

**NEW ISSUE
BOOK-ENTRY ONLY**

**RATING:
Standard & Poor's: AA+
See "RATING" herein**

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, under existing laws, interest on the Bonds (as defined herein) is exempt from income taxation in the State of Indiana, except for the Indiana financial institutions tax. See "TAX MATTERS" and Appendix C herein. INTEREST ON THE BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.

**\$61,145,000
INDIANA BOND BANK
COMMON SCHOOL FUND ADVANCEMENT
PURCHASE FUNDING BONDS, SERIES 2009 (TAXABLE)**

Dated Date: As of Delivery

Due: As Shown Herein.

The Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2009 (Taxable) (the "Bonds"), are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry-only form, in the denomination of \$5,000 and integral multiples thereof. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Bonds. Interest on the Bonds is payable on February 1 and August 1 of each year commencing August 1, 2009, and such interest, together with the principal of the Bonds, will be paid directly to DTC by UMB Bank, n.a., as trustee (the "Trustee"), under a Trust Indenture dated as of April 1, 2009 (the "Indenture"), as described herein, so long as DTC or its nominee is the registered owner of the Bonds. The Indiana Bond Bank (the "Bond Bank") may provide for payment of interest to any holder of Bonds in amounts aggregating \$1,000,000 or more by wire transfer or other method which is acceptable to the Trustee and the Bondholder. The final disbursement of such payments to the Beneficial Owner of the Bonds will be the responsibility of the DTC Direct Participants and the Indirect Participants, all as defined and more fully described herein under "THE BONDS – Book-Entry-Only System."

The Bonds are being issued by the Bond Bank for the principal purpose of providing funds to purchase, pursuant to the terms of the Advancement Acquisition and Administration Agreement (as more particularly described herein) (the "Acquisition Agreement"), all or a portion of certain advancement agreements (the "Agreements") evidencing the right to make deductions from school tuition support payments appropriated by the General Assembly (the "General Assembly") of the State of Indiana (the "State") to repay certain advancements (the "Advancements") previously made from the State Common School Fund to certain Indiana school corporations (the "School Corporations") to finance the construction of school facilities and the purchase of school equipment. See "THE PURCHASE OF THE AGREEMENTS."

The Bonds are not subject to redemption prior to maturity.

The Bonds are payable from amounts deducted by the State Board of Education (the "Board of Education") and the State Board of Finance (the "Board of Finance") from school tuition support payments appropriated by the General Assembly of the State to the School Corporations and available to repay the Advancements or, if such funds are not adequate, from amounts deducted from other funds appropriated by the General Assembly to such School Corporations and available for such purpose (such amounts referred to collectively herein as "Advancement Payments"), and are secured by the Agreements. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE OTHER SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE STATE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Bonds are being offered when, as and if issued by the Bond Bank and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by its General Counsel for the Program, Graham & Hurley PC, Indianapolis, Indiana, and for the Underwriters by their counsel, Baker & Daniels LLP, Indianapolis, Indiana. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about April 1, 2009.

RAYMOND JAMES & ASSOCIATES, INC.

RBC CAPITAL MARKETS

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

MATURITY SCHEDULE

\$61,145,000

INDIANA BOND BANK

COMMON SCHOOL FUND ADVANCEMENT PURCHASE FUNDING BONDS, SERIES 2009

(TAXABLE)

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
08/01/09	\$7,045,000	1.980%	100%
02/01/10	6,705,000	2.520%	100%
08/01/10	6,700,000	2.920%	100%
02/01/11	6,685,000	3.270%	100%
08/01/11	6,605,000	3.460%	100%
02/01/12	6,825,000	3.650%	100%
08/01/12	6,840,000	3.700%	100%
02/01/13	6,850,000	3.950%	100%
08/01/13	6,890,000	4.050%	100%

REGARDING USE OF THIS OFFICIAL STATEMENT

The information set forth herein has been obtained from the Indiana Bond Bank, the Trustee, the State Board of Education, the State Department of Education, the State Board of Finance, the State Budget Agency, the State Treasurer's Office, the State Auditor's Office, The Depository Trust Company and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Indiana Bond Bank, the Trustee, the State Board of Education, the State Department of Education, the State Board of Finance, the State Budget Agency, the State Treasurer's Office, the State Auditor's Office or The Depository Trust Company since the date hereof.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE INDIANA BOND BANK OR BY THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BONDS, THE SECURITY FOR THE BONDS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. **NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Information set forth in this SUMMARY STATEMENT is qualified by the entire Official Statement. A full review of the entire Official Statement should be made by potential investors. Capitalized terms as used herein and not otherwise defined are defined in Appendix D.

SUMMARY STATEMENT

Description: Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2009 (Taxable).

Principal Amount: \$61,145,000.

Denominations: \$5,000 and integral multiples thereof.

Dated Date: Date of Delivery of the Bonds.

Interest and Principal Payments: Interest on the Bonds is payable semiannually February 1 and August 1, of each year, commencing August 1, 2009. Principal of the Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2009, through August 1, 2013, inclusive.

Form: The Bonds will be issued only as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York. See “THE BONDS – Book-Entry-Only System.”

Redemption: The Bonds are not subject to redemption prior to maturity.

Authority for Issuance: IC 5-1.5, IC 20-49-4, each as amended and the Trust Indenture between the Bond Bank and the Trustee, dated as of April 1, 2009.

Use of Proceeds: The Bonds will be issued by the Bond Bank principally to provide funds for the purchase of the Agreements and to pay the costs of issuance of the Bonds. The Agreements have been selected by the Bond Bank from outstanding Advancements heretofore made to School Corporations from the Common School Fund. The Agreements selected for purchase by the Bond Bank and the interest rates, principal balances and maturity dates of such Agreements are set forth in Appendix A hereto. The Bond Bank intends to purchase and pay for the Agreements to be acquired thereunder on the date of closing and to deliver the Agreements (or evidence of such acquisition of a portion of the contract rights thereunder) to the Trustee on the date of closing. See “THE PURCHASE OF THE AGREEMENTS” and APPENDIX A.

Security: **THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF**

THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

Continuing Disclosure:

As long as the State is committed by contract or other arrangement to facilitate payment of the obligations on the Bonds (or until such time as the Bonds may be defeased all as more fully set forth in the Undertaking), the State has agreed to provide or cause to be provided through the Bond Bank, as dissemination agent, information specified in subsections (b)(5)(i) and (b)(5)(ii) of Rule 15c2-12 of the Securities and Exchange Commission. The State has agreed to provide such information for distribution to each nationally recognized municipal securities information repository or in certain instances to the Municipal Securities Rulemaking Board, and to any state information depository designated by the State.

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INDIANA BOND BANK

\$61,145,000

INDIANA BOND BANK

COMMON SCHOOL FUND ADVANCEMENT PURCHASE FUNDING BONDS, SERIES 2009 (TAXABLE)

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of \$61,145,000 Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2009 (Taxable) (the "Bonds"). The Bonds are being issued pursuant to certain provisions of IC 20-49-4 and IC 5-1.5, each as amended (as so amended, collectively, the "Act"). Capitalized terms not otherwise defined are used herein as defined in Appendix D.

The Bonds are to be issued under and secured by the Trust Indenture, dated as of April 1, 2009 (the "Indenture"), between the Bond Bank and UMB Bank, n.a., as trustee (the "Trustee"). The principal of, premium, if any, and interest on the Bonds are payable from moneys deducted from school tuition support payments appropriated by the General Assembly (the "General Assembly") of the State of Indiana (the "State") to the school corporations within the State listed in Appendix A (collectively, the "School Corporations"), and available for such purpose or from other funds appropriated by the General Assembly to the School Corporations and available for such purpose (collectively, the "Advancement Payments"). The Advancement Payments are collected by the State Board of Education (the "Board of Education") and the State Board of Finance (the "Board of Finance") in accordance with IC 20-49-4-18 and -19 and pursuant to certain advancement agreements ("Agreements") entered into between the Board of Education and the School Corporations and thereafter paid over to the Bond Bank pursuant to the Acquisition Agreement (as defined herein) as more fully described herein. See "THE PURCHASE OF THE AGREEMENTS."

The Bonds are being issued principally to finance the purchase by the Bond Bank of the Agreements pursuant to an Advancement Acquisition and Administration Agreement (the "Acquisition Agreement") by and among the Board of Finance, the Treasurer of the State, the Board of Education and the Bond Bank to be dated as of the date of delivery of the Bonds.

The Acquisition Agreement constitutes a valid and enforceable contractual obligation, but is not a debt of the Board of Education, the Board of Finance, the Treasurer of the State or the State within the meaning of any constitutional prohibition against State indebtedness. The proceeds of the Bonds, other than proceeds applied to the costs of issuance of the Bonds, will be used to purchase Agreements (including accrued interest on the Agreements). The Bond Bank expects to purchase and pay for the Agreements on the day of closing and to deliver them or evidence of their purchase to the Trustee on the day of closing. The Agreements are more particularly described in Appendix A hereto.

The Agreements, and all payments, proceeds, receipts, issues and benefits thereunder, are pledged under the Indenture to the Trustee for the benefit of the Owners of the Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES

OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

The Bonds and the interest thereon are special obligations of the Bond Bank payable solely from the Trust Estate, and shall be a valid claim of the owners thereof only against such Trust Estate, which Trust Estate is pledged for the equal and ratable payment of the Bonds, and shall be used for no other purpose than to pay the principal of and interest on the Bonds, except as otherwise expressly authorized in the Indenture. The Bond Bank has pledged and assigned to the Trustee all of the Bond Bank's right, title and interest in and to the Agreements, including the Advancement Payments, for the equal benefit of all the Bondholders. See "SECURITY AND SOURCES OF PAYMENT FOR BONDS."

Brief descriptions of the Bonds, the Indenture, the Acquisition Agreement, the Agreements, and the Undertaking (as defined herein) are included in this Official Statement. All summaries herein of documents and agreements and all references herein to the Bonds are qualified in their entirety by reference to the documents and agreements themselves and the form of Bond included in the Indenture.

THE INDIANA BOND BANK

The Bond Bank was created in 1984 and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity, and has no taxing powers. The Bond Bank is empowered under the Act to purchase the Agreements.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a loan to or a lease or an agreement with a qualified entity; a purchase, acquisition or a sale of qualified obligations or other investments; or the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and for such periods as the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;
4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;
5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;
6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other program expenses properly attributable to qualified entities;
7. To the extent permitted under its contracts with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the Indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 20-49-4; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest and premium on the bonds, notes or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee or make investments other than as permitted by the Act;
3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;
4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business, or act as a savings bank, savings and loan association or any other kind of financial institution; or
5. Engage in any form of private or commercial banking business.

Organization and Membership of Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Public Finance Director of the State of Indiana, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four (4) of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four (4) Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Richard E. Mourdock, Treasurer of the State, February 10, 2007 to present and Chairman Ex Officio. Residence: Evansville, Indiana. President, R.E. Mourdock and Associates, LLC, 2001 to present; Vanderburgh County Commissioner, 1995 to 2002; Executive, Koester Companies, 1984 to 2000; Senior Geologist, Standard Oil Company, 1979 to 1984; Geologist, Amax Coal Company, 1974 to 1979.

Clark Byrum, Vice Chairman; term expired July 1, 2003. Residence: Carmel, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1983 to present; Board Member Marian College, 2001 to present; Chairman of Audit Committee of Sigma Phi Epsilon National Fraternity 2004 to 2008; Member of the Archdiocese of Indianapolis Finance Council, 2001 to present.

Jennifer M. Alvey, Public Finance Director of the State, August 6, 2007 to present. Residence: Greenwood, Indiana. Indiana Finance Authority, Chief Operating Officer and General Counsel, 2006 to 2007; Ice Miller LLP, attorney, municipal finance section, 2003 to 2006; Indiana University, various accounting and treasury-related positions, 1995 to 2003; Certified Public Accountant (inactive); licensed to practice law in the States of Indiana and Illinois and before the District of Columbia Appeals Court.

Russell Breeden, III Director; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to 2002. Chairman, CEO, and President, Blue River Bancshares, Inc., 2002 to present; Investment Council Member, Eiteljorg Museum.

Marni McKinney, Director, term expired July 1, 2004. Residence: Indianapolis, Indiana. Chairman, 2008 to present, Indiana Community Bank Advisory Board, M&I Marshall & Ilsley Bank; Vice President, 1984 to 1989, and Chairman of the Board, 1999 to 2008, First Indiana Bank; Vice Chairman and Chief Executive Officer, 1999 to 2005, and Chairman of the Board, 2005 to 2008, First Indiana Corporation; President and CEO, 1995 to 2000, The Somerset Group; Board of Directors, Fairbanks Hospital, Inc.; Board of Directors, Indiana State Symphony Society; Member, Advisory Panel of the Butler Business Accelerator; Member, Central Indiana Community Foundation Investment Committee; Member, Housing Trust Fund Advisory Committee of the City of Indianapolis.

C. Kurt Zorn, Director; term expired July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to present; Chairman, State Board of Tax Commissioners, January 1991 to August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987 to 1994 (on leave 1989 to 1992); Member, American Economic Association; Member, National Tax Association.

There is currently one vacancy on the Board of Directors of the Bond Bank.

Although the expiration date of the terms of four Directors has passed, the Act provides that their terms will not expire until their successors are appointed and qualified. No such successors have been appointed and qualified.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. Dan Huges was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huges previously served as the Deputy Director of the Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huges has over 20 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

Outstanding Indebtedness

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$2,978,582,740 in separate program obligations. The total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed the aggregate limit currently imposed by the Act of \$1,000,000,000. However, such

aggregate limit does not apply to, *inter alia*, bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5 or to the Bonds. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$427,355,000 in separate program obligations which count against the \$1,000,000,000 limitation. All previously issued obligations are secured separately and independently and do not constitute Bonds under the Indenture or for purposes of this Official Statement. The Bond Bank has never failed to punctually pay principal of and interest on any previously issued obligations.

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financings will be secured separately and independently from the Bonds and will not constitute Bonds under the Indenture or for the purposes of this Official Statement.

THE STATE OF INDIANA AND THE INDIANA BOND BANK

The purpose of the Bond Bank is to foster and promote, in accordance with the Act, the provision of adequate markets for the borrowing of funds for public projects and purposes by the State's political subdivisions and certain public educational institutions. The programs of the Bond Bank allow many of these entities throughout the State to achieve lower costs of borrowing than they could if acting alone. The Bond Bank's programs thus serve in promoting and providing the necessary infrastructure to support the expanding needs of the State's broad and diverse economy. The financial statements of the Bond Bank for fiscal years ended June 30, 2008, are available upon request. See "MISCELLANEOUS."

A more detailed discussion of the State and its financial condition and procedures is set forth in Appendix B, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA." Appendix B contains "forward-looking statements" based on current expectations, estimates, forecasts and projections about and assumptions made by the State. These forward-looking statements may be identified by the use of forward-looking terms such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "targets," "forecasts," and "seeks" or the negatives of such terms or other variations on such terms or comparable terminology. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that could cause actual outcomes and results to differ materially. These risks and uncertainties include demographic changes and general domestic economic conditions, including economic conditions of the State. The Bond Bank and the State disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The faith, credit and taxing power of the State are not pledged to the payment of the principal of, premium, if any, and interest on any of the Bonds, and the Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State.

STATE BOARD OF EDUCATION

The Board of Education was established in 1945 and is organized, exists and is operated pursuant to IC 20-1-1. The Board of Education consists of the State Superintendent of Public Instruction and ten other members, each of whom is appointed by the Governor. The Superintendent of Public Instruction serves as chairman of the Board of Education. Appointed board members serve terms of four years.

The current membership of the Board of Education is as follows:

Dr. Tony Bennett Superintendent of Public Instruction	Dr. Gwendolyn Adell Gary, Indiana	Ms. Jo Blacketor South Bend, Indiana
Mr. Stephen Gabet Grabill, Indiana	Mr. Michael Pettibone Monroe, Indiana	Mr. Daniel J. Elsener Indianapolis, Indiana
Ms. Vicki Snyder Evansville, Indiana	Mr. James D. Edwards Santa Claus, Indiana	Mr. David Shane Indianapolis, Indiana

There are currently two vacancies on the Board of Education. The State Superintendent of Public Instruction is Dr. Tony Bennett.

In accordance with IC 20-49-4-23, the Board of Education requested that the Board of Finance sell the Agreements to the Bond Bank. The Board of Education and the Board of Finance shall reduce each distribution of school tuition support payments to repay advancements made to School Corporations. Pursuant to the Acquisition Agreement and IC 20-49-4-23, the Board of Education is permitted to deduct the Advancement Payments for payment to the Bond Bank.

STATE DEPARTMENT OF EDUCATION

The Indiana State Department of Education (the “Department of Education”) was established in 1984. The Superintendent of Public Instruction is the Director of the Department of Education.

The Department of Education is required by IC 20-49-4-23, to advise the Board of Education in making its request to the Board of Finance to sell the Agreements to the Bond Bank. The Department of Education so advised the Board of Education.

STATE BOARD OF FINANCE

The Governor, Auditor and Treasurer of the State constitute the Board of Finance. The Board of Finance elects from its membership a president. The Governor currently serves as the President of the Board of Finance. The Auditor serves as the Secretary of the Board of Finance.

The Board of Finance has advisory supervision of the safekeeping of all funds coming into the State Treasury and all other funds belonging to the State coming into the possession of any state officer or agency.

The Board of Finance is empowered to sell, transfer, or liquidate the Agreements, pursuant to IC 20-49-4-23. To effect the sale, the Board of Finance will enter into the Acquisition Agreement on the date of delivery of the Bonds.

STATE BUDGET AGENCY

The State Budget Agency (the “Budget Agency”) was established as a State Agency in 1961. The State Budget Director, appointed by the Governor to serve at his pleasure, is the chief executive officer of the Budget Agency. The current State Budget Director is Christopher A. Ruhl.

A State Budget Committee (the “Budget Committee”), consisting of five regular members and four alternate members, cooperates in the preparation of a recommended budget report and budget bill, serves as liaison between the legislative and executive departments of State government, and provides information to the General Assembly with respect to the management of State fiscal affairs. The Budget Committee consists of the State Budget Director, two State Senators appointed by the President Pro-Tem of the Senate, one of whom is nominated by the leader of the minority political party in the Senate, and two State Representatives appointed by the Speaker of the House of Representatives, one of whom is nominated by the leader of the minority political party in the House of

Representatives. All members, except the State Budget Director, serve at the will and pleasure of the respective appointing leadership or until such member's term as a member of the General Assembly expires, whichever is shorter.

Pursuant to IC 20-49-4-23, each proposed sale, transfer, or liquidation must be reviewed by the Budget Committee and approved by the Budget Agency. The Budget Committee has reviewed the Agreements and the Budget Agency has approved the sale of the Agreements.

THE COMMON SCHOOL FUND

The Common School Fund was created by Article 8, Section 2, of the Indiana Constitution (the "Constitution"). The Constitution provides for funding the Common School Fund from a number of other funds, many of which no longer exist, as well as fines assessed for breaches of penal laws of the State, forfeitures, and funds which escheat to the State. The Constitution provides that the Common School Fund shall never be diminished in principal amount. **NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS.**

The Board of Education is authorized to advance money in the Common School Fund to School Corporations to be used for school building construction and educational technology programs. Advancements with respect to school building construction programs may not exceed the greater of \$15,000,000 or the product of \$15,000 multiplied by the number of pupils accommodated as a result of the school construction building program unless the School Corporation has sustained a loss caused by fire, wind, cyclone or other disaster, in which event such limitation may be waived by the Board of Education after consulting with the Department of Education and the Budget Agency. Advances for educational technology programs are not limited in amount other than the availability of funds in the Common School Fund set aside for this purpose and the ability of the School Corporation to repay the Advancement in accordance with the terms of its Agreement.

Under State law, money from the Common School Fund may be advanced to School Corporations for school building construction programs for periods of time not exceeding 25 years. None of the Agreements being purchased, and which were entered into in connection with school building construction projects, may be prepaid. The State Board of Finance periodically establishes a rate or rates of interest payable on advances for school building construction programs. However, such interest rates are limited under IC 20-49-4-15 to (i) four percent (4%) for Advancements made to School Corporations with Advancements outstanding on July 1, 1993, bearing rates of seven and one-half percent (7½%) or more, and (ii) seven and one-half percent (7½%) for Advancements made to other School Corporations.

Money may be advanced to school corporations for educational technology programs for periods not to exceed five years. The Board of Finance periodically establishes rates of interest payable on Advancements for educational technology programs which may not be less than one percent (1%) and which may not exceed four percent (4%).

Currently, the interest rate with respect to Advancements relating to school building construction programs is four percent (4.0%). The interest rate on Advancements relating to educational technology programs is one percent (1.0%).

To provide for the repayment of any Advancement, the Board of Education and the Board of Finance are authorized in their sole discretion to withhold from funds due to the School Corporation which received an Advancement an amount of money that is necessary to repay such Advancement and interest thereon over the term of the Agreement. The Advancement Payments necessary to repay the Advancement to a School Corporation are deducted from school tuition support payments appropriated by the General Assembly to each School Corporation as available for such purpose and other moneys appropriated by the General Assembly to such School Corporation as available for such purpose. State school tuition support is a line item in the State budget, and is funded from the State's General and Property Tax Replacement Fund. See: Appendix B -- "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA", "State Revenues and Expenses" and "Financial Results of Operations." State school tuition support is the largest single revenue source for most School Corporations.

THE PURCHASE OF THE AGREEMENTS

Pursuant to IC 20-49-4-23, the Board of Finance is authorized, upon the request of the Board of Education, on the recommendation of the Department of Education, to sell, transfer or liquidate the Agreements to the Bond Bank. IC 20-49-4-20 provides that the Agreements do not constitute a debt of the State within the meaning of the constitutional prohibition against State indebtedness.

The Board of Education, acting upon the recommendation of the Department of Education, has requested that the Board of Finance sell all or a portion of the Agreements to the Bond Bank. The sale of the Agreements has been reviewed by the Budget Committee and has been approved by the Budget Agency.

A list of the Agreements being sold by the Board of Finance to the Bond Bank and the aggregate principal amount outstanding and rate of interest on each such Agreement are set forth in Appendix A. No future Advancements made from the Common School Fund will be used to secure the Bonds. No portion of the Common School Fund will be available to pay debt service on the Bonds.

The Agreements are being sold to provide additional funds to the Common School Fund for the purpose of making future Advancements from the Common School Fund. The purchase price for the Agreements will be paid to the Treasurer of the State for deposit in the Common School Fund. The purchase of the Agreements will not have an effect on School Corporations which have outstanding Advancements or change the way in which outstanding Advancements are structured or administered.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligation. The Bonds are special obligations of the Bond Bank, payable as to principal, premium, if any, and interest solely from the Trust Estate and shall be a valid claim of the owners thereof only against such Trust Estate, which Trust Estate is pledged for the equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, except as otherwise expressly authorized in the Indenture. The Bonds and the interest thereon shall never constitute an obligation of the State, any political subdivision thereof, including the School Corporations, within the meaning of any constitutional or statutory provision or limitation on indebtedness. The Bonds and the interest thereon shall never constitute nor give rise to a charge against the general credit, funds or assets of the State, any political subdivision thereof including the School Corporations, or the taxing powers of the State or any political subdivision thereof, including the School Corporations. No holder of any Bond may compel the exercise of the taxing power of the State or any political subdivision thereof, including the School Corporations to pay principal of, premium, if any, or interest on the Bonds. No portion of the Common School Fund is available to pay the Bonds. The Bond Bank has no taxing power.

The ability of the Bond Bank to pay principal of, premium, if any, and interest on the Bonds depends solely upon the receipt by the Bond Bank of Advancement Payments. There can be no representation or assurance that the Bond Bank will receive sufficient Advancement Payments to make the required payments of principal of, premium, if any, and interest on the Bonds. The receipt of such Advancement Payments by the Bond Bank is subject to, among other things, future economic conditions and other conditions affecting the State and the School Corporations which are variable and cannot be predicted.

Advancement Payments Subject to Biennial Appropriation. The Advancements to School Corporations from the Common School Fund are repayable from the Advancement Payments. State school tuition support, the primary source of the Advancement Payments, is a line item in the State's biennial budget, and must be approved by the General Assembly. State school tuition support payments currently are the primary source of funding for most School Corporations in the State. There can be no assurance that sufficient funds will be appropriated by the General Assembly for State school tuition support to provide the deductions necessary to support the Board of Education's rights under the Agreements and the Board of Finance's obligations under the Acquisition Agreement. Bondholders have no right to have taxes levied or to compel appropriations by the General Assembly to pay the Bonds. Moreover, there can be no assurance that any funds so appropriated will be available to make Advancement Payments. If sufficient funds are not appropriated and available, the Advancement Payments will be insufficient to

pay principal of, premium, if any, or interest on the Bonds. See Appendix B for the financial and economic information relating to the State.

Remedies Limited. The remedies available to the Trustee, to the Bond Bank or to the Owners of the Bonds upon an event of default under the Indenture, the Agreements or the Acquisition Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture, the Agreements or the Acquisition Agreement may not be readily available or may be limited. Further, under the Indenture, the Trustee is required to pursue certain courses of action upon the written request of the Owners of fixed percentages of the Bonds Outstanding. There is no assurance that the interests of the owners of such percentage of the Bonds Outstanding will be identical to those of the Owners of all other Bonds. Nonetheless, the request of the Owners of the applicable percentage of the principal amount of all outstanding Bonds is sufficient to direct the actions of the Trustee.

Security for the Bonds. The Board of Finance will, pursuant to the Acquisition Agreement, sell a portion of its rights, title, and interest in and to each of the Agreements to the Bond Bank. The Agreements and the Act permit the Board of Education and the Board of Finance to deduct the Advancement Payments. The Acquisition Agreement requires the Board of Finance, the Treasurer of the State, and the Board of Education, as applicable, to take all actions in the best interest of the Bond Bank and exercise for the benefit of the Bond Bank, to the maximum extent permitted under the Indiana Code, all rights (including without limitation the rights under the Act) and options available under the Indiana Code relating in any way to (i) the withholding by any of them of funds of the State due any School Corporation that is a party to an Agreement; (ii) the collection of amounts due from such School Corporation by reason of being a party to an Agreement; and (iii) the remittance and payment of such amounts to the Bond Bank by reason of its purchase and ownership of the Agreements. The Bond Bank has assigned its rights under the Acquisition Agreement to the Trustee for the benefit of the Owners of the Bonds.

NO MORAL OBLIGATION IS PLEDGED TO THE BONDS. THE BOND BANK HAS NO TAXING POWER.

THE BONDS

General Description. The Bonds are issuable under the Indenture as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Each Bond will be dated the date of delivery thereof. If any Bond is authenticated on or prior to July 15, 2009, it will bear interest from the original issue date. Each Bond authenticated after July 15, 2009, will bear interest from the most recent Interest Payment Date on which interest was paid prior to the date of authentication of such Bond, unless the Bond is authenticated after a Record Date but prior to the related Interest Payment Date. Bonds authenticated after a Record Date but prior to the related Interest Payment Date will bear interest from the related Interest Payment Date.

The Bonds will be issued in the aggregate principal amount of \$61,145,000 and shall mature and bear interest as set forth on the inside cover page of this Official Statement.

For so long as the Bonds are registered in the name of The Depository Trust Company (“DTC”), New York, New York, or its nominee, payments of the principal of, premium, if any, and interest on the Bonds will be paid only to DTC or its nominee. Interest on the Bonds will be paid on each Interest Payment Date by wire transfer to DTC or its nominee. Principal of, and premium, if any, will be paid to DTC or its nominee upon presentation and surrender of the Bonds at the principal office of the Trustee. Neither the Bond Bank nor the Trustee will have any responsibility for the Beneficial Owner’s (as hereinafter defined) receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant (both as hereinafter defined), of any payments of principal of, premium, if any, or interest on the Bonds. See “THE BONDS--Book-Entry-Only System.”

If the Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing on the first Interest Payment Date after the Bonds are no longer so registered by check issued by the Paying Agent dated the due date and mailed on each Interest Payment Date to the registered Owners as of the close of business on the most

recent Record Date or by wire transfer to Owners of \$1,000,000 or more in principal amount of the Bonds upon written request of such owners. Principal on the Bonds will be payable on the Maturity Date of such Bond upon presentation of the Bond at the principal corporate trust office of the Trustee.

Redemption. The Bonds are not subject to redemption prior to maturity.

Book-Entry-Only System. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Bank or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or the Trustee, disbursements of such payments to Direct Participants will be the responsibility of DTC, and disbursements of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered to DTC.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Bond Bank believes to be reliable, but the Bond Bank takes no responsibility for the accuracy thereof.

Revision of Book-Entry Only System. In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Bonds, and to transfer the ownership of each of the Bonds, in accordance with the Indenture. See "General Description" and "Exchange and Transfer" in this section.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds related to acquiring the Agreements and paying costs incidental to the sale and delivery of the Bonds are estimated as shown below:

Sources of Funds:

Principal Amount of Bonds	<u>\$61,145,000.00</u>
TOTAL SOURCES	\$61,145,000.00

Use of Funds:

Acquisition of Agreements	\$60,243,324.37
Costs of Issuance*	<u>\$ 901,675.63</u>
TOTAL USES	\$61,145,000.00

*Includes underwriters' discount.

OPERATION OF FUNDS AND ACCOUNTS

The Indenture establishes the following Funds to be held by the Trustee:

- A. General Fund, consisting of the following:
 - 1. General Account
 - 2. Redemption Account
- B. Costs of Issuance Fund
- C. Acquisition Fund

General Fund-General Account. The Trustee shall deposit in the General Account all Advancement Payments, all income or gain on Investment Securities attributable to any fund or account, and all other Revenues not otherwise required to be deposited in the Redemption Account of the General Fund.

Moneys in the General Account of the General Fund will be disbursed as follows: (i) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary to pay interest due to be paid on Outstanding Bonds on such Interest Payment Date; (ii) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary, if any, to pay principal due to be paid on Outstanding Bonds on such Interest Payment Date; and (iii) at such times as may be necessary, to pay Program Expenses, but only (a) upon the receipt by the Trustee of a requisition from an Authorized Officer, describing the Program Expense for which such payment is sought and the amount thereof and certifying that such Program Expense is properly payable under the Indenture, and (b) to the extent that any such Program Expense, when added to all other Program Expenses paid or payable following the date of the most recent Cash Flow Certificate, does not exceed the amount of such Program Expenses contemplated by such Cash Flow Certificate.

General Fund-Redemption Account. There shall be deposited in the Redemption Account of the General Fund all moneys received as a result of a default under any of the Agreements and from the mandatory repayment

provisions under the Acquisition Agreement. Moneys in the Redemption Account will be distributed as follows: (i) on the second Business Day prior to any Interest Payment Date, if amounts in the General Account of the General Fund are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account of the General Fund amounts in the Redemption Account available for such transfer and not otherwise committed under the Indenture to the redemption of Bonds for which notice of redemption has been given; and (ii) after provision has been made for the payments required under (i) above to purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence. Such price may not, however, exceed the par amount of the Bonds so purchased unless the Bond Bank provides the Trustee with a Positive Cash Flow Certificate. The Trustee shall pay the interest accrued on any Bonds so purchased to the date of delivery thereof from the General Account of the General Fund and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of forty-five (45) days next preceding an Interest Payment Date.

At the direction of the Bond Bank, the Trustee may transfer any amounts in the Redemption Account to the General Account of the General Fund provided that the Trustee is provided with a Positive Cash Flow Certificate taking into account such transfer.

Cost of Issuance Fund. The Trustee shall deposit \$506,571.88 of the proceeds of the Bonds in the Costs of Issuance Fund for the purpose of paying the costs associated with issuing the Bonds. All funds in the Costs of Issuance Fund which are not expended for such costs of issuance or which have not been expended for costs of issuance on or before September 1, 2009, shall be transferred to the General Account of the General Fund.

Acquisition Fund. The Trustee will deposit in the Acquisition Fund all available proceeds of the Bonds after the deposits to the Costs of Issuance Fund and the General Account of the General Fund set forth in the Indenture. Moneys in the Acquisition Fund shall be disbursed to purchase the Agreements in accordance with procedures established for such purposes pursuant to the Indenture and upon submission of requisitions by the Bond Bank to the effect that all requirements and conditions with respect to such purchases have been met.

Investment of Funds. The Trustee shall as continuously as reasonably possible invest and reinvest the funds on deposit in the Funds and Accounts from time to time in Investment Securities as may be directed by the Bond Bank or, if no direction is provided, then in money market funds meeting the criteria set forth in the definition of "Investment Securities" set forth in the Indenture. Notwithstanding the provisions described in the preceding sentence, from the date of deposit of any Advancement Payment into the General Account of the General Fund until the earlier of the following February 3 or August 3, such Advancement Payments shall be invested: (1) in only those Investment Securities that are then rated by Standard & Poor's at least as high as the then current rating of the Bonds by Standard & Poor's or "A-1+"; or (2) in money market funds meeting the criteria set forth in the definition of "Investment Securities" set forth in the Indenture. Income or interest earned or gains realized in any Fund or Account due to such investment will be credited to the General Account of the General Fund.

THE BONDS AS LEGAL INVESTMENTS

Under the Act, all financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees and other fiduciaries in the State may legally invest sinking funds, money or other funds belonging to or within the control of such fiduciaries in the bonds and notes of the Bond Bank issued under the Act.

LITIGATION

Bond Bank. There is not pending, or to the Bond Bank's knowledge, threatened any litigation restraining, questioning or enjoining the issuance, sale, execution or delivery of the Bonds or prohibiting the Bond Bank from purchasing the Agreements with the proceeds of such Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Bond Bank taken with respect to the issuance or sale thereof or the pledge or application of any money or security provided for the payment of the Bonds. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present Directors or other officers of the Bond Bank to their respective offices is being contested.

Board of Finance. There is not pending, or to the Board of Finance's knowledge, threatened any litigation restraining, questioning or enjoining the sale, execution or delivery of the Agreements or prohibiting the Board of Finance from selling the Agreements or in any way contesting or affecting the validity of the Agreements, or any proceedings of the Board of Finance taken with respect to the sale thereof. Neither the creation, organization or existence of the Board of Finance nor the title of any of the present members of the Board of Finance to their respective offices is being contested.

TAX MATTERS

Interest on the Bonds is not excludable from gross income for federal income tax purposes. In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Bonds is exempt from income taxation in the State for all purposes except the State financial institutions tax. See Appendix C for the form of opinion of Bond Counsel.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Bonds.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Bond Bank are subject to the approval of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, whose approving opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the Bond Bank by its general counsel for the Program, Graham & Hurley PC, Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriters by their counsel, Baker & Daniels LLP, Indianapolis, Indiana.

UNDERWRITING

Under the Bond Purchase Agreement entered into between Raymond James & Associates, Inc. (the "Representative") on behalf of itself and the other underwriter of the Bonds (collectively, the "Underwriters"), and the Bond Bank, the Bonds are being purchased by the Underwriters for reoffering at an aggregate purchase price of \$60,749,896.25, which amount equals the par amount of the Bonds less an Underwriters' discount of \$395,103.75. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligations of the Bond Bank to deliver the Bonds and of the Underwriters to accept delivery of the Bonds are subject to various conditions contained in the Bond Purchase Agreement.

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

CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent (the "Agent"), certain annual financial information and operating data described below.

Pursuant to the terms of the State's Continuing Disclosure Undertaking Agreement (the "Undertaking"), the State will agree to provide the following information as long as the State is committed by contract or other arrangement to facilitate payment of the obligations on the Bonds (or until such time as the Bonds may be defeased, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") then in existence and to the Indiana state information depository then in

existence, if any (the “State Depository”), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 2009, together with the independent auditor’s report and all notes thereto; if audited financial statements are not available within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2009, the Annual Information (as defined below) shall contain unaudited financial statements, in a format similar to the audited financial statements most recently prepared by the State; and

2. Financial Information in this Official Statement. To each NRMSIR then in existence and to the State Depository within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2009, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix B – “FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA.”

(The information described in items 1 and 2 above is referred to as the “Annual Information.”)

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the State Depository, the following event notices (“Event Notice”), if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State or the Bond Bank may from time to time choose to disseminate other information including other annual information or notice of the occurrence of certain other events, in addition to those listed above. If the State or the Bond Bank chooses to provide any such additional information, they shall have no obligation to update such information or include it in any future Annual Information or Event Notice.

Effective July 1, 2009, filings pursuant to continuing disclosure agreements entered into pursuant to the Rule will only be required to be sent to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system.

Failure to Disclose. If the Trustee does not receive any annual financial information or operating data by the date which is ten days before the date required therefor, as stated in the Undertaking, the Trustee shall notify the Bond Bank and the State, via registered or certified mail, that it has not received such annual financial information or operating data. However, no failure by the Trustee to provide such notice shall operate to relieve the State of its obligation to provide such annual financial information and operating data in the manner and within the time specified in the Undertaking. In a timely manner, the Trustee shall notify each NRMSIR or the Municipal Securities Rulemaking Board, and the State Depository of any failure on the part of the State to provide the Annual Information by the deadline specified above.

Accounting Principles. The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

Remedy. The Undertaking is solely for the benefit of the holders and beneficial owners of the Bonds and creates no new contractual or other rights for the SEC, any underwriter (other than the Underwriters), brokers, dealers, municipal securities dealers, potential customers, other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State's disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State, or any instrumentality or officer thereof, is a party.

The remedy set forth in the preceding paragraph may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State to comply with its obligations under the Undertaking.

Modification of Undertaking. The Bond Bank, State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the beneficial owners of the Bonds if either: (a)(i) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds as determined either by (A) any person selected by the State that is unaffiliated with the State (including the Counterparty as Trustee under the Indenture) or (B) an approving vote of the holders of the requisite percentage of Outstanding Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the holders, or (b) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by the Rule.

The Annual Information for the fiscal year during which any such amendment or waiver occurs that contains the amended or waived Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of information being provided in the Annual Information.

Compliance with Previous Undertakings. In the previous five years, the Bond Bank and the State have never failed to comply in all material respects with any previous undertakings in a written contract or agreement that either of them entered into pursuant to subsection (b)(5) of the Rule.

Copies of the Undertaking are available from the Bond Bank upon request.

RATING

Standard & Poor's has given the Bonds a rating of "AA+." A further explanation of such rating may be obtained from such agency at 25 Broadway, New York, New York, 10004. Such rating reflects only the view of Standard & Poor's and is not a recommendation to buy, sell or hold the Bonds. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely if, in the judgment of Standard & Poor's, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect upon the market price or marketability of the Bonds.

MISCELLANEOUS

The Bond Bank's offices are located at 10 West Market Street, Suite 2980, Indianapolis, Indiana 46204, Telephone (317) 233-0888.

Crowe Horwath LLP, Indianapolis, Indiana, is employed as financial advisor to the Bond Bank and has acted as such with respect to the Bonds.

All quotations from, and summaries and explanations of the Act, the Indenture, the Acquisition Agreement, the Agreements, the Undertaking and the Bonds contained in this Official Statement do not purport to be complete and reference is made to the Act, the Indenture, the Acquisition Agreement, the Agreements, the Undertaking and the Bonds for full and complete statements of their provisions. The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements. Copies in reasonable quantity of the Act, the Indenture, the Undertaking and the Acquisition Agreement may be obtained upon request directed to the Bond Bank.

Neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement has been duly approved, signed and delivered by the Bond Bank.

INDIANA BOND BANK

By: /s/ Richard E. Mourdock
Richard E. Mourdock, Chairman, Ex Officio

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APPENDIX A

**LIST OF AGREEMENTS TO BE ACQUIRED
UNDER THE ACQUISITION AGREEMENT**

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**Indiana Bond Bank
Common School Fund Advancement Purchase Funding Bonds
Series 2009 (Taxable)**

Advancements Purchased

<u>Name of School Corporation</u>	<u>Loan #</u>	<u>Interest Rate</u>	<u>Principal Purchased</u>	<u>Final Maturity Purchased</u> ⁽¹⁾
Cloverdale Community School Corporation	440	4.50%	18,960.10	7/1/2010
Mississinewa Community School Corporation	449	4.00%	1,032,777.81	7/1/2013
School City of Hammond	452	4.00%	538,991.47	7/1/2013
Hanover Community School Corporation	453	4.00%	105,000.03	7/1/2013
South Henry School Corporation	454	4.00%	758,023.56	7/1/2013
Pioneer Regional School Corporation	457	4.00%	1,580,625.00	7/1/2013
Mississinewa Community School Corporation	459	4.00%	876,893.68	7/1/2013
Nettle Creek School Corporation	460	4.00%	1,146,807.36	7/1/2013
Western Wayne Schools	462	4.00%	376,301.36	1/1/2011
Monroe Central School Corporation	463	4.00%	450,000.00	7/1/2013
Griffith Public Schools	464	4.00%	3,552,637.59	7/1/2013
Centerville-Abington Community School Corporation	465	4.00%	1,699,425.00	7/1/2013
Milan Community Schools	466	4.00%	1,800,000.00	7/1/2013
Elwood Community School Corporation	469	4.00%	1,555,389.00	7/1/2013
North Miami Community Schools	472	4.00%	109,370.66	7/1/2012
Elwood Community School Corporation	475	4.00%	1,603,125.00	7/1/2013
Southwestern Jefferson County Consolidated School	478	4.00%	711,212.94	7/1/2013
Lake Ridge Schools	480	4.00%	97,090.26	7/1/2013
Lake Ridge Schools	483	4.00%	87,224.85	7/1/2013
M.S.D. Of Shakamak	484	4.00%	332,559.36	7/1/2013
Centerville-Abington Community School Corporation	487	4.00%	753,809.25	7/1/2013
Charles A. Beard Memorial School Corporation	488	4.00%	1,555,875.00	7/1/2013
West Washington School Corporation	489	4.00%	1,116,993.96	7/1/2013
Smith-Green Community Schools	490	4.00%	536,029.38	7/1/2013
Shoals Community School Corporation	492	4.00%	665,879.93	7/1/2013
Knox Community School Corporation	494	4.00%	200,250.00	7/1/2013
Hanover Community School Corporation	495	4.00%	306,928.17	7/1/2013
Crown Point Community School Corporation	496	4.00%	2,193,750.00	7/1/2013
Randolph Eastern School Corporation	497	4.00%	680,714.26	7/1/2013
Lake Ridge Schools	498	4.00%	87,202.43	7/1/2013
Centerville-Abington Community School Corporation	500	4.00%	223,875.00	7/1/2013
Charles A. Beard Memorial School Corporation	501	4.00%	369,000.00	7/1/2013
Tri-Creek School Corporation	502	4.00%	3,645,000.00	7/1/2013
Hanover Community School Corporation	503	4.00%	184,425.03	7/1/2013
Porter Township School Corporation	504	4.00%	90,000.00	7/1/2013
Lake Station Community Schools	505	4.00%	1,089,912.18	7/1/2013
Eastern Greene Schools	506	4.00%	448,875.00	7/1/2013
Lake Ridge Schools	507	4.00%	195,967.08	7/1/2013
Crawford County Community School Corporation	510	4.00%	219,375.00	7/1/2013
Hanover Community School Corporation	511	4.00%	2,538,036.00	7/1/2013
Lake Ridge Schools	512	4.00%	69,209.28	7/1/2013

**Indiana Bond Bank
Common School Fund Advancement Purchase Funding Bonds
Series 2009 (Taxable)**

Advancements Purchased

<u>Name of School Corporation</u>	<u>Loan #</u>	<u>Interest Rate</u>	<u>Principal Purchased</u>	<u>Final Maturity</u> ⁽¹⁾
Gary Community Schools	513	4.00%	1,980,000.00	7/1/2013
North Miami Community Schools	514	4.00%	563,000.00	7/1/2013
Monroe-Gregg School District	515	4.00%	1,182,919.02	7/1/2013
Spencer-Owen School Corporation	516	4.00%	2,330,000.00	7/1/2013
MSD of Boone Township	517	4.00%	1,350,000.00	7/1/2013
Cowan Community School Corp.	518	4.00%	1,575,000.00	7/1/2013
Lake Ridge Schools	519	4.00%	2,098,097.28	7/1/2013
Gary Community Schools	521	4.00%	1,930,500.00	7/1/2013
North Miami Community Schools	522	4.00%	100,000.00	1/1/2011
MSD of Boone Township	523	4.00%	1,687,500.00	7/1/2013
School City of Mishawaka	524	4.00%	168,750.00	7/1/2013
River Forest Community School Corp.	526	4.00%	157,500.00	7/1/2012
Alexandria Communty School Corporation	527	4.00%	374,001.30	7/1/2013
Paoli Community School Corporation	528	4.00%	434,691.27	7/1/2013
Peru Community Schools	529	4.00%	820,000.00	7/1/2013
North Miami Community Schools	530	4.00%	120,000.00	7/1/2013
Mill Creek Community School Corporation	531	4.00%	135,000.00	7/1/2013
Hanover Community School Corporation	532	4.00%	216,000.00	7/1/2013
River Forest Community School Corp.	533	4.00%	2,354,448.78	7/1/2013
River Forest Community School Corp.	550	4.00%	927,000.00	7/1/2013
Alexandria Communty School Corporation	552	4.00%	441,655.20	7/1/2013
Eastern Greene Schools	554	4.00%	1,620,000.00	7/1/2013
Porter Township School Corporation	557	4.00%	157,500.00	7/1/2013
School City of Mishawaka	558	4.00%	745,055.29	7/1/2013
Randolph Eastern School Corporation	559	4.00%	480,000.00	7/1/2013
School City of Mishawaka	560	4.00%	473,684.22	7/1/2013
Griffith Public Schools	563	4.00%	162,000.00	7/1/2013
River Forest Community School Corp.	565	4.00%	55,500.03	7/1/2013
			60,243,324.37	

(1) Equals Treasury Payment Date

APPENDIX B

**FINANCIAL AND ECONOMIC STATEMENT
FOR THE STATE OF INDIANA**

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**APPENDIX B
FINANCIAL AND ECONOMIC STATEMENT
FOR
STATE OF INDIANA
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INTRODUCTION

This Financial and Economic Statement (this “Appendix B”) for the State of Indiana (the “State”) includes a description of the State’s economic and fiscal condition, the results of operations for the past two fiscal years and revenue and expenditure projections through the end of the biennium ending June 30, 2009. The information is compiled on behalf of the State by the State Budget Agency and the Indiana Finance Authority and includes information and data taken from the Budget Agency’s unaudited reports. It also includes information obtained from other sources the State believes to be reliable.

Additional information may be obtained by contacting the Public Finance Director of the State of Indiana, One North Capitol Avenue, Suite 900, Indianapolis, Indiana 46204; Telephone (317) 233-4332. This Appendix B should be read in its entirety, together with any supplements.

STRUCTURE OF STATE GOVERNMENT

Division of Powers

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

Executive Department

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

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

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

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

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

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

The Attorney General is the chief legal officer of the State and is required to represent the State in lawsuits in which the State is a party. The Attorney General, upon request, gives legal opinions to the Governor, members of the General Assembly and officers of the State. In addition, the Attorney General investigates and prosecutes certain consumer complaints and Medicaid fraud.

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

Legislative Department

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

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

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

Judicial Department

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

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

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

FISCAL POLICIES

Fiscal Years

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

Accounting System

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

Budgetary control is integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

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

Fund Structure

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

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

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

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

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

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the Auditor of State. Prior to the enactment of P.L. 146-2008, the PTR Fund had been funded from 50% of State sales and use tax revenue, a portion of individual income tax receipts and a portion of Gaming Revenue described below. The PTR Fund is currently used to provide (i) property tax relief and (ii) local school aid. With the enactment of

P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. See “State Budget Profile and Financial Results of Operations – The Governor’s Property Tax Reform Legislation, P.L. 146-2008” for a summary of P.L. 146-2008.

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

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

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

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

Internal Service Funds. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government.

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

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

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

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

Budget Process

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

State Budget Committee. The Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President pro tempore of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated

by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

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

Revenue Projections. Revenue projections are prepared by the State's Technical Forecast Committee. Historically, the Economic Forecast Committee was responsible for forecasting independent variables that were employed by the Technical Forecast Committee in deriving the State's revenue projections. Starting with the December 2008 forecast, Global Insight, Inc. provides the forecasted independent variables. Global Insight, Inc. was chosen following a thorough evaluation of submitted proposals based on forecasting capabilities and detailed knowledge of the State, national, and international economies.

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

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

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

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

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

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

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

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

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

State Board of Finance

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

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

Office of Management and Budget

In 2005, legislation was enacted that established the Office of Management and Budget ("OMB"), to direct the fiscal management and budget policy of the State.

The Director ("Director") of the OMB is the chief financial officer of the State, and reports directly to the Governor. The Director is responsible for and has authority over all functions performed by the Budget Agency, the Department of State Revenue, the Department of Administration and the Department of Local Government Finance, as well as all budgeting, accounting and spending functions within the various agencies, departments and programs of State government. The Director may also serve as the State Budget Director. By statutory designation, the State Budget Director also serves as the Chairman of the Indiana Finance Authority. Pursuant to Executive Order 05-02, the OMB oversees and coordinates the functions, responsibilities and duties of the Public Employees' Retirement

Fund (PERF), the Teachers' Retirement Fund (TRF) and the State Board of Accounts to the fullest extent permitted by law.

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

Cash Management and Investments

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

Audits

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

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

2008 Financial Report

The Indiana Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2008 (the "2008 Financial Report"), contains certain financial information about the State, including the financial statements of the State as of and for the Fiscal Year ended June 30, 2008 as set forth therein. The 2008 Financial Report was previously provided to each then nationally recognized municipal securities information repository (each then nationally recognized municipal securities information repository, a "NRMSIR"), and is included in this Appendix B by reference.

A copy of the 2008 Financial Report may be obtained from any NRMSIR. In addition, the 2008 Financial Report may be found at: <http://www.in.gov/auditor/>.

The 2008 Financial Report speaks only as of its date. The inclusion of the 2008 Financial Report in this Appendix B does not imply that there has been no change in the information therein since the date thereof.

STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

The Governor's Property Tax Reform Legislation, P.L. 146-2008

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

Other elements of the reform plan include caps on the amount property owners must pay. Any impact on local budgets resulting from the caps will be borne by the local unit of government. The State has no obligation to compensate local units of government for any lost property tax revenue as a result of the caps.

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

Operating Revenue

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

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the Property Tax Replacement Fund (PTR Fund) with those of the General Fund to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as "State Operating Revenue" or "Operating Revenue." Operating Revenue is defined as the total of General Fund and PTR Fund revenue forecasted by the Technical Forecast Committee. Total Operating Revenue together with "DSH revenue" transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. "DSH" is an acronym for "Disproportionate Share for Hospitals (federal funds)," and DSH revenue constitutes additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people.

With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. All revenues previously deposited in the PTR Fund are deposited in the General Fund after December 31, 2008. See "Fiscal Policies - Fund Structure — Governmental Funds – Special Revenue Funds" and "State Budget Profile and Financial Results of Operations – The Governor's Property Tax Relief Legislation, P.L. 146-2008" for a summary of P.L. 146-2008.

General Fund and PTR Fund Revenue Sources

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

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

Corporate Income Taxes. As part of tax restructuring legislation passed in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). These changes were effective January 1, 2003.

Corporate Adjusted Gross Income Tax. The corporate adjusted gross income tax is applicable to corporations doing business in the State. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations, limited liability companies, partnerships and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the corporate adjusted gross income tax. Corporate adjusted gross income tax collections are allocated to the General Fund.

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

Utilities Receipts Tax. The utilities receipts tax is based on gross receipts from retail utility sales. It is imposed at a rate of 1.4% and was effective January 1, 2003. All revenue is deposited in the state General Fund. Utilities must also pay the corporate adjusted gross income tax. Effective July 1, 2007, a use tax was imposed on consumers of utilities if the Utilities Receipts Tax was not paid by the seller. The use tax is imposed at the rate of 1.4% on the gross purchase price of the utilities.

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

With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. All revenues previously deposited in the PTR Fund are deposited in the General Fund after December 31, 2008. See "Fiscal Policies - Fund Structure — Governmental Funds – Special Revenue Funds" and "State Budget Profile and Financial Results of Operations – The Governor's Property Tax Relief Legislation, P.L. 146-2008" for a summary of P.L. 146-2008.

Riverboat Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to Fiscal Year 2003, all wagering taxes earned by the State were deposited into the BIF. Legislation passed in 2002 changed the collection and distribution of wagering taxes and allowed riverboats to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. The legislation imposed a graduated wagering tax on riverboats that adopt flexible scheduling. As amended by P.L. 233-2007, the graduated tax is set at 15% of the first \$25 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25 million and \$50 million, 25% of receipts between \$50 million and \$75 million, 30% of receipts between \$75 million and \$150 million, 35% of receipts between \$150 million and \$600 million, and 40% of all adjusted gross receipts exceeding \$600 million.

The legislation also changed the distribution of wagering taxes. The first \$33 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations, and 75% is deposited in the PTR Fund. The legislation capped the amounts that may be distributed to the cities and towns with riverboat operations at the amounts distributed in FY 2002. All revenue in excess of the capped amounts is deposited in the PTR Fund. The PTR Fund receives 37.5% of wagering tax from the Orange County Casino. The remaining wagering tax revenue from Orange County Casino is deposited in the local funds. From the revenue distributed to the PTR Fund, an amount is distributed annually to the BIF. The transfer amount is such that the total lottery and gaming revenue deposited in the BIF equals \$250.0 million in a fiscal year. Interest revenue deposited in the fund does not count against the \$250.0 million cap.

With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. All revenues previously deposited in the PTR Fund are deposited in the General Fund after December 31, 2008, including riverboat wagering taxes. See "Fiscal Policies - Fund Structure — Governmental Funds – Special Revenue Funds" and "State Budget Profile and Financial Results of Operations – The Governor's Property Tax Relief Legislation, P.L. 146-2008" for a summary of P.L. 146-2008.

In 2007, the General Assembly enacted legislation authorizing the two existing licensed horse racing facilities in Indiana to install up to 2,000 slot machines on their premises. P.L. 233-2007 imposes a one-time license fee of \$250 million per track and graduated wagering taxes in the amount of 25% of the first \$100 million of adjusted gross receipts in a fiscal year, 30% of receipts between \$100 million and \$200 million, and 35% of receipts exceeding \$200 million. The license fee receipts are deposited in the Property Tax Reduction Trust Fund to fund homestead credits for calendar years 2007 and 2008. Until December 31, 2008, wagering taxes from the two licensed horse racing facilities were deposited in the Property Tax Reduction Trust Fund. Any remaining funds in the Property Tax Reduction Trust Fund were transferred to the General Fund.

Other Operating Revenue. Other revenue ("Other Revenue") is derived from cigarette taxes, alcoholic beverage taxes, inheritance taxes, insurance taxes, interest earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by \$0.40 per pack, to \$0.555 per pack, and increased the tax on other tobacco products by 3 percentage points. In 2007, the cigarette tax was further increased by \$0.44 per pack to \$0.995 per pack effective July 1, 2007. In FY 2008, total revenue from other operating revenues deposited in the state General Fund amounted to \$1,066.3 million.

Lottery and Gaming Revenue

By statute, certain revenue from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenue") must be deposited in the BIF. In 2002, the General Assembly enacted annual distributions of wagering tax revenue to the BIF in the amount of \$250 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250 million is to remain in the PTR Fund. For a description of wagering taxes, see "General Fund and PTR Fund Revenue Sources—Wagering Tax."

Before Hoosier Lottery profits are transferred to the BIF, \$60 million annually is used to fund pension liabilities—\$30 million goes to the Teachers' Retirement Fund and \$30 million goes to the local Police and Firefighter Pension Fund. All lottery and gaming revenue deposited to BIF is appropriated by the General Assembly, and the statute that governs deposits of that revenue also governs priority of distribution in the event that revenue falls short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State's counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles; \$236.2 million was appropriated for Fiscal Year 2008.

As shown below, Gaming Revenue totaling \$968.4 million was collected by the State for Fiscal Year 2008. These numbers include revenue deposited in the state and local funds (including \$5 million in slot machine wagering tax deposited in the State Property Tax Reduction Trust Fund) but does not include riverboat admissions tax revenue distributed in Fiscal Year 2008 to state and local units in the amount of \$81.2 million and \$300 million in slot machines license tax deposited in State Property Tax Reduction Trust Fund.

<u>Type of Tax</u>	<u>FY 2008</u>
Wagering Taxes	\$734.8
Lottery	\$224.0
Charity Gaming	\$5.9
Horse Racing	<u>\$3.7</u>
Total	\$968.4

Source: State Budget Agency

In 2007, the General Assembly enacted legislation authorizing the two existing horse race tracks in Indiana to install up to 2,000 slot machines on their premises. P.L. 233-2007 imposes a license fee and wagering taxes to be deposited in the State Property Tax Reduction Trust Fund. This new fund is established to provide additional property tax relief to property owners. As part of the property tax reform legislation in P.L. 146-2008, the State Property Tax Reduction Trust Fund was eliminated on December 31, 2008. Any remaining funds and future wagering taxes were deposited in the General Fund.

Revenue History

Annual percentage changes for each component of Operating Revenue is reflected in Table 1. The table also includes actual revenue for prior Fiscal Years as well as projected revenue for FY 2009, FY 2010 and FY 2011.

Table 1
State Operating Revenue
(Millions of Dollars)

	FY 2005 ⁽¹⁾	FY 2006 ⁽¹⁾	FY 2007 ⁽¹⁾	FY 2008 ⁽¹⁾	FY 2009 ⁽²⁾	FY 2010 ⁽²⁾	FY 2011 ⁽²⁾
6% Sales Tax	4,960.4	5,226.3	5,379.1	5,534.4	5,425.8	5,550.0	5,833.8
Change from Prior Year	5.1%	5.4%	2.9%	2.9%	-2.0%	2.3%	5.1%
Individual Income	4,213.2	4,322.4	4,615.6	4,837.5	4,726.0	4,774.1	4,924.2
Change from Prior Year	10.6%	2.6%	6.8%	4.8%	-2.3%	1.0%	3.1%
Corporate Income	824.8	925.4	987.1	909.5	822.4	827.5	834.9
Change from Prior Year	27.9%	12.2%	6.7%	-7.9%	-9.6%	0.6%	0.9%
Wagering Tax ⁽³⁾	584.7	589.9	625.3	582.9	525.2	513.9	528.9
Change from Prior Year	-2.8%	0.9%	6.0%	-6.8%	-9.9%	-2.2%	2.9%
Other ⁽⁴⁾	853.4	996.4	1,019.1	1,066.3	942.6	911.9	904.8
Change from Prior Year	1.0%	16.7%	2.3%	4.6%	-11.6%	-3.3%	-0.8%
Total	11,436.5	12,060.3	12,626.2	12,930.6	12,442.0	12,577.4	13,026.6
Change from Prior Year	7.7%	5.5%	4.7%	2.4%	-3.8%	1.1%	3.6%
Property Tax Relief (P.L. 146-2008) ⁽⁵⁾	-	-	-	151.6	1,074.3	1,243.8	1,295.3
Total (with P.L. 146-2008)	-	-	-	13,082.2	13,516.3	13,821.2	14,321.9
Change from Prior Year	N/A	N/A	N/A	N/A	3.3%	2.3%	3.6%

⁽¹⁾ Actual, but unaudited, Operating Revenue. FY 2006 figures are net of Tax Amnesty collections.

⁽²⁾ Revenues are as projected by the Technical Forecast Committee on December 11, 2008. Revenues exclude Disproportionate Share Hospital (DSH), Quality Assessment Fee (QAF), and other miscellaneous revenues excluded from the forecast such as Marion County Juvenile Arrearage payments.

⁽³⁾ Prior to Fiscal Year 2003, the Wagering Tax revenues were deposited in the BIF.

⁽⁴⁾ See "General Fund and PTR Fund Revenue Sources – Other Operating Revenue"

⁽⁵⁾ P.L. 146-2008, the Governor's property tax reform legislation, included the following revenue changes in Fiscal Year 2009: an increase in sales tax from 6% to 7% effective April 1, 2008; individual income impacted by state-captured miscellaneous revenues and increase in renter's deduction; wagering tax from slots at the race tracks; and loss of reimbursement for juvenile incarceration costs. P.L. 146-2008 also included \$151. million of sales tax revenues for Fiscal Year 2008.

Source: State Budget Agency

Operating Expenditures

Actual expenditures may differ from estimated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State's five largest expenditure categories include local school aid, higher education, property tax relief, Medicaid and correction. Table 2 sets forth operating expenditures and estimates for all major expenditure categories for Fiscal Years 2003 through 2009.

Table 2
Expenditures
(Millions of Dollars)

	<u>FY 2003⁽¹⁾</u>	<u>FY 2004⁽¹⁾</u>	<u>FY 2005⁽¹⁾</u>	<u>FY 2006⁽¹⁾</u>	<u>FY 2007⁽¹⁾</u>	<u>FY 2008⁽¹⁾</u>	<u>FY 2009⁽²⁾</u>
Local School Aid	4,141.1	4,356.3	4,447.5	4,517.0	4,628.8	4,795.6	5,036.4
Change from Prior Year	6.50%	5.20%	2.09%	1.56%	2.48%	3.60%	5.02%
Property Tax Relief	1,222.9	2,096.8	2,142.5	2,169.5	2,211.6	2,196.7	2,196.8
Change from Prior Year	3.70%	71.50%	2.18%	1.26%	1.94%	-0.67%	0.00%
Higher Education	1,404.1	1,470.5	1,523.5	1,568.7	1,589.8	1,704.8	1,752.2
Change from Prior Year	8.40%	4.70%	3.60%	2.97%	1.35%	7.23%	2.78%
Medicaid	1,167.2	1,243.7	1,393.4	1,455.1	1,514.6	1,583.2	1,610.0
Change from Prior Year	2.60%	6.60%	12.04%	4.43%	4.09%	4.53%	1.69%
Correction	594.0	619.4	620.9	584.0	589.2	615.7	635.5
Change from Prior Year	2.00%	4.30%	0.25%	-5.94%	0.89%	4.50%	3.22%
Other	1,634.2	1,613.0	1,528.0	1,600.2	1,712.8	1,834.0	1,306.3
Change from Prior Year	2.60%	1.30%	-5.27%	4.73%	7.04%	7.08%	-28.77%
Total	10,163.5	11,399.7	11,655.8	11,894.5	12,246.8	12,730.0	12,537.2
Change from Prior Year	5.00%	12.20%	2.25%	2.05%	2.96%	3.95%	-1.09%
Property Tax Relief (P.L. 146-2008) ⁽³⁾	-	-	-	-	-	149.7	1,122.4
Total (with P.L. 146-2008)	-	-	-	-	-	12,879.7	13,659.6
Change from Prior Year	-	-	-	-	-	-	6.06%

⁽¹⁾ Actual, but unaudited, expenditures.

⁽²⁾ Estimated expenditures.

⁽³⁾ Estimated expenditures for appropriations made in HEA 1001-2007 and HEA 1001-2008 (P.L. 146-2008). P.L. 146-2008, the Governor's property tax reform legislation, requires the State to assume a number of local levies, including 100% of the Tuition Support Levy (\$1,194.7 million), the Family and Children Levy (\$240.0 million), the Child Psychiatric Services Fund Levy (\$10.2 million), the Medical Assistance to Wards Levy (\$12.2 million), the Children with Special Health Care Needs Levy (\$5.2 million), the Hospital Care for the Indigent Levy (\$33.6 million), the Pre-School Special Education Levy (\$3 million), the State Fair Levy (\$1.3 million), and the State Forestry Levy (\$2.5 million). It also replaces a portion of the Property Tax Replacement Credits with Homestead Credits (\$690 million), School Circuit Breaker Replacement Credits (\$25 million), and Increased Tuition Support for New Facilities Appeals (\$10 million). P.L. 146-2008 also provides \$48.6 million for Public Safety Pension costs and \$10 million for Marion County Health and Hospital, costs previously borne by local government. These expenditures will be allocated across the appropriate categories in future reporting periods.

Source: State Budget Agency

Local School Aid. Funding for elementary and secondary education is the State's largest operating expense. Through December 31, 2008, local school aid is payable from both the General Fund and PTR Fund. With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. Local school aid is payable from the General Fund only after December 31, 2008. See "State Budget Profile and Financial Results of Operations – The Governor's Property Tax Relief Legislation, P.L. 146-2008" for a summary of P.L. 146-2008.

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

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

Partly due to the assumption of the local share of tuition support by the state, local school aid formula funding for tuition support will increase 30.2% for Fiscal Year 2009 on a statewide basis. Local school aid expenditures for Fiscal Year 2009 are expected to total \$6.313 million. See "Financial Results of Operations."

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

P.L. 146-2008 eliminates the appropriation for PTR Credits, replacing them with Homestead Credits and the State's assumption of 100% of the tuition support for school corporation general funds beginning in January 2009. P.L. 146-2008 provides for \$690M in Homestead Credits during the FY 2007-2009 biennium.

Higher Education. Through the General Fund, the State supports seven higher education institutions, Ball State University, Indiana University, Indiana State University, Ivy Tech Community College of Indiana, Purdue University, University of Southern Indiana and Vincennes University. Higher education expenditures for Fiscal Year 2008 are \$1,704.8 million, an increase of 7.2% from Fiscal Year 2007. Higher education appropriations for Fiscal Year 2009 are \$1,816.6 million, an increase of 6.6%. Appropriations for higher education include university operating appropriations, university fee-replaced debt service appropriations, university line item appropriations, other higher education line item appropriations, university repair and rehabilitation appropriations, university capital project appropriations, and appropriations for state student aid. The General Assembly appropriated \$40.0 million in Fiscal Year 2007 and \$31.0 million in both Fiscal Year 2008 and Fiscal Year 2009 to reduce and eliminate by June 30, 2009 the repair and rehabilitation payment delay to State colleges and universities. The State Fiscal Years 2007 and 2008 funds have been paid in full to the Universities, and the 2009 funds have been partially paid. See "Financial Results of Operations."

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent

General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

The aggregate principal amount of bonds and notes outstanding as of June 30, 2008, for each State university and college eligible for Fee Replacement Appropriations and the amount of Fee Replacement Expenditures or Appropriations for Fiscal Year 2008, and 2009 are shown below.

Table 3
Schedule of Fee Replacement Debt

	Amount of Debt Outstanding June 30, 2008	Fiscal Year 2008 Fee Replacement Expenditures	Fiscal Year 2009 Fee Replacement Appropriations
Ball State University	\$116,325,000	\$8,308,663	\$14,064,079
Indiana University ⁽¹⁾	463,264,514	69,779,674	73,525,792
Indiana State University	69,474,679	9,110,369	10,224,769
Ivy Tech Community College	199,358,000	20,737,163	27,967,850
Purdue University ⁽²⁾	257,889,988	21,361,216	33,100,762
University of Southern Indiana	75,792,432	9,484,540	10,996,853
Vincennes University	<u>47,224,297</u>	<u>5,364,213</u>	<u>6,700,593</u>
Total	<u>\$1,229,328,910</u>	<u>\$144,145,838</u>	<u>\$176,580,698</u>

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

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

Source: State Budget Agency

Medicaid. The fourth largest expenditure from the General Fund is Medicaid. Medicaid is a state/federal shared fiscal responsibility with the state supporting 35.74% of the total program through a combination of State General Fund and dedicated funds. Federal funding accounts for the remaining 64.26%. For Fiscal Year 2008, state Medicaid expenditures totaled \$1,583.2 million. In Fiscal Year 2009, state Medicaid appropriations total \$1,663.7 million. The Medicaid forecast presented to the Budget Committee on December 11, 2008, projects expenditures to come in below the appropriated level. The increases in cost are due to projected reimbursement for physicians and continued increases in enrollment. Enrollment was 821,156 at the end of Fiscal Year 2008 and expected to reach 837,285 by the end of Fiscal Year 2009 (these figures exclude the Children's Health Insurance Program). In addition, Indiana is expected to have the federal reimbursement rate increased from 62.7% to 65.93% in Fiscal Year 2010. This increase is forecasted to enable the State to use the currently appropriated general fund dollars to help cover increased costs of the program while remaining within the appropriation.

Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation and parole programs. Correction expenditures for Fiscal Year 2008 were \$615.7 million. Fiscal Year 2009 appropriations equal \$635.5 million, an increase of 3.2% over Fiscal Year 2008 expenditures.

Correctional population is the most significant driver of Correction expenditures. Correctional population steadily increased from 21,540 in Fiscal Year 2001 to a projected 28,768 in Fiscal Year 2008 and is projected to reach approximately 29,315 by the end of Fiscal Year 2009.

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State's share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. Other categories estimated expenditures for Fiscal Year 2008 from the General Fund total

\$1,834 million. For Fiscal Year 2009, Other categories of General Fund expenditures are expected to be \$1,306 million based on current projections.

Expenditure Limits. In 2002, the General Assembly enacted a law establishing a state spending cap. The law provides that the maximum annual percentage growth in state's spending cap from the General Fund and the Property Tax Replacement Fund must be the lesser of the average percentage change in Indiana non-farm personal income during the past six calendar years or 6%. At present, state expenditures are below the spending cap. The law excludes expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments and settlements, distributions of specified State tax revenue to local governments and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund and the Rainy Day Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income or 6%. The legislation allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The Budget Agency computed the spending growth quotient for Fiscal Years 2008 and 2009 to be 3.7% and 4.0%, respectively.

Fund Balances

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

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

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. No automatic withdrawal from the Rainy Day Fund has occurred; however, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time to time during periods of economic recession. In addition, the General Assembly has authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. *See* "Financial Results of Operations."

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

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenue for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the PTR Fund. The excess will be transferred to the General Fund after December 31, 2008. *See* Table 4 for Rainy Day Fund balances.

State Tuition Reserve. The Tuition Reserve was a cash flow device intended to assure that the State had sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimated and established the Tuition Reserve for the ensuing Fiscal Year. *See* Table 4 for Tuition Reserve Fund balances. P.L.

146-2008 formally created the State Tuition Reserve Fund to which the balance of the Tuition Reserve was transferred and can only be used to make local school aid payments. An additional \$50 million was deposited in the Tuition Reserve Fund on June 30, 2008, two-and-a-half years before the legislative deadline of December 31, 2010.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. See Table 4 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in Fiscal Year 1973. It is funded from revenue from the State sales and use tax, a portion of individual income tax receipts and wagering taxes. The PTR Fund is used to (a) replace local property tax levies (“PTR Credits”), which were reduced through PTR Credits under the same statute that created the PTR Fund, and (b) fund local school aid. To the extent the PTR Fund does not have sufficient revenue to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenue, or Operating Revenue, is deposited or transferred. It is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State’s Operating Revenue and discretionary spending, especially for local school aid and property tax relief. As a result, the General Fund and the PTR Fund are sometimes described in this Appendix B as a single, combined fund.

With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. See “Fiscal Policies - Fund Structure — Governmental Funds – Special Revenue Funds” and “State Budget Profile and Financial Results of Operations – The Governor’s Property Tax Relief Legislation, P.L. 146-2008” for a summary of P.L. 146-2008.

Financial Results of Operations

The State closed Fiscal Year 2008 with combined balances of \$1,413.1 million in the General and PTR funds, which was 10.7% of that Fiscal Year’s operating revenue. This combined balance includes a General Fund balance of \$592.5 million, a Tuition Reserve balance of \$400.0 million, and a Rainy Day Fund balance of \$363.0 million. It also includes \$57.6 million in the Medicaid Reserve.

Fiscal Year 2008 was highlighted by a third consecutive balanced budget. Revenues exceeded expenditures in Fiscal Year 2008 by \$321.4 million. The Indiana General Assembly authorized and the Governor approved the repayment of \$240.8 million to higher education and municipalities in Fiscal Year 2008 and \$31.1 million to higher education in Fiscal Year 2009.

Revenue Forecast for Fiscal Years 2009, 2010 and 2011

The Technical Forecast Committee (the “Forecast Committee”) presented an updated forecast of State revenue for Fiscal Years 2009, 2010 and 2011 to the State Budget Committee on December 11, 2008. Fiscal Year 2008 revenue increased by \$304.4 million (or 2.4%) over Fiscal Year 2007 revenue. Under the forecast, Fiscal Year 2009 State revenue is projected to decrease by \$488.6 million (or -3.8%) over Fiscal Year 2008. Fiscal Year 2010 State revenue is projected to increase by \$135.4 million (or 1.1%) over the lower 2009 revenue base. Fiscal Year 2011 State revenue is projected to increase by \$449.2 million (or 3.6%) over 2010 revenues.

P.L. 146-2008 increased the sales tax from 6.0% to 7.0% effective April 1, 2008, as part of the property tax reform legislation. The increase generated \$151.6 million in FY 2008, and is projected to generate \$904.1 million in FY 2009. P.L. 146-2008 increased projected wagering tax collections for Fiscal Year 2009 to the General Fund by \$51.0 million, caused by the elimination of the Property Tax Reduction Trust Fund on December 31, 2008. P.L. 146-2008 also increased projected “Other” collections for Fiscal Year 2009 by \$119.2 million due to state captured miscellaneous revenues, an increase in the renter’s deduction, and the loss of reimbursement for juvenile incarceration costs previously borne by local units.

Combined Balance Statements

Table 4 sets forth the Budget Agency's unaudited end-of-year combined balance statements and estimates and projections, including revenue and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency's "working" statements may differ from the results included in the 2008 Financial Report or the Auditor of State's comprehensive annual financial reports for other Fiscal Years. Forecasted revenue is developed by the Technical Forecast Committee, and actual revenue may be higher or lower than forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2008 and 2009.

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

	Actual FY2005	Actual FY2006	Actual FY2007	Actual FY2008	Estimated FY2009 ⁽¹⁾
<u>Resources:</u>					
Working Balance on July 1	\$0.2	\$118.8	\$410.7	\$537.2	\$592.5
<u>Current Year Resources:</u>					
Forecast Revenue	11,436.4	12,060.6	12,626.2	12,930.6	12,442.0
Miscellaneous Revenue	-	-	-	35.9	15.0
P.L. 146-2008 Revenue	-	-	-	151.6	1,074.3
DSH Revenue	52.0	82.0	65.1	65.2	67.0
Tax Amnesty ⁽²⁾	-	228.8	-	-	-
Quality Assessment Fee	-	62.7	21.7	19.7	18.0
Rainy Day Fund Interest and Repayment of Loans	-	11.6	14.6	18.8	12.8
Jobs & Growth Tax Relief Reconciliation Act of 2003 (including Medicaid)	-	-	-	-	-
2007 Outside Acts	-	-	9.8	-	-
2008 Outside Acts	-	-	-	-	-
Transfer from Medicaid Reserve to General Fund	-	-	-	30.0	-
Transfer from Dedicated Fund Balances	245.4	-	1.2	-	-
Transfer from Tuition Reserve	-	-	-	-	-
Transfer From (To) Rainy Day Fund	-87.2	-	-	-	-
Total Current Year Resources	<u>11,646.6</u>	<u>12,445.7</u>	<u>12,738.6</u>	<u>13,251.8</u>	<u>13,616.3</u>
Total Resources	11,646.8	12,564.5	13,149.3	13,789.0	14,208.8
<u>Uses: Appropriations, Expenditures and Reversions:</u>					
Appropriations					
Budgeted Appropriations	11,522.0	12,076.4	12,246.0	13,001.9	13,427.1
Adjustments to Appropriations ⁽³⁾	-4.1	-29.3	-32.5	-0.6	-
Enrolled Acts 2006	-	25.2	69.6	-	-
Enrolled Acts 2008 (excluding P.L. 146-2008)	-	-	-	-	6.1
P.L. 146-20008 Net Estimated Expenditures	-	-	-	149.7	1,122.4
Medicaid Shortfall	117.0	-	-	-	-
Teachers' Retirement Fund	190.0	-	-	-	-
Tuition Support Deficiency	20.0	20.1	56.1	-	-
Total Appropriations	<u>11,844.9</u>	<u>12,092.4</u>	<u>12,339.2</u>	<u>13,151.0</u>	<u>14,555.6</u>

Other Expenditures and Transfers

Transfer to Tuition Reserve	-	26.1	-	83.4	-
Transfer to Medicaid Contingency	-	10.0	-	-	-
Local Option Income Tax Distributions	-	37.5	35.2	11.8	-
PTRC and Homestead Credit Adjustments	-101.0	-61.9	-25.9	-38.0	78.7
Judgments and Settlements ⁽⁴⁾	6.1	5.9	11.4	6.6	8.0
Total Appropriations and Expenditures	<u>11,750.0</u>	<u>12,110.0</u>	<u>12,359.9</u>	<u>13,214.8</u>	<u>14,642.3</u>

Payment Delays

Higher Education Allotment	-3.9	-	40.0	-	-
Tuition Support Distribution	-	156.4	160.1	-	-
Property Tax Replacement Credit	-	-	136.5	95.7	-105.5

Reversions ⁽⁵⁾	-218.1	-124.9	-118.9	-132.8	-767.4
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Total Net Uses	<u>11,528.0</u>	<u>12,141.5</u>	<u>12,577.9</u>	<u>13,177.7</u>	<u>13,769.4</u>
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Auditor's Adjustment	-	0.8	-	-	-
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General Fund Reserve Balance at June 30	118.8	410.6	537.2	592.5	439.4
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Reserved Balances

Medicaid Reserve	24.0	34.0	87.6	57.6	57.6
Tuition Reserve	290.5	316.6	316.6	400.0	408.0
Rainy Day Fund	316.5 ⁽⁷⁾	328.1 ⁽⁷⁾	344.3 ⁽⁷⁾	363.0 ⁽⁷⁾	379.2 ⁽⁷⁾
Total Combined Balances	<u>749.8</u>	<u>1,089.3</u>	<u>1,285.7</u>	<u>1,413.1</u>	<u>1,275.2</u>

Payment Delay Liability	-726.8	-622.1	-285.5	-31.1	0.0
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Combined Balance as a Percent of Operating Revenue	6.5%	9.0%	10.1%	10.7%	9.4%
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*Totals may not add as a result of rounding.

(1) Revenues are those projected by the Technical Forecast Committee on December 11, 2008; appropriations are those authorized by the 2007 General Assembly for Fiscal Years 2008 and 2009.

(2) Net of \$15.8 million expenses.

(3) Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total.

(4) Represents the estimated cost to the State of judgments and other legal and equitable claims. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. See "LITIGATION."

(5) \$55.3 million of reversions in FY2007 represent capital reversions, previously reported as reverting in FY2005.

(6) Includes loans to local governments authorized by the General Assembly. The loans are illiquid.

(7) Net of outstanding loans to local governments.

Source: State Budget Agency

Toll Road Lease

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

STATE INDEBTEDNESS

Constitutional Limitations on State Debt

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

Other Debt, Obligations

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

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

Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the Indiana Finance Authority and the Indiana Bond Bank, each of which is a body politic and corporate, separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance various capital projects. Certain agencies of the State, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the State), have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bonds issued by any such financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability, or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

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

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

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

The Indiana Finance Authority has the authority to provide (and its predecessor, the State Office Building Commission, had provided) short-term, or construction, financing for authorized projects through the issuance of commercial paper, in an aggregate amount not to exceed \$75 million, payable from proceeds of its revenue bonds.

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

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

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

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

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

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

Bond Bank. The Indiana Bond Bank issued its revenue bonds, payable from possible State appropriations, to finance or refinance certain State interests or initiatives, including the State’s Animal Disease and Diagnostic Laboratory (“ADDL”) at Purdue University, West Lafayette, and the Columbus Learning Center (“CLC”), an

educational facility to be used by a number of State post-secondary educational institutions to provide services in South Central Indiana. See “Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Bond Bank” and “Table 8—Schedule of Long Term Debt—Contingent Obligations—Bond Bank.” For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see “Contingent Obligations—Indiana Bond Bank” and Table 8.

Schedule of Long Term Debt. Table 5 lists, by type of financing, long-term debt that is subject to possible State appropriations as of June 30, 2008. See “Authorized but Unissued Debt.”

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

<u>Type/Series</u>	<u>Original Par Amount</u>	<u>Ending Balance 6/30/2007</u>	<u>(Redeemed)/ Issued</u>	<u>Ending Balance 6/30/2008</u>
STATE BUILDINGS				
Forensic & Health Sciences Lab				
Series 2006A	\$62,900,000	\$62,900,000	\$0	\$62,900,000
Subtotal	\$62,900,000	\$62,900,000	\$0	\$62,900,000
Government Center Parking Facilities				
Series 1990A	\$26,669,824	\$7,135,256	(\$420,039)	\$6,715,217
Series 2003A	26,735,000	20,370,000	(2,980,000)	17,390,000
Subtotal	\$53,404,824	\$27,505,256	(\$3,400,039)	\$24,105,217
Government Center North				
Series 1990B	\$77,123,542	\$22,132,887	(\$1,302,688)	\$20,830,199
Series 2003B	73,205,000	62,240,000	(5,700,000)	56,540,000
Subtotal	\$150,328,542	\$84,372,887	(\$7,002,688)	\$77,370,199
Government Center South				
Series 1990C	\$18,063,800	\$4,832,470	(\$283,810)	\$4,548,660
Series 1990D	110,675,000	46,180,000	(8,045,000)	38,135,000
Series 2000B	43,400,000	14,600,000	(200,000)	14,400,000
Series 2003C	7,835,000	6,565,000	(630,000)	5,935,000
Subtotal	\$179,973,800	\$72,177,470	(\$9,158,810)	\$63,018,660
Other Facilities				
Series 1995B	47,975,000	19,310,000	0	19,310,000
Series 1998A	93,020,000	67,260,000	(5,365,000)	61,895,000
Series 1999A	96,785,000	27,560,000	(4,075,000)	23,485,000
Series 2000A	44,800,000	34,500,000	(1,900,000)	32,600,000
Series 2001A	66,600,000	58,800,000	(2,300,000)	56,500,000
Series 2002A	128,110,000	55,970,000	(4,955,000)	51,015,000
Series 2003A	83,530,000	44,035,000	(3,050,000)	40,985,000
Series 2003B	31,930,000	30,745,000	(1,215,000)	29,530,000
Series 2003C	55,075,000	55,075,000	0	55,075,000
Series 2003D	20,475,000	20,250,000	(2,000,000)	18,250,000
Series 2004A	46,180,000	46,125,000	(65,000)	46,060,000
Series 2004B	61,890,000	61,890,000	0	61,890,000
Series 2004C	33,950,000	33,950,000	0	33,950,000

Series 2004D	33,995,000	33,995,000	0	33,995,000
Series 2004E	57,005,000	57,005,000	0	57,005,000
Subtotal	<u>\$901,320,000</u>	<u>\$646,470,000</u>	<u>(\$24,925,000)</u>	<u>\$621,545,000</u>
TOTAL STATE BUILDINGS	<u>\$1,347,927,166</u>	<u>\$893,425,613</u>	<u>(\$44,486,537)</u>	<u>\$848,939,076</u>
HIGHWAY REVENUE BONDS				
Series 1990A	\$72,498,391	\$28,455,477	(\$520,478)	\$27,935,000
Series 1992A	74,035,000	35,285,000	0	35,285,000
Series 1993A	193,531,298	101,326,298	(8,040,000)	93,286,298
Series 1996B	27,110,000	3,485,000	(3,485,000)	0
Series 1998A	175,360,000	70,500,000	(11,670,000)	58,830,000
Series 2000	269,535,000	16,235,000	0	16,235,000
Series 2003A	431,585,000	126,475,000	(11,465,000)	115,010,000
Series 2004A	320,550,000	11,645,000	0	11,645,000
Series 2004B	147,345,000	147,345,000	0	147,345,000
Series 2004C	146,080,000	146,080,000	0	146,080,000
Series 2007A	642,300,000	642,300,000	0	642,300,000
TOTAL HIGHWAYS	<u>\$2,499,929,689</u>	<u>\$1,329,131,775</u>	<u>(\$35,180,478)</u>	<u>\$1,293,951,298</u>
AVIATION FACILITIES				
Airport Facilities Bonds				
Series 2004A	\$56,025,000	\$56,025,000	(\$56,025,000)	\$0
Series 2004B	79,825,000	79,825,000	(79,825,000)	0
Series 2004C	68,700,000	64,700,000	(64,700,000)	0
Series 2008A	127,655,000	0	127,655,000	127,655,000
Series 2008B	51,485,000	0	51,485,000	51,485,000
Subtotal	<u>383,690,000</u>	<u>\$200,550,000</u>	<u>(\$21,410,000)</u>	<u>\$179,140,000</u>
Aviation Technology Bonds				
Series 2002	\$10,095,000	\$8,150,000	(\$595,000)	\$7,555,000
Subtotal	<u>\$10,095,000</u>	<u>\$8,150,000</u>	<u>(\$595,000)</u>	<u>\$7,555,000</u>
TOTAL AVIATION FACILITIES	<u>\$393,785,000</u>	<u>\$208,700,000</u>	<u>(\$22,005,000)</u>	<u>\$186,695,000</u>
RECREATIONAL FACILITIES				
Series 1997	\$6,600,000	\$4,550,000	(\$280,000)	\$4,270,000
Series 2002	14,400,000	13,385,000	(820,000)	12,565,000
Series 2004	12,780,000	12,780,000	(365,000)	12,415,000
TOTAL RECREATIONAL FACILITIES	<u>\$33,780,000</u>	<u>\$30,715,000</u>	<u>(\$1,465,000)</u>	<u>\$29,250,000</u>
BOND BANK				
Series 1998A (ADDL)	\$10,830,000	\$4,195,000	(\$860,000)	\$3,335,000
TOTAL BOND BANK	<u>\$10,830,000</u>	<u>\$4,195,000</u>	<u>(\$860,000)</u>	<u>\$3,335,000</u>
TOTAL ALL BONDS	\$4,286,251,855	\$2,466,167,388	(\$103,997,015)	\$2,362,170,374

Source: Indiana Finance Authority (as of June 30, 2008). Excludes accreted value of capital appreciation bonds.

Scheduled Principal and Interest Payments. Table 6 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased) as of June 30, 2008. See "Authorized but Unissued Debt."

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

<u>Type/Series</u>	<u>FY 2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>Thereafter</u>
STATE BUILDINGS					
Forensic & Health Sciences Lab					
Series 2006A	\$4,814,965	\$4,812,165	\$4,811,065	\$4,811,465	\$76,465,680
Subtotal	\$4,814,965	\$4,812,165	\$4,811,065	\$4,811,465	\$76,465,680
Government Center Parking Facilities					
Series 1990A	\$1,948,050	\$468,050	\$468,050	\$468,050	\$7,517,325
Series 2003A	3,696,013	3,676,763	3,672,863	3,668,863	4,845,306
Subtotal	\$5,644,063	\$4,144,813	\$4,140,913	\$4,136,913	\$12,362,631
Government Center North					
Series 1990B	\$6,041,880	\$1,451,880	\$1,451,880	\$1,451,880	\$23,318,520
Series 2003B	8,567,178	8,547,803	8,538,803	8,528,928	34,073,256
Subtotal	\$14,609,058	\$9,999,683	\$9,990,683	\$9,980,808	\$57,391,776
Government Center South					
Series 1990C	\$1,317,090	\$317,090	\$317,090	\$317,090	\$5,092,525
Series 1990D	10,934,615	10,920,515	10,893,980	10,867,423	0
Series 2000B ⁽¹⁾	1,053,000	1,041,000	1,029,000	1,017,000	13,668,000
Series 2003C	876,288	873,138	870,838	867,538	3,476,394
Subtotal	\$14,180,993	\$13,151,743	\$13,110,908	\$13,069,050	\$22,236,919
Other Facilities					
Series 1995B	\$1,206,875	\$3,081,406	\$3,067,719	\$3,069,375	\$15,292,188
Series 1998A	8,524,424	8,524,231	8,529,831	8,518,671	42,426,131
Series 1999A	5,392,457	5,379,500	772,538	772,538	20,132,606
Series 2000A ⁽¹⁾	3,846,000	3,820,500	3,789,000	3,657,000	30,334,500
Series 2001A ⁽¹⁾	5,650,670	5,701,540	5,639,984	5,671,922	61,459,835
Series 2002A	7,601,597	7,591,828	7,591,813	7,576,794	39,776,175
Series 2003A	5,064,090	5,070,903	5,056,965	5,062,963	37,557,028
Series 2003B	2,551,260	2,553,310	2,546,925	2,545,245	32,854,615
Series 2003C ⁽¹⁾	3,304,500	3,304,500	3,983,500	4,766,000	72,853,750
Series 2003D ⁽¹⁾	3,017,750	1,164,500	1,176,750	1,163,250	21,752,250
Series 2004A	2,478,375	2,481,894	7,080,194	7,062,156	42,062,544
Series 2004B	3,249,225	3,249,225	3,249,225	3,249,225	78,864,825
Series 2004C	1,779,285	1,779,285	1,779,285	1,789,141	44,133,811
Series 2004D	2,665,338	2,660,963	2,662,425	2,657,188	42,195,008
Series 2004E	4,501,620	4,491,295	4,492,306	4,489,638	71,241,084
Subtotal	\$60,923,466	\$60,854,880	\$61,427,458	\$62,051,104	\$652,936,349
TOTAL STATE BUILDINGS	\$100,172,545	\$92,963,284	\$93,481,025	\$94,049,339	\$821,393,355

HIGHWAY REVENUE BONDS					
Series 1990A	\$3,490,288	\$2,694,075	\$3,880,388	\$6,708,863	\$20,136,300
Series 1992A	2,399,380	2,399,380	6,364,810	6,351,320	31,596,720
Series 1993A	12,573,200	12,621,413	12,268,900	14,435,250	113,256,350
Series 1998A	15,277,573	14,145,244	1,896,950	1,896,950	51,689,325
Series 2000	901,575	901,575	901,575	901,575	18,574,418
Series 2003A	17,328,946	17,295,396	17,297,726	17,311,558	87,183,148
Series 2004A	603,315	603,315	603,315	603,315	15,766,990
Series 2004B	8,192,175	8,192,175	8,192,175	8,192,175	199,516,363
Series 2004C	7,858,988	9,111,863	9,188,988	16,581,113	190,748,031
Series 2007A	33,228,283	33,210,383	41,533,170	28,574,845	978,206,806
TOTAL HIGHWAYS	\$101,853,722	\$102,174,819	\$102,127,996	\$101,556,963	\$1,706,764,450
AVIATION FACILITIES					
Airport Facilities Bonds					
Series 2008A	7,003,295	6,382,750	6,382,750	14,689,750	140,499,875
Series 2008B	15,903,107	16,282,910	15,917,804	7,185,549	0
Subtotal	\$22,906,402	\$22,665,660	\$22,300,554	\$21,875,299	\$140,499,875
Aviation Technology Bonds					
Series 2002	\$954,728	\$950,033	\$953,398	\$954,769	\$5,726,758
Subtotal	\$954,728	\$950,033	\$953,398	\$954,769	\$5,726,758
TOTAL AVIATION FACILITIES	\$23,861,130	\$23,615,693	\$23,253,951	\$22,830,068	\$146,226,633
RECREATIONAL FACILITIES					
Series 1997	\$520,430	\$520,111	\$518,636	\$520,963	\$3,618,250
Series 2002	1,454,545	1,488,361	1,522,793	1,562,493	10,177,341
Series 2004	1,116,808	1,129,858	1,115,208	1,162,873	12,233,056
TOTAL RECREATIONAL FACILITIES	\$3,091,783	\$3,138,330	\$3,196,636	\$3,246,328	\$26,028,648
BOND BANK					
Series 1998A (ADDL)	\$1,043,548	\$1,042,598	\$1,044,130	\$522,113	\$0
TOTAL BOND BANK	\$1,043,548	\$1,042,598	\$1,044,130	\$522,113	\$0
TOTAL ALL BONDS	\$230,022,728	\$222,934,723	\$223,103,739	\$222,204,810	\$2,700,323,085

⁽¹⁾Debt service on variable rate debt is estimated by assuming an interest rate of 6%.

Source: Indiana Finance Authority (as of June 30, 2008)

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

<u>Fiscal Year</u>	<u>Population</u> ⁽¹⁾	<u>Personal Income</u> ⁽¹⁾⁽²⁾	<u>Outstanding Debt Subject to Appropriation</u> ⁽²⁾	<u>Debt/Capita</u>	<u>Debt/Income</u>
1999	5,942,901	\$154,842	\$1,228	\$207	0.8%
2000	6,091,735	165,285	1,569	258	0.9%
2001	6,125,525	167,881	1,624	265	1.0%
2002	6,151,102	172,474	1,713	278	1.0%
2003	6,184,519	178,675	1,774	287	1.0%
2004	6,218,863	186,210	2,494	401	1.3%
2005	6,257,121	193,348	2,518	402	1.3%
2006	6,302,646	203,502	2,460	390	1.2%
2007	6,345,289	213,302	2,466	389	1.2%
2008	6,345,289	213,302	2,362	372	1.1%

⁽¹⁾ Estimated.
⁽²⁾ In millions.

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

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

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

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

The Indiana Finance Authority may initially provide short-term, or construction, financing for these facilities through its commercial paper program. At December 31, 2008, no commercial paper was outstanding.

See “State Indebtedness – Contingent Obligations – Economic Development” for a description of the revenue bonds the Indiana Finance Authority has issued for the Stadium and Convention Center expansion projects.

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

Contingent Obligations

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

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

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

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

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

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

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

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

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

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

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

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

In 2005, legislation was enacted that authorizes the Indiana Finance Authority to issue revenue bonds and loan the proceeds thereof to the Indiana Stadium and Convention Building Authority for the purpose of financing the acquisition and construction of a stadium and the expansion of a convention center in Indianapolis. The legislation authorizes the Indiana Stadium and Convention Building Authority to lease such capital improvements to a State agency pursuant to a lease, which requires the State agency: (1) to seek biennial appropriations from the General Assembly in an amount sufficient to pay rent equal to the debt service due on such bonds, only if: (a) the amount of such rent is fair and reasonable; and (b) such capital improvements are available for use and occupancy; and (2) to pay, from such appropriated amounts, rent sufficient to pay such debt service, only if certain local tax revenues expected to satisfy debt service are insufficient. In addition, the Indiana Finance Authority, in connection with the issuance of such revenue bonds, may establish a debt service reserve fund and a procedure for requesting appropriations from the General Assembly to restore the debt service reserve fund to required levels. The Indiana Finance Authority has previously issued \$611,525,000 of such revenue bonds and issued the Series 2008 A Bonds (Stadium Project) in the principal amount of \$55,000,000 on July 24, 2008, for the stadium project. The Indiana Finance Authority issued \$40,000,000 of bond anticipation notes for the convention center expansion project. The Indiana Finance Authority issued the Series 2008 A Bonds (Convention Center Expansion Project) on August 20, 2008, in the amount of \$120,000,000, the proceeds of which will be used to finance the cost of the convention center expansion project and to refund the bond anticipation notes. The Indiana Finance Authority is expected to issue additional revenue bonds during the next two years in an additional principal amount of approximately \$180,000,000, the proceeds of which will be used, together with other available funds, for the purpose of financing the cost of the convention center expansion projects.

In addition, legislation was enacted in 2005 that authorizes the Indiana Finance Authority to issue up to \$1.0 billion of its revenue bonds, payable from the revenues pledged thereto, to provide funds for research and technology grants and loans. The Indiana Finance Authority may establish a debt service fund or reserve fund for the bonds, to which the General Assembly may, if requested, appropriate funds necessary to pay debt service or restore the required debt service reserve.

Schedule of Long Term Debt. Table 8 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2008. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund.

Table 8
Schedule of Long Term Debt
Contingent Obligations

<u>Type/Series</u>	<u>Original Par Amount</u>	<u>Ending Balance 6/30/2007</u>	<u>(Redeemed)/ Issued</u>	<u>Ending Balance 6/30/2008</u>
BOND BANK Special Program Pool				
Series 1997C	\$5,010,000	\$4,025,000	(\$4,025,000)	0
Series 1998A	6,485,000	5,130,000	(225,000)	4,905,000
Series 2000A (Refunding)	32,860,000	5,585,000	(985,000)	4,600,000
Series 2001A (Refunding)	20,840,000	12,905,000	(1,510,000)	11,395,000
Series 2001A	7,055,000	4,575,000	(315,000)	4,260,000
Series 2001B	9,500,000	7,010,000	(565,000)	6,445,000
Series 2002A	42,910,000	38,040,000	(1,325,000)	36,715,000
Series 2002C	3,940,000	2,100,000	(475,000)	1,625,000
Series 2002D	60,000,000	7,075,000	(1,295,000)	5,780,000
Series 2002E	10,155,000	9,155,000	(280,000)	8,875,000
Series 2003A	40,385,000	39,555,000	(850,000)	38,705,000
Series 2003B	8,885,000	7,270,000	(360,000)	6,910,000
Series 2003C	10,425,000	7,130,000	(835,000)	6,295,000
Series 2003D ⁽¹⁾ (CLC)	27,515,000	27,515,000	0	27,515,000
Series 2003E	36,530,000	35,000,000	(555,000)	34,445,000
Series 2003F-1	17,155,000	12,440,000	(1,345,000)	11,095,000
Series 2004A	17,210,000	15,870,000	(680,000)	15,190,000
Series 2004B	17,590,000	15,675,000	(835,000)	14,840,000
Series 2004C	35,010,000	34,610,000	(815,000)	33,795,000
Series 2004D	29,275,000	27,630,000	(1,400,000)	26,230,000
Series 2005A	14,790,000	13,775,000	(645,000)	13,130,000
Series 2005C	11,160,000	10,780,000	(395,000)	10,385,000
Series 2005D	4,505,000	4,505,000	(130,000)	4,375,000
Series 2006B-1	12,400,000	12,400,000	(230,000)	12,170,000
Series 2006B-2	2,890,000	2,890,000	(15,000)	2,875,000
Series 2006A (Ref)	26,485,000	25,130,000	(1,030,000)	24,100,000
Series 2006C ⁽¹⁾	20,660,000	20,660,000	0	20,660,000
Series 2006D	13,985,000	13,110,000	(1,065,000)	12,045,000
Series 2007A (Ref)	44,915,000	44,915,000	0	44,915,000
TOTAL BOND BANK	\$590,525,000	\$466,460,000	(\$22,185,000)	\$444,275,000
INDIANA FINANCE AUTHORITY				
Stadium Project Series 2005A	\$400,000,000	\$400,000,000	\$0	\$400,000,000
Stadium Project Series 2007A	211,525,000	211,525,000	0	211,525,000
TOTAL STADIUM PROJECT	\$611,525,000	\$611,525,000	\$0	\$611,525,000
TOTAL ALL BONDS	\$1,202,050,000	\$1,077,985,000	(\$22,185,000)	\$1,055,800,000

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

Source: Indiana Finance Authority (as of June 30, 2008)

Other Entities Issuing Debt

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

<u>Entity</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	Provide guarantees for industrial development or credit enhancement for Indiana enterprises.
Indiana Housing and Community Development Authority ⁽¹⁾	Provide funds for construction or mortgage loans for federally assisted multi-family housing or for low and moderate income residential housing.
Ports of Indiana	Provide funds for ports and other projects.
Indiana Secondary Market for Education Loans, Inc. ⁽²⁾	Provide funds for secondary market for higher education loans.
Indiana State Fair Commission	Provide funds for State fairgrounds.
State Revolving Fund Loan Program	Provide funds to assist local municipalities in financing drinking water and waste water infrastructure projects.

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

⁽²⁾ A not-for-profit corporation authorized by the General Assembly.

STATE RETIREMENT SYSTEMS

There are three major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Each year, the boards administering the retirement systems make an actuarial valuation of the assets and liabilities of the retirement benefits. At least once every five years, there is a separate actuarial investigation into the mortality, service, and compensation experience of the members of the system and their beneficiaries.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. PERF is administered by a six-member Board of Trustees. Five members are appointed by the Governor and the sixth is the State Budget Director. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees; local government units; judges; legislators; prosecutors; municipal police and fire units; and State conservation, gaming agent, gaming control officer and excise officials. On July 1, 2007, the State portion of PERF; the 1977 Police Officers' and Firefighters' Pension and Disability Fund ("1977 Fund"); the Judges' Retirement System; the Legislators' Retirement System; the State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan; and the Prosecuting Attorneys' Retirement Fund had 67,144 active and deferred vested members and a total actuarial value of assets equal to approximately \$6.1 billion.

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

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last five valuation dates.

Table 9
Public Employees' Retirement Fund
(State-Related Portion Only)

	<u>July 1, 2004⁽¹⁾</u>	<u>July 1, 2005⁽²⁾</u>	<u>July 1, 2006⁽³⁾</u>	<u>July 1, 2007</u>	<u>July 1, 2008</u>
<u>Funded Status</u>					
Actuarial Value of Assets	\$2,138,655,367	\$2,145,805,051	\$2,169,619,411	\$2,350,652,206	\$2,469,431,611
Actuarial Accrued Liability (AAL)	2,019,492,456	2,189,336,721	2,210,376,679	2,335,081,836	2,513,791,279
Unfunded/(Overfunded) AAL	(119,162,911)	43,531,670	40,757,268	(15,570,370)	44,359,668
Funded Ratio	105.9%	98.0%	98.2%	100.7%	98.2%
<u>Contribution History</u>					
Annual Required Contribution	\$54,579,389	\$69,647,405	\$87,947,466	\$96,430,158	\$102,334,158
Actual Employer Contribution	90,708,898	62,759,547	72,890,131	89,800,510	78,658,313 ⁽⁵⁾
Contribution Rate ⁽⁴⁾	4.5%	5.5%	6.3%	6.3%	6.5%

⁽¹⁾ Third year of four year phase-in of a new census database system. Also, the 2% cost of living adjustment assumption for 5-years was changed to 0.5% lifetime cost of living adjustment assumption. The intention is to phase-in to a recommended 1.5% lifetime cost of living adjustment assumption in 3 years.

⁽²⁾ Final year of four year phase-in of new census database system. Also, the 0.5% lifetime cost of living adjustment assumption was changed to a 1.0% lifetime cost of living adjustment assumption as part of the 3-year plan to raise the assumption to 1.5%.

⁽³⁾ The 1.0% lifetime cost of living adjustment assumption was changed to a 1.5% lifetime cost of living adjustment assumption as the final step in phasing in this assumption. Also, the actuarial assumptions were revised based on the recommendations of an actuarial experience study prepared for the period 2000-2005.

⁽⁴⁾ Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

⁽⁵⁾ Amount is for State of Indiana employees. Total amount for all State employees is \$106,793,219.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2008.

Other PERF Plans

PERF also administers five other plans. These include the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Judges' Retirement System, the Legislators' Retirement System, the State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund. Table 10 highlights the actuarial valuation findings for these plans as of July 1, 2008, with the exception that the 1977 Fund Police Officers' and Firefighters' Pension and Disability Fund as of January 1, 2008, as this is valued on a calendar year.

Table 10
Other State Plans Pension Funds
Summary of Results of Actuarial Valuation
(as of July 1, 2008)

	Judges' Retirement System	Legislators' Defined Benefit Plan	Excise Police, Gaming Agent, Gaming Control Officer & Conservation Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	1977 Police Officers' and Firefighters' Pension and Disability Fund ²
Funded Status					
Actuarial Value of Assets	\$234,880,522	\$5,119,961	\$65,375,140	\$26,350,456	\$3,281,480
Actuarial Accrued Liability	338,748,983	5,039,094	77,176,656	38,068,986	2,889,295
Unfunded/(Overfunded) AAL	103,868,461	(80,867)	11,801,516	11,718,530	(392,185)
Funded Ratio	69.3%	101.6%	84.7%	69.2%	113.6%
Contribution History⁽¹⁾					
Annual Required Contribution	\$18,631,734	\$66,023	\$4,426,685	\$1,340,108	\$117,772,800
Actual Employer Contribution	15,920,268	100,000	4,854,164	170,000	128,913,332

⁽¹⁾ Contribution History is for Plan Year 2008

⁽²⁾ As of January 1, 2008

Source: Actuarial Valuation Reports, July 1, 2008

The 1977 Fund provides pension and disability benefits for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenue provided by cities and towns and by plan members' contributions. Currently, cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. Beginning in 2009, cities and towns will be reimbursed their entire pension benefit expenditure. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits, and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2008, \$138 million was expended from the pension relief fund, and on June 30, 2008, the total net assets of the pension relief fund were \$172.4 million.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") administers a multiple-employer retirement fund established to provide pension benefits for teachers and their supervisors in the State's public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. TRF is administered by a six member Board of Trustees ("TRF Board"), which includes the State Budget Director and five members appointed by the Governor. The State Budget Director was added to the TRF Board on July 1, 2005 due to the fiscal importance of monitoring the TRF appropriation. On June 30, 2008, TRF had over 162,000 total members with assets totaling \$8.564 billion.

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

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

For the Closed Plan, moneys to pay the related TRF benefits are provided from State appropriations as the liabilities come due each year, or on a “pay as you go” basis. This structure provides General Fund appropriations as the liabilities come due each year. To minimize the amount of future state appropriations in the Closed Plan, the State and the TRF Board established the Pension Stabilization Fund in July 1, 1995 to partially pre-fund liabilities in the Closed Plan. The Pension Stabilization Fund was funded from the General Fund, Hoosier Lottery, and gaming revenue as well as investment income and has the result of limiting the peak required annual appropriations to the Closed Plan at a 3.12% increase over the prior year based on an assumed annual investment return of 7.5%. As of June 30, 2008, the Pension Stabilization Fund balance was \$2.084 billion.

For the New Plan, the State capped its pension benefit obligation by (i) shifting the obligation for all teachers hired after July 1, 1995, to local school districts and (ii) implementing a level percent of payroll current funding approach. The TRF Board sets the contribution rate for the New Plan based on an actuarial valuation of the New Plan. The New Plan was intended to be responsible not only for newly hired teachers into the schools, but also for the cost of teachers who began service before 1995 but subsequently transferred to other school corporations after 1995. The liability for these transferred teachers, which shifted from the Closed Plan to the New Plan, began to cause an unfunded liability in the New Plan. The General Assembly in 2005 addressed this growing unfunded liability in the New Plan by stopping the transfer of liabilities—therefore transferred teachers remain part of the Closed Plan which is “pay as you go”. In addition, the actuarial assumptions used for calculating the contributions rate into the New Plan now include an assumption for a cost of living adjustment, thereby making the contribution rate for which local schools are liable more realistic. The TRF Board has set the current contribution rate for the New Plan at 7.0% effective January 1, 2009.

Table 11
State Teachers’ Retirement Fund – New Plan
Summary of Results of Actuarial Valuation
(as of June 30, 2008)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Funded Status of New Plan						
Actuarial Value of Assets	\$825,811,772	\$1,038,726,916	\$1,268,575,809	\$2,209,267,754	\$2,713,051,576	\$3,080,056,561
Actuarial Accrued Liability	1,392,472,616	1,649,400,668	2,010,746,868	2,363,101,528	2,827,553,780	2,957,758,240
Unfunded AAL	566,660,844	610,673,752	742,171,059	153,633,774	114,502,204	(122,298,321)
Funded Ratio	59.3%	63.0%	63.1%	93.5%	95.9%	104.1%

Source: Indiana State Teachers’ Retirement Fund, The Report of the Annual Actuarial Valuation, June 30, 2008.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member’s highest salary in 36 consecutive months or a third year trooper’s pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Trust is funded on an actuarial basis. The Treasurer of State is custodian for the trust. Certain financial information about the State Police Pension Trust is also included in the 2008 Financial Report. See “FISCAL POLICIES—2008 Financial Report.”

ECONOMIC AND DEMOGRAPHIC INFORMATION

Summary

Indiana's economy is growing in diversity, even as it strengthens its manufacturing roots. With an estimated 2007 Gross Domestic Product (GDP) by State of approximately \$246 billion (current dollars), Indiana's economy ranks eighteenth largest in the country in terms of the value of goods and services produced. From 1998 to 2008, Indiana witnessed a significant shift in the distribution of employment between sectors. Employment in the Education and Health Services sector increased by 28.8%, followed by a 10.7% gain in Professional and Business Services. In addition, the sector of Leisure and Hospitality experienced an 8.5% increase. The Manufacturing sector is 16.9% of total employment in Indiana, a decrease from 22% in 1998. Manufacturing has been surpassed by Trade, Transportation and Utilities as the largest single sector of employment in Indiana.

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

The cost of living index for Indiana's major cities has been consistently below the national average. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana due to the ready availability of ample coal reserves. According to the U.S. Energy Information Administration, year to date average retail electric utility rates through December 2007 were 22% lower than the national average for all industrial consumers; while residential retail electric bills were 23.7% lower than the national average.

The Indiana Economic Development Corporation (IEDC) is Indiana's lead economic development agency. Officially established in February 2005 to replace the state's former department of commerce, the IEDC is a public private partnership governed by a 12-member board of directors chaired by the Governor. Since its inception, the IEDC has worked with 614 companies from across Indiana and around the globe who have collectively committed to create more than 75,000 new jobs and invest more than \$17.2 billion of private capital in their Indiana operations. In 2008 alone, the IEDC worked with 151 companies who committed to create more than 18,600 new jobs and invest more than \$4.2 billion in new or expanded operations in industries ranging from advanced manufacturing, life sciences, insurance and financial services, food/agriculture, biofuels/energy and information technology.

Population

Indiana is the 15th most populous state in the United States. The capital and largest city is Indianapolis. From 2000 to 2007, the Indianapolis Metropolitan Statistical Areas ("MSA") has grown by 11.1%. While Indiana's educational attainment rate for bachelors' degrees has lagged the nation and several neighboring states, estimates from Census 2000 and the 2001-2007 American Community Survey indicate that between 2000 and 2007, the number of individuals with "some college", associates' degrees and bachelors' degrees were increasing at a substantially higher rate than the population 25 years and older. In addition, of those Hoosiers who have completed a bachelors' degree or above, 35.9% have attained masters', doctoral or professional degrees, closely matching the national average of 36.7%.

Table 12
Educational Attainment, Indiana Population 25 Years & Over

<u>Year</u>	<u>Some college, no degree</u>	<u>Assoc Degree</u>	<u>BA/BS or Above</u>	<u>Population 25 Yrs & Over</u>
2000	727,387	210,265	749,872	3,893,278
2001	739,281	244,714	789,776	3,882,504
2002	725,926	219,712	794,098	3,845,706
2003	747,449	253,224	811,771	3,863,200
2004	768,437	250,762	838,435	3,889,833
2005	789,952	276,886	840,876	3,956,723
2006	793,292	296,052	891,489	4,110,754
2007	803,293	293,297	914,471	4,143,159
2000-2007	10.44%	39.48%	21.95%	6.42%

Sources: Census 2000, 2001-2007, American Community Survey, September 2008

Indiana's excellent state colleges and universities attract students from around the county (the state ranks 5th nationally in terms of net in-migration of college freshman, according to the National Center for Education Studies)⁽¹⁾. These schools also serve as the focus of research and development efforts, assist in the formation of small business "incubators," and award advanced degrees in fields as varied as engineering, economics and pharmacy. In 2006, based on a National Science Foundation (NSF) survey, among the nation's public universities, Indiana ranked 12th in the nation in Academic Research & Development from Institutional funding (including grants and endowments) and 11th in terms of both Industry (for-profit entities) funding and 15th in funding from "All Other" sources⁽²⁾. In the National Science Foundation 2003-2005 Science and Engineering State Profiles report, Indiana ranks in the top 20 for numbers of Doctoral Scientists, Science and Engineering (S&E) doctorates awarded, S&E and health post doctorates and graduate students in doctorate granting institutions.⁽³⁾ Purdue University, Indiana University and the University of Notre Dame have all been included in the Financial Times rankings of the world's top business schools.⁽⁴⁾

Table 13
Population, including Selected Indiana MSAs

	<u>2000*</u>	<u>2007</u>	<u>Percentage Change 2000-2007</u>
Indiana	6,080,485	6,345,289	4.4%
Indianapolis MSA	1,525,104	1,695,037	11.1%
Fort Wayne MSA	390,158	410,070	5.1%
Gary PMSA	675,971	698,971	3.4%
Evansville-Henderson MSA	342,815	349,717	2.0%
South Bend MSA	316,663	316,639	0.0%
United States	281,421,906	301,621,157	7.2%

*These Indiana Metropolitan Statistical Areas were reconfigured in 2005. The above population estimates are based on the areas as defined by the Office of Management and Budget as of December 2005. Consistent aggregate historical data are not yet readily available. Source: U.S. Census Bureau, March 2008.

Section Footnotes:

⁽¹⁾http://nces.ed.gov/programs/digest/d05/tables/dt05_204.asp

⁽²⁾<http://www.nsf.gov/statistics/nsf07322>

⁽³⁾FinancialTimes Report: Business Education <http://search.ft.com/ftArticle?queryTest=Purdue+University&aje=true&id=070129000926>

Employment

During this past decade, employment in Indiana has shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Although manufacturing is still the second largest sector of employment at 18% of total employment, it was the slowest growing sector from 1997 to 2007 and has undergone significant diversification and acquired an international presence in recent years. The latter is especially key for the automotive and auto parts manufacturing industries where the contributions of Toyota, Subaru and the Honda plant announced in 2006 should serve to buffer that sector from some of the current vicissitudes of the domestic auto industry. Within the Manufacturing sector, some well-paying industry components experienced significant growth over the last 5 years, either in contradiction to the national trend or surpassing the U.S. rate of growth.

Table 14
Indiana High-Growth Manufacturing Sub-sectors

<u>NAICS</u>	<u>Sector Description</u>	<u>2002-2007</u> <u>Employment</u> <u>Change</u>	<u>Indiana %</u> <u>Change</u>	<u>Indiana 2007 Annual</u> <u>Average Wage</u>	<u>U.S. %</u> <u>Change</u>
3361	Motor Vehicle Manufacturing	1,470	12%	\$74,497	-20%
3362	Motor Vehicle Body & Trailer Manufacturing	6,812	22%	\$45,898	8%
3391	Medical Equipment & Supplies Manufacturing	3,563	24%	\$60,739	-2%

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment & Wages-2002 & 2007 Annual Averages, June 2008

The fastest growing sectors overall during the last decade were Education and Health Services, which grew by 28.8% from 1998 to 2008, followed by Professional and Business Services (10.7% growth).

Table 15
Indiana Non-Farm Employment by Sector; December 1998 to December 2008
(Not Seasonally Adjusted)

<u>NAICS Super Sectors</u>	<u>1998</u>	<u>Percentage</u> <u>of Total</u>	<u>2008</u>	<u>Percentage</u> <u>of Total</u>	<u>Growth</u> <u>1998-2008</u>
Total Non Farm	2,984,300	100%	2,920,900	100%	-2.1%
Education & Health Services	329,500	11%	424,500	15%	28.8%
Professional & Business Services	247,200	8%	273,700	9%	10.7%
Government	412,300	14%	449,700	15%	9.1%
Leisure and Hospitality	257,100	9%	278,900	10%	8.5%
Other Services	108,100	4%	108,300	4%	0.2%
Trade, Transportation & Utilities	627,900	21%	582,700	20%	-7.2%
Financial Activities	145,700	5%	134,600	5%	-7.6%
Natural Resources & Mining	7,600	0%	6,900	0%	-9.2%
Construction	146,600	5%	128,300	4%	-12.5%
Information	45,600	2%	39,400	1%	-13.6%
Manufacturing	656,700	22%	493,900	17%	-24.8%
Services Providing	2,173,400	73%	2,291,800	78%	5.4%
Goods Producing	810,900	27%	629,100	22%	-22.4%

Source: U.S. Bureau of Labor Statistics, Current Employment Survey, March 2008

Table 16
Unemployment Rate
(Annual Averages of Monthly Data)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana as Percentage of U.S.</u>
1997	3.3	4.9	67.3%
1998	2.9	4.5	64.4%
1999	2.9	4.2	69.0%
2000	2.9	4.0	72.5%
2001	4.2	4.7	89.4%
2002	5.2	5.8	89.7%
2003	5.3	6.0	88.3%
2004	5.3	5.5	96.4%
2005	5.3	5.1	105.9%
2006	4.9	4.6	106.5%
2007	4.5	4.6	97.8%

Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, April 2008

Income

In 2007, Indiana's per capita personal income reached \$33,152, increasing 3.7% from 2006. During the past ten years, Indiana's personal income grew at an average annual rate of 3.6%. Indiana's personal income has grown more rapidly than the nation's in the early years of a recovery and more slowly during the later stages.

Table 17
Growth in Per Capita Personal Income
(Current Dollars)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1997	23,306	25,334	4.2%	4.8%
1998	24,894	26,883	6.8%	6.1%
1999	25,615	27,939	2.9%	3.9%
2000	27,133	29,845	5.9%	6.8%
2001	27,407	30,574	1.0%	2.4%
2002	28,040	30,821	2.3%	0.8%
2003	28,891	31,504	3.0%	2.2%
2004	29,943	33,123	3.6%	5.1%
2005	30,547	34,650	2.0%	4.6%
2006	31,983	36,744	4.7%	6.0%
2007	33,152	38,564	3.7%	5.0%

Average Annual Growth Rate (1997-2007):	3.6%	4.3%
Total Growth Rate (1997-2007):	40.1%	47.7%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2008, revised September 2008.

Gross Domestic Product by State

With an estimated 2007 Gross Domestic Product by State of approximately \$246.4 billion, Indiana's economy ranks eighteenth largest in the country in terms of the value of goods and services produced. Since 2002, Indiana's Gross Domestic Product by State has grown at an average annual rate of 4.0% (current dollars).

Table 18
Indiana Gross Domestic Product by Sector; 1998 to 2007
(Millions of Current Dollars)

<u>NAICS Industry Sectors</u>	<u>1998</u>	<u>Percentage of Total</u>	<u>2007</u>	<u>Percentage of Total</u>	<u>Percentage Growth 1998-2007</u>
Arts, entertainment, and recreation	\$ 2,020	1.13%	\$ 3,537	1.44%	75.10%
Educational services	1,075	0.60%	2,018	0.82%	87.72%
Administrative and waste services	4,065	2.27%	6,735	2.73%	65.68%
Health care and social assistance	10,965	6.13%	18,839	7.64%	71.81%
Professional and technical services	6,306	3.52%	10,321	4.19%	63.67%
Transportation and warehousing	6,153	3.44%	9,456	3.84%	53.68%
Finance and insurance	10,619	5.94%	13,192	5.35%	24.23%
Other services, except government	4,197	2.35%	6,042	2.45%	43.96%
Government	17,111	9.56%	24,343	9.88%	42.27%
Accommodation and food services	3,891	2.17%	5,639	2.29%	44.92%
Real estate, rental, and leasing	16,575	9.26%	23,999	9.74%	44.79%
Mining	700	0.39%	1,083	0.44%	54.71%
Manufacturing	52,979	29.61%	62,697	25.44%	18.34%
Wholesale trade	9,571	5.35%	14,029	5.69%	46.58%
Information	4,090	2.29%	6,018	2.44%	47.14%
Construction	8,506	4.75%	9,790	3.97%	15.09%
Retail trade	11,837	6.61%	15,803	6.41%	33.50%
Utilities	4,105	2.29%	6,257	2.54%	52.42%
Management of companies and enterprises	2,480	1.39%	2,919	1.18%	17.70%
Agriculture, forestry, fishing, and hunting	1,666	0.93%	3,722	1.51%	123.40%
Total Gross Domestic Product by State	\$178,909	100.00%	\$246,439	100.00%	37.75%

Note: Individual sectors may not sum to totals due to rounding. NAICS Industry detail is based on the 1997 North American Industry Classification System (NAICS).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, June 2008

Exports

Since 2002, Indiana businesses have significantly increased exported output. The value of exports in calendar year 2003 jumped to \$16,402 million, a 9.91% increase over 2002, in 2004 the total value increased to \$19,109 million, a 16.50% growth rate, in 2005 the total value increased to \$21,476 million, a 12.39% increase, in 2006 increased to \$22,620 million, a 5.33% increase and in 2007 improved to \$25,877 million, a 14.4% increase. Since 1998, Indiana's exports have grown at an average annual rate of 8.20% as compared to 5.67% for the United States as a whole.

Table 19
Exports
(Millions)

Year	Exports		Annual Percentage Change		Indiana as a Percentage of U.S. Exports
	Indiana	U.S.	Indiana	U.S.	
1998	12,318	680,474	2.40%	-1.04%	1.81%
1999	12,910	692,821	4.81%	1.81%	1.86%
2000	15,386	780,419	19.18%	12.64%	1.97%
2001	14,365	731,026	-6.64%	-6.33%	1.97%
2002	14,923	693,257	3.88%	-5.17%	2.15%
2003	16,402	723,743	9.91%	4.40%	2.27%
2004	19,109	817,936	16.50%	13.01%	2.34%
2005	21,476	904,380	12.39%	10.57%	2.37%
2006	22,620	1,037,143	5.33%	14.68%	2.18%
2007	25,878	1,162,708	14.40%	12.11%	2.23%
Average Annual Growth Rate (1998-2007):			8.20%	5.67%	
Total Growth (1998-2007):			82.16%	56.68%	

Source: Office of Trade and Industry Information (OTII), Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, June 2008

Table 20
Indiana's Leading Export Industries and Destinations
(Millions)

Top Export Industries		Export Destinations	
Industry	2007 Exports	Country	2007 Exports
Transportation Equipment Mfg	\$ 7,757.4	Canada	\$ 10,727
Chemical Manufacturing	4,868.7	Mexico	2,606
Machinery Manufacturing	3,914.7	United Kingdom	1,900
Computer & Electronic Products	1,849.3	France	1,501
Primary Metal Manufacturing	1,579.5	Germany	1,100
Misc. Manufacturing	1,250.1	China	758
Elect Equip, Appl. & Component	1,081.3	Japan	737
Fabricated Metal Products	693.1	Brazil	512
Rubber & Plastics Products	689.3	Australia	470
Food Manufacturing	380.3	Netherlands	462
Other	<u>1,814.1</u>	Other	<u>5,104</u>
Total	\$25,877.8		\$25,878

Sources: Office of Trade and Industry Information (OTII), Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, June 2008 and Foreign Trade Division, U.S. Census Bureau, June 2008

LITIGATION

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

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

Employment Litigation

In July 1993, in *Paula Brattain, et al vs. Richmond State Hospital*, plaintiffs filed a breach of employment contract lawsuit in a state trial court alleging that the State has failed to pay certain similarly classified State employees at an equal rate of pay from September 19, 1973, to September 19, 1993. The court certified plaintiffs' class, and class notification is complete. The bench trial had been set for August 19, 2008. Plaintiffs seek to recover damages as well as attorneys' fees and costs. Following the first mediation, a claims-made basis class action settlement was preliminarily approved on August 18, 2008 with an \$8.5 million settlement cap (inclusive of fees and costs). The Court approved the settlement on October 30, 2008, subject to the State's option to terminate the settlement agreement. On November 10, 2008, the State filed a notice regarding settlement agreement in which they terminated the settlement agreement due to the State's total liability for claims, fees and expenses under the settlement agreement exceeding \$8.5 million. Approximately 15,000 claims were filed, yielding damages of approximately \$98.5 million (assuming plaintiffs recovered on all theories). The court ordered the parties to return for a second mediation session. On February 5, 2009, mediation was held and discussions continued thereafter but the parties were unable to reach an agreement. A four day trial is scheduled for March 10 through 13, 2009. The plaintiffs filed a motion with the Court requesting leave to modify the class to include only those individuals who filed claims, and to exclude some individuals who filed claims but who were not in "split" job classifications. This would reduce the plaintiffs' damages claims to approximately \$65 million. The State filed a response which agreed those claims should be dismissed but insisted that they be dismissed with prejudice and/or deemed not to have been class members in the first place. The court expressed reservations about reducing the class size and took the motion under advisement. Plaintiffs have now asked to withdraw the motion since the State is not willing to dismiss the claims without prejudice. Plaintiffs withdrew the motion and defendants argued plaintiffs' motion constituted a judicial admission that certain classifications were not split. Defendants filed a motion to exclude the testimony of plaintiffs' expert witness due to untimely disclosure of his latest opinions, reliance upon inadmissible settlement information, and failure to meet the Daubert standard. Plaintiffs responded and defendants replied. The court denied the motion to exclude. Plaintiffs filed a motion to compel or exclude evidence by the defendants that certain job classifications were not split. Defendants responded and the court denied the motion. A four-day bench trial was conducted March 10-13, 2009. The court took the matter under advisement and gave the parties until March 31, 2009 to submit proposed findings of fact and conclusions of law. The court indicated it may be three months or more before a judgment is entered.

Civil Rights Litigation

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

Property Litigation

In December 2000, in *NJK Farms and George W. Pendygraft vs. Indiana Department of Environmental Management*, property owners filed an action against the State, including the Office of Environmental Adjudication, claiming that denial of a permit for certain land use was an unconstitutional taking of property and a denial of due process under the United States Constitution, as well as a violation of the Indiana Constitution. Plaintiffs are seeking in excess of \$30.0 million in damages plus costs and attorney fees. Federal claims against the Office of Environmental Adjudication were dismissed by the federal court. Remaining federal claims are expected to be taken up after the state court acts. Pendygraft is attempting to negotiate a settlement that would grant him a landfill permit. The State is monitoring the permit process as a component of the settlement. The enactment of SB 43 now requires NJK Farms to submit a new application with the approval of the county executive. On June 18, 2008, the Indiana Department of Environmental Management (“IDEM”) sent a letter to NJK Farms asking for the re-submission of the permit with evidence of approval by the county executive. On August 1, 2008, NJK Farms filed a motion for judgment finding total breach of the settlement agreement, alleging that the IDEM and/or the State legislature are liable for damages. At a hearing held on October 21, 2008, the court held IDEM in contempt and scheduled a damages hearing for February 10, 2009. A motion to certify for appeal was filed on December 19, 2008.

In May 2000, *Greenfield Mills v. Indiana Department of Natural Resources* was filed against the State by property owners along the Fawn River in Northeastern Indiana, alleging violations of the Clean Water Act, unconstitutional takings of property and federal civil rights violations. Plaintiffs are seeking in excess of \$38.0 million in damages, costs and attorney fees. The federal trial court granted summary judgment in favor of the State, but the property owners appealed. A federal appeals court remanded the case to the trial court on one issue under the federal Clean Water Act. The parties have completed discovery on that issue and prepared briefs in support of new motions for summary judgment for consideration of the trial court. An order denying the State’s motion for summary judgment and entering summary judgment in favor of the plaintiffs (on liability) was issued. The parties have to file a joint status report, following a teleconference with the court, as to how this case will proceed. Currently an independent surveyor is assessing the Fawn River. This assessment may take a year to conduct. In the interim, plaintiffs filed a motion for attorney’s fees, which was denied. This matter has been reassigned to outside counsel. The plaintiffs renewed their request for attorney’s fees. In a July 2008 order, the District Court ruled in favor of the plaintiffs and awarded nearly \$1M interim fees and costs. The defendants filed a motion to alter or amend the order, which motion the Court denied. The plaintiffs filed a motion for order to pay judgment, which the Court granted. Payments shall be made as follows: (1) Defendants shall pay the interim award of \$887,738.00 in attorney fees and \$70,206.09 in costs directly to plaintiffs’ counsel of record and the other parties according to their relative interest in the proceeds; (2) Defendants shall pay the first installment of \$387,500.00 within 14 days from the date of the order; the second installment of \$387,500.00 shall be paid on or before January 31, 2009, and the remaining amount owed shall be paid on or before April 30, 2009.

APPENDIX C
FORM OF BOND COUNSEL OPINION

_____, 2009

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank
Common School Fund Advancement Purchase Funding Bonds, Series 2009
(Taxable)

Ladies and Gentlemen:

We have acted as bond counsel to the Indiana Bond Bank (the “Issuer”) in connection with the issuance by the Issuer of its Common School Fund Advancement Purchase Funding Bonds, Series 2009 (Taxable), dated _____, 2009 (the “Bonds”), in the aggregate principal amount of \$61,145,000, pursuant to Indiana Code 5-1.5, as amended, and the Trust Indenture, dated as of April 1, 2009 (the “Indenture”), between the Issuer and UMB Bank, n.a., as trustee. In such capacity, we have examined such law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the Issuer contained in the Indenture and the Advancement Acquisition and Administration Agreement (as defined in the Indenture), the certified proceedings and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer and others, without undertaking to verify the same by independent investigation. We have relied upon the legal opinion of Graham & Hurley PC, Indianapolis, Indiana, special counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the report of Crowe Horwath LLP, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic, validly existing under the laws of the State of Indiana (the “State”), with the corporate power to enter into the Indenture and perform its obligations thereunder and to issue the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).

3. The Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Interest on the Bonds is exempt from income taxation in the State for all purposes, except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated March 17, 2009, or any other offering material relating to the Bonds.

We express no opinion regarding any tax consequences arising with respect to the Bonds, other than as expressly set forth herein.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) the enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that, in our opinion, the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

This opinion is given only as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX D

DEFINITIONS

“Account” means any of the accounts established, held and disbursed by the Trustee under the Indenture.

“Acquisition Agreement” means the Advancement Acquisition and Administration Agreement entered into by and among the Bond Bank, State Board of Finance, the State Board of Education and the Treasurer of the State evidencing the agreement of the Bond Bank to purchase, and the State Board of Finance to sell, the Agreements and the administration thereof.

“Acquisition Fund” means the Fund as designated, established, held and disbursed by the Trustee for purchases of the Agreements pursuant to Article V of the Indenture.

“Act” means, collectively, Indiana Code Title 5, Article 1.5, and Indiana Code Title 20, Article 49, Chapter 4, each as amended.

“Advancement Payment” means the payment from the Treasurer of the State of Indiana to the Trustee representing that amount of principal and interest due under each respective Agreement as provided for in the Acquisition Agreement.

“Agreement” means the various instruments by and between each respective School Corporation listed in Appendix A and the Board of Education evidencing all or a part of the advancements and loans to School Corporations for capital projects and equipment.

“Authorized Officer” means the Chairman, the Vice Chairman, or the Executive Director of the Bond Bank.

“Bond or Bonds” means the Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2009 (Taxable), and any refunding bonds issued under the Act and the Indenture.

“Bond Bank” means the Indiana Bond Bank, established and existing under the provisions of the Act as a body corporate and politic and an instrumentality, but not an agency, of the State, or any agency, board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Bond Bank by the Act shall be given by law.

“Bondholder,” “Owner,” or “Owners” or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Outstanding Bond or Bonds.

“Bond Register” means the registration books maintained by the Trustee as Registrar pursuant to Section 2.6 of the Indenture. “Bond Registrar” or “Registrar” means the Trustee acting as Registrar under the Indenture.

“Bond Year” means, with respect to the Bonds, the one-year period (or shorter period from the date of issue) ending on January 31 of each year.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or any other day on which banking institutions are authorized to close in the State.

“Cash Flow Certificate” means a Positive Cash Flow Certificate or an Improving Cash Flow Certificate.

“Closing Date” means the date on which the Bonds are delivered by the Bond Bank in exchange for payment therefor pursuant to the provisions of Section 3.1 of the Indenture.

“Costs of Issuance Fund” means the fund so designated, established, held and disbursed by the Trustee pursuant to Article V of the Indenture.

“DTC” means The Depository Trust Company, New York, New York, its successors and assigns, including without limitation (i) any surviving, resulting or transferee corporation, or any successor corporation appointed consistent with the Indenture and (ii) any direct or indirect participants in DTC, including, without limitation, any banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant either directly or indirectly.

“Event of Default” means any one or more of the events specified as such in Section 7.1 of the Indenture.

“Fiscal Year” means the period commencing on the first day of July and terminating on the last day of June of the following calendar year.

“Fund” means any of the funds established, held and disbursed by the Trustee under the Indenture.

“General Account” means the Account so designated and established within the General Fund and held and disbursed by the Trustee pursuant to Article V of the Indenture.

“General Fund” means the Fund so designated, established, held and disbursed by the Trustee pursuant to Article V of the Indenture.

“Improving Cash Flow Certificate” means a certificate prepared by the Bond Bank in accordance with Section 6.16 of the Indenture to the effect that, in its judgment, the action proposed to be taken by the Bond Bank will result in the same or greater ability of the Bond Bank to pay projected required debt service on all Outstanding Bonds from Revenues expected to be received after taking such action in each Fiscal Year, together with other moneys in the Funds and Accounts under the Indenture available therefor in accordance with Section 6.16 of the Indenture, than would otherwise have been the case without the taking of such action.

“Indenture” means the Trust Indenture by and between the Bond Bank and the Trustee dated as of April 1, 2009, as supplemented or amended by any indenture supplemental, thereto or amendatory, thereof.

“Interest Payment Date” means any date on which interest is payable on the Bonds.

“Investment Securities” means any of the following:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (“U.S. Government Securities”).

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(a) U.S. Export-Import Bank (Eximbank) Direct obligations or fully guaranteed certificates of beneficial ownership

(b) Farmers Home Administration (FmHA) Certificates of beneficial ownership

(c) Federal Financing Bank

(d) Federal Housing Administration Debentures (FHA)

(e) General Service Administration Participation certificates

(f) Government National Mortgage Association (GNMA or “Ginnie Mae”) GNMA - guaranteed mortgage-backed bonds; and GNMA - guaranteed pass-through obligations

(g) U.S. Maritime Administration Guaranteed Title XI financing

(h) U.S. Department of Housing and Urban Development (HUD) Project Notes; Local Authority Bonds; New Communities Debentures - U.S. government guaranteed debentures; U.S. Public Housing Notes and Bonds - U.S. government; and guaranteed public housing notes and bonds

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(a) Federal Home Loan Bank System Senior debt obligations

(b) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) Participation Certificates; and Senior debt obligations

(c) Federal National Mortgage Association (FNMA or “Fannie Mae”) Mortgage-backed securities and senior debt obligations

(d) Student Loan Marketing Association (SLMA or “Sallie Mae”) Senior debt obligations

(e) Resolution Funding Corp. (REFCORP) obligations

(f) Farm Credit System Consolidated systemwide bonds and notes

(4) Money market funds, including those of the Trustee, registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor’s of “AAAm-G,” “AAAm,” “AA+m-G” or “AA+m” and, if rated by Moody’s, rated “Aaa,” “Aa1” or “Aa2”.

(5) Certificates of deposit secured at all times by collateral described in clauses (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(7) Commercial paper rated, at the time of purchase, “Prime - 1” by Moody’s and “A-1” or better by Standard & Poor’s.

(8) Bonds or notes issued by any state or municipality, which are rated by Moody’s and Standard & Poor’s in one of the two highest rating categories assigned by such agencies.

(9) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime - 1” or “A3” or better by Moody’s and “A-1” or “A” or better by Standard & Poor’s.

(10) Repurchase agreements that meet the following criteria:

(a) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Securities Industry and Financial Markets Association master repurchase agreement, governs the transaction;

(b) Acceptable providers shall consist of registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an unsecured, unsecured and unguaranteed rating of "A3/P-1" or better by Moody's and "A-/A-1" or better by S&P;

(c) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FHLMC or FNMA described in clauses (2)(f), (3)(b) and (3)(c) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 102% for U.S. Government Securities, GNMA's, FHLMCs or FNMA's. The repurchase agreement shall require (i) the Trustee or the Agent (as defined in clause (d) below) to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two business days of such valuation;

(d) The repurchase securities shall be delivered free and clear of any lien to the Trustee or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than \$50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee;

(e) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below "A3" or P-1" from Moody's, or "A-" or "A-1" from S&P. Within 10 days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments;

(f) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the Bond Bank and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof;

(g) The repurchase agreement shall have a term of one year or less, or shall be due on demand; and

(h) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities:

(i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;

(ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under clause (c) above; or

(iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

(11) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

(a) A master agreement or specific written investment agreement governs the transaction;

(b) Acceptable providers of uncollateralized investment agreements shall consist of: (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least "Aa2" by Moody's and "AA" by S&P; and (ii) domestic insurance companies rated "Aaa" by Moody's and "AAA" by S&P;

(c) Acceptable providers of collateralized investment agreements shall consist of: (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of "A1" or better by Moody's and "A+" or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least "A1" by Moody's and "A+" by S&P; and (iii) domestic insurance companies rated at least "A1" by Moody's and "A+" by S&P. Required collateral levels shall be as set forth in clause (f) below;

(d) The investment agreement shall provide that if the provider's ratings fall below "Aa3" by Moody's or "AA-" by S&P, the provider shall within 10 days either: (i) repay the principal amount plus any accrued unpaid interest on the investment; or (ii) deliver Permitted Collateral as provided below in clause (f);

(e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below "A3" from Moody's or "A-" from S&P. Within 10 days, the provider shall repay the principal amount plus any accrued unpaid interest on the agreement, without penalty to the Bond Bank;

(f) The investment agreement shall provide for the delivery of collateral described in clause (i) or (ii) below ("Permitted Collateral"), which shall be maintained at the following collateralization levels at each valuation date:

(i) U.S. Government Securities at 104% of principal plus accrued interest; or

(ii) Obligations of GNMA, FHLMC or FNMA (described in clauses (2)(f), (3)(b) and (3)(c) above) at 105% of principal and accrued interest;

(g) The investment agreement shall require the Trustee or the Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:

(i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;

(ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or

(iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued;

(h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent;

(i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under clause (f) above, the Trustee shall receive an opinion of counsel as to the perfection of the security interest in the collateral;

(j) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than

two business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:

- (i) In the event of a deficiency in the General Account of the General Fund;
- (ii) Upon acceleration after an Event of Default; or
- (iii) Upon refunding of the Bonds in whole or in part.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the Bond Bank's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the Bonds;

(k) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities:

(i) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;

(ii) Insolvency of the provider or the guarantor (if any) under the investment agreement;

(iii) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;

(iv) Failure by the provider to make a payment or observe any covenant under the agreement;

(v) The guaranty (if any) is terminated, repudiated or challenged; or

(vi) Any representation or warranty furnished to the Trustee or the Bond Bank in connection with the agreement is false or misleading; and

(l) The investment agreement must incorporate the following general criteria:

(i) "Cure periods" for payment default shall not exceed two business days;

(ii) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee;

(iii) The provider shall be required to immediately notify the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings; and

(iv) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim.

"Opinion of Bond Counsel" means a written opinion of a nationally recognized law firm experienced in matters relating to the tax exemption of interest payable on obligations of states and their instrumentalities and political subdivisions under federal law, and which is acceptable to the Bond Bank and the Trustee.

"Outstanding" when used with reference to the Bonds, means at any date as of which the amount of outstanding Bond is to be determined, the aggregate of all Bonds authorized and issued by the Bond Bank and authenticated and delivered by the Trustee under the Indenture, including any Bonds held by the Bond Bank, except:

(a) Bonds canceled or surrendered to the Trustee for cancellation after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds deemed to have been redeemed as provided in Section 4.6 or paid as provided in Article XI of the Indenture; and

(c) Any Bond in lieu of or in substitution for which another Bond or Bonds shall have been issued by the Bond Bank and authenticated and delivered by the Trustee pursuant to the Indenture.

“Paying Agent” means the Trustee acting as Paying Agent under the Indenture.

“Positive Cash Flow Certificate” means a certificate prepared in accordance with Section 6.16 of the Indenture to the effect that immediately after the occurrence or non-occurrence of a specific action or omission, as appropriate, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts and available therefor as provided in Section 6.16 of the Indenture, will at least be sufficient on each Interest Payment Date to provide payment of the principal of and interest on the Outstanding Bonds due on such date and the payment of Program Expenses, if any.

“Principal Payment Date” means an Interest Payment Date which is also a maturity date of any Bond.

“Program” means the program of the Bond Bank for purchasing the Agreements from the State Board of Finance with proceeds of the Bonds pursuant to the Act.

“Program Expenses” means the expenses authorized to be incurred by the Bond Bank in connection with the implementation and operation of the Program, including reasonable fees and expenses of the Trustee, fees and expenses of Bond Bank, counsel, bond counsel, professional consultants and other service professionals in connection with the implementation and administration of the Program, costs of preparing and delivering Cash Flow Certificates pursuant to Section 6.16 of the Indenture, and other incidental and related costs.

“Purchase Price” means the purchase price of the right to receive certain of the payments made pursuant to the respective Agreements equal to an amount not less than the aggregate outstanding principal amount of the advancements and loans made thereunder, plus accrued interest to the date of sale.

“Record Date” means the fifteenth calendar day of the month next preceding an Interest Payment Date.

“Redemption Account” means the Account so designated and established within the General Fund and held and disbursed by the Trustee pursuant to Article V of the Indenture.

“Refunding Bonds” means Bonds issued pursuant to Section 3.2 of the Indenture and a Supplemental Indenture thereto.

“Revenues” means the income, revenues and profit of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, all Advancement Payments.

“School Corporations” means those school districts located within Indiana.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a Division of the McGraw Hill Companies, a corporation organized and existing under the laws of the State of New York, and its successors and assigns, and in the event that such corporation no longer performs the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Bond Bank with notice to the Trustee.

“State” means the State of Indiana.

“Supplemental Indenture” means any indenture supplemental to or amendatory of the Indenture as originally executed which is duly executed in accordance with the provisions of the Indenture.

“Trust Estate” means the trust estate defined, described and established under the granting clauses of the Indenture.

“Trustee” means UMB Bank, n.a., a national banking association, and any successor trustee pursuant to Section 8.5 or Section 8.8 of the Indenture at the time serving as Trustee thereunder.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Program and the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month following the end of a six-month period, commencing with the period ending July 31, 2009, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding six-month period.

Covenants Concerning the Program

In order to provide for the payment of the principal of and interest on the Bonds and any Program Expenses of the Bond Bank permitted to be paid under the Indenture, the Bond Bank will from time to time, promptly and in a sound and economical manner consistent in all respects with the Act, the Indenture and sound banking practices and principles (i) do all acts and things as necessary to receive and collect Revenues (including enforcement of the prompt collection of all arrears on all Advancement Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Agreements and to enforce all terms, covenants and conditions of the Agreements. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Agreement under which any School Corporation is in default. The Bond Bank is not required to take such actions noted herein if the Bond Bank provides the Trustee with a Positive Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies; provided, however, that all decisions as to the enforcement of particular remedies will be within the sole discretion of the Trustee.

Covenants with Respect to Agreements

With respect to the Agreements, the Bond Bank covenants as follows:

(a) To diligently enforce and take all steps, actions and proceedings reasonably necessary in its judgment to protect its rights with respect to any Agreement and to enforce all terms, covenants and conditions of the Agreements, and to enforce, authorize or require the enforcement of all remedies available to the Board of Education under any Agreement, unless the Bond Bank provides the Trustee with a Positive Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies; provided, however, that all decisions as to the enforcement of particular remedies will be within the sole discretion of the Trustee.

(b) Not to permit or agree to any material change in any Agreement unless the Bond Bank first provides the Trustee with a Cash Flow Certificate giving effect to such change.

- (c) Not to sell or dispose of any Agreement unless the Bond Bank first provides the Trustee with a Cash Flow Certificate giving effect to such sale or disposition.

Budgets

The Bond Bank will adopt and file with the Trustee and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 30 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 30, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year unless and until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Defeasance and Discharge of Lien of Indenture

If payment or provision for payment is made to the Trustee of the whole amount of principal of and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest to its due date, either (i) has been made or has been caused to be made in accordance with its terms, or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (1) moneys sufficient to make such payment, (2) Investment Securities within the meaning of Section 13.7(a) of the Indenture maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (3) a combination of such moneys and Investment Securities, and (b) all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, have been paid to or deposited with the Trustee.

Events of Default and Remedies

Any of the following events constitutes an “Event of Default” under the Indenture:

- (a) A default occurs in the due and punctual payment of the principal of (whether at stated maturity or on any date fixed for redemption) or interest on any Bond;
- (b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 30 days after receipt of notice of such default by the Trustee;
- (c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is false or misleading when made, in any material respect, and there has been a failure to remedy such Event of Default within 30 days after receipt of notice of such Event of Default;
- (d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;

(e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 30 days after such filing;

(f) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 30 days; or

(h) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence and continuance of an Event of Default, the Trustee will notify the Owners of all Outstanding Bonds of such Event of Default by registered or certified mail and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including any and all such actions arising under, or by reason of, the Agreements;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds, and may then take any action with respect to the Agreements as the Trustee deems necessary or appropriate and in the best interest of the Owners of Bonds, subject to the terms of the Agreements;

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds then Outstanding to be due and payable immediately.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds then Outstanding under the Indenture, and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Owners of the Bonds.

The Owners of a majority in aggregate principal amount of the Bonds then Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Waivers of Events of Default

At its discretion, the Trustee may waive any Event of Default and its consequences and may rescind any declaration of maturity of all the Bonds, and must do so upon the written request of the Owners of (a) two-thirds in aggregate principal amount of all Bonds then Outstanding in the case of default in the payment of principal of or interest on the Bonds or (b) more than one-half in aggregate principal amount of all Bonds then Outstanding in the case of any other Event of Default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the Owners of Bonds will be restored to their former respective positions and right under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) an Event of Default has occurred and the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, (b) such Owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (c) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the Owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any Owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective Owners of the Bonds at the time and place, from the source and in the manner expressed in the Indenture and the Bonds.

Supplemental Indentures

The Bond Bank and the Trustee, without the consent of or notice to any of the Bondholders, may enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the Owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Owners of Bonds or the Trustee or either of them, or to make any change which, in the judgment of the Trustee exercised in accordance with the standards under the Indenture does not materially and adversely affect the interests of the Bondholders;
- (c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;
- (d) To modify, amend or supplement the Indenture or any Supplemental Indenture in order to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under any federal or state securities laws, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any

Supplemental Indenture such other terms, conditions and provisions as may be permitted or required by the Trust Indenture Act of 1939, as amended, or any other federal or state statute; provided that any Supplemental Indenture shall not, in the judgment of the Trustee, be to the prejudice of any of the Owners of the Bonds;

(e) To provide for the issuance of bearer bonds in exchange for the fully registered Bonds originally authorized to be issued under the Indenture and to provide all necessary and appropriate supplements to the Indenture in connection therewith;

(f) To evidence the appointment of a co-trustee, successor Trustee, successor Bond Registrar, or successor Paying Agent; and

(g) To effect or facilitate the issuance of Refunding Bonds in accordance with the Indenture; and

With the exception of Supplemental Indentures for the purposes set forth in the preceding paragraph and subject to the terms of the Indenture, the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any Supplemental Indenture or Indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture. However, no Supplemental Indenture may permit or be construed as permitting, without the consent of the Owners of all Bonds then Outstanding under the Indenture, (a) an extension of the stated date for maturity or redemption or a reduction in the principal amount of or redemption premium on, or reduction in the rate or extension of the time of payment of the interest on, any Bonds, or (b) the creation of any lien on the Trust Estate or any part thereof pledged under the Indenture prior to or on a parity with the lien of the Indenture other than a lien ratably securing all of the Bonds Outstanding under the Indenture, or (c) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (d) the creation of a privilege, priority or preference of any Bond or Bonds over any other Bond or Bonds, or (e) any amendment or modification of the trusts, powers, obligations, remedies, rights, duties or immunities of the Trustee without the written consent of the Trustee.

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APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE ACQUISITION AGREEMENT

The following is a summary of certain provisions of the Acquisition Agreement. This summary is qualified in its entirety by reference to the Acquisition Agreement.

Parties

The principal parties to the Acquisition Agreement are the Bond Bank, as purchaser of the Agreements, and the Board of Finance as seller of the Agreements. The Board of Education and the Treasurer of the State are also parties to the Acquisition Agreement for the purpose of making the representations and covenants more particularly described below.

Purpose

The Acquisition Agreement provides for the sale of the Agreements as more particularly described therein and in Appendix A to this Official Statement by the Board of Finance to the Bond Bank, and the administration thereof pursuant to, the Acquisition Agreement. In addition, the Board of Education and the Treasurer of the State each covenant to take certain actions more particularly described below relating to the Acquisition Agreement.

Representations

The parties to the Acquisition Agreement make to and for the benefit of each other various representations relating principally to the authority to enter into the Acquisition Agreement and to undertake the covenants made therein by each of the parties thereto.

Covenants

The Treasurer of the State and the Board of Education agree and covenant with the Bond Bank that they and each of them, as appropriate, will:

(a) Provide to the Bond Bank all information, financial and otherwise, reasonably requested by the Bond Bank and in their possession relating to each Agreement, to each School Corporation that is a party to each Agreement, to the common school fund generally and to any other matter material to the Bonds;

(b) Fully support and cooperate in obtaining all legislative and administrative actions to maintain in force the prohibition against the prepayment of amounts due from borrowing School Corporations under the Agreements to the maximum extent allowable by law;

(c) As specifically requested by the Bond Bank from time to time, take all actions in the best interest of the Bond Bank relating to and exercise for the benefit of the Bond Bank to the maximum extent permissible under the Indiana Code, all rights (including without limitation the rights set forth in Indiana Code 20-49-4-15) and options available under the Indiana Code relating in any way to: (i) the withholding by any of them of funds of the State due any School Corporation that is a party to an Agreement; (ii) the collection of amounts due from such School Corporation by reason of being a party to an Agreement; and (iii) the remittance and payment of such amounts to the Bond Bank by reason of its purchase and ownership of the Agreements, which remittance and payment is to be made not later than the first day of each January and July beginning July 1, 2009;

(d) Treat and regard at all times the Bond Bank in its capacity as owner of the Agreements as having a claim to funds of the State that is prior and superior to any claim of any party to such funds under

any agreement similar to an Agreement. In particular, the position, status and rights of the Bond Bank are prior and superior to those of the parties and signatories to the Acquisition Agreement or to any claim or rights of any other division, department, agency or instrumentality of the State;

(e) Use at all times the proceeds of the issuance and sale of the Bonds used to acquire the Agreements to make additional advancements to School Corporations for the purpose of assisting such School Corporations with their construction projects, their acquisition of technology equipment, or otherwise as permitted and allowed by the Constitution and statutes of the State, and require, as a condition to receiving any portion of such advancement, that the School Corporations comply with all of the provisions of Indiana Code 5-1-14-10, as if such advancement were deemed to be “obligations” thereunder. Such proceeds will, at all times consistent with sound management practices and fiscal prudence and to the extent legally permissible, be expended as expeditiously as is possible and, in any event, prior to the expenditure of any other funds of the State available for such purpose. All such proceeds will, pending their expenditure, be held separate and segregated from other funds of the State and will be subject during such period to investment as allowable by law. The Treasurer of the State will maintain detailed records in accordance with the usual and customary practice of the Treasurer of the State as to such funds, and, in particular, such records will include the disbursements and expenditures of such funds and the investment income allocable to such funds. The Treasurer of the State will make such records available to the Bond Bank;

(f) Take all actions and not omit to take any action within their control and requested by the Bond Bank that is necessary or appropriate to confirm and maintain the tax exempt status of the Bonds; and

(g) Do all things and take all actions reasonably requested by the Bond Bank for the purpose of confirming, securing and documenting the rights of the Bond Bank under the Acquisition Agreement and the rights, status and position of the holders of the Bonds as beneficiaries and assignees of the rights of the Bond Bank thereunder.

Term

The rights and obligations of the parties under and by reason of the Acquisition Agreement extend until such time as all of the Agreements have been paid in full.

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