INDIANA BOND BANK

(A Component Unit of the State of Indiana)

Financial Statements with
Supplementary Information

June 30, 2010 and 2009

KATZ, SAPPER & MILLER
Certified Public Accountants

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

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KATZ, SAPPER & MILLER

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Independent Auditors' Report

Board of Directors
of the Indiana Bond Bank

We have audited the accompanying statements of net assets of the Indiana Bond Bank (Bond Bank) as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Bond Bank's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indiana Bond Bank at June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 5 to the financial statements, the Bond Bank has adjusted the June 30, 2009 financial statements to retrospectively apply the change in accounting principles resulting from the adoption of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
November 11, 2010

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, 2010. 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 $1,032,451,279, including $816,765,409 of Advance Funding Notes.
- Repayments of bonds and notes payable totaled $1,333,641,359, including $1,171,570,409 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 Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the Bond Bank's financial status and the change in financial status. The Statement of Net Assets includes all of the Bond Bank's assets, liabilities, and net assets. Assets and liabilities are classified as either current or noncurrent. The Statement of Revenues, Expenses and Changes in Net Assets 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 Assets and Statements of Revenues, Expenses and Changes in Net Assets by program type.

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, 2010, 2009 and 2008:

	2010	2009	2008
Net assets			
Current assets	$ 582,675,603	$ 919,929,864	$ 1,157,994,933
Noncurrent assets	1,929,822,284	1,901,096,874	1,801,367,284
Total assets	2,512,497,887	2,821,026,738	2,959,362,217
Current liabilities	571,090,032	911,832,235	1,158,567,372
Noncurrent liabilities	1,922,892,440	1,891,606,473	1,785,609,503
Total liabilities	2,493,982,472	2,803,438,708	2,944,176,875
Restricted for debt service	3,147,731	2,263,727	1,997,062
Unrestricted	15,367,684	15,324,303	13,188,280
Total net assets	$ 18,515,415	$ 17,588,030	$ 15,185,342
Revenues, expenses and changes in net assets			
Operating revenues:			
Interest income	$ 106,169,983	$ 124,929,460	$ 128,731,206
Acceptance and administration fees	936,127	1,033,491	260,687
Total operating revenues	107,106,110	125,962,951	128,991,893
Operating expenses:			
Interest	98,923,551	116,846,324	121,652,348
Amortization of debt issuance costs	5,968,349	5,604,566	4,870,504
General and administrative	1,678,157	1,580,755	2,199,233
Total operating expenses	106,570,057	124,031,645	128,722,085
Operating income	536,053	1,931,306	269,808
Nonoperating revenue	391,332	471,382	615,749
Change in net assets	927,385	2,402,688	885,557
Net assets - beginning of year	17,588,030	15,185,342	14,299,785
Net assets - end of year	$ 18,515,415	$ 17,588,030	$ 15,185,342

Statement of Net Assets

Total assets and total liabilities and net assets decreased by approximately $309 million in 2010 from 2009. 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 lower outstanding balance on the Advanced Funding Note Program. The increase in the noncurrent qualified obligations receivable was due to the issuance of three new Special Program bond issues, one new Common School Fund Program bond issue, and one new Qualified School Construction bond issue. There is a corresponding increase 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 Assets Reconciliation - 2010

Total Assets as of June 30, 2009		$ 2,821,026,738
Decrease in current qualified obligations receivable	$ (397,313,821)	
Increase in other current assets	60,059,560	
Increase in noncurrent qualified obligations receivable	46,562,648	
Decrease in other noncurrent assets	(17,837,238)	
Total decrease in assets		(308,528,851)
Total Assets as of June 30, 2010		$ 2,512,497,887
Total Liabilities and Net Assets as of June 30, 2009		$ 2,821,026,738
Increase in net assets	$ 927,385	
Decrease in current bonds and notes payable	(343,566,319)	
Increase in other current liabilities	2,824,116	
Increase in noncurrent bonds and notes payable	42,376,238	
Decrease in other noncurrent liabilities	(11,090,271)	
Total decrease in liabilities and net assets		(308,528,851)
Total Liabilities and Net Assets as of June 30, 2010		$ 2,512,497,887

(Continued)

Total assets and total liabilities and net assets decreased by approximately $138 million in 2009 from 2008. 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 was due to lower outstanding balance the Advanced Funding Note Program. The increase in the noncurrent qualified obligations receivable was due to the issuance of three new Special Program bond issues and the new Common School Fund Program bond issue. There is a corresponding increase in outstanding noncurrent bonds and notes payable. Included in the other current assets are cash and cash equivalents and accrued interest receivable. Accrued interest payable and accounts payable are included in other current liabilities as well.

Statement of Net Assets Reconciliation - 2009

Total Assets as of June 30, 2008		$ 2,959,362,217
Decrease in current qualified obligations receivable	$ (253,010,586)	
Increase in other current assets	14,945,517	
Increase in noncurrent qualified obligations receivable	76,956,082	
Increase in other noncurrent assets	22,773,508	
Total decrease in assets		(138,335,479)
Total Assets as of June 30, 2009		$ 2,821,026,738
Total Liabilities and Net Assets as of June 30, 2008		$ 2,959,362,217
Increase in net assets	$ 2,402,688	
Decrease in current bonds and notes payable	(244,955,000)	
Decrease in other current liabilities	(1,780,137)	
Increase in noncurrent bonds and notes payable	77,324,298	
Inecrease in other noncurrent liabilities	28,672,672	
Total decrease in liabilities and net assets		(138,335,479)
Total Liabilities and Net Assets as of June 30, 2009		$ 2,821,026,738

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 4.7% for 2010, 4.8% for 2009 and 4.6% for 2008 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 decreased approximately $97,000 from 2009 to 2010, increased $773,000 from 2008 to 2009 and decreased $100,000 from 2007 to 2008.

Operating expenses include interest expense on bonds and notes payable. Interest expense for the year represented 4.1% for 2010, 4.3% for 2009 and 4.2% for 2008 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.

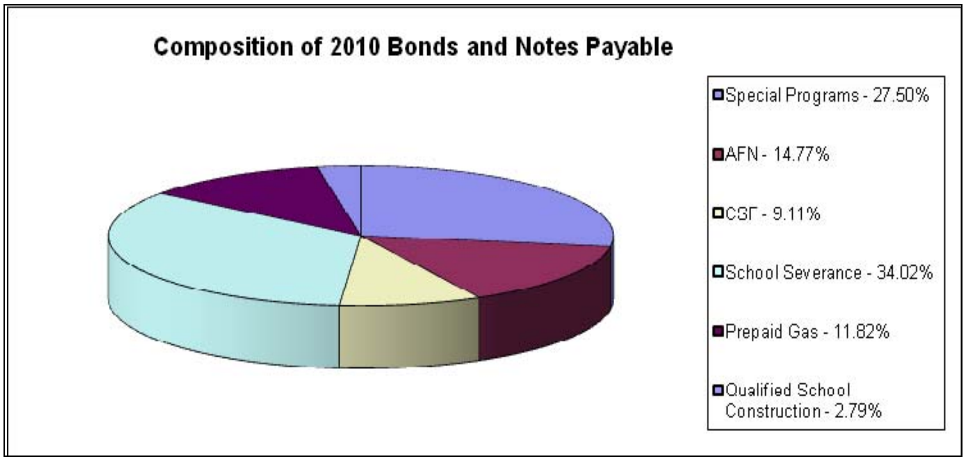
Net assets in 2010 have increased in total approximately $927,000 from 2009. Net assets restricted for debt service increased approximately $884,000 and unrestricted net assets increased approximately $43,000. In comparison, net assets for 2009 increased approximately $2,403,000 over 2008. Net assets restricted for debt service increased approximately $267,000 and unrestricted net assets increased approximately $2,136,000.

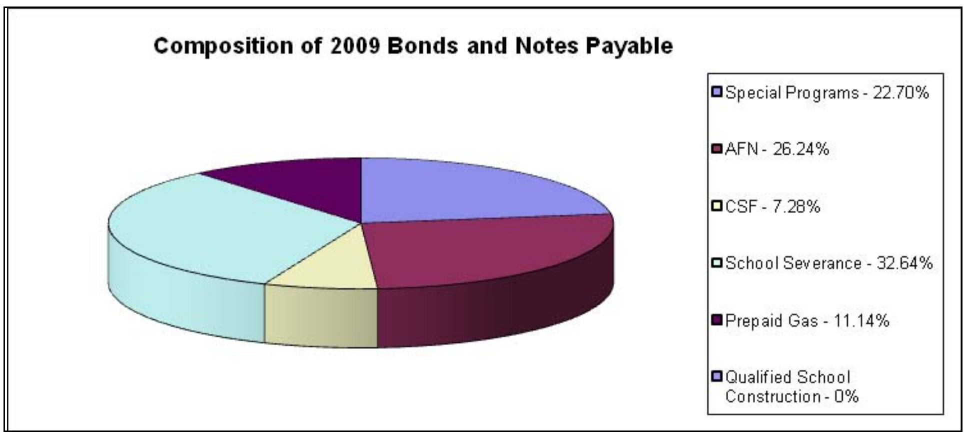
DEBT ADMINISTRATION

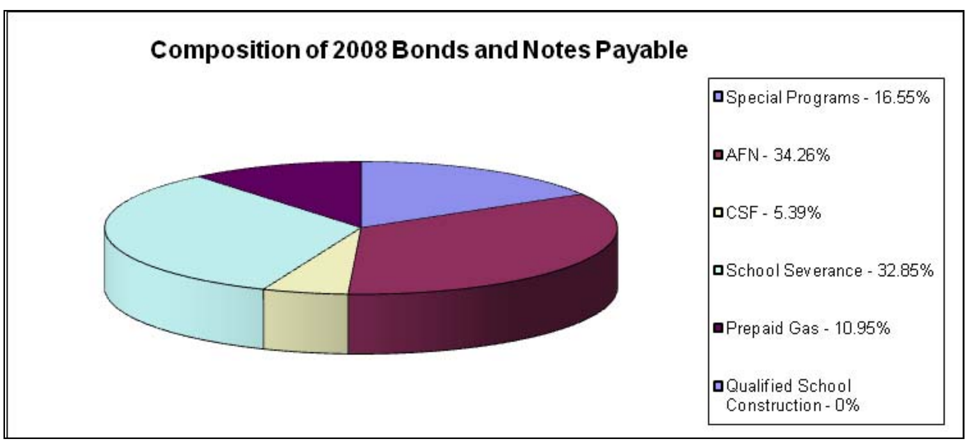
Below is a listing of the amount of debt issued by program for the fiscal years ended June 30, 2010, 2009 and 2008:

Programs	2010	2009	2008
Special Program	$ 98,805,000	$ 165,378,000	$ 10,500,000
Advance Funding Program	816,765,000	1,640,855,000	1,810,429,000
Prepaid Gas Program	-	-	308,570,000
Common School Fund Program	53,760,000	61,145,000	-
Qualified School Construction Bonds	67,162,000	-	-

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 2010, the graph in the middle depicts 2009 and the graph on the bottom shows 2008. The composition by program has changed due to the new bonds issued during each of the years.







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)

Statements of Net Assets

June 30, 2010 and 2009

Assets	**2010**	**2009**
Current assets:		
Cash and cash equivalents	$ 139,752,457	$ 77,132,622
Qualified obligations receivable	418,364,794	815,678,615
Accrued interest receivable	24,558,352	27,118,627
Total current assets	582,675,603	919,929,864
Noncurrent assets:		
Investments, at fair value	30,466,543	36,255,716
Qualified obligations receivable, net of current portion	1,859,833,500	1,813,270,852
Deferred debt issuance costs, net of accumulated amortization of $20,407,100 in 2010 and $18,362,496 in 2009	21,937,241	22,896,306
Deferred outflows - interest rate swap	17,585,000	28,674,000
Total noncurrent assets	1,929,822,284	1,901,096,874
Total assets	2,512,497,887	2,821,026,738
Liabilities		
Current liabilities:		
Bonds and notes payable	500,968,681	844,535,000
Accrued interest payable	39,342,173	41,202,179
Funds held for qualified entities	30,127,339	25,551,166
Accounts payable	651,839	543,890
Total current liabilities	571,090,032	911,832,235
Noncurrent liabilities:		
Bonds and notes payable, net of current portion	1,904,815,696	1,862,439,458
Deferred revenues	491,744	493,015
Derivative instrument liability	17,585,000	28,674,000
Total noncurrent liabilities	1,922,892,440	1,891,606,473
Total liabilities	2,493,982,472	2,803,438,708
Net Assets		
Restricted for debt service	3,147,731	2,263,727
Unrestricted	15,367,684	15,324,303
Total net assets	$ 18,515,415	$ 17,588,030

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 Assets

Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Interest income	$ 106,169,983	$ 124,929,460
Acceptance and administration fees	936,127	1,033,491
Total operating revenues	107,106,110	125,962,951
Operating expenses:		
Interest	98,923,551	116,846,324
Amortization of debt issuance costs	5,968,349	5,604,566
General and administrative	1,678,157	1,580,755
Total operating expenses	106,570,057	124,031,645
Operating income	536,053	1,931,306
Nonoperating revenues		
Interest income on investments	391,332	471,382
Change in net assets	927,385	2,402,688
Net assets, beginning of year	17,588,030	15,185,342
Net assets, end of year	$ 18,515,415	$ 17,588,030

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, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from interest, service fees and principal on program loans	$ 109,665,114	$ 128,392,291
Cash payments for loaned amounts	(101,043,429)	(120,331,242)
Cash payments to suppliers and employees	(1,310,336)	(1,267,215)
Net cash provided by operating activities	7,311,349	6,793,834
Cash flows from non-capital financing activities:		
Proceeds from debt issuances	1,032,451,279	1,860,848,771
Debt issuance costs paid	(5,009,285)	(5,779,680)
Repayment of bonds and notes payable	(1,333,641,359)	(2,028,572,858)
Net cash used in non-capital financing activities	(306,199,365)	(173,503,767)
Cash flows from investing activities:		
Purchases of investments	(65,952,667)	(1,573,557,513)
Purchases of qualified obligations receivable	(937,694,606)	(1,587,145,736)
Interest received on investments	391,332	471,382
Maturities of investments	71,741,840	1,579,726,504
Maturities of qualified obligations receivable	1,293,021,952	1,764,591,481
Net cash provided by investing activities	361,507,851	184,086,118
Net increase in cash and cash equivalents	62,619,835	17,376,185
Cash and cash equivalents, beginning of year	77,132,622	59,756,437
Cash and cash equivalents, end of year	$ 139,752,457	$ 77,132,622
Supplemental disclosure of cash flow information:		
Interest received during the year	$ 108,730,258	$ 127,360,128
Interest paid during the year	100,783,557	117,642,900
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 536,053	$ 1,931,306
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of debt issuance costs	5,968,349	5,604,566
Changes in certain assets and liabilities:		
Accrued interest receivable	2,560,275	2,430,668
Accrued interest payable	(1,860,006)	(2,968,076)
Accounts payable	107,949	(203,302)
Deferred revenues	(1,271)	(1,328)
Net cash provided by operating activities	$ 7,311,349	$ 6,793,834

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Organization

The Indiana Bond Bank (the Bond Bank), a component unit of the State of Indiana, 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 of Indiana 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. 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. Certain financing agreements specify that any residual cash remaining at maturity or refinancing of a series is the property of the Bond Bank.

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 further financial assistance for Indiana school corporations.

School Building Program—Bonds issued to assist qualified entities with financing for school building construction, renovation and improvement projects.

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 bonds were issued to fund outstanding amounts from the Advance Funding and Midyear Programs.

(1) Summary of Significant Accounting Policies (Cont.)

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 Hedge Program—Program to offer municipalities a means to reduce price volatility in gasoline and diesel fuel by locking in prices of futures purchases.

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

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 financial statements have been prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board.

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.

In accordance with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Bond Bank has applied all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As permitted by GASB No. 20, the Bond Bank has elected not to comply with the FASB pronouncements issued subsequent to November 30, 1989.

(1) Summary of Significant Accounting Policies (Cont.)

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, 2010 and 2009, market approximates cost. Changes in the fair value of investments are included in the statement of revenues, expenses and changes in net assets. 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 and money market deposits 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.

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.

(1) Summary of Significant Accounting Policies (Cont.)

Net Assets

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

- *Invested in Capital Assets*—resources resulting from capital acquisition, net of accumulated depreciation. At June 30, 2010 and 2009 there were no assets invested in capital assets.
- *Restricted*—net assets subject to externally imposed stipulations as to use. These net assets are restricted under the related program's bond indentures.
- *Unrestricted*—net assets which are 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 non-operating.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform with the 2010 financial statements.

(2) Cash 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.

(Continued)

(2) Cash and Investments (Cont.)

The Bond Bank's cash and investments at June 30, 2010 are summarized as follows:

	Cost	Fair Value
U.S. government agency obligations	$ 15,103,831	$ 15,103,831
Money market funds	122,641,650	122,641,650
Investment agreements with banks	30,466,543	30,466,543
Cash	2,006,976	2,006,976
Total cash and investments	$ 170,219,000	$ 170,219,000

The Bond Bank's cash and investments at June 30, 2009 are summarized as follows:

	Cost	Fair Value
U.S. government agency obligations	$ 13,833,656	$ 13,833,656
Money market funds	61,093,349	61,093,349
Investment agreements with banks	36,255,716	36,255,716
Cash	2,205,617	2,205,617
Total cash and investments	$ 113,388,338	$ 113,388,338

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.

The Bond Bank's cash is insured in full by the combination of Federal Deposit Insurance Corporation (FDIC) and Indiana Public Deposit Insurance Fund. Funds deposited under investment agreements with banks and insurance companies are unsecured.

(2) Cash and Investments (Cont.)

As of June 30, 2010, the Bond Bank had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Government obligations	$ 15,103,831	$ 15,103,831			
Money market funds	122,641,650	122,641,650			
Guaranteed investments	30,466,543		$ 799,789	$ 1,208,152	$ 28,458,602
Totals	$ 168,212,024	$ 137,745,481	$ 799,789	$ 1,208,152	$ 28,458,602

Credit Risk Disclosure

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

Credit Ratings	S & P	Fitch	Moody's	Fair Value
Government obligations	AAA	AAA	Aaa	$ 15,103,831
Money market funds	AAA	AAA	Aaa	122,641,650
Guaranteed investment contracts:				
Aegon	Unrated	A-	A3	24,984,667
FSA Capital Management	Unrated	AA+	A3	12,687
GE Capital Corp	Unrated	Unrated	Aa2	465,324
MBIA, Inc	BB-	Unrated	Ba3	3,208,879
Natixis Funding Corp	A+	A+	Aa3	1,460,521
West LB	BBB+	A-	Unrated	334,465
Total Rated Investments				$ 168,212,024

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 investment at June 30, 2010:

Dreyfus Government Prime Cash Management	36%
Fidelity Institutional US Government Portfolio Money Market Fund	21%
Aegon GIC	15%
Columbia Treasury Reserves Money Market Fund	6%

(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 Bond Bank operations.

At June 30, 2010 and 2009, qualified obligations receivable included $65,350,000 and $64,875,000, 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 incremental 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 Note 4 and Note 5).

As of June 30, 2010 and 2009, the Bond Bank's Board of Directors authorized the purchase and subsequent leasing of equipment totaling approximately $8,023,270 and $4,755,968, 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.

(Continued)

(4) Bonds and Notes Payable

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

Special Program Bonds:		2010	2009
Series 1998 A	Refunding Bonds (rates vary from 4.50% to 4.75% with maturities from October 1, 2010 to October 1, 2011)	$ 1,495,000	$ 2,435,000
Series 1998 A	(rates vary from 4.45% to 5.00%, refunded in June 2010)	—	4,670,000
Series 2000 A	Refunding Bonds (rates vary from 5.60% to 6.40%, refunded in June 2010)	—	3,635,000
Series 2001 A	(rates vary from 4.50% to 5.125%, refunded in June 2010)	—	3,930,000
Series 2001 A	Refunding Bonds (rates vary from 5.00% to 5.50%, refunded in June 2010)	—	9,805,000
Series 2002 A	(rates vary from 4.30% to 5.50% with maturities from October 1, 2010 to October 1, 2027)	33,920,000	35,345,000
Series 2002 C	(rates vary from 4.20% to 5.00% with maturities from February 1, 2011 to February 1, 2017)	935,000	1,135,000
Series 2002 D	(rates vary from 5.00% to 5.38% with maturities from April 1, 2011 to April 1, 2012)	3,025,000	4,430,000
Series 2002E	(rates vary from 3.50% to 5.25% with maturities from February 1, 2011 to February 1, 2023)	8,280,000	8,580,000
Series 2003 A	(rates vary from 3.75% to 5.25% with maturities from February 1, 2011 to February 1, 2033)	36,925,000	37,830,000
Series 2003 B	(rates vary from 3.75% to 5.00% with maturities from February 1, 2011 to February 1, 2023)	5,935,000	6,435,000
Series 2003 C	(rates vary from 3.50% to 5.00% with maturities from July 25, 2010 to January 1, 2016)	4,535,000	5,430,000
Series 2003 D	(rates vary from 3.25% to 5.00% with maturities from August 1, 2010 to February 1, 2025)	26,540,000	27,515,000
Series 2003 E	(rates vary from 3.50% to 5.00% with maturities from September 1, 2010 to September 1, 2025)	32,905,000	33,865,000
Series 2003 F	(rates vary from 3.00% to 4.75% with maturities from February 1, 2011 to February 1, 2024)	8,390,000	9,690,000
Series 2004 A	(rates vary from 3.00% to 5.00% with maturities from August 1, 2010 to February 1, 2024	13,775,000	14,490,000
Series 2004 B	(rates vary from 3.00% to 5.00% with maturities from February 1, 2011 to February 1, 2023)	13,215,000	14,050,000
Series 2004 C	(rates vary from 4.00% to 5.38% with maturities from August 1, 2010 to February 1, 2031)	32,080,000	32,955,000
Series 2004 D	(rates vary from 3.00% to 5.00% with maturities from February 1, 2011 to February 1, 2022)	23,305,000	24,790,000
Series 2005 A	(rates vary from 3.00% to 4.50% with maturities from August 1, 2010 to February 1, 2027)	$ 11,765,000	$ 12,455,000

(Continued)

(4) Bonds and Notes Payable (Cont.)

Special Program Bonds (Cont.):

Series 2005 B	(rates vary from 4.00% to 4.15% with maturities from February 15, 2011 to February 15, 2020)	$ 6,855,000	$ 7,405,000
Series 2005 C	(rates vary from 3.75% to 4.25% with maturities from June 1, 2011 to June 1, 2026)	9,550,000	9,975,000
Series 2005 D	(rates vary from 3.75% to 5.00% with maturities from August 1, 2010 to August 1, 2028)	4,100,000	4,240,000
Series 2006 B-1	(rates vary from 3.75% to 5.00% with maturities from September 1, 2010 to March 1, 2027)	11,680,000	11,655,000
Series 2006 B-2	(rates vary from 5.50% to 5.80% with maturities from September 1, 2010 to September 1, 2017)	2,315,000	2,875,000
Series 2006 A (Ref)	(rates vary from 4.00% to 5.13% with maturities from August 1, 2010 to September 1, 2024)	21,915,000	23,030,000
Series 2006 C	(rates vary from 4.25% to 5.00% with maturities from February 1, 2011 to February 1, 2023)	19,230,000	19,960,000
Series 2006 D	(rates vary from 4.00% to 4.25% with maturities from August 1, 2010 to February 1, 2027)	10,775,000	11,520,000
Series 2007 A	(rates vary from 5.00% to 5.25% with maturities from April 1, 2013 to April 1, 2030)	44,915,000	44,915,000
Series 2008A	(rate varies based on lowest available rate in interest period (weekly, monthly, quarterly, annually, or fixed) as selected by the qualified entity, not to exceed 10% per annum. Rate at June 30, 2010 was 2.24%, with maturities from February 1, 2011 to February 1, 2033)	10,500,000	10,500,000
Series 2008B	(rates vary from 4.00% to 5.79% with maturities from June 1, 2011 to June 1, 2034)	85,703,828	84,464,778
Series 2008D	(rates vary from 4.00% to 4.5% with maturities from February 1, 2011 to February 1, 2013)	4,750,000	6,060,000
Series 2009A	(rates vary from 3.00% to 5.5% with maturities from August 1, 2010 to February 1, 2029)	72,865,000	75,000,000
Series 2009C	(rates vary from 3.00% to 4.77% with maturities from February 1, 2011 to February 1, 2030)	24,025,000	—
Series 2009D	(rates vary from 3.00% to 5.00% with maturities from August 1, 2010 to August 1, 2020	51,690,000	—
Series 2010A-1	(rates vary from 3.00% to 4.00% with maturities from February 1, 2011 to February 1, 2021	8,595,000	—
Series 2010A-2	(rates vary from 1.08% to 4.62% with maturities from February 1, 2011 to February 1, 2020	6,395,000	—
Series 2010A-3	(rates vary from 3.00% to 4.00% with maturities from February 1, 2011 to February 1, 2024)	770,000	—
Total Special Program Bonds		$ 653,653,828	$ 605,069,778

(Continued)

(4) Bonds and Notes Payable (Cont.)

		2010	2009
Advance Funding Program Notes:			
Series 2008 A	Year End Assist (interest rate of 2.60%, maturing on December 31, 2009)	$ —	$ 147,305,000
Series 2009 A	(interest rate of 2.00% maturing on Januray 5, 2010)	—	357,445,000
Series 2009 A	Midyear (interest rate of 2.00% maturing on January 6, 2010)	—	160,965,000
Series 2009 B	Midyear (interest rate of 1.00% maturing on January 6, 2010)	—	41,765,000
Series 2009 A	Year End Extension (interest rate of 0.80%, maturing on December 31, 2010)	2,880,000	—
Series 2010 A	(interest rate of 2.00% maturing on Januray 6, 2011)	297,420,000	—
Series 2010 A	Midyear (interest rate of 1.50% maturing on Januray 6, 2011)	24,440,000	—
Series 2010 A	Special Notes (interest rate of 1.85%, maturing on January 6, 2011)	27,500,000	—
Series 2010 B	Special Notes (interest rate of 0.80%, maturing on January 6, 2011)	435,000	—
Total Advance Funding Program Notes		352,675,000	707,480,000
Common School Fund Bonds:			
Series 1996 A	(interest rate of 5.75% with maturities from August 1, 2010 to August 1, 2013)	1,550,000	2,080,000
Series 1999 A	(interest rate of 5.00% with maturities from February 1, 2011 to February 1, 2014)	11,400,000	14,830,000
Series 2001	(interest rate of 5.00% with maturities from February 1, 2011 to February 1, 2019)	9,760,000	12,470,000
Series 2003 A and B	(rates vary from 3.00% to 5.00% with maturities from August 1, 2010 to February 1, 2020)	90,525,000	100,490,000
Series 2009 A	(rates vary from 2.92% to 4.05% with maturities from August 1, 2010 to August 1, 2013)	47,395,000	61,145,000
Series 2010 A	(rates vary from 0.53% to 4.04% with maturities from August 1, 2010 to February 1, 2017)	53,760,000	—
Total Common School Fund Bonds		214,390,000	191,015,000
School Severance Program Bonds:			
Series 1	(rates vary from 5.75% to 6.30% with maturities from July 15, 2010 to January 15, 2018)	18,535,000	24,970,000
Series 2	(rates vary from 4.82% to 5.72% with maturities from July 15, 2010 to July 15, 2023)	22,555,000	24,270,000
Series 3	(rates vary from 4.75% to 5.85% with maturities from July 15, 2010 to January 15, 2023)	42,520,000	47,405,000
Series 4	(rates vary from 3.85% to 5.07% with maturities from July 15, 2010 to January 15, 2024)	$ 34,160,000	$ 36,995,000

(Continued)

(4) Bonds and Notes Payable (Cont.)

School Severance Program Bonds (Cont.):

Series 5A	(rates vary from 4.37% to 5.82% with maturities from July 15, 2010 to January 15, 2024)	$ 120,200,000	$ 132,185,000
Series 5B	(interest rate of 5.05% with maturities from July 15, 2010 to January 15, 2019)	10,460,000	11,360,000
Series 5C	(interest rate of 5.15% with maturities from July 15, 2010 to January 15, 2019)	2,760,000	2,995,000
Series 6A	(rates vary from 4.91% to 6.24% with maturities from July 15, 2010 to January 15, 2025)	119,765,000	129,230,000
Series 6B	(interest rate of 5.79% with maturities from July 15, 2010 to January 15, 2025)	12,440,000	12,990,000
Series 7A	(rates vary from 4.18 to 5.73% with maturities from July 15, 2010 to January 15, 2030)	79,780,000	86,310,000
Series 7B	(rates vary from 4.50% to 5.30% with maturities from July 15, 2010 to January 15, 2020)	9,615,000	10,355,000
Series 8A	(rates vary from 4.17% to 5.64% with maturities from July 15, 2010 to January 15, 2029)	102,545,000	110,555,000
Series 8B	(rates vary from 4.17% to 5.49% with maturities from July 15, 2010 to January 15, 2026)	54,810,000	57,335,000
Series 9	(rates vary from 4.19% to 5.53% with maturities from July 15, 2010 to January 15, 2026)	27,190,000	29,450,000
Series 10	(rates vary from 4.93% to 5.68% with maturities from July 15, 2010 to January 15, 2031)	53,010,000	54,230,000
Series 11	(rates vary from 5.47% to 6.20% with maturities from July 15, 2010 to January 15, 2029)	108,145,000	112,915,000
Total Taxable School Severance Bonds		818,490,000	883,550,000

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, 2008 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, 2010 was 1.33%, maturing on October 15, 2022. 2007 B-2 BMA Index Rate Bonds rates vary based on the BMA Municipal Swap Index plus the per annun spread of .48% for 2009, 0.50% for 2010 and 0.66% for 2022. Rate at June 30, 2010 was 0.26%, with maturities from October 15, 2009 to October 15, 2022. 2007 B-3 CPI Index Rate Bonds rates vary based on changes in the CPI Index. The rate at June 30, 2010 was 2.24%, with maturities from October 15, 2011 to October 15, 2015.)	279,690,000	296,095,000
Total Prepaid Gas Funding Program Bonds		$ 279,690,000	$ 296,095,000

(Continued)

(4) Bonds and Notes Payable (Cont.)

Qualified School Contruction Bonds:			
Series 2009	(rates vary from 1.51% to 1.75% with maturities from January 15, 2011 to January 15, 2025)	$ 67,162,271	$ —
Total Qualified School Construction Bonds:		67,162,271	—
Totals		2,386,061,099	2,683,209,778
Add net unamortized premium		21,639,578	24,630,500
Less deferred charge on refunding		(1,916,300)	(865,820)
Total bonds and notes payable		2,405,784,377	2,706,974,458
Less current portion		(500,968,681)	(844,535,000)
Noncurrent portion of bonds and notes payable		$ 1,904,815,696	$ 1,862,439,458

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 $16,442,933 and $14,737,351 at June 30, 2010 and 2009, 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, 2010.

(4) Bonds and Notes Payable (Cont.)

Special Program Bonds

- Series 2002 A
- Series 2002 C
- Series 2002 D
- Series 2002 E
- Series 2003 A
- Series 2003 B
- Series 2003 C
- Series 2003 D
- Series 2003 E
- Series 2003 F
- Series 2004 A
- 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

Special Program Bonds (Cont.)

- Series 2008 B
- Series 2008 D-1 & D-2
- Series 2010 A-1, A-2 (Taxable) & A-3 Multipurpose

Common School Fund Bonds

- Series 1996 A
- Series 1999 A
- Series 2001 A
- Series 2003 A & B

Taxable School Severance Program Bonds

- Series 1
- Series 2
- Series 3
- Series 4
- Series 5 A, B & C
- Series 6 A & B
- Series 7 A & B
- Series 8 A & B
- Series 9
- Series 10
- Series 11

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. The amounts eligible to be drawn and the renewal dates of these arrangements at June 30, 2010 are as follows:

Series	**Eligible amount**	**Renews in fiscal year**
2008A	$ 10,500,000	2013

The Special Program Bond 2008A Bond is secured by a letter of credit in the amount of $10,500,000 with Huntington National Bank. It has an annual commission fee equal to one and one quarter percent (1.25%) per annum of the maximum amount available to be drawn on the letter of credit and a one-time upfront fee in the amount of $25,000. The letter of credit expires in 2013. S & P rated Huntington National Bank's credit rating as A-. This bond was redeemed subsequent to year-end.

(4) Bonds and Notes Payable (Cont.)

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, 2010 are as follows:

Series	**Eligible Amount**
Advance Funding Program, Series 2010 A	$ 35,690,400
Advance Funding Program, Series 2010 A Midyear	2,688,400
Special Program Bonds, Series 2002 A	3,185,294
Special Program Bonds, Series 2002 C	394,000
Special Program Bonds, Series 2002 D	4,115,638
Special Program Bonds, Series 2002 E	895,613
Special Program Bonds, Series 2003 A	2,701,399
Special Program Bonds, Series 2003 B	802,606
Special Program Bonds, Series 2003 D	2,531,875
Special Program Bonds, Series 2003 F-1 & F-2	1,537,104
Special Program Bonds, Series 2004 A	1,354,712
Special Program Bonds, Series 2004 B	1,505,794
Special Program Bonds, Series 2004 C	2,514,999
Special Program Bonds, Series 2004 D (1)	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	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 2008 A	10,500,000
Special Program Bonds, Series 2008 D-1 & D-2	2,500,600
Special Program Bonds, Series 2010 A-1, A-2 Taxable & A-3 Multipurpose	2,865,702

(Continued)

(4) Bonds and Notes Payable (Cont.)

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, 2010 or 2009.

Maturities of long-term debt and interest are as follows:

Fiscal Year Ending June 30	Principal	Interest
2011	$ 500,968,681	$ 98,642,619
2012	145,266,590	86,250,896
2013	147,382,000	80,580,530
2014	143,443,000	74,618,066
2015	142,696,000	68,659,524
2016-2020	660,453,000	243,004,335
2021-2025	456,376,000	100,814,632
2026-2030	159,366,275	28,328,798
2031-2035	30,109,553	2,935,303
	2,386,061,099	$ 783,834,703
Add: Unamortized premium	21,639,578	
Less: Deferred charge	(1,916,300)	
	$ 2,405,784,377	

Prior to July 1, 2008, the Bond Bank issued $49,325,000 of debt on behalf of seventeen not-for-profit qualified water utilities. At June 30, 2010 and 2009, the balance outstanding for these qualified water utilities totaled $17,910,000 and $21,183,000, 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.

(4) Bonds and Notes Payable (Cont.)

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	$	2,386,061,099
Less: Debt recorded which does not require reserve funds		1,836,961,099
Debt outstanding for statutory debt limit purposes at June 30, 2010		549,100,000
Available remaining debt limit for statutory purposes		450,900,000
Statutory debt limit	$	1,000,000,000

Special Program Bonds Series 1998 A, 2000 A, 2001 A, 2001 A Refunding, 2009 B-1, and 2009 B-2 are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately $73,145,000 and $84,725,000 at June 30, 2010 and 2009, respectively.

During 2010, the Bond Bank issued Special Program multipurpose Bonds Series 2010 A in the amount of $15,760,000. A portion of the proceeds from the issue plus contributions from the underlying qualifying entity were used to advance refund Special Program Bonds Series 1998 A, which were outstanding in the amount of $4,420,000, a portion of the proceeds were used to refund Special Program Refunding Bonds Series 2000 A, which were outstanding in the amount of $2,785,000, a portion of the proceeds were used to advance refund Special Program Bonds Series 2001 A, which were outstanding in the amount of $3,585,000, and a portion of the proceeds were used to advance refund Special Program Refunding Bonds Series 2001 A, which were outstanding in the amount of $8,135,000. The cash flow difference between the debt service on the Special Program Bonds, Series 1997 D and 2002 B, and the new debt is $3,582,000 and the economic gain is $4,893,000.

(4) Bonds and Notes Payable (Cont.)

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2010					
Bonds and notes payable	$ 2,707,840,278	$ 869,577,980	$ 1,169,717,581	$ 2,407,700,677	$ 500,968,681
Less deferred amounts	865,820	1,511,259	460,779	1,916,300	-
	2,706,974,458	868,066,721	1,169,256,802	2,405,784,377	500,968,681
Deferred revenues	493,015	-	1,270	491,745	-
Derivative instrument liability	28,674,000	-	11,089,000	17,585,000	
Total	$ 2,736,141,473	$ 868,066,721	$ 1,180,347,072	$ 2,423,861,122	$ 500,968,681
2009					
Bonds and notes payable	$ 2,875,682,252	$ 1,872,678,137	$ 2,040,520,111	$ 2,707,840,278	$ 844,535,000
Less deferred amounts	1,077,092	-	211,272	865,820	-
	2,874,605,160	1,872,678,137	2,040,308,839	2,706,974,458	844,535,000
Deferred revenues	494,343	-	1,328	493,015	-
Derivative instrument liability	-	28,674,000	-	28,674,000	
Total	$ 2,875,099,503	$ 1,901,352,137	$ 2,040,310,167	$ 2,736,141,473	$ 844,535,000

(5) Derivative Instruments and Fair Value Measurement

In June 2008, the Governmental Accounting Standards Board released Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This statement is effective for fiscal periods beginning after June 15, 2009. The Bond Bank has implemented this statement retroactively by restating the financial statements as of June 30, 2009 to include the fair value recognition of the interest rate swap derivatives of the Series 2007 B1, B2, and B3 Gas Prepayment Bonds. Noncurrent assets and liabilities were increased by the fair values of derivative instruments in the amount of $28,674,000 at June 30, 2009. There was no impact on net assets, revenues, or expenses from this restatement.

Objective of the Interest Rate SWAP Agreement. In August 2007, in anticipation of issuing the Series 2007 B1, B2, and B3 Gas Prepayment Bonds and protecting, in part, the Bond Bank from the risk of any adverse change in interest rates on the Series 2007 Gas Prepayment Bonds, the Bond Bank entered into a Swap Agreement with JP Morgan to lock in a fixed interest rate.

(5) Derivative Instruments and Fair Value Measurement (Cont.)

Summary of Derivative Instruments (Interest Rate Swaps)

Business-Type Activities	Changes in Fair Value: Classification	Changes in Fair Value: Amount	Fair Value at June 30, 2010: Amount	Notional Amount
Pay-fixed interest rate swap - CPI Index Rate Bonds (B-1)	Deferred Outflow	$ (10,012,000)	$ (1,323,000)	$ 77,595,000
Pay-fixed interest rate swap - BMA Index Rate Bonds (B-2)	Deferred Outflow	(1,106,000)	(7,193,000)	33,305,000
Pay-fixed interest rate swap - LIBOR Index Rate Bonds (B-3)	Deferred Outflow	29,000	(9,069,000)	22,500,000
		$ (11,089,000)	$ (17,585,000)	$ 133,400,000

Terms for B1 (CPI Index). Under the Swap Agreement, the Bond Bank pays interest to JP Morgan on the notional amount set forth in the CPI Index Swap agreements at the fixed interest rate of 4.11% on a notional amount of $17,080,000, 4.18% on a notional amount of $16,920,000, 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 JP Morgan pay 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 1.31% on a notional amount of $17,080,000, 1.34% on a notional amount of $16,920,000, 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 $77,595,000 at June 30, 2010 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 15th of each month.

(Continued)

(5) Derivative Instruments and Fair Value Measurement (Cont.)

Fair Value (CPI Index). Because interest rates have decreased since execution of the Swap Agreement, the Swap had a negative fair value of $1,323,000 at June 30, 2010. 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, 2010. This 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.

Terms for B2 (SIFMA Municipal Swap Index). Under the Swap Agreement, the Bond Bank pays interest to JP Morgan on the notional amount set forth in the weekly BMA Municipal Index Swap agreements at the fixed interest rate of 4.09% on a notional amount of $17,615,000, and 4.80% on a notional amount of $15,690,000, in exchange for which JP Morgan pay interest to the Bond Bank on notional amounts at a variable interest rate equal to the weekly BMA Municipal Index Swap plus a spread of .50% on a notional amount of $17,615,000, and .66% on a notional amount of $15,690,000. The Swap's notional amount of $33,305,000 at June 30, 2010 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^{th} 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 $7,193,000 at June 30, 2010. 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 BMA Municipal Index to be used for the July 15, 2010 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.

(Continued)

(5) Derivative Instruments and Fair Value Measurement (Cont.)

Terms for B3 (LIBOR Index). Under the Swap Agreement, the Bond Bank pays interest to JP Morgan on the notional amount set forth in the three month LIBOR agreements at the fixed interest rate of 4.73%, in exchange for which JP Morgan pay 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, 2009 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 15th 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 $9,069,000 at June 30, 2010. 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.

Credit Risk. As of June 30, 2010, the Bond Bank was not exposed to credit risk because the LIBOR, the SIFMA, and the CPI index swaps had negative fair values. However, should interest rates change and the fair value of the Swap becomes positive, the Bond Bank would be exposed to credit risk in the amount of the derivative's fair value.

The Swap counterparty, JP Morgan, was rated AA- by Fitch Ratings and Standard & Poor's and Aa2 by Moody's Investor Service as of June 30, 2010.

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

Swap Payments and Associated Debt. As of June 30, 2010, 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. As rates vary, variable-rate bond interest payments and net swap payments will vary.

(5) Derivative Instruments and Fair Value Measurement (Cont.)

	Variable-Rate Bonds (B1, CPI Index)			
Fiscal Year Ending June 30	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
2011	$ -	$ 483,896	$ 2,790,549	$ 3,274,445
2012	17,080,000	483,896	2,790,549	3,274,445
2013	16,920,000	388,248	2,184,209	2,572,457
2014	16,665,000	286,728	1,578,473	1,865,201
2015	16,930,000	181,738	976,866	1,158,604
2016	10,000,000	70,000	364,000	434,000
Total	$ 77,595,000	$ 1,894,506	$ 10,684,646	$ 12,579,152

	Variable-Rate Bonds (B2, BMA Index)			
Fiscal Year Ending June 30	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
2011	$ 17,615,000	$ 1,195,352	$ 278,222	$ 1,473,574
2012	-	608,772	144,348	753,120
2013	-	608,772	144,348	753,120
2014	-	608,772	144,348	753,120
2015	-	608,772	144,348	753,120
2016	-	608,772	144,348	753,120
2017	-	608,772	144,348	753,120
2018		608,772	144,348	753,120
2019	-	608,772	144,348	753,120
2020	-	608,772	144,348	753,120
2021	-	608,772	144,348	753,120
2022	-	608,772	144,348	753,120
2023	15,690,000	608,772	144,348	753,120
Total	$ 33,305,000	$ 8,500,616	$ 2,010,398	$ 10,511,014

(5) Derivative Instruments and Fair Value Measurement (Cont.)

Fiscal Year Ending June 30	Variable-Rate Bonds (B3, LIBOR Index) Principal	Interest	Interest Rate Swaps, Net	Total
2011	$ -	$ 801,000	$ 263,250	$ 1,064,250
2012	-	801,000	263,250	1,064,250
2013	-	801,000	263,250	1,064,250
2014	-	801,000	263,250	1,064,250
2015	-	801,000	263,250	1,064,250
2016	-	801,000	263,250	1,064,250
2017	-	801,000	263,250	1,064,250
2018		801,000	263,250	1,064,250
2019	-	801,000	263,250	1,064,250
2020	-	801,000	263,250	1,064,250
2021	-	801,000	263,250	1,064,250
2022	-	801,000	263,250	1,064,250
2023	22,500,000	801,000	263,250	1,064,250
Total	$ 22,500,000	$ 10,413,000	$ 3,422,250	$ 13,835,250

(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 are as follows:

County	Qualified Obligations Receivable	Concentration Percentage
Marion	$ 457,817,377	20%
Hendricks	194,046,816	9%
Lake	171,285,333	8%
Hamilton	135,084,746	6%
Clark	92,825,030	4%
Madison	78,371,981	3%
St Joseph	75,643,607	3%

No other county has a concentration over 3.0% of the total qualified obligations receivable at June 30, 2010. Of these bonds, $170,653,694 is from the Advance Funding program.

(7) Employee Benefits

The Bond Bank contributes to the Public Employees' Retirement Fund (PERF) of the State of Indiana, an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for State of Indiana employees and employees of the various subdivisions and instrumentalities of the State of Indiana. All employees of the Bond Bank participate in this plan. The Public Employees' Retirement Fund of the State of Indiana issues a publicly available financial report that includes financial statements and required supplementary information for the Bond Bank's plan. That report may be obtained by writing to Public Employees' Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204.

The plan is a contributory defined benefit plan. PERF retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled PERF members to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. An employee may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the employee's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions are met, an employee may retire with 100% of the defined pension 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 of PERF-covered employment. The average annual salary used for calculating the pension benefit is an average of the employee's highest five years of employment earnings. Employees who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit ranging from 44.0% to 98.8% of the pension benefit described above.

Employer contributions for the years ended June 30, 2010 and 2009 were $14,184 and $14,403, respectively. Covered payroll for the same periods amounted to $218,211 and $212,377, respectively. Separate information concerning the accumulated benefit obligation and actuarially determined benefit obligation is not material to the financial position of the Bond Bank and, accordingly, is not presented.

In addition, the employees contribute 3% of compensation to an annuity savings account. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system-wide fund for all members. Upon retirement, members may elect a lump-sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive their balance in the savings account.

(Continued)

(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, 2010:

Fiscal Year Ending June 30	Payments
2011	$ 30,468
2012	5,700
2013	3,770
2014	1,068
2015	89
	$ 41,095

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 $64,358 and $62,596 for 2010 and 2009, respectively.

(9) Subsequent Events

The following issues have been redeemed and paid in full since the balance sheet date of June 30, 2010: Special 2008 A of $10,500,000 and Special 2010 B Notes of $435,000.

The following issues have been closed since the balance sheet date of June 30, 2010: Common School Fund Notes, Series 2010 B Taxable of $54,120,000 and Special Notes Series, 2010 C of $10,120,000.

The following applications have been approved since the balances sheet date of June 30, 2010: Brownsburg Community School Corporation for $ 1,950,000, Central Noble Community School Corporation for $1,975,245, Clinton Central School Corporation for $2,445,000, Knox Community School Corporation for $1,970,000, North Lawrence Community Schools for $1,975,000, North Putnam Community School Corporation for $1,950,000, and South Knox School Corporation for $1,935,000.

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Supplemental Schedule of Net Assets Information by Program Type

June 30, 2010

Assets	**Special Program**	**Advance Funding Program**	**Operating Program**	**Common School Fund Program**	**School Severance Program**	**Prepaid Gas Program**	**Fuel Hedge Program**	**Qualified School Construction Bonds**	**Eliminations**	**Total**
Current assets:										
Cash and cash equivalents	$ 20,725,653	$ 61,285,050	$ 15,921,728	$ 2,189,759	$ 38,899,803	$ 523,605	$ 32,253	$ 174,606	$ —	$ 139,752,457
Qualified obligations receivable	26,147,500	296,473,536	—	33,429,942	43,885,135	17,615,000	—	813,681	—	418,364,794
Accrued interest receivable	8,901,161	1,373,100	—	4,507,115	7,327,176	2,037,900	—	411,900	—	24,558,352
Total current assets	55,774,314	359,131,686	15,921,728	40,126,816	90,112,114	20,176,505	32,253	1,400,187	—	582,675,603
Noncurrent assets:										
Investments, at fair value	4,494,617	—	—	799,789	187,470	24,984,667	—	—	—	30,466,543
Qualified obligations receivable	607,962,995	—	—	179,802,024	742,253,038	264,296,439	—	65,519,004	—	1,859,833,500
Deferred debt issuance costs, net	9,415,708	815,109	—	1,852,939	6,736,258	2,428,448	—	688,779	—	21,937,241
Deferred outflows - interest rate swap	—	—	—	—	—	17,585,000	—	—	—	17,585,000
Total noncurrent assets	621,873,320	815,109	—	182,454,752	749,176,766	309,294,554	—	66,207,783	—	1,929,822,284
Total assets	677,647,634	359,946,795	15,921,728	222,581,568	839,288,880	329,471,059	32,253	67,607,970	—	2,512,497,887
Liabilities										
Current liabilities:										
Bonds and notes payable	28,095,000	352,675,000	—	33,880,000	67,890,000	17,615,000	—	813,681	—	500,968,681
Accrued interest payable	10,473,213	2,742,700	—	3,635,900	19,943,860	2,037,900	—	508,600	—	39,342,173
Funds held for qualified entities	4,201,916	522,783	—	—	—	25,402,640	—	—	—	30,127,339
Accounts payable	152,200	82,432	72,307	100	—	344,800	—	—	—	651,839
Total current liabilities	42,922,329	356,022,915	72,307	37,516,000	87,833,860	45,400,340	—	1,322,281	—	571,090,032
Noncurrent liabilities:										
Bonds and notes payable, net of current portion	633,435,249	2,553,359	—	185,212,686	750,527,190	266,797,222	—	66,289,990	—	1,904,815,696
Deferred revenues	10,007	—	481,737	—	—	—	—	—	—	491,744
Derivative instrument liability	—	—	—	—	—	17,585,000	—	—	—	17,585,000
Total noncurrent liabilities	633,445,256	2,553,359	481,737	185,212,686	750,527,190	284,382,222	—	66,289,990	—	1,922,892,440
Total liabilities	676,367,585	358,576,274	554,044	222,728,686	838,361,050	329,782,562	—	67,612,271	—	2,493,982,472
Net Assets										
Restricted for debt service	1,280,049	1,370,521	—	(147,118)	927,830	(311,503)	32,253	(4,301)	—	3,147,731
Unrestricted	—	—	15,367,684	—	—	—	—	—	—	15,367,684
Total net assets	$ 1,280,049	$ 1,370,521	$ 15,367,684	$ (147,118)	$ 927,830	$ (311,503)	$ 32,253	$ (4,301)	$ —	$ 18,515,415

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Supplemental Schedule of Net Assets Information by Program Type

June 30, 2009

Assets	**Special Program**	**Advance Funding Program**	**Operating Program**	**Common School Fund Program**	**School Severance Program**	**Prepaid Gas Program**	**Fuel Hedge Program**	**Qualified School Construction Bonds**	**Eliminations**	**Total**
Current assets:										
Cash and cash equivalents	$ 12,855,675	$ 7,778,620	$ 15,595,978	$ 1,814,004	$ 38,760,568	$ 327,777	$ —	$ —	$ —	$ 77,132,622
Qualified obligations receivable	22,679,100	703,913,187	—	30,268,674	42,412,654	16,405,000	—	—	—	815,678,615
Accrued interest receivable	8,149,026	5,032,048	—	4,123,687	7,693,483	2,120,383	—	—	—	27,118,627
Interfund receivables	19,628	—	281,052	—	—	—	—	—	(300,680)	—
Total current assets	43,703,429	716,723,855	15,877,030	36,206,365	88,866,705	18,853,160	—	—	(300,680)	919,929,864
Noncurrent assets:										
Investments, at fair value	11,203,934	—	—	914,145	177,246	23,960,391	—	—	—	36,255,716
Qualified obligations receivable	561,062,712	—	—	161,268,693	808,698,856	282,240,591	—	—	—	1,813,270,852
Deferred debt issuance costs, net	9,521,211	1,009,503	—	1,684,954	7,892,365	2,788,273	—	—	—	22,896,306
Deferred outflows - interest rate swap	—	—	—	—	—	28,674,000	—	—	—	28,674,000
Total noncurrent assets	581,787,857	1,009,503	—	163,867,792	816,768,467	337,663,255	—	—	—	1,901,096,874
Total assets	625,491,286	717,733,358	15,877,030	200,074,157	905,635,172	356,516,415	—	—	(300,680)	2,821,026,738
Liabilities										
Current liabilities:										
Bonds and notes payable	25,205,000	707,480,000	—	30,385,000	65,060,000	16,405,000	—	—	—	844,535,000
Accrued interest payable	9,513,490	5,125,605	—	3,152,637	21,290,065	2,120,382	—	—	—	41,202,179
Funds held for qualified entities	—	1,391,242	—	—	—	24,159,924	—	—	—	25,551,166
Accounts payable	305,400	—	70,990	—	—	167,500	—	—	—	543,890
Interfund payables	300,680	—	—	—	—	—	—	—	(300,680)	—
Total current liabilities	35,324,570	713,996,847	70,990	33,537,637	86,350,065	42,852,806	—	—	(300,680)	911,832,235
Noncurrent liabilities:										
Bonds and notes payable, net of current portion	589,380,313	2,849,277	—	166,683,638	818,414,313	285,111,917	—	—	—	1,862,439,458
Deferred revenues	11,278	—	481,737	—	—	—	—	—	—	493,015
Derivative instrument liability	—	—	—	—	—	28,674,000	—	—	—	28,674,000
Total noncurrent liabilities	589,391,591	2,849,277	481,737	166,683,638	818,414,313	313,785,917	—	—	—	1,891,606,473
Total liabilities	624,716,161	716,846,124	552,727	200,221,275	904,764,378	356,638,723	—	—	(300,680)	2,803,438,708
Net Assets										
Restricted for debt service	775,125	887,234	—	(147,118)	870,794	(122,308)	—	—	—	2,263,727
Unrestricted	—	—	15,324,303	—	—	—	—	—	—	15,324,303
Total net assets	$ 775,125	$ 887,234	$ 15,324,303	$ (147,118)	$ 870,794	$ (122,308)	$ —	$ —	$ —	$ 17,588,030

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Supplemental Schedule of Revenues and Expenses Information by Program Type

Year Ended June 30, 2010

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Hedge Program	Qualified School Construction Bonds	Total
Operating revenues:									
Interest income	$ 33,931,551	$ 5,115,648	$ —	$ 7,545,728	$ 45,607,167	$ 13,421,380	$ 410	$ 548,099	$ 106,169,983
Acceptance and administration fees	—	—	872,757	—	—	—	63,370	—	936,127
Total operating revenues	33,931,551	5,115,648	872,757	7,545,728	45,607,167	13,421,380	63,780	548,099	107,106,110
Operating expenses:									
Interest	31,781,466	2,005,246	—	7,022,505	44,374,895	13,227,439	—	512,000	98,923,551
Amortization of debt issuance costs	1,651,691	2,243,708	—	516,618	1,156,107	359,825	—	40,400	5,968,349
General and administrative	274,523	11,409	1,311,653	6,605	19,129	23,311	31,527	—	1,678,157
Total operating expenses	33,707,680	4,260,363	1,311,653	7,545,728	45,550,131	13,610,575	31,527	552,400	106,570,057
Operating income (loss)	223,871	855,285	(438,896)	—	57,036	(189,195)	32,253	(4,301)	536,053
Nonoperating revenues:									
Interest income on investments	—	—	391,332	—	—	—	—	—	391,332
Change in net assets before transfers	223,871	855,285	(47,564)	—	57,036	(189,195)	32,253	(4,301)	927,385
Transfers	281,053	(371,998)	90,945	—	—	—	—	—	—
Change in net assets	$ 504,924	$ 483,287	$ 43,381	$ —	$ 57,036	$ (189,195)	$ 32,253	$ (4,301)	$ 927,385

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Supplemental Schedule of Revenues and Expenses Information by Program Type

Year Ended June 30, 2009

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Fuel Hedge Program	Qualified School Construction Bonds	Total
Operating revenues:									
Interest income	$ 28,461,820	$ 28,169,075	$ —	$ 6,190,982	$ 48,667,792	$ 13,439,791	$ —	$ —	$ 124,929,460
Acceptance and administration fees	—	—	1,033,491	—	—	—	—	—	1,033,491
Total operating revenues	28,461,820	28,169,075	1,033,491	6,190,982	48,667,792	13,439,791	—	—	125,962,951
Operating expenses:									
Interest	27,235,274	23,555,366	—	5,814,008	47,078,352	13,163,324	—	—	116,846,324
Amortization of debt issuance costs	1,164,081	2,443,770	—	358,805	1,256,980	380,930	—	—	5,604,566
General and administrative	141,791	107,854	1,255,078	18,167	29,334	28,531	—	—	1,580,755
Total operating expenses	28,541,146	26,106,990	1,255,078	6,190,980	48,364,666	13,572,785	—	—	124,031,645
Operating income (loss)	(79,326)	2,062,085	(221,587)	2	303,126	(132,994)	—	—	1,931,306
Nonoperating revenues:									
Interest income on investments	—	—	471,382	—	—	—	—	—	471,382
Change in net assets before transfers	(79,326)	2,062,085	249,795	2	303,126	(132,994)	—	—	2,402,688
Transfers	—	(1,886,228)	1,886,228	—	—	—	—	—	—
Change in net assets	$ (79,326)	$ 175,857	$ 2,136,023	$ 2	$ 303,126	$ (132,994)	$ —	$ —	$ 2,402,688