

**INDIANA BOND BANK  
(A COMPONENT UNIT OF THE STATE OF INDIANA)**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT WITH  
SUPPLEMENTARY AND OTHER INFORMATION

June 30, 2013 and 2012

**INDIANA BOND BANK**  
**(A COMPONENT UNIT OF THE STATE OF INDIANA)**

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*Independent Auditors' Report*

Board of Directors  
Indiana Bond Bank

**Report on the Financial Statements**

We have audited the accompanying financial statements of Indiana Bond Bank, a component unit of the State of Indiana, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Indiana Bond Bank as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 9 and the retirement plan schedule of funding progress and employer contributions on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Report on Other Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary schedules of net position information by program type and schedules of revenues, expenses and changes in net position information by program type on pages 35 through 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013, on our consideration of Indiana Bond Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Indiana Bond Bank's internal control over financial reporting and compliance.

*Katz, Sappun & Miller, LLP*

Indianapolis, Indiana  
October 24, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013

This section of the Indiana Bond Bank's (the Bond Bank) annual financial report presents our discussion and analysis of the Bond Bank's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the Bond Bank's financial statements and accompanying notes.

**FINANCIAL HIGHLIGHTS**

- Proceeds from bonds and notes payable issued during the year totaled \$536,117,000, including \$197,628,000 of Advance Funding Notes.
- Repayments of bonds and notes payable totaled \$768,723,000, including \$223,790,000 of Advance Funding Notes.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and notes, as well as, other supplementary information. The Bond Bank follows enterprise fund reporting; accordingly, the financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Bond Bank. These statements are presented in a manner similar to a private business.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Bond Bank's financial status and the change in financial status. The Statement of Net Position includes all of the Bond Bank's assets, liabilities, deferred inflows, deferred outflows and net position. Assets and liabilities are classified as either current or noncurrent. The Statement of Revenues, Expenses and Changes in Net Position reports all of the revenues and expenses during the time period. The Statement of Cash Flows reports the cash provided and used by operating activities as well as other cash sources and uses. The financial statements also include notes that explain and support the information in the statements and are followed by a section of supplementary information that further details the Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position by program type.

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013

**FINANCIAL ANALYSIS OF THE BOND BANK**

The following table is a condensed summary of financial information as of and for the years ended June 30, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Net Position</b>			
Current assets	\$ 350,186,482	\$ 385,892,052	\$ 490,286,461
Noncurrent assets	1,498,520,105	1,707,161,579	1,865,145,828
<b>Total Assets</b>	<u>1,848,706,587</u>	<u>2,093,053,631</u>	<u>2,355,432,289</u>
Deferred Outflows of Resources	<u>14,234,000</u>	<u>14,617,000</u>	<u>15,380,000</u>
Current liabilities	354,211,089	385,986,572	478,944,823
Noncurrent liabilities	1,490,069,104	1,702,573,319	1,872,776,351
<b>Total Liabilities</b>	<u>1,844,280,193</u>	<u>2,088,559,891</u>	<u>2,351,721,174</u>
Restricted for debt service	3,094,747	3,542,320	3,736,357
Unrestricted	15,565,647	15,568,420	15,354,758
<b>Total Net Position</b>	<u>\$ 18,660,394</u>	<u>\$ 19,110,740</u>	<u>\$ 19,091,115</u>
<b>Revenues, Expenses and Changes in Net Position</b>			
Operating Revenues:			
Interest income	\$ 80,413,720	\$ 95,717,826	\$ 104,853,988
Acceptance and administration fees	793,770	544,657	605,568
<b>Total Operating Revenues</b>	<u>81,207,490</u>	<u>96,262,483</u>	<u>105,459,556</u>
Operating Expenses:			
Interest	76,715,117	90,358,507	98,945,470
Amortization of debt issuance costs	3,561,584	4,545,209	5,142,566
General and administrative	1,564,752	1,577,907	986,462
<b>Total Operating Expenses</b>	<u>81,841,453</u>	<u>96,481,623</u>	<u>105,074,498</u>
<b>Operating Income</b>	(633,963)	(219,140)	385,058
<b>Nonoperating Revenue</b>	<u>183,617</u>	<u>238,765</u>	<u>190,642</u>
<b>Change in Net Position</b>	(450,346)	19,625	575,700
<b>Net Position - Beginning of Year</b>	<u>19,110,740</u>	<u>19,091,115</u>	<u>18,515,415</u>
<b>Net Position - End of Year</b>	<u>\$ 18,660,394</u>	<u>\$ 19,110,740</u>	<u>\$ 19,091,115</u>

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013

Statement of Net Position

Total assets and deferred outflows of resources, and total liabilities and net position decreased by approximately \$238 million in 2013 from 2012. The decrease in the current qualified obligations receivable resulted primarily from a lower balance outstanding on the Advanced Funding Note Program. Similarly, there was a corresponding decrease in the current bonds and notes payable due to a lower outstanding balance on the Advanced Funding Note Program. The decrease in the noncurrent qualified obligations receivable was also due to repayment of loans, refunding bond issues and there being no new funding bond issuances. There is a corresponding decrease in outstanding noncurrent bonds and notes payable. Included in current assets are cash and cash equivalents and accrued interest receivable. Accrued interest payable and accounts payable are included in current liabilities as well.

**Statement of Net Position Reconciliation - 2013**

<b>Total Assets as of June 30, 2012</b>		\$ 2,093,053,631
Decrease in current qualified obligations receivable	\$ (24,057,621)	
Decrease in other current assets	(11,647,949)	
Decrease in noncurrent qualified obligations receivable	(207,008,920)	
Decrease in other noncurrent assets	<u>(1,632,554)</u>	
Total Decrease in Assets		<u>(244,347,044)</u>
<b>Total Assets as of June 30, 2013</b>		<u>\$ 1,848,706,587</u>
<b>Total Deferred Outflows of Resources as of June 30, 2012</b>		\$ 14,617,000
Accumulated decrease in fair value of interest rate swaps		<u>(383,000)</u>
<b>Total Deferred Outflows of Resources as of June 30, 2013</b>		<u>\$ 14,234,000</u>
<b>Total Liabilities and Net Position as of June 30, 2012</b>		\$ 2,107,670,631
Decrease in net position	\$ (450,346)	
Decrease in current bonds and notes payable	(20,485,258)	
Decrease in other current liabilities	(11,290,225)	
Decrease in noncurrent bonds and notes payable	(212,120,262)	
Decrease in other noncurrent liabilities	<u>(383,953)</u>	
Total Decrease in Liabilities and Net Position		<u>(244,730,044)</u>
<b>Total Liabilities and Net Position as of June 30, 2013</b>		<u>\$ 1,862,940,587</u>



**INDIANA BOND BANK**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013

Total assets and deferred outflows of resources, and total liabilities and net position decreased by approximately \$263 million in 2012 from 2011. The decrease in the current qualified obligations receivable resulted primarily from a lower balance outstanding on the Advanced Funding Note Program. Similarly, there was a corresponding decrease in the current bonds and notes payable due to a lower outstanding balance on the Advanced Funding Note Program. The decrease in the noncurrent qualified obligations receivable was due to repayment of loans and there being only one Special Program bond issues. There is a corresponding decrease in outstanding noncurrent bonds and notes payable. Included in current assets are cash and cash equivalents and accrued interest receivable. Accrued interest payable and accounts payable are included in current liabilities as well.

**Statement of Net Position Reconciliation - 2012**

<b>Total Assets as of June 30, 2011</b>		\$ 2,355,432,289
Decrease in current qualified obligations receivable	\$ (79,832,035)	
Decrease in other current assets	(24,562,374)	
Decrease in noncurrent qualified obligations receivable	(152,493,549)	
Decrease in other noncurrent assets	<u>(5,490,700)</u>	
Total Decrease in Assets		<u>(262,378,658)</u>
<b>Total Assets as of June 30, 2012</b>		<u>\$ 2,093,053,631</u>
<b>Total Deferred Outflows of Resources as of June 30, 2012</b>		\$ 15,380,000
Accumulated decrease in fair value of interest rate swaps		<u>(763,000)</u>
<b>Total Deferred Outflows of Resources as of June 30, 2013</b>		<u>\$ 14,617,000</u>
<b>Total Liabilities and Net Position as of June 30, 2011</b>		\$ 2,370,812,289
Increase in net position	\$ 19,625	
Decrease in current bonds and notes payable	(93,626,633)	
Increase in other current liabilities	668,382	
Decrease in noncurrent bonds and notes payable	(169,439,013)	
Decrease in other noncurrent liabilities	<u>(764,019)</u>	
Total Decrease in Liabilities and Net Position		<u>(263,141,658)</u>
<b>Total Liabilities and Net Position as of June 30, 2012</b>		<u>\$ 2,107,670,631</u>

**INDIANA BOND BANK**  
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 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013

Operating revenues consist of interest income earned on qualified obligations receivable and the related long-term investments in guaranteed investment contracts. The operating interest income for the year was 5.0% for 2013, 5.0% for 2012 and 4.9% for 2011 of the related investments. Also included in operating revenues are acceptance and administration fees paid by qualified entities to the Bond Bank's operating program. These fees increased approximately \$249,000 from 2012 to 2013, and decreased \$61,000 from 2011 to 2012 and \$331,000 from 2010 to 2011.

Operating expenses include interest expense on bonds and notes payable. Interest expense for the year represented 4.3% for 2013, 4.5% for 2012 and 4.4% for 2011 of the related bonds and notes payable balance. Also included in operating expenses is the amortization of debt issuance costs and general and administrative expenses such as management fees and arbitrage expense, as well as, expenses for the operating program such as professional fees, payroll and payroll related expenses.

Net position in 2013 has decreased in total approximately \$450,000 from 2012. Net position in 2013 restricted for debt service decreased approximately \$448,000 and unrestricted net position approximately \$2,000 from 2012. In comparison, net position in 2012 increased approximately \$20,000 from 2011. Net position in 2012 restricted for debt service decreased approximately \$194,000 and unrestricted net position increased approximately \$214,000 from 2011.

**DEBT ADMINISTRATION**

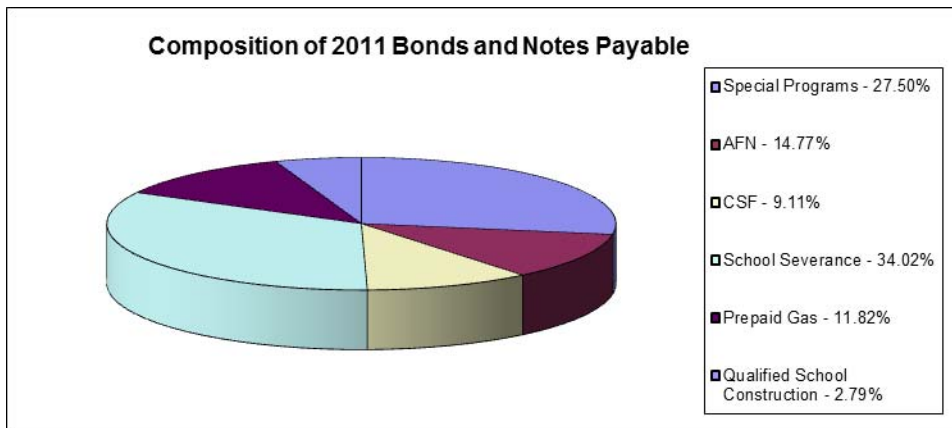
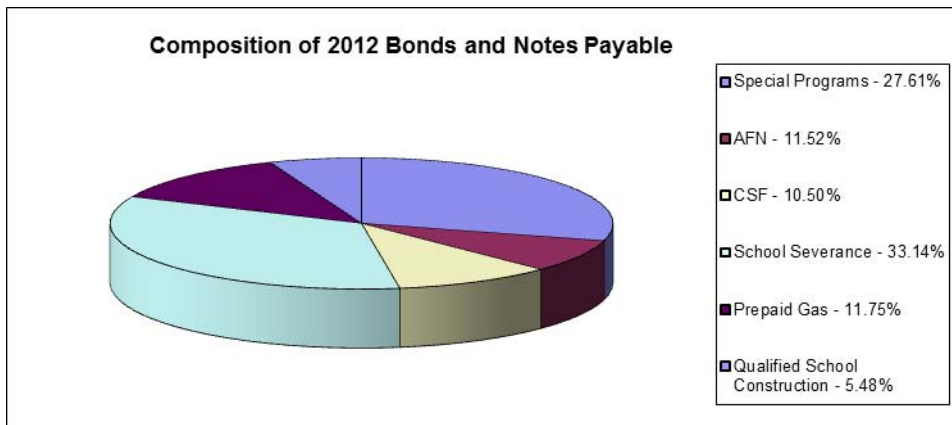
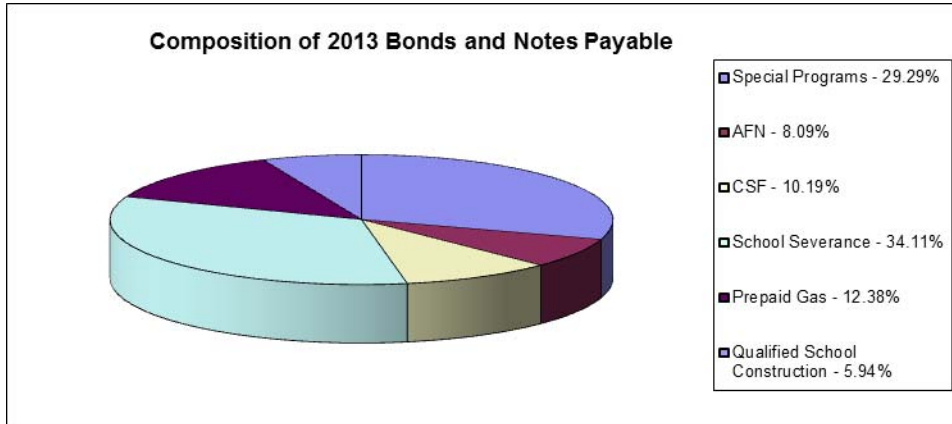
Below is a listing of the amount of debt issued by program for the fiscal years ended June 30, 2013, 2012 and 2011:

<u>Programs</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Special Program	\$ 63,805,000	\$ 33,020,000	\$ -
Advance Funding Program	197,628,211	261,459,920	475,068,000
School Severance Program	286,045,000	30,250,000	-
Common School Fund Program	-	50,165,000	54,120,000
Qualified School Construction Bonds	-	-	57,020,000

On the following page, are three graphs depicting the composition of bonds and notes payable. The graph on the top details the composition of bonds and notes payable by program for 2013, the graph in the middle depicts 2012 and the graph on the bottom shows 2011. The composition by program has changed due to the combination of new bonds issued and maturation of old bonds during each of the years.

**INDIANA BOND BANK**  
 (A COMPONENT UNIT OF THE STATE OF INDIANA)  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013



The Bond Bank's bond and note issues are rated A+ to AAA by the national rating agencies. The ratings are based on the financing program structure.

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013

**REQUESTS OF INFORMATION**

The financial report is designed to provide a general overview of the Indiana Bond Bank's finances for all those with an interest in the Indiana Bond Bank's finances. Questions concerning any of the information should be addressed to the Indiana Bond Bank, 10 West Market Street, Suite 2980, Indianapolis, Indiana 46204.

## **FINANCIAL STATEMENTS**

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 89,339,729	\$ 99,666,510
Qualified obligations receivable	240,692,333	264,749,954
Accrued interest receivable	20,154,420	21,475,588
Total Current Assets	350,186,482	385,892,052
Noncurrent assets:		
Investments, at fair value	29,273,453	29,775,331
Qualified obligations receivable, net of current portion	1,452,747,076	1,659,755,996
Deferred debt issuance costs, net of accumulated amortization of \$20,868,384 in 2013 and \$25,709,770 in 2012	16,499,576	17,630,252
Total Noncurrent Assets	1,498,520,105	1,707,161,579
Total Assets	1,848,706,587	2,093,053,631
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Accumulated decrease in fair value of interest rate swaps	14,234,000	14,617,000
<b>LIABILITIES</b>		
Current liabilities:		
Bonds and notes payable	292,154,699	312,639,957
Accrued interest payable	21,654,437	33,408,705
Funds held for qualified entities	39,136,552	39,339,718
Accounts payable	1,265,401	598,192
Total Current Liabilities	354,211,089	385,986,572
Noncurrent liabilities:		
Bonds and notes payable, net of current portion	1,475,348,141	1,687,468,403
Deferred revenues	486,963	487,916
Derivative instrument liability	14,234,000	14,617,000
Total Noncurrent Liabilities	1,490,069,104	1,702,573,319
Total Liabilities	1,844,280,193	2,088,559,891
<b>NET POSITION</b>		
Restricted for debt service	3,094,747	3,542,320
Unrestricted	15,565,647	15,568,420
Total Net Position	\$ 18,660,394	\$ 19,110,740

See accompanying notes to financial statements.

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES</b>		
Interest income	\$ 80,413,720	\$ 95,717,826
Acceptance and administration fees	793,770	544,657
Total Operating Revenues	81,207,490	96,262,483
<b>OPERATING EXPENSES</b>		
Interest	76,715,117	90,358,507
Amortization of debt issuance costs	3,561,584	4,545,209
General and administrative	1,564,752	1,577,907
Total Operating Expenses	81,841,453	96,481,623
Operating Loss	(633,963)	(219,140)
<b>NONOPERATING REVENUE</b>		
Interest income on investments	183,617	238,765
<b>CHANGE IN NET POSITION</b>	(450,346)	19,625
<b>NET POSITION</b>		
Beginning of year	19,110,740	19,091,115
End of year	\$ 18,660,394	\$ 19,110,740

See accompanying notes to financial statements.

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from interest, acceptance and administrative fees on deferred revenue	\$ 82,527,705	\$ 99,343,892
Cash payments for loaned amounts, operating expense of the operating fund and amortization of cost of issuance	(88,291,330)	(95,626,309)
Cash payments to suppliers and employees	(1,121,806)	(1,284,505)
Net Cash Provided (Used) by Operating Activities	(6,885,431)	2,433,078
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from debt issuances	536,117,209	366,458,873
Debt issuance costs paid	(2,781,330)	(2,347,412)
Repayment of bonds and notes payable	(768,722,734)	(629,524,519)
Net Cash Used in Non-Capital Financing Activities	(235,386,855)	(265,413,058)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(59,797,686)	(45,919,210)
Purchases of qualified obligations receivable	(498,752,048)	(328,880,119)
Interest received on investments	183,617	238,765
Maturities of investments	60,696,199	49,212,113
Maturities of qualified obligations receivable	729,615,423	566,848,485
Net Cash Provided by Investing Activities	231,945,505	241,500,034
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(10,326,781)	(21,479,946)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	99,666,510	121,146,456
End of year	\$ 89,339,729	\$ 99,666,510
Supplemental disclosure of cash flow information:		
Interest received during the year	\$ 81,734,888	\$ 98,800,254
Interest paid during the year	88,118,961	95,543,761
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (633,963)	\$ (219,140)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Amortization of debt issuance costs	3,561,584	4,545,209
Changes in certain assets and liabilities:		
Accrued interest receivable	1,321,168	3,082,428
Accrued interest payable	(11,754,268)	(5,185,254)
Accounts payable	621,001	210,854
Deferred revenues	(953)	(1,019)
Net Cash Provided (Used) by Operating Activities	\$ (6,885,431)	\$ 2,433,078

See accompanying notes to financial statements.



**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)  
NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

**(1) Summary of Significant Accounting Policies**

***Organization***

Indiana Bond Bank (the Bond Bank), a component unit of the State of Indiana (the State), was created by Senate Enrolled Act No. 97 (as amended) (the Bond Bank Act) of the Indiana General Assembly on July 1, 1984. The Bond Bank is an instrumentality of the State but is not a State agency and has no taxing power. It has separate corporate and sovereign capacity, and its Board of Directors is composed of the Treasurer of the State (who serves as Chairman of the Board, ex officio), the Director of Public Finance (who serves as director, ex officio) and five directors appointed by the Governor of the State. The Bond Bank has no oversight authority over any other entity.

The Bond Bank is authorized to buy and sell securities (see Note 4 for statutory limitations) for the purpose of providing funds to Indiana qualified entities, as defined under the Bond Bank Act. Accordingly, the Bond Bank enables qualified entities to issue debt at a lower cost of borrowing and on more favorable terms than would be possible by financing on their own.

To achieve its purpose, the Bond Bank operates the following programs:

*Special Program*—Bonds issued to assist qualified entities with various long-term financing needs, including expansion of water and sewer systems and county hospitals.

*Advance Funding Program*—Notes issued to provide qualified entities with short-term cash flow financing during the periods of time prior to the semi-annual receipt of property taxes.

*Common School Fund Program*—Bonds issued to purchase outstanding advancements made from the State's constitutionally established Common School Fund to finance technology or construction costs. The proceeds replenish the Fund's balance, allowing the Indiana Department of Education to provide additional financial assistance for Indiana school corporations.

*School Severance Program*—Bonds issued to assist qualified entities with financing for contractual retirement or severance liabilities.

*Year End Warrant Assistance Program*—Notes issued to assist Indiana political subdivisions with financing for continued cash flow deficits at year end. These notes were issued to fund outstanding amounts from the Advance Funding and Midyear Programs.

*Hoosier Equipment Lease Purchase Program*—Bonds issued to assist qualified entities in obtaining low cost lease financing for essential equipment purchases. The leases and related obligations are not reflected on the Bond Bank's financial statements as these are assigned to a bank.

*Prepaid Gas Funding Program*—Bonds issued to allow qualified entities a mechanism for financing the prepayment of supplies of natural gas to be delivered over time.

*Fuel Budgeting Program*—Program to offer municipalities a means to reduce price volatility in gasoline and diesel fuel through the use of commodity hedges.

*Qualified School Construction Program*—Tax credit bonds that enable schools to borrow funds at below market interest rate for construction projects.

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)  
NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

**(1) Summary of Significant Accounting Policies (Continued)**

***Basis of Presentation***

The financial statements of the Bond Bank have been prepared on the accrual basis of accounting and using the economic resources measurement focus. Accordingly, the Bond Bank recognizes revenue in the period earned and expenses in the period incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The Bond Bank follows GASB pronouncements as codified under GASB Statement No. 62.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

***Federal Income Taxes***

The Bond Bank is exempt from federal income taxes under Internal Revenue Code Section 115.

***Investments***

Investments are recorded at fair value, based on quoted market prices of the investment or similar investments. For investments at June 30, 2013 and 2012, fair value approximates cost. Changes in the fair value of investments are included in the statement of revenues, expenses and changes in net position. The calculation of realized gains or losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in prior year(s) and the current year.

***Cash Equivalents***

The Bond Bank considers all investments in commercial paper, certificates of deposit, repurchase agreements, passbook savings, money market deposits, and money market funds with original maturities of three months or less to be cash equivalents.

***Debt Issuance Costs***

Costs associated with issuing debt, including original issue discounts and premiums, are deferred and amortized over the life of the respective debt issue on a basis that approximates a constant effective interest rate.

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**(1) Summary of Significant Accounting Policies (Continued)**

***Deferred Revenues***

Cash flows for certain issues are not spread evenly over the respective lives of the issues. To recognize the economic structure of these issues, certain revenues estimated to be earned through maturity of the related issue is recognized ratably from period to period. The Bond Bank receives acceptance and administration fees from qualified entities in connection with their various programs.

***Defeasance of Debt***

The Bond Bank considers debt to be defeased when cash or other assets are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on a specific obligation. The related liability and assets held in trust for the related bonds are removed from the financial statements. See Note 4 for outstanding principal balances on defeased debt outstanding.

***Net Position***

The Bond Bank's resources are classified for accounting and financial reporting purposes into the following net position categories:

- *Invested in Capital Assets*—resources resulting from capital acquisition, net of accumulated depreciation. At June 30, 2013 and 2012, there were no assets invested in capital assets.
- *Restricted*—net position subject to externally imposed stipulations as to use. This net position is restricted under the related program's bond indentures.
- *Unrestricted*—net position which is available for the use of the Bond Bank.

***Operating and Nonoperating Revenues***

Revenues are classified as either operating or nonoperating. Operating revenues consist of interest income earned on qualified obligations receivable, the related investments in guaranteed investment contracts and acceptance and administration fees paid by qualified entities to the Bond Bank's operating program. All other items are considered nonoperating.

***Reclassifications***

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

***Subsequent Events***

The Bond Bank has evaluated the financial statements for subsequent events occurring through October 24, 2013, the date the financial statements were available to be issued.

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**(2) Cash, Cash Equivalents and Investments**

The Bond Bank Act permits funds to be invested as provided by resolutions of the Board of Directors or trust indentures executed by the Bond Bank. In addition to authorizing investments in qualified entities, these resolutions and trust indentures have authorized the Bond Bank to invest in obligations of the U.S. Treasury, U.S. agencies and secured and unsecured investment agreements. The Bond Bank has also been authorized to invest in commercial paper, certificates of deposit, repurchase agreements, passbook savings and money market deposit accounts.

The Bond Bank's cash, cash equivalents and investments at June 30, 2013 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
U.S. government agency obligations	\$ 14,516,480	\$ 14,516,480
Money market funds	72,310,825	72,310,825
Investment agreements with banks	29,273,453	29,273,453
Cash	2,512,424	2,512,424
Total cash, cash equivalents and investments	<u>\$ 118,613,182</u>	<u>\$ 118,613,182</u>

The Bond Bank's cash, cash equivalents and investments at June 30, 2012 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
U.S. government agency obligations	\$ 15,093,277	\$ 15,093,277
Money market funds	82,536,389	82,536,389
Investment agreements with banks	29,775,331	29,775,331
Cash	2,036,844	2,036,844
Total cash, cash equivalents and investments	<u>\$ 129,441,841</u>	<u>\$ 129,441,841</u>

The above investments are restricted to repayment of bonds and notes payable issued under the respective programs (see Note 4). Funds deposited under investment agreements with banks and insurance companies earn a fixed interest rate and generally expire upon extinguishment of the debt issues to which they relate.

Custodial risk is the risk that in the event of bank failure, the Bond Bank's deposits may not be returned to it. The Bond Bank's cash is insured by Federal Deposit Insurance Corporation (FDIC). From time to time, certain cash balances maintained by the Bond Bank exceed federally insured limits. As of June 30, 2013, the Bond Bank had cash balances of \$1,981,166 with custodial risk. Funds deposited under investment agreements with banks and insurance companies are unsecured.

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**(2) Cash, Cash Equivalents and Investments (Continued)**

As of June 30, 2013, the Bond Bank had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Government obligations	\$ 14,516,480	\$14,516,480			
Money market funds	72,310,825	72,310,825			
Guaranteed investments	29,273,453	679,127	\$1,425,785	\$39,059	\$ 27,129,482
Totals	<u>\$116,100,758</u>	<u>\$87,506,432</u>	<u>\$1,425,785</u>	<u>\$39,059</u>	<u>\$ 27,129,482</u>

**Credit Risk Disclosure**

The following table provides information on the credit ratings associated with the Bond Bank's investments:

<u>Credit Ratings</u>	<u>S &amp; P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Fair Value</u>
Government obligations	AA+	AAA	Aaa	\$ 14,516,480
Money market funds	AAA	AAA	Aaa	72,310,825
Guaranteed investment contracts:				
Aegon	A+	A-	A3	26,921,253
GE Capital Corp	AA+	AAA	A1	176,082
Natixis Funding Corp	A	A+	A2	1,496,992
West LB	AA-	AAA	Aa1	679,126
Total Rated Investments				<u>\$ 116,100,758</u>

**Concentration of Credit Risk**

There are no limits on the amount that may be invested in any one issuer. The following table shows investment issuers that represent 5% or more of the total investments at June 30, 2013:

Aegon Institutional Guaranteed Investment Contracts	23%
Fidelity Institutional US Government Portfolio Money Market Fund	19%
Dreyfus Treasury Prime Cash Management	13%
Bank of New York Cash Reserve	10%
Bank of America Treasury Reserve	6%
U.S. Bank N.A. Discount Commercial Paper	5%

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**(3) Qualified Obligations Receivable**

All of the qualified obligations receivable are held in safekeeping by trustees, are registered in the Bond Bank's name and are uninsured. All purchases of qualified obligations are authorized by the Board of Directors. Prior to being presented to the Board of Directors, an evaluation of each purchase is made by Bond Bank management and independent consultants. Repayment of these obligations by the qualified entities is funded by multiple sources, including property tax revenues and user fees.

In the event of default, the Bond Bank Act provides that certain qualified entities can, to the extent permitted by law, be required to levy tax or the Bond Bank may receive state funding to which the qualified entities are otherwise entitled. No qualified entity has defaulted on its obligation to the Bond Bank since inception of the Bond Bank operations.

At June 30, 2013 and 2012, qualified obligations receivable included \$53,570,000 and \$57,525,000, respectively, which is to be repaid from incremental property tax revenues. The ability of the qualified entities to realize these incremental property tax revenues is dependent upon certain economic developments occurring in the future. Furthermore, the Bond Bank does not have the remedies, as described above, available should the qualified entities default due to the realization of insufficient property tax revenues. Management, however, believes the amount of these obligations to be fully collectible. Additionally, the Bond Bank executed letter of credit arrangements with a bank to further secure the related indebtedness to the Bond Bank bondholders (see Notes 4 and 5).

As of June 30, 2013 and 2012, the Bond Bank's Board of Directors authorized the purchase and subsequent leasing of equipment totaling approximately \$6,928,802 and \$3,438,510, respectively, through the Hoosier Equipment Lease Purchase Program. These lease receivables and related obligations are not reflected in the financial statements as the leases and related obligations have been assigned to a bank and the Bond Bank has been legally released from the obligations.

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Years Ended June 30, 2013 and 2012

**(4) Bonds and Notes Payable**

Bonds and notes payable at June 30 consist of the following:

	<u>2013</u>	<u>2012</u>
Special Program Bonds:		
Series 2002 A (rates vary from 4.30% to 5.50% with maturities from October 1, 2011 to October 1, 2027)	\$ 13,020,000	\$ 30,875,000
Series 2002 C (rates vary from 4.20% to 5.00% with maturities from February 1, 2012 to February 1, 2017) refunded during 2013	—	515,000
Series 2002 E (rates vary from 3.50% to 5.25% with maturities from February 1, 2012 to February 1, 2023) refunded during 2013	—	7,315,000
Series 2003 A (rates vary from 3.75% to 5.25% with maturities from February 1, 2012 to February 1, 2033) refunded during 2013	—	35,010,000
Series 2003 B (rates vary from 3.75% to 5.00% with maturities from February 1, 2012 to February 1, 2023) refunded during 2013	—	4,965,000
Series 2003 C (rates vary from 3.50% to 5.00% with maturities from July 25, 2011 to January 1, 2016)	2,645,000	3,140,000
Series 2003 D (rates vary from 3.25% to 5.00% with maturities from August 1, 2011 to February 1, 2025) refunded during 2013	—	23,970,000
Series 2003 F (rates vary from 3.00% to 4.75% with maturities from February 1, 2012 to February 1, 2024)	5,930,000	6,760,000
Series 2004 B (rates vary from 3.00% to 5.00% with maturities from February 1, 2012 to February 1, 2023)	10,570,000	11,410,000
Series 2004 C (rates vary from 4.00% to 5.38% with maturities from August 1, 2011 to February 1, 2031)	29,240,000	30,220,000
Series 2004 D (rates vary from 3.00% to 5.00% with maturities from February 1, 2012 to February 1, 2022)	18,555,000	20,205,000
Series 2005 A (rates vary from 3.00% to 4.50% with maturities from August 1, 2011 to February 1, 2027)	10,070,000	10,645,000
Series 2005 B (rates vary from 4.00% to 4.15% with maturities from February 15, 2012 to February 15, 2020)	5,065,000	5,685,000
Series 2005 C (rates vary from 3.75% to 4.25% with maturities from June 1, 2012 to June 1, 2026)	8,185,000	8,655,000
Series 2005 D (rates vary from 3.75% to 5.00% with maturities from August 1, 2011 to August 1, 2028)	3,640,000	3,800,000
Series 2006 B-1 (rates vary from 3.75% to 5.00% with maturities from September 1, 2011 to March 1, 2027)	9,965,000	10,560,000
Series 2006 B-2 (rates vary from 5.50% to 5.80% with maturities from September 1, 2011 to September 1, 2017)	2,315,000	2,315,000
Series 2006 A (rates vary from 4.00% to 5.13% with maturities from August 1, 2011 to September 1, 2024)	18,295,000	19,550,000
Series 2006 C (rates vary from 4.25% to 5.00% with maturities from February 1, 2012 to February 1, 2023)	16,055,000	17,290,000
Series 2006 D (rates vary from 4.00% to 4.25% with maturities from August 1, 2011 to February 1, 2027)	8,390,000	9,220,000
Series 2007 A (rates vary from 5.00% to 5.25% with maturities from April 1, 2013 to April 1, 2030)	43,340,000	44,915,000
Series 2008 B (rates vary from 4.00% to 5.79% with maturities from June 1, 2012 to June 1, 2034)	89,169,160	88,091,725

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Years Ended June 30, 2013 and 2012

**(4) Bonds and Notes Payable (Continued)**

	<b>2013</b>	<b>2012</b>
Special Program Bonds (Continued):		
Series 2008 D (rates vary from 4.00% to 4.50% with maturities from February 1, 2012 to February 1, 2013)	\$ —	\$ 1,025,000
Series 2009 A (rates vary from 3.00% to 5.50% with maturities from August 1, 2011 to February 1, 2029)	65,180,000	67,830,000
Series 2009 C (rates vary from 3.00% to 4.77% with maturities from February 1, 2012 to February 1, 2030)	21,720,000	22,735,000
Series 2009 D (rates vary from 3.00% to 5.00% with maturities from August 1, 2011 to August 1, 2020)	46,330,000	48,175,000
Series 2010 A-1 (rates vary from 3.00% to 4.00% with maturities from February 1, 2012 to February 1, 2021)	6,005,000	6,800,000
Series 2010 A-2 (rates vary from 1.08% to 4.62% with maturities from February 1, 2012 to February 1, 2020)	2,390,000	3,335,000
Series 2010 A-3 (rates vary from 3.00% to 4.00% with maturities from February 1, 2012 to February 1, 2024)	730,000	750,000
Series 2011 A (rates vary from 2.00% to 5.00% with maturities from September 1, 2012 to September 1, 2021)	26,925,000	28,825,000
Series 2012 A (rates are fixed at 3.06% with maturities from October 1, 2012 to April 1, 2027)	3,672,043	3,880,000
Series 2012 C (rates vary from 1.50% to 5.00% with maturities from August 1, 2013 to February 1, 2025)	21,210,000	—
Series 2012 D (rates vary from 2.00% to 5% with maturities from February 1, 2014 to February 1, 2033)	34,385,000	—
Series 2013 A (rates are fixed at 1.84% with maturities from February 1, 2014 to February 1, 2023)	7,330,000	—
	<b>\$ 530,326,203</b>	<b>\$ 578,466,725</b>
Advance Funding Program Notes:		
Series 2011 A Year End Assistance (interest rate of 0.80%, maturing on December 31, 2012)	\$ —	\$ 5,245,000
Series 2012 A (interest rate of 1.02%, maturing on December 31, 2012)	—	116,300,000
Series 2012 A Special Notes (interest rate of 1.65%, maturing on January 3, 2013)	—	25,695,000
Series 2012 C Special Notes (interest rate of 0.81%, maturing on October 1, 2012)	—	5,610,000
Series 2012 A Midyear (interest rate of 0.79%, maturing on January 3, 2013)	—	3,025,000
Series 2012 B Midyear (interest rate of 0.785%, maturing on January 3, 2013)	—	5,850,000
Series 2013 A Special Notes (interest rate of 1.28%, maturing on January 7, 2014)	18,970,000	—
Series 2013 B Special Notes (interest rate of 0.79%, maturing on January 7, 2014)	665,000	—
Series 2013 A (interest rate of 0.60%, maturing on January 3, 2014)	93,553,000	—
Series 2013 Midyear (interest rate of 0.715%, maturing on January 3, 2014)	15,645,000	—
Series 2013 Year End Assistance (interest rate of 0.80%, maturing on December 31, 2013)	3,075,000	—
	<b>\$ 131,908,000</b>	<b>\$ 161,725,000</b>



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Years Ended June 30, 2013 and 2012

**(4) Bonds and Notes Payable (Continued)**

		2013	2012
Common School Fund Bonds:			
Series 1996 A	(interest rate of 5.75% with maturities from August 1, 2011 to August 1, 2013)	\$ 245,000	\$ 490,000
Series 1999 A	(interest rate of 5.00% with maturities from February 1, 2012 to February 1, 2014)	1,710,000	4,610,000
Series 2003 A and B	(rates vary from 3.00% to 5.00% with maturities from August 1, 2011 to February 1, 2020, partially refunded in 2012)	12,225,000	24,295,000
Series 2009 A	(rates vary from 2.92% to 4.05% with maturities from August 1, 2011 to August 1, 2013)	6,890,000	20,580,000
Series 2010 A	(rates vary from 0.53% to 4.04% with maturities from August 1, 2011 to February 1, 2017)	51,345,000	51,345,000
Series 2010 B	(rates vary from 1.35% to 4.30% with maturities from August 1, 2011 to August 1, 2018)	52,005,000	52,220,000
Series 2012 A	(rates vary from 0.558% to 1.946% with maturities from February 1, 2013 to February 1, 2018)	4,585,000	5,920,000
Series 2012 B	(rates vary from 0.427% to 2.296% with maturities from August 1, 2012 to February 2, 2019)	42,590,000	44,245,000
Total Common School Fund Bonds		\$ 171,595,000	\$ 203,705,000
School Severance Program Bonds:			
Series 3	(rates vary from 4.75% to 5.85% with maturities from July 15, 2011 to January 15, 2023) refunded during 2013	\$ —	\$ 31,790,000
Series 4	(rates vary from 3.85% to 5.07% with maturities from July 15, 2011 to January 15, 2024) refunded during 2013	—	28,145,000
Series 5A	(rates vary from 4.37% to 5.82% with maturities from July 15, 2011 to January 15, 2024) refunded during 2013	—	94,610,000
Series 5B	(interest rate of 5.05% with maturities from July 15, 2011 to January 15, 2019) refunded during 2013	—	8,525,000
Series 5C	(interest rate of 5.15% with maturities from July 15, 2011 to January 15, 2019)	1,980,000	2,255,000
Series 6A	(rates vary from 4.91% to 6.24% with maturities from July 15, 2011 to January 15, 2025) refunded during 2013	—	99,425,000
Series 6B	(interest rate of 5.79% with maturities from July 15, 2011 to January 15, 2025) refunded during 2013	—	11,175,000
Series 7A	(rates vary from 4.18 to 5.73% with maturities from July 15, 2011 to January 15, 2030) refunded during 2013	—	65,860,000
Series 7B	(rates vary from 4.50% to 5.30% with maturities from July 15, 2011 to January 15, 2020) refunded during 2013	—	8,030,000
Series 8A	(rates vary from 4.17% to 5.64% with maturities from July 15, 2011 to January 15, 2029)	76,055,000	85,335,000
Series 8B	(rates vary from 4.17% to 5.49% with maturities from July 15, 2011 to January 15, 2026)	45,880,000	48,985,000
Series 9	(rates vary from 4.19% to 5.53% with maturities from July 15, 2011 to January 15, 2026)	21,420,000	23,440,000
Series 10	(rates vary from 4.93% to 5.68% with maturities from July 15, 2011 to January 15, 2031)	48,960,000	50,380,000
Series 11	(rates vary from 5.47% to 6.20% with maturities from July 15, 2011 to January 15, 2029)	91,850,000	97,570,000

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**(4) Bonds and Notes Payable (Continued)**

	<b>2013</b>	<b>2012</b>
School Severance Program Bonds (Continued):		
Series 11A (interest rate of 2.15% with maturities from July 15, 2012 to January 15, 2018)	\$ 8,685,000	\$ 10,265,000
Series 12A (rates vary from 1.39% to 3.32% with maturities from July 15, 2012 to January 15, 2023)	12,505,000	14,115,000
Series 12B (rates vary from 1.54% to 3.52% with maturities from July 15, 2012 to July 15, 2022)	4,260,000	4,705,000
Series 12C (rates vary from 1.20% to 2.56% with maturities from July 15, 2013 to January 15, 2023)	19,115,000	—
Series 13A (rates vary from 0.19% to 4.03% with maturities from July 15, 2013 to January 15, 2030)	248,095,000	—
Series 13B (interest rate of 1.80% with maturities from July 15, 2013 to January 15, 2025)	16,485,000	—
	<b>\$ 595,290,000</b>	<b>\$ 684,610,000</b>
Prepaid Gas Funding Program Bonds:		
Series 2007 A and B 2007 A Fixed Bonds rates vary from 5.00% to 5.25%, with maturities from October 15, 2015 to October 15, 2021.		
2007 B-1 LIBOR Index Rate Bonds rates vary based on 67% of the Three-Month LIBOR Rate plus the per annum spread of 0.97%. Rate at June 30, 2013 was 0.27%, maturing on October 15, 2022.		
2007 B-2 BMA Index Rate Bonds rates vary based on the BMA Municipal Swap Index plus the per annum spread 0.66%. Rate at June 30, 2013 was 0.05%, maturing on October 15, 2022.		
2007 B-3 CPI Index Rate Bonds rates vary based on changes in the CPI Index plus the per annum spread ranging from 1.31% to 1.40%. The rate at June 30, 2013 was 1.10%, with maturities through October 15, 2015.	\$ 228,075,000	\$ 244,995,000
	<b>\$ 228,075,000</b>	<b>\$ 244,995,000</b>

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**(4) Bonds and Notes Payable (Continued)**

	2013	2012
Qualified School Construction Bonds:		
Series 2009      (rates vary from 1.51% to 1.75% with maturities from January 15, 2012 to January 15, 2025)	\$ 60,855,000	\$ 63,922,000
Series 2010      (rates vary from 2.96% to 5.49% with maturities from July 15, 2011 to July 15, 2027)	52,640,000	54,510,000
Total Qualified School Construction Bonds	\$ 113,495,000	\$ 118,432,000
Totals	1,770,689,203	1,991,933,725
Add: Net unamortized premium	14,837,666	14,696,426
Less: Deferred charge on refunding	(18,024,029)	(6,521,791)
Total Bonds and Notes Payable	1,767,502,840	2,000,108,360
Less: Current portion	(292,154,699)	(312,639,957)
Noncurrent Portion of Bonds and Notes Payable	\$ 1,475,348,141	\$ 1,687,468,403

The bonds and notes payable listed above were issued under respective indentures of trust. Each indenture requires the maintenance of various trust accounts, and several of the bonds and notes payable require debt service reserve accounts. Assets held in debt service reserve accounts are included in investments and amounted to \$13,314,399 and \$13,312,690 at June 30, 2013 and 2012, respectively.

The faith, credit and taxing power of the State of Indiana or any political subdivision thereof are not pledged to the payment of principal and interest on these obligations. However, the following series of Bond Bank bonds are fully insured by a private insurer at June 30, 2013.

Special Program Bonds

Series 2002 A  
Series 2003 F  
Series 2004 B  
Series 2004 C  
Series 2004 D  
Series 2005 A  
Series 2005 B  
Series 2005 C  
Series 2005 D  
Series 2006 A Refunding  
Series 2006 B  
Series 2006 C  
Series 2006 D  
Series 2007 A Refunding  
Series 2008 B

Special Program Bonds (Cont.)

Series 2010 A-1, A-2 (Taxable) & A-3  
Multipurpose  
Series 2011 A Refunding

Common School Fund Bonds

Series 1996 A  
Series 1999 A  
Series 2003 A & B

School Severance Program Bonds

Series 5 C  
Series 8 A & B  
Series 9  
Series 10  
Series 11

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Years Ended June 30, 2013 and 2012

**(4) Bonds and Notes Payable (Continued)**

The Bond Bank is required under the trust indentures of certain series of Special Program Bonds to enter into letter of credit arrangements with banks in order to secure the indebtedness.

Additionally, the Bond Bank was required under the trust indentures of certain series of bonds and notes payable to enter into line of credit arrangements with banks in order to secure the indebtedness. These line of credit arrangements are renewable each year.

The amounts eligible to be drawn under these arrangements at June 30, 2013 are as follows:

Series	Eligible Amount
Special Program Bonds, Series 2002 A	\$ 3,185,294
Special Program Bonds, Series 2003 F1	1,537,104
Special Program Bonds, Series 2004 B	1,505,794
Special Program Bonds, Series 2004 C	2,514,999
Special Program Bonds, Series 2004 D	2,599,927
Special Program Bonds, Series 2005 A	1,212,444
Special Program Bonds, Series 2005 C	830,969
Special Program Bonds, Series 2005 D	329,062
Special Program Bonds, Series 2006 A Ref	2,186,637
Special Program Bonds, Series 2006 B-1 & B-2	1,259,641
Special Program Bonds, Series 2006 C	2,081,120
Special Program Bonds, Series 2006 D	1,584,938
Special Program Bonds, Series 2007 A Ref	3,920,650
Special Program Bonds, Series 2010 A-1, A-2 Taxable, A-3 Multipurpose	2,865,702
Special Program Bonds, Series 2011 A Refunding	3,008,950
Special Program Bonds, Series 2012 C Refunding	2,294,750
Special Program Bonds, Series 2012 D Refunding	2,727,225

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**(4) Bonds and Notes Payable (Continued)**

In the event of a draw on either a letter or line of credit facility, each borrowing will bear an interest rate based upon a series of optional rates as specified in the particular agreement. No draws were made against any debt service reserve account, letter, or line of credit facility during the years ended June 30, 2013 or 2012.

At June 30, 2013, maturities of long-term debt and interest are as follows:

Fiscal Year Ending June 30	Principal	Interest
2014	\$ 292,154,699	\$ 62,261,062
2015	154,056,289	57,495,905
2016	150,322,081	52,939,763
2017	146,296,083	47,737,441
2018	143,572,301	42,416,151
2013-2023	561,436,803	135,018,949
2024-2028	250,089,787	42,736,766
2029-2033	63,279,384	6,852,135
2034-2038	9,481,776	173,776
	1,770,689,203	\$ 447,631,948
Add: Unamortized premium	14,837,666	
Less: Deferred charge	(18,024,029)	
	\$ 1,767,502,840	

The Bond Bank issued \$52,960,000 of debt on behalf of seventeen not-for-profit qualified water utilities. At June 30, 2013 and 2012, the balance outstanding for these qualified water utilities totaled \$11,770,000 and \$13,520,000, respectively. Under the provisions of these debt issues, the bonds are payable solely from the revenues generated by the qualified water utilities. This debt does not constitute a general or moral obligation of the Bond Bank nor are debt service reserve funds maintained for these debt issues. The Bond Bank is not obligated in any manner for repayment of the bonds. For these reasons, the Bond Bank has not recorded these debt issues and the related utilities' obligations in the accompanying financial statements.

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Years Ended June 30, 2013 and 2012

**(4) Bonds and Notes Payable (Continued)**

The Bond Bank is restricted by statute (IC 5-1.5-4-1(c)) to limit its total outstanding debt to \$1,000,000,000. However, the statute allows for the exclusion of bonds and notes issued funding the refunding of bonds or notes, as well as bonds, notes, or other obligations that are not secured by a reserve fund as defined by IC 5-1.5-5. Accordingly, the debt involving not-for-profit water utilities discussed above is not included when computing the Bond Bank's available debt limit. In addition, certain debt recorded in the Bond Bank's financial statements is not included in such a computation due to the provisions described in the statute.

A reconciliation of debt outstanding as reflected in the financial statements to the statutory debt limit is as follows:

Bonds and notes payable - face amount	\$ 1,770,689,203
Less: Debt recorded which does not require reserve funds	<u>1,338,269,203</u>
Debt outstanding for statutory debt limit purposes at June 30, 2013	432,420,000
Available remaining debt limit for statutory purposes	<u>567,580,000</u>
Statutory debt limit	<u>\$ 1,000,000,000</u>

During 2013, the Bond Bank issued Special Program Refunding Bonds Series 2012 C in the amount of \$22,090,000. The proceeds from the Special Program Refunding Bonds Series 2012 C issue plus other funds on hand were used to refund Special Program Bonds Series 2003 D. The cash flow difference between the debt service on the Special Program Bond Series 2003 D and the new debt was \$2,921,486 and the net present value savings were \$2,474,168.

During 2013, the Bond Bank issued Special Program Refunding Bonds Series 2012 D in the amount of \$34,385,000. The proceeds from the Special Program Refunding Bonds Series 2012 D issue plus other funds on hand were used to refund Special Program Bonds Series 2003 A. The cash flow difference between the debt service on the Special Program Bond Series 2003 A and the new debt was \$6,261,052 and the net present value savings were \$3,450,341.

During 2013, the Bond Bank issued Special Program Refunding Bonds Series 2013 A in the amount of \$7,330,000. The proceeds from the Special Program Refunding Bonds Series 2013 A issue plus other funds on hand were used to refund Special Program Bonds Series 2002 C, 2002 E and 2003 B. The cash flow difference between the debt service on the Special Program Bond Series 2002 E and 2003 B and the new debt was \$1,782,610 and the net present value savings were \$736,375.

During 2013, the Bond Bank issued School Severance Funding Program Bonds Series 12 C in the amount of \$21,465,000. The proceeds from the School Severance Program Refunding Bonds Series 12 C issue plus contributions from the underlying qualified entity were used to refund School Severance Program Bonds Series 3. The cash flow difference between the debt service on the School Severance Program Bonds Series 3 and the new debt was \$3,202,284 and the net present value savings were \$2,749,441.

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**(4) Bonds and Notes Payable (Continued)**

During 2013, the Bond Bank issued School Severance Funding Program Bonds Series 13 A and 13 B in the amount of \$264,580,000. The proceeds from the School Severance Program Refunding Bonds Series 13 A and 13 B issue plus contributions from the underlying qualified entity were used to refund School Severance Program Bonds Series 4, 5A, 5B, 6A, 6B, 7A and 7B. The cash flow difference between the debt service on the School Severance Program Bonds Series 4, 5A, 5B, 6A, 6B, 7A and 7B and the new debt was \$33,609,060 and the net present value savings were \$26,148,287.

During 2012, the Bond Bank issued Special Program Refunding Bonds Series 2011 A in the amount of \$29,140,000. The proceeds from the Special Program Refunding Bonds Series 2011 A issue plus other funds on hand were used to refund Special Program Bonds Series 2003 E. The cash flow difference between the debt service on the Special Program Bond Series 2003 E and the new debt was \$5,954,749 and the net present value savings were \$2,556,076.

During 2012, the Bond Bank issued School Severance Program Refunding Bonds Series 2011 A in the amount of \$11,430,000. The proceeds from the School Severance Program Refunding Bonds Series 2011 A issue were used to refund School Severance Program Bonds Series 1. The cash flow difference between the debt service on the School Severance Program Bonds Series 1 and the new debt was \$956,212 and the net present value savings were \$919,602.

During 2012, the Bond Bank issued School Severance Funding Program Bonds Series 12 A and 12 B in the amount of \$18,820,000. The proceeds from the School Severance Program Refunding Bonds Series 12 A and 12 B issue plus contributions from the underlying qualified entity were used to refund School Severance Program Bonds Series 2. The cash flow difference between the debt service on the School Severance Program Bonds Series 2 and the new debt was \$4,162,349 and the net present value savings were \$2,623,097.

During 2012, the Bond Bank issued Common School Fund Advancement Purchase Refunding Bonds Series 2012 A and 2012 B in the amount of \$50,165,000. The proceeds from the Common School Fund Advancement Purchase Refunding Bonds Series 2012 A and 2012 B issue plus other funds on hand were used to refund Common School Fund Advancement Purchase Bonds Series 2001 and partially refund Series 2003 B. The cash flow difference between the debt service on the original bonds and the new debt was \$5,445,162 and the net present value savings were \$3,137,682.

The total bonds considered to have been defeased and removed from the financial statements and in total have remaining outstanding principal balances of approximately \$377,090,000 and \$92,730,000 at June 30, 2013 and 2012, respectively.

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**(4) Bonds and Notes Payable (Continued)**

Changes in the Bond Bank's long-term liabilities are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>2013</b>					
Bonds and notes payable	\$ 2,006,630,151	\$ 547,478,211	\$ 768,581,494	\$ 1,785,526,868	\$ 292,154,699
Less deferred amounts	6,521,791	11,502,237	-	18,024,028	-
	<u>2,000,108,360</u>	<u>535,975,974</u>	<u>768,581,494</u>	<u>1,767,502,840</u>	<u>292,154,699</u>
Deferred revenues	487,916	-	953	486,963	-
Derivative instrument liability	14,617,000	-	383,000	14,234,000	-
Total	<u>\$ 2,015,213,276</u>	<u>\$ 535,975,974</u>	<u>\$ 768,965,447</u>	<u>\$ 1,782,223,803</u>	<u>\$ 292,154,699</u>
<b>2012</b>					
Bonds and notes payable	\$ 2,264,819,620	\$ 371,335,050	\$ 629,524,519	\$ 2,006,630,151	\$ 312,639,957
Less deferred amounts	1,645,614	4,876,177	-	6,521,791	-
	<u>2,263,174,006</u>	<u>366,458,873</u>	<u>629,524,519</u>	<u>2,000,108,360</u>	<u>312,639,957</u>
Deferred revenues	488,935	-	1,019	487,916	-
Derivative instrument liability	15,380,000	-	763,000	14,617,000	-
Total	<u>\$ 2,279,042,941</u>	<u>\$ 366,458,873</u>	<u>\$ 630,288,538</u>	<u>\$ 2,015,213,276</u>	<u>\$ 312,639,957</u>

**(5) Derivative Instruments and Fair Value Measurement**

**Objective of the Interest Rate SWAP Agreement.** In August 2007, in anticipation of issuing the Series 2007 B1, B2, and B3 Prepaid Gas Funding Program Bonds and protecting, in part, the Bond Bank from the risk of any adverse change in interest rates on the Series 2007 Prepaid Gas Funding Program Bonds, the Bond Bank entered into a Swap Agreement with JPMorgan Chase Bank N.A. (JPMorgan) to lock in a fixed interest rate.

**SUMMARY OF DERIVATIVE INSTRUMENTS (INTEREST RATE SWAPS)**

Business-Type Activities	Changes in Fair Value		Fair Value at June 30, 2013	Notional Amount
	Classification	Amount	Amount	
Pay-fixed interest rate swap - LIBOR Index Rate Bonds (B-1)	Deferred Outflow	\$ 375,000	\$ (7,019,000)	\$ 22,500,000
Pay-fixed interest rate swap - SIFMA Index Rate Bonds (B-2)	Deferred Outflow	379,000	(6,334,000)	15,690,000
Pay-fixed interest rate swap - CPI Index Rate Bonds (B-3)	Deferred Outflow	(371,000)	(881,000)	43,595,000
		<u>\$ 383,000</u>	<u>\$ (14,234,000)</u>	<u>\$ 81,785,000</u>



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**(5) Derivative Instruments and Fair Value Measurement (Continued)**

*Terms for B-1 (LIBOR Index).* Under the Swap Agreement, the Bond Bank pays interest to JPMorgan on the notional amounts set forth in the three-month LIBOR agreements at the fixed interest rate of 4.73%, in exchange for which JPMorgan pays interest to the Bond Bank on notional amounts at a variable interest rate equal to 67% of the three-month LIBOR plus a spread of .97%. The Swap's notional amount of \$22,500,000 at June 30, 2013 matches the variable rate bonds. The obligation began to bear interest on October 15, 2007, and each party is required to make payments, if any, to the other party under the 2007 Swap agreements, on the 15<sup>th</sup> of October, January, April and July.

*Fair Value (LIBOR Index).* Because LIBOR interest rates have decreased since execution of the Swap Agreement, the Swap had a negative fair value of \$7,019,000 at June 30, 2013. The Swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of the future net settlement on the Swap.

*Terms for B-2 (SIFMA Municipal Swap Index).* Under the Swap Agreement, the Bond Bank pays interest to JPMorgan on the notional amounts set forth in the weekly SIFMA Municipal Index Swap agreements at the fixed interest rate of 4.80%, in exchange for which JPMorgan pays interest to the Bond Bank on notional amounts at a variable interest rate equal to the weekly SIFMA Municipal Index Swap plus a spread of .66%. The Swap's notional amount of \$15,690,000 at June 30, 2013 matches the variable rate bonds. The obligation began to bear interest on October 15, 2007, and each party is required to make payments, if any, to the other party under the 2007 Swap agreements, on the 15<sup>th</sup> of October, January, April, and July.

*Fair Value (SIFMA Municipal Swap Index).* Because SIFMA Municipal Swap Index rates have decreased since execution of the Swap Agreement, the Swap had a negative fair value of \$6,334,000 at June 30, 2013. The Swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the current weekly SIFMA Municipal Index to be used for the July 15, 2013 swap payment. This method calculates the future net settlement payments required by the Swap, assuming that the current weekly SIFMA Municipal Index reflects the fair value of the Swap payments. These payments are then discounted using the current weekly SIFMA Municipal Index Swap on the coupon due on the date of the future net settlement on the Swap.

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**(5) Derivative Instruments and Fair Value Measurement (Continued)**

*Terms for B-3 (CPI Index).* Under the Swap Agreement, the Bond Bank pays interest to JPMorgan on the notional amount set forth in the CPI Index Swap agreements at the fixed interest rate of 4.24% on a notional amount of \$16,665,000, 4.28% on a notional amount of \$16,930,000, and 4.34% on a notional amount of \$10,000,000, in exchange for which JPMorgan pays interest to the Bond Bank on notional amounts at a variable interest rate equal to the rate of change for a one year period of the CPI index three months prior to the settlement date plus a spread of 1.37% on a notional amount of \$16,665,000, 1.38% on a notional amount of \$16,930,000, and 1.40% on a notional amount of \$10,000,000. The Swap's notional amount of \$43,595,000 at June 30, 2013 matches the variable rate bonds. The obligation began to bear interest on September 15, 2007, and each party is required to make payments, if any, to the other party under the 2007 Swap agreements, on the 15<sup>th</sup> of each month.

*Fair Value (CPI Index).* Because interest rates have changed since execution of the Swap Agreement, the Swap had a negative fair value of \$881,000 at June 30, 2013. The Swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the current CPI Index for the swap payment due July 15, 2013. The method calculates the future net settlement payments required by the Swap, assuming that the current CPI index reflects the fair value of the Swap payments. These payments are then discounted using the current CPI index on the coupon due on the date of the future net settlement on the Swap.

*Credit Risk.* As of June 30, 2013, the Bond Bank was not exposed to credit risk because the index swaps had negative fair values. However, should interest rates change and the fair value of the Swap become positive, the Bond Bank would be exposed to credit risk in the amount of the derivative's fair value.

The Swap Agreement counterparty, JPMorgan, was rated A+ by Fitch Ratings and Standard & Poor's and A.3 by Moody's Investor Service as of June 30, 2013.

*Termination Risk.* At any time, the Bond Bank may terminate the Swap Agreement by providing at least a two day written notice to JPMorgan. If at the time of termination the Swap Agreement has a negative fair value, the Bond Bank would be liable to the Swap Agreement provider for a payment equal to the Swap's fair value.

*Swap Payments and Associated Debt.* As rates vary, variable-rate bond interest payments and net swap payments will vary for the qualified entities. As of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows.

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**(5) Derivative Instruments and Fair Value Measurement (Continued)**

**Variable-Rate Bonds (B-1, LIBOR Index)**

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2014	\$ -	\$ 259,405	\$ 804,845	\$ 1,064,250
2015	-	259,405	804,845	1,064,250
2016	-	259,405	804,845	1,064,250
2017	-	259,405	804,845	1,064,250
2018	-	259,405	804,845	1,064,250
2019	-	259,405	804,845	1,064,250
2020	-	259,405	804,845	1,064,250
2021	-	259,405	804,845	1,064,250
2022	-	259,405	804,845	1,064,250
2023	22,500,000	259,405	804,845	1,064,250
Total	<u>\$ 22,500,000</u>	<u>\$ 2,594,050</u>	<u>\$ 8,048,450</u>	<u>\$ 10,642,500</u>

**Variable-Rate Bonds (B-2, SIFMA Index)**

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2014	\$ -	\$ 111,399	\$ 641,721	\$ 753,120
2015	-	111,399	641,721	753,120
2016	-	111,399	641,721	753,120
2017	-	111,399	641,721	753,120
2018	-	111,399	641,721	753,120
2019	-	111,399	641,721	753,120
2020	-	111,399	641,721	753,120
2021	-	111,399	641,721	753,120
2022	-	111,399	641,721	753,120
2023	15,690,000	111,399	641,721	753,120
Total	<u>\$ 15,690,000</u>	<u>\$ 1,113,990</u>	<u>\$ 6,417,210</u>	<u>\$ 7,531,200</u>

**Variable-Rate Bonds (B-3, CPI Index)**

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2014	\$ 16,665,000	\$ 1,081,490	\$ 783,711	\$ 1,865,201
2015	16,930,000	669,864	488,740	1,158,604
2016	10,000,000	250,000	184,000	434,000
Total	<u>\$ 43,595,000</u>	<u>\$ 2,001,354</u>	<u>\$ 1,456,451</u>	<u>\$ 3,457,805</u>

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**(6) Concentrations of Credit**

The Bond Bank has qualified obligations receivable in counties throughout the State of Indiana. The largest concentrations of such receivables are with qualified entities and are as follows:

<u>County</u>	<u>Qualified Obligations Receivable</u>	<u>Concentration Percentage</u>
Marion	\$ 333,195,675	20%
Hendricks	157,680,791	9%
Hamilton	117,096,947	7%
Lake	88,111,135	5%

No other county has a concentration over 5% of the total qualified obligations receivable at June 30, 2013.

**(7) Employee Benefits**

***Plan Description***

The Bond Bank is a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employers' Retirement Fund (PERF) and the Teacher's Retirement Fund (TRF), with the merger of the funds being effective July 1, 2011. The Bond Bank contributes to the INPRS, an agent multiple-employer public employee retirement system, which acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under the Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all of the Bond Bank's employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

In addition, the participants are required to contribute to an annuity savings account. Legislation permits an INPRS employer to make the participant's contributions on behalf of the participants. Participants may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described above. The participant's balance in the annuity savings account may be withdrawn at any time with interest should a participant terminate employment.

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Years Ended June 30, 2013 and 2012

**(7) Employee Benefits (Continued)**

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

***Funding Policy***

The Bond Bank is required to contribute to the Plan at an actuarially determined rate. The current rate is 9.7% (8.6% in prior year) of annual covered payroll. The Bond Bank contributed 3% of the participant's annual salary to the annuity savings account. The contribution requirements of participants are determined by State statute.

***Annual Pension Cost***

For the 2013 plan year, the Bond Bank's annual contribution of \$22,630 was greater than the required contribution of \$16,936. The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2012 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 6.75% and 7% in 2013 and 2012, respectively per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual postretirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

**(8) Operating Leases**

The Bond Bank leases office space as well as office equipment under non-cancelable leases with terms in excess of one year. The following is a schedule of the future minimum rentals under the leases as of June 30, 2013:

Fiscal Year Ending June 30	Payments
2014	\$ 54,271
2015	54,427
2016	28,853
2017	3,600
2018	600
	\$ 141,751

In addition to the minimum lease payments, the Bond Bank is required to pay insurance, taxes and a proportional share of operating costs in excess of a basic level for the office space. The aggregate rental expense charged to operations was \$64,086 and \$32,332 for the years ended June 30, 2013 and 2012, respectively.

**REQUIRED SUPPLEMENTARY INFORMATION**

**INDIANA BOND BANK  
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**RETIREMENT PLAN SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS (UNAUDITED)  
Year Ended June 30, 2013**

<u>Asset Valuation Date</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(1-2) (Unfunded) Overfunded AAL (UAAL)</u>	<u>(1/2) Funded Ratio</u>	<u>(3) Covered Payroll</u>	<u>[(2-1)/3] UAAL as a Percentage of Covered Payroll</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
June 30, 2012	\$ 223,231	\$ 471,466	\$ (248,235)	47%	\$ 307,144	81%	\$ 17,105	132%
June 30, 2011	222,476	394,021	(171,545)	56%	281,522	61%	16,433	110%
June 30, 2010	258,903	384,412	(125,509)	67%	159,812	79%	11,009	147%

**OTHER SUPPLEMENTARY INFORMATION**



**INDIANA BOND BANK**  
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SUPPLEMENTAL SCHEDULE OF NET POSITION INFORMATION BY PROGRAM TYPE

June 30, 2013

ASSETS	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Budgeting Program	Qualified School Construction Bonds	Eliminations	Total
Current assets:										
Cash and cash equivalents	\$ 18,895,770	\$ 17,450,348	\$ 15,578,168	\$ 582,666	\$ 33,648,170	\$ 1,267,140	\$ 42,497	\$ 1,874,970	\$ —	\$ 89,339,729
Qualified obligations receivable	24,852,124	115,097,126	470,000	32,193,795	46,796,288	16,665,000	—	4,618,000	—	240,692,333
Accrued interest receivable	7,426,311	490,331	12,500	3,553,922	5,416,556	2,041,500	—	1,213,300	—	20,154,420
Total Current Assets	<u>51,174,205</u>	<u>133,037,805</u>	<u>16,060,668</u>	<u>36,330,383</u>	<u>85,861,014</u>	<u>19,973,640</u>	<u>42,497</u>	<u>7,706,270</u>	<u>—</u>	<u>350,186,482</u>
Noncurrent assets:										
Investments, at fair value	1,496,992	—	—	855,209	—	26,921,252	—	—	—	29,273,453
Qualified obligations receivable	498,546,545	—	—	133,364,103	500,075,220	212,766,286	—	107,994,922	—	1,452,747,076
Deferred debt issuance costs, net	7,371,855	254,242	—	1,486,872	4,913,010	1,482,674	—	990,923	—	16,499,576
Total Noncurrent Assets	<u>507,415,392</u>	<u>254,242</u>	<u>—</u>	<u>135,706,184</u>	<u>504,988,230</u>	<u>241,170,212</u>	<u>—</u>	<u>108,985,845</u>	<u>—</u>	<u>1,498,520,105</u>
Total Assets	<u>558,589,597</u>	<u>133,292,047</u>	<u>16,060,668</u>	<u>172,036,567</u>	<u>590,849,244</u>	<u>261,143,852</u>	<u>42,497</u>	<u>116,692,115</u>	<u>—</u>	<u>1,848,706,587</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>										
Accumulated decrease in fair value of interest rate swaps	—	—	—	—	—	14,234,000	—	—	—	14,234,000
<b>LIABILITIES</b>										
Current liabilities:										
Bonds and notes payable	26,118,699	131,908,000	—	34,100,000	78,545,000	16,665,000	—	4,818,000	—	292,154,699
Accrued interest payable	7,621,245	387,323	—	2,184,800	7,747,869	2,041,500	—	1,671,700	—	21,654,437
Funds held for qualified entities	10,937,434	—	—	—	—	28,199,118	—	—	—	39,136,552
Accounts payable	53,400	—	13,284	100	27,736	243,700	—	927,181	—	1,265,401
Total Current Liabilities	<u>44,730,778</u>	<u>132,295,323</u>	<u>13,284</u>	<u>36,284,900</u>	<u>86,320,605</u>	<u>47,149,318</u>	<u>—</u>	<u>7,416,881</u>	<u>—</u>	<u>354,211,089</u>
Noncurrent liabilities:										
Bonds and notes payable, net of current portion	512,479,054	—	—	135,898,785	503,397,643	214,293,124	—	109,279,535	—	1,475,348,141
Deferred revenues	5,226	—	481,737	—	—	—	—	—	—	486,963
Derivative instrument liability	—	—	—	—	—	14,234,000	—	—	—	14,234,000
Total Noncurrent Liabilities	<u>512,484,280</u>	<u>—</u>	<u>481,737</u>	<u>135,898,785</u>	<u>503,397,643</u>	<u>228,527,124</u>	<u>—</u>	<u>109,279,535</u>	<u>—</u>	<u>1,490,069,104</u>
Total Liabilities	<u>557,215,058</u>	<u>132,295,323</u>	<u>495,021</u>	<u>172,183,685</u>	<u>589,718,248</u>	<u>275,676,442</u>	<u>—</u>	<u>116,696,416</u>	<u>—</u>	<u>1,844,280,193</u>
<b>NET POSITION</b>										
Restricted for debt service	1,374,539	996,724	—	(147,118)	1,130,996	(298,590)	42,497	(4,301)	—	3,094,747
Unrestricted	—	—	15,565,647	—	—	—	—	—	—	15,565,647
Total Net Position	<u>\$ 1,374,539</u>	<u>\$ 996,724</u>	<u>\$ 15,565,647</u>	<u>\$ (147,118)</u>	<u>\$ 1,130,996</u>	<u>\$ (298,590)</u>	<u>\$ 42,497</u>	<u>\$ (4,301)</u>	<u>\$ —</u>	<u>\$ 18,660,394</u>

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)

SUPPLEMENTAL SCHEDULE OF NET POSITION INFORMATION BY PROGRAM TYPE

June 30, 2012

<b>ASSETS</b>	<b>Special Program</b>	<b>Advance Funding Program</b>	<b>Operating Program</b>	<b>Common School Fund Program</b>	<b>School Severance Program</b>	<b>Prepaid Gas Program</b>	<b>Fuel Budgeting Program</b>	<b>Qualified School Construction Bonds</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current assets:</b>										
Cash and cash equivalents	\$ 20,776,937	\$ 21,598,829	\$ 16,109,649	\$ 579,432	\$ 37,297,735	\$ 969,453	\$ 87,987	\$ 2,246,488	\$ —	\$ 99,666,510
Qualified obligations receivable	26,451,957	141,402,978	—	30,225,903	45,442,116	16,920,000	—	4,307,000	—	264,749,954
Accrued interest receivable	8,044,987	880,563	—	4,386,667	5,795,871	2,070,900	—	296,600	—	21,475,588
Total Current Assets	<u>55,273,881</u>	<u>163,882,370</u>	<u>16,109,649</u>	<u>35,192,002</u>	<u>88,535,722</u>	<u>19,960,353</u>	<u>87,987</u>	<u>6,850,088</u>	<u>—</u>	<u>385,892,052</u>
<b>Noncurrent assets:</b>										
Investments, at fair value	1,308,515	—	—	1,045,673	51,468	27,369,675	—	—	—	29,775,331
Qualified obligations receivable	541,053,341	—	—	168,019,212	608,149,025	229,699,695	—	112,834,723	—	1,659,755,996
Deferred debt issuance costs, net	7,589,155	419,634	—	1,807,263	4,892,181	1,776,096	—	1,145,923	—	17,630,252
Total Noncurrent Assets	<u>549,951,011</u>	<u>419,634</u>	<u>—</u>	<u>170,872,148</u>	<u>613,092,674</u>	<u>258,845,466</u>	<u>—</u>	<u>113,980,646</u>	<u>—</u>	<u>1,707,161,579</u>
Total Assets	<u>605,224,892</u>	<u>164,302,004</u>	<u>16,109,649</u>	<u>206,064,150</u>	<u>701,628,396</u>	<u>278,805,819</u>	<u>87,987</u>	<u>120,830,734</u>	<u>—</u>	<u>2,093,053,631</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>										
Accumulated decrease in fair value of interest rate swaps	—	—	—	—	—	14,617,000	—	—	—	14,617,000
<b>LIABILITIES</b>										
<b>Current liabilities:</b>										
Bonds and notes payable	28,042,957	161,725,000	—	32,110,000	68,905,000	16,920,000	—	4,937,000	—	312,639,957
Accrued interest payable	8,573,123	915,164	—	3,517,800	16,612,518	2,070,900	—	1,719,200	—	33,408,705
Funds held for qualified entities	11,013,047	—	—	—	—	28,326,671	—	—	—	39,339,718
Accounts payable	53,400	—	59,492	100	241,500	243,700	—	—	—	598,192
Total Current Liabilities	<u>47,682,527</u>	<u>162,640,164</u>	<u>59,492</u>	<u>35,627,900</u>	<u>85,759,018</u>	<u>47,561,271</u>	<u>—</u>	<u>6,656,200</u>	<u>—</u>	<u>385,986,572</u>
<b>Noncurrent liabilities:</b>										
Bonds and notes payable, net of current portion	556,134,558	531,971	—	170,583,368	614,510,976	231,528,695	—	114,178,835	—	1,687,468,403
Deferred revenues	6,179	—	481,737	—	—	—	—	—	—	487,916
Derivative instrument liability	—	—	—	—	—	14,617,000	—	—	—	14,617,000
Total Noncurrent Liabilities	<u>556,140,737</u>	<u>531,971</u>	<u>481,737</u>	<u>170,583,368</u>	<u>614,510,976</u>	<u>246,145,695</u>	<u>—</u>	<u>114,178,835</u>	<u>—</u>	<u>1,702,573,319</u>
Total Liabilities	<u>603,823,264</u>	<u>163,172,135</u>	<u>541,229</u>	<u>206,211,268</u>	<u>700,269,994</u>	<u>293,706,966</u>	<u>—</u>	<u>120,835,035</u>	<u>—</u>	<u>2,088,559,891</u>
<b>NET POSITION</b>										
Restricted for debt service	1,401,628	1,129,869	—	(147,118)	1,358,402	(284,147)	87,987	(4,301)	—	3,542,320
Unrestricted	—	—	15,568,420	—	—	—	—	—	—	15,568,420
Total Net Position	<u>\$ 1,401,628</u>	<u>\$ 1,129,869</u>	<u>\$ 15,568,420</u>	<u>\$ (147,118)</u>	<u>\$ 1,358,402</u>	<u>\$ (284,147)</u>	<u>\$ 87,987</u>	<u>\$ (4,301)</u>	<u>\$ —</u>	<u>\$ 19,110,740</u>

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION BY PROGRAM TYPE

Year Ended June 30, 2013

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Budgeting Program	Qualified School Construction Bonds	Total
<b>OPERATING REVENUES</b>									
Interest income	\$ 25,668,632	\$ 1,612,613	\$ —	\$ 4,905,168	\$ 32,934,837	\$ 11,530,250	\$ 930	\$ 3,761,290	\$ 80,413,720
Acceptance and administration fees	—		700,075	—	—	—	93,695	—	793,770
Total Operating Revenues	<u>25,668,632</u>	<u>1,612,613</u>	<u>700,075</u>	<u>4,905,168</u>	<u>32,934,837</u>	<u>11,530,250</u>	<u>94,625</u>	<u>3,761,290</u>	<u>81,207,490</u>
<b>OPERATING EXPENSES</b>									
Interest	24,556,626	1,172,988	—	4,329,261	32,111,022	10,940,469	—	3,604,751	76,715,117
Amortization of debt issuance costs	1,034,707	538,562	—	512,170	1,027,723	293,422	—	155,000	3,561,584
General and administrative	40,078	—	1,075,598	63,737	23,498	310,802	49,500	1,539	1,564,752
Total Operating Expenses	<u>25,631,411</u>	<u>1,711,550</u>	<u>1,075,598</u>	<u>4,905,168</u>	<u>33,162,243</u>	<u>11,544,693</u>	<u>49,500</u>	<u>3,761,290</u>	<u>81,841,453</u>
Operating Income (Loss)	37,221	(98,937)	(375,523)	—	(227,406)	(14,443)	45,125	—	(633,963)
<b>NONOPERATING REVENUES</b>									
Interest income on investments	—	—	183,617	—	—	—	—	—	183,617
Change in Net Position Before Transfers	37,221	(98,937)	(191,906)	—	(227,406)	(14,443)	45,125	—	(450,346)
Transfers	(64,310)	(34,208)	189,133	—	—	—	(90,615)	—	—
<b>CHANGE IN NET POSITION</b>	<u>\$ (27,089)</u>	<u>\$ (133,145)</u>	<u>\$ (2,773)</u>	<u>\$ —</u>	<u>\$ (227,406)</u>	<u>\$ (14,443)</u>	<u>\$ (45,490)</u>	<u>\$ —</u>	<u>\$ (450,346)</u>

**INDIANA BOND BANK**  
(A COMPONENT UNIT OF THE STATE OF INDIANA)

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION BY PROGRAM TYPE

Year Ended June 30, 2012

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Budgeting Program	Qualified School Construction Bonds	Total
<b>OPERATING REVENUES</b>									
Interest income	\$ 28,940,628	\$ 3,081,045	\$ —	\$ 8,703,972	\$ 39,161,812	\$ 11,941,683	\$ 442	\$ 3,888,244	\$ 95,717,826
Acceptance and administration fees	—	—	464,337	—	—	—	80,320	—	544,657
Total Operating Revenues	<u>28,940,628</u>	<u>3,081,045</u>	<u>464,337</u>	<u>8,703,972</u>	<u>39,161,812</u>	<u>11,941,683</u>	<u>80,762</u>	<u>3,888,244</u>	<u>96,262,483</u>
<b>OPERATING EXPENSES</b>									
Interest	27,677,561	1,441,675	—	8,119,843	37,787,824	11,616,276	—	3,715,328	90,358,507
Amortization of debt issuance costs	1,182,604	1,289,847	—	577,204	1,018,565	315,189	—	161,800	4,545,209
General and administrative	119,489	—	1,283,858	6,925	57,617	44,902	54,000	11,116	1,577,907
Total Operating Expenses	<u>28,979,654</u>	<u>2,731,522</u>	<u>1,283,858</u>	<u>8,703,972</u>	<u>38,864,006</u>	<u>11,976,367</u>	<u>54,000</u>	<u>3,888,244</u>	<u>96,481,623</u>
Operating Income (Loss)	(39,026)	349,523	(819,521)	—	297,806	(34,684)	26,762	—	(219,140)
<b>NONOPERATING REVENUES</b>									
Interest income on investments	—	—	238,765	—	—	—	—	—	238,765
Change in Net Position Before Transfers	(39,026)	349,523	(580,756)	—	297,806	(34,684)	26,762	—	19,625
Transfers	(46,203)	(748,215)	794,418	—	—	—	—	—	—
<b>CHANGE IN NET POSITION</b>	<u>\$ (85,229)</u>	<u>\$ (398,692)</u>	<u>\$ 213,662</u>	<u>\$ —</u>	<u>\$ 297,806</u>	<u>\$ (34,684)</u>	<u>\$ 26,762</u>	<u>\$ —</u>	<u>\$ 19,625</u>

## **OTHER INFORMATION**

*Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards*

*Year Ended June 30, 2013*

To the Board of Directors  
Indiana Bond Bank

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Indiana Bond Bank (the Bond Bank), a component unit of the State of Indiana, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Bond Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bond Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bond Bank's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Bond Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Katz, Sappan & Miller, LLP*

Indianapolis, Indiana  
October 24, 2013