consumers of utilities if the Utilities Receipts Tax was not paid by the seller. The use tax is imposed at the rate of 1.4% on the gross purchase price of the utilities.

***Individual Adjusted Gross Income Tax.*** Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenue derived from the collection of the adjusted gross income tax imposed on persons is credited to the General Fund.

***Wagering Tax.*** The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Riverboat gambling operations are permitted to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. Riverboats that adopt flexible scheduling are required to pay a graduated tax currently set at 15% of the first \$25 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25 million and \$50 million, 25% of receipts between \$50 million and \$75 million, 30% of receipts between \$75 million and \$150 million, 35% of receipts between \$150 million and \$600 million, and 40% of all adjusted gross receipts exceeding \$600 million.

In addition, the first \$33 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations, and 75% is deposited in the General Fund. The legislation capped the amounts that may be distributed to the cities and towns with riverboat operations at the amounts distributed in Fiscal Year 2002. All revenue in excess of the capped amounts is deposited in the General Fund. The General Fund receives 37.5% of wagering tax from the Orange County Casino. The remaining wagering tax revenue from the Orange County Casino is deposited in the local funds. From the revenue distributed to the General Fund, an amount is distributed annually to the BIF. The transfer amount is such that the total lottery and gaming revenue deposited in the BIF equals \$250 million in a Fiscal Year. Interest revenue deposited in the fund does not count against the \$250 million cap.

In 2007, the General Assembly enacted legislation authorizing the two existing licensed horse racing facilities in Indiana to install up to 2,000 slot machines on their premises. P.L. 233-2007 imposed a one-time license fee of \$250 million per track and graduated wagering taxes in the amount of 25% of the first \$100 million of adjusted gross receipts in a fiscal year, 30% of receipts between \$100 million and \$200 million, and 35% of receipts exceeding \$200 million.

In 2011, the General Assembly enacted P.L. 172-2011 that provides that the graduated slot machine wagering tax applies to 99% of the adjusted gross receipts received beginning July 1, 2012.

The license fee receipts were deposited in the Property Tax Reduction Trust Fund to fund homestead credits for calendar years 2007 and 2008. Until December 31, 2008, wagering taxes from the two licensed horse racing facilities were deposited in the Property Tax Reduction Trust Fund. Any remaining funds in the Property Tax Reduction Trust Fund were transferred to the General Fund. Beginning January 1, 2009, the wagering taxes are deposited in the General Fund.

**Other Operating Revenue.** Other revenue (“Other Revenue”) is derived from cigarette taxes, alcoholic beverage taxes, inheritance taxes, insurance taxes, interest earnings and miscellaneous revenue. The current cigarette tax is \$0.995 per pack.

### Lottery and Gaming Revenue

By statute, certain revenue from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, “Gaming Revenue”) must be deposited in the BIF. Currently, the annual distributions of wagering tax revenue to the BIF is in the amount of \$250 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250 million is to remain in the General Fund. For a description of wagering taxes, see “STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS - General Fund Revenue Sources—Wagering Tax.”

Before Hoosier Lottery profits are transferred to the BIF, \$60 million annually is used to fund pension liabilities—\$30 million goes to the Teachers’ Retirement Fund and \$30 million goes to the local Police and Firefighter Pension Fund. For Fiscal Year 2011, the Hoosier Lottery changed the revenue transfer schedule from quarterly to monthly, thus accelerating two months of profits transferred to state funds. As a result, \$35 million was transferred to the Teachers’ Retirement Fund and \$35 million was transferred to the local Police and Fire Pension Fund (for a total of \$70 million in Fiscal Year 2011). The Hoosier Lottery continued the monthly transfer schedule in Fiscal Year 2012 and plans to do so in future years. All lottery and gaming revenue deposited to BIF is appropriated by the General Assembly, and the statute that governs deposits of that revenue also governs priority of distribution in the event that revenue falls short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State’s counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles; \$236.4 million was appropriated for Fiscal Year 2012.

As shown below, gaming revenue totaling \$964.4 million was collected by the State in Fiscal Year 2012. These numbers include revenue deposited in the state and local funds but does not include riverboat admissions tax revenue distributed in Fiscal Year 2012 to state and local units in the amount of \$75.1 million. The \$747.7 million for wagering taxes includes \$117.5 million in revenues from slot machine operations allowed at Indiana horse racing facilities under P.L. 233-2007.

| <u>Type of Tax</u> | <u>FY 2012</u> |
|--------------------|----------------|
| Wagering Taxes     | \$747.7        |
| Lottery            | \$207.6        |
| Charity Gaming     | \$5.6          |
| Horse Racing       | \$3.1          |
| Type II Gambling   | <u>\$0.4</u>   |
| Total              | \$964.4        |

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Source: State Budget Agency

P.L. 233-2007, enacted in 2007, imposed a license fee and directed wagering taxes to be deposited in the State Property Tax Reduction Trust Fund. This fund was established to provide additional property tax relief to property owners. As part of the property tax reform legislation in P.L. 146-2008, the State Property Tax Reduction Trust Fund was eliminated on December 31, 2008. Any remaining funds were, and future wagering taxes will be, deposited in the General Fund. Beginning January 1, 2009, the wagering taxes are deposited in the General Fund.

## Revenue History

Annual percentage changes for each component of Operating Revenue are reflected in Table 1. The table also includes actual revenue for prior Fiscal Years as well as projected revenue for Fiscal Year 2013.

**Table 1**  
**State Operating Revenue**  
(Millions of Dollars)

|                                 | FY 2007 <sup>(1)</sup> | FY 2008 <sup>(1)</sup> | FY 2009 <sup>(1)</sup> | FY 2010 <sup>(1)</sup> | FY 2011 <sup>(1)</sup> | FY 2012 <sup>(2)</sup> | FY 2013 <sup>(2)</sup> |
|---------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Sales Tax                       | 5,379.1                | 5,686.0                | 6,153.2                | 5,914.7                | 6,217.5                | 6,621.8                | 6,864.6                |
| Changes from Prior Year         | 2.92%                  | 5.71%                  | 8.22%                  | -3.88%                 | 5.12%                  | 6.50%                  | 3.67%                  |
| Individual Income               | 4,615.6                | 4,837.5                | 4,313.8                | 3,875.6                | 4,585.6                | 4,765.5                | 5,084.0                |
| Change from Prior Year          | 6.78%                  | 4.81%                  | -10.83%                | -10.16%                | 18.32%                 | 3.92%                  | 6.68%                  |
| Corporate Income <sup>(3)</sup> | 987.1                  | 909.5                  | 839.0                  | 592.2                  | 704.8                  | 958.8                  | 784.9                  |
| Change from Prior Year          | 6.67%                  | -7.86%                 | -7.75%                 | -29.42%                | 19.01%                 | 36.04%                 | -18.14%                |
| Wagering Tax                    | 625.3                  | 582.9                  | 608.2                  | 658.9                  | 660.3                  | 614.1                  | 567.1                  |
| Change from Prior Year          | 6.00%                  | -6.78%                 | 4.34%                  | 8.34%                  | 0.21%                  | -7.00%                 | -7.65%                 |
| Other <sup>(4)</sup>            | 1,019.1                | 1,066.3                | 1,021.1                | 1,145.4                | 1,106.0                | 1,164.9                | 1,131.4                |
| Change from Prior Year          | 2.28%                  | 4.63%                  | -4.24%                 | 12.17%                 | -3.44%                 | 5.33%                  | -2.88%                 |
| Total <sup>(5)(6)</sup>         | 12,626.2               | 13,082.2               | 12,935.3               | 12,186.7               | 13,274.2               | 14,125.1               | 14,432.0               |
| Change from Prior Year          | 4.69%                  | 3.61%                  | -1.12%                 | -5.79%                 | 8.92%                  | 6.41%                  | 2.17%                  |

<sup>(1)</sup> Actual, but unaudited, Operating Revenue.

<sup>(2)</sup> Revenues are as projected by the Technical Forecast Committee on December 14, 2011. Revenues exclude Disproportionate Share Hospital (DSH), Quality Assessment Fee (QAF), Hospital Assessment Fee (HAF), and other miscellaneous revenues excluded from the forecast such as Marion County Juvenile Arrearage payments and dedicated statewide cost allocation plan revenues.

<sup>(3)</sup> Corporate Income Tax collections were under-reported in FY 2007 through FY 2011 as the result of a programming error. The amounts listed above should be increased by \$4.7 million for FY 2007, \$29.6 million for FY 2008, \$56.2 million for FY 2009, \$58.3 million for FY 2010, and \$139.2 million for FY 2011. This revenue is reflected in Table 4 as "Prior Year Corporate Income Tax (e-check)."

<sup>(4)</sup> See "General Fund Revenue Sources – Other Operating Revenue"

<sup>(5)</sup> "P.L. 146-2008, the Governor's property tax reform legislation, included the following revenue changes in Fiscal Year 2009: an increase in sales tax from 6% to 7% effective April 1, 2008; individual income impacted by state-captured miscellaneous revenues and increase in renter's deduction; wagering tax from slots at the race tracks; and loss of reimbursement for juvenile incarceration costs.

<sup>(6)</sup> Excluding P.L. 156-2008, total revenues increased by 2.4% in Fiscal Year 2008, and then decreased by 7.4% in Fiscal Year 2009. Excluding P.L. 146-2008, wagering tax revenues decreased by 6.4% in Fiscal Year 2009. Excluding P.L. 146-2008, other revenues decreased by 7.6% in Fiscal Year 2009.

Source: State Budget Agency

## Operating Expenditures

Actual expenditures may differ from estimated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State's five largest expenditure categories (as of FY 2009) include local school aid, higher education, property tax relief, Medicaid and correction. Table 2 sets forth operating expenditures and estimates for all major expenditure categories for Fiscal Years 2007 through 2013.

**Table 2**  
**Expenditures**  
(Millions of Dollars)

|                                    | FY 2007 <sup>(1)</sup> | FY 2008 <sup>(1)</sup> | FY 2009 <sup>(1)</sup> | FY 2010 <sup>(1)</sup> | FY 2011 <sup>(1)</sup> | FY 2012 <sup>(2)</sup> | FY 2013 <sup>(2)</sup> |
|------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Local School Aid <sup>(3)</sup>    | 4,628.8                | 4,795.6                | 5,673.1                | 7,147.2                | 7,249.0                | 7,269.4                | 7,452.7                |
| Change from Prior Year             | 2.48%                  | 3.60%                  | 18.30%                 | 25.98%                 | 1.42%                  | 0.28%                  | 2.52%                  |
| Property Tax Relief <sup>(4)</sup> | 2,211.6                | 2,346.4                | 1,660.0                | 0.0                    | 0.0                    | 0.0                    | 0.0                    |
| Change from Prior Year             | 1.94%                  | 6.10%                  | -29.25%                | -100.00%               | N/A                    | N/A                    | N/A                    |
| Higher Education <sup>(5)</sup>    | 1,589.8                | 1,704.8                | 1,756.3                | 1,711.7                | 1,703.1                | 1,691.1                | 1,701.7                |
| Change from Prior Year             | 1.35%                  | 7.23%                  | 3.02%                  | -2.54%                 | -0.50%                 | -0.70%                 | 0.63%                  |
| Medicaid <sup>(6)</sup>            | 1,514.6                | 1,583.2                | 1,321.8                | 1,259.9                | 1,436.0                | 1,856.4                | 2,023.8                |
| Change from Prior Year             | 4.09%                  | 4.53%                  | -16.51%                | -4.68%                 | 13.98%                 | 29.28%                 | 9.02%                  |
| Correction                         | 589.2                  | 615.7                  | 634.8                  | 652.4                  | 647.5                  | 638.3                  | 672.4                  |
| Change from Prior Year             | 0.89%                  | 4.50%                  | 3.10%                  | 2.77%                  | -0.75%                 | -1.42%                 | 5.34%                  |
| Other <sup>(7)(8)</sup>            | 1,712.8                | 1,834.0                | 2,005.9                | 2,143.8                | 2,001.5                | 2,123.4                | 2,242.2                |
| Change from Prior Year             | 7.04%                  | 7.08%                  | 9.37%                  | 6.87%                  | -6.64%                 | 6.09%                  | 5.59%                  |
| Total                              | 12,246.8               | 12,879.7               | 13,051.9               | 12,915.0               | 13,037.1               | 13,578.6               | 14,092.8               |
| Change from Prior Year             | 2.96%                  | 5.17%                  | 1.34%                  | -1.05%                 | 0.95%                  | 4.15%                  | 3.79%                  |

<sup>(1)</sup> Actual, but unaudited, expenditures.

<sup>(2)</sup> Estimated expenditures.

<sup>(3)</sup> Fiscal Year 2009 figures exclude \$536.4 million of Education Stabilization Funds provided under the American Recovery and Reinvestment Act (ARRA). Inclusion of these funds would result in a total of \$6,209.5 million, an increase of 29.48% over Fiscal Year 2008, primarily attributable to P.L. 146-2008. Fiscal Year 2010 figures also exclude Education Stabilization Funds provided under AARA.

<sup>(4)</sup> P.L. 146-2008, the Governor's property tax reform legislation, replaced Property Tax Replacement Credits with the State assuming 100% of the Tuition Support Levy and various other local levies previously borne by local government.

<sup>(5)</sup> Higher education figures exclude federal stimulus funds provided under the ARRA; the vast majority of these funds have been distributed.

<sup>(6)</sup> Medicaid figures for Fiscal Years 2009, 2010, and 2011 exclude federal stimulus funds provided under the ARRA in the form of increased federal medical assistance percentages.

<sup>(7)</sup> P.L. 146-2008 also required the State to assume a number of local levies now included under "Other", such as the Family and Children Levy, the Children with Special Health Care Needs Levy, the State Fair Levy, the State Forestry Levy, and Public Safety Pensions costs.

<sup>(8)</sup> Figures exclude Automatic Taxpayer Refund and statutory distributions of "excess" reserves to various pension funds.

Source: State Budget Agency

**Local School Aid.** Funding for elementary and secondary education is the State's largest operating expense. Through December 31, 2008, local school aid was payable from both the General Fund and the Property Tax Replacement Fund ("PTR Fund"). With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. Local school aid is payable from the General Fund only after December 31, 2008. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS – Governor's Property Tax Reform Legislation" for a summary of P.L. 146-2008.

Local school aid includes distributions for programs such as assessment and performance, as well as tuition support. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation enacted in 2002, the State provided approximately 85% of the school corporations' general fund budgets. As part of the property tax reform legislation enacted by P.L. 146-2008, the State assumed responsibility for the local share of tuition support and began providing 100% of the tuition support for school corporation general funds in January 2009. Also included in P.L. 146-2008 were Fiscal Year 2009 appropriations for new facilities appeals (\$10 million), a preschool special education levy (\$3 million), and circuit breaker replacement credits (\$25 million), each of which were formerly paid by local property taxes.

Primarily due to the assumption of the local share of tuition support by the State, local school aid funding increased 18.3% for Fiscal Year 2009 on a statewide basis. These figures exclude \$536.4 million of ARRA funds; including these funds would result in an increase of 29.5% for Fiscal Year 2009. General Fund expenditures for Fiscal Year 2010 were \$7,147.2 million, excluding ARRA funds. Expenditures for local school aid from the General Fund for Fiscal Year 2011 were \$7,249.0 million. General Fund expenditures for local school aid for Fiscal Year 2012 were \$7,269.4 million. Estimated General Fund expenditures for local school aid for Fiscal Year 2013 are \$7,452.7 million. These figures represent increases of 0.3% and 2.5% following an increase of 1.4% in Fiscal

Year 2011 for the General Fund (excluding ARRA funds). See “STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS - Financial Results of Operations.”

**Property Tax Relief.** Prior to 2009, spending for property tax relief primarily consisted of Property Tax Relief Credits (“PTR Credits”) and the Homestead Credits. Prior to 2003, PTR Credits equaled 20% of property taxes charged excluding property taxes imposed for debt service or imposed in excess of the State’s levy limitations. Homestead Credits equaled 10% of property taxes charged on homesteads excluding property taxes imposed for debt service or imposed in excess of the State’s levy limitations. Appropriations for PTR Credits and Homestead Credits were made from the PTR Fund. A special legislative session in 2002 resulted in PTR Credits being increased, subject to appropriation, to 60% of property taxes imposed by school corporations for general fund purposes and 20% of all other property taxes excluding property taxes imposed for debt service or imposed in excess of the State’s levy limitations. Property taxes imposed on personal property were made ineligible to receive the 20% PTR Credits. During the same special legislative session, Homestead Credits were increased to 20%, subject to appropriation. These changes were effective January 1, 2003. Beginning with the Fiscal Years 2005-2007 biennium, the total amount of PTR Credits and Homestead Credits distributed in a Fiscal Year from the PTR Fund was limited to the amount distributed in Fiscal Year 2002 plus an amount equal to the increase in the State sales tax from 5.0% to 6.0% enacted during the 2002 special legislative session. HEA 1835-2007 established the Property Tax Reduction Trust Fund for the purpose of providing additional property tax relief payable solely from new revenues resulting from the operation of slot machines at horse racing tracks located within the state.

P.L. 146-2008 eliminated the appropriation for PTR Credits, replacing them with Homestead Credits and the State’s assumption of 100% of the tuition support for school corporation general funds beginning in January 2009. P.L. 146-2008 provided for \$690 million in Homestead Credits during the Fiscal Years 2007-2009 biennium.

**Higher Education.** Through the General Fund, the State supports seven higher education institutions: Ball State University, Indiana University, Indiana State University, Ivy Tech Community College of Indiana, Purdue University, University of Southern Indiana and Vincennes University. Higher education expenditures from the General Fund for Fiscal Year 2011 were \$1,703.1 million, a decrease of 0.5% from Fiscal Year 2010. Expenditures for higher education from the General Fund for Fiscal Year 2012 were \$1,691.1 million, a decrease of 0.7% from Fiscal Year 2011. Estimated expenditures for higher education from the General Fund are \$1,701.7 million for Fiscal Year 2013. These figures exclude ARRA funds. Appropriations for higher education include university operating, university fee-replaced debt service, university line items, other higher education line items, university repair and rehabilitation, university capital projects, and State student aid. See “STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS -Financial Results of Operations.”

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding student fee and building facilities fee bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, “Fee Replacement Appropriations”). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

Table 3 sets forth the aggregate principal amount of bonds and notes outstanding as of June 30, 2012, for each State university and college eligible for Fee Replacement Appropriations and the amount of Fee Replacement Expenditures for Fiscal Year 2012 and Fee Replacement Appropriations for Fiscal Year 2013.

**Table 3**  
**Schedule of Fee Replacement Debt**

|                                | Estimated Amount of<br>Debt Outstanding<br>June 30, 2012 | Fiscal Year 2012<br>Fee Replacement<br>Expenditures | Fiscal Year 2013<br>Fee Replacement<br>Appropriations |
|--------------------------------|--|---|---|
| Ball State University          | \$119,715,000  | \$14,028,860  | \$14,678,487  |
| Indiana University             | \$411,423,344  | \$51,441,340  | \$48,295,727  |
| Indiana State University       | \$62,859,308   | \$8,160,595   | \$8,906,871   |
| Ivy Tech Community College     | \$285,600,000  | \$29,817,233  | \$30,805,687  |
| Purdue University              | \$252,883,175  | \$29,009,414  | \$32,183,531  |
| University of Southern Indiana | \$82,001,544   | \$10,998,766  | \$12,134,116  |
| Vincennes University           | \$39,828,125   | \$4,066,883   | \$4,869,491   |
| <b>Total</b>                   | <b>\$1,254,310,496</b>                                   | <b>\$147,523,092</b>                                | <b>\$151,873,910</b>                                  |

<sup>(1)</sup> Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

<sup>(2)</sup> Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

<sup>(3)</sup> Totals may not add due to rounding.

Source: State Budget Agency

**Medicaid.** Medicaid is a state/federal shared fiscal responsibility with the State supporting 32.94% of the total program through a combination of State General Fund and dedicated funds over the biennium. Federal funding accounts for the remaining 67.06%. The federal share increased during Fiscal Years 2009, 2010, and 2011 as a result of the ARRA. For Fiscal Year 2010, State General Fund Medicaid expenditures totaled \$1,259.9 million. In Fiscal Years 2011 and 2012, State General Fund Medicaid expenditures totaled \$1,436.0 million and \$1,856.4 million, respectively. Enrollment was estimated to be 998,156 at the end of Fiscal Year 2012 and is expected to reach 1,038,737 by the end of Fiscal Year 2013 (these figures exclude the Children's Health Insurance Program and the Healthy Indiana Program). Indiana's base federal reimbursement rate equaled 66.96% for the first quarter of Fiscal Year 2012 and 67.16% for the remaining three quarters of Fiscal Year 2012 and the first quarter of Fiscal Year 2013. State General Fund Medicaid appropriations for Fiscal Years 2012 and 2013 were set as \$1,857.8 million and \$2,023.8 million, respectively. All figures above exclude ARRA funds and only represent the State General Fund expenditures or appropriations.

**Correction.** Appropriations for the Department of Correction, payable almost entirely from the General Fund, include funds for incarceration and rehabilitation of adult and juvenile offenders, as well as parole programs. Correction expenditures were \$647.5 million for Fiscal Year 2011 and \$638.3 million for Fiscal Year 2012. General Fund appropriations for Fiscal Year 2013 total \$672.4 million.

Offender population is the most significant driver of Correction expenditures. The total offender population, including those in jail and contract beds, increased slightly to 28,915 in Fiscal Year 2012.

**Other.** The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State's share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. Other categories expenditures for Fiscal Year 2009 from the General Fund totaled \$2,005.9 million, an increase of 9.4% over Fiscal Year 2008. This increase was attributable to a number of local levies assumed by the State under P.L. 146-2008, such as the Family and Children Levy, the Children with Special Health Care Needs Levy, the State Fair Levy, the State Forestry Levy, and Public Safety Pension costs. Other categories of General Fund expenditures totaled \$2,143.8 million for Fiscal Year 2010 and \$2,001.5 million for Fiscal Year 2011. Other categories of expenditures for Fiscal Year 2012 (\$2,123.4 million) and Fiscal Year 2013 (\$2,242.2 million) increase for a number of reasons including the full phasing-in of costs associated with the levies assumed by the State under P.L. 146-2008 and the complete phasing-out of ARRA funding.

**Expenditure Limits.** In 2002, the General Assembly enacted a law establishing a State spending cap. The law provides that the maximum annual percentage growth in State's spending cap from the General Fund and the PTR Fund must be the lesser of the average percentage change in Indiana non-farm personal income during the past six calendar years or 6%. At present, State expenditures are well below the spending cap. The law excludes

expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, State capital projects, judgments and settlements, distributions of specified State tax revenue to local governments and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund and Rainy Day Fund and, prior to 2009, the PTR Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income or 6%. The legislation allows the State spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The Budget Agency computed the spending growth quotient for Fiscal Years 2012 and 2013 to be 2.4% and 2.8%, respectively.

### **Fund Balances**

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the State Tuition Reserve, the Medicaid Reserve, and the General Fund. Each of these funds is described below.

***Rainy Day Fund.*** In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the “Rainy Day Fund.” One of three primary funds into which general purpose tax revenue is deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income (“API”) for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. An automatic withdrawal of \$370.9 million from the Rainy Day Fund occurred in Fiscal Year 2010, and automatic deposits from the General Fund into the Rainy Day Fund occurred in Fiscal Years 2011 and 2012 (\$53.5 million and \$291.0 million, respectively.). In addition, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time to time during periods of economic recession. The General Assembly has also authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. *See* “STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS - Financial Results of Operations.”

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenue is less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenue for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the General Fund. *See* Table 4 for Rainy Day Fund balances.

***State Tuition Reserve.*** The Tuition Reserve was a cash flow device intended to assure that the State had sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimated and established the Tuition Reserve for the ensuing Fiscal Year. *See* Table 4 for Tuition Reserve Fund balances. P.L. 146-2008 formally created the State Tuition Reserve Fund to which the balance of the Tuition Reserve was transferred and can only be used to make local school aid payments. An additional \$50 million was deposited in the Tuition Reserve Fund on June 30, 2008, two-and-a-half years before the legislative deadline of December 31, 2010. The Budget Agency transferred \$536.4 million from the General Fund to the State Tuition Reserve Fund on June 30, 2009, to support tuition support appropriations from the General Fund in Fiscal Year 2010 and Fiscal Year 2011. The Budget Agency ordered net transfers of \$945.7 million from the State Tuition Reserve Fund to the General Fund during Fiscal Year 2010 to support tuition support appropriations.

**Medicaid Reserve.** In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. The Budget Agency transferred \$57.6 million from the Medicaid Reserve to the General Fund during Fiscal Year 2010 to support Medicaid obligations. See Table 4 for Medicaid Reserve Fund balances.

**General Fund.** The General Fund is the primary fund into which general purpose tax revenue, or Operating Revenue, is deposited or transferred. Prior to its repeal, the PTR Fund was often times combined with the General Fund to provide a more complete and accurate description of the State's Operating Revenue and discretionary spending, especially for local school aid and property tax relief.

With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. See "FISCAL POLICIES - Fund Structure — Governmental Funds – Special Revenue Funds" and "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS –Property Tax Reform" for a summary of P.L. 146-2008.

### **Financial Results of Operations**

The State closed Fiscal Year 2012 with combined balances of \$1,803.4 million in the General Fund, which was 15.1% of that Fiscal Year's operating revenue.

Fiscal Year 2012 was highlighted by continued fiscal restraint and solid state revenue growth. The Governor caused approximately \$316 million of reversions to the General Fund, following \$1,124 million of reversions in Fiscal Year 2011.

### **Revenue Forecast for Fiscal Year 2013**

The Forecast Committee last updated the forecast of State revenue for Fiscal Years 2012 and 2013 on December 14, 2011. Fiscal Year 2011 State revenue increased by \$1,087.5 million (or 8.9%) over 2010 revenues and Fiscal Year 2012 revenue increased by \$850.9 million (or 6.4%) over 2011 revenues. Revenue growth of 2.2% (\$306.9 million) is projected for Fiscal Year 2013.

P.L. 146-2008 increased the sales tax from 6.0% to 7.0% effective April 1, 2008, as part of the property tax reform legislation. The increase generated \$151.6 million in Fiscal Year 2008, and generated \$879.0 million in Fiscal Year 2009. P.L. 146-2008 increased wagering tax collections for Fiscal Year 2009 to the General Fund by \$62.8 million, caused by the elimination of the Property Tax Reduction Trust Fund on December 31, 2008. P.L. 146-2008 also increased "Other" collections for Fiscal Year 2009 by \$25.8 million due to state captured miscellaneous revenues.

### **Combined Balance Statements**

Table 4 sets forth the Budget Agency's unaudited end-of-year combined balance statements and estimates and projections, including revenue and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency's "working" statements may differ from the results included in the 2011 Financial Report or the Auditor of State's comprehensive annual financial reports for other Fiscal Years. Forecasted revenue is developed by the Forecast Committee, and actual revenue may be higher or lower than forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Year 2013.

**Table 4**  
**General Fund and Property Tax Replacement Fund**  
**Combined Statement of Actual and Estimated Unappropriated Reserve**  
(Millions of Dollars)

|   | Actual<br>FY2009 | Actual<br>FY2010 | Actual<br>FY2011 | Estimated<br>FY2012 | Estimated<br>FY2013 <sup>(1)</sup> |
|---|------------------|------------------|------------------|---------------------|------------------------------------|
| <b>Resources:</b>   |                  |                  |                  |                     |                                    |
| Working Balance on July 1                                 | 592.5            | 54.9             | 830.7            | 1,124.3             | 1,803.4                            |
| <b>Current Year Resources:</b>                            |                  |                  |                  |                     |                                    |
| Forecast Revenue  | 12,935.3         | 12,186.7         | 13,274.2         | 14,125.1            | 14,432.0                           |
| Miscellaneous Revenue                                     | 21.8             | 38.7             | 12.2             | 18.4                | 15.0                               |
| DSH Revenue   | 60.1             | 57.9             | 58.2             | 10.1                | -                                  |
| Hospital Assessment Fee                                   | -                | -                | -                | 154.1               | 170.0                              |
| Quality Assessment Fee                                    | 34.4             | 33.3             | 39.6             | 23.6                | 59.2                               |
| Prior Year Corporate Income Tax (E-check)                 | -                | -                | -                | 288.0               | -                                  |
| 2012 Outside Acts   | -                | -                | -                | -                   | -13.3                              |
| FY 2011 LOIT Adjustment                                   | -                | -                | -                | -70.6               | -                                  |
| Transfer from Medicaid Reserve to General Fund            | -                | 57.6             | -                | -                   | -                                  |
| Transfer from Rainy Day Fund to General Fund              | -                | 370.9            | -                | -                   | -                                  |
| Transfer from General Fund to Rainy Day Fund              | -                | -                | -53.5            | -291.0              | -                                  |
| Transfer from General Fund to State Tuition Reserve       | -536.4           | -73.6            | -                | -                   | -                                  |
| Transfer from State Tuition Reserve to General Fund       | -                | 1,019.3          | -                | -                   | -                                  |
| <b>Total Current Year Resources</b>                       | <u>12,515.2</u>  | <u>13,690.8</u>  | <u>13,330.7</u>  | <u>14,257.7</u>     | <u>14,662.9</u>                    |
| <b>Total Resources</b>                                    | 13,107.7         | 13,745.7         | 14,161.4         | 15,382.0            | 16,466.3                           |
| <b>Uses: Appropriations, Expenditures and Reversions:</b> |                  |                  |                  |                     |                                    |
| <b>Appropriations</b>                                     |                  |                  |                  |                     |                                    |
| Budgeted Appropriations                                   | 14,549.5         | 13,571.4         | 14,113.0         | 13,980.7            | 14,317.6                           |
| 2012 Session: As Passed Appropriations                    | -                | -                | -                | 6.0                 | 19.6                               |
| Enrolled Acts 2008 (excluding P.L. 146-2008)              | 4.9              | -                | -                | -                   | -                                  |
| <b>Total Appropriations</b>                               | <u>14,554.4</u>  | <u>13,571.4</u>  | <u>14,113.0</u>  | <u>13,986.7</u>     | <u>14,337.2</u>                    |
| <b>Other Expenditures and Transfers</b>                   |                  |                  |                  |                     |                                    |
| Augmentations and Expenditure Adjustments <sup>(2)</sup>  | 27.7             | 125.8            | 33.5             | 17.7                | 99.5                               |
| Local Option Income Tax Distributions                     | 8.7              | 11.6             | 1.6              | -                   | -                                  |
| PTRC and Homestead Credit Adjustments                     | -23.5            | 26.2             | -14.0            | -11.2               | -                                  |
| Adjustment for Stadium/Convention Center Appropriation    | -                | -40.0            | -                | -112.1              | -111.0                             |
| Judgments and Settlements <sup>(3)</sup>                  | 5.3              | 4.7              | 8.0              | 13.5                | 8.7                                |
| HEA 1072 Loans (Net of Repayments)                        | -                | -                | -                | -                   | 6.1                                |
| Statutory Distribution to Pension Stabilization Fund      | -                | -                | -                | -                   | 360.6                              |
| Automatic Taxpayer Refund                                 | -                | -                | -                | -                   | 360.6                              |
| <b>Total Appropriations and Expenditures</b>              | <u>14,572.6</u>  | <u>13,699.7</u>  | <u>14,100.1</u>  | <u>13,894.6</u>     | <u>15,061.7</u>                    |
| <b>Payment Delays</b>                                     |                  |                  |                  |                     |                                    |
| Property Tax Replacement Credit Reversions                | -105.5           | -                | -                | -                   | -                                  |
|   | <u>-1,414.2</u>  | <u>-784.7</u>    | <u>-1,063.0</u>  | <u>-316.0</u>       | <u>-247.7</u>                      |
| <b>Total Net Uses</b>                                     | <u>13,052.9</u>  | <u>12,915.0</u>  | <u>13,037.1</u>  | <u>13,578.6</u>     | <u>14,814.0</u>                    |
| General Fund Reserve Balance at June 30                   | 54.9             | 830.7            | 1,124.3          | 1,803.4             | 1,652.2                            |
| <b>Reserved Balances</b>                                  |                  |                  |                  |                     |                                    |
| Medicaid Reserve  | 57.6             | 0.0              | 0.0              | 0.0                 | 0.0                                |
| Tuition Reserve   | 941.7            | 0.0              | 0.0              | 0.0                 | 0.0                                |
| Rainy Day Fund <sup>(4)</sup>                             | <u>365.2</u>     | <u>0.0</u>       | <u>57.2</u>      | <u>351.6</u>        | <u>355.1</u>                       |

|  |                       |                     |                       |                       |                       |
|--|-----------------------|---------------------|-----------------------|-----------------------|-----------------------|
| <b>Total Combined Balances</b>                     | <b><u>1,419.4</u></b> | <b><u>830.7</u></b> | <b><u>1,181.5</u></b> | <b><u>2,155.0</u></b> | <b><u>2,007.3</u></b> |
| Payment Delay Liability                            | 0.0                   | 0.0                 | 0.0                   | 0.0                   | 0.0                   |
| Combined Balance as a Percent of Operating Revenue | 10.9%                 | 6.7%                | 8.8%                  | 15.0%                 | 13.7%                 |

- (1) Revenues are those projected by the Technical Forecast Committee on December 14, 2011; appropriations are those authorized by the 2011 General Assembly for Fiscal Year 2013.
- (2) Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total.
- (3) Represents the estimated cost to the State of judgments and other legal and equitable claims. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. *See* "LITIGATION."
- (4) Net of outstanding loans to local governments. The loans are authorized by the General Assembly and are illiquid.

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Source: State Budget Agency

## **Toll Road Lease**

In 2006, the General Assembly enacted legislation authorizing the Indiana Finance Authority to lease the Indiana Toll Road to a private entity to operate for a term not to exceed 75 years. A lease agreement with ITR Concession Company LLC was signed in April 2006 and the transaction was closed on June 29, 2006. Shortly after the closing, the revenues from the lease, \$3.8 billion (net of expenses and the bond repayments), were transferred to a trust fund and are being used to fund nearly 200 statewide transportation and economic growth projects throughout the State.

## **STATE INDEBTEDNESS**

### **Constitutional Limitations on State Debt**

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except: to meet casual deficits in revenue; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the State constitution. *See* "FISCAL POLICIES—State Board of Finance."

### **Other Debt, Obligations**

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as "contingent obligations." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. *See* "STATE INDEBTEDNESS - Obligations Payable from Possible State Appropriations—Authorized but Unissued Debt."

In 2005, the General Assembly enacted legislation establishing the Indiana Finance Authority, a body politic and corporate, separate from the State. The Indiana Finance Authority is required, after consulting with the Treasurer of State, the Indiana Bond Bank (the "Bond Bank"), the Budget Agency and the Indiana Commission for Higher Education, to establish and periodically update a State debt management plan.

### **Obligations Payable from Possible State Appropriations**

The General Assembly has created certain financing entities, including the Indiana Finance Authority and the Indiana Bond Bank, each of which is a body politic and corporate, separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance various capital projects. Certain agencies of the State, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the State), have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make

any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bonds issued by any such financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability, or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

***Indiana Finance Authority.*** Before 2005, there had been numerous bodies corporate and politic of the State, each with separate decision making and borrowing authority, that issued bonds and otherwise accessed the financial markets. On May 15, 2005, to provide economic efficiencies and management synergies and to enable the State to communicate, with a single voice, with the various participants in the financial markets, the Indiana Development Finance Authority, the State Office Building Commission, the Indiana Transportation Finance Authority, the Recreational Development Commission, the State Revolving Fund Programs, and the Indiana Brownfields Program were consolidated into the Indiana Finance Authority. Effective July 1, 2007, the Indiana Health and Educational Facility Financing Authority was also merged into the Indiana Finance Authority. As the successor entity, the Indiana Finance Authority has assumed responsibility for the financing of certain buildings, highways, aviation facilities and recreation facilities.

For a description of other powers and responsibilities of the Indiana Finance Authority, including its authority to issue other debt, *see* “STATE INDEBTEDNESS - Contingent Obligations” and Table 8.

**Buildings.** The Indiana Finance Authority is authorized (and its predecessor, the State Office Building Commission, had been authorized) to issue revenue bonds, payable from lease rentals under use and occupancy agreements with various State agencies, to finance or refinance the cost of acquiring, constructing or equipping buildings, structures, improvements or parking areas for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing parking for State employees or persons having business with State government; (c) providing buildings, structures or improvements for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing buildings, structures or improvements for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing buildings, structures or improvements for the care, maintenance or treatment of adults or children with mental illness, developmental disabilities, addictions or other medical or rehabilitative needs; or (f) providing the infrastructure of a State-wide wireless public safety communications system. Lease rentals under the use and occupancy agreements are payable primarily from possible State appropriations. *See* “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—STATE BUILDINGS.”

The Indiana Finance Authority has the authority to provide (and its predecessor, the State Office Building Commission, had provided) short-term, or construction, financing for authorized projects through the issuance of commercial paper payable from proceeds of its revenue bonds. As of June 30, 2012, there is no commercial paper outstanding.

**Highways.** The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from lease rentals under lease agreements with the Indiana Department of Transportation, to finance or refinance the cost of construction, acquisition, reconstruction, improvement or extension of the State’s highways, bridges, streets, roads or other public ways. Lease rentals under the lease agreements are payable primarily from possible State appropriations. *See* “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—HIGHWAY REVENUE BONDS.”

In 2005, legislation was enacted that authorizes the Indiana Finance Authority to issue grant anticipation revenue bonds to finance highway projects eligible for federal highway revenues. However, none have been issued to date.

**Aviation Facilities.** The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from the revenues pledged thereto, to finance or refinance improvements related to airports or aviation-related property or facilities.

Pursuant to this authority, the Indiana Transportation Finance Authority issued its revenue bonds to finance and refinance (a) improvements related to an airport and aviation-related property and facilities at the Indianapolis International Airport and (b) an aviation technology center at the Indianapolis International Airport. The bonds are payable from lease rentals under lease agreements with the Indianapolis Airport Authority. Lease rentals under the lease agreements are payable primarily from possible State appropriations. See “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—AVIATION FACILITIES.”

**Recreation Facilities.** The Indiana Finance Authority is authorized (and its predecessor, the Recreational Development Commission, had been authorized) to issue revenue bonds, payable from the revenues pledged thereto, to finance or refinance the costs of the acquisition, construction, renovation, improvement or equipping of facilities for the operation of public parks.

Pursuant to this authority, the Recreational Development Commission issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various lodging and other facilities for public parks in the State. The bonds are payable from lease rentals under use and occupancy agreements with the State’s Department of Natural Resources or the Indiana State Museum and Historic Sites Corporation. The lease rentals under the use and occupancy agreements are payable primarily from possible State appropriations. See “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—RECREATIONAL FACILITIES.”

**Bond Bank.** The Bond Bank issued its revenue bonds, payable from possible State appropriations, to finance or refinance certain State interests or initiatives, including the State’s Animal Disease and Diagnostic Laboratory (“ADDL”) at Purdue University, West Lafayette, and the Columbus Learning Center (“CLC”), an educational facility to be used by a number of State post-secondary educational institutions to provide services in South Central Indiana. See “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—BOND BANK” and “Table 8—Schedule of Long Term Debt—Contingent Obligations—BOND BANK Special Program Pool.” For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see “STATE INDEBTEDNESS - Contingent Obligations—Indiana Bond Bank” and “Table 8—Schedule of Long Term Debt—Contingent Obligations – BOND BANK Special Program Pool.”

**Schedule of Long Term Debt.** Table 5 lists, by type of financing, long-term debt that is subject to possible State appropriations as of June 30, 2012. See “Authorized but Unissued Debt” and “Table 3 – Schedule of Fee Replacement Debt” for related debt that is subject to possible State appropriations.

**Table 5**  
**Schedule of Long Term Debt**  
**Obligations Payable from Possible State Appropriations**

| Type/Series                          | Original<br>Par Amount | Ending Balance<br>6/30/2011 | (Redeemed)/<br>Issued | Ending Balance<br>6/30/12 |
|--------------------------------------|------------------------|-----------------------------|-----------------------|---------------------------|
| <b>STATE BUILDINGS</b>               |                        |                             |                       |                           |
| Forensic & Health Sciences Lab       |                        |                             |                       |                           |
| Series 2006A                         | \$62,900,000           | \$56,565,000                | (\$2,285,000)         | \$54,280,000              |
| Subtotal                             | \$62,900,000           | \$56,565,000                | (\$2,285,000)         | \$54,280,000              |
| Government Center Parking Facilities |                        |                             |                       |                           |
| Series 1990A                         | \$26,669,824           | \$6,325,000                 | \$0                   | \$6,325,000               |
| Series 2003A                         | 26,735,000             | 7,875,000                   | (5,310,000)           | 2,565,000                 |
| Series 2012E                         | 1,455,000              | 0                           | 1,455,000             | 1,455,000                 |
| Series 2012F                         | 475,000                | 0                           | 475,000               | 475,000                   |
| Subtotal                             | \$55,334,824           | \$14,200,00                 | (\$3,380,000)         | \$10,820,000              |
| Government Center North              |                        |                             |                       |                           |
| Series 1990B                         | \$77,123,542           | \$19,620,000                | \$0                   | \$19,620,000              |
| Series 2003B                         | 73,205,000             | 37,830,000                  | (15,135,000)          | 22,695,000                |
| Series 2012G                         | 8,835,000              | 0                           | 8,835,000             | 8,835,000                 |
| Subtotal                             | \$159,163,542          | \$57,450,000                | (\$6,300,000)         | \$51,150,000              |
| Government Center South              |                        |                             |                       |                           |
| Series 1990C                         | \$18,063,800           | \$4,285,000                 | \$0                   | \$4,285,000               |
| Series 1990D                         | 110,675,000            | 10,505,000                  | (10,505,000)          | 0                         |

|                               |                        |                        |                       |                        |
|-------------------------------|------------------------|------------------------|-----------------------|------------------------|
| Series 2003C                  | 7,835,000              | 3,920,000              | (1,570,000)           | 2,350,000              |
| Series 2008B                  | 13,725,000             | 13,725,000             | 0                     | 13,725,000             |
| Series 2012H                  | 900,000                | 0                      | 900,000               | 900,000                |
| Subtotal                      | \$151,198,800          | \$32,435,000           | (\$11,175,000)        | \$21,260,000           |
| Other Facilities              |                        |                        |                       |                        |
| Series 1995B                  | \$47,975,000           | \$15,320,000           | (\$2,180,000)         | \$13,140,000           |
| Series 2002A                  | 128,110,000            | 34,690,000             | (28,400,000)          | 6,290,000              |
| Series 2003A                  | 83,530,000             | 30,905,000             | (22,910,000)          | 7,995,000              |
| Series 2003B                  | 31,930,000             | 25,680,000             | (10,070,000)          | 15,610,000             |
| Series 2003C                  | 55,075,000             | 51,350,000             | (1,695,000)           | 49,655,000             |
| Series 2003D                  | 20,475,000             | 14,955,000             | (315,000)             | 14,640,000             |
| Series 2004A                  | 46,180,000             | 41,130,000             | (5,035,000)           | 36,095,000             |
| Series 2004B                  | 61,890,000             | 61,890,000             | 0                     | 61,890,000             |
| Series 2004C                  | 33,950,000             | 33,950,000             | (10,000)              | 33,940,000             |
| Series 2004D                  | 33,995,000             | 30,565,000             | (1,225,000)           | 29,340,000             |
| Series 2004E                  | 57,005,000             | 51,315,000             | (2,040,000)           | 49,275,000             |
| Series 2008A                  | 29,715,000             | 27,320,000             | (1,965,000)           | 25,355,000             |
| Series 2008C                  | 53,035,000             | 50,395,000             | (2,305,000)           | 48,090,000             |
| Series 2009A                  | 47,360,000             | 45,975,000             | (6,640,000)           | 39,335,000             |
| Series 2009B                  | 13,825,000             | 13,825,000             | 0                     | 13,825,000             |
| Series 2011A                  | 20,730,000             | 0                      | 20,730,000            | 20,730,000             |
| Series 2011B                  | 18,365,000             | 0                      | 18,365,000            | 18,365,000             |
| Series 2011C                  | 8,410,000              | 0                      | 8,410,000             | 8,410,000              |
| Energy Savings Lease 2011     | 24,081,196             | 0                      | 24,081,196            | 24,081,196             |
| Energy Savings Lease 2012     | 17,947,331             | 0                      | 17,947,331            | 17,947,331             |
| Subtotal                      | \$833,583,528          | \$529,265,000          | \$4,743,528           | \$534,008,528          |
| TOTAL STATE BUILDINGS         | \$1,262,180,694        | \$689,915,000          | (\$18,396,472)        | \$671,518,528          |
| HIGHWAY REVENUE BONDS         |                        |                        |                       |                        |
| Series 1990A                  | \$72,498,391           | \$22,605,000           | (\$5,070,000)         | \$17,535,000           |
| Series 1992A                  | 74,035,000             | 31,180,000             | (4,380,000)           | 26,800,000             |
| Series 1993A                  | 193,531,298            | 66,946,298             | (11,705,000)          | 55,241,298             |
| Series 1998A                  | 175,360,000            | 34,490,000             | 0                     | 34,490,000             |
| Series 2003A                  | 433,155,000            | 27,815,000             | (13,465,000)          | 14,350,000             |
| Series 2004B                  | 147,345,000            | 147,345,000            | 0                     | 147,345,000            |
| Series 2004C                  | 146,080,000            | 143,365,000            | (9,085,000)           | 134,280,000            |
| Series 2007A                  | 642,300,000            | 619,005,000            | (1,030,000)           | 617,975,000            |
| Series 2010A                  | 74,040,000             | 74,040,000             | 0                     | 74,040,000             |
| TOTAL HIGHWAYS                | \$1,958,344,689        | \$1,166,791,298        | (\$44,735,000)        | \$1,122,056,298        |
| AVIATION FACILITIES           |                        |                        |                       |                        |
| Airport Facilities Bonds      |                        |                        |                       |                        |
| Series 2008A                  | \$127,655,000          | \$127,655,000          | (\$8,520,000)         | \$119,135,000          |
| Subtotal                      | \$127,655,000          | \$127,655,000          | (\$8,520,000)         | \$119,135,000          |
| Aviation Technology Bonds     |                        |                        |                       |                        |
| Series 2002                   | \$10,095,000           | \$5,625,000            | (\$5,625,000)         | \$0                    |
| Series 2012K                  | 4,800,000              | 0                      | 4,800,000             | 4,800,000              |
| Subtotal                      | \$14,895,000           | \$5,625,000            | (\$825,000)           | \$4,800,000            |
| TOTAL AVIATION FACILITIES     | \$142,550,000          | \$133,280,000          | (\$9,345,000)         | \$123,935,000          |
| RECREATIONAL FACILITIES       |                        |                        |                       |                        |
| Series 1997                   | \$6,600,000            | \$3,340,000            | (\$3,340,000)         | \$0                    |
| Series 2002                   | 14,400,000             | 9,650,000              | (9,650,000)           | 0                      |
| Series 2004                   | 12,780,000             | 10,420,000             | (10,420,000)          | 0                      |
| Series 2012I                  | 23,485,000             | 0                      | 23,485,000            | 23,485,000             |
| Series 2012J                  | 5,505,000              | 0                      | 5,505,000             | 5,505,000              |
| TOTAL RECREATIONAL FACILITIES | \$62,770,000           | \$23,410,000           | (\$5,580,000)         | \$28,990,000           |
| <b>TOTAL ALL BONDS</b>        | <b>\$3,425,845,383</b> | <b>\$2,013,396,298</b> | <b>(\$66,896,472)</b> | <b>\$1,946,499,825</b> |

Source: Indiana Finance Authority (as of June 30, 2012). Excludes accreted value of capital appreciation bonds.

**Scheduled Principal and Interest Payments.** Table 6 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased) as of June 30, 2012. See “Authorized but Unissued Debt” and “Table 3 – Schedule of Fee Replacement Debt” for related debt that is subject to possible State appropriations.

**Table 6**  
**Scheduled Principal and Interest Payments**  
**Obligations Payable from Possible State Appropriations**

| Type/Series                          | FY 2013             | FY2014              | FY2015               | FY2016              | Thereafter             |
|--------------------------------------|---------------------|---------------------|----------------------|---------------------|------------------------|
| <b>STATE BUILDINGS</b>               |                     |                     |                      |                     |                        |
| Forensic & Health Sciences Lab       |                     |                     |                      |                     |                        |
| Series 2006A                         | \$4,808,265         | \$4,806,365         | \$4,794,190          | \$4,791,040         | \$57,265,820           |
| Subtotal                             | \$4,808,265         | \$4,806,365         | \$4,794,190          | \$4,791,040         | \$57,265,820           |
| Government Center Parking Facilities |                     |                     |                      |                     |                        |
| Series 1990A                         | \$468,050           | \$2,355,530         | \$2,350,125          | \$2,343,620         | \$0                    |
| Series 2003A                         | 1,134,025           | 1,130,544           | 434,031              | 0                   | 0                      |
| Subtotal                             | \$1,602,075         | \$3,486,074         | \$2,784,156          | \$2,343,620         | \$0                    |
| Government Center North              |                     |                     |                      |                     |                        |
| Series 1990B                         | \$1,451,880         | \$7,306,920         | \$7,290,350          | \$7,269,370         | \$0                    |
| Series 2003B                         | 8,091,615           | 8,085,615           | 8,100,495            | 0                   | 0                      |
| Subtotal                             | \$9,543,495         | \$15,392,535        | \$15,390,845         | \$7,269,370         | \$0                    |
| Government Center South              |                     |                     |                      |                     |                        |
| Series 1990C                         | \$317,090           | \$1,597,880         | \$1,590,945          | \$1,586,610         | \$0                    |
| Series 2003C                         | 836,913             | 830,725             | 832,319              | 0                   | 0                      |
| Series 2008B                         | 14,068,125          | 0                   | 0                    | 0                   | 0                      |
| Subtotal                             | \$15,258,253        | \$2,464,730         | \$2,423,264          | \$1,586,610         | \$0                    |
| Other Facilities                     |                     |                     |                      |                     |                        |
| Series 1995B                         | \$3,068,750         | \$3,064,219         | \$3,060,313          | \$3,058,563         | \$3,040,344            |
| Series 2002A                         | 6,451,613           | 0                   | 0                    | 0                   | 0                      |
| Series 2003A                         | 4,091,420           | 4,101,245           | 147,973              | 0                   | 0                      |
| Series 2003B                         | 2,543,436           | 2,541,798           | 2,541,798            | 2,098,319           | 12,543,188             |
| Series 2003C                         | 4,239,813           | 4,186,563           | 4,151,913            | 4,095,513           | 49,010,106             |
| Series 2003D                         | 1,021,038           | 1,032,938           | 1,019,338            | 1,005,738           | 16,325,306             |
| Series 2004A                         | 7,031,519           | 7,022,363           | 7,013,375            | 7,003,769           | 13,991,519             |
| Series 2004B                         | 3,249,225           | 9,169,625           | 9,731,669            | 9,720,375           | 46,993,931             |
| Series 2004C                         | 1,813,455           | 1,881,206           | 5,708,450            | 5,491,481           | 29,239,219             |
| Series 2004D                         | 2,657,188           | 2,648,563           | 2,647,638            | 2,643,463           | 31,598,019             |
| Series 2004E                         | 4,486,438           | 4,473,913           | 4,479,594            | 4,470,025           | 53,330,838             |
| Series 2008A                         | 3,688,238           | 3,639,363           | 3,604,763            | 3,541,538           | 16,561,281             |
| Series 2008C                         | 5,761,138           | 5,775,638           | 5,673,388            | 5,664,638           | 39,878,906             |
| Series 2009A                         | 1,799,600           | 2,204,225           | 9,247,350            | 9,239,725           | 25,587,250             |
| Series 2009B                         | 7,462,625           | 7,052,000           | 0                    | 0                   | 0                      |
| Series 2011A                         | 962,450             | 1,571,300           | 1,092,975            | 1,092,800           | 25,165,550             |
| Series 2011B                         | 906,400             | 955,900             | 954,650              | 1,315,500           | 23,530,950             |
| Series 2011C                         | 419,300             | 429,200             | 429,000              | 433,675             | 9,723,925              |
| Energy Savings Lease 2011            | 4,512,311           | 4,512,311           | 4,512,311            | 4,512,311           | 7,020,371              |
| Energy Savings Lease 2012            | 0                   | 965,083             | 2,035,385            | 2,035,385           | 15,265,388             |
| Subtotal                             | \$66,165,953        | \$67,227,449        | \$68,051,878         | \$67,422,815        | \$418,806,091          |
| <b>TOTAL STATE BUILDINGS</b>         | <b>\$97,378,041</b> | <b>\$93,377,152</b> | <b>\$93,444,333</b>  | <b>\$83,413,455</b> | <b>\$476,071,911</b>   |
| <b>HIGHWAY REVENUE BONDS</b>         |                     |                     |                      |                     |                        |
| Series 1990A                         | \$6,716,288         | \$6,711,525         | \$6,708,488          | \$0                 | \$0                    |
| Series 1992A                         | 6,343,280           | 6,324,500           | 6,318,450            | 6,308,260           | 6,302,230              |
| Series 1993A                         | 14,437,213          | 14,462,263          | 14,471,875           | 21,190,000          | 48,695,000             |
| Series 1998A                         | 1,896,950           | 1,896,950           | 1,896,950            | 1,896,950           | 44,101,525             |
| Series 2003A                         | 15,080,088          | 0                   | 0                    | 0                   | 0                      |
| Series 2004B                         | 8,192,175           | 8,192,175           | 23,334,000           | 22,540,863          | 137,257,150            |
| Series 2004C                         | 13,289,613          | 23,408,488          | 12,087,888           | 12,080,838          | 129,881,206            |
| Series 2007A                         | 28,574,133          | 28,578,933          | 28,578,289           | 28,577,245          | 863,898,207            |
| Series 2010A                         | 4,976,850           | 10,282,850          | 7,585,050            | 7,269,050           | 67,491,475             |
| <b>TOTAL HIGHWAYS</b>                | <b>\$99,506,588</b> | <b>\$99,857,683</b> | <b>\$100,980,989</b> | <b>\$99,863,205</b> | <b>\$1,297,626,794</b> |
| <b>AVIATION FACILITIES</b>           |                     |                     |                      |                     |                        |
| Airport Facilities Bonds             |                     |                     |                      |                     |                        |

|                               |               |               |               |               |                 |
|-------------------------------|---------------|---------------|---------------|---------------|-----------------|
| Series 2008A                  | \$21,488,500  | \$21,038,125  | \$20,570,000  | \$20,098,750  | \$57,304,500    |
| Subtotal                      | \$21,488,500  | \$21,038,125  | \$20,570,000  | \$20,098,750  | \$57,304,500    |
|                               |               |               |               |               |                 |
| Aviation Technology Bonds     |               |               |               |               |                 |
| Series 2012K                  | \$865,424     | \$860,550     | \$867,600     | \$863,900     | \$1,731,450     |
| Subtotal                      | 865,424       | 860,550       | 867,600       | 863,900       | 1,731,450       |
| TOTAL AVIATION FACILITIES     | \$121,860,512 | \$121,756,358 | \$122,418,589 | \$120,825,855 | \$1,356,662,744 |
|                               |               |               |               |               |                 |
| RECREATIONAL FACILITIES       |               |               |               |               |                 |
| Series 2012I                  | \$2,295,766   | \$2,592,325   | \$2,627,625   | \$2,652,125   | \$20,257,000    |
| Series 2012J                  | 194,857       | 772,047       | 787,602       | 801,752       | 3,323,328       |
| TOTAL RECREATIONAL FACILITIES | \$2,490,623   | \$3,364,372   | \$3,415,227   | \$3,453,877   | \$25,580,328    |
| TOTAL ALL BONDS               | \$221,729,176 | \$218,497,882 | \$219,278,150 | \$207,693,187 | \$1,856,314,982 |

Source: Indiana Finance Authority (as of June 30, 2012)

**Table 7**  
**Ratios of Outstanding Debt Subject to Possible Appropriation**  
**to Population and Personal Income**

| <u>Fiscal Year</u> | <u>Population<sup>(1)</sup></u> | <u>Personal Income<sup>(1)(2)</sup></u> | <u>Outstanding Debt Subject to Appropriation<sup>(2)</sup></u> | <u>Debt/Capita</u> | <u>Debt/Income</u> |
|--------------------|---------------------------------|---|--|--------------------|--------------------|
| 2002               | 6,149,007                       | 175,398                                 | 1,713  | 279                | 1.0%               |
| 2003               | 6,181,789                       | 182,817                                 | 1,747  | 283                | 1.0%               |
| 2004               | 6,214,454                       | 190,329                                 | 2,467  | 397                | 1.3%               |
| 2005               | 6,253,120                       | 195,590                                 | 2,518  | 403                | 1.3%               |
| 2006               | 6,301,700                       | 206,959                                 | 2,460  | 390                | 1.2%               |
| 2007               | 6,346,113                       | 213,875                                 | 2,466  | 389                | 1.2%               |
| 2008               | 6,388,309                       | 220,670                                 | 2,362  | 370                | 1.1%               |
| 2009               | 6,423,113                       | 220,670                                 | 2,245  | 350                | 1.0%               |
| 2010               | 6,483,802                       | 226,561                                 | 2,137  | 330                | 0.9%               |
| 2011               | 6,516,922                       | 230,715                                 | 2,013  | 309                | 0.9%               |

<sup>(1)</sup> Estimated.

<sup>(2)</sup> In millions.

Source: Population: United States Census Bureau, July 2012. Personal Income: United States Department of Commerce, Bureau of Economic Analysis. Outstanding Debt: Indiana Finance Authority.

**Authorized but Unissued Debt.** The General Assembly has authorized the Indiana Finance Authority (as successor to the State Office Building Commission) to issue bonds to finance additional State facilities, including:

- (a) Two additional regional mental health facilities;
- (b) State-wide wireless public safety communications network; and
- (c) Parking facilities in the area of the state capitol complex.

In addition, legislation was enacted in 2005 that authorizes the Indiana Finance Authority to provide funds for research and technology grants and loans.

The Indiana Finance Authority may initially provide short-term, or construction, financing for these facilities through its commercial paper program. As of June 30, 2012, no commercial paper was outstanding.

See "STATE INDEBTEDNESS – Contingent Obligations – Economic Development" for a description of the revenue bonds the Indiana Finance Authority has issued for the Stadium and Convention Center expansion projects.

The Indiana Finance Authority monitors refinancing opportunities for its bonds and may issue refunding bonds to restructure outstanding indebtedness or achieve debt service savings.

### **Contingent Obligations**

Certain State-authorized entities, including the Bond Bank and Indiana Finance Authority, may issue obligations that, in certain circumstances, may require the entity to request an appropriation from the General Assembly to fund debt service on the obligations. The General Assembly is not required to make any such appropriations. Such obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

In 2005, legislation was enacted that requires review by the Budget Committee and approval by the Budget Director of (a) the issuance by the Bond Bank or the Indiana Finance Authority of any indebtedness that establishes a procedure for requesting an appropriation from the General Assembly to restore a debt service or other fund to required levels or (b) the execution by the Indiana Bond Bank or the Indiana Finance Authority of any other agreement that creates a moral obligation of the State to pay any indebtedness issued by the Indiana Bond Bank or the Indiana Financing Authority.

**Bond Bank.** The Bond Bank, a body corporate and politic, is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The Bond Bank is empowered to issue bonds or notes, payable solely from revenue and funds that are specifically allocated for such purpose, and loan the proceeds therefrom to local governments and other qualified entities.

To assure maintenance of the required debt service reserve in any reserve fund established for Bond Bank bonds or notes, the General Assembly may, but is not obligated to, appropriate to the Bond Bank for deposit in any such reserve funds the sum that is necessary to restore any such reserve funds to the required debt service reserve.

Bonds or notes issued by the Bond Bank for which such a debt service reserve is established are considered “moral obligation bonds.” However, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security for bonds issued by the Bond Bank, and a debt service reserve fund restoration appropriation would only be requested in the event that the particular designated sources were insufficient.

The total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is limited to \$1.0 billion plus (a) up to \$200 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to \$30 million for certain qualified entities that operate as telephone cooperative corporations. However, these limits do not apply to bonds or notes not secured by a reserve fund eligible for State appropriations.

For a list of Bond Bank bonds secured by a reserve fund eligible for State appropriations, see “Table 8—Schedule of Long Term Debt—Contingent Obligations—BOND BANK Special Program Pool.”

**Toll Road.** The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from tolls and other revenues derived from the ownership and operation of toll roads, to finance or refinance the cost of any toll road projects.

Pursuant to this authority, the Indiana Transportation Finance Authority and its predecessors issued their revenue bonds (the “Toll Road Bonds”) to finance and refinance the construction and improvement of the 157-mile Indiana East-West Toll Road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. These bonds were redeemed on June 29, 2006, and are no longer outstanding.

In 2006, the General Assembly enacted legislation authorizing the Indiana Finance Authority to lease the Toll Road to a private entity to operate for a term not to exceed 75 years. A lease agreement with ITR Concession Company LLC was signed in April 2006, and the transaction was closed on June 29, 2006. On June 29, 2006 a portion of the \$3.8 billion in revenues from the lease was applied to pay off all of the Toll Road Bonds. See “STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Toll Road Lease.”

**Economic Development.** The Indiana Finance Authority is authorized (and its predecessor, the Indiana Development Financing Authority, had been authorized) to issue revenue bonds to finance or refinance (a) industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) educational facility projects; (c) farming and agricultural enterprises; (d) environmental pollution prevention and remediation; (e) child care facilities; and (f) broadband development projects.

Pursuant to this authority, the Indiana Finance Authority (and its predecessor, the Indiana Development Finance Authority) issued its revenue bonds to finance and refinance a wide variety of projects. The bonds are payable solely from the revenues pledged thereto, are not in any respect a general obligation of the State and are not payable in any manner from revenue raised by taxation.

The Indiana Finance Authority is authorized to issue revenue bonds and loan the proceeds thereof to the Indiana Stadium and Convention Building Authority for the purpose of financing the acquisition and construction of a stadium and the expansion of a convention center in Indianapolis. The legislation authorizes the Indiana Stadium and Convention Building Authority to lease such capital improvements to a State agency pursuant to a lease, which requires the State agency: (1) to seek biennial appropriations from the General Assembly in an amount sufficient to pay rent equal to the debt service due on such bonds, only if: (a) the amount of such rent is fair and reasonable; and (b) such capital improvements are available for use and occupancy; and (2) to pay, from such appropriated amounts, rent sufficient to pay such debt service, only if certain local tax revenues expected to satisfy debt service are insufficient. In addition, the Indiana Finance Authority, in connection with the issuance of such revenue bonds, may establish a debt service reserve fund and a procedure for requesting appropriations from the General Assembly to restore the debt service reserve fund to required levels. The Indiana Finance Authority has issued \$666,525,000 of such revenue bonds for the stadium project, which was substantially complete and ready for use and occupancy in August 2008. The Indiana Finance Authority has issued \$329,230,000 of such revenue bonds for the convention center expansion project, which was completed in January 2011.

In addition, legislation was authorized by the Indiana Finance Authority to issue up to \$1.0 billion of its revenue bonds, payable from the revenues pledged thereto, to provide funds for research and technology grants and loans. The Indiana Finance Authority may establish a debt service fund or reserve fund for the bonds, to which the General Assembly may, if requested, appropriate funds necessary to pay debt service or restore the required debt service reserve. As of June 30, 2012, no such revenue bonds have been issued.

**Schedule of Long Term Debt.** Table 8 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2012. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund, or, in the case of the stadium and convention center debt, to pay rent sufficient to pay debt service only if certain local tax revenues expected to satisfy debt service are insufficient.

**Table 8**  
**Schedule of Long Term Debt**  
**Contingent Obligations**

| <u>Type/Series</u>                | <u>Original<br/>Par Amount</u> | <u>Ending Balance<br/>6/30/2011</u> | <u>(Redeemed)/<br/>Issued</u> | <u>Ending Balance<br/>6/30/12</u> |
|-----------------------------------|--------------------------------|-------------------------------------|-------------------------------|-----------------------------------|
| BOND BANK Special Program Pool    |                                |                                     |                               |                                   |
| Series 2002A                      | 42,910,000                     | 32,430,000                          | (1,555,000)                   | 30,875,000                        |
| Series 2002C                      | 3,940,000                      | 730,000                             | (215,000)                     | 515,000                           |
| Series 2002D                      | 60,000,000                     | 1,550,000                           | (1,550,000)                   | 0                                 |
| Series 2002E                      | 10,155,000                     | 7,805,000                           | (490,000)                     | 7,315,000                         |
| Series 2003A                      | 40,385,000                     | 35,985,000                          | (975,000)                     | 35,010,000                        |
| Series 2003B                      | 8,885,000                      | 5,460,000                           | (495,000)                     | 4,965,000                         |
| Series 2003C                      | 10,425,000                     | 3,615,000                           | (475,000)                     | 3,140,000                         |
| Series 2003D <sup>(1)</sup> (CLC) | 27,515,000                     | 25,280,000                          | (1,310,000)                   | 23,970,000                        |
| Series 2003E                      | 36,530,000                     | 31,905,000                          | (31,905,000)                  | 0                                 |
| Series 2003F-1                    | 17,155,000                     | 7,585,000                           | (825,000)                     | 6,760,000                         |
| Series 2004A                      | 17,210,000                     | 13,035,000                          | (13,035,000)                  | 0                                 |
| Series 2004B                      | 17,590,000                     | 12,335,000                          | (925,000)                     | 11,410,000                        |
| Series 2004C                      | 35,010,000                     | 31,170,000                          | (950,000)                     | 30,220,000                        |
| Series 2004D                      | 29,275,000                     | 21,780,000                          | (1,575,000)                   | 20,205,000                        |

|   |                        |                        |                       |                        |
|---|------------------------|------------------------|-----------------------|------------------------|
| Series 2005A  | 14,790,000             | 11,205,000             | (560,000)             | 10,645,000             |
| Series 2005C  | 11,160,000             | 9,110,000              | (455,000)             | 8,655,000              |
| Series 2005D  | 4,505,000              | 3,950,000              | (150,000)             | 3,800,000              |
| Series 2006B-1  | 12,400,000             | 11,420,000             | (265,000)             | 11,155,000             |
| Series 2006B-2  | 2,890,000              | 2,020,000              | (300,000)             | 1,720,000              |
| Series 2006A (Ref)  | 26,485,000             | 20,755,000             | (1,205,000)           | 19,550,000             |
| Series 2006C <sup>(1)</sup>                                     | 20,660,000             | 18,475,000             | (1,185,000)           | 17,290,000             |
| Series 2006D  | 13,985,000             | 10,015,000             | (795,000)             | 9,220,000              |
| Series 2007A (Ref)  | 44,915,000             | 44,915,000             | 0                     | 44,915,000             |
| Series 2008D-1  | 4,265,000              | 3,390,000              | 0                     | 3,390,000              |
| Series 2008D-2  | 1,795,000              | 1,795,000              | 0                     | 1,795,000              |
| Series 2009A  | 75,000,000             | 70,385,000             | (2,555,000)           | 67,830,000             |
| Series 2009C-1  | 22,235,000             | 21,680,000             | (570,000)             | 21,110,000             |
| Series 2009C-2(Taxable)   | 1,790,000              | 1,710,000              | (85,000)              | 1,625,000              |
| Series 2009D  | 52,000,000             | 49,960,000             | (1,785,000)           | 48,175,000             |
| Series 2010 Multi-purpose A-1                                   | 8,595,000              | 7,665,000              | (865,000)             | 6,800,000              |
| Series 2010 Multi-purpose A-2(Taxable)                          | 6,395,000              | 4,820,000              | (1,485,000)           | 3,335,000              |
| Series 2010 Multi-purpose A-3                                   | 770,000                | 770,000                | (20,000)              | 750,000                |
| Series 2011A Ref  | 29,140,000             | 0                      | 28,825,000            | 28,825,000             |
| Series 2012A  | 3,880,000              | 0                      | 3,880,000             | 3,880,000              |
| <b>TOTAL BOND BANK</b>  | <b>\$714,640,000</b>   | <b>\$524,705,000</b>   | <b>(\$35,855,000)</b> | <b>\$488,850,000</b>   |
| <b>INDIANA FINANCE AUTHORITY</b>                                |                        |                        |                       |                        |
| Stadium Project Series 2005A                                    | \$400,000,000          | \$400,000,000          | \$0                   | \$400,000,000          |
| Stadium Project Series 2007A                                    | 211,525,000            | 211,525,000            | 0                     | 211,525,000            |
| Stadium Project Series 2008A                                    | 55,000,000             | 37,310,000             | 0                     | 37,310,000             |
| Convention Center Expansion Project Series 2008A                | 120,000,000            | 120,000,000            | 0                     | 120,000,000            |
| Convention Center Expansion Project Series 2009A                | 17,665,000             | 17,665,000             | (1,000,000)           | 16,665,000             |
| Convention Center Expansion Project Series 2009B <sup>(3)</sup> | 191,565,000            | 191,565,000            | 0                     | 191,565,000            |
| <b>TOTAL INDIANA FINANCE AUTHORITY</b>                          | <b>\$995,755,000</b>   | <b>\$978,065,000</b>   | <b>(\$1,000,000)</b>  | <b>\$977,065,000</b>   |
| <b>TOTAL ALL BONDS</b>  | <b>\$1,710,395,000</b> | <b>\$1,502,770,000</b> | <b>(\$36,855,000)</b> | <b>\$1,465,915,000</b> |

<sup>(1)</sup> Qualified obligation revenues are expected to be sufficient to pay debt service. However, a portion of qualified obligation revenues are payable solely from General Assembly appropriations to the qualified entity.

<sup>(2)</sup> Issued as taxable bonds.

<sup>(4)</sup> Issued under the America Recovery and Reinvestment Act of 2009 as Build America Bonds. The bonds are federally taxable, and the Indiana Finance Authority will receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on the bonds.

Source: Indiana Finance Authority (as of June 30, 2012)

### Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenue and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

| <u>Entity</u>  | <u>Purpose of Debt Issuance</u>  |
|--|--|
| Board for Depositories   | Provide guarantees for industrial development or credit enhancement for Indiana enterprises.   |
| Indiana Housing and Community Development Authority <sup>(1)</sup> | Provide funds for construction or mortgage loans for federally assisted multi-family housing or for low and moderate income residential housing. |
| Ports of Indiana   | Provide funds for ports and other projects.  |
| Indiana Secondary Market for Education Loans, Inc. <sup>(2)</sup>  | Provide funds for secondary market for higher education loans.   |

|                                   |   |
|-----------------------------------|---|
| Indiana State Fair Commission     | Provide funds for State fairgrounds.  |
| State Revolving Fund Loan Program | Provide funds to assist local municipalities in financing drinking water and waste water infrastructure projects. |

<sup>(1)</sup> Formerly, Indiana Housing Finance Authority. Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds, but has not issued and does not currently expect to issue any such bonds.

<sup>(2)</sup> A not-for-profit corporation authorized by the General Assembly.

## INDIANA PUBLIC RETIREMENT SYSTEM AND STATE PENSION FUNDING OBLIGATIONS

### INPRS and State Retirement Plans

Prior to July 1, 2011, the retirement plans for public employees in the State of Indiana were administered by independent instrumentalities governed by separate boards of appointed trustees, including the Public Employees' Retirement Fund (PERF) and the Indiana State Teachers' Retirement Fund (TRF). Legislation adopted in 2010 called for a consolidation of these entities, which began with the appointment of a joint Executive Director in May 2010, and resulted in the creation, effective July 1, 2011, of the Indiana Public Retirement System (INPRS). INPRS administers seven (7) separate public retirement funds. The State Police Pension Trust continues to be separately administered.

INPRS is governed by a nine-member Board of Trustees, appointed by the Governor pursuant to the following criteria:

- (a) one trustee with experience in economics, finance, or investments,
- (b) one trustee with experience in executive management or benefits administration,
- (c) one trustee who is an active or retired member of the 1977 fund,
- (d) two trustees who are TRF members with at least 10 years of creditable service,
- (e) one trustee who is a PERF member with at least 10 years of creditable service,
- (f) the Director of the State Budget Agency, or designee,
- (g) the Auditor of the State, or nominee and
- (h) the Treasurer of the State, or nominee.

The members of the Board of Trustees are as follows:

**Ken Cochran**  
President  
Hamilton Southeastern Utilities, Inc.

**Michael Pinkham**  
Ft. Wayne Firefighter

**Greg Hahn**  
Chief Investment Officer and President  
Winthrop Capital Management

**Adam M. Horst**  
Office of Management and Budget Director

**Tim Berry**  
Auditor of the State of Indiana

**Bret Swanson**  
President  
Entropy Economics

**Jodi Golden**  
Executive Director  
Indiana Education Savings Authority

**Cari Whicker**  
Teacher  
Riverview Middle School

Vacancy (TRF Member)

The Executive Director of INPRS is Steve Russo, who had previously served as TRF's Executive Director since 2008. Russo is a graduate of Purdue University. His career has included leadership roles with the Naval Avionics Center and technology company Thomson.

INPRS administers and manages the following plans:

- (a) Public Employees' Retirement Fund
- (b) Indiana State Teachers' Retirement Fund
- (c) Prosecuting Attorneys' Retirement Fund
- (d) 1977 Police Officers' and Firefighters' Pension and Disability Fund
- (e) Legislators' Retirement System
- (f) Judges' Retirement System
- (g) State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan

INPRS also oversees three non-retirement funds, including the Pension Relief Fund, the Public Safety Officers' Special Death Benefit Fund, and the State Employees' Death Benefit Fund.

Each retirement fund will continue as a separate fund under the oversight of a combined INPRS nine-member board of trustees. INPRS is not a merger of PERF and TRF Funds and neither the assets nor the liabilities of one fund become the assets or liabilities of the other. Individual funded status for each plan will continue to be calculated separately.

Each year, INPRS will make actuarial valuations of the assets and liabilities of each of the retirement funds. At least once every five years, there will be separate actuarial investigation into the mortality, service, and compensation experience of the members of the systems and their beneficiaries.

The consolidation of retirement plan administration is anticipated to enable greater efficiency, by eliminating duplication of efforts and by pooling assets together for investment purposes.

The combined membership of all plans administered by INPRS is approximately 480,000 people.

### ***Explanatory Comments***

Reference is made hereby to the INPRS website ([www.IN.gov/INPRS](http://www.IN.gov/INPRS)) for access to copies of relevant plan documents. The discussions and tables which follow contain technical information for which the following explanatory comments may be helpful.

- (a) Certain key definitions applicable to the State's pension plans are shown in Key Definitions below.
- (b) Pension plan financial reporting contains both actual historical information and actuarially determined information. Actuarially determined information is based on specific sets of assumptions. Detailed descriptions of relevant assumptions for each plan can be found in each plan's applicable Comprehensive Annual Financial Report (CAFR) as referenced herein.
- (c) Annual Required Contributions (or ARC) are determined by the plan's administrator or board to be the aggregate amount expected to be required from each participating employer based on the plan's assumptions in various matters, in order to pay "normal costs" and payments made to amortize any "unfunded accrual actuarial liability." The administrator will assess each participating employer a contribution requirement expressed as percentage of covered payroll which is projected to produce the desired ARC amount. Actual employer contributions reflect the application of the designated percentage to actual payroll during the period and, thus, often vary from the ARC as calculated and assessed.

- (d) Discussions under this Section “INPRS and State Retirement Plans” are focused primarily on financial reporting and plan descriptions for the State Plans. Discussions under the following Section “State Pension Funding Obligations” are intended to highlight the actual funding requirements of State government.
- (e) In 2012, the Indiana General Assembly passed P.L. 160-2012, which provides that if the amount of the state general fund excess reserves is less than \$50,000,000, the excess reserves shall be carried over to the next year; and that if the excess reserves are \$50,000,000 or more, 50% of the excess reserves shall be transferred to certain pension funds and 50% of the excess reserves shall be used for the purposes of providing an automatic taxpayer refund. In 2012, the JRS, PARF, EPCEP, as defined below, and the 1987 Plan of Indiana State Police Pension Trust will receive 50% of the general fund excess in order to increase their funding levels to 80%. Any money that remains after funding the JRS, PARF, EPCEP, and the 1987 Plan of Indiana State Police Pension Trust to 80% will go to the Pension Stabilization Fund to fund the pre-1996 TRF unfunded liability. If there is an excess in the general fund in or after 2013, then 50% of the excess will go to the Pension Stabilization Fund. Exact numbers for funding amounts are currently under development and will be provided as they become available.

### ***Key Definitions***

Actuarial Accrued Liability (AAL). That portion, as determined by a particular Actuarial Cost Method, of the actuarial present value of pension plan benefits and expenses that is not provided for by future Normal Costs.

Actuarial Cost Method. A method used to develop the actuarial present value of benefits and the allocations of such costs to certain periods of time in order to develop the AAL. Two common Actuarial Cost Methods are projected unit credit, or PUC, and entry age normal, or EAN. The PUC method tends to push more costs into the later part of a member’s service. The EAN method develops a level contribution as a percent of pay (Normal Cost) which, if contributed and invested through the member’s career, is expected to generate sufficient funds to equal the actuarial value of the future benefits by the time the member retires. In order to keep the costs level, EAN allocates a large Normal Cost for the earlier years and a relatively smaller Normal Cost to the later years compared to the PUC method. All plans administered by INPRS use EAN, except the Legislators’ Defined Benefit Plan which uses PUC.

Actuarial Value of Assets (AVA). The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. An Actuarial Value (in contrast to a current market value) attempts to smooth annual investment return performance over multiple years to reduce annual return volatility.

Amortization Period. The period over which the UAAL (defined below) is amortized, which can be either a “fixed” (or “closed”) period of a “rolling” (or “open”) period. During a fixed period, the UAAL is amortized over a declining number of years; for example, 30 years the first year, 29 years the second year, etc. During a rolling period, the UAAL is amortized over an unchanging number of years; for example, 15 years the first year, 15 years the second year, etc. All plans administered by INPRS use closed 30-year amortization periods.

Annual Pension Costs (APC). The aggregate in a particular year of (i) the ARC, (ii) one year’s interest on the NPO (defined below), and (iii) an adjustment to the ARC to offset, approximately, the amount included in item (i) for amortization of past contribution deficiencies.

Annual Required Contribution (ARC). The aggregate in a particular year of (i) the Normal Cost and (ii) payments made to amortize the UAAL.

Assumptions. An actuarial report will utilize demographic and economic assumptions as to the occurrence of future events affecting pension costs, such as investment rate of return, inflation rate, interest credited to member contributions, salary increase rate, annual cost-of-living adjustment, rates of separation from active membership, post-retirement mortality active member mortality, and rates of retirement.

Funded Ratio. The ratio of (A) the AVA or market value of assets to (B) AAL. Such valuation can be on an actuarial or a market value basis. If a plan has a funded ratio of less than 100%, then the plan has a UAAL.

GASB. Governmental Accounting Standards Board of the Financial Accounting Foundation.

Market Value of Assets. As of the valuation date, the value of assets as if they were liquidated on that date.

Net Pension Obligation (NPO). The cumulative differences between the APC and actual employer contribution (*e.g.*, does not include contributions by the employees or any Employer Offset) in a particular year.

Normal Cost. The present value of the benefits that the pension system projects to become payable in the future that are attributable to a valuation year's payroll.

Smoothing Method. A method used in determining AVA that is intended to reduce the impact of market volatility on the assets of a pension plan. Under a Smoothing Method, the annual investment return performance is "smoothed" over multiple years to reduce annual contribution volatility. For example, by use of a "five-year smoothing" methodology, a percentage difference between the net market value and the net book value for each of the most recent five years is calculated. The resulting percentages are averaged for the five-year period and applied to the valuation's year's market value of assets to arrive at the actuarial value of assets, with the result that only 20% of investment gains or losses in a particular year are taken into account in the annual actuarial valuation. All INPRS-administered plans use a four-year smoothing method with a 20% corridor.

Unfunded Actuarial Accrued Liability (or UAAL). The difference between (A) the AVA or market value of assets and (B) the AAL. Such valuation can be on an actuarial or a market value basis.

### ***Public Employees' Retirement Fund***

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. Prior to July 1, 2011, PERF was administered by a six-member Board of Trustees, and after that date, by INPRS.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. On June 30, 2011, PERF had over 310,000 members. The PERF benefit consists of (1) a pension formula benefit based upon years of service and an average of the member's annual compensation as defined by statute, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions ("PERF ASA"). The employee contribution rate is defined by law as 3.0% of each employee's salary. For State employees, the law requires the State to pick up the employee's contributions to PERF.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. The State's contribution rate effective July 1, 2012 to June 30, 2013 is 9.7%. Funding for the State's obligation to PERF is included as part of the expenditures for fringe benefits by each State agency. The tables below highlight the funded status (Table 9) and contribution history (Table 10) for PERF for the last six (6) valuation dates.

**Table 9**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|----------------------------|---|
| 6/30/2006                | 11,177,971                         | 11,450,928                                      | 272,957                   | 97.6               | 4,322,180                  | 6.3   |
| 6/30/2007                | 12,220,934                         | 12,439,798                                      | 218,864                   | 98.2               | 4,385,676                  | 5.0   |
| 6/30/2008                | 12,780,116                         | 13,103,221                                      | 323,105                   | 97.5               | 4,600,354                  | 7.0   |
| 6/30/2009                | 12,569,336                         | 13,506,280                                      | 936,944                   | 93.1               | 4,931,423                  | 19.0  |
| 6/30/2010                | 12,357,199                         | 14,506,052                                      | 2,148,853                 | 85.2               | 4,896,013                  | 43.9  |
| 6/30/2011                | 12,000,586                         | 14,913,147                                      | 2,912,561                 | 80.5               | 4,818,774                  | 60.4  |

**Table 10**  
**Schedule of Employer Contributions**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Annual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 6/30/2006         | 6/30/2005      | 248,120                       | 230,357                       | 92.8                   |
| 6/30/2007         | 6/30/2006      | 275,171                       | 260,150                       | 94.5                   |
| 6/30/2008         | 6/30/2007      | 291,397                       | 303,877                       | 104.3                  |
| 6/30/2009         | 6/30/2008      | 316,059                       | 323,151                       | 102.2                  |
| 6/30/2010         | 6/30/2009      | 360,183                       | 331,090                       | 91.9                   |
| 6/30/2011         | 6/30/2010      | 483,842                       | 342,779                       | 70.8                   |

For further information about PERF including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click “Publications”.

For more information on the State’s funding obligations regarding PERF, see “INDIANA PUBLIC RETIREMENT SYSTEM AND STATE PENSION FUNDING OBLIGATIONS– State Pension Funding Obligations, 1. PERF as to State Employees.”

***Indiana State Teachers’ Retirement Fund***

The Indiana State Teachers’ Retirement Fund (“TRF”) is a multiple-employer retirement fund established to provide pension benefits for teachers and their supervisors in the State’s public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. Prior to July 1, 2011, TRF was administered by a six-member Board of Trustees. Effective July 1, 2011, TRF is administered by INPRS. On June 30, 2011, TRF had over 153,000 total members.

The TRF benefit consists of (1) a defined benefit based upon years of service and final average salary and (2) an additional benefit based upon the member’s annuity savings account (“TRF ASA”) balance, derived from member contributions. The mandatory member contribution rate to his or her TRF ASA is defined by law as 3.0% of each member’s salary. Each employer is authorized to elect to pick up the member contribution.

The TRF is comprised of two plans and related accounts. For members hired prior to July 1, 1995, the plan was closed (the “Pre 1996 Plan”). For members hired after that date, a separate plan was established (the “1996 Plan”).

For the Pre 1996 Plan, monies to pay the related TRF benefits are primarily provided from General Fund appropriations as the liabilities come due each year, or on a “pay as you go” basis. To reduce the amount of future

state appropriations in the Pre 1996 Plan, the State established the Pension Stabilization Fund in July 1, 1995, to partially pre-fund liabilities in the Pre 1996 Plan. The Pension Stabilization Fund has the result of limiting the peak required annual appropriations to the Pre 1996 Plan at a 3.0% increase over the prior year based on an assumed annual investment return of 5.0%. As of June 30, 2011, the balance of the Pension Stabilization Fund was approximately \$2.3 billion. See also INDIANA PUBLIC RETIREMENT SYSTEM AND STATE PENSION FUNDING OBLIGATIONS - “State Pension Funding Obligations, 2. Pre 1996 TRF Plan” for a further discussion on the State funding obligations for the Pre 1996 TRF Plan.

The following tables establish the six (6) year history of funding progress and contributions, respectively, for the Pre-1996 Plan (Tables 11 and 12), the 1996 Plan (Tables 13 and 14) and for total TRF plans (Tables 15 and 16).

**Table 11**  
**Pre 1996 Plan**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|----------------------------|---|
| 6/30/2006                | 5,477,221                          | 15,002,471                                      | 9,525,250                 | 36.5               | 2,237,380                  | 425.7   |
| 6/30/2007                | 5,763,508                          | 15,988,259                                      | 10,224,751                | 36.0               | 2,376,390                  | 430.3   |
| 6/30/2008                | 5,953,991                          | 15,792,305                                      | 9,838,314                 | 37.7               | 2,295,816                  | 428.5   |
| 6/30/2009                | 5,109,086                          | 16,027,093                                      | 10,918,007                | 31.9               | 2,030,484                  | 537.7   |
| 6/30/2010                | 5,382,410                          | 16,282,066                                      | 10,899,656                | 33.1               | 1,865,102                  | 584.4   |
| 6/30/2011                | 5,227,402                          | 16,318,404                                      | 11,091,002                | 32.0               | 1,762,751                  | 629.2   |

**Table 12**  
**Pre 1996 Plan**  
**Schedule of Contributions**  
**From the Employers and other Contributing Entities**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Actual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 6/30/2006         | 6/30/2004      | 556,460                       | 601,259                       | 108.1                  |
| 6/30/2007         | 6/30/2005      | 602,904                       | 636,039                       | 105.5                  |
| 6/30/2008         | 6/30/2006      | 678,050                       | 675,682                       | 99.7                   |
| 6/30/2009         | 6/30/2007      | 700,307                       | 706,366                       | 100.9                  |
| 6/30/2010         | 6/30/2008      | 850,493                       | 731,149                       | 86.0                   |
| 6/30/2011         | 6/30/2009      | 894,507                       | 748,978                       | 83.7                   |

For the 1996 Plan, the State capped its pension benefit obligation by (i) shifting the obligation for all teachers hired after July 1, 1995, to local school districts and (ii) implementing a level percent of payroll current funding approach. INPRS sets the contribution rate for the 1996 Plan based on an actuarial valuation of the 1996 Plan. The 1996 Plan was intended to be responsible not only for newly hired teachers into the schools, but also for the cost of teachers who began service before 1995 but subsequently transferred to other school corporations after 1995. The liability for these transferred teachers, which shifted from the Pre 1996 Plan to the 1996 Plan, began to cause an unfunded liability in the 1996 Plan. The General Assembly in 2005 addressed this growing unfunded liability in the 1996 Plan by stopping the transfer of liabilities—therefore transferred teachers remain part of the Pre 1996 Plan, which is “pay as you go”. In addition, the actuarial assumptions used for calculating the contributions rate into the 1996 Plan now include an assumption for a cost of living adjustment, thereby making the contribution rate for which local schools are liable more realistic. The contribution rate effective July 1, 2012 to June 30, 2013 for the 1996 Plan is 7.5%.

**Table 13**  
**1996 Plan**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|----------------------------|---|
| 6/30/2006                | 2,209,468                          | 2,363,101                                       | 153,633                   | 93.5               | 1,565,341                  | 9.8   |
| 6/30/2007                | 2,713,051                          | 2,827,554                                       | 114,503                   | 96.0               | 1,891,605                  | 6.1   |
| 6/30/2008                | 3,080,057                          | 2,957,758                                       | (122,299)                 | 104.1              | 2,052,720                  | (6.0)   |
| 6/30/2009                | 2,920,735                          | 3,135,533                                       | 214,798                   | 93.1               | 2,308,548                  | 9.3   |
| 6/30/2010                | 3,422,554                          | 3,614,559                                       | 192,005                   | 94.7               | 2,447,509                  | 7.8   |
| 6/30/2011                | 3,664,657                          | 3,996,839                                       | 332,182                   | 91.7               | 2,507,193                  | 13.2  |

**Table 14**  
**1996 Plan**  
**Schedule of Contributions**  
**From the Employers and other Contributing Entities**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Actual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 6/30/2006         | 6/30/2004      | 116,096                       | 100,081                       | 86.2                   |
| 6/30/2007         | 6/30/2005      | 139,978                       | 117,001                       | 83.6                   |
| 6/30/2008         | 6/30/2006      | 122,009                       | 132,446                       | 108.6                  |
| 6/30/2009         | 6/30/2007      | 119,331                       | 147,425                       | 123.5                  |
| 6/30/2010         | 6/30/2008      | 101,627                       | 154,491                       | 152.0                  |
| 6/30/2011         | 6/30/2009      | 154,142                       | 166,633                       | 108.1                  |

**Table 15**  
**Total of TRF Plans**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|----------------------------|---|
| 6/30/2006                | 7,686,689                          | 17,365,572                                      | 9,678,883                 | 44.3               | 3,802,721                  | 254.5   |
| 6/30/2007                | 8,476,559                          | 18,815,813                                      | 10,339,254                | 45.1               | 4,267,995                  | 242.3   |
| 6/30/2008                | 9,034,048                          | 18,750,063                                      | 9,716,015                 | 48.2               | 4,348,536                  | 223.4   |
| 6/30/2009                | 8,029,821                          | 19,162,626                                      | 11,132,805                | 41.9               | 4,339,032                  | 256.6   |
| 6/30/2010                | 8,804,964                          | 19,896,625                                      | 11,091,661                | 44.3               | 4,312,611                  | 257.2   |
| 6/30/2011                | 8,892,059                          | 20,315,243                                      | 11,423,184                | 43.8               | 4,269,944                  | 267.5   |

**Table 16**  
**Total of TRF Plans**  
**Schedule of Contributions**  
**From the Employers and other Contributing Entities**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Actual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 6/30/2006         | 6/30/2004      | 672,556                       | 701,340                       | 104.3                  |
| 6/30/2007         | 6/30/2005      | 742,882                       | 753,040                       | 101.4                  |
| 6/30/2008         | 6/30/2006      | 800,059                       | 808,128                       | 101.0                  |
| 6/30/2009         | 6/30/2007      | 819,638                       | 853,791                       | 104.2                  |
| 6/30/2010         | 6/30/2008      | 952,120                       | 885,640                       | 93.0                   |
| 6/30/2011         | 6/30/2009      | 1,048,649                     | 915,611                       | 87.3                   |

For further information about TRF including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications". In addition, CAFRs and actuarial reports are also available for prior fiscal years at the referenced website.

**Other Plans**

INPRS also administers five other plans in addition to PERF and TRF. These include the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Judges' Retirement System, the Legislators' Retirement System, the State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan, and the Prosecuting Attorneys' Retirement Fund. Table 17 highlights the actuarial valuation findings for these plans as of June 30, 2011.

**Table 17**  
**Other State Pension Funds**  
**Summary of Results of Actuarial Valuation as of June 30, 2011**  
(dollars in thousands)

|                                   | Judges' Retirement System <sup>(1)</sup> | Legislators' Defined Benefit Plan | State Excise Police, Gaming Agent, Gaming Control Officer & Conservation Enforcement Officers' Retirement Plan | Prosecuting Attorneys' Retirement Fund | 1977 Police Officers' and Firefighters' Pension and Disability Fund |
|-----------------------------------|--|-----------------------------------|--|--|---|
| <b>Funded Status</b>              |  |                                   |  |  |   |
| Actuarial Value of Assets         | \$248,623                                | \$3,634                           | \$72,599   | \$25,651                               | \$3,593,787   |
| Actuarial Accrued Liability (AAL) | 400,274                                  | 4,621                             | 101,534  | 53,252                                 | 3,638,956   |
| Unfunded/(Overfunded) AAL         | 151,651                                  | 987                               | 28,935   | 27,601                                 | 45,169  |
| Funded Ratio                      | 62.1%                                    | 78.6%                             | 71.5%  | 48.2%                                  | 98.8%   |
| <b>Contribution History</b>       |  |                                   |  |  |   |
| Annual Required Contributions     | \$18,910                                 | \$113                             | \$5,179  | \$1,960                                | \$133,903   |
| Actual Employer Contributions     | 19,200                                   | 0                                 | 5,197  | 170                                    | 133,726   |
| Percentage Contributed            | 101.5%                                   | 0.0%                              | 100.3%   | 8.7%                                   | 99.9%   |

<sup>(1)</sup>Actuarial cost method is a pay-as-you-go-plan

Source: Actuarial Valuation Reports, June 30, 2011

Further information about other plans including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications". In addition, CAFRs and actuarial reports are also available for prior fiscal years.

1977 Police Officers' and Firefighters' Pension Disability Fund

The 1977 Police Officers' and Firefighters' Pension and Disability Fund ("1977 Fund") has been in existence since 1977 to provide retirement, disability and survivor benefits for Police Officers and Firefighters. Prior to July 1, 2011, the 1977 Fund was administered by a six-member Board of Trustees, and after that date, by INPRS.

On June 30, 2011, the 1977 Fund had 17,259 members, survivors and beneficiaries. The pension benefit consists of a pension formula benefit based upon years of service and the first-class salary as defined by statute. The employee contribution rate is defined by law as 6% of first-class salary.

Contributions are made to the 1977 Fund by the participating employer units as determined by INPRS. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. Funding for the participating employer unit's obligation to the 1977 Fund is included as part of the expenditures for fringe benefits by the participating unit. The tables below highlight the funded status (Table 18) and contribution history (Table 19) for the 1977 Fund for the last six (6) valuation dates.

**Table 18**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|----------------------------|---|
| 12/31/2005               | \$2,347,986                        | \$2,415,053                                     | \$67,067                  | 97.2%              | \$522,227                  | 12.8%   |
| 12/31/2006               | 2,860,512                          | 2,649,525                                       | (210,987)                 | 108.0              | 557,644                    | (37.8)  |
| 12/31/2007               | 3,281,480                          | 2,889,295                                       | (392,185)                 | 113.6              | 603,963                    | (64.9)  |
| 12/31/2008               | 3,352,705                          | 3,150,827                                       | (201,878)                 | 106.4              | 644,936                    | (31.3)  |
| 6/30/2009                | 3,265,598                          | 3,332,686                                       | 67,088                    | 98.0               | 649,018                    | 10.3  |
| 6/30/2010                | 3,374,438                          | 3,639,669                                       | 265,231                   | 92.7               | 675,797                    | 39.2  |
| 6/30/2011                | 3,593,787                          | 3,638,956                                       | 45,169                    | 98.8               | 687,342                    | 6.6   |

**Table 19**  
**Schedule of Employer Contributions**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Annual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 12/31/2005        | 12/31/2004     | \$97,286                      | \$108,768                     | 111.8%                 |
| 12/31/2006        | 12/31/2005     | 102,964                       | 143,272                       | 139.1                  |
| 12/31/2007        | 12/31/2006     | 108,741                       | 122,712                       | 112.7                  |
| 12/31/2008        | 12/31/2007     | 117,773                       | 133,196                       | 112.6                  |
| 6/30/2009         | 6/30/2008      | 62,881                        | 64,285                        | 102.2                  |
| 6/30/2010         | 6/30/2009      | 126,558                       | 130,775                       | 103.3                  |
| 6/30/2011         | 6/30/2010      | 133,903                       | 133,726                       | 99.9                   |

The 1977 Fund provides pension and disability benefits for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members. In addition, the INPRS Board of Trustees administers a Pension Relief Fund for local police and fire units whose employees participate in the 1925 police pension fund, the 1937

firefighters' pension fund and the 1953 police pension fund (the "Old Funds"). Benefits for the members who participate in the Old Funds have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenue of cities and towns and by plan members' contributions. The State currently reimburses cities and towns for their entire pension benefit expenditure under the Old Funds via the Pension Relief Fund, but previously reimbursed cities and towns for a portion of their pension benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits, and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2011, \$219 million was expended from the Pension Relief Fund, and on June 30, 2011, the total net assets of the Pension Relief Fund were \$53 million.

Further information about the 1977 Fund including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications".

### Judges' Retirement System

The Judges' Retirement System ("JRS") has been in existence since 1953 to provide retirement, disability and survivor benefits for Judges. Prior to July 1, 2011, The Judges' Retirement System was administered by a six-member Board of Trustees, and after that date, by INPRS.

All Judges and magistrates in covered positions are required to join the JRS. On June 30, 2011, the JRS had 770 members, survivors and beneficiaries. The pension benefit consists of a pension formula benefit based upon years of service and the member's salary as defined by statute. The employee contribution rate is defined by law as 6% of each employee's salary.

Contributions are made to the JRS by the State as determined by INPRS. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on the annual actuarial valuation. The State's obligation to the JRS is funded by appropriations from the state general fund. The tables below highlight the funded status (Table 20) and contribution history (Table 21) for the JRS for the last six (6) valuation dates.

**Table 20**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|----------------------------|---|
| 6/30/2006                | 178,276                            | 272,997   | 94,721                    | 65.3               | 34,065                     | 278.1   |
| 6/30/2007                | 211,747                            | 283,995   | 72,248                    | 74.6               | 29,712                     | 243.2   |
| 6/30/2008                | 234,881                            | 338,749   | 103,868                   | 69.3               | 33,729                     | 307.9   |
| 6/30/2009                | 240,954                            | 330,551   | 89,597                    | 72.9               | 36,196                     | 247.5   |
| 6/30/2010                | 242,143                            | 364,123   | 121,980                   | 66.5               | 36,722                     | 332.2   |
| 6/30/2011                | 248,623                            | 400,273   | 151,650                   | 62.1               | 45,764                     | 331.4   |

**Table 21**  
**Schedule of Employer Contributions**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Annual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 6/30/2006         | 6/30/2005      | 14,932                        | 13,537                        | 90.7                   |
| 6/30/2007         | 6/30/2006      | 12,249                        | 14,662                        | 119.7                  |
| 6/30/2008         | 6/30/2007      | 10,028                        | 15,920                        | 158.8                  |
| 6/30/2009         | 6/30/2008      | 16,131                        | 20,861                        | 129.3                  |
| 6/30/2010         | 6/30/2009      | 16,077                        | 18,631                        | 115.9                  |
| 6/30/2011         | 6/30/2010      | 18,910                        | 19,200                        | 101.5                  |

Further information about the JRS including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click “Publications”.

Prosecuting Attorneys’ Retirement Fund

(“PARF”) has been in existence since 1990 to provide retirement, disability and survivor benefits for Prosecuting Attorneys, Chief Deputy Prosecuting Attorneys and Deputy Prosecuting Attorneys. Prior to July 1, 2011, PARF was administered by a six-member Board of Trustees, and after that date, by INPRS.

All Prosecuting Attorneys, Chief Deputy Prosecuting Attorneys and Deputy Prosecuting Attorneys are required to join PARF. PARF members are also required to join PERF. On June 30, 2011, PARF had 550 members, survivors and beneficiaries. The PARF benefit consists of a pension formula benefit based upon years of service and the member’s annual compensation as defined by statute. The employee contribution rate is defined by law as 6% of each employee’s salary. The employer may pick up the employee’s contributions to PARF.

Contributions are made to PARF by the State determined by normal cost and amortizing the unfunded accrued liability during periods established pursuant to statute. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. The tables below highlight the funded status (Table 22) and contribution history (Table 23) for PARF for the last six (6) valuation dates.

**Table 22**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|----------------------------|---|
| 6/30/2006                | 20,053                             | 29,184  | 9,131                     | 68.7               | 19,225                     | 47.5  |
| 6/30/2007                | 23,815                             | 32,052  | 8,237                     | 74.3               | 18,092                     | 45.5  |
| 6/30/2008                | 26,350                             | 38,069  | 11,719                    | 69.2               | 20,617                     | 56.8  |
| 6/30/2009                | 26,467                             | 44,632  | 18,165                    | 59.3               | 20,782                     | 87.4  |
| 6/30/2010                | 26,166                             | 49,174  | 23,008                    | 53.2               | 21,016                     | 109.5   |
| 6/30/2011                | 25,651                             | 53,252  | 27,601                    | 48.2               | 18,082                     | 152.6   |

**Table 23**  
**Schedule of Employer Contributions**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Annual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 6/30/2006         | 6/30/2005      | 952                           | 170                           | 17.9                   |
| 6/30/2007         | 6/30/2006      | 1,044                         | 190                           | 18.2                   |
| 6/30/2008         | 6/30/2007      | 1,040                         | 170                           | 16.3                   |
| 6/30/2009         | 6/30/2008      | 1,340                         | 170                           | 12.7                   |
| 6/30/2010         | 6/30/2009      | 1,663                         | 170                           | 10.2                   |
| 6/30/2011         | 6/30/2010      | 1,960                         | 170                           | 8.7                    |

Further information about PARF including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click “Publications”.

Legislators’ Retirement System

The Legislators’ Retirement System (“LRS”) has been in existence since 1989 to provide retirement, disability and survivor benefits for members of the General Assembly. Prior to July 1, 2011, the LRS was administered by a six-member Board of Trustees, and after that date, by INPRS. The LRS includes two plans: The Legislators’ Defined Benefit Plan (“LEDBP”) and the Legislators’ Defined Contribution Plan (“LEDCP”). The LEDBP includes only legislators of the state of Indiana who were serving on April 30, 1989, and elected participation. Legislators elected or appointed after April 30, 1989 participate in the LEDCP.

On June 30, 2011, the LEDBP had 112 members, survivors and beneficiaries. The LEDBP benefit consists of a pension formula benefit based upon the lesser of \$40 per month times the years of service in the General Assembly prior to November 8, 1989 or the highest consecutive three-year average annual salary at termination, divided by twelve.

Contributions are made to the LEDBP by the State determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. The LEDBP is funded by appropriations from the State general fund. The tables below highlight the funded status of the LEDBP (Table 24) and contribution history (Table 25) for the LEDBP for the last six (6) valuation dates.

**Table 24**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Number of Active Participants (c) | UAAL per Covered Participant ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|-----------------------------------|--|
| 6/30/2006                | 4,721                              | 5,232   | 511                       | 90.2               | 46                                | 11                                     |
| 6/30/2007                | 5,035                              | 5,169   | 134                       | 97.4               | 43                                | 3                                      |
| 6/30/2008                | 5,120                              | 5,039   | (81)                      | 101.6              | 34                                | (2)                                    |
| 6/30/2009                | 4,730                              | 5,087   | 357                       | 93.0               | 33                                | 11                                     |
| 6/30/2010                | 4,075                              | 4,909   | 834                       | 83.0               | 20                                | 42                                     |
| 6/30/2011                | 3,634                              | 4,621   | 987                       | 78.6               | 7                                 | 141                                    |

**Table 25**  
**Schedule of Employer Contributions**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Annual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 6/30/2006         | 6/30/2005      | 91                            | 100                           | 109.9                  |
| 6/30/2007         | 6/30/2006      | 120                           | 100                           | 83.3                   |
| 6/30/2008         | 6/30/2007      | 66                            | 100                           | 151.5                  |
| 6/30/2009         | 6/30/2008      | 45                            | 100                           | 222.2                  |
| 6/30/2010         | 6/30/2009      | 63                            | -                             | 0.0                    |
| 6/30/2011         | 6/30/2010      | 113                           | -                             | 0.0                    |

On June 30, 2011 the LEDCP had 222 members. The LEDCP employee contribution rate is defined by law as 5%. Contributions are made to the LEDCP by the state based on a rate determined by the INPRS board and confirmed by the budget agency not to exceed the total contribution rate paid that year by the state to INPRS for state employees.

Further information about the LEDBP including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications."

State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan

The State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan ("EPCEP") has been in existence since 1972 to provide retirement, disability and survivor benefits for Excise Police, Gaming Agents, Gaming Control Officers and Conservation Enforcement Officers. Prior to July 1, 2011, EPCEP was administered by a six-member Board of Trustees, and after that date, by INPRS.

All Excise Police, Gaming Agents, Gaming Control Officers and Conservation Enforcement Officers are required to join EPCEP. On June 30, 2011, EPCEP had 680 members, survivors and beneficiaries. The EPCEP benefit consists of a pension formula benefit based upon years of service and the member's annual compensation as defined by statute. The employee contribution rate is defined by law as 4% of each employee's salary. The employer may pick up the employee's contributions to EPCEP.

Contributions are made to EPCEP by the State determined by normal cost and amortizing the unfunded accrued liability during periods established pursuant to statute. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. Funding for the State's obligation to EPCEP is included as part of the expenditures for fringe benefits by each State agency. The tables below highlight the funded status (Table 26) and contribution history (Table 27) for EPCEP for the last six (6) valuation dates.

**Table 26**  
**Schedule of Funding Progress**  
(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|------------------------------------|---|---------------------------|--------------------|----------------------------|---|
| 6/30/2006                | 48,496                             | 64,765  | 16,269                    | 74.9               | 14,892                     | 109.2   |
| 6/30/2007                | 57,414                             | 74,451  | 17,037                    | 77.1               | 17,715                     | 96.2  |
| 6/30/2008                | 65,375                             | 77,177  | 11,802                    | 84.7               | 21,333                     | 55.3  |
| 6/30/2009                | 68,170                             | 89,296  | 21,126                    | 76.3               | 25,238                     | 83.7  |
| 6/30/2010                | 70,327                             | 97,862  | 27,535                    | 71.9               | 26,709                     | 103.1   |
| 6/30/2011                | 72,599                             | 101,534   | 28,935                    | 71.5               | 24,028                     | 120.4   |

**Table 27**  
**Schedule of Employer Contributions**  
(dollars in thousands)

| Fiscal Year Ended | Valuation Date | Annual Required Contributions | Annual Employer Contributions | Percentage Contributed |
|-------------------|----------------|-------------------------------|-------------------------------|------------------------|
| 6/30/2006         | 6/30/2005      | 2,710                         | 2,498                         | 92.2                   |
| 6/30/2007         | 6/30/2006      | 3,128                         | 3,359                         | 107.4                  |
| 6/30/2008         | 6/30/2007      | 3,676                         | 4,854                         | 132.0                  |
| 6/30/2009         | 6/30/2008      | 4,427                         | 5,294                         | 119.6                  |
| 6/30/2010         | 6/30/2009      | 5,237                         | 5,256                         | 100.4                  |
| 6/30/2011         | 6/30/2010      | 5,179                         | 5,197                         | 100.3                  |

Further information about EPCEP including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications".

***Indiana State Police Pension Trust***

The Indiana State Police Pension Trust was established in 1937. The Trust consists of a two-part State Police Benefit System, the Pre-1987 Plan and the 1987 Plan, that provide retirement benefits to the employee beneficiaries. The Trust is administered by the Pension Advisory Board, which consists of the Superintendent of the Department of State Police; a representative of the pension consultants and the Trustee (Treasurer of State of Indiana), who both serve on a nonvoting basis; three active employees of the Department of State Police; and an Executive Secretary who is appointed by the Superintendent.

The State Police Pension Fund shall consist of voluntary contributions from the Department, contributions deducted from the wages of employees of the Department, any other payments or contributions made by the State of Indiana in the form of appropriations from the State's General Fund and the Motor Vehicle Highway Fund, and the income and proceeds derived from the investment of the Fund.

Employees who are participating in the Pre-1987 Plan shall make contributions equal to 5% of their salary, provided that the maximum contribution shall be equal to 5% of the Six Year Trooper Salary. Employees who are participating in the 1987 Plan shall make contributions equal to 6% of their salary. The method used in determining the annual required contributions and the calculation of the unfunded actuarial accrued liability is the Entry Age Actuarial Cost Method. A smoothed basis method is used for the asset valuation.

See the following tables for the funding status and a contribution history.

**Table 28**

| <u>Schedule of Funding Progress</u> |                           |                                   |                               |                      |                        |                      |
|-------------------------------------|---------------------------|-----------------------------------|-------------------------------|----------------------|------------------------|----------------------|
|                                     | (a)                       | (b)                               | (c)                           | (d)                  |                        | UAAL as              |
| Valuation Date                      | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) (b) - (a) | Funded Ratio (a)/(b) | Annual Covered Payroll | % of Payroll (c)/(d) |
| 7/1/2006                            | \$339,122,497             | \$392,809,758                     | \$ 53,687,261                 | 86.3%                | \$54,156,357           | 99.1%                |
| 7/1/2007                            | \$371,918,092             | \$413,968,601                     | \$ 42,050,509                 | 89.8%                | \$59,862,892           | 70.2%                |
| 7/1/2008                            | \$386,872,985             | \$438,460,280                     | \$ 51,587,295                 | 88.2%                | \$65,421,105           | 78.9%                |
| 7/1/2009                            | \$356,056,202             | \$453,687,692                     | \$ 97,631,490                 | 78.5%                | \$68,283,255           | 143.0%               |
| 7/1/2010                            | \$363,487,316             | \$447,063,504                     | \$ 83,576,188                 | 81.3%                | \$66,603,419           | 125.5%               |
| 7/1/2011                            | \$361,457,004             | \$470,852,078                     | \$109,395,074                 | 76.8%                | \$64,947,968           | 168.4%               |

\*Determined under the Entry Age Actuarial Cost Method, as defined in Statement #27 of the Governmental Account Standards Board. Under this method, the Actuarial Present Value of the Projected Benefits of each individual is allocated on a level basis over the earnings of the individual between age at hire and assumed retirement age. The amortization of the Unfunded Actuarial Accrued Liability is based on a 40-year closed period from July 1, 1997.

**Table 29**

Schedule of Employer Contributions

| Plan Year Ended June 30 | Annual Required Contribution (ARC)* | Actual Employer Contribution | Percentage of ARC Contributed | Net Pension Obligation (NPO) |
|-------------------------|-------------------------------------|------------------------------|-------------------------------|------------------------------|
| 2007                    | \$9,472,493                         | \$12,113,595                 | 127.9%                        | \$8,606,962                  |
| 2008                    | \$9,173,931                         | \$9,412,228                  | 102.6%                        | \$8,277,546                  |
| 2009                    | \$10,361,583                        | \$9,472,493                  | 91.4%                         | \$9,071,870                  |
| 2010                    | \$14,229,907                        | \$9,471,135                  | 66.6%                         | \$13,718,223                 |
| 2011                    | \$12,266,567                        | \$9,449,670                  | 77.0%                         | \$16,389,890                 |
| 2012                    | \$14,517,041                        |                              |                               |                              |

\*The Annual Required Contribution (ARC) is not equal to the minimum annual contribution in accordance with Indiana Code 10-12-2-2(i) but instead determined under the Entry Age Actuarial Cost Method as defined in Statement #27 of the Governmental Account Standards Board GASB#27). The amortization of the Unfunded Actuarial Accrued Liability is based on a 40-year closed period from July 1, 1997 and is determined as a level dollar amount. Effective July 1, 2010, the amortization is based on a 30-year closed period from July 1, 2010 as a level dollar amount.

## State Pension Funding Obligations

The State is obligated to fund various components of the plans described above as follows:

### 1. PERF as to State Employees

Table 30 below represents the historical presentation showing only the active, State-related portion, not including the PERF ASA.

**Table 30**  
**Public Employees' Retirement Fund**  
**(Active, State-Related Portion, Not Including the PERF ASA)<sup>(1)</sup>**  
(dollars in thousands)

|                                   | <u>June 30, 2006<sup>(2)</sup></u> | <u>June 30, 2007</u> | <u>June 30, 2008</u> | <u>June 30, 2009</u> | <u>June 30, 2010</u> | <u>June 30, 2011</u> |
|-----------------------------------|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Funded Status</b>              |                                    |                      |                      |                      |                      |                      |
| Actuarial Value of Assets         | \$2,169,620                        | \$2,350,652          | \$2,469,431          | \$2,121,550          | \$1,803,664          | \$1,433,516          |
| Actuarial Accrued Liability (AAL) | 2,210,377                          | 2,335,082            | 2,513,791            | 2,443,039            | 2,678,031            | 2,538,861            |
| Unfunded/(Overfunded) AAL         | 40,757                             | (15,570)             | 44,360               | 321,489              | 874,367              | 1,105,345            |
| Funded Ratio                      | 98.2%                              | 100.7%               | 98.2%                | 86.8%                | 67.4%                | 56.5%                |
| Contribution Rate <sup>(3)</sup>  | 6.3%                               | 6.3%                 | 6.5%                 | 7.0%                 | 8.6%                 | 9.7%                 |
| <b>Contribution History</b>       |                                    |                      |                      |                      |                      |                      |
| Annual Required Contributions     | \$87,947                           | \$96,430             | \$99,135             | \$107,981            | \$118,200            | \$176,290            |
| Actual Employer Contributions     | 72,890                             | 89,801               | 106,867              | 111,214              | 111,555              | 115,232              |
| Percentage Contributed            | 82.9%                              | 93.1%                | 107.8%               | 103.0%               | 94.4%                | 65.4%                |

<sup>(1)</sup> State-related portion does not include any information from schools.

<sup>(2)</sup> The 1.0% lifetime cost of living adjustment assumption was changed to a 1.5% lifetime cost of living adjustment assumption as the final step in phasing in this assumption. Also, the actuarial assumptions were revised based on the recommendations of an actuarial experience study prepared for the period 2000-2005.

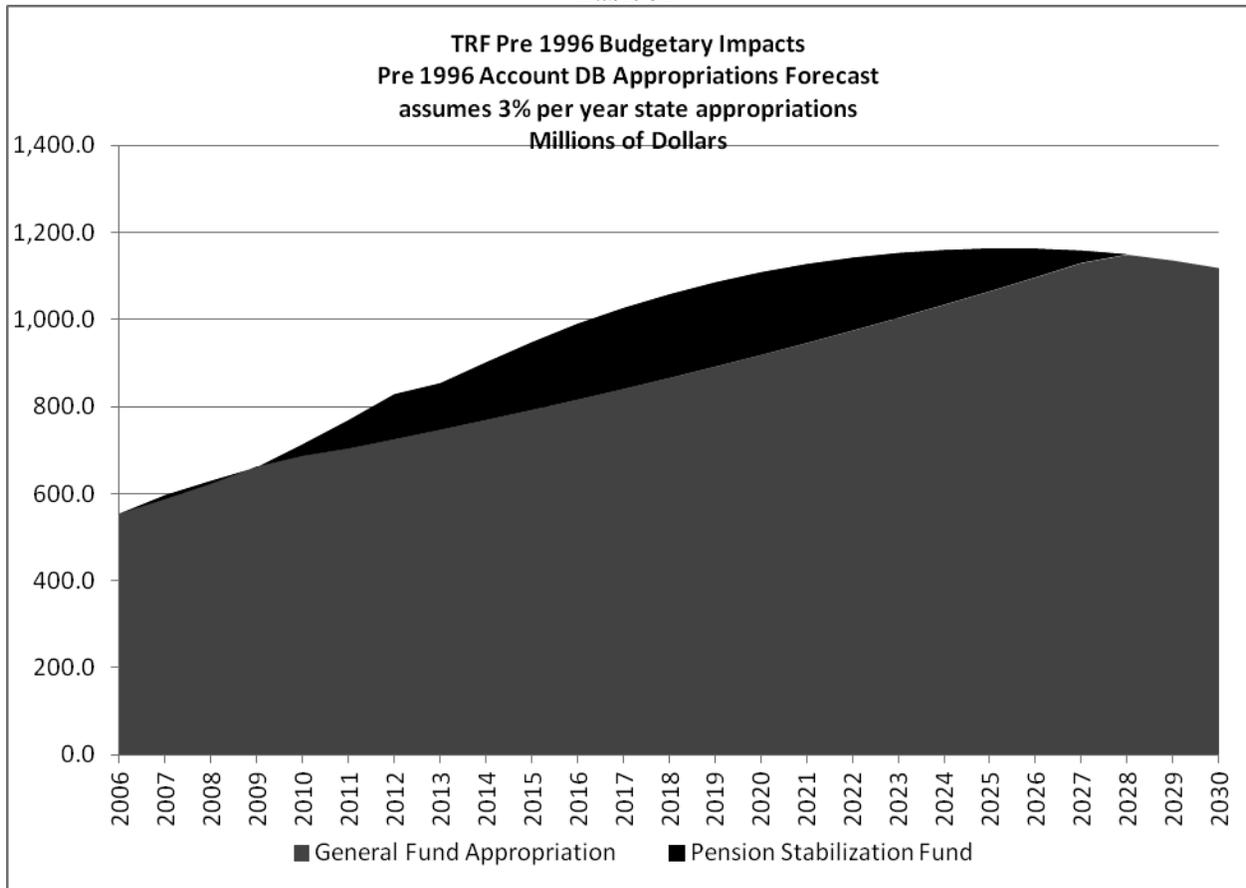
<sup>(3)</sup> Contribution rate is a blended rate for all employers participating in the PERF plan, and is set using the most recently completed actuarial valuation that goes into effect July 1 of the next calendar year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, June 30, 2011.

### 2. Pre 1996 TRF Plan

The Pension Stabilization Fund has been a source of State contributions to the Pre 1996 Plan in the last five years, and projections indicate that the Pension Stabilization Fund will be expended over the next approximately 16 years for this purpose at which time the State's Obligations under the Pre 1996 Plan are expected to be lower each succeeding year. If the annual amount of benefit liabilities for the Pre 1996 Plan retirees exceeds the annual state appropriation allotted to the Pre 1996 Plan, the Pension Stabilization Fund supplements the shortfall. The Pension Stabilization Fund amount is impacted each year by investment earnings and monies allotted from the Lottery. Projections of future annual benefit payments from the Pre 1996 Plan range from approximately \$123 million/year to almost \$1.2 billion. Projections of future annual benefit payments from the Pre 1996 Plan will continue to grow from the current level of \$0.8 billion annually and will peak at almost \$1.2 billion annually. This funding will be provided by the annual state appropriations which are projected to grow by 3% per year with any remaining required amounts coming from the Pension Stabilization Fund. Table 31 below shows the projected value of the Pension Stabilization Fund over time and Table 32 shows the payments (and the sources therefore) under the Pre 1996 Plan in recent years.

**Table 31**



Projections assume, inter alia, (1) a 5% annual investment return on the Pension Stabilization Fund, (ii) continued annual funding of Pension Stabilization Fund from lottery revenues of \$30 million, and (iii) 103% year over year appropriations from General Fund for Pre-1996 Plan benefits. Projections are subject to change.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2011.

See the following table for the contribution history.

**Table 32**  
**TRF Pre-1996 Pension Stabilization Fund Balances**

(Dollars in Millions)

| <u>Fiscal Year</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| PSF Balance        | \$1,537.0   | \$1,880.1   | \$2,084.5   | \$1,614.4   | \$1,932.8   | \$2,263.5   |

3. Other Plan Obligations

The State's funding obligations for each of the other components of the State pension system are small relative to PERF and TRF and can be seen in prior tables under "Annual Employer Contributions".

## ECONOMIC AND DEMOGRAPHIC INFORMATION

### Summary

Indiana is expanding the diversity of its economy while maintaining its strong tradition in the manufacturing sector. Manufacturing capacity has contributed to Indiana's estimated 2011 State Gross Domestic Product (GDP) of approximately \$278 billion (current dollars), ranking seventeenth largest in the country in terms of the value of goods and services produced. The Manufacturing sector now represents 16% of total employment in Indiana, a decrease from 20% in 2001. From 2001 to 2011, Indiana witnessed significant shifts in the distribution of employment between sectors. Employment in the Education and Health Services sector increased by 22.8%; followed by an 18% gain in Professional & Business Services. Trade, Transportation & Utilities is the largest employment super sector in Indiana.

Indiana is rich in assets with a low cost of living, a business-friendly regulatory environment and an efficient transportation system. Well-located for goods production and distribution, Indiana is within a day's drive of nearly two-thirds of the United States' population. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. The Governor's 2006 Major Moves transportation initiative, calling for \$10.6 billion invested over 10 years, will fund both maintenance and new construction for Indiana's roadways. Coupled with the elimination of the state's inventory tax and the adoption of Daylight Savings Time in 2006, Indiana becomes even more attractive as a site for production, warehousing and distribution and transportation activities.

The cost of living index for Indiana's major cities has been consistently below the national average. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana due to the ready availability of ample natural resources. According to the U.S. Energy Information Administration, year-to-date average retail electric utility rates through December 2011 were 7% lower than the national average for all industrial consumers; while residential retail electric bills were 17% below the national average.

The Indiana Economic Development Corporation (IEDC) is Indiana's lead economic development agency. Officially established in February 2005 to replace the State's former Department of Commerce, the IEDC is a public private partnership governed by a 12-member board of directors chaired by the Governor. Since its inception, the IEDC has worked with more than 1,403 companies from across Indiana and around the globe who have collectively committed to create more than 158,800 new jobs and invest nearly \$30.8 billion of private capital in their Indiana operations. In 2012 alone, the IEDC has already worked with 185 companies who have committed to create more than 17,850 new jobs and invest more than \$3 billion in new or expanded operations in industries ranging from advanced manufacturing, life sciences, defense and information technology.

### Population

Indiana is the 15<sup>th</sup> most populous state in the United States. The capital and largest city is Indianapolis. From 2000 to 2011, the Indianapolis-Carmel Metropolitan Statistical Area ("MSA") grew by 16.6%. While Indiana's educational attainment rate for bachelors' degrees has lagged the nation and several neighboring states, estimates from Census 2000 and the 2001-2010 American Community Survey indicates that between 2000 and 2010, the number of individuals with "some college", associates' degrees and bachelors' degrees were increasing at a substantially higher rate than the population 25 years and older. In addition, of those Hoosiers who have completed a bachelors' degree or above, 34.5% have attained masters', doctoral or professional degrees, compared to the national average of 37.0%.

**Table 33**  
**Educational Attainment, Indiana Population 25 Years & Over**

| <u>Year</u>         | <u>Some college, no degree</u> | <u>Assoc Degree</u> | <u>BA/BS or Above</u> | <u>Population 25 Yrs &amp; Over</u> |
|---------------------|--------------------------------|---------------------|-----------------------|-------------------------------------|
| 2000                | 727,387                        | 210,265             | 749,872               | 3,893,278                           |
| 2001                | 739,281                        | 244,714             | 789,776               | 3,882,504                           |
| 2002                | 725,926                        | 219,712             | 794,098               | 3,845,706                           |
| 2003                | 747,449                        | 253,224             | 811,771               | 3,863,200                           |
| 2004                | 768,437                        | 250,762             | 838,435               | 3,889,833                           |
| 2005                | 789,952                        | 276,886             | 840,876               | 3,956,723                           |
| 2006                | 793,292                        | 296,052             | 891,489               | 4,110,754                           |
| 2007                | 803,293                        | 293,297             | 914,471               | 4,143,159                           |
| 2008                | 866,304                        | 313,410             | 956,371               | 4,177,420                           |
| 2009                | 884,767                        | 314,491             | 943,472               | 4,193,210                           |
| 2010                | 884,028                        | 317,235             | 960,164               | 4,229,798                           |
| 2011                | 889,391                        | 336,181             | 978,796               | 4,255,459                           |
| 2000-2011<br>Growth | 22.3%                          | 59.9%               | 30.5%                 | 9.3%                                |

Sources: Census 2000, 2010, American Community Survey 2001-2011, September 2012

Indiana’s excellent state colleges and universities attract the brightest students both nationally and globally (the state ranked 2<sup>nd</sup> nationally in terms of net domestic migration of college freshmen in 2008, according to the National Center for Education Studies).<sup>(1)</sup> These schools also serve as the focus of research and development efforts; assist in the formation of small business “incubators,” and award advanced degrees in fields as varied as engineering, economics and pharmacy. In 2009, based on a National Science Foundation (NSF) survey, among the nation’s public universities, Indiana ranked 18<sup>th</sup> in the nation in Academic Research & Development from Institutional funding (including grants and endowments) and 10<sup>th</sup> in terms of Industry (for-profit entities) funding and 17<sup>th</sup> in funding from “All Other” sources.<sup>(2)</sup> In the National Science Foundation 2006-2008 Science and Engineering State Profiles report, Indiana ranks in the top 20 for numbers of Doctoral Scientists, Science and Engineering (S&E) doctorates awarded, S&E and health post doctorates and graduate students in doctorate granting institutions.<sup>(3)</sup> Indiana University, Purdue University and the University of Notre Dame have all been included in the Financial Times rankings of the world’s top business schools.<sup>(4)</sup>

Section Footnotes:

<sup>(1)</sup> <http://www.stats.indiana.edu/sip/>

<sup>(2)</sup> [http://www.nsf.gov/statistics/nsf09303/content.cfm?pub\\_id=3871&id=2](http://www.nsf.gov/statistics/nsf09303/content.cfm?pub_id=3871&id=2)

<sup>(3)</sup> <http://www.nsf.gov/statistics/states/show.cfm?stateID=53,15&year=0>

<sup>(4)</sup> Financial Times Report: Global MBA Rankings, 2012; <http://rankings.ft.com/businessschoolrankings/global-mba-rankings-2012>

**Table 34**  
**Population, including Selected Indiana MSAs**

|                                    | <u>2000*</u> | <u>2011</u> | <u>Percentage Change</u><br><u>2000-2011</u> |
|------------------------------------|--------------|-------------|--|
| Indiana                            | 6,080,485    | 6,516,922   | 7.2%   |
| Indianapolis-Carmel MSA            | 1,525,104    | 1,724,161   | 16.6%  |
| Fort Wayne MSA                     | 390,156      | 419,453     | 7.5%   |
| Evansville-Henderson MSA (IN part) | 283,866      | 300,255     | 5.8%   |
| Gary PMSA                          | 675,971      | 708,672     | 4.8%   |
| South Bend MSA                     | 316,663      | 318,688     | 0.6%   |
| United States                      | 281,421,906  | 312,008,742 | 10.9%  |

\* These Indiana Metropolitan Statistical Areas were reconfigured in 2005. The above population estimates are based on the areas as defined by the Office of Management and Budget as of December 2005. Consistent aggregate historical data are not yet readily available. Source: U.S. Census Bureau, June 2012.

### Employment

During this past decade, employment in Indiana has shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Within the Manufacturing sector, some well-paying industry components continued to experience employment declines in 2011, generally mirroring the nation. Medical Equipment & Supplies Manufacturing, however, has continued to see high growth through 2011. Listed on the table below are some examples of high wage subsectors in Indiana.

**Table 35**  
**Indiana High Wage Subsectors**

| <u>NAICS</u><br><u>Subsector</u> | <u>Sector Description</u>                        | <u>2006-2011</u><br><u>Employment Change</u> | <u>Indiana % Change</u> | <u>Indiana 2011</u><br><u>Annual Average Wage</u> |
|----------------------------------|--|--|-------------------------|---|
| 3362                             | Motor Vehicle Body & Trailer<br>Manufacturing    | -13,100                                      | -33%                    | \$46,750  |
| 3361                             | Motor Vehicle Manufacturing                      | 1,400  | 11%                     | \$72,750  |
| 6113                             | Colleges, Universities &<br>Professional Schools | 4,700  | 7%                      | \$45,100  |
| 6220                             | Hospitals  | 9,500  | 8%                      | \$46,500  |
| 3391                             | Medical Equipment & Supplies<br>Manufacturing    | 2,600  | 15%                     | \$65,400  |

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment & Wages, June 2012.

The fastest growing super sectors overall during the last decade were Education and Health Services, which grew by 22.8% from 2001 to 2011, followed by Professional & Business Services (18% growth). Although Manufacturing is still the second largest super sector at 16% of total employment, it was the slowest growing sector from 2001 to 2011 and has undergone significant diversification and acquired an international presence in recent years. While Transportation Equipment Manufacturing employment has taken heavy losses as part of the turmoil and restructuring of that industry, Indiana's attraction of foreign auto manufacturers has served to buffer the State somewhat compared to neighboring states and the U.S. overall. In particular, Indiana's employment in the Motor Vehicle Manufacturing sub-sector has actually grown by about 37% between 2001 and 2011.

**Table 36**  
**Indiana Non-Farm Employment by Super Sector; December 2001 to December 2011**  
(Not Seasonally Adjusted)

| <u>NAICS Super Sectors</u> | <u>2001</u> | <u>Percentage of Total</u> | <u>2011</u> | <u>Percentage of Total</u> | <u>Growth 2001-2011</u> |
|----------------------------|-------------|----------------------------|-------------|----------------------------|-------------------------|
| Total Non Farm             | 2,928,800   | 100%                       | 2,864,400   | 100%                       | -2.2%                   |
| Education & Health Svc.    | 349,100     | 12%                        | 428,800     | 15%                        | 22.8%                   |
| Prof & Business Svc.       | 247,600     | 8%                         | 292,200     | 10%                        | 18.0%                   |
| Other Services             | 106,400     | 4%                         | 109,300     | 4%                         | 2.7%                    |
| Government                 | 423,500     | 14%                        | 434,100     | 15%                        | 2.5%                    |
| Leisure and Hospitality    | 265,000     | 9%                         | 273,800     | 10%                        | 0.3%                    |
| Trade, Transport. & Util.  | 608,000     | 21%                        | 569,900     | 20%                        | -6.3%                   |
| Financial Activities       | 141,500     | 5%                         | 129,900     | 5%                         | -8.2%                   |
| Construction               | 147,500     | 5%                         | 124,000     | 4%                         | -15.9%                  |
| Information                | 43,900      | 1%                         | 34,100      | 1%                         | -22.3%                  |
| Manufacturing              | 592,000     | 20%                        | 471,600     | 16%                        | -20.3%                  |
| Services Providing         | 2,182,200   | 75%                        | 2,262,100   | 79%                        | 3.7%                    |
| Goods Producing            | 746,600     | 25%                        | 602,300     | 21%                        | -19.3%                  |

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics, March 2012

**Table 37**  
**Unemployment Rate**  
(Annual Averages of Monthly Data)

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana as Percentage of U.S.</u> |
|-------------|----------------|-------------|--------------------------------------|
| 2001        | 4.2%           | 4.7%        | 89.4%                                |
| 2002        | 5.2%           | 5.8%        | 89.7%                                |
| 2003        | 5.3%           | 6.0%        | 88.3%                                |
| 2004        | 5.3%           | 5.5%        | 96.4%                                |
| 2005        | 5.4%           | 5.1%        | 105.9%                               |
| 2006        | 5.0%           | 4.6%        | 108.7%                               |
| 2007        | 4.6%           | 4.6%        | 100.0%                               |
| 2008        | 5.9%           | 5.8%        | 101.7%                               |
| 2009        | 10.4%          | 9.3%        | 111.8%                               |
| 2010        | 10.2%          | 9.6%        | 106.3%                               |
| 2011        | 9.0%           | 8.9%        | 101.1%                               |

Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, April 2012

The unemployment statistics listed above are indicative of average annual data.

### Income

In 2011, Indiana's per capita personal income increased to \$35,550 or 4.6% from 2010. Indiana's personal income growth ranked fifteenth among states in the nation last year. During the past eleven years, Indiana's personal income grew at an average annual rate of 2.4%.

**Table 38**  
**Growth in Per Capita Personal Income**  
(Current Dollars)

| <u>Year</u>                             | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> | <u>U.S.</u> |
|---|----------------|-------------|----------------|-------------|
| 2001                                    | 28,028         | 31,157      | 2.1%           | 2.8%        |
| 2002                                    | 28,476         | 31,481      | 1.6%           | 1.0%        |
| 2003                                    | 29,484         | 32,295      | 3.5%           | 2.6%        |
| 2004                                    | 30,528         | 33,909      | 3.5%           | 5.0%        |
| 2005                                    | 31,141         | 35,452      | 2.0%           | 4.6%        |
| 2006                                    | 32,667         | 37,725      | 4.9%           | 6.4%        |
| 2007                                    | 33,645         | 39,506      | 3.0%           | 4.7%        |
| 2008                                    | 34,894         | 40,947      | 3.7%           | 3.7%        |
| 2009                                    | 33,323         | 38,846      | -4.5%          | -5.1%       |
| 2010                                    | 33,981         | 39,937      | 2.0%           | 2.8%        |
| 2011                                    | 35,550         | 41,663      | 4.6%           | 4.3%        |
| Average Annual Growth Rate (2001-2011): |                |             | 2.4%           | 3.0%        |
| Total Growth Rate (2001-2011):          |                |             | 26.4%          | 32.8%       |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2012.

### Gross Domestic Product by State

With an estimated 2011 Gross Domestic Product by State of approximately \$278.1 billion, Indiana's state economy ranks seventeenth largest in the country in terms of the value of goods and services produced. Since 2001, Indiana's Gross Domestic Product by State has grown at an average annual rate of 3.5% (current dollars).

**Table 39**  
**Indiana Gross Domestic Product by Sector: 2001 to 2011**  
(Millions of Current Dollars)

| <u>NAICS Industry Sectors</u>               | <u>2001</u> | <u>Percentage of Total</u> | <u>2011</u> | <u>Percentage of Total</u> | <u>Percentage Growth 2001-2011</u> |
|---|-------------|----------------------------|-------------|----------------------------|------------------------------------|
| Arts, entertainment, and recreation         | \$ 2,443    | 1.2%                       | \$ 3,065    | 1.1%                       | 25.5%                              |
| Educational services                        | 1,408       | 0.7%                       | 2,722       | 1.0%                       | 93.3%                              |
| Administrative and waste services           | 4,797       | 2.4%                       | 7,707       | 2.8%                       | 60.7%                              |
| Health care and social assistance           | 13,261      | 6.6%                       | 22,655      | 8.1%                       | 70.8%                              |
| Professional and technical services         | 7,046       | 3.5%                       | 11,959      | 4.3%                       | 69.7%                              |
| Transportation and warehousing              | 6,739       | 3.4%                       | 9,187       | 3.3%                       | 36.3%                              |
| Finance and insurance                       | 12,758      | 6.4%                       | 18,914      | 6.8%                       | 48.3%                              |
| Other services, except government           | 5,106       | 2.6%                       | 6,906       | 2.5%                       | 35.3%                              |
| Government                                  | 19,715      | 9.9%                       | 28,080      | 10.1%                      | 42.4%                              |
| Accommodation and food services             | 4,902       | 2.5%                       | 6,809       | 2.4%                       | 38.9%                              |
| Real estate, rental, and leasing            | 21,605      | 10.8%                      | 24,744      | 8.9%                       | 14.5%                              |
| Mining                                      | 714         | 0.3%                       | 867         | 0.3%                       | 21.4%                              |
| Manufacturing                               | 53,405      | 26.7%                      | 74,230      | 26.7%                      | 39.0%                              |
| Wholesale trade                             | 10,820      | 5.4%                       | 14,231      | 5.1%                       | 31.5%                              |
| Information                                 | 4,145       | 2.1%                       | 5,599       | 2.0%                       | 35.1%                              |
| Construction                                | 9,357       | 4.7%                       | 10,079      | 3.6%                       | 7.7%                               |
| Retail trade                                | 13,683      | 6.8%                       | 16,984      | 6.1%                       | 24.1%                              |
| Utilities                                   | 3,960       | 2.0%                       | 5,463       | 2.0%                       | 38.0%                              |
| Management of companies and enterprises     | 2,581       | 1.3%                       | 3,347       | 1.2%                       | 29.7%                              |
| Agriculture, forestry, fishing, and hunting | 1,549       | 0.8%                       | 4,580       | 1.6%                       | 195.7%                             |
| Total Gross Domestic Product by State       | \$199,996   | 100.0%                     | \$278,128   | 100.0%                     | 39.1%                              |

Note: Individual sectors may not sum to totals due to rounding. NAICS Industry detail is based on the 2002 North American Industry Classification System (NAICS).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, June 2012.

## Exports

Since 2003, Indiana businesses have significantly increased exported output. The value of exports in calendar year 2004 jumped to \$19,212 million, a 16.7% increase over 2003, in 2005 the total value increased to \$21,594 million, a 12.4% growth rate, in 2006 the total value increased to \$22,666 million, a 5.0% increase, in 2007 increased to \$25,956 million, a 14.5% increase and in 2008 improved to \$26,502 million, a 2.1% increase. After decreasing in 2009, Indiana's exports increased by 25.6% in 2010. Since 2000, Indiana's exports have grown at an average annual rate of 8.0% as compared to 6.3% for the United States as a whole.

**Table 40**  
**Exports – Annual Percentage Change**  
(Millions)

| <u>Year</u>                             | <u>Exports</u> |             | <u>Annual Percentage Change</u> |             | <u>Indiana as a Percentage of U.S. Exports</u> |
|---|----------------|-------------|---------------------------------|-------------|--|
|   | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u>                  | <u>U.S.</u> |  |
| 2001                                    | 14,365         | 729,100     | -6.6%                           | -6.8%       | 2.0%   |
| 2002                                    | 14,956         | 693,103     | 4.1%                            | -4.9%       | 2.2%   |
| 2003                                    | 16,468         | 724,771     | 10.1%                           | 4.6%        | 2.3%   |
| 2004                                    | 19,212         | 818,775     | 16.7%                           | 13.0%       | 2.4%   |
| 2005                                    | 21,594         | 901,082     | 12.4%                           | 10.1%       | 2.4%   |
| 2006                                    | 22,666         | 1,025,967   | 5.0%                            | 13.9%       | 2.2%   |
| 2007                                    | 25,956         | 1,148,198   | 14.5%                           | 11.9%       | 2.3%   |
| 2008                                    | 26,502         | 1,287,442   | 2.1%                            | 12.1%       | 2.1%   |
| 2009                                    | 22,907         | 1,056,042   | -13.6%                          | -18.0%      | 2.2%   |
| 2010                                    | 28,774         | 1,278,263   | 25.6%                           | 21.0%       | 2.3%   |
| 2011                                    | 32,200         | 1,480,552   | 11.9%                           | 15.8%       | 2.2%   |
| Average Annual Growth Rate (2001-2011): |                |             | 8.0%                            | 7.9%        |  |
| Total Growth (2001-2011):               |                |             | 88.5%                           | 86.6%       |  |

Source: Office of Trade and Industry Information (OTII), Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, June 2012

**Table 41**  
**Indiana's Leading Export Industries and Destinations**  
(Millions)

| Top Export Industries          |                   | Export Destinations |                 |
|--------------------------------|-------------------|---------------------|-----------------|
| Industry                       | 2011 Exports      | Country             | 2011 Exports    |
| Transportation Equipment Mfg   | \$9,463.1         | Canada              | \$11,771        |
| Chemical Manufacturing         | 7,929.4           | Mexico              | 3,279           |
| Machinery Manufacturing        | 4,095.5           | Germany             | 1,943           |
| Primary Metal Manufacturing    | 1,938.6           | Japan               | 1,288           |
| Misc. Manufacturing            | 1,806.1           | France              | 1,233           |
| Computers and Electronics      | 1,646.3           | China               | 1,149           |
| Elect Equip, Appl. & Component | 993.2             | United Kingdom      | 1,093           |
| Food Manufacturing Products    | 814.0             | Spain               | 957             |
| Fabricated Metal Products      | 791.0             | Brazil              | 860             |
| Rubber & Plastics Products     | 701.8             | Afghanistan         | 828             |
| Other                          | <u>2,021.2</u>    | Other               | <u>7,799</u>    |
| <b>Total</b>                   | <b>\$32,200.2</b> |                     | <b>\$32,200</b> |

Sources: Office of Trade and Industry Information (OTII), Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, June 2012

### LITIGATION

The following litigation liability survey is a summary of certain significant litigation and claims currently pending against the State involving amounts exceeding \$10.0 million individually or in the aggregate. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

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

#### **Employment Litigation**

In July 1993, in *Paula Brattain, et al v. Richmond State Hospital*, plaintiffs filed a breach of employment contract lawsuit in a state trial court alleging that the State has failed to pay certain similarly classified State employees at an equal rate of pay from September 19, 1973, to September 19, 1993. The Court certified plaintiffs' class, and class notification was completed. Plaintiffs seek to recover damages as well as attorneys' fees and costs. Mediation was unsuccessful. A claims-made basis class action settlement was preliminarily approved on August 18, 2008, with an \$8.5 million settlement cap (inclusive of fees and costs). If the State's purported total liability for claims, attorneys' fees and expenses exceed \$8.5 million the State may exercise its option to terminate the Settlement Agreement and proceed to trial. On October 20, 2008, the Court conducted a fairness hearing for the purpose of considering any timely written objections that may have been filed and determining pursuant to Ind. Trial Rule 23(E) whether the Court should approve the agreed settlement as fair, reasonable, and adequate. Only three objections to the proposed settlement were filed with the Court, and one was subsequently withdrawn. The Court found the two remaining objections were meritless. The Court approved the settlement on October 30, 2008, subject to the State Defendants' option to terminate the settlement agreement. On November 10, 2008, the State Defendants filed a Notice Regarding Settlement Agreement in which they gave notice that the conditions for terminating the settlement agreement have been met, and the State Defendants elect to exercise their option to terminate the settlement pursuant to the settlement agreement. Trial was reset for March 10, 2009. The Court has ordered the parties to return a second mediation session for February 5, 2009. Mediation was unsuccessful. A four-day bench trial was conducted March 10-13, 2009. The Court took the matter under advisement and gave the parties until March 31, 2009 to submit proposed findings of fact and conclusions of law. Findings and conclusions of law were submitted. Settlement discussions continued but the parties were unable to reach an agreement. On July 28, 2009, the Court entered judgment against the state in the total amount of \$42,422,788.00 (\$20,979,490.00 awarded to merit, overtime eligible employees; \$16,762,773.00 awarded to non-merit, overtime eligible employees;

\$2,696,812.00 awarded to merit, overtime exempt employees; \$1,983,713.00 awarded to non-merit, overtime exempt employees). On July 31, 2009, the State filed a Notice of Appeal and Motion to Stay Judgment Pending Appeal. On August 28, 2009, the trial court granted the motion to stay judgment pending appeal. On August 31, 2009, the State's Case Summary and Notices of Appearance were filed in the Court of Appeals. On September 23, 2009, plaintiffs filed Notices of Appearance and a Motion for pre-appeal conference and appellate alternative dispute resolution. On October 13, 2009, the State filed a response to Appellees' motion. On October 20, 2009, the court of appeals denied Appellees' Motion for Pre-Appeal Conference and Appellate Alternative Dispute Resolution. The trial court reporter was granted an extension until January 18, 2010, to file the transcript of proceedings. On November 17, 2009, plaintiffs reduced their settlement demand to \$20 million. Defendants responded on December 1, 2009, with offer of \$8.5 million (inclusive of fees and costs) and later increased the offer to \$10 million, which plaintiffs rejected. The matter was fully briefed in the Court of Appeals. Oral Argument was held on August 23, 2010 and taken under advisement. Opinion issued by the Court of Appeals on October 8, 2010, reversed in part, affirmed in part and remanded to trial court for determination of damages; excused exhaustion of administrative remedies but limited back pay to 10 days (instead of 20 years) for merit employees; affirmed 20 years of back pay for non-merit employees. The Impact of this opinion was a reduction in trial court's judgment from \$42.4 million to approximately \$19 million. Both plaintiffs and defendants filed Petitions for Rehearing. Defendants' Petition for Rehearing denied. Plaintiffs' Petition for Rehearing granted in part remanding to trial court for determination of if/when individual merit plaintiffs filed administrative complaints. Plaintiffs and defendants each filed Petitions for Transfer to the Indiana Supreme Court, which were granted June 3, 2011. Oral argument was held in the Supreme Court on September 8, 2011 and taken under advisement. The Indiana Supreme Court issued a Ruling on February 16, 2012. It determined that both the "Merit and Non-Merit" employees, overtime-exempt and overtime-eligible, are all owed back pay on their claims for the same period (ten days prior to each class member filing claims or, if no claims filed, ten days prior to filing the lawsuit). This opinion further reduced the amount of damages owed to the plaintiffs. On March 16, 2012, plaintiffs' Petition for Rehearing was filed with the court. On March 19, 2012, defendants' Petition for Rehearing was filed with the court. Both Petitions for Rehearing were denied by the Supreme Court. The matter is now remanded to the trial court to determine damages in accordance with the ten-day limit on back pay. Parties are involved in informal discovery related to back pay.

### **Civil Rights Litigation**

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

### **Other Contingencies**

In May 2010, the State of Indiana on behalf of the Indiana Family and Social Services Administration, by outside counsel, and IBM ("IBM") sued each other regarding the company's contract to fix the state's welfare system. The state filed suit against IBM for breach of contract and unjust enrichment seeking to recover more than \$43.4 million in payments, indemnification, damages, costs, fees, interest, treble damages, declaratory judgment and other relief. IBM filed suit seeking deferred costs and fees alleged in the amount of \$43.4 million, and costs of IBM equipment allegedly retained by the state after termination of the contract for any reason in the amount of \$9.3 million. Both lawsuits were filed in Marion County Superior Court and were consolidated on June 1, 2010. Trial commenced February 2012. A decision was handed down on July 18, 2012. The State has been ordered to pay IBM an additional \$12 million, for a total of \$52,081,416 plus prejudgment interest and costs. The State received nothing from its complaint. The State, represented by outside counsel, filed an appeal for each case on September 12, 2012. There is a motion to consolidate pending.

## **APPENDIX B**

### **DEFINITIONS**

*The following definitions apply throughout APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF THE USE AGREEMENT AND THE INDENTURE."*

"Account" or "Accounts" shall mean, as the case may be, each or all the Accounts created pursuant to the Indenture.

"Accrued Debt Service" shall mean, as of any date of calculation, an amount equal to the accrued Debt Service on all Series of Bonds, calculating the accrued Debt Service with respect to each such Series of Bonds at an amount equal to the sum of (i) interest on such Bonds accrued and unpaid to the end of the then current calendar month, (ii) Principal Installments for such Bonds due and unpaid and (iii) that portion of the Principal Installment for such Bonds next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

"Acquisition Costs" shall mean all reasonable and necessary costs incurred in the Acquisition of any Project, which costs may include but are not limited to:

- (i) The cost of construction, renovation, or improvement.
- (ii) The cost of acquisition of all land, rights in land, rights-of-way, property, rights, easements, and interests, including land under water and riparian rights acquired by the Authority for construction.
- (iii) The cost of demolishing or removing any buildings or structures on land acquired, including the cost of acquiring any land to which buildings or structures may be moved.
- (iv) The cost of relocating public roads, railroads, public utility facilities, including the cost of land or easements.
- (v) The cost of all machinery and equipment, financing charges, and interest before and during construction.
- (vi) The cost of engineering and legal expenses, plans, specifications, surveys, estimates of use, and revenues.
- (vii) Other expenses necessary or incident to determining the feasibility or practicability of financing and constructing any project.
- (viii) Administrative expense.
- (ix) Other expenses that are necessary or incident to the Acquisition of a Project, the financing of Acquisition, and the placing of the Project in operation.
- (x) Any other cost that may be authorized by law.

"Additional Agreement" shall mean any use and occupancy agreement by and between the Authority and the Commission which provides the terms and conditions of use and occupancy of any Additional Project or any portion thereof, including any amendment or supplement thereof or renewal thereof.

"Additional Bonds" shall mean all Bonds authenticated and delivered on original issuance pursuant to the Indenture, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

"Additional Project" shall mean a building, structure or an improvement or any portion of any of the foregoing, authorized to be financed or refinanced by the Authority, financed with Bonds issued under the Indenture and owned by the Authority and leased to the Commission pursuant to an Additional Agreement.

"Agency" or "Agencies" shall mean any authority, board, commission, committee, department, division or other instrumentality of the State or branch of the State, but does not include a State educational institution as defined in Indiana Code 20-12-0.5-1.

“Agreement” or “Use Agreement” shall mean the Master Use and Occupancy Agreement, as the same may be supplemented or amended from time to time.

“Aggregate Debt Service” for any period shall mean, as of any date of calculation, the sum of amounts of Debt Service for such period with respect to all Series.

“Authority” shall mean the Indiana Finance Authority, a body corporate and politic, organized and existing under the Act, and its successors.

“Authority Act” shall mean Indiana Code 4-4-10.9 and 11, as amended and supplemented from time to time and any successor provisions of law.

“Authorized Officer of the Authority” shall mean the Chairman, the Vice Chairman, the Treasurer or the Executive Director of the Authority and, with reference to an act or a document, also means any other person authorized by a resolution of the Authority to perform such act or to sign such document. The designation of such person or persons shall be evidenced by delivery to the Trustee of a written certificate containing the specimen signature of such person or persons and signed on behalf of the Authority by its Chairman or Executive Director.

“Bond” or “Bonds” shall mean any bonds, notes or other evidence of obligations, as the case may be, without regard to the term thereof, authenticated and delivered pursuant to the Indenture.

“Bond Registrar” shall mean The Bank of New York Mellon Trust Company, N.A., a national banking association, as initial bond registrar, and any Bond Registrar appointed for any Series of Bonds, and its successor or successors hereafter appointed in the manner provided in the Indenture.

“Bondholder” or “Holder of Bonds” or “Holder” or “holder” or “Owner” shall mean any person who shall be the bearer of any coupon Bond or Bonds not registered as to principal only, or the registered owner of any coupon Bond or Bonds registered as to principal only, or the registered owner of any fully registered Bond or Bonds without coupons.

“Book Entry System” means a book entry system established and operated for the recordation of Beneficial Owners of the Series 2012 Bonds pursuant to the Indenture.

“Business Day” shall mean any day other than (i) a Saturday, Sunday or legal holiday or a day on which banking institutions in any of the cities in which the respective corporate trust offices of the Trustee and the Paying Agent are located are authorized by law to close or remain closed or (ii) a day on which the New York Stock Exchange is closed.

“Code” shall mean the Internal Revenue Code of 1986, as amended or supplemented, and any successor provisions of law, and any applicable Treasury regulations promulgated thereunder.

“Commencement Date” shall mean, for any Project or any portion thereof, the date on which a Completion Certificate for the Project, or such portion, is delivered by the Authority and accepted by a representative of the Commission.

“Commission” shall mean the Indiana State Fair Commission, a public body corporate and politic of the State, established pursuant to the Commission Act, and its successors.

“Commission Act” shall mean Indiana Code 5-13, as the same may be amended from time to time, or any successor thereto.

“Completion Certificate” shall for any Project or any portion thereof, have the meaning set forth in the Agreement for the respective Project.

“Construction Fund” shall mean the Construction Fund created pursuant to the Indenture.

“Debt Service” for any period shall mean, as of any date of calculation and with respect to any Outstanding Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on the Bonds of such Series, except to the extent that such interest is to be paid from deposits in the applicable Interest Account from proceeds of the Bonds of such Series or a related Series, including amounts, if any, transferred from the applicable Project Account, and (ii) that portion of each Principal Installment for such Series of Bonds of which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series of Bonds (or, if (a) there shall be no such preceding Principal Installment due date or (b) such preceding Principal Installment due date is more than one

year prior to the due date of such Principal Installment, *then*, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). Such interest and Principal Installments for such Series of Bonds shall be calculated on the assumption that no Bonds of such Series of Bonds Outstanding at the date of calculation will cease to be Outstanding, except by reason of the payment of each Principal Installment on the due date thereof or by mandatory redemption.

“Debt Service Fund” shall mean the Debt Service Fund created pursuant to the Indenture.

“Debt Service Reserve Fund” shall mean the Debt Service Reserve Fund, if any, created pursuant to the Indenture.

“Debt Service Reserve Requirement” shall mean the amount designated as such, if any, in the Supplemental Indenture thereunder providing therefor or in the Indenture.

“Defeasance Securities” shall mean and include only (i) any direct and general obligations of, or any obligations the timely payment of principal and interest of which is unconditionally guaranteed by, the United States of America which obligations are not redeemable prior to maturity other than at the option of the holder thereof, (ii) obligations of or unconditionally guaranteed as to the timely payment of principal and interest by, the Federal National Mortgage Association, which obligations are not redeemable prior to maturity other than at the option of the holder thereof, (iii) any obligations of any state or political subdivision of a state (collectively, “Municipal Bonds”) that are (a) fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the owners of the Municipal Bonds and (b) not redeemable prior to maturity other than at the option of the holder thereof, (iv) certificates of ownership of the principal of or interest on direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System which certificates of ownership are not redeemable prior to maturity other than at the option of the holder thereto and (v) the interest component of obligations issued by the Resolution Funding Corporation, which are not redeemable prior to maturity other than at the option of the holder thereof.

“Depository” shall mean a bank or trust company organized under the laws of any state of the United States of America or a national banking association having capital stock, surplus and undivided earnings or profits aggregating at least One Hundred Million Dollars (\$100,000,000) (or the parent corporation of such institution has such capital stock, surplus and undivided earnings or profits) and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the Indenture.

“Executive Director” shall mean the Public Finance Director of the State acting as executive director of the Authority.

“Expense Account” shall mean the Expense Account of the Construction Fund created pursuant to the Indenture.

“Fiduciary” or “Fiduciaries” shall mean the Trustee, the Bond Registrar, the Paying Agent, the Depositories or any or all of them, as may be appropriate.

“Fiscal Year” shall mean, with respect to the Authority, the twelve-month period commencing at 12:01 a.m. on July 1 of each year and ending on 12:01 a.m. that succeeding July 1 or such other fiscal year of the State as may be mandated by law or such other period selected by the Authority.

“Fitch” shall mean Fitch Investors, Inc., and its successors and assigns, *provided* that, in the event that the foregoing is dissolved or liquidated or the Authority determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized rating agency as the Authority may from time to time designate.

“Fund” or “Funds” shall mean, as the case may be, each or all the Funds created pursuant to the Indenture.

“General Fund” shall mean the General Fund created pursuant to the Indenture.

“Gross Revenues” shall mean for the Projects all fees, charges, revenues or receipts derived by the Authority from the operation or leasing of the Projects or any portion thereof pursuant to the terms and provisions of the Agreement or otherwise, or from the sale, transfer or conveyance (whether voluntary or involuntary) of the Projects or any portion thereof and shall include any rental payments received with respect to the Projects or any portion thereof from whatever sources, including, but not limited to, business interruption loss insurance, and receipts therefrom and rental payments allocable to repair and replacement expenses.

“Indenture” shall mean the Trust Indenture and as further amended or supplemented by any other Supplemental Indentures.

“Interest Account” shall mean the Interest Account in the Construction Fund created pursuant to the Indenture.

“Interest Payment Dates” means, for the Series 2012 Bonds, each January 1 and July 1 commencing July 1, 2013, and for any other Bonds, the dates specified in the Supplemental Indenture authorizing such Bonds. .

“Investment Securities” shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the Authority’s funds:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal Agencies set forth in clause (iii) of this definition to the extent unconditionally guaranteed by the United States of America;

(ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions; (b) which are secured as to principal and interest and redemption premium, if any by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) of this definition, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on bonds of other obligations of the character described in clause (i) of this definition which have been deposited in such fund along with, any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate;

(iii) bonds, debentures or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America;

(iv) obligations issued by the Resolution Funding Corporation;

(v) new housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America, or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(vi) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase under the Indenture such obligations are rated at least A+ by Fitch, A1 by Moody’s or A+ by S&P;

(vii) obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision which shall be rated at the time of their purchase at least A+ by Fitch, A1 by Moody’s or A+ by S&P;

(viii) obligations of the Authority payable from and secured by a pledge of the income and revenues of a Project, other than the Project, payable pursuant to a use and occupancy agreement other than the Agreement;

(ix) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the Indenture, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated at the time of their purchase in the highest rating category by Fitch, Moody’s or S&P, or, in the case of an insurer

providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated at the time of their purchase in the highest rating category by Fitch, Moody's or S&P;

(x) certificates that evidence ownership of the right to payments of principal of or interest on obligations described in clause (i) of this definition, *provided* that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the Trust Indenture.

(xi) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of any of the 50 largest banks in the United States of America which are rated at the time of their purchase in at least A+ by Fitch, A1 by Moody's or A+ by S&P;

(xii) commercial paper, other than that issued by bank holding companies, rated at the date of investment at least A+ by Fitch, A1 by Moody's or A+ by S&P;

(xiii) written repurchase contracts, reverse repurchase contracts or securities lending agreements (collateralized by cash or securities) with any securities dealer that is registered as a dealer under the Securities Exchange Act of 1934, as amended, and is monitored by, reports to and is recognized as a primary dealer by the Federal Reserve Bank of New York, having a net capital of at least Two Hundred Million Dollars (\$200,000,000), for obligations of, or unconditionally guaranteed as to the payment of principal and interest by, the United States of America or obligations of, or unconditionally guaranteed as to the payment of principal and interest by, any Bank for Cooperatives, any Federal Intermediate Credit Bank, any Federal Home Loan Bank, the Export-Import Bank of the United States, any Federal Land Bank, the Farmers Home Administration, the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Financing Bank, Federal Home Loan Mortgage Corporation or any other agency or instrumentality of, or corporation wholly owned by, the United States of America, *provided* (a) that at the time of entering into any such contract or agreement (A) the market value as determined by such primary dealer (the "market value") of the obligations subject to any such repurchase contract, is at least equal to the purchase price specified in such contract, (B) the purchase price specified in any such reverse repurchase contract is at least equal to the market value of the obligations subject to such contract, or (C) the market value of the collateral for any such securities lending agreement is at least equal to the market value of the securities lent, and (b) such obligations or collateral are held by the Trustee or by a Depository satisfactory to the Trustee in such manner as may be required to provide a perfected security interest in such obligations or collateral for the benefit of the Authority;

(xiv) shares of an investment company organized under the Investment Company Act of 1940, as amended, which either (a) is rated at least AAA by Fitch, Aaa by Moody's or AAA by S&P or (b) invests its assets exclusively in obligations of the type described in clause (i) of this definition, provided that the average maturity of such obligations shall not exceed 90 days, including without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such fund, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(xv) any agreement for an investment of money with a Qualified Institution (an "Investment Agreement"). All such investments (or the debt of the Qualified Institution with respect to any Investment Agreement) must be rated at least A+ by Fitch, A1 by Moody's or A+ by S&P, at the time such Investment Agreement is entered into. For purposes of this clause (xv), "Qualified Institution" means a bank, trust company, national banking association or a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, federal or state branch of a foreign bank pursuant to the International Banking Act of 1978, as amended, a savings and loan association, an insurance company or association or any other entity, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by such institution, are rated at least A+ by Fitch, A1 by Moody's or A+ by S&P.

In lieu of the investment of moneys in obligations described in the first paragraph of this clause (xv), moneys held under the Indenture may, to the extent permitted by law, be invested in interest-bearing time deposits or certificates of deposit which are (a) issued by banks, trust companies, savings banks and savings and loan associations whose debt obligations are rated at least A+ by Fitch, A1 by Moody's or A+ by S&P, or, with respect to certificates of deposit maturing in less than one year, whose short-term debt obligations are rated at least A+ by Fitch, A1 by Moody's or A+ by S&P, or (b) fully insured by the Federal Deposit Insurance Corporation, including without limitation any

mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such fund, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee; and

(xvi) any obligations rated at least A+ by Fitch, A1 by Moody's or A+ by S&P.

“Master Use and Occupancy Agreement” or “Agreement” shall mean the Master Use and Occupancy Agreement between the Authority and the Commission dated as of October 1, 2012, including the Supplements to the Master Use and Occupancy Agreement and any other amendments or supplements thereto or renewals thereof.

“Moody's” shall mean Moody's Investor Services, Inc., and its successors and assigns, provided that, in the event that the foregoing is dissolved or liquidated or the Authority determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized securities rating agency as the Authority may from time to time designate.

“Net Revenues” for any period for the Projects shall mean the Gross Revenues related to the Projects during such period less expenses of operation, maintenance and repair for the Projects or any portion thereof required to be paid by the Authority pursuant to the Master Use and Occupancy Agreement, the Indenture or otherwise during such period, all as calculated in accordance with generally accepted accounting principles and the Indenture.

“Outstanding” when used with reference to the Bonds, shall mean, as of any date of calculation, the Bonds theretofore or thereupon being authenticated and delivered under the Indenture, except:

(i) the Bonds canceled by the Trustee at or prior to such date;

(ii) the Bonds (or portions of the Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), *provided* that if such Bonds (or portions of such Bonds) are to be redeemed, notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice as provided in the Indenture;

(iii) the Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee is presented that any such Bonds are held by a *bonafide* purchaser in due course; and

(iv) the Bonds paid or deemed to have been paid as provided in Article XIII.

“Paying Agent” shall mean The Bank of New York Mellon Trust Company, N.A., a national banking association, as initial paying agent and any Paying Agent appointed for any Series of Bonds, and any successors or assigns hereafter appointed in the manner provided in the Indenture.

“Pledged Funds” shall mean, collectively, the Construction Fund, the Debt Service Fund, any Debt Service Reserve Fund, the Redemption Fund, and the General Fund.

“Principal Installment” shall mean, as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds of such Series are Outstanding, (i) the principal amount of Bonds of such Series on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the Indenture) of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of Bonds of such Series on such future date in a principal amount equal to the unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds of such Series and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

“Project Account” shall mean each Project Account in the Construction Fund for a Project created pursuant to the Indenture.

“Projected Commencement Date” shall mean the date specified as such for such Project or portion thereof in the Agreement related to such Project.

“Projects” shall mean the Series 2012L Project and the Series 2012M Project.

“Rebate Fund” shall mean the Rebate Fund created pursuant to the Indenture.

“Rebate Memorandum” shall mean a Memorandum on Compliance with Rebate Obligations of the Code delivered in connection with the issuance of each Series of Bonds, as amended and supplemented.

“Redemption Fund” shall mean the Redemption Fund created pursuant to the Indenture.

“Redemption Price” shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption.

“Refunding Bonds” shall mean all Bonds authenticated and delivered on original issuance pursuant to the Indenture, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

“Reimbursement Agreement” shall mean any agreement between the Authority and the provider of any Reserve Fund Credit Facility for a Series of Bonds.

“Reimbursement Obligation” shall mean any obligation of the Authority to reimburse the provider of any Reserve Fund Credit Facility for a Series of Bonds for any payment made by such provider under such Reserve Fund Credit Facility pursuant to, or any other obligation of the Authority to repay any amounts, including, but not limited to, fees or additional interest, to such provider pursuant to any Reimbursement Agreement.

“Reserve Fund Credit Facility” shall mean an insurance policy, surety bond or irrevocable letter of credit or similar obligations which may be deposited in any Debt Service Reserve Fund or an Account therein in lieu of or in partial substitution for cash or investment Securities to be on deposit in such Fund or Account.

“Revenue Fund” shall mean the Revenue Fund created pursuant to the Indenture.

“S&P” shall mean Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, and its successors and assigns, *provided that*, in the event that the foregoing is dissolved or liquidated or the Authority determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized securities rating agency as the Authority may from time to time designate.

“Series” shall mean all the Bonds authenticated and delivered on original issuance and identified pursuant to the Indenture or a Supplemental Indenture authorizing such Bonds as a separate series of Bonds, or any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

“Series 2012 Bonds” means the Series 2012L Bonds and the Series 2012M Bonds.

“Series 2012L Bonds” means the Authority’s Revenue Bonds, Series 2012L, in the aggregate principal amount of \$ \_\_\_\_\_, and any other revenue bonds issued in substitution therefor or replacement thereof.

“Series 2012M Bonds” means the Authority’s Revenue Bonds, Series 2012M, in the aggregate principal amount of \$ \_\_\_\_\_, and any other revenue bonds issued in substitution therefor or replacement thereof.

“Sinking Fund Installment” shall mean an amount so designated for a Series of Bonds set forth in the Supplemental Indenture related thereto or the Indenture.

“State” shall mean the State of Indiana.

“Subaccount” or “Subaccounts” shall mean, as the case may be, each or all the Subaccounts created pursuant to a Supplemental Indenture or the Indenture.

“Supplemental Indenture” shall mean any indenture supplemental to or amendatory of the Indenture, adopted by the Authority in accordance with the Indenture.

“Tax Exempt Bonds” means any Bonds which on the date of original issuance and delivery were the subject of an opinion of nationally recognized bond counsel that the interest thereon was excludable from gross income for federal income tax purposes under the Code, including the Series 2012 Bonds and the Series 2012M Bonds.

“Tax Representation Certificates” shall mean the tax representation and arbitrage certificates of the Authority and the Commission with respect to the issuance of Tax Exempt Bonds.

“Trust Estate” shall mean (i) the proceeds of the sale of the Bonds, (ii) the Net Revenues, and (iii) the Pledged Funds, including the investments, if any, thereof, and the same are pledged and assigned by the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE USE AGREEMENT AND THE INDENTURE

#### **Summary of Certain Provisions of the Use and Occupancy Agreement**

*The following is a brief summary of certain provisions of the Use Agreement. This summary does not purport to be comprehensive and is qualified in its entirety by reference to the Use Agreement. When used in this summary, "Fairgrounds" means the Indiana State Fairgrounds, "Project" or "Projects" means the Projects as defined in the Use Agreement, including the 2012 Projects, all as described in the Official Statement under the caption "PLAN OF FINANCE." In addition, the terms of the Use Agreement may be amended from time to time in any respect not inconsistent with the requirements of the Indenture. Certain capitalized terms used under this caption are defined under APPENDIX B, "DEFINITIONS." See also "Summary of Certain Provisions of the Indenture" below.*

#### ***Term, Renewal***

Under the Use Agreement, the Authority has covenanted to construct and equip the 2012M Project, and has appointed the Commission as Construction Manager. The obligation to make rental payments for the 2012 Projects (or a portion thereof) and the term of the Use Agreement will commence from and after the closing date for the 2012L Project and the date of the Commission's acceptance of a completion certificate for the 2012M Project (or a portion thereof), in accordance with the Use Agreement, and will extend through 12:01 a.m. on July 1 of the next succeeding odd numbered year. The Commission has the right to renew the Use Agreement for successive two-year periods thereafter, and the term of the Use Agreement will be deemed to have been renewed for each such two-year period unless the Commission delivers a termination notice during a specified period prior to the end of any two-year term. In the event funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy of any of the 2012 Projects when due, the Project must be vacated and the Authority may take whatever action at law or in equity that may appear necessary or desirable to enforce its rights under the applicable Use Agreement.

#### ***Rentals***

The Commission is required by the Use Agreement to pay rentals for the respective Project (or a portion thereof) to the Authority on or before the tenth day of each interest or principal payment date succeeding the month during which the respective Project (or a portion thereof) is available for use and occupancy. Under the Act, required rental payments must be fair and reasonable considering the value of the services, projects and facilities thereby afforded. Rental payments under the Use Agreement will be determined: (1) to provide for the payment of all expenses to be paid by the Authority in administering the Project (or a portion thereof) and in complying with the covenants of the related Indenture, and all of the cost of insurance to be incurred as an expense of the Authority for the Project (or a portion thereof); and (2) to provide for the payment of debt service on all Bonds allocable to the Project (or a portion thereof); and to provide for required deposits to any debt service reserve established under a Supplemental Indenture. In the event that a Project (or a portion thereof) is damaged or destroyed so as to be rendered unfit for use and occupancy, rental payments will be appropriately abated and, so long as the Authority has complied with its obligation under the Use Agreement to obtain and maintain insurance on the Project and the rental value thereof, the resulting rental deficiency will be satisfied, for at least eighteen (18) months, out of the proceeds from such insurance paid to and received by the Trustee for the period during which the Project (or a portion thereof) is unfit for use and occupancy. The Commission will be required to pay for all expenses of operation, maintenance and repair of the Project, including the expenses of the Authority in administering and maintaining insurance on the Project. Nothing in the Use Agreement requires the Authority to charge, or the Commission to pay, rental payments in an amount which exceeds the amounts properly allocable to the Project (or a portion thereof) as a fair and reasonable lease rental considering the value of the services and the Project (or a portion thereof) thereby afforded.

#### ***Insurance***

The Use Agreement requires the Commission to keep or cause the Projects to be insured against loss or damage by fire and other causes customarily insured against under a standard extended coverage endorsement in an amount at least equal to 100% of the full replacement cost of the Projects (subject to reasonable loss-deductible provisions). The Authority is required to maintain in effect business interruption insurance against loss of rental income for a period of at least eighteen (18) months due to the damage or destruction or interruption of the use of all or a part of the Project for perils insured against under a standard extended coverage endorsement. In addition, the Commission is required to use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to person and property as are customary to be insured or reserved against for properties similar to the Projects.

### ***Purchase***

Under the Use Agreement, the Commission has an option to purchase a Project at a price equal to the amount required to provide for the payment or redemption of all outstanding Bonds allocable to the Project, including all premiums payable on the redemption thereof and accrued and unpaid interest thereon, all in accordance with the Indenture, and to pay all expenses of the Authority attributable to the Project.

### ***Tax Covenants, Appropriations***

Under the Use Agreement, the Commission covenants to comply with the provisions of the Tax Representation Certificate, except to the extent waived by the Authority with an opinion of nationally recognized bond counsel that the action or inaction contemplated will not adversely affect the exclusion from gross income of the interest on the Series 2012 Bonds. The Commission also covenants under the Use Agreement to use its best efforts to obtain appropriations from the General Assembly to meet its rental payment obligations and its operation, maintenance and repair obligations.

### ***Remedies***

An “event of default” shall mean, any one (1) or more of the following events: (a) failure by the Commission to pay or cause to be paid any amount payable by the Commission under the Agreement when due; or (b) the failure by the Commission to observe or perform any covenant, condition or agreement on its part to be observed or performed with respect to appropriations; or (c) failure by the Commission to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (a) or (b) above, which failure continues for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Commission by an Authorized Officer of the Authority.

Whenever any event of default shall have happened and be subsisting and provided that the event of default has not been cured, the Authority may terminate the Agreement by written notice to the Commission. It is specifically understood and agreed that the obligation of the Commission is an obligation to pay for the use and occupancy of the Projects for an undetermined period, for services as received and that such obligation ceases upon the termination of this Agreement, and the Commission agrees to vacate the Projects prior to termination. In the event the Commission defaults on its obligations to pay for use and occupancy of the Projects under the Agreement, the Authority shall not have a right to seek damages from the Commission, but rather its sole remedy shall be to require the Commission to vacate the Projects.

### ***Summary of Certain Provisions of the Indenture***

*The following is a summary of certain provisions contained in the Indenture. This summary does not purport to be comprehensive and is qualified in its entirety by reference to the Indenture. Certain capitalized terms used under this caption are defined under APPENDIX B, “DEFINITIONS.”*

### ***Creation of Funds and Accounts***

The Indenture establishes the following Funds, Accounts and Subaccounts to be held by the Trustee:

(a) the Construction Fund, including any of the following separate Accounts the Authority shall elect to create: (i) an Interest Account for each Project, (ii) a Project Account for each Project and (iii) an Expense Account for each Series of Bonds;

(b) the Revenue Fund;

(c) the Debt Service Fund;

(d) the Debt Service Reserve Fund (if any such is created pursuant to the Indenture);

(e) the Redemption Fund;

(f) the General Fund;

(g) the Rebate Fund;

- (h) Debt Service Fund - Series 2012L Interest Account;
- (i) Debt Service Fund - Series 2012M Interest Account;
- (j) Debt Service Fund - Series 2012L Principal Account;
- (k) Debt Service Fund - Series 2012M Principal Account;
- (l) Construction Fund – 2012L Project Account;
- (m) Construction Fund – 2012M Project Account;
- (n) Construction Fund – 2012M Interest Account;
- (o) Construction Fund – 2012L Expense Account; and
- (p) Construction Fund – 2012M Expense Account.

The Authority may create or cause to be created additional Funds and Accounts, including Accounts and Subaccounts within the aforementioned Funds and Accounts.

***Deposit of Bond Proceeds, Revenues, Other Receipts***

The Trustee will deposit the net proceeds from the sale of the Series 2012 Bonds to the following Funds, Accounts and Subaccounts as directed by the Authority on the date of issuance and sale of the Series 2012 Bonds:

- (a) \$\_\_\_\_\_ of the proceeds of the Series 2012L Bonds to the 2012L Expense Account of the Construction Fund for the purpose of paying the costs of issuing the Series 2012L Bonds;
- (b) \$\_\_\_\_\_ of the proceeds of the Series 2012M Bonds to the 2012M Expense Account of the Construction Fund for the purpose of paying the costs of issuing the Series 2012M Bonds;
- (c) \$\_\_\_\_\_ of the proceeds of the Series 2012L Bonds deposited in the 2012L Project Account of the Construction Fund for payment of the lease rentals due under the Base Lease;
- (d) \$\_\_\_\_\_ of the proceeds of the Series 2012M Bonds deposited in the 2012M Project Account of the Construction Fund for payment of Acquisition Costs of the Series 2012M Project;
- (e) \$\_\_\_\_\_ of the proceeds of the Series 2012M Bonds deposited in the 2012M Interest Account of the Construction Fund for payment of interest on the Series 2012M Bonds prior to the Completion Date of the 2012M Project, or any portion thereof;
- (f) to the General Fund, such amounts, if any, as the Authority has estimated (in the manner provided for in the Indenture) are needed, after considering the amounts on deposit in such General Fund, to provide for the payment of expenses of operation, maintenance and repair of the Projects required to be paid by the Authority after payment thereof by the Commission as provided in the Master Use and Occupancy Agreement or otherwise, including expenses of managing and administering the Projects and in complying with the covenants of the Indenture, through the end of the month commencing on the first day of the month succeeding that in which such transfer was made;
- (g) to the Debt Service Fund, the amount or amounts, if any, required so that the balance or balances in such Debt Service Fund shall equal the Accrued Debt Service which shall accrue through the Interest Payment Date succeeding the date on which such transfer was made;
- (h) to the Rebate Fund, the amount, if any, required to be deposited therein in accordance with the related Rebate Memorandum;
- (i) to any Debt Service Reserve Fund, the amount or amounts if any, required therefor, after giving effect to any Reserve Fund Credit Facility deposited in such Debt Service Reserve Fund pursuant to the Indenture or a Supplemental

Indenture, to equal the respective Debt Service Reserve Requirement related to such Fund including any Reimbursement Obligations for any such Reserve Fund Credit Facility; and

(j) to the General Fund, the amount, if any, remaining.

### ***Construction Fund***

In accordance with the Indenture, amounts held in the various accounts of the Construction Fund for all Projects will be disbursed by the Trustee. From the related Project Account and Expense Account therein, the Trustee will pay the amounts required to finance the Acquisition Costs of each Project, including costs relating to the issuance of the Bonds. To request any payment for any of such purposes, the Commission must file a requisition with the Trustee, signed by an Authorized Officer of the Authority and stating the name and address of the person, firm, corporation or other entity to whom payment is due (which may be the Authority), the amount to be paid and the particular item of the cost to be paid. The requisition must also state that the cost of the obligation in the stated amount is a proper charge against the Project Account or the Expense Account which has not been previously paid.

In addition, the Indenture provides that, upon the filing of a certificate of a completion, setting forth the amount necessary to complete the Acquisition of a Project, including any reasonable or necessary contingencies, which certificate is approved by an Authorized Officer of the Authority, the balance of the Project Account in excess of the amount, if any, stated in such certificate will be deposited in the Redemption Fund.

From the Interest Account for a Project, the Trustee shall transfer amounts to the Paying Agent on or before the Business Day preceding each Interest Payment Date the amount required for payments of interest on the Bonds for such Project up to and including the Projected Commencement Date (or the respective Projected Commencement Date for Acquisition of a portion of such Project). At the direction of the Authority, the Trustee will transfer from the Interest Account to the Redemption Fund any amounts remaining in such Interest Account after the Commencement Date for the Project. To the extent funds in the Interest Account for a Project are not sufficient to pay the interest on the Bonds relating thereto prior to the Commencement Date of such Project (or a portion thereof), an Authorized Officer of the Authority shall direct the Trustee to pay such interest from the respective Project Account for such Project.

### ***Debt Service Fund***

The Indenture requires that out of the Debt Service Fund for all Projects, the Trustee will disburse to the Paying Agent (a) on or before the Business Day preceding each Interest Payment Date for any of the Bonds, the amount of interest payable on such date; (b) on or before the Business Day preceding each Principal Installment due date, the amount of the Principal Installment payable on such due date; and (c) on or before any redemption date for the Bonds, the amount required for the payment of the redemption price, plus accrued interest to the redemption date. Such amounts will, in turn, be applied by such Paying Agent on and after the due dates thereof to pay principal and interest on the Bonds. The Trustee will also pay out of the Debt Service Fund for all Projects the accrued interest included in the purchase price of the Bonds purchased for retirement.

Amounts accumulated in the Debt Service Fund for all Projects for a sinking fund installment for a series of Bonds (together with amounts accumulated therein with respect to interest on such Bonds) may, and if so directed by the Authority shall be applied by the Trustee, on or prior to the 40<sup>th</sup> day preceding the due date of such sinking fund installment to (a) the purchase of such Bonds of the maturity and interest rate within each maturity for which such sinking fund installment was established or (b) the redemption at the applicable sinking fund redemption price of such Bonds, if then redeemable by their terms. Purchases of Bonds must be made by the Trustee, at the direction of the Authority, at prices not exceeding the applicable sinking fund redemption price of such Bonds plus accrued interest. The applicable sinking fund redemption price (or principal amount of maturing Bonds), plus accrued interest, of any Bonds so purchased or redeemed will be deemed to constitute part of the Debt Service Fund for all Projects until such sinking fund installment date, for the purpose of calculating the amount of such Fund. As soon as practicable after the 40<sup>th</sup> day preceding the due date of any such sinking fund installment, the Trustee will proceed to call for redemption on such due date Bonds of the maturity and interest rate within each maturity for which such sinking fund installment was established (except in the case of Bonds maturing on a sinking fund installment date), in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such sinking fund installment after making allowances for any Bonds purchased or redeemed (other than pursuant to a mandatory sinking fund redemption applicable to such Bonds) which the Authority has directed the Trustee in writing to apply as a credit against such sinking fund installment as provided in the related Indenture. Out of the Debt Service Fund for all Projects, the Trustee will pay to the Paying Agent on or before such redemption date (or maturity date), the amount required for the redemption of such Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount will be applied by the Paying Agent to such redemption (or payment).

In the event that the Bonds are to be refunded, the Authority may direct the Trustee to withdraw from the Debt Service Fund for all Projects, all or any portion of the amounts accumulated therein with regard to debt service on the Bonds to be refunded and will deposit such amounts in such Funds or Accounts as required by the related Indenture.

### ***Debt Service Reserve***

The Authority may, at its option, establish a debt service reserve and a debt service reserve requirement for a Series of Bonds in a Supplemental Indenture. **NO DEBT SERVICE RESERVE FUND HAS BEEN ESTABLISHED FOR THE 2012 BONDS.**

### ***General Fund***

Upon delivery of written instructions executed by an Authorized Officer of the Authority to the Trustee, in addition to the provisions of the Indenture, amounts credited to the General Fund may be applied from time to time by the Authority (1) to the payment of expenses of the Authority which are related to the Projects, (2) to the payment of any refund to any person, including the Commission, of any rents, rates, fees or charges received by the Authority from such person pursuant to the Indenture, or (3) for any other lawful purpose, as determined by resolution of the Authority, *provided* that such amounts shall first be used to cure any deficiencies in the Funds and Accounts *pro rata* in proportion to the deficiency and in the order stated in the Indenture.

### ***Rebate Fund***

The Trustee is required to pay to the Rebate Fund such amounts, if any, from such Funds and Accounts under the Indenture as are required pursuant to the Rebate Memorandum. Amounts in the Rebate Fund, other than any excess amounts which may be authorized to be transferred to a Fund or Account under the Indenture at the written direction of an Authorized Officer of the Authority, will be held by the Trustee for payment to the United States Government, as required pursuant to the Rebate Memorandum. The Trustee will make such payments or otherwise disburse amounts in the Rebate Fund at such times and in such amounts as may be required pursuant to the Rebate Memorandum.

### ***Investments***

Moneys held in the Revenue Fund, Debt Service Fund, General Fund and the Rebate Fund may be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities which mature not later than such time as shall be necessary to provide moneys when needed for payments to be made from such Funds. Moneys held in the Construction Fund may be invested and reinvested by the Trustee in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund (as indicated in a written draw-down schedule provided by the Authority). The Trustee shall make all such investments of moneys held by it in accordance with written instructions, in the form of specific investment directives, from an Authorized Officer of the Authority. In making any investment in any Investment Securities with moneys in any of the above-mentioned Funds, the Authority may, and may instruct the Trustee to, combine such moneys with moneys in any other Fund, Account or Subaccount, but solely for purposes of making such investment in such Investment Securities. The Trustee may rely on any written investment instructions it receives from an Authorized Officer of the Authority as to the suitability of such investment and its compliance with the Investment Securities definition.

Earnings on any moneys or investments in all Funds, Accounts and Subaccounts established under the Indenture shall be retained in the respective Funds, Accounts and Subaccounts for the purposes therein provided, all subject to the Indenture except that earnings on all Accounts of the Construction Fund related to a Project (except for the Interest Account) and any Debt Service Reserve Fund shall be deposited in the Project Account prior to the Projected Commencement Date for each Project. Notwithstanding the foregoing, Supplemental Indentures providing for the issuance of Additional Bonds may provide alternative directions for the deposit of investment earnings prior to the Projected Commencement Date for the Project being financed from the proceeds thereof.

All Investment Securities acquired with moneys in any Fund, Account or Subaccount, including any Fund, Account or Subaccount held by the Authority, shall be held by the Trustee or the Authority in trust or by a Depository as agent in trust in favor of the Trustee or Authority in accordance with the Indenture.

### ***Annual Budgets***

On or before the first day of August of each year while Bonds are Outstanding, the Authority shall prepare and file with the Trustee its proposed annual budget forecast for the ensuing two Fiscal Years which shall set forth in reasonable detail (i) the

estimated Gross Revenues for such Fiscal Years, (ii) to the extent the Authority is obligated, under the Agreements or otherwise, to operate, maintain or repair the Projects or any portion thereof at its expense, and the expenses of operation, maintenance and repair estimated to be incurred as an expense of the Authority pursuant to the Agreements or otherwise for such Fiscal Years after payment thereof by the Commission, (iii) the estimated expenses of the Authority in complying with the covenants of the Indenture and the estimated expenses of the Authority in managing and administering such Projects after payment thereof by the Commission, (iv) the estimated Aggregate Debt Service for such Fiscal Years, (v) the required deposits, if any, to the related Debt Service Reserve Fund for such Fiscal Years and (vi) the estimated costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for the Projects for such Fiscal Years after payment thereof by the Commission. In the event the proposed annual budget forecast for any Fiscal Year forecasts a deficiency in the Net Revenues resulting from the funds appropriated for such Fiscal Year to the Commission for the payment of the Commission's obligations under the Agreements, the Authority shall cause a budget request to be made at the next session of the General Assembly to cure such deficiency.

As soon as available after the end of each legislative session of the State during an odd-numbered year, but in any event prior to the beginning of the ensuing Fiscal Year, the Authority shall prepare and file with the Trustee the annual budgets adopted by the Authority for the ensuing two Fiscal Years which shall set forth in reasonable detail (i) the estimated Gross Revenues for such Fiscal Years, (ii) to the extent the Authority is obligated, under the Agreements or otherwise, to operate, maintain or repair the Projects or any portion thereof at its expense, and the expenses of operation, maintenance and repair estimated to be incurred as an expense of the Authority pursuant to the Agreements or otherwise for such Fiscal Years after payment thereof by the Commission, (iii) the estimated expenses of the Authority in complying with the covenants of the Indenture and the estimated expenses of the Authority in managing and administering the Projects after payment thereof by the Commission, (iv) the estimated amount of the Aggregate Debt Service for such Fiscal Years, (v) the estimated required deposits, if any, to the related Debt Service Reserve Fund for such Fiscal Years and (vi) the estimated costs of major nonrecurring maintenance, repairs, improvements, equipment and replacements for the Projects for such Fiscal Years after payment thereof by the Commission. As soon as available after the end of each legislative session of the State during an even-numbered year, but in any event prior to the beginning of the ensuing Fiscal Year, the Authority shall prepare and file with the Trustee the annual budget adopted by the Authority for the ensuing Fiscal Year which shall set forth those matters required by the preceding sentence for such Fiscal Year. The Authority also may at any time adopt an amended annual budget for the remainder of the then current Fiscal Year.

#### ***Annual Audits***

As soon as available after the end of each Fiscal Year while the Bonds are Outstanding, the Authority shall file with the Trustee the general purpose financial statements of the Authority for such Fiscal Year, together with the opinion on such financial statements issued by the State Board of Accounts. In the event such financial statements are audited by an independent auditor, the Authority shall file such financial statements, together with such auditor's report, with the Trustee within 120 days after the end of such Fiscal Year. Notwithstanding anything to the contrary in the Indenture, the Trustee shall have no responsibility to review or analyze any financial statement submitted pursuant to the provisions described in this paragraph. In addition, the Trustee shall not be considered to have notice of the contents of such financial statements or of a Default or Event of Default under the Indenture based on such contents.

#### ***Operation, Maintenance, Repair of all Projects***

The Authority shall at all times operate or cause the Projects to be operated, including by the Commission, properly and in an efficient and economical manner, and shall maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or use its best efforts to cause to be made, all necessary and proper repairs, replacements and improvements so that at all times the operation of the Projects may be properly and advantageously conducted.

#### ***Rents, Rates, Fees, Charges***

The Authority shall fix, establish and maintain rents, rates, fees and charges for each Project which are reasonably expected to yield during each Fiscal Year in which the Projects, or any portions thereof, are available for use and occupancy an amount which, together with any amounts in the Construction Fund or other Fund or Account available therefor, is equal to at least (1) to the extent the Authority is obligated under the Agreements or otherwise, to operate, maintain or repair the Projects or any portions thereof at its expense, 100 percent (100%) of the expenses of operation, maintenance and repair to be incurred as an expense of the Authority pursuant to the Agreements or otherwise during such Fiscal Year for the Projects or such portions thereof after payment thereof by the Commission, (2) 100 percent (100%) of the expenses to be incurred by the Authority in managing and administering the Projects or such portions thereof and in complying with the covenants of the Indenture after payment thereof by the Commission, (3) 100 percent (100%) of the Aggregate Debt Service during such Fiscal Year, (4) 100 percent (100%) of the required deposits, if any, to any related Debt Service Reserve Account in the Debt Service Reserve Fund during such Fiscal Year and (5) one-sixth (1/6) of such amount as the Authority shall annually estimate is required to provide for

the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Projects to be incurred through the end of the sixth Fiscal Year commencing on the first day of such Fiscal Year after payment thereof by the Commission, all as set forth in the annual budgets required as described above under the heading "Annual Budgets." Prior to the onset of each Fiscal Year, the Authority shall review the rents, rates, fees and charges so established and shall promptly establish or revise such rents, rates, fees and charges as necessary to comply with the foregoing requirements, provided that such rents, rates, fees and charges shall in any event produce moneys sufficient to enable the Authority to comply with all covenants under the Indenture.

To the extent permitted by law, the Authority will enforce the payment of any and all accounts owing to the Authority by reason of the ownership and operation of the Projects.

To the extent permitted by law and subject to the Indenture, the Authority may lease a portion of the Projects to an entity, which is not an agency. The Authority shall lease vacant space in a Project first to an agency needing space prior to leasing to such entities.

The Authority shall use its best efforts to cause the General Assembly to appropriate to or for the benefit of the Commission obligated to pay rentals on account of the leasing by the Commission of space in the Projects pursuant to the Agreements, moneys sufficient to enable the Authority to comply with its obligations described in the first paragraph under this heading. The Agreement shall provide that the Commission shall use its best efforts to cause the General Assembly to appropriate moneys sufficient to enable the Authority to comply with its obligations described in the first paragraph under this heading.

Subject to the provisions described under the heading, "Tax Covenants," in the event the Commission is required to vacate the Projects because funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due pursuant to the Agreement or because the Commission elects not to renew the Agreement at the end of any term, the Authority shall use its best efforts to cause the Projects or such portions thereof to be leased to generate moneys sufficient to enable the Authority to comply with its obligations under the Indenture.

The Agreement shall provide that, in the event the General Assembly fails to appropriate funds or funds are not available to pay any sum agreed to be paid for use and occupancy of the Projects and the Commission is required to vacate the Projects, the Commission shall not purchase, lease or rent property to perform the same functions as or functions taking the place of those performed by such Project or such portions thereof and shall not contract for services to perform the same functions as those performed or furnished by such Project or such portions thereof for a period of two years following such event.

### ***Insurance***

The Authority shall at all times, including all times prior to and after the completion of Acquisition of the Projects, keep or cause to be kept the Projects insured against loss or damage by fire and from other causes customarily insured against under a standard extended coverage endorsement in an amount at least equal to the lesser of (1) the amount sufficient to provide for the payment or redemption of the then Outstanding Bonds and (2) 100 percent of the full replacement cost of the Projects; *provided, however*, such insurance may contain a reasonable loss deductible clause. The Authority shall at all times, including all times prior to and after the completion of Acquisition of the Projects, use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to the Projects.

The Authority shall maintain or cause to be maintained such performance bonds or performance insurance with respect to contracts it may enter into for Acquisition of the Projects as are usually maintained by those Acquiring properties similar to the Projects.

The Authority shall at all times maintain or cause to be maintained rental income loss insurance to insure against loss of projected annual rental income payable pursuant to the Agreements, or any other leases of the Projects or any portions thereof, for such time (being at least for a period of eighteen months) as use of the Projects or any portions thereof is, interrupted by damage or destruction from perils insured against under a standard extended coverage endorsement, provided that such insurance also shall be carried with respect to any portions of the Projects not then occupied pursuant to the Agreements in an amount equal to the fair rental value of such portions, all as are reasonably necessary to meet its obligations under the Indenture.

The Authority shall also use its best efforts to maintain or cause to be maintained any additional or other insurance which it shall deem necessary or advisable to protect its interests and those of the Bondholders.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing or with an insurance group or state insurance pool and shall be payable to the Trustee (by means of a standard mortgagee clause without contribution, if obtainable) for the benefit of the Trustee and the Authority as their interests shall appear. Any such performance bonds shall be payable to the Trustee for the benefit of the Trustee and the Authority as their interests shall appear. Such insurance policies and performance bonds shall provide that they may not be canceled and may not expire without 30 days prior written notice to the Trustee.

The Authority shall furnish to the Trustee a copy of each certificate of insurance and a copy of each performance bond, or renewal notice thereof, evidencing the coverage of the types required to be maintained by the Authority as described under this heading, upon the issuance or renewal of such insurance or performance bond.

### ***Damage, Destruction***

If any Project is damaged or destroyed and, in the opinion of an independent registered architect or registered engineer who is acceptable to the Trustee, (a) the cost of such repair, replacement or reconstruction will not exceed the amount of insurance proceeds to be received by reason of such damage or destruction and other amounts available therefor (including, but not limited to, proceeds from any Series of Bonds which may be authorized and issued under the Indenture for such purpose), and (b) such repair, replacement or reconstruction can be completed within the period covered by the rental value, insurance or other amounts available therefor (including, but not limited to, proceeds from any Series of Bonds which may be issued for such purpose), the Authority must, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted repair, reconstruction or replacement thereof; *provided*, if such conditions are not met in the event of total or substantial destruction of the Project, the Authority will request the Trustee to redeem the allocable Bonds from the available proceeds pursuant to the extraordinary redemption provisions of the Indenture. The Indenture provides that within 120 days after either the non-completion of performance of any contract for Acquisition of the Project, or the occurrence of an event of damage or destruction to the Project, the Authority must deliver to the Commission and the Trustee the appropriate written opinion of the architect or engineer referred to in the preceding sentences, stating whether the required conditions have been satisfied. The proceeds from any performance bond or performance insurance paid on account of non-completion of performance and the proceeds from any insurance paid on account of such damage or destruction (other than any business interruption loss insurance) will be deposited with and held by the Trustee in the Project Account of the Construction Fund for such Project and made available for, and to the extent necessary be applied to, the costs of such completion of performance or such repair, reconstruction or replacement. Pending application, such proceeds may be invested by the Trustee in Investment Securities which mature not later than such times as may be necessary to provide moneys when needed to pay such costs.

Interest earned on such investments will be deposited in the Revenue Fund for all Projects. If the Authority notifies the Trustee that the proceeds from insurance paid on account of damage or destruction will be applied to redeem Bonds in accordance with the Indenture, then such proceeds will be applied by the Trustee in accordance with the Indenture. Otherwise, such proceeds shall be applied to the cost of repair, reconstruction or replacement as described above. If proceeds are held in any Construction Fund for the costs of completing performance or repair, reconstruction or replacement, the Authority will notify the Trustee of completion of performance or of costs of the completion of the repair, reconstruction or replacement in writing. The Trustee will apply such balance of funds in the Construction Fund to remedy the deficiencies in any of the related Funds and Accounts, and if there exists no such deficiency or if such proceeds exceed the amount necessary to remedy such deficiency, such proceeds or the excess thereof, as the case may be, will be applied to any lawful purpose of the Authority. In the event the Authority has failed to complete such performance or failed to repair, replace or reconstruct the damaged or destroyed Project, or has abandoned or failed to prosecute such completion or action diligently, the Trustee may, in its discretion, complete such performance or make such repairs, replacements or reconstructions and enter upon the premises of the Project to the extent necessary to accomplish such purpose. *However*, the Trustee will not be obligated to complete or cause the completion of such performance or make any such repairs, replacements or reconstructions unless (a) it has been requested to do so by the holders of not less than ten percent in aggregate principal amount of all Bonds then outstanding and (b) it has been indemnified, to its satisfaction, against any loss, damage or expense which it might thereby incur.

All proceeds of rental income loss insurance maintained and received under the related Indenture will be paid into the Revenue Fund for the Project.

### ***Additional Bonds***

One or more Series of Additional Bonds may be issued without limitation as to amount and at any time for the purpose of paying Acquisition Costs of any Project. Such Additional Bonds will be authenticated and delivered by the Bond Registrar only upon receipt by the Trustee (in addition to other documents required by the related Indenture) of a certificate of an Authorized Officer of the Authority, stating that the Use Agreement for such Project will provide sufficient Net Revenues to provide, with respect to all Bonds:

- (a) for the payment of the Debt Service for all Bonds;
- (b) for the payment of the required deposits, if any, to any Debt Service Reserve Fund; and
- (c) sufficient funds for deposit into the Debt Service Fund or the Construction Fund to provide for the Debt Service for the Bonds to be issued until such time as rental rates providing sufficient Net Revenues will begin to be paid to the Authority pursuant to the Use Agreement.

If Additional Bonds are proposed to be issued to complete, improve, renovate, refurbish or alter the Facility, the Use Agreement must be amended to reflect the issuance of such Additional Bonds.

### ***Refunding Bonds***

One or more Series of Refunding Bonds may be issued at any time to refund any Series or portion of any Series of Outstanding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to effect such refunding and to make the required deposits into the Funds and Accounts related to such Series of Refunding Bonds.

Refunding Bonds of each Series shall be authenticated and delivered by the Bond Registrar for each such Series only upon receipt by the Trustee, in addition to the documents required by the Indenture, of:

(a) instructions to the Trustee, satisfactory to it, to give due notice of redemption, if applicable, of all the Bonds to be refunded on a redemption date or dates specified in such instructions, subject to the provisions of the Indenture hereinafter described under the heading "Defeasance";

(b) if the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, instructions to the Trustee, satisfactory to it, to make due publication of the notice provided for in the Indenture to the Holders of the Bonds being refunded; and

(c) either (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Trustee or the Paying Agent in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) Defeasance Securities in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications and any moneys as shall be necessary to comply with the Indenture, which Defeasance Securities and moneys shall be held in trust and used only as provided in the Indenture.

### ***Extension of Payment of Bonds***

The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the funding of such Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to any payment out of Net Revenues or Pledged Funds established by the Indenture, including the investments, if any, thereof, pledged under the Indenture or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Indenture) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

### ***Payment of Taxes, Charges***

The Authority will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, if any, or required payments in lieu thereof, lawfully imposed upon the Projects or upon the rights, revenues, income, receipts and other moneys, securities and funds of the Authority when the same shall become due, including all rights, moneys and other property transferred, assigned or pledged under the Indenture, and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the Authority shall in good faith contest by proper legal proceedings if the Authority shall in all such cases have set aside on its books reserves deemed adequate with respect thereto.

### ***Tax Covenants***

The Authority agrees that it will make no use of proceeds of Tax Exempt Bonds, or of amounts which may be treated as proceeds thereof which could cause any Tax Exempt Bonds to be or become “arbitrage bonds” within the meaning of Section 148 of the Code, or under Section 103(c) of the Code, or any successor provisions thereto.

The Authority covenants that it will not take any action or fail to take any action with respect to the proceeds of any Bonds or ownership or use of the Projects or any portions thereof that would result in loss of the exclusion from gross income for federal income tax purposes of interest paid on any Tax Exempt Bonds under the Code in the manner and subject to the provisions of the Tax Representation Certificates.

The Authority shall, not later than the first day of the second calendar month after the close of the calendar quarter in which any Tax Exempt Bonds were issued (or such other time as may be required by the Code or regulations promulgated thereunder), file a statement with the Internal Revenue Service concerning the Bonds which contains that information required by Section 149 of the Code and any regulations promulgated thereunder.

### ***Defaults, Remedies***

**Definition.** If, one or more of the following Events of Default or any additional Event of Default set forth in a Supplemental Indenture shall happen:

(i) if default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call or proceedings for redemption, or otherwise;

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment of a Bond related to such Project (except when such Sinking Fund Installment is due on the maturity date of such Bond), when and as such interest installment or Sinking Fund Installment shall become due and payable;

(iii) if default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions in the Indenture or the Bonds, and such default shall have continued for a period of 60 days after written notice specifying such default, requiring that it be remedied and stating that such notice is a “Notice of Default” under the Indenture shall have been given to the Authority by the Trustee or to the Authority and the Trustee by the Holders of not less than 25 percent in principal amount of the Bonds related to such Project Outstanding; or

(iv) if a court having jurisdiction in the premises shall enter a decree or order providing for relief in respect of the Authority in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) for the Authority for any substantial part of the property of the Authority, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of 90 days,

*then*, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, the Trustee may, or, upon the direction of the Holders of not less than 25 percent in principal amount of such Bonds Outstanding (by notice in writing to the Authority and the Trustee), shall declare the principal of all the Outstanding Bonds and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable. The right of the Trustee or of the Holders of not less than 25 percent in principal amount of the Bonds to make any such declaration as aforesaid, *however*, is subject to the condition that if, at any time after such declaration, but before such Bonds shall have matured by their terms, all overdue installments of interest on such Bonds, together with interest on such overdue installments of interest (to the extent permitted by law) and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the Authority under the Indenture and related to the Bonds (except the principal of and interest accrued since the next preceding interest date on, such Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Authority, or provisions satisfactory to the Trustee shall be made for such payment, and all defaults under such Bonds or under the Indenture and related to the Bonds (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, *then* and in every such case the Holders of 25 percent in principal amount of such Bonds Outstanding, by written notice to the Authority and the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of 25 percent in principal amount of such Bonds Outstanding, *then* any such declaration shall *ipso facto* be deemed to be

rescinded and any such default shall ipso facto be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

**Application of Revenues, Other Moneys.** The Authority covenants that, if an Event of Default for Bonds shall happen and shall not have been remedied, upon demand of the Trustee, it will account as if it were the trustee of an express trust, for all Gross Revenues and other funds, moneys and securities pledged or held under the Indenture for such Bonds for such period as shall be stated in such demand.

During the continuance of an Event of Default, the Trustee shall (1) request that the Authority immediately release to the Trustee all Gross Revenues then held by the Authority and (2) apply the Trust Estate for such Bonds held by it pursuant to the Indenture (except for the moneys, securities and funds held in the Rebate Fund which shall continue to be used for the purpose therein) or received by it pursuant to any right given or action taken under the Indenture as follows and in the following order:

(i) *Expenses of Fiduciaries* - to the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries for such Bonds;

(ii) *Rebate* - to the payment of any rebate obligation owed for such Bonds under Section 148 of the Code, to the extent sufficient funds are not available in the Rebate Fund;

(iii) *Principal or Redemption Price and Interest* - to the payment of the interest and principal or Redemption Price then due on such Bonds, as follows:

(a) unless the principal of all such Bonds shall have become or have been declared due and payable,

First: Interest - to the payment to the persons entitled thereto of all installments of all interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on such Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal or Redemption Price - to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any such Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference;

(b) if the principal of all such Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any such Bond over any other such Bond, or of any Series of such Bonds over any other such Series, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;

(iv) *Replacement Expenses* - to the payment of the amounts required for reasonable and necessary costs of major non-recurring maintenance, repairs, improvements, equipment or replacements of all the Projects necessary in the judgment of the Trustee to prevent a loss of Gross Revenues for the Projects; and

(v) *Subordinated Indebtedness* - to the payment of principal, redemption price and interest then due on subordinated indebtedness of the Authority.

If and whenever all overdue installments of interest on all such Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the Authority under the Indenture, including the principal and Redemption Price of and accrued unpaid interest on all such Bonds which shall then be payable, shall either be paid by or for the account of the Authority, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or such Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be

adequate shall be made therefor, the Trustee shall pay over to the Authority all funds, moneys and securities then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the Indenture to be deposited or pledged, with the Trustee), and thereupon the Authority and the Trustee shall be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Authority by the Trustee and no such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

**Proceeding by Trustee.** Subject to a Supplemental Indenture, if an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than 25 percent in principal amount of such Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Holders of such Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted in the Indenture or any remedy granted under the Act, or for an accounting against the Authority as if it were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by the counsel shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of such Bonds or the production thereof on the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

Subject to a Supplemental Indenture, the Holders of not less than a majority in principal amount of such Bonds then Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any right or power conferred upon the Trustee, *provided* that the Trustee shall have the right to decline to follow any such direction if (1) the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, (2) the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability, unless such Holders shall agree to indemnify the Trustee against such liability and shall post bond in respect of such indemnity, or (3) the Trustee in good faith shall determine that the action or proceeding so directed would be unjustly prejudicial to the related Bondholders not parties to such direction.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of 25 percent in principal amount of such Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interest and the interests of the Bondholders.

**Rights, Remedies.** Subject to a Supplemental Indenture, no Holder of any Bond in Default shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Holder shall have previously given to the Trustee written notice of the happening of such Event of Default, as provided in the Indenture and the Holders of at least 25 percent in principal amount of such Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the Act or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of such Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except as provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Holders of such Bonds Outstanding.

Nothing in the Indenture or in any Bonds shall affect or impair the obligations of the Authority, which are absolute and unconditional, to pay from the Trust Estate at the respective dates of maturity and places therein expressed the principal of and premium, if any, and interest on such Bonds to the respective Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of its Bond from the Trust Estate.

**Non-exclusivity of Remedies.** No remedy conferred upon or reserved to the Trustee or the Bondholders under the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in

addition to every other remedy given under or existing at law, including under the Act, or in equity or by statute on or after the date of execution and delivery of the Indenture.

**Waiver of Events of Default.** No delay or omission of the Trustee or any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

Prior to the declaration of maturity of any Bonds as provided in the Indenture, the Holders of not less than a majority in aggregate principal amount of the Bonds in Default then Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Holders of all such Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any such Bond. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

### ***Supplemental Indentures, Amendments***

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Authority may be adopted which, upon the filing with the Trustee of a copy thereof certified by the Chairman or Executive Director of the Authority, shall be fully effective in accordance with its terms:

- (i) to close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidence of indebtedness;
- (ii) to add to the covenants and agreements of the Authority in the Indenture, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (iii) to add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (iv) to add additional Events of Default;
- (v) to authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in the Indenture, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;
- (vi) with the prior written opinion of nationally recognized bond counsel to the effect that to do so will not affect the excludability of interest on any Tax Exempt Bonds from gross income for federal income tax purposes the tax-exempt status of interest on the Bonds, to authorize, in compliance with all applicable law, Bonds of each Series to be issued in the form of coupon Bonds registrable as to principal only and, in connection therewith, specify and determine the matters and things relative to the issuance of such coupon Bonds, including provisions relating to the timing and manner of provision of any notice required to be given under the Indenture to the Holders of such coupon Bonds, which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such coupon Bonds;
- (vii) to authorize, in compliance with all applicable law, Bonds of any Series, to be issued in the form of Bonds issued and held in book-entry form on the books of the Authority or any Fiduciary appointed for that purpose by the Authority and, in connection therewith, make such additional changes in the Indenture, not adverse to the rights of the Holders of the Bonds, as are necessary or appropriate to accomplish or recognize such book entry form Bonds and specify and determine the matters and things relative to the issuance of such book entry form Bonds as are appropriate or necessary;
- (viii) to authorize subordinated indebtedness of the Authority and, in connection therewith, specify and determine such matters and things relative to such subordinated indebtedness which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such subordinated indebtedness;
- (ix) to confirm, as further assurance, any security interest, pledge or assignment under the Indenture of the Trust Estate or of any other real or personal property or other rights, or to add to any security interest, pledge or assignment created or to be created by the Indenture any real or personal property or other rights;

(x) to modify any provision of the Indenture in any other respect whatever, provided that (a) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding, and (b) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(xi) to appoint or remove the Trustee;

(xii) to modify, amend or supplement the Indenture or any indenture supplemental thereof in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States of America;

(xiii) to modify, amend or supplement the Indenture or any indenture supplemental thereof to permit the issuance of Bonds and subordinated indebtedness in the form of debt instruments not then described by the Indenture, including but not limited to debt instruments the interest on which is subject to federal income taxation under the Code;

(xiv) to modify, amend or supplement the Indenture to the extent necessary to enable the Authority to comply with its covenants, agreements and obligations under the Indenture;

(xv) to make any other modification or amendment of the Indenture which the Authority determines in good faith will not have a material adverse effect on the interest of the Bondholders; or

(xvi) to authorize financial products, including, but not limited to, forwards hedges, swaps, of any kind or description and, in connection therewith, specify and determine such matters and things relative thereto.

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by the Chairman or Executive Director of the Authority, and (ii) the filing with the Authority of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

(a) to cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the Indenture; or

(b) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect.

The Trustee shall not consent to any Supplemental Indenture that would materially adversely affect the interests of the Bondholders.

Any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Indenture, with the written consent given as provided in the Indenture (i) of the Holders of not less than a majority in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of not less than a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the Holders of not less than a majority in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given, provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds as described in this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of the Indenture, a Series shall be deemed to be affected by a modification or amendment of the Indenture if such modification or amendment adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Indenture and any such determination shall be binding and conclusive on the Authority and all

Holders of the Bonds. For purposes described in this paragraph, the Holders of any Bonds may include the initial Holders thereof, regardless of whether such Bonds are being held for resale.

If not contrary to applicable law or regulation, for purposes of the consent required by Section 11.03 of the Indenture, for Supplemental Indentures authorizing the issuance of a Series of Bonds, the holders of that Series of Bonds, including the initial holders thereof and the underwriters who have purchased such Series at closing, shall be deemed to have consented to the terms of the Supplemental Indenture and any other previous supplements or amendments to the Indenture by their purchase and acceptance of such Series of Bonds.

***Defeasance***

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in the Indenture, then the pledge of the Trust Estate and all covenants, agreements and other obligations of the Authority to the Bondholders shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, upon the request of the Authority, the Fiduciaries shall deliver all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys or securities held by them pursuant to the Indenture which are not required for the payment of principal or Redemption Price, if applicable, and interest due or to become due on the Bonds not theretofore surrendered for such payment or redemption. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of any outstanding Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF CONTINUING DISCLOSURE AGREEMENT

**The following is a brief description of certain provisions of the Continuing Disclosure Agreement and does not purport to comprehensively describe that document. It is qualified in its entirety by reference to the full terms of the Continuing Disclosure Agreement.**

#### **General**

The Indiana Finance Authority (the "Authority") and the State of Indiana, acting by and through the Office of Management and Budget (the "State"), will covenant for the benefit of the Bondholders and the Beneficial Owners (as hereinafter defined under this caption only), pursuant to the Continuing Disclosure Agreement, among the Authority, the State and The Bank of New York Mellon Trust Company, N.A., as counterparty, to be delivered on the date of issuance of the Series 2012 Bonds (the "Continuing Disclosure Agreement"), to provide or cause to be provided certain financial information and operating data and notice of the occurrence of certain events. Those covenants have been made in order to assist the Underwriters of the Series 2012 Bonds and registered brokers, dealers and municipal securities dealers in complying with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). "Beneficial Owner" means, in this Appendix only, any person which has or shares power, directly or indirectly, to make investment decisions concerning the ownership of any Series 2012 Bonds (including any person holding Series 2012 Bonds through nominees, depositories or other intermediaries).

#### **Provision of Annual Information**

The Authority and the State hereby undertake to provide to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, either directly or indirectly through a trustee or a designated agent, for the Authority and/or the State, the following annual financial information:

(i) when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 2012, together with the independent auditor's report and all notes thereto; and

(ii) within 210 days of the close of each fiscal year of the State, beginning with the fiscal year ending June 30, 2013, annual financial information for the State for such fiscal year, other than the audited financial statements described in subsection (a)(i) above, including (A) unaudited financial statements of the State, if audited financial statements are not then available, and (B) operating data (excluding any demographic information or forecasts) of the general type included in APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR STATE OF INDIANA" to the Final Official Statement (collectively, the "Annual Information").

If any Annual Information or audited financial statements relating to the State referred to in subsection (a) above no longer can be generated because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the Authority or the State to the MSRB, in an electronic format as prescribed by the MSRB, along with any other Annual Information or audited financial statements required to be provided under the Continuing Disclosure Agreement, shall satisfy the undertaking to provide such Annual Information or audited financial statements. To the extent available, the Authority or State shall cause to be filed along with the other Annual Information or audited financial statements, operating data similar to that which can no longer be provided.

The Authority agrees to make a good faith effort to obtain Annual Information; provided, however, that failure to provide any component of Annual Information because it is not available to the Authority on the date by which Annual Information is required to be provided thereunder, shall not be deemed to be a breach of the Continuing Disclosure Agreement; provided, further, that in the event such Annual Information is not available to the Authority, the Authority or State will provide to the MSRB, in an electronic format as prescribed by the MSRB, (i) a description of the Annual Information that is not available, (ii) any replacement or substitute information, (iii) whether such Annual Information is expected to be available and (iv) if known by the Authority or the State, the date such Annual Information will be made available to the Authority or the State. The Authority or the State further agree to supplement the Annual Information filing when such data is available.

The parties hereto mutually agree that the State (and not the Authority) shall be primarily responsible for providing all of the information required to be provided pursuant to this Section. In the event the Authority receives notice pursuant to the Continuing Disclosure Agreement that The Bank of New York Mellon Trust Company, N.A. (the "Counterparty") has not received certain information required by the Continuing Disclosure Agreement, then and only then shall the Authority take appropriate action to provide such information.

The accounting principles pursuant to which the State's financial statements will be prepared shall be generally accepted accounting principles, as in effect from time to time, as described in the independent auditors' report and the notes accompanying the audited financial statements of the State included in Appendix A to the Final Official Statement or those mandated by State law from time to time.

Annual Information or audited financial statements required to be provided pursuant to this Section may be set forth in a document or set of documents, or may be included by specific reference to documents available to the public on the MSRB's Internet Web site or filed with the SEC.

#### **Notice of Certain Events**

The Authority and the State covenant to provide, or cause to be provided, notice of any of the following events with respect to the Series 2012 Bonds, in a timely manner not in excess of 10 business days after the occurrence of the event and in accordance with Rule 15c2-12:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purpose of the event set forth in clause (12) above, such event is considered to occur when any of the following occur:

- (1) the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority; or
- (2) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

If, for any reason, the Authority or the State fails to provide the Annual Information as required by the Continuing Disclosure Agreement, the Authority or the State shall provide notice of such failure in a timely manner to the MSRB, in an electronic format as prescribed by the MSRB.

Provided the Authority has properly filed the Annual Information and any notices of the foregoing events with the MSRB's EMMA system in accordance with the Continuing Disclosure Agreement, the Authority and the State shall not be responsible for any failure by the MSRB's EMMA system to properly post such information or to associate such information with the correct CUSIPs with respect to the Series 2012 Bonds.

### **Failure to Comply**

The purpose of the Continuing Disclosure Agreement is to enable the Underwriters to purchase the Series 2012 Bonds by providing for an undertaking by the Authority and the State in satisfaction of Rule 15c2-12. The Continuing Disclosure Agreement is solely for the benefit of the Bondholders and creates no new contractual or other rights for the SEC, underwriters, brokers, dealers, municipal securities dealers, potential customers, other "obligated persons" with respect to the Series 2012 Bonds within the meaning of Rule 15c2-12 (each, an "Obligated Person") or any other third party. The sole remedy against the Authority or the State for any failure to carry out any provision of the Continuing Disclosure Agreement shall be for specific performance of the Authority's or the State's disclosure obligations thereunder and not for money damages of any kind or in any amount or for any other remedy. The Authority's or the State's failure to honor its covenants thereunder shall not constitute a breach or default of the Series 2012 Bonds, the Indenture or any other agreement to which the Authority is a party.

Subject to the following paragraph, in the event the Authority or the State fails to provide any information required of it by the terms of the Continuing Disclosure Agreement, any Bondholder may pursue the remedy set forth in subsection (a) above in any court of competent jurisdiction in the State. An affidavit to the effect that such person is a Bondholder supported by reasonable documentation of such claim shall be sufficient to evidence standing to pursue this remedy.

Prior to pursuing any remedy under the Continuing Disclosure Agreement, a Bondholder shall give notice to the Authority and the State, via registered or certified mail, of such breach and its intent to pursue such remedy. A Bondholder may pursue such remedy under the Continuing Disclosure Agreement if and to the extent the Authority or the State has failed to cure such breach within fifteen (15) days after the mailing of such notice, and not before.

### **Amendment of Disclosure Agreement**

The Authority, the State and the Counterparty may, from time to time, amend or modify the Continuing Disclosure Agreement without the consent of or notice to the Bondholders if either: (i)(A) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Authority or the State, or type of business conducted or in connection with the Project (as defined in the Indenture), (B) the Continuing Disclosure Agreement, as so amended or modified, would have complied with the requirements of Rule 15c2-12 on the date hereof, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any change in circumstances, and (C) such amendment or modification does not materially impair the interests of the Bondholders, as determined either by (I) any person selected by the Authority and the State that is unaffiliated with the Authority and the State (including the Counterparty or the Trustee) or (II) an approving vote of the holders of the requisite percentage of Outstanding (as defined in the Indenture) Series 2012 Bonds as required under the Indenture at the time of such amendment or modification; or (ii) such amendment or modification (including an amendment or modification which rescinds the Continuing Disclosure Agreement) is permitted by law or Rule 15c2-12, as then in effect.

The Annual Information or audited financial statements for the fiscal year during which any such amendment or modification occurs that contains the amended or modified Annual Information or audited financial statements shall explain, in narrative form, the reasons for such amendment or modification and the impact of the change in the type of Annual Information or audited financial statements being provided.

### **Termination of Reporting Obligations**

The term of the Continuing Disclosure Agreement is from the date of delivery of the Series 2012 Bonds by the Authority to the earlier of: (a) the date of the last payment of the principal or redemption price (if any) of, and interest to accrue on, all the Series 2012 Bonds; (b) the date the Series 2012 Bonds are defeased under the Indenture; or (c) with respect to the State only, the date upon which the State shall no longer be an Obligated Person.

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**APPENDIX E**

**PROPOSED OPINION OF BOND COUNSEL**

\_\_\_\_\_, 2012

Indiana Finance Authority, as Issuer  
Indianapolis, Indiana

The Bank of New York Mellon Trust Company, N.A.  
Indianapolis, Indiana

Re: Indiana Finance Authority (the "Issuer") Facilities Revenue Bonds, Series 2012L in the aggregate principal amount of \$\_\_\_\_\_ (the "Series 2012L Bonds") and Facilities Revenue Bonds, Series 2012M (the "Series 2012M Bonds," and with the Series 2012L Bonds, the "Bonds") in the aggregate principal amount of \$\_\_\_\_\_ each dated the date hereof; Issued pursuant to a Trust Indenture dated as of October 1, 2012 (the "Trust Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A. (the "Trustee")

Ladies and Gentlemen:

We have examined (a) a certified transcript containing the proceedings of the Issuer relating to the authorization, issuance and sale of the Bonds and the approval and execution of the Trust Indenture and the Agreement (as defined below); (b) an executed counterpart of the Trust Indenture; (c) a certificate showing execution, authentication and delivery of Bonds and no litigation pending as of said date of delivery; (d) the Certificate of the Issuer and the Indiana State Fair Commission (the "Commission") Re: Arbitrage and Federal Tax Matters dated the date hereof (the "Arbitrage Certificate"); (e) a certified transcript containing the proceedings of the Commission relating to the authorization, approval and execution of the Master Use and Occupancy Agreement dated as of October 1, 2012, as supplemented and amended (the "Agreement") between the Authority and the Commission; (f) an executed counterpart of the Agreement; (g) the General Certificate of the Commission; (h) the Information Return for Tax-Exempt Private Activity Bond Issues of the Issuer dated the date hereof; (i) the Information Return for Tax-Exempt Governmental Bond Issues of the Issuer dated the date hereof; and (j) opinions of the Attorney General of the State of Indiana, as counsel to the Authority and the Commission.

In delivering our opinion, we have relied upon a certified transcript of proceedings and other certificates and representations of the Issuer and the Commission as set forth in the Bond transcript, including but not limited to the Arbitrage Certificate (collectively, the "Tax Covenants"), and have not undertaken to verify any facts by independent investigation.

Based upon the foregoing and our review of such other information, papers, documents and statutes, regulations, rulings and decisions as we believe necessary or advisable, we are of the opinion that:

1. The Trust Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery thereof by the Trustee is a valid and binding agreements of the Issuer, enforceable against the Issuer in accordance with their terms.
2. The Bonds have been duly authorized, executed and issued and are valid and binding obligations of the Issuer, enforceable in accordance with their terms.
3. The Agreement has been duly authorized, executed and delivered by the Authority and the Commission and constitutes a legal, valid and binding obligation thereof, enforceable in accordance with its terms. We note, however, that under the Agreement, (i) the Commission is not obligated to pay for the use and occupancy, but is instead required to vacate, the Projects (as described in the Indenture), if it is shown that the terms and conditions of the use and occupancy of the Projects are unjust and unreasonable, as provided in Indiana Code 4-4-10.9 and 11 and Indiana Code 15-13 (the "Act"); and (ii) the Commission is required to vacate the Projects, if funds have not been appropriated or are not available to pay any sum agreed to be paid for the use and occupancy of Projects when due, as provided in the Act.
4. Under existing statutes, decisions, regulations and rulings existing on this date, the interest on the Bonds is exempt from income taxation in the State of Indiana. This opinion relates only to the tax exemption of interest from State of Indiana income taxes.
5. Under federal statutes, decisions, regulations and rulings existing on this date, the interest on the Bonds is excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") except for interest on any Series 2012M Bond for any period during which such Series

2012M Bond is held by a person who is a “substantial user” of the facilities financed by the Series 2012M Bonds or a “related person” thereto within the meaning of Section 147(a) of the Code and the regulations promulgated pursuant thereto. Further, under existing law, interest on the Bonds is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. This opinion is conditioned on continuing compliance by the Issuer and the Commission with the Tax Covenants. Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for purposes of federal income taxation retroactively to the Bonds' date of issue.

It is to be understood that the rights of the owners of the Bonds, the Issuer and the Commission and the enforceability of the Bonds, the Trust Indenture and the Agreement may be subject to the valid exercise of the constitutional powers of the State of Indiana and the United States of America. It is to be further understood that the rights of the owners of the Bonds, the Issuer, and the Commission and the enforceability of the terms of the Trust Indenture, the Agreement and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that the enforcement thereof may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein with respect to matters of title in the facilities financed with the proceeds of the Bonds or the Trustee's interest therein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

By delivering this opinion to the addressees, we are not creating any new attorney-client relationships.

Very truly yours,

## APPENDIX F

### BOOK-ENTRY-ONLY SYSTEM

#### General

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2012 Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, defaults and proposed amendments to the Indenture. For example, Beneficial Owners of the Securities may wish to ascertain that the nominee holding the

Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Registrar. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this subcaption concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

*Notwithstanding any provision of the Indenture, so long as any Series 2012 Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal and interest and all notices with respect to the Series 2012 Bonds shall be made or given in accordance with DTC's rules and procedures.*

### **Revision of Book-Entry-Only System**

In the event that either (1) the Authority receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Series 2012 Bonds or (2) the Authority elects to discontinue its use of DTC as a clearing agency for the Series 2012 Bonds, then the Authority and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Series 2012 Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Series 2012 Bonds and to transfer the ownership of each of the Series 2012 Bonds to such person or persons, including any other clearing agency, as the holder of such Series 2012 Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Series 2012 Bonds, will be paid by the Authority.





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