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May 8, 2013

Kendra York, Public Finance Director
Indiana Finance Authority
One North Capitol, Suite 900
Indianapolis, IN 46204

Dear Ms. York:

We have received the audit report of the Indiana Finance Authority (IFA) prepared by Katz, Sapper, & Miller, LLP, Certified Public Accountants, for the period July 1, 2011 to June 30, 2012. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the report present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the IFA as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS

INDIANA FINANCE AUTHORITY
ANNUAL FINANCIAL STATEMENTS
June 30, 2012

**INDIANA FINANCE AUTHORITY
FINANCIAL STATEMENTS
June 30, 2012**

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*Independent Auditors' Report***Members of the Indiana Finance Authority**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Indiana Finance Authority (the "IFA") as of and for the year ended June 30, 2012, which collectively comprise the IFA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the IFA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the IFA as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 16, budgetary comparison information on pages 81 through 82, Indiana Toll Road infrastructure condition rating information on page 83, and retirement plan schedules on page 84 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the IFA as a whole. The supplementary schedules of segment reporting – statements of net assets, revenues, expenses and changes in net assets, and cash flows on pages 86 through 88, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated October 10, 2012, on our consideration of the IFA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Katz, Appow & Miller, LLP

Indianapolis, Indiana
October 10, 2012

PART 1 - MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2012

This section of the Indiana Finance Authority (the "IFA") financial report provides management's discussion and analysis of the financial performance during the year ended June 30, 2012. Please read it in conjunction with the Independent Auditors' Report at the beginning of this report and the financial statements, which follow this section.

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

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

Background: Established on May 15, 2005, the IFA combined five formerly independent bodies under one entity. The entities combined included the Indiana Development Finance Authority, State Office Building Commission, Indiana Transportation Finance Authority, Recreational Development Commission and the State Revolving Fund Programs. Effective July 1, 2005, all records, money, and other property held by the Auditor of State with respect to the Supplemental Drinking Water and Wastewater Assistance Program transferred to the IFA as the successor entity. On July 1, 2007, the duties and responsibilities of the Indiana Health and Education Facility Finance Authority were transferred to the IFA, and the responsibilities of the following programs were transferred from the IFA to the Indiana Economic Development Corporation: Guaranty Fund, Capital Access Program Fund, Business Development Loan Fund and Rural & Agriculture Development Fund.

The IFA is a body both corporate and politic, and though separate from the State of Indiana (the "State"), the exercise by the IFA of its powers constitutes an essential governmental function. Indiana's constitution restricts State incurrence of debt. As a result, the General Assembly created the IFA and authorized it to issue revenue bonds and other obligations to finance projects for lease to the State. These leases do not constitute State debt. Except as described elsewhere in this MD&A, lease rentals are payable solely from appropriations made by the General Assembly.

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

INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
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The IFA's lease revenue bonds and notes are special and limited obligations of the IFA, payable from lease rental revenue, bond or note proceeds and investment income. The IFA's revenue bonds are not general obligations of the IFA nor are they State debt within the meaning of any constitutional provision or limitation. The IFA cannot compel the General Assembly to make appropriations to pay lease rentals.

Financial Highlights: Management believes an important indicator of the IFA's financial health is whether or not the IFA receives sufficient lease rental revenue to pay debt service on the IFA's lease revenue bonds and meet its other obligations when due. In fiscal year 2012 and prior fiscal years since the IFA and its predecessor entities were established, the IFA received sufficient revenue to pay its debts and meet its other obligations.

To note some major accomplishments in fiscal year 2012, the IFA:

- paid \$638 million of principal and interest on long-term bonds
- loaned \$212.4 million to Indiana communities to fund drinking water and waste water infrastructure projects
- refinanced \$146.3 million of State Revolving Fund bonds resulting in present value savings of \$17.4 million or 11.9% of the refunded bonds
- refinanced \$61.4 million of State Office Building bonds resulting in present value savings of \$4.7 million or 7.65% of the refunded bonds
- refinanced \$21.2 million of Recreational Development bonds in present value savings of \$1.6 million or 7.5% of the refunded bonds
- cash defeased \$43.5 million of State Revolving Fund bonds
- issued \$191 million of State Revolving Fund bonds to fund drinking water and waste water infrastructure projects

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

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

BASIC FINANCIAL STATEMENTS

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

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

(Continued)

INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2012

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

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

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

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

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

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

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

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

(Continued)

INDIANA FINANCE AUTHORITY
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- Revenue-producing capital assets:
 - Governmental – Capital assets do not have a direct relationship to revenue raising capability.
 - Business-Type – Capital assets are typically revenue producing.
- Similarly designated activities and potential for comparison:
 - Governmental – Government may perform multiple or unique functions and are difficult to compare to other governments.
 - Business-Type – Government typically performs a single function that allows for comparability with other governments.
- Nature of funding and budgets:
 - Governmental – Typically part of overall legally adopted governmental budget process.
 - Business-Type – May involve rate setting and appropriations.
- Users and uses of financial reports:
 - Governmental – Emphasis is on financial condition and results of operations of multipurpose functions and broader group of users including citizens, legislative and oversight bodies, and investors/creditors.
 - Business-Type – Emphasis is on financial condition and results of operations of a single activity, related compliance and reasonableness of user charges.

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

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

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

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

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

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

a. **Enterprise Funds**

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

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

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

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

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

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

Toll Bridge Fund is specified for accounting of the net assets and operations of the Wabash River Toll Bridge. The IFA has full control and approval responsibilities for the Wabash River Toll Bridge. However, INDOT has responsibility for operation, maintenance, financial control and reporting for the Wabash River Toll Bridge. This fund was transferred to INDOT effective December 31, 2011.

b. **Internal Service Funds**

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

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INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
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Highway Revenue Bonds is an internal service fund that provides financing for the construction of highway and bridge projects that are managed by INDOT. This fund reports on the direct financing activities and construction of such projects.

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

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

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

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

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INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2012

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

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

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

Indiana Finance Authority
Condensed Statement of Net Assets (in millions of dollars)
June 30, 2012

	Governmental Activities	Business-Type Activities	Total Activities
Assets			
Cash and investments	\$ 355	\$ 1,095	\$ 1,450
Accounts, loans, and lease receivable	1,004	2,030	3,034
Investment in direct financing leases	1,185	124	1,309
Capital assets, net	825	580	1,405
Other assets	257	8	265
Total assets	<u>\$ 3,626</u>	<u>\$ 3,837</u>	<u>\$ 7,463</u>
Liabilities and Net Assets (Deficiency)			
Liabilities			
Accounts payable and other liabilities	\$ 4	\$ 5	\$ 9
Interest payable	29	35	64
Deferred revenue	3	3,464	3,467
Derivative instrument	253	-	253
Bonds and notes payable and other long-term obligations	2,790	1,930	4,720
Total liabilities	<u>3,079</u>	<u>5,434</u>	<u>8,513</u>
Net assets (deficiency)			
Invested in capital assets, net of related debt	164	-	164
Restricted	257	1,198	1,455
Unrestricted	126	(2,795)	(2,669)
Total net assets (deficiency)	<u>547</u>	<u>(1,597)</u>	<u>(1,050)</u>
Total liabilities and net assets (deficiency)	<u>\$ 3,626</u>	<u>\$ 3,837</u>	<u>\$ 7,463</u>

(Continued)

INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
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The total net assets (deficiency) at June 30 was as follows:

	<u>2012</u>	<u>2011</u>
Assets	\$ 7,463	\$ 7,218
Liabilities	<u>(8,513)</u>	<u>(8,489)</u>
Net assets (deficiency)	<u>\$ (1,050)</u>	<u>\$ (1,271)</u>

The net assets (deficiency) was (\$1.1) billion at June 30, 2012, which represents a \$221 million, or 17% increase from the prior year's net assets (deficiency). Total assets increased by \$245 million, while total liabilities increased by \$24 million.

Assets were higher because deferred charges increased \$146 million, cash and investments increased \$87 million, accounts, loans, and lease receivables increased \$36 million, and net capital assets increased \$7 million compared to prior year. These increases were partially offset by the \$31 million decrease in direct financing leases. Liabilities increased due to the \$147 million increase in the derivative investment liability. The increase was partially offset by the \$68 million reduction of debt from regularly scheduled principal payments and defeasances, the recognition of Indiana Toll Road lease revenue of \$38 million, \$13 million less accounts payable and liabilities \$4 million less in interest payable. Effective June 29, 2006, the IFA leased the Indiana Toll Road for a one-time payment of \$3.8 billion to the ITRCC for 75 years. As required under the legislation passed by the Indiana General Assembly, the IFA transferred \$3.6 billion of the lease payment to the State in July 2006 to fund the Major Moves initiative to improve both State and local transportation infrastructure. The IFA recognizes lease revenue over the life of the lease on a straight-line basis.

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INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2012

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

Indiana Finance Authority
Statement of Activities (in millions of dollars)
Year Ended June 30, 2012

	Governmental Activities	Business-Type Activities	Total Activities
Revenues			
Lease rental	\$ 223	\$ 74	\$ 297
Investment earnings	-	56	56
Interest on loans	-	63	63
State appropriation and grants	8	-	8
Other	8	22	30
Total revenues	<u>239</u>	<u>215</u>	<u>454</u>
Expenses			
IFA operations and other	42	33	75
Interest expense	147	85	232
Distribution to primary government	-	9	9
Total expenses	<u>189</u>	<u>127</u>	<u>316</u>
Capital Contributions	18	65	83
Transfers in (out)	1	(1)	-
Change in net assets (deficiency)	69	152	221
Net assets (deficiency), beginning of year	478	(1,749)	(1,271)
Net assets (deficiency), end of year	<u>\$ 547</u>	<u>\$ (1,597)</u>	<u>\$ (1,050)</u>

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

	<u>2012</u>	<u>2011</u>
Revenues and Capital Contributions	\$ 537	\$ 541
Expenses	<u>(316)</u>	<u>(360)</u>
Change in net assets	<u>\$ 221</u>	<u>\$ 181</u>

The increase in net assets (deficiency) was \$221 million for the fiscal year ended June 30, 2012, as compared to an increase of net assets (deficiency) of \$181 million for the prior year. Revenue and capital contributions decreased by \$4 million, which represents a .7% change from the prior year. Expenses decreased by \$44 million, which represents a 12.2% change from the prior year. Revenue and capital contributions decreased due a reduction in grant revenue because the American Recovery and Reinvestment Act of 2009 (ARRA) program was winding down. Expenses were lower due to a decrease in the provision for loan forgiveness of \$24 million,

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INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
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lower pollution remediation of \$10 million, lower interest expense of \$5 million, a decrease of grants of \$3 million, and lower professional service costs and tax rebate, which were down \$1 million each.

SIGNIFICANT CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY

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

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

Indiana Toll Road Lease - Historically, the infrastructure assets related to the Indiana Toll Road were reported separate from the IFA's reporting entity. The IFA reported an equity interest in the overall assets held by the Indiana Toll Road Project. During fiscal year 2006, the IFA concluded its lease with INDOT, and leased the Indiana Toll Road to the ITRCC for 75 years. With the inception of the new lease, the IFA liquidated its equity interest in the Indiana Toll Road Project. IFA's investment in infrastructure assets, land and land improvements, is \$555 million.

Capital Assets: Property and equipment used for IFA operations are land, bridges, buildings and equipment related to the following: the prior State Office Building Commission, the prior Recreational Development Commission, and the Indiana Toll Road Lease Fund. The State Office Building Commission assets have a cost basis of \$1.220 billion and accumulated depreciation of \$395 million. The total decrease in the State Office Building Commission's net capital assets is \$4 million. Capital assets related to the Recreational Development Commission have a cost basis of \$45 million and accumulated depreciation of \$20 million, and net capital assets have decreased by \$2 million over the prior year. Indiana Toll Road Lease Fund assets have a cost basis of \$622 million and accumulated depreciation of \$67 million, and net capital assets increased by \$14 million over the prior year.

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

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INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2012

Indiana Finance Authority
Capital and Infrastructure Assets (in millions of dollars)
June 30, 2012

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u> <u>Activities</u>
Capital Assets			
Property, plant and equipment, net:			
State Office Building Commission	\$ 825	\$ -	\$ 825
Recreational Development Commission	-	25	25
Indiana Toll Road Lease Fund	-	555	555
Total	<u>\$ 825</u>	<u>\$ 580</u>	<u>\$ 1,405</u>
Investment in direct financing leases:			
State Office Building Commission	\$ 27	\$ -	\$ 27
Aviation Technology Center Fund	-	5	5
Airport Facilities Fund	-	119	119
Highway Revenue Bonds	1,158	-	1,158
Total	<u>\$ 1,185</u>	<u>\$ 124</u>	<u>\$ 1,309</u>

(Continued)

INDIANA FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
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Debt Activity: Outstanding debt balances are presented as follows for governmental and business-type activities:

Governmental Activities:

Debt	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Highway Revenue bonds	\$ 1,174,002,972	\$ 5,443,194	\$ 44,735,000	\$ 1,134,711,166
State Office Building Commission	698,067,506	102,394,474	121,691,015	678,770,965
Stadium Project Bonds	977,943,031	9,193	1,000,000	976,952,224
	<u>\$ 2,850,013,509</u>	<u>\$ 107,846,861</u>	<u>\$ 167,426,015</u>	<u>\$ 2,790,434,355</u>

Business-Type Activities:

Debt	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Airport Facilities	\$ 134,690,000	\$ -	\$ 15,555,000	\$ 119,135,000
Aviation Technology Center	5,625,000	4,816,968	5,625,000	4,816,968
State Revolving Program Fund	1,771,361,962	354,237,657	354,035,413	1,771,564,206
Recreational Development Commission	23,045,853	31,632,188	23,410,000	31,268,041
	<u>\$ 1,934,722,815</u>	<u>\$ 390,686,813</u>	<u>\$ 398,625,413</u>	<u>\$ 1,926,784,215</u>

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

Governmental Activities:

Lease	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
State Office Building Commission	\$ -	\$ 28,585,370	\$ 2,096,015	\$ 26,489,355
Highway Revenue Bonds	1,199,758,573	3,100,729	44,735,000	1,158,124,302
	<u>\$ 1,199,758,573</u>	<u>\$ 31,686,099</u>	<u>\$ 46,831,015</u>	<u>\$ 1,184,613,657</u>

Business-Type Activities:

Lease	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Airport Facilities	\$ 134,690,000	\$ -	\$ 15,555,000	\$ 119,135,000
Aviation Technology Center	5,625,000	4,800,000	5,625,000	4,800,000
	<u>\$ 140,315,000</u>	<u>\$ 4,800,000</u>	<u>\$ 21,180,000</u>	<u>\$ 123,935,000</u>

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CURRENTLY KNOWN FACTS

Governmental Activities

In October, the IFA will refund \$80.7 million par value amount of Facilities Revenue Bonds. A total of \$ 42.6 million Series 2004E bonds, \$25.4 million Series 2004D bonds and \$12.7 million Series 2003B bonds will be refunded with present values savings of \$7.9 million or 9.86% of the refunded bonds.

Business-Type Activities

On August 30, 2012, the IFA issued Series 2012B SRF Program Bonds in the amount of \$139.3 million to provide additional subsidized loans to program participants.

DISCLOSURE

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

REQUESTS OF INFORMATION

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

PART 2 – BASIC FINANCIAL STATEMENTS

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
ASSETS			
Current assets:			
Cash	\$ 440,247	\$ 164,868	\$ 605,115
Investments	337,303,204	769,513,155	1,106,816,359
Interest receivable on investments and loans	84,627	17,862,235	17,946,862
Lease income receivable	16,359,589	13,164,925	29,524,514
Grants and accounts receivable	4,330,702	43,317,720	47,648,422
Loans receivable, net	465,354	123,845,215	124,310,569
Interfund receivable	527,730	30,669	558,399
Investment in direct financing leases	50,033,939	16,720,000	66,753,939
Interest held in assets of the Toll Road Project	-	9,080	9,080
Total current assets	409,545,392	984,627,867	1,394,173,259
Noncurrent assets:			
Investments	16,801,467	325,581,860	342,383,327
Investment in direct financing leases	1,134,579,718	107,215,000	1,241,794,718
Loans receivable, net	982,576,488	1,831,020,043	2,813,596,531
Deferred charges, net	252,925,044	-	252,925,044
Unamortized bond issue cost, net	4,064,300	8,580,129	12,644,429
Capital assets, net	825,266,124	580,303,908	1,405,570,032
Total noncurrent assets	3,216,213,141	2,852,700,940	6,068,914,081
Total Assets	\$ 3,625,758,533	\$ 3,837,328,807	\$ 7,463,087,340

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
LIABILITIES AND NET ASSETS (DEFICIENCY)			
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	\$ 3,000,084	\$ 2,151,560	\$ 5,151,644
Interfund payable	429,782	128,617	558,399
Interest payable	28,606,389	35,133,888	63,740,277
Amount due to primary government	1,077,112	-	1,077,112
Deferred revenue	75,000	64,457,998	64,532,998
Revenue bonds payable - current	108,420,000	135,200,000	243,620,000
Note payable - current	4,233,939	-	4,233,939
Construction retention	481,726	-	481,726
Pollution Remediation	-	446,982	446,982
Total current liabilities	146,324,032	237,519,045	383,843,077
Noncurrent liabilities:			
Derivative instrument liability	252,800,533	-	252,800,533
Note payable	35,698,573	-	35,698,573
Revenue bonds payable	2,642,081,843	1,791,584,215	4,433,666,058
Pollution remediation	-	2,797,200	2,797,200
Amount due to federal government	-	1,829,518	1,829,518
Deferred revenue	2,475,000	3,399,698,770	3,402,173,770
Total noncurrent liabilities	2,933,055,949	5,195,909,703	8,128,965,652
Total Liabilities	3,079,379,981	5,433,428,748	8,512,808,729
Net Assets (Deficiency)			
Invested in capital assets, net of related debt	163,703,090	-	163,703,090
Restricted for:			
Debt service	257,346,902	8,622,956	265,969,858
Water pollution and drinking water projects	-	1,189,747,555	1,189,747,555
Unrestricted	125,328,560	(2,794,470,452)	(2,669,141,892)
Total Net Assets (Deficiency)	546,378,552	(1,596,099,941)	(1,049,721,389)
Total Liabilities and Net Assets (Deficiency)	\$ 3,625,758,533	\$ 3,837,328,807	\$ 7,463,087,340

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets (Deficiency) Primary Government		
		Charges for Services	Operating and Capital Grants	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
General Government	\$ 2,730,312	\$ 3,094,744	\$ -	\$ 364,432	\$ -	\$ 364,432
Interstate Bridge	566	-	-	(566)	-	(566)
Conduit Debt Program	149,058	523,178	-	374,120	-	374,120
Environmental	4,880,282	1,628,428	4,462,856	1,211,002	-	1,211,002
Transportation Finance	62,422,944	59,461,610	-	(2,961,334)	-	(2,961,334)
State Office Buildings Finance	67,083,630	121,064,731	14,366,529	68,347,630	-	68,347,630
Stadium and Convention Center Finance	51,077,265	46,654,795	4,422,470	-	-	-
Total Governmental Activities	188,344,057	232,427,486	23,251,855	67,335,284	-	67,335,284
Business-Type Activities:						
Drinking Water and Wastewater	101,880,068	63,770,318	64,867,387	-	26,757,637	26,757,637
Airport Facilities Finance	6,219,465	13,102,930	-	-	6,883,465	6,883,465
Toll Road Lease	13,488,221	77,135,738	-	-	63,647,517	63,647,517
Aviation Technology Center Finance	351,986	1,224,120	-	-	872,134	872,134
Toll Bridges	1,993,403	353,795	-	-	(1,639,608)	(1,639,608)
Health and Education	323,604	474,472	-	-	150,868	150,868
Recreation Development Finance	3,082,026	3,325,359	-	-	243,333	243,333
Total Business-Type Activities	127,338,773	159,386,732	64,867,387	-	96,915,346	96,915,346
Total Primary Government	\$ 315,682,830	\$ 391,814,218	\$ 88,119,242	\$ 67,335,284	\$ 96,915,346	\$ 164,250,630
General Revenues						
Investment earnings, net				\$ 124,394	\$ 56,317,283	\$ 56,441,677
Other Financing Sources						
Transfers				624,695	(624,695)	-
Total General and Other Sources				749,089	55,692,588	56,441,677
Change in net assets (deficiency)				68,084,373	152,607,934	220,692,307
Net Assets (Deficiency) - Beginning of year				478,294,179	(1,748,707,875)	(1,270,413,696)
Net Assets (Deficiency) - End of year				\$ 546,378,552	\$ (1,596,099,941)	\$ (1,049,721,389)

See accompanying notes to financial statements.

**INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>Assets</u>			
Cash	\$ 346,047	\$ -	\$ 346,047
Investments	1,065,322	19,609,529	20,674,851
Interest receivable on investments	82	1,581	1,663
Interest receivable on loans	-	12,789	12,789
Accounts receivable	2,336,551	-	2,336,551
Loans receivable, net	-	6,089,618	6,089,618
Interfund receivable	205,119	322,611	527,730
Capital assets, net of accumulated depreciation	17,875	8,067	25,942
Total Assets	<u>\$ 3,970,996</u>	<u>\$ 26,044,195</u>	<u>\$ 30,015,191</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable and accrued expenses	\$ 1,709,827	\$ 157,697	\$ 1,867,524
Interfund payable	-	374,196	374,196
Total Liabilities	<u>1,709,827</u>	<u>531,893</u>	<u>2,241,720</u>
Fund Balances			
Nonspendable			
Equipment	17,875	8,067	25,942
Restricted			
Environmental Automotive Sector	-	237,085	237,085
Committed			
Environmental Brownfield remediation	-	12,283,057	12,283,057
Assigned			
Environmental Brownfield remediation	-	11,884,304	11,884,304
Unassigned	2,243,294	1,099,789	3,343,083
Total Fund Balances	<u>2,261,169</u>	<u>25,512,302</u>	<u>27,773,471</u>
Total Liabilities and Fund Balances	<u>\$ 3,970,996</u>	<u>\$ 26,044,195</u>	<u>\$ 30,015,191</u>

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2012

Total fund balances – governmental funds \$ 27,773,471

Amounts reported for governmental activities in the statement of net assets are different because:

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds for Highway Revenue Bonds, State Office Building Commission, Transportation Finance General and Stadium and Convention Center Financing are included in governmental activities in the statement of net assets.

518,605,081

Net assets of governmental activities \$ 546,378,552

See accompanying notes to financial statements.

**INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2012**

	General	Other Governmental Funds	Totals
Revenues			
State appropriations	\$ 2,545,008	\$ -	\$ 2,545,008
Investment earnings, net	(1,656)	12,373	10,717
Interest on loans	-	105,868	105,868
Financing fees and premiums	435,715	523,178	958,893
Other funding	116,330	1,522,560	1,638,890
Total revenues	<u>3,095,397</u>	<u>2,163,979</u>	<u>5,259,376</u>
Expenditures			
General Government	2,730,312	566	2,730,878
Business Development	-	149,058	149,058
Environmental	-	4,880,282	4,880,282
Total expenditures	<u>2,730,312</u>	<u>5,029,906</u>	<u>7,760,218</u>
Excess of Expenditures over Revenues	<u>365,085</u>	<u>(2,865,927)</u>	<u>(2,500,842)</u>
Other Financing Sources			
Capital Contributions	-	4,462,856	4,462,856
Transfers in (out)	500,000	2,051	502,051
Total other financing sources and uses	<u>500,000</u>	<u>4,464,907</u>	<u>4,964,907</u>
Net Change in Fund Balances	865,085	1,598,980	2,464,065
Fund Balances- Beginning	1,396,084	23,913,322	25,309,406
Fund Balances- Ending	<u>\$ 2,261,169</u>	<u>\$ 25,512,302</u>	<u>\$ 27,773,471</u>

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

Net change in fund balances – governmental funds \$ 2,464,065

Amounts reported for governmental activities in the statement of activities are different because:

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds for Highway Revenue Bonds, State Office Building Commission, Transportation Finance General and Stadium and Convention Center Financing are included in governmental activities in the statement of activities.

65,620,308

Change in net assets of governmental activities \$ 68,084,373

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2012

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Assets					
Current assets:					
Cash	\$ 43,201	\$ -	\$ 121,667	\$ 164,868	\$ 94,200
Investments	639,061,523	93,639,372	24,545,087	757,245,982	328,895,526
Interest receivable on investments	3,392,046	4,804	2,482	3,399,332	71,040
Interest receivable on loans	14,399,212	-	62,826	14,462,038	-
Lease income receivable	-	1,772,889	11,392,036	13,164,925	16,359,589
Grants and accounts receivable	43,261,669	588	55,463	43,317,720	1,994,151
Loans receivable, net	122,533,621	-	1,311,594	123,845,215	-
Interfund receivable	-	-	30,669	30,669	-
Investment in direct financing leases	-	-	16,720,000	16,720,000	50,033,939
Interest held in assets of the Toll Road Project	-	-	-	-	9,080
Total current assets	822,691,272	95,417,653	54,241,824	972,350,749	397,457,525
Noncurrent assets:					
Investments	324,365,512	-	1,216,348	325,581,860	16,801,467
Investment in direct financing leases	-	-	107,215,000	107,215,000	1,134,579,718
Loans receivable, net	1,817,985,847	-	13,034,196	1,831,020,043	976,952,224
Unamortized bond issue cost	8,296,227	-	-	8,296,227	4,348,202
Deferred charges, net	-	-	-	-	252,925,044
Capital assets, net of accumulated depreciation	264,214	554,843,132	-	555,107,346	850,436,744
Total noncurrent assets	2,150,911,800	554,843,132	121,465,544	2,827,220,476	3,236,043,399
Total Assets	\$ 2,973,603,072	\$ 650,260,785	\$ 175,707,368	\$ 3,799,571,225	\$ 3,633,500,924
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	\$ 185,137	\$ 1,809,467	\$ 152,639	\$ 2,147,243	\$ 1,136,877
Interfund payable	109,951	-	16,019	125,970	58,233
Interest payable	34,003,260	-	1,007,316	35,010,576	28,729,701
Amount due to primary government	-	-	-	-	1,077,112
Deferred revenue	-	64,457,998	-	64,457,998	75,000
Revenue bonds payable - current	116,680,000	-	16,720,000	133,400,000	110,220,000
Note payable	-	-	-	-	4,233,939
Construction retention	-	-	-	-	481,726
Pollution Remediation	-	446,982	-	446,982	-
Total current liabilities	150,978,348	66,714,447	17,895,974	235,588,769	146,012,588
Noncurrent liabilities:					
Derivative instrument liability	-	-	-	-	252,800,533
Note payable	-	-	-	-	35,698,573
Revenue bonds payable	1,654,884,206	-	107,231,968	1,762,116,174	2,671,549,884
Pollution remediation	-	2,797,200	-	2,797,200	-
Amount due to federal government	1,829,518	-	-	1,829,518	-
Deferred revenue	-	3,399,698,770	-	3,399,698,770	2,475,000
Total noncurrent liabilities	1,656,713,724	3,402,495,970	107,231,968	5,166,441,662	2,962,523,990
Total Liabilities	1,807,692,072	3,469,210,417	125,127,942	5,402,030,431	3,108,536,578
Net Assets (Deficiency)					
Invested in capital assets, net of related debt	-	-	-	-	163,703,090
Restricted for debt service	-	-	8,622,956	8,622,956	257,346,902
Restricted for water pollution and drinking water projects	1,165,911,000	-	23,836,555	1,189,747,555	-
Unrestricted	-	(2,818,949,632)	18,119,915	(2,800,829,717)	103,914,354
Total Net Assets (Deficiency)	\$ 1,165,911,000	\$ (2,818,949,632)	\$ 50,579,426	\$ (1,602,459,206)	\$ 524,964,346

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO THE
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2012

Total net assets (deficiency) - enterprise funds	\$(1,602,459,206)
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Amounts reported for business-type activities in the statement of net assets are different because:

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds for the Indiana Toll Road Project and the Recreational Development Commission are included in business-type activities in the statement of net assets.

6,359,265

Net assets (deficiency) of business-type activities	<u>\$(1,596,099,941)</u>
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**INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - PROPRIETARY FUNDS
For the year ended June 30, 2012**

	Enterprise Funds				Internal Service Funds
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	
Operating Revenues					
State appropriations	\$ -	\$ -	\$ 147,206	\$ 147,206	\$ -
Lease rental income	-	57,124,370	14,128,266	71,252,636	225,623,629
Interest on loans	62,990,925	-	284,823	63,275,748	-
Tolls	-	-	353,795	353,795	-
Financing fees and premiums	457,404	-	673,168	1,130,572	4,658,186
Other funding	-	20,011,368	88	20,011,456	224,680
Total operating revenue	<u>63,448,329</u>	<u>77,135,738</u>	<u>15,587,346</u>	<u>156,171,413</u>	<u>230,506,495</u>
Operating Expenses					
Personal services	674,046	(4,801)	119,315	788,560	715,892
Nonpersonal services	43,492	11,583	321,130	376,205	1,647,776
Professional services	921,479	627,694	67,021	1,616,194	1,469,059
Supplies	3,332	-	550	3,882	3,169
Equipment and building fixtures	2,553	405	4,645	7,603	159,026
Travel	5,522	-	13,833	19,355	19
Interest expense	77,595,325	-	6,471,796	84,067,121	148,035,122
Depreciation expense and amortization	1,237,755	5,374,888	105,365	6,718,008	31,635,802
Grants	-	-	759,084	759,084	-
Reimbursement agreement loss	430,404	-	-	430,404	-
Other expense	538,410	465,542	(13,000)	990,952	-
Total operating expenses	<u>81,452,318</u>	<u>6,475,311</u>	<u>7,849,739</u>	<u>95,777,368</u>	<u>183,665,865</u>
Operating income (loss)	<u>(18,003,989)</u>	<u>70,660,427</u>	<u>7,737,607</u>	<u>60,394,045</u>	<u>46,840,630</u>
Nonoperating Revenues (Expenses)					
Investment earnings, net	56,088,302	125,246	106,574	56,320,122	108,530
Distribution to primary government	-	(7,012,910)	(1,834,582)	(8,847,492)	-
Total nonoperating revenue (expenses)	<u>56,088,302</u>	<u>(6,887,664)</u>	<u>(1,728,008)</u>	<u>47,472,630</u>	<u>108,530</u>
Income before Capital					
Contributions and Transfers	38,084,313	63,772,763	6,009,599	107,866,675	46,949,160
Capital Contributions	64,720,181	-	37,166	64,757,347	18,788,999
Forgivable Loan Expense	(19,631,887)	-	-	(19,631,887)	-
Transfers in (out)	<u>(2,051)</u>	<u>(99,038)</u>	<u>(523,606)</u>	<u>(624,695)</u>	<u>122,643</u>
Change in Net Assets (Deficiency)	83,170,556	63,673,725	5,523,159	152,367,440	65,860,802
Net Assets (Deficiency) - Beginning of year	1,082,740,444	(2,882,623,357)	45,056,267	(1,754,826,646)	459,103,544
Net Assets (Deficiency) - End of year	<u>\$ 1,165,911,000</u>	<u>\$ (2,818,949,632)</u>	<u>\$ 50,579,426</u>	<u>\$ (1,602,459,206)</u>	<u>\$ 524,964,346</u>

See accompanying notes to financial statements.

**INDIANA FINANCE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the year ended June 30, 2012**

Net change in net assets (deficiency) - enterprise funds \$ 152,367,440

Amounts reported for business-type activities in the statement of activities are different because:

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds for the Indiana Toll Road Project and the Recreational Development Commission are included in business-type activities in the statement of activities.

240,494

Change in net assets (deficiency) of business-type activities \$ 152,607,934

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the year ended June 30, 2012

	Enterprise Funds				Internal Service Funds
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	
Cash Flows from Operating Activities					
Lease, rent and toll receipts	\$ -	\$ 18,819,138	\$ 7,183,625	\$ 26,002,763	\$ 226,332,368
Other operating income	27,000	516,314	800,079	1,343,393	4,882,866
Payments for general and administrative expenses	(1,863,465)	(19,517,214)	(954,928)	(22,335,607)	(6,794,705)
Payments for grants	-	-	(759,084)	(759,084)	-
Transfer	-	-	(640,478)	(640,478)	(100,000)
Net Cash Provided (Used) by Operating Activities	(1,836,465)	(181,762)	5,629,214	3,610,987	224,320,529
Cash Flows from Investing Activities					
Principal repayments of loans	183,962,882	-	2,682,858	186,645,740	1,000,000
Issuance of loans	(212,457,140)	-	(1,382,975)	(213,840,115)	-
Change in investments	66,935,911	-	(203,211)	66,732,700	(16,801,467)
Interest received on loans and investments, net	121,313,682	122,189	427,554	121,863,425	55,692
Issuance of capital lease	-	-	-	-	(26,489,355)
Purchase of property and equipment	(219,624)	-	-	(219,624)	(24,670,245)
Net Cash Provided by Investing Activities	159,535,711	122,189	1,524,226	161,182,126	(66,905,375)
Cash Flows from Non-Capital Financing Activities					
Proceeds from debt issuance	329,330,000	-	-	329,330,000	-
Principal payments to reduce indebtedness including refunding	(329,127,756)	-	-	(329,127,756)	-
Payment of debt issuance costs, net of refunding	(1,312,474)	-	-	(1,312,474)	-
Change in amount due to federal government	(10,021)	-	-	(10,021)	-
Interest paid on debt	(78,357,999)	-	-	(78,357,999)	-
Net Cash Used by Non-Capital Financing Activities	(79,478,250)	-	-	(79,478,250)	-
Cash Flows from Capital Financing Activities					
Proceeds from debt issuance	-	-	4,800,000	4,800,000	132,392,625
Principal payments to reduce indebtedness	-	-	(21,163,032)	(21,163,032)	(183,954,714)
Interest paid on debt	-	-	(6,665,821)	(6,665,821)	(150,384,199)
Capital lease principal receipts	-	-	16,380,000	16,380,000	44,735,000
Acquisition of capital assets	-	-	-	-	(3,100,729)
Capital contributions (EPA grants)	59,743,490	-	498,259	60,241,749	18,788,999
Issuance of forgivable loans to participants	(19,631,887)	-	-	(19,631,887)	-
Net Cash Provided by Capital Financing Activities	40,111,603	-	(6,150,594)	33,961,009	(141,523,018)
Net Increase (Decrease) in Cash and Short-term investments	118,332,599	(59,573)	1,002,846	119,275,872	15,892,136
Cash and Short-term investments					
Beginning of Year	520,772,125	93,698,945	23,663,908	638,134,978	313,097,590
End of Year	\$ 639,104,724	\$ 93,639,372	\$ 24,666,754	\$ 757,410,850	\$ 328,989,726
Cash and Short-term investments					
Cash	\$ 43,201	\$ -	\$ 121,667	\$ 164,868	\$ 94,200
Short-term Investments	639,061,523	93,639,372	24,545,087	757,245,982	328,895,526
	\$ 639,104,724	\$ 93,639,372	\$ 24,666,754	\$ 757,410,850	\$ 328,989,726
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ (18,003,989)	\$ 70,660,427	\$ 7,737,607	\$ 60,394,045	\$ 46,840,630
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Interest on loans	(62,990,925)	-	(284,823)	(63,275,748)	-
Interest expense	77,595,325	-	6,471,796	84,067,121	148,035,122
Amortization of deferred charges	1,229,766	-	-	1,229,766	1,054,591
Amortization of deferred revenue	-	(49,395,540)	-	(49,395,540)	-
Depreciation	-	5,374,888	105,365	5,480,253	30,581,211
Contributed property and equipment	-	(19,495,054)	-	(19,495,054)	-
Distribution to primary government	-	(7,012,910)	(640,478)	(7,653,388)	-
Transfer for administrative reimbursement	(2,051)	(99,038)	(523,606)	(624,695)	122,643
Changes in assets and liabilities:					
Accounts receivable and other assets	422,086	(47,387)	(7,321,036)	(6,946,337)	752,581
Accounts payable and accrued expenses	(86,677)	(11,257,456)	84,389	(11,259,744)	(2,991,249)
Deferred revenue	-	11,090,308	-	11,090,308	(75,000)
	\$ (1,836,465)	\$ (181,762)	\$ 5,629,214	\$ 3,610,987	\$ 224,320,529
Supplemental disclosure of non-cash transactions:					
Contributed property and equipment	\$ -	\$ 19,495,054	\$ -	\$ 19,495,054	\$ -

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION

The accompanying financial statements of the Indiana Finance Authority (IFA) as of June 30, 2012, and for the fiscal year then ended, conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles. IFA's significant accounting policies are as follows:

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

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

IFA's primary programs include:

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

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

- Volume Cap - Indiana's \$619 million capacity to issue private activity bonds, competitively awarded based on jobs created and/or retained, wages, capital investment, project location, dedication to low-income housing and other factors.

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

- Tax-Exempt Bond - Industrial revenue bonds, refunding bonds, 501(c)(3) bonds, and smaller bonds issued monthly.
- Health and Education Facilities - financing alternatives for Indiana health care organizations and private institutions of higher education.

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

- Indiana Brownfields Program - The Program offers financial, technical, legal and educational assistance to eligible entities involved in Brownfields redevelopment. IFA works in partnership with the U.S. Environmental Protection Agency (EPA) and other State agencies to assist communities in making productive use of their Brownfield properties.
- State Revolving Fund Programs (SRF) - The SRF Loan Program provides low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure.

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

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

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

- The first two statements are government wide financial statements that provide both long-term and short-term information about IFA's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of IFA, reporting IFA's operation in more detail than the government wide statements.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION

(Continued)

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

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

- **Governmental activities** include the Operating Account (General Funds), Environmental Remediation Revolving Loan Fund, Petroleum Remediation Grant Fund, and Brownfields Cleanup Revolving Fund. Although most internal service funds are associated with business-type activities, some of IFA's internal service funds have characteristics more closely associated with governmental activities. Internal service funds classified as governmental activities include the Highway Revenue Bonds, Transportation Finance General, Stadium and Convention Center Financing, and State Office Building Commission.
- **Business-type activities** include the State Revolving Fund, Supplemental Fund, Airport Facilities Fund, Conduit Debt Program Fund, Aviation Technology Center Fund, Toll Bridge Fund, Indiana Toll Road Lease Fund, Recreational Development Commission, and Indiana Toll Road Project Fund.

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

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

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION

(Continued)

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

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

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

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

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

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

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

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

IFA's Enterprise Funds include:

State Revolving Fund reports on the Wastewater State Revolving Fund (WSRF) and Drinking Water State Revolving Fund (DWSRF) programs. The federal Water Quality Act of 1987, as amended in 1996, authorized the EPA to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State established a water pollution control revolving fund program to provide financial assistance, essentially, to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from the WSRF Program, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State has established a public drinking water system program to provide financial assistance for eligible projects. Prior to the program receiving funding as a result of the American Recovery and Reinvestment Act of 2009 (ARRA), financial assistance included making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems. ARRA and the EPA grant awards amounts prior to June 30, 2012 required the program to provide both loans and forgivable loans to public water systems for eligible projects.

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

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION

(Continued)

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

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

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

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

Toll Bridge Fund accounts for the net assets and operations of the Wabash River Toll Bridge. By statute, IFA controls the Toll Bridge. However, INDOT is responsible for operation, maintenance and financial control and reporting for the Wabash River Toll Bridge. This fund was transferred to INDOT effective December 31, 2011.

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

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

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INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

expenses, major expense fund requirements and payment of base rent to IFA in an amount sufficient for payment of debt service on the Bonds.

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

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

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

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

- Financing the implementation of the Indiana Government Center Master Plan
- Infrastructure and transportation facilities in its vicinity, certain correctional facilities and certain hospitals
- Financing the Indiana State Museum acquisition, design and construction costs
- Conducting projects to reduce energy consumption costs and other operating costs at qualified state owned institutions

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

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

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For IFA, "available" means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred. The governmental funds recognize expenditures for these liabilities to the extent they will be matured or liquidated with expendable financial resources.

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

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

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

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other relevant policies related to revenues follow:

- Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizens as a whole. Program revenues are separately classified in three categories—(a) charges for services, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions.
- Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and interest on debt and depreciation on capital assets. Governmental fund transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income. For proprietary funds, revenue and expense transactions normally classified as other than operating cash flows are classified as operating revenues and expenses if those transactions constitute principal ongoing operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.
- IFA's policy is to apply externally restricted and reserved funds first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The Unrestricted Net Assets component consists of net assets that do not meet the definition of the preceding two components. IFA has reserved fund equity in special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by IFA's governing body.
- Governmental Funds: Fund balances are displayed in five components:
 - Non-spendable fund balance includes amounts not in spendable form.
 - Amounts listed in restricted fund balance are subject to constraints imposed by external organizations. For purposes of determining the ending fund balance, restricted funds are considered to be spent first when an expenditure occurs for which both restricted and unrestricted amounts are available.
 - Committed fund balance is amounts that are designated by an IFA Board resolution to be used for a specific purpose. If expenditure occurs for which committed, assigned or unassigned amounts are available, committed amounts are considered to be spent first, followed by assigned and then unassigned funds.
 - Assigned fund balance amounts are available for commitment by IFA Board resolution, to projects within the Brownfield program.
 - Unassigned fund balance is the residual classification for the general fund.

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

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

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

An allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances, and general economic conditions. Periodically, management reviews grants and accounts receivable and considers the need for an allowance based on current circumstances. Management has estimated that no allowance is necessary at June 30, 2012.

Loans Receivable and Allowance for Loans: Loans are carried at the principal amount outstanding. Interest income is accrued on the principal balances of loans. IFA's sources of funding for loans are from state appropriations and grants. Because there are a small number of significant loans outstanding, management estimates the allowance for loan loss by identifying specific troubled loans. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that as of June 30, 2012, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the areas that funds are loaned would increase the likelihood of additional losses because of credit and market risks and could create the need for additional loss allowance.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Due to Primary Government: This represents amounts that were due to the State at June 30, 2012 as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Liabilities - Due to primary government		
Current:		
State Merit Credit Union- DWD	\$ 25,000	\$ -
Generator - IOT	956,000	-
Southeast Regional Treatment Center - MSH	64,416	-
Southeast Regional Treatment Center - DOC	7,534	-
Toxicology Lab Project - ISDH	<u>24,162</u>	<u>-</u>
	<u>\$ 1,077,112</u>	<u>\$ -</u>

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

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

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

Subsequent Events: IFA has evaluated the financial statements for subsequent events occurring through October 10, 2012, the date the financial statements were available to be issued. See Note 14.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS

IFA's Investment Policy:

I. Scope and Intent

The Investment Policy applies to the investment of all funds, including, but not limited to, bond proceeds and gross revenues for which IFA and appropriate trustee(s) have investment responsibility¹. The Members of IFA are responsible for fiduciary oversight of these invested funds. The Members have approved the Investment Policy in furtherance of their goal to meet the investment objectives listed in Section II hereof.

II. Objectives

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

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

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

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

III. Delegation of Authority

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

IV. Standard of Care

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

V. Permitted Investments

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Federal agency obligations (including both federally related institution securities and federally sponsored agency securities), including, but not limited to, Ginnie Mae, Fannie Mae, Freddie Mac, Farmer Mac, and Federal Home Loan Bank debt
 - o any full-faith-and-credit securities are permitted
 - o non-full-faith-and-credit debt securities are permitted if rated in one of the two highest rating categories by one of the following rating agencies: Fitch, Moody's, and Standard & Poor's (the Rating Agencies)
- Mortgage pass-through securities issued by Ginnie Mae, Fannie Mae, or Freddie Mac
 - o any full-faith-and-credit securities are permitted
 - o non-full-faith-and-credit pass-through securities are permitted if guaranteed by the issuing agency, and if the issuing agency is rated in one of the two highest rating categories by one of the Rating Agencies
- Obligations of state and local governments in the U.S. and their political subdivisions, if rated in one of the three highest rating categories by one of the Rating Agencies
- Repurchase agreements, if at least 102% collateralized by any of the above
- Money market mutual funds regulated by the Securities and Exchange Commission
 - o only no-load funds are permitted (*i.e.* no commission or fee shall be charged on purchases or sales of shares)
 - o permitted funds will be those that limit assets of the fund to U.S. Treasury securities, federal agency securities, and repurchase agreements collateralized by the same; or that are rated in the highest rating category by one of the Rating Agencies
 - o these funds seek to maintain a stable net asset value of \$1.00 per share
 - o by definition these funds will meet the requirements for portfolio maturity, portfolio quality, and portfolio diversification in Rule 2a-7 under the Investment Company Act of 1940
- Commercial paper, if rated in the highest rating category by one of the Rating Agencies, with a maturity not to exceed 270 days
- Investment agreements, if the provider is rated the equivalent of Aa3 or higher by one of the Rating Agencies

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

VI. Investment Parameters

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

VII. Authorized Broker/Dealers

1. All financial institutions currently serving as trustee for any component unit of IFA are authorized to provide investment services, including investment advice, to IFA. In addition, the Investment Officers shall maintain a list of broker/dealers authorized to provide IFA with investment services and advice. Such list should be reported to IFA on an annual basis. Broker/dealers may be primary dealers or regionally recognized dealers. However, any broker/dealer which desires to serve in any capacity other than advisor shall provide IFA with the following:
 - Current audited financial statements
 - Proof of National Association of Securities Dealers (NASD) certification
 - Certification of having read the Investment Policy
2. Each Investment Officer is authorized to enter into safekeeping agreements, wire transfer agreements or other agreements necessary or useful in administering the policy. A background check is required for each Investment Officer prior to this authorization.
3. The Investment Officers should conduct an annual review of the financial condition and registration of all broker/dealers on the authorized list.

VIII. Safekeeping and Custody

1. All investment transactions, including, but not limited to, those completed by telephone, should be supported in writing and approved by an Investment Officer. Written communication may be made by facsimile on IFA letterhead.
2. Book Entry -- IFA should strive to invest in book-entry securities, thus avoiding physical delivery of securities. No securities shall be physically stored or kept in the offices of IFA.
3. Custodial Safekeeping -- Securities purchased from any bank or dealer, including collateral when appropriate, should generally be placed with the appropriate trustee or with an independent third party for safekeeping.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

IX. Performance and Reporting

1. Annual Report -- The Investment Officers shall prepare an investment report at least annually which should provide a clear picture of the status of the portfolio and transactions made over the preceding year. Such report should be designed to allow Members of IFA to ascertain whether the investment activities during the reporting period have conformed to the policy.
2. Performance -- The portfolio should achieve a market rate of return during a market environment of stable interest rates. Portfolio performance should be compared at least annually to the yield on 3-month U.S. Treasury obligations. Such performance comparison should be included in the annual report.

X. Interest Rate Risk

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

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

At June 30, 2012, IFA had the following investments and maturities:

Governmental Activities: Investment Type	Investment Maturities (in years)				
	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	Greater than Ten Years
Money Market Investment	\$ 317,308,558	\$ 317,308,558	\$ -	\$ -	\$ -
US Treasury	2,519,050	-	2,519,050	-	-
Government Obligations	6,413,884	100,038	6,313,846	-	-
Bank Deposits	24,376,184	19,894,608	4,481,576	-	-
Repurchase Agreements	3,486,995	-	3,486,995	-	-
Total	\$ 354,104,671	\$ 337,303,204	\$ 16,801,467	\$ -	\$ -

Business-Type Activities: Investment Type	Investment Maturities (in years)				
	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	Greater than Ten Years
Money Market Investment	\$ 706,307,916	\$ 706,307,916	\$ -	\$ -	\$ -
US Treasury	165,128,588	2,350,523	28,835,090	104,584,243	29,358,732
Government Obligations	52,035,960	846,797	21,978,051	16,803,223	12,407,889
Private Equity	1,216,348	-	1,216,348	-	-
Guaranteed Investment Contracts	110,398,284	-	17,885,993	-	92,512,291
Bank Deposits	60,007,919	60,007,919	-	-	-
Total	\$ 1,095,095,015	\$ 769,513,155	\$ 69,915,482	\$ 121,387,466	\$ 134,278,912

XI. Custodial Credit Risk

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

XII. Credit Risk

IFA's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2012 are as follows:

Governmental Activities:

Investment Type	S & P	Moody's	Fitch	Fair Value
Money Market Investment	AAAm	Aaa-mf	AAAmmf	\$ 252,799,662
	AAAm	Aaa-mf	unrated	64,508,896
US Treasury	AA+	Aaa	AAA	2,519,050
Government Obligations	AA+	Aaa	AAA	6,139,542
	NR	Aa1	NR	274,342
Bank Deposits	NR	NR	NR	19,894,608
	AA+	Aaa	AAA	4,481,576
Repurchase Agreements	A1+	P1	NR	3,486,995
				<u>\$ 354,104,671</u>

Business-Type Activities:

Investment Type	S & P	Moody's	Fitch	Fair Value
Money Market Investment	AAAm	Aaa-mf	NR	\$ 303,788,516
	AAAm	Aaa-mf	AAAmmf	402,503,814
	AAAm	Aaa	NR	15,586
US Treasury	AA+	Aaa	AAA	165,128,588
Government Obligations	AA+	Aaa	AAA	51,711,713
	AA+	Aaa	NR	324,247
Private Equity	unrated	unrated	unrated	1,216,348
Guaranteed Investment Contracts	NR	NR	NR	17,885,993
	A-	A3	NR	92,512,291
Bank Deposits	NR	NR	NR	60,007,919
				<u>\$ 1,095,095,015</u>

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

XIII. Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. Under IFA's Investment Policy Statement, investments should be diversified by type of security and institution. Except for cash equivalents; indenture purpose investments, and U.S. Government Securities, the total portfolio should consist of no more than 40% of any single type of security. At June 30, 2012, there were no concentrations of credit risk.

The following table shows investments in issuers that represent 5% or more of the total investments at June 30, 2012:

Dreyfus Cash Management CI A Fd 288 (DICXX)	26%
JPMorgan Prime Mmkt Instit Fd 829	19%
Goldman Financial Square MM (FSMXX)	17%
US Treasury	12%
Goldman Prime Financial Square MM (FPOXX)	8%
FSA Capital Management GIC	6%

XIV. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Investments are not included as allowable investments per IFA's policy. At June 30, 2012, there was no foreign currency risk exposure.

XV. Securities Lending

The State Treasurer is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the U.S., an agency of the U.S. government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. The collateral securities cannot be pledged or sold by the State Treasurer unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with custodians require them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

At June 30, 2012, the investments had no credit risk exposure on securities lending.

XVI. Deposit Risks

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the three demand deposit accounts are carried at cost and are insured up to \$250,000 per financial institution. Deposits in the interest-bearing demand accounts held in excess of \$250,000 are not collateralized.

The carrying amount of demand deposits was \$561,852, and bank balances were \$1,632,372. IFA's maximum risk was \$0 at June 30, 2012.

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 4 - LOANS RECEIVABLE

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

Governmental Activities:

- 1) **Environmental Remediation Revolving Loan Fund (Brownfields)** - Loans facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues. Net loans receivable were \$6,089,618 at June 30, 2012.
- 2) **Stadium\Convention Center Expansion Project** - Loans provided to the Indiana Stadium and Convention Center Building Authority (ISCBA) for the construction of Lucas Oil Stadium and the expansion of the Indianapolis Convention Center. Loans receivable were \$976,952,224 at June 30, 2012.

Business-Type Activities:

- 3) **State Revolving Fund Loan Program** - Low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure. Net loans receivable were \$1,940,519,468 at June 30, 2012.
- 4) **Supplemental Fund** - Low interest loans provided to Indiana communities to improve drinking water and wastewater infrastructure. Net loans receivable were \$14,345,790 at June 30, 2012.

Additional disclosures are provided below for each loan program:

1) Environmental Remediation Revolving Loan Fund (Brownfields)

Loans receivable were comprised of the following at June 30, 2012:

Loans receivable - gross	\$ 7,352,387
Less: allowance for uncollectible loans	(73,000)
Less: allowance for forgivable portion of Brownfields loans	<u>(1,189,769)</u>
	<u>\$ 6,089,618</u>

There were approximately thirty-two loans and advances outstanding with Indiana municipalities at June 30, 2012. Approximately \$2,101,000 was available for disbursement on nine outstanding loan commitments. Interest earned on these loans during the year ended June 30, 2012 was approximately \$105,000, and accrued interest was approximately \$13,000 at June 30, 2012.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 4 - LOANS RECEIVABLE (Continued)

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

2) Stadium\Convention Center Expansion Project

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

Stadium	\$648,835,000
Convention Center	<u>328,117,224</u>
	<u>\$976,952,224</u>

Interest earned on loans receivable was approximately \$46,655,000 during the year ended June 30, 2012 and accrued interest on loans was approximately \$7,094,000 at June 30, 2012.

Due to the nature of the financing of these loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2012.

3) State Revolving Fund Loan Program

The loans receivable balance at June 30, 2012 includes actual advances for construction and related costs on eligible projects net of principal payments from participants as follows:

Wastewater Fund	\$1,685,458,421
Drinking Water Fund	<u>383,535,880</u>
	2,068,994,301
Less: allowance for forgivable portion - Wastewater	(100,581,640)
Less: allowance for forgivable portion - Drinking Water	<u>(27,893,193)</u>
	<u>\$1,940,519,468</u>

These amounts represent projects that have been submitted and approved by the SRF Programs, and the loans have been closed. Interest earned on loans receivable was approximately \$63,000,000 during the year ended June 30, 2012, and accrued interest on loans was approximately \$14,399,000 at June 30, 2012.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 4 - LOANS RECEIVABLE (Continued)

4) Supplemental Fund

Loans receivable were comprised of the following at June 30, 2012:

Loans receivable - gross	\$ 14,490,790
Less: allowance for uncollectible loans	<u>(145,000)</u>
	<u>\$ 14,345,790</u>

There were approximately fifty-nine loans and advances outstanding with Indiana municipalities for drinking water and wastewater projects at June 30, 2012. Interest earned on these loans during the year ended June 30, 2012 was approximately \$285,000, and accrued interest was approximately \$63,000 at June 30, 2012.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 5 - CAPITAL ASSETS

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

	Balance at July 1, 2011	Increases	Decreases	Balance at June 30, 2012
Capital assets, not being depreciated				
Land	\$ 54,807,366	\$ -	\$ 43,000	\$ 54,764,366
Infrastructure	-	-	-	-
Construction in progress	48,307,477	22,577,920	30,628,439	40,256,958
Total capital assets, not being depreciated	<u>103,114,843</u>	<u>22,577,920</u>	<u>30,671,439</u>	<u>95,021,324</u>
Capital assets being depreciated:				
Buildings and improvements	1,083,641,580	32,757,907	112,393	1,116,287,094
Furniture, machinery and equipment	8,718,845	151,495	15,330	8,855,010
Total capital assets, being depreciated	<u>1,092,360,425</u>	<u>32,909,402</u>	<u>127,723</u>	<u>1,125,142,104</u>
Less accumulated for:				
Buildings and improvements	361,485,681	27,824,431	-	389,310,112
Furniture, machinery and equipment	4,497,949	1,089,424	181	5,587,192
Total accumulated depreciation	<u>365,983,630</u>	<u>28,913,855</u>	<u>181</u>	<u>394,897,304</u>
Total capital assets being depreciated, net	<u>726,376,795</u>	<u>3,995,547</u>	<u>127,542</u>	<u>730,244,800</u>
Capital assets, net	<u>\$ 829,491,638</u>	<u>\$ 26,573,467</u>	<u>\$ 30,798,981</u>	<u>\$ 825,266,124</u>

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 5 - CAPITAL ASSETS (Continued)

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

Business-type Activities:

	Balance at July 1, 2011	Increases	Decreases	Balance at June 30, 2012
Capital assets, not being depreciated				
Land	\$ 31,077,462	\$ -	\$ 511,413	\$ 30,566,049
Infrastructure	266,817,895	217,137,926	496,266	483,459,555
Construction in progress	197,226,452	257,613	197,226,451	257,614
Total capital assets, not being depreciated	495,121,809	217,395,539	198,234,130	514,283,218
Capital assets being depreciated:				
Buildings and improvements	120,906,400	-	55,749	120,850,651
Furniture, machinery and equipment	33,384,723	64,991	874,432	32,575,282
Total capital assets, being depreciated	154,291,123	64,991	930,181	153,425,933
Less accumulated for:				
Buildings and improvements	68,779,849	3,714,452	37,318	72,456,983
Furniture, machinery and equipment	11,687,044	3,456,242	195,026	14,948,260
Total accumulated depreciation	80,466,893	7,170,694	232,344	87,405,243
Total capital assets being depreciated, net	73,824,230	(7,105,703)	697,837	66,020,690
Capital assets, net	\$ 568,946,039	\$ 210,289,836	\$ 198,931,967	\$ 580,303,908

At June 30, 2012, IFA had the following construction and related cost commitments:

Business-Type Activities:

Indiana Toll Road Lease Fund – Commitments related to the Indiana Toll Road were approximately \$3,200,000 for environmental remediation projects.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 6 - CAPITAL LEASES

At June 30, 2012, IFA's future minimum lease amounts receivable under capital leases were as follows:

Governmental Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2013	\$ 50,033,939	\$ 53,984,959	\$ 104,018,898
June 30, 2014	53,433,315	51,609,638	105,042,953
June 30, 2015	57,703,852	48,552,910	106,256,762
June 30, 2016	59,640,299	45,343,115	104,983,414
June 30, 2017	60,167,476	43,522,029	103,689,505
2018 - 2022	323,474,094	177,876,423	501,350,517
2023 - 2027	409,586,380	91,138,331	500,724,711
2028 - 2030	188,335,000	12,053,925	200,388,925
	<u>1,202,374,355</u>	<u>524,081,330</u>	<u>1,726,455,685</u>
Less remaining accretion / premium (discount)	(17,760,698)		(17,760,698)
	<u>\$ 1,184,613,657</u>	<u>\$ 524,081,330</u>	<u>\$ 1,708,694,987</u>

Business-Type Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2013	\$ 16,720,000	\$ 5,633,924	\$ 22,353,924
June 30, 2014	17,035,000	4,863,675	21,898,675
June 30, 2015	17,420,000	4,017,600	21,437,600
June 30, 2016	17,810,000	3,152,650	20,962,650
June 30, 2017	18,190,000	2,268,200	20,458,200
2018 - 2022	36,760,000	1,817,750	38,577,750
	<u>\$ 123,935,000</u>	<u>\$ 21,753,799</u>	<u>\$ 145,688,799</u>

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 6 - CAPITAL LEASES (Continued)

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

Governmental Activity

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year	Amount Due Thereafter
State Office Building Commission	\$ -	\$ 28,585,370	\$ 2,096,015	\$ 26,489,355	\$ 4,233,939	\$ 22,255,416
Highway Revenue Bonds	1,199,758,573	3,100,729	44,735,000	1,158,124,302	45,800,000	1,112,324,302
	<u>\$ 1,199,758,573</u>	<u>\$ 31,686,099</u>	<u>\$ 46,831,015</u>	<u>\$ 1,184,613,657</u>	<u>\$ 50,033,939</u>	<u>\$ 1,134,579,718</u>

Business-Type Activity

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year	Amount Due Thereafter
Airport Facilities	\$ 134,690,000	\$ -	\$ 15,555,000	\$ 119,135,000	\$ 15,930,000	\$ 103,205,000
Aviation Technology Center	5,625,000	4,800,000	5,625,000	4,800,000	790,000	4,010,000
	<u>\$ 140,315,000</u>	<u>\$ 4,800,000</u>	<u>\$ 21,180,000</u>	<u>\$ 123,935,000</u>	<u>\$ 16,720,000</u>	<u>\$ 107,215,000</u>
Total	<u>\$ 1,340,073,573</u>	<u>\$ 36,486,099</u>	<u>\$ 68,011,015</u>	<u>\$ 1,308,548,657</u>	<u>\$ 66,753,939</u>	<u>\$ 1,241,794,718</u>

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

State Office Building Commission

IFA entered into two separate Energy Cost Savings Leases on behalf of the Department of Correction (DOC). The concept of the Energy Cost Savings Lease is that the savings from energy expenses can be used to pay for the debt service incurred to install the equipment necessary to create these savings. IFA has signed a Use and Occupancy Agreement with DOC that will charge DOC the full amount of the debt service (plus any additional cost like insurance) for the lease that has been signed by IFA and the lessor of the equipment (a financial company in both cases). DOC expects to pay for the lease by using their General Fund Appropriations. Neither DOC nor IFA is obligated to use any other revenues to pay such lease rentals. Upon the completion of the lease, the property will be owned by DOC.

Highway Revenue Bonds

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

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 6 - CAPITAL LEASES (Continued)

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

Under the construction and other agreement and supplements for the highway and bridge projects, IFA reimburses INDOT for construction and design costs incurred by INDOT. Costs not yet reimbursed are recorded in the construction fund as accrued expenses. There were no construction and design costs recognized as additions to capital leases or capital outlay reimbursements to INDOT during fiscal year 2012.

Airport Facilities

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

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

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

Aviation Technology Center

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

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 7 - LONG-TERM DEBT ACTIVITY

During the fiscal year ended June 30, 2012, the debt service requirements for bonds and notes payable under governmental and business-type activities were as follows:

Governmental Activities:

	Highway Revenue	State Office Building Commission	Stadium & Convention Center Projects	Governmental Total
Principal:				
June 30, 2013	\$ 45,800,000	\$ 66,853,939	\$ -	\$ 112,653,939
June 30, 2014	49,045,000	65,695,438	660,000	115,400,438
June 30, 2015	52,930,000	70,065,775	1,325,000	124,320,775
June 30, 2016	54,800,000	73,277,383	1,900,000	129,977,383
June 30, 2017	56,005,000	53,705,219	2,250,000	111,960,219
2018 - 2022	320,135,000	243,760,809	45,800,000	609,695,809
2023 - 2027	408,835,000	84,548,949	74,580,000	567,963,949
2028 - 2032	188,335,000	11,515,000	260,525,000	460,375,000
2033 - 2037	-	-	396,555,000	396,555,000
2038 - 2042	-	-	193,470,000	193,470,000
	<u>1,175,885,000</u>	<u>669,422,512</u>	<u>977,065,000</u>	<u>2,822,372,512</u>
Remaining accretion / premium (discount)/ loss on advanced refunding	<u>(41,173,834)</u>	<u>9,348,453</u>	<u>(112,776)</u>	<u>(31,938,157)</u>
	<u>\$ 1,134,711,166</u>	<u>\$ 678,770,965</u>	<u>\$ 976,952,224</u>	<u>\$ 2,790,434,355</u>
Interest:				
June 30, 2013	\$ 53,706,588	\$ 29,848,783	\$ 47,170,394	\$ 130,725,765
June 30, 2014	50,812,683	26,779,824	48,380,992	125,973,499
June 30, 2015	48,050,989	23,515,678	50,551,848	122,118,515
June 30, 2016	45,063,205	20,221,978	50,796,231	116,081,414
June 30, 2017	43,204,763	17,450,921	50,687,533	111,343,217
2018 - 2022	177,867,428	50,062,218	248,173,596	476,103,242
2023 - 2027	91,138,331	10,359,425	232,240,007	333,737,763
2028 - 2032	12,053,925	276,250	193,916,010	206,246,185
2033 - 2037	-	-	105,226,178	105,226,178
2038 - 2042	-	-	12,710,929	12,710,929
	<u>\$ 521,897,912</u>	<u>\$ 178,515,077</u>	<u>\$ 1,039,853,718</u>	<u>\$ 1,740,266,707</u>
Total Debt Service	<u>\$ 1,656,609,078</u>	<u>\$ 857,286,042</u>	<u>\$ 2,016,805,942</u>	<u>\$ 4,530,701,062</u>

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 7 - LONG-TERM DEBT ACTIVITY (Continued)

Business-Type Activities:

	Enterprise				Internal Service	
	Airport Facilities	Aviation Technology Center	State Revolving Fund	Total	Recreational Development Commission	Business-Type Total
Principal:						
June 30, 2013	\$ 15,930,000	\$ 790,000	\$ 116,680,000	\$ 133,400,000	\$ 1,800,000	\$ 135,200,000
June 30, 2014	16,285,000	750,000	100,935,000	117,970,000	2,255,000	120,225,000
June 30, 2015	16,640,000	780,000	120,790,000	138,210,000	2,375,000	140,585,000
June 30, 2016	17,010,000	800,000	112,335,000	130,145,000	2,505,000	132,650,000
June 30, 2017	17,360,000	830,000	114,800,000	132,990,000	2,655,000	135,645,000
2018 - 2022	35,910,000	850,000	601,180,000	637,940,000	14,385,000	652,325,000
2023 - 2027	-	-	404,275,000	404,275,000	3,015,000	407,290,000
2028 - 2032	-	-	121,290,000	121,290,000	-	121,290,000
	119,135,000	4,800,000	1,692,285,000	1,816,220,000	28,990,000	1,845,210,000
Remaining accretion / premium (discount)/ loss on advanced refunding	-	16,968	79,279,206	79,296,174	2,278,041	81,574,215
	\$ 119,135,000	\$ 4,816,968	\$ 1,771,564,206	\$ 1,895,516,174	\$ 31,268,041	\$ 1,926,784,215
Interest:						
June 30, 2013	\$ 5,558,500	\$ 75,424	\$ 81,423,028	\$ 87,056,952	\$ 690,623	\$ 87,747,576
June 30, 2014	4,753,125	110,550	76,305,375	81,169,050	1,109,372	82,278,422
June 30, 2015	3,930,000	87,600	71,659,875	75,677,475	1,040,227	76,717,702
June 30, 2016	3,088,750	63,900	66,091,625	69,244,275	948,877	70,193,152
June 30, 2017	2,229,500	38,700	60,926,188	63,194,388	848,817	64,043,205
2018 - 2022	1,805,000	12,750	215,978,476	217,796,226	2,489,636	220,285,862
2023 - 2027	-	-	83,950,669	83,950,669	186,875	84,137,544
2028 - 2032	-	-	10,969,911	10,969,911	-	10,969,911
	\$ 21,364,875	\$ 388,924	\$ 667,305,147	\$ 689,058,946	\$ 7,314,427	\$ 696,373,373
Total Debt Service	\$ 140,499,875	\$ 5,205,892	\$ 2,438,869,353	\$ 2,584,575,120	\$ 38,582,467	\$ 2,623,157,588

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

	Balance at July 1, 2011	Increases	Decreases	Balance at June 30, 2012	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities:						
Revenue bonds and notes payable	\$ 2,850,013,509	\$ 103,870,356	\$ 163,449,510	\$ 2,790,434,355	\$ 112,653,939	\$ 2,677,780,416
Derivative investment liability	105,593,991	147,206,542	-	252,800,533	-	252,800,533
Deferred revenue	2,625,000	-	75,000	2,550,000	75,000	2,475,000
	\$ 2,958,232,500	\$ 251,076,898	\$ 163,524,510	\$ 3,045,784,888	\$ 112,728,939	\$ 2,933,055,949
Business-Type Activities:						
Revenue bonds payable	\$ 1,934,722,813	\$ 390,686,815	\$ 398,625,413	\$ 1,926,784,215	\$ 135,200,000	\$ 1,791,584,215
Due to federal government	1,839,539	1,292,884	1,302,905	1,829,518	-	1,829,518
Deferred revenue	3,502,462,000	31,800,883	70,106,115	3,464,156,768	64,457,998	3,399,698,770
Pollution Remediation	14,304,300	533,373	11,593,491	3,244,182	446,982	2,797,200
	\$ 5,453,328,652	\$ 424,313,955	\$ 481,627,924	\$ 5,396,014,683	\$ 200,104,980	\$ 5,195,909,703

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 7 - LONG-TERM DEBT ACTIVITY (Continued)

The following is a summary of long-term debt outstanding at June 30, 2012, for each fund with the activity categories:

	<u>Future Interest Rate Range</u>	<u>Maturity Range</u>	<u>Annual Principal Payment Range</u>	<u>Amount Outstanding</u>
Governmental Activities:				
Highway Revenue	3% to 7.25%	2012 to 2029	\$36,409,025 to \$96,240,000	\$ 1,134,711,166
State Office Building Commission	.5% to 7.40%	2012 to 2028	\$10,480,000 to \$73,277,383	678,770,965
Stadium Project	4.20% to 7.18%	2014 to 2037	\$660,000 to \$70,550,000	648,835,000
Convention Center Project	4.00% to 7.20%	2017 to 2039	\$225,000 to \$99,430,000	328,117,224
				<u>\$ 2,790,434,355</u>
Business-type Activities:				
Airport Facilities	5.00%	2012 to 2019	\$15,930,000 to \$18,145,000	\$ 119,135,000
Aviation Technology Center	2.00% to 3.00%	2012 to 2018	\$750,000 to \$850,000	4,816,968
State Revolving Loan Fund	2.00% to 5.50%	2012 to 2030	\$31,255,000 to \$126,270,000	1,771,564,206
Recreational Development Commission	.4% to 5%	2012 to 2026	\$360,000 to \$3,225,000	31,268,041
				<u>\$ 1,926,784,215</u>

Variable rate long-term debt terms are as follows:

Governmental Activities:

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

Notes on Variable Rate Terms:

- (1) *Hedged, tax-exempt variable rate debt:* An interest rate swap with a notional amount of \$611,525,000 commenced for the Stadium Lease Appropriation Bonds, Series 2005A and 2007A on August 15, 2008 with IFA receiving the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA") and paying the swap counterparties a fixed rate of 4.231%. The purchase price of tendered but not remarketed 2005 and 2007 Bonds is payable from Standby Bond Purchase Agreements (the "SBPAs"), Direct Purchase (the "DP's"), and Fixed Rate Notes (the "FRN's") in an

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INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 7 - LONG-TERM DEBT ACTIVITY (Continued)

aggregate amount of \$614,706,290, expiring March 10, 2013 - September 16, 2014. The Bonds are payable solely from and secured by a pledge of the trustee of the trust estate.

The trust estate includes payments made by the Building Authority, pursuant to the promissory note; all monies are obligated to be paid under the revenue deposit agreement, the lease, and the sublease. The 2005A and 2007A Bonds are subject to optional redemption by IFA, in whole or in part, in authorized denominations on any business date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date. The average interest rate on the 2005A and 2007A Bonds for the fiscal year was 0.45%.

- (2) *Partially hedged, tax-exempt variable rate debt:* An interest rate swap with a original notional amount of \$46,875,000 commenced for the Stadium Lease Appropriation Bonds, Series 2008A Bonds, on August 15, 2008 with IFA receiving SIFMA and paying the swap counterparties a fixed rate of 3.796%. The purchase price of tendered but not remarketed 2008A Bonds is payable from a SBPA in the original amount of \$37,763,853, which expires February 1, 2035. The 2008A Bonds are payable solely from and secured by a pledge of the trustee of the trust estate. The trust estate includes payments made by the Building Authority, pursuant to the promissory note; all monies are obligated to be paid under the revenue deposit agreement, the lease, and the sublease. The 2008A Bonds are subject to optional redemption by IFA, in whole or in part, in Authorized Denominations on any business date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date. The average interest rate on the 2008A Bonds for fiscal year 2012 was 0.12%. Going forward, the budgeted interest rate on the unhedged portion of the 2008A Bonds is 6.00%.
- (3) *Partially hedged, tax-exempt variable rate debt:* An interest rate swap with a notional amount of \$98,114,750 commenced for the Convention Center Lease Appropriation Bonds, Series 2008A Bonds, on December 1, 2010 with IFA receiving SIFMA and paying the swap counterparties a fixed rate of 4.556%. The purchase price of tendered but not remarketed 2008A Bonds is payable from SBPAs in the amount of \$121,459,728, expiring December 31, 2013 - February 1, 2039. The 2008A Bonds are payable solely from and secured by a pledge of the trustee of the trust estate. The trust estate includes payments made by the Building Authority, pursuant to the promissory note; all monies are obligated to be paid under the revenue deposit agreement, the lease, and the sublease. The 2008A Bonds are subject to optional redemption by IFA, in whole or in part, in Authorized Denominations on any business date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date. The average interest rate on the 2008A Bonds for fiscal year 2012 was 0.12%. Going forward, the budgeted interest rate on the unhedged portion of the 2008A Bonds is 6.00%.

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INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 7 - LONG-TERM DEBT ACTIVITY (Continued)

Self-Liquidity Program

The IFA maintains a self-liquidity program that pays the purchase price of 2008A Lease Appropriation Bonds (Stadium Project) and the 2008A-1 Lease Appropriation Bonds (Convention Center Project) that have been tendered and not remarketed. As of June 30, 2012, the two sub-series have outstanding balances of \$37,310,000 and \$60,000,000, respectively. The aggregate amount payable by IFA will not exceed the sum of the principal balance outstanding plus an amount equal to 37 days' interest on the principal balance outstanding. As of June 30, 2012, the aggregate amount payable on the two sub-series will not exceed \$37,763,853 and \$60,729,863, respectively.

Interest Rate Swap Agreements

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

Terms, fair values, and credit risk. Fair values are based on quotes provided by the applicable swap counterparty. Changes in the fair value of the swap agreements are reported in the Statement of Net Assets as noncurrent assets and liabilities. The notional amounts of the swaps match the anticipated principal amounts of the associated debt. No cash was received or paid on the date the swap agreements were initiated. IFA's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in the associated "bonds payable" category. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2012, were as follows:

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value at June 30, 2011 ¹	Increase/ (Decrease) ¹	Fair Values at June 30, 2012 ¹	Swap Termination Date
2005/2007 Stadium Project ²	\$ 611,525,000	8/15/2008	4.231%	SIFMA ³	\$ (84,918,103)	\$ (118,805,435)	\$ (203,723,538)	2/1/2037
2008 Stadium Project	29,185,000	8/15/2008	3.796%	SIFMA ³	(2,267,097)	(5,202,965)	(7,470,063)	2/1/2035
Convention Center	<u>98,114,750</u>	12/1/2010	4.556%	SIFMA ³	<u>(18,408,791)</u>	<u>(23,198,141)</u>	<u>(41,606,932)</u>	2/1/2039
	<u>\$ 738,824,750</u>				<u>\$ (105,593,991)</u>	<u>\$ (147,206,542)</u>	<u>\$ (252,800,533)</u>	

¹ Negative signifies a value in favor of the counterparty.

² Includes two swaps with separate counterparties.

³ The Securities Industry and Financial Markets Association Municipal Swap Index.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 7 - LONG-TERM DEBT ACTIVITY (Continued)

Credit Risk. Moody's Investors Service ("Moody's") rated JPMorgan Chase Bank A2, Goldman Sachs Bank USA A3, and The Bank of New York Mellon AA3. Standard & Poor's (S&P) rated JPMorgan Chase Bank A, Goldman Sachs Bank USA A- and The Bank of New York Mellon A+. The IFA is exposed to credit risk when any of the Swaps have a fair value in favor of IFA or a positive market price. To minimize its exposure to loss related to credit risk, IFA requires the swap counterparties to post collateral if the fair value is greater than a threshold amount specified in the respective swap agreements. The threshold amount in each of the swap agreements is adjusted lower following a downgrade by Moody's or S&P of the applicable counterparty's rating.

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

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INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 8 - BOND REFUNDINGS AND ESCROW BALANCES ON BONDS

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

Bond Refundings and Defeasances: The following represents bond refunding and defeasance during the year ended June 30, 2012:

Governmental Activities:

- **State Office Buildings:**

On November 17, 2011, IFA issued \$47,505,000 of Facilities Revenue Refunding Bonds refunding Series 2002A, 2003A, and 2003B bonds. The refunding was undertaken to reduce total future debt service payments. The proceeds were deposited in an escrow fund, which will pay principal and interest for the defeased debt. As a result of the refunding, an economic gain, or net present value savings, of \$3.990 million was realized, and future debt service payments were reduced by \$5.472 million.

On May 23, 2012, the Authority issued \$11,665,000 of Facilities Revenue Refunding Bonds refunding Series 2002A and 2003A Bonds. The refunding was undertaken to reduce total future debt service payments. The proceeds were deposited in an escrow fund, which will pay principal and interest for the defeased debt. As a result of the refunding, an economic gain, or net present value savings, of \$706 thousand was realized, and future debt service payments were reduced by \$721 thousand.

Business-Type Activities:

- **State Revolving Fund Programs:**

On February 08, 2012, IFA issued \$137,945,000 of State Revolving Fund Program Refunding Bonds refunding Series 2001A, 2004B, and 2004C bonds. The refunding was undertaken to reduce total future debt service payments. The proceeds were deposited in an escrow fund, which will pay principal and interest for the defeased debt. As a result of the refunding, an economic gain, or net present value savings, of \$17.366 million was realized, and future debt service payments were reduced by \$23.921 million.

On June 29, 2012, IFA partial cash defeased maturities of the Series 2001A and Series 2002B Bonds.

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

- **Recreational Development:**

On May 23, 2012, IFA issued \$28,990,000 of Recreational Development Revenue Refunding Bonds refunding Series 1997, 2001, and 2004 bonds. The refunding was undertaken to reduce total future debt service payments and to produce funds for new construction at a variety of State Parks. The proceeds were deposited in an escrow fund and construction funds, which will pay total future principal and interest payments and fund the construction at a variety of State Parks. As a result of the refunding, an economic gain, or net present value savings, of \$1.585 million was realized and future debt service payments were reduced by \$1.579 million.

- **Aviation Technology:**

On May 23, 2012, the Authority issued \$4,800,000 of Aviation Technology Refunding Bonds refunding Series 2002 Bonds. The refunding was undertaken to reduce total future debt service payments. The proceeds were deposited in an escrow fund, which will pay principal and interest for the defeased debt. As a result of the refunding, an economic gain, or present value savings, of \$470 thousand was realized, and future debt service payments were reduced by \$538 thousand.

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

Governmental Activities:

- **State Office Building Commission** - IFA issued Facilities Revenue Refunding Bonds, Series 2003 C and D bonds, which were used to refund certain Series 1995 A and B bonds. IFA issued Facilities Revenue Refunding Bonds, Series 2004 A, B, and C bonds, which were used to refund certain Series 1999A, 2002A, and 2003A bonds. IFA issued Facilities Revenue Refunding Bonds, Series 2009 A and B bonds, which were used to refund certain Series 1999A bonds. IFA issued Facilities Revenue Refunding Bonds, Series 2011 A, B, and C bonds, which were used to refund certain Series 2002A, 2003A, and 2003B bonds. IFA issued Facilities Revenue Refunding Bonds Series 2012 E, F, G, and H, which were used to refund certain Series 2002A and 2003A bonds. At June 30, 2012, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$252,660,000.

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

- **Highway Revenue** - IFA issued Highway Revenue Bonds, Series 2000, which were used to refund certain Highway Revenue Bonds, Series 1990A and 1993A. IFA issued Series 2004 B and C, which were used to refund certain Series 2000 and 2003A bonds. IFA issued Series 2007A, which were used to refund certain Series 2000A, 2003A, and 2004A bonds. Series 2010A bonds were used to refund certain Series 2000A, 2003A, and 2004A bonds. As of June 30, 2012, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$648,610,000.

Business-Type Activities:

- **State Revolving Fund** - IFA issued Series 2012A Refunding Bonds, which were used to refund certain maturities of Series 2001A, 2004B, and 2004C bonds. IFA issued Series 2010C Refunding Bonds, which were used to refund certain maturities of Series 2001A, 2002B, and 2004B bonds. Series 2010A Refunding Bonds were issued and used to refund certain Series 2000B, 2001A, 2002B, 2004B, and 2004C bonds. IFA issued Series 2005A Refunding Bonds for the aggregate amount of \$277,930,000, which included \$258,815,000 of refunding debt. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 2000A, 2000B, 2001A, and 2002B Bonds. In March 2008, IFA cash defeased the remaining maturities of the Series 2000A Bonds. At June 30, 2012, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$500,520,000.
- **Indiana Toll Road** - In 1985, IFA issued \$256,970,000 of Indiana Toll Road Revenue Refunding Bonds, Series 1985, to refund the Indiana Toll Road Bonds, 1980 Series. At June 30, 2012, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$107,965,000.
- **Recreational Development Commission** - In May 2012, IFA issued \$28,990,000 of Recreational Development Revenue Refunding Bonds, 2012 Series, which refunded Series 1997, 2002, and 2004 bonds. At June 30, 2012, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$15,145,000.

Conduit Debt Obligations: IFA is authorized by law to issue conduit and certain other types of revenue bonds to finance projects that serve Indiana public purposes outlined by statute. Except as described below, IFA's revenue bonds are payable solely from revenues of IFA specifically pledged thereto. The bonds are not in any respect a general obligation of IFA or the State, nor are they payable in any manner from revenues raised by taxation. IFA has no power to levy taxes. Pursuant to this authority, IFA has issued numerous revenue bonds.

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

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

IFA has issued debt obligations on behalf of certain manufacturers, utilities, 503c organizations, health and higher education facilities for the purpose of construction, improvement of facilities or the refinancing of outstanding debt. These bonds, notes, and other obligations and the interest thereof do not constitute debt or liability of IFA, the State, or any political subdivision thereof, but are special obligations between investors and the debtors payable solely from the payments received by the trustee under the loan agreements and meet the definition of conduit debt in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2012, IFA has outstanding conduit debt of \$10.389 billion outstanding.

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 9 - UNAMORTIZED BOND ISSUANCE COSTS, NET

Bond issuance costs associated with long-term debt at June 30, 2012 were \$12,644,429 and include the following activities:

Governmental Activities:

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

Gross amount	\$ 19,970,857
Accumulated amortization	<u>(15,906,557)</u>
Net amount	<u>\$ 4,064,300</u>

Amortization expense for the year ended June 30, 2012 was approximately \$1,013,480. At June 30, future amortization of bond issuance costs is estimated as follows:

2013	\$ 813,825
2014	669,996
2015	575,023
2016	465,870
2017	404,074
Thereafter	<u>1,135,512</u>
	<u>\$ 4,064,300</u>

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 9 - UNAMORTIZED BOND ISSUANCE COSTS, NET (Continued)

Business-Type Activities:

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

Bond issuance costs	\$ 23,203,209
Accumulated amortization	<u>(14,906,982)</u>
Net amount	<u>\$ 8,296,227</u>

Amortization expense for the year ended June 30, 2012 was approximately \$1,229,766. At June 30, future amortization of bond issuance costs is estimated as follows:

2013	\$ 1,197,044
2014	1,042,982
2015	934,794
2016	852,412
2017	765,459
Thereafter	<u>3,503,536</u>
	<u>\$ 8,296,227</u>

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

Bond issuance costs	\$ 288,692
Accumulated amortization	<u>(4,790)</u>
Net amount	<u>\$ 283,902</u>

Amortization expense for the year ended June 30, 2012 was approximately \$41,111. At June 30, future amortization of bond issuance costs is estimated as follows:

2013	\$ 49,396
2014	45,155
2015	40,698
2016	36,009
2017	31,049
Thereafter	<u>81,595</u>
	<u>\$ 283,902</u>

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 10 - OPERATING LEASE COMMITMENTS

IFA has the following operating lessee and lessor agreements:

Lessee – Governmental Activities

- **General Fund** - IFA currently leases office space pursuant to a non-cancelable operating lease expiring in March 2021. The future total minimum rental payments of approximately \$2,044,000 range from \$216,000 to \$248,000 per year from 2013 through 2021. Rental expense for the operating lease was approximately \$138,000 for the year ended June 30, 2012. In fiscal year 2012 rental expense was reduced by one-time adjustments. Had those adjustments not occurred, rental expense would have been approximately \$238,000 for the year ended June 30, 2012.

Lessor – Governmental Activities

- **State Office Building Commission** – Operating lease activity included:
 - The Commission leases state facilities to the Indiana Department of Administration based on use and occupancy agreements. The annual lease terms provide for renewals through supplement agreements. The lease rental payments are based on administrative costs, aggregate debt service requirements on related long-term debt, debt service reserve requirements, and replacement reserve for maintenance and improvements of facilities. During the year ended June 30, 2012, lease revenue of approximately \$117 million was recognized.
 - In March of 1995, the Commission entered into a twenty-five year land lease agreement with the White River State Park Development Commission (WRSPDC) to lease a portion of the White River State Park for \$1 per year while providing in excess of \$15,000,000 of infrastructure improvements.
 - On April 14, 1998, the Commission purchased the IMAX Theatre building and land in White River State Park from the State for \$10,000,000. Additionally, the Commission entered into a one hundred-year land lease agreement to lease certain real estate surrounding the IMAX Theatre building from the State for \$1 per year. This real estate was required to be used to construct the Indiana State Museum and a parking garage.

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 10 - OPERATING LEASE COMMITMENTS (Continued)

Lessor - Business-Type Activities

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

2013	\$ 49,396
2014	49,396
2015	49,396
2016	49,396
2017	49,396
2018 - 2022	246,977
2023 - 2027	246,977
2028 - 2032	246,977
2033 - 2037	246,977
2038 - 2042	246,977
2043 - 2047	246,977
2048 - 2052	246,978
2053 - 2057	246,978
2058 - 2062	246,978
2063 - 2067	246,978
2068 - 2072	246,978
2073 - 2077	246,978
2078- 2081	<u>197,582</u>
Total	<u>\$ 3,408,292</u>

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 10 - OPERATING LEASE COMMITMENTS (Continued)

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

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

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

2013	\$ 3,389,622
2014	3,459,122
2015	3,501,332
2016	3,556,422
2017	3,601,212
2018 - 2022	15,641,905
2023 - 2025	<u>1,231,500</u>
Total	<u>\$ 34,381,115</u>

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 11- INTERFUND LOANS RECEIVABLE AND PAYABLE

Funds are transferred from one fund to support expenditures of other funds in accordance with authority established for the individual fund. To the extent that certain transactions between funds are not paid or received in the current period, net interfund receivable and payable balances are recorded at June 30, 2012, as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 205,119	\$ -
Government Funds:		
Transportation Finance Fund	-	27,352
State Office Building Commission	-	28,234
Special Revenue Funds:		
Conduit Debt General Program Fund	-	9,724
Environmental Remediation Revolving Loan Fund	-	364,472
Petroleum Remediation Grant Incentive Fund	322,611	-
Enterprise Funds:		
State Revolving Fund Program	-	109,951
Supplemental Drinking Water & Wastewater Assistance Fd	30,669	-
Recreational Development Commission	-	2,647
Health & Education Finance Fund	-	16,019
	<u>\$ 558,399</u>	<u>\$ 558,399</u>

NOTE 12 - POLLUTION REMEDIATION

As part of the lease agreement with the ITRCC, IFA agreed to retain liability for sites along the Toll Road previously identified as being contaminated. IFA has contracted to clean up these sites and has recognized the \$3,200,000 remaining on the contract. In addition, IFA agreed to accept liability for any undiscovered sites that may be found in the future that originated or were caused by actions taken during the time prior to the Toll Road lease. Contaminated sites were found during the construction of the mandatory expansion projects required by the 2006 Toll Road Lease Agreement and remediation cost of \$10,500,000 was recognized. Other potential sites have been identified but no assessment has been made to determine whether IFA has any liability and therefore no estimate of the cost of remediation is available.

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 13 - PENSION PLAN

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

Employees are required to contribute 3% of compensation to an annuity savings account. Effective July 1, 1986, legislation permits an INPRS employer to make the employee contributions on behalf of the employee. IFA elected to pay its employees' 3% contribution. The employer rate of contributions was 8.6% during fiscal year 2012. These accumulated employee contributions and allocated interest income are maintained by INPRS in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of the savings account.

INPRS holds and invest all plan assets. Investments are in obligations of the U.S. Government, federal agencies, corporate bonds and equity securities. There is no (i) pension benefit obligation information, (ii) assets available for benefits at cost information or (iii) an analysis of funding disclosed in the annual financial statements. However, INPRS performed an actuarial valuation of IFA's plan as of June 30, 2012, which is included in the Annual Report of the Indiana Public Retirement System for state employees and employees of the various subdivisions of the State. IFA's contributions to INPRS were in accordance with the requirements computed in the actuarial valuation performed June 30, 2011, the last date available. The following shows current year pension plan information relative to contributions:

<u>Year</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Total Contributions</u>	<u>Annual Covered Payroll</u>	<u>Percentage of Employer Contributions to Covered Payroll</u>
2012	\$ 151,153	\$ 52,728	\$ 203,881	\$1,757,596	8.6%

(Continued)

INDIANA FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE 13 - PENSION PLAN (Continued)

The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2011 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.0% per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual postretirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

Information regarding INPRS may be obtained from:

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

NOTE 14 - SUBSEQUENT EVENTS

The following subsequent events have been provided for users of the financial statements. None of the subsequent events resulted in changes to the financial statements at June 30, 2012.

Governmental Activities

In October, IFA will issue Facilities Revenue Refunding Bonds, Series 2012A 2012B and 2012C in the amount of \$74,195,000 refunding portions of Series 2003B Evansville State Hospital Facility Bonds, Series 2004D Logansport State Hospital Facility Bonds and Series 2004E Southeast Regional Treatment Center Facilities Revenue Bonds. The refunding was undertaken to reduce total future debt service payments. As a result of the refunding an economic gain, or present value savings of \$7.9 million will be realized.

Business-Type Activities

On August 30, 2012, the Authority issued 2012B SRF Program Bonds in the amount of \$139.3 million to provide additional subsidized loans to program participants.

PART 3 - REQUIRED SUPPLEMENTARY INFORMATION

INDIANA FINANCE AUTHORITY
SCHEDULE OF ACTUAL OPERATING REVENUES AND EXPENSES
COMPARED TO BUDGET - CASH BASIS
For the year ended June 30, 2012

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

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

	<u>Budget Total</u>	<u>Actual Total</u>	<u>Difference</u>
Revenue			
Lease rental income (Note 1)	\$ 294,431,298	\$ 296,876,264	\$ 2,444,966
Appropriations (Note 2)	99,907	147,206	47,299
Investment income (Note 3)	10,679,579	56,585,417	45,905,838
Program service, advisory and fees (Note 4)	2,198,464	3,641,581	1,443,117
Borrower interest payments (Note 5)	54,396,580	63,381,616	8,985,036
EPA Grant (Note 6)	<u>50,546,578</u>	<u>74,116,276</u>	<u>23,569,698</u>
Total revenues	<u>412,352,406</u>	<u>494,748,360</u>	<u>82,395,954</u>
Debt service			
Interest (Note 7)	235,197,038	239,969,614	(4,772,576)
Principal	<u>148,670,000</u>	<u>148,670,000</u>	<u>-</u>
Total debt service	<u>383,867,038</u>	<u>388,639,614</u>	<u>(4,772,576)</u>
Program expenses			
Grants, loans and other program (Note 8)	<u>23,692,325</u>	<u>28,849,534</u>	<u>(5,157,209)</u>
Total program expenses	<u>23,692,325</u>	<u>28,849,534</u>	<u>(5,157,209)</u>
Administrative expenses			
Personal services (Note 9)	2,600,228	2,359,700	240,528
Other IFA operations (Note 10)	<u>3,048,803</u>	<u>2,979,680</u>	<u>69,123</u>
Total administrative expenses	<u>5,649,031</u>	<u>5,339,380</u>	<u>309,651</u>
Net revenues over expenses	<u>\$ (855,988)</u>	<u>\$ 71,919,832</u>	<u>\$ 72,775,820</u>

(Continued)

INDIANA FINANCE AUTHORITY
SCHEDULE OF ACTUAL OPERATING REVENUES AND EXPENSES
COMPARED TO BUDGET - CASH BASIS
For the year ended June 30, 2012

Note 1: Variable rate debt rates were lower than budget and unexpected lease rental for the Energy Savings Leases.

Note 2: The project associated with appropriation was completed early in fiscal year 2012.

Note 3: Positive investment mark to market valuations resulted in unrealized gains and Guaranteed Investment Contract was terminated.

Note 4: Unpredicted Supplemental Environmental Project contribution.

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

Note 6: Larger EPA grants than expected.

Note 7: Interest on IFA debt was higher than budgeted.

Note 8: More grants were disbursed than expected.

Note 9: Lower due to open staff positions.

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

INDIANA FINANCE AUTHORITY
INDIANA TOLL ROAD INFRASTRUCTURE CONDITION RATING
For the year ended June 30, 2012

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

Roads

Percentage of Lane Miles
in Fair, Good or Excellent Condition

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Interstate Roads	90%	94%	92%

Percentage of Lane Miles
in Substandard Condition

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Interstate Roads	10%	6%	8%

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

Bridges

Average Sufficiency
Rating of Bridges

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Interstate Bridges	82.4%	85.9%	85.9%

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

**INDIANA FINANCE AUTHORITY
RETIREMENT PLAN SCHEDULES
For the year ended June 30, 2012**

The following actuarial calculations are performed for the State of Indiana as a whole and then allocated to the component units based on methods selected by INPRS.

Asset Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(2-1) (Unfunded) Overfunded AAL (UAAL)	(1/2) Funded Ratio	(3) Covered Payroll	[(2-1)/3] UAAL as a Percentage of Covered Payroll	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 2011	\$ 538,432	\$ 953,602	\$ 415,170	56%	\$ 1,695,405	24%	\$ 170,051	70%
June 30, 2010	573,068	850,875	277,807	67%	1,667,912	17%	105,749	75%
June 30, 2009	565,542	651,241	85,699	87%	1,559,580	5%	73,866	135%

PART 4 - OTHER SUPPLEMENTARY INFORMATION

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF NET ASSETS
June 30, 2012

	Business-Type Activities					Governmental Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Assets								
Current assets	\$ 822,691,272	\$ 12,268,038	\$ 34,234,366	\$ 2,965,080	\$ 9,080	\$ 281,001,038	\$ 82,306,331	\$ 8,937,162
Capital and infrastructure assets	264,214	25,196,562	-	-	-	825,240,182	-	-
Noncurrent assets	2,150,647,586	283,902	103,205,000	4,010,000	-	43,245,694	1,112,324,302	1,229,752,757
Total Assets	<u>2,973,603,072</u>	<u>37,748,502</u>	<u>137,439,366</u>	<u>6,975,080</u>	<u>9,080</u>	<u>1,149,486,914</u>	<u>1,194,630,633</u>	<u>1,238,689,919</u>
Liabilities								
Current liabilities	34,298,348	130,276	992,792	15,311	-	17,958,277	4,505,582	8,937,162
Long term debt, including current portions	1,771,564,206	31,268,041	119,135,000	4,816,968	-	678,770,965	1,134,711,166	976,952,224
Other noncurrent liabilities	1,829,518	-	-	-	-	2,475,000	-	252,800,533
Total Liabilities	<u>1,807,692,072</u>	<u>31,398,317</u>	<u>120,127,792</u>	<u>4,832,279</u>	<u>-</u>	<u>699,204,242</u>	<u>1,139,216,748</u>	<u>1,238,689,919</u>
Net Assets								
Invested in capital assets, net of related debt	-	-	-	-	-	163,703,090	-	-
Unrestricted	-	6,350,185	9,493,143	1,338,276	9,080	64,240,358	20,406,207	-
Restricted	1,165,911,000	-	7,818,431	804,525	-	222,339,224	35,007,678	-
Total Net Assets	<u>\$ 1,165,911,000</u>	<u>\$ 6,350,185</u>	<u>\$ 17,311,574</u>	<u>\$ 2,142,801</u>	<u>\$ 9,080</u>	<u>\$ 450,282,672</u>	<u>\$ 55,413,885</u>	<u>\$ -</u>

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2012

	Business-Type Activities					Governmental Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Operating Revenues								
Lease rental	\$ -	\$ 3,000,731	\$ 13,102,930	\$ 1,025,336	\$ -	\$ 116,506,493	\$ 59,461,610	\$ 46,654,795
Interest on loans	62,990,925	-	-	-	-	-	-	-
Other	457,404	324,628	-	198,784	-	4,558,238	-	-
Total Operating Revenues	63,448,329	3,325,359	13,102,930	1,224,120	-	121,064,731	59,461,610	46,654,795
Operating Expenses								
IFA Operations	2,619,238	243,760	20,349	79,306	-	1,768,004	603,738	955,844
Interest expense	77,595,325	1,114,702	6,199,116	272,680	-	35,403,388	61,395,611	50,121,421
Depreciation and amortization expense	1,237,755	1,723,564	-	-	-	29,912,238	-	-
Total Operating Expenses	81,452,318	3,082,026	6,219,465	351,986	-	67,083,630	61,999,349	51,077,265
Operating Income (Loss)	(18,003,989)	243,333	6,883,465	872,134	-	53,981,101	(2,537,739)	(4,422,470)
Nonoperating Revenues (Expenses)								
Investment earnings, net	56,088,302	(2,839)	2,866	(1,340)	-	81,153	23,827	-
Total nonoperating revenues (expenses)	56,088,302	(2,839)	2,866	(1,340)	-	81,153	23,827	-
Income Before Capital Contributions and Transfers	38,084,313	240,494	6,886,331	870,794	-	54,062,254	(2,513,912)	(4,422,470)
Capital contributions	64,720,181	-	-	-	-	14,366,529	-	4,422,470
Loan forgiveness	(19,631,887)	-	-	-	-	-	-	-
Transfer out	(2,051)	-	(61,803)	(61,803)	-	(100,000)	(161,226)	-
Change in Net Assets	83,170,556	240,494	6,824,528	808,991	-	68,328,783	(2,675,138)	-
Total net assets, beginning of year	1,082,740,444	6,109,691	10,487,046	1,333,810	9,080	381,953,889	58,089,023	-
Total net assets, end of year	\$ 1,165,911,000	\$ 6,350,185	\$ 17,311,574	\$ 2,142,801	\$ 9,080	\$ 450,282,672	\$ 55,413,885	\$ -

**INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF CASH FLOWS
For the year ended June 30, 2012**

	Business-Type Activities					Governmental Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Net Cash Provided (Used) By:								
Operating activities	\$ (1,836,465)	\$ 3,079,895	\$ 6,460,491	\$ 345,649	\$ -	\$ 117,020,980	\$ 58,696,646	\$ 45,621,581
Investing activities	159,535,711	(3,663)	2,701	(1,423)	-	(67,930,988)	23,700	1,000,000
Noncapital financing activities	(79,478,250)	-	-	-	-	-	-	-
Capital and related financing activities	40,111,603	6,667,873	(6,320,298)	(328,555)	-	(42,308,820)	(59,260,490)	(46,621,581)
Net Increase (Decrease) in Cash	118,332,599	9,744,105	142,894	15,671	-	6,781,172	(540,144)	-
Cash and cash equivalents, beginning	520,772,125	2,523,068	7,876,877	1,051,268	-	260,503,153	37,043,806	-
Cash and cash equivalents, ending	<u>\$ 639,104,724</u>	<u>\$ 12,267,173</u>	<u>\$ 8,019,771</u>	<u>\$ 1,066,939</u>	<u>\$ -</u>	<u>\$ 267,284,325</u>	<u>\$ 36,503,662</u>	<u>\$ -</u>