INDIANA BOND BANK

(A Component Unit of the State of Indiana)

Financial Statements with
Supplementary Information and
Independent Auditors' Report
June 30, 2011 and 2010

KATZ, SAPPER & MILLER

Certified Public Accountants

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

Table of Contents

KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

Independent Auditors' Report

Board of Directors
Indiana Bond Bank

We have audited the accompanying statements of net assets of Indiana Bond Bank (Bond Bank) as of June 30, 2011 and 2010, 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 Indiana Bond Bank at June 30, 2011 and 2010, 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.

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 conducted 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 purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit 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
October 12, 2011

INDIANA BOND BANK

(A Component Unit of the State of Indiana)

Management's Discussion and Analysis

June 30, 2011

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, 2011. 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 $583,095,827, including $475,068,421 of Advance Funding Notes.
- Repayments of bonds and notes payable totaled $725,706,198, including $568,178,421 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, 2011, 2010 and 2009:

	2011	2010	2009
Net assets			
Current assets	$ 490,286,461	$ 582,675,603	$ 919,929,864
Noncurrent assets	1,880,525,828	1,929,822,284	1,901,096,874
Total assets	2,370,812,289	2,512,497,887	2,821,026,738
Current liabilities	478,944,823	571,090,032	911,832,235
Noncurrent liabilities	1,872,776,351	1,922,892,440	1,891,606,473
Total liabilities	2,351,721,174	2,493,982,472	2,803,438,708
Restricted for debt service	3,736,357	3,147,731	2,263,727
Unrestricted	15,354,758	15,367,684	15,324,303
Total net assets	$ 19,091,115	$ 18,515,415	$ 17,588,030
Revenues, expenses and changes in net assets			
Operating revenues:			
Interest income	$ 104,853,988	$ 106,169,983	$ 124,929,460
Acceptance and administration fees	605,568	936,127	1,033,491
Total operating revenues	105,459,556	107,106,110	125,962,951
Operating expenses:			
Interest	98,945,470	98,923,551	116,846,324
Amortization of debt issuance costs	5,142,566	5,968,349	5,604,566
General and administrative	986,462	1,678,157	1,580,755
Total operating expenses	105,074,498	106,570,057	124,031,645
Operating income	385,058	536,053	1,931,306
Nonoperating revenue	190,642	391,332	471,382
Change in net assets	575,700	927,385	2,402,688
Net assets - beginning of year	18,515,415	17,588,030	15,185,342
Net assets - end of year	$ 19,091,115	$ 18,515,415	$ 17,588,030

(Continued)

Statement of Net Assets

Total assets and total liabilities and net assets decreased by approximately $142 million in 2011 from 2010. 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 new Common School Fund Program bond issue, one new Qualified School Construction bond issue and no new 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 Assets Reconciliation - 2011

Total Assets as of June 30, 2010		$ 2,512,497,887
Decrease in current qualified obligations receivable	$ (73,782,805)	
Decrease in other current assets	(18,606,337)	
Decrease in noncurrent qualified obligations receivable	(47,583,955)	
Decrease in other noncurrent assets	(1,712,501)	
Total decrease in assets		(141,685,598)
Total Assets as of June 30, 2011		$ 2,370,812,289
Total Liabilities and Net Assets as of June 30, 2010		$ 2,512,497,887
Increase in net assets	$ 575,700	
Decrease in current bonds and notes payable	(94,702,091)	
Increase in other current liabilities	2,556,882	
Decrease in noncurrent bonds and notes payable	(47,908,280)	
Decrease in other noncurrent liabilities	(2,207,809)	
Total decrease in liabilities and net assets		(141,685,598)
Total Liabilities and Net Assets as of June 30, 2011		$ 2,370,812,289

(Continued)

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 a 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 the 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)

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 4.9% for 2011, 4.7% for 2010 and 4.8% for 2009 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 $331,000 from 2010 to 2011, decreased $97,000 from 2009 to 2010 and increased $773,000 from 2008 to 2009.

Operating expenses include interest expense on bonds and notes payable. Interest expense for the year represented 4.4% for 2011, 4.1% for 2010 and 4.3% for 2009 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 2011 have increased in total approximately $576,000 from 2010. Net assets restricted for debt service increased approximately $589,000 and unrestricted net assets decreased approximately $13,000. In comparison, net assets for 2010 increased approximately $927,000 over 2009. Net assets restricted for debt service increased approximately $884,000 and unrestricted net assets increased approximately $43,000.

DEBT ADMINISTRATION

Below is a listing of the amount of debt issued by program for the fiscal years ended June 30, 2011, 2010 and 2009:

Programs	2011	2010	2009
Special Program	$ -	$ 98,805,000	$ 165,378,000
Advance Funding Program	475,068,000	816,765,000	1,640,855,000
Common School Fund Program	54,120,000	53,760,000	61,145,000
Qualified School Construction Bonds	57,020,000	67,162,000	-

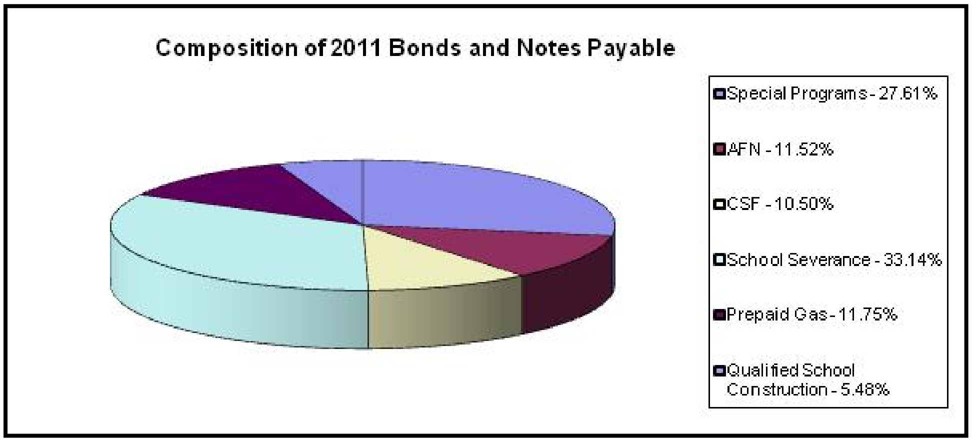
On the following page, are three graphs depicting the composition of bonds and notes payable. The graph on the top details the composition of bonds and notes payable by program for 2011, the graph in the middle depicts 2010 and the graph on the bottom shows 2009. The composition by program has changed due to the new bonds issued during each of the years.

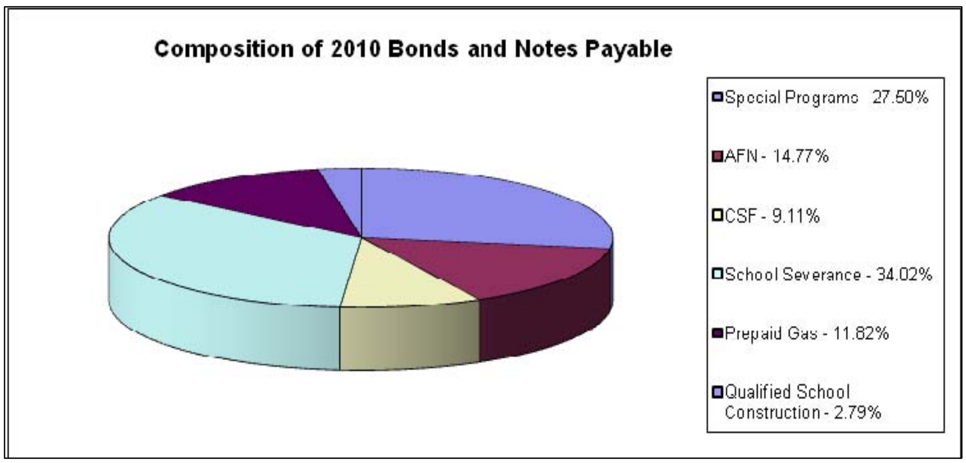
(Continued)

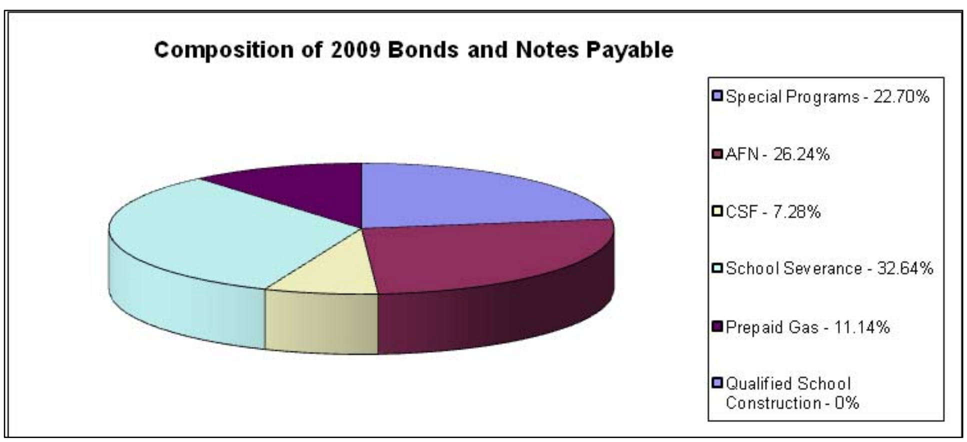
INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Management's Discussion and Analysis

June 30, 2011







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, 2011 and 2010

Assets

	2011	2010
Current assets:		
Cash and cash equivalents	$ 121,146,456	$ 139,752,457
Qualified obligations receivable	344,581,989	418,364,794
Accrued interest receivable	24,558,016	24,558,352
Total current assets	490,286,461	582,675,603
Noncurrent assets:		
Investments, at fair value	33,068,234	30,466,543
Qualified obligations receivable, net of current portion	1,812,249,545	1,859,833,500
Deferred debt issuance costs, net of accumulated amortization of $23,719,004 in 2011 and $20,407,100 in 2010	19,828,049	21,937,241
Deferred outflows - interest rate swap	15,380,000	17,585,000
Total noncurrent assets	1,880,525,828	1,929,822,284
Total assets	2,370,812,289	2,512,497,887

Liabilities

	2011	2010
Current liabilities:		
Bonds and notes payable	406,266,590	500,968,681
Accrued interest payable	38,593,959	39,342,173
Funds held for qualified entities	33,696,936	30,127,339
Accounts payable	387,338	651,839
Total current liabilities	478,944,823	571,090,032
Noncurrent liabilities:		
Bonds and notes payable, net of current portion	1,856,907,416	1,904,815,696
Deferred revenues	488,935	491,744
Derivative instrument liability	15,380,000	17,585,000
Total noncurrent liabilities	1,872,776,351	1,922,892,440
Total liabilities	2,351,721,174	2,493,982,472

Net Assets

	2011	2010
Restricted for debt service	3,736,357	3,147,731
Unrestricted	15,354,758	15,367,684
Total net assets	$ 19,091,115	$ 18,515,415

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, 2011 and 2010

	2011	2010
Operating revenues:		
Interest income	$ 104,853,988	$ 106,169,983
Acceptance and administration fees	605,568	936,127
Total operating revenues	105,459,556	107,106,110
Operating expenses:		
Interest	98,945,470	98,923,551
Amortization of debt issuance costs	5,142,566	5,968,349
General and administrative	986,462	1,678,157
Total operating expenses	105,074,498	106,570,057
Operating income	385,058	536,053
Nonoperating revenues:		
Interest income on investments	190,642	391,332
Change in net assets	575,700	927,385
Net assets, beginning of year	18,515,415	17,588,030
Net assets, end of year	$ 19,091,115	$ 18,515,415

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, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from interest, acceptance and administrative fees on deferred revenue	$ 105,457,083	$ 109,665,114
Cash payments for loaned amounts, operating expense of the operating fund and amortization of cost of issuance	(100,053,343)	(101,043,429)
Cash payments to suppliers and employees	(891,304)	(1,310,336)
Net cash provided by operating activities	4,512,436	7,311,349
Cash flows from non-capital financing activities:		
Proceeds from debt issuances	583,095,827	1,032,451,278
Debt issuance costs paid	(3,033,372)	(5,009,285)
Repayment of bonds and notes payable	(725,706,198)	(1,333,641,359)
Net cash used in non-capital financing activities	(145,643,743)	(306,199,366)
Cash flows from investing activities:		
Purchases of investments	(66,293,466)	(65,952,666)
Purchases of qualified obligations receivable	(551,672,592)	(937,694,606)
Interest received on investments	190,642	391,332
Maturities of investments	63,691,773	71,741,840
Maturities of qualified obligations receivable	676,608,949	1,293,021,952
Net cash provided by investing activities	122,525,306	361,507,852
Net increase (decrease) in cash and cash equivalents	(18,606,001)	62,619,835
Cash and cash equivalents, beginning of year	139,752,457	77,132,622
Cash and cash equivalents, end of year	$ 121,146,456	$ 139,752,457
Supplemental disclosure of cash flow information:		
Interest received during the year	$ 104,854,324	$ 108,730,258
Interest paid during the year	100,190,784	100,783,557
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 385,058	$ 536,053
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of debt issuance costs	5,142,566	5,968,349
Changes in certain assets and liabilities:		
Accrued interest receivable	336	2,560,275
Accrued interest payable	(748,214)	(1,860,006)
Accounts payable	(264,501)	107,949
Deferred revenues	(2,809)	(1,271)
Net cash provided by operating activities	$ 4,512,436	$ 7,311,349

See accompanying notes to financial statements

(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.

(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 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.

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, 2011 and 2010, 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, 2011 and 2010, 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.

Subsequent Events

The Bond Bank has evaluated the financial statements for subsequent events occurring through October 12, 2011, the date the financial statements were available to be issued. See Notes 2 and 9.

(Continued)

(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.

The Bond Bank's cash and investments at June 30, 2011 are summarized as follows:

	Cost	Fair Value
U.S. government agency obligations	$ 14,981,795	$ 14,981,795
Money market funds	104,802,641	104,802,641
Investment agreements with banks	33,068,234	33,068,234
Cash	1,362,020	1,362,020
Total cash and investments	$ 154,214,690	$ 154,214,690

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 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.

(Continued)

(2) Cash and Investments (Cont.)

As of June 30, 2011, 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	$ 14,981,795	$ 14,981,795			
Money market funds	104,802,641	104,802,641			
Guaranteed investments	33,068,234	-	$1,420,040	$ 113,178	$ 31,535,016
Totals	$152,852,670	$119,784,436	$1,420,040	$ 113,178	$ 31,535,016

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	$ 14,981,795
Money market funds	AAA	AAA	Aaa	104,802,641
Guaranteed investment contracts:				
Aegon	Unrated	A-	A3	27,654,965
FSA Capital Management	Unrated	AA+	A3	12,687
GE Capital Corp	AA+	Unrated	Aa2	408,046
MBIA, Inc**	B-	Unrated	Ba3	3,222,040
Natixis Funding Corp	A+	A+	Aa3	1,480,224
West LB	BBB+	A-	Unrated	290,272
Total Rated Investments				$ 152,852,670

*On August 9, 2011, Standard and Poor's downgraded government obligations to AA+.
**Investment was collateralized as of June 30, 2011

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, 2011:

Dreyfus Government Prime Cash Management	28%
Fidelity Institutional US Government Portfolio Money Market Fund	22%
Aegon GIC	18%
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, 2011 and 2010, qualified obligations receivable included $62,715,000 and $65,350,000, 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, 2011 and 2010, the Bond Bank's Board of Directors authorized the purchase and subsequent leasing of equipment totaling approximately $5,479,923 and $8,023,270, 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.

(4) Bonds and Notes Payable

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

Special Program Bonds:		2011	2010
Series 1998 A	Refunding Bonds (rates vary from 4.50% to 4.75% with maturities to October 1, 2011)	$ 510,000	$ 1,495,000
Series 2002 A	(rates vary from 4.30% to 5.50% with maturities from October 1, 2011 to October 1, 2027)	32,430,000	33,920,000
Series 2002 C	(rates vary from 4.20% to 5.00% with maturities from February 1, 2012 to February 1, 2017)	730,000	935,000
Series 2002 D	(rates vary from 5.00% to 5.38% with maturities from April 1, 2012 to April 1, 2012)	1,550,000	3,025,000
Series 2002 E	(rates vary from 3.50% to 5.25% with maturities from February 1, 2012 to February 1, 2023)	7,805,000	8,280,000
Series 2003 A	(rates vary from 3.75% to 5.25% with maturities from February 1, 2012 to February 1, 2033)	35,985,000	36,925,000
Series 2003 B	(rates vary from 3.75% to 5.00% with maturities from February 1, 2012 to February 1, 2023)	5,460,000	5,935,000
Series 2003 C	(rates vary from 3.50% to 5.00% with maturities from July 25, 2011 to January 1, 2016)	3,615,000	4,535,000
Series 2003 D	(rates vary from 3.25% to 5.00% with maturities from August 1, 2011 to February 1, 2025)	25,280,000	26,540,000
Series 2003 E	(rates vary from 3.50% to 5.00% with maturities from September 1, 2011 to September 1, 2025)	31,905,000	32,905,000
Series 2003 F	(rates vary from 3.00% to 4.75% with maturities from February 1, 2012 to February 1, 2024)	7,585,000	8,390,000
Series 2004 A	(rates vary from 3.00% to 5.00% with maturities from August 1, 2011 to February 1, 2024	13,035,000	13,775,000
Series 2004 B	(rates vary from 3.00% to 5.00% with maturities from February 1, 2012 to February 1, 2023)	12,335,000	13,215,000
Series 2004 C	(rates vary from 4.00% to 5.38% with maturities from August 1, 2011 to February 1, 2031)	31,170,000	32,080,000
Series 2004 D	(rates vary from 3.00% to 5.00% with maturities from February 1, 2012 to February 1, 2022)	21,780,000	23,305,000
Series 2005 A	(rates vary from 3.00% to 4.50% with maturities from August 1, 2011 to February 1, 2027)	11,205,000	11,765,000
Series 2005 B	(rates vary from 4.00% to 4.15% with maturities from February 15, 2012 to February 15, 2020)	6,280,000	6,855,000
Series 2005 C	(rates vary from 3.75% to 4.25% with maturities from June 1, 2012 to June 1, 2026)	9,110,000	9,550,000

(Continued)

(4) Bonds and Notes Payable (Cont.)

Special Program Bonds (Cont.):

Series 2005 D	(rates vary from 3.75% to 5.00% with maturities from August 1, 2011 to August 1, 2028)	$ 3,950,000	$ 4,100,000
Series 2006 B-1	(rates vary from 3.75% to 5.00% with maturities from September 1, 2011 to March 1, 2027)	11,420,000	11,680,000
Series 2006 B-2	(rates vary from 5.50% to 5.80% with maturities from September 1, 2011 to September 1, 2017)	2,020,000	2,315,000
Series 2006 A (Ref)	(rates vary from 4.00% to 5.13% with maturities from August 1, 2011 to September 1, 2024)	20,755,000	21,915,000
Series 2006 C	(rates vary from 4.25% to 5.00% with maturities from February 1, 2012 to February 1, 2023)	18,475,000	19,230,000
Series 2006 D	(rates vary from 4.00% to 4.25% with maturities from August 1, 2011 to February 1, 2027)	10,015,000	10,775,000
Series 2007 A (Ref)	(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 2008 A	(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. Redeemed in current year.)	—	10,500,000
Series 2008 B	(rates vary from 4.00% to 5.79% with maturities from June 1, 2012 to June 1, 2034)	86,869,734	85,703,828
Series 2008 D	(rates vary from 4.00% to 4.5% with maturities from February 1, 2012 to February 1, 2013)	3,390,000	4,750,000
Series 2009 A	(rates vary from 3.00% to 5.5% with maturities from August 1, 2011 to February 1, 2029)	70,385,000	72,865,000
Series 2009 C	(rates vary from 3.00% to 4.77% with maturities from February 1, 2012 to February 1, 2030)	23,390,000	24,025,000
Series 2009 D	(rates vary from 3.00% to 5.00% with maturities from August 1, 2011 to August 1, 2020	49,960,000	51,690,000
Series 2010 A-1	(rates vary from 3.00% to 4.00% with maturities from February 1, 2012 to February 1, 2021	7,665,000	8,595,000
Series 2010 A-2	(rates vary from 1.08% to 4.62% with maturities from February 1, 2012 to February 1, 2020	4,825,000	6,395,000
Series 2010 A-3	(rates vary from 3.00% to 4.00% with maturities from February 1, 2012 to February 1, 2024)	765,000	770,000
Total Special Program Bonds		$ 616,569,734	$ 653,653,828

(4) Bonds and Notes Payable (Cont.)

		2011	2010
Advance Funding Program Notes:			
Series 2009 A	Year End Extension (interest rate of 0.80%, maturing on December 31, 2011)	$ —	$ 2,880,000
Series 2010 A	(interest rate of 2.00% maturing on January 6, 2011)	—	297,420,000
Series 2010 A	Midyear (interest rate of 1.50% maturing on January 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
Series 2011 A	(interest rate of 2.00% maturing on January 5, 2012)	162,350,000	—
Series 2011 A	Special Notes (interest rate of 1.59%, maturing on January 5, 2012)	24,225,000	—
Series 2011 B	Special Notes (interest rate of 1.95%, maturing on January 5, 2012)	15,580,000	—
Series 2011 C	Special Notes (interest rate of 0.81%, maturing on October 1, 2011)	8,110,000	—
Series 2011 D	Special Notes (interest rate of 0.75%, maturing on October 1, 2011)	5,640,000	—
Series 2011 A	Midyear (interest rate of 1.39% maturing on January 5, 2012)	18,565,000	—
Series 2011 B	Midyear (interest rate of 0.75% maturing on January 5, 2012)	14,790,000	—
Series 2011 A	Year End Extension (interest rate of 0.80%, maturing on December 31, 2011)	10,305,000	—
Total Advance Funding Program Notes		$ 259,565,000	$ 352,675,000
Common School Fund Bonds:			
Series 1996 A	(interest rate of 5.75% with maturities from August 1, 2011 to August 1, 2013)	$ 1,020,000	$ 1,550,000
Series 1999 A	(interest rate of 5.00% with maturities from February 1, 2012 to February 1, 2014)	8,040,000	11,400,000
Series 2001	(interest rate of 5.00% with maturities from February 1, 2012 to February 1, 2019)	6,895,000	9,760,000
Series 2003 A and B	(rates vary from 3.00% to 5.00% with maturities from August 1, 2011 to February 1, 2020)	79,200,000	90,525,000
Series 2009 A	(rates vary from 2.92% to 4.05% with maturities from August 1, 2011 to August 1, 2013)	34,010,000	47,395,000
Series 2010 A	(rates vary from 0.53% to 4.04% with maturities from August 1, 2011 to February 1, 2017)	51,345,000	53,760,000
Series 2010 B	(rates vary from 1.35% to 4.30% with maturities from August 1, 2011 to August 1, 2018)	53,875,000	—
Total Common School Fund Bonds		$ 234,385,000	$ 214,390,000

(4) Bonds and Notes Payable (Cont.)

School Severance Program Bonds:			
Series 1	(rates vary from 5.75% to 6.30% with maturities from July 15, 2011 to January 15, 2018)	$ 11,730,000	$ 18,535,000
Series 2	(rates vary from 4.82% to 5.72% with maturities from July 15, 2011 to July 15, 2023)	21,010,000	22,555,000
Series 3	(rates vary from 4.75% to 5.85% with maturities from July 15, 2011 to January 15, 2023)	37,175,000	42,520,000
Series 4	(rates vary from 3.85% to 5.07% with maturities from July 15, 2011 to January 15, 2024)	31,210,000	34,160,000
Series 5A	(rates vary from 4.37% to 5.82% with maturities from July 15, 2011 to January 15, 2024)	107,685,000	120,200,000
Series 5B	(interest rate of 5.05% with maturities from July 15, 2011 to January 15, 2019)	9,515,000	10,460,000
Series 5C	(interest rate of 5.15% with maturities from July 15, 2011 to January 15, 2019)	2,515,000	2,760,000
Series 6A	(rates vary from 4.91% to 6.24% with maturities from July 15, 2011 to January 15, 2025)	109,850,000	119,765,000
Series 6B	(interest rate of 5.79% with maturities from July 15, 2011 to January 15, 2025)	11,830,000	12,440,000
Series 7A	(rates vary from 4.18 to 5.73% with maturities from July 15, 2011 to January 15, 2030)	72,970,000	79,780,000
Series 7B	(rates vary from 4.50% to 5.30% with maturities from July 15, 2011 to January 15, 2020)	8,835,000	9,615,000
Series 8A	(rates vary from 4.17% to 5.64% with maturities from July 15, 2011 to January 15, 2029)	94,155,000	102,545,000
Series 8B	(rates vary from 4.17% to 5.49% with maturities from July 15, 2011 to January 15, 2026)	51,955,000	54,810,000
Series 9	(rates vary from 4.19% to 5.53% with maturities from July 15, 2011 to January 15, 2026)	25,355,000	27,190,000
Series 10	(rates vary from 4.93% to 5.68% with maturities from July 15, 2011 to January 15, 2031)	51,730,000	53,010,000
Series 11	(rates vary from 5.47% to 6.20% with maturities from July 15, 2011 to January 15, 2029)	103,080,000	108,145,000
Total School Severance Program Bonds		$ 750,600,000	$ 818,490,000

(4) Bonds and Notes Payable (Cont.)

		2011	2010
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, 2011 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, 2011 was 0.07%, 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, 2011 was 3.16%, with maturities from October 15, 2011 to October 15, 2015.	$ 262,075,000	$ 279,690,000
Total Prepaid Gas Funding Program Bonds		$ 262,075,000	$ 279,690,000
Qualified School Contruction Bonds:			
Series 2009	(rates vary from 1.51% to 1.75% with maturities from January 15, 2012 to January 15, 2025)	$ 66,348,590	$ 67,162,271
Series 2010	(rates vary from 2.96% to 5.49% with maturities from July 15, 2011 to July 15, 2027)	57,020,000	—
Total Qualified School Construction Bonds		$ 123,368,590	$ 67,162,271
Totals		2,246,563,324	2,386,061,099
Add: Net unamortized premium		18,256,296	21,639,578
Less: Deferred charge on refunding		(1,645,614)	(1,916,300)
Total bonds and notes payable		2,263,174,006	2,405,784,377
Less: Current portion		(406,266,590)	(500,968,681)
Noncurrent portion of bonds and notes payable		$ 1,856,907,416	$ 1,904,815,696

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 $16,473,187 and $16,442,933 at June 30, 2011 and 2010, respectively.

(4) Bonds and Notes Payable (Cont.)

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, 2011.

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

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.

(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, 2011 are as follows:

Series	Eligible Amount
Advanced Funding Program, Series 2011 A	$ 16,235,000
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 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, 2011 or 2010.

At June 30, 2011, maturities of long-term debt and interest are as follows:

Fiscal Year Ending June 30	Principal	Interest
2012	$ 408,776,590	$ 95,396,471
2013	149,227,000	85,753,791
2014	154,183,000	79,730,733
2015	151,621,000	73,495,398
2016	148,275,000	66,654,579
2017-2021	640,071,000	230,029,104
2022-2026	449,023,000	86,734,332
2027-2031	125,828,324	20,200,688
2032-2036	19,558,410	1,523,116
	2,246,563,324	$ 739,518,212
Add: Unamortized premium	18,256,296	
Less: Deferred charge	(1,645,614)	
	$ 2,263,174,006	

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, 2011 and 2010, the balance outstanding for these qualified water utilities totaled $16,160,000 and $17,910,000, 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	$ 2,246,563,324
Less: Debt recorded which does not require reserve funds	1,723,653,324
Debt outstanding for statutory debt limit purposes at June 30, 2011	522,910,000
Available remaining debt limit for statutory purposes	477,090,000
Statutory debt limit	$ 1,000,000,000

Special Program Bonds Series 2002 D is considered to have been defeased and has been removed from the financial statements and in total has a remaining outstanding principal balance of approximately $48,660,000 at June 30, 2011.

Special Program Bonds Series 1998 A, 2000 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 had a remaining outstanding principal balances of approximately $73,145,000 at June 30, 2010.

(Continued)

(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
2011					
Bonds and notes payable	$ 2,407,700,677	$ 583,095,827	$ 725,976,884	$ 2,264,819,620	$ 406,266,590
Less deferred amounts	1,916,300	-	270,686	1,645,614	-
	2,405,784,377	583,095,827	725,706,198	2,263,174,006	406,266,590
Deferred revenues	491,744	-	2,809	488,935	-
Derivative instrument liability	17,585,000	-	2,205,000	15,380,000	-
Total	2,423,861,121	$ 583,095,827	$ 727,914,007	$ 2,279,042,941	$ 406,266,590
2010					
Bonds and notes payable	$ 2,707,840,278	$ 1,033,962,537	$ 1,334,102,138	$ 2,407,700,677	$ 500,968,681
Less deferred amounts	865,820	1,511,259	460,779	1,916,300	-
	2,706,974,458	1,032,451,278	1,333,641,359	2,405,784,377	500,968,681
Deferred revenues	493,014	-	1,270	491,744	-
Derivative instrument liability	28,674,000	-	11,089,000	17,585,000	
Total	$ 2,736,141,473	$ 1,032,451,278	$ 1,344,731,629	$ 2,423,861,121	$ 500,968,681

(Continued)

(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 JP Morgan to lock in a fixed interest rate.

SUMMARY OF DERIVATIVE INSTRUMENTS (INTEREST RATE SWAPS)

	Changes in Fair Value		Fair Value at June 30, 2011	
Business-Type Activities	Classification	Amount	Amount	Notional Amount
Pay-fixed interest rate swap - LIBOR Index Rate Bonds (B-1)	Deferred Outflow	$ 631,000	$ (8,438,000)	$ 22,500,000
Pay-fixed interest rate swap - BMA Index Rate Bonds (B-2)	Deferred Outflow	(272,000)	(7,465,000)	15,690,000
Pay-fixed interest rate swap - CPI Index Rate Bonds (B-3)	Deferred Inflow	1,846,000	523,000	77,595,000
		$ 2,205,000	$ (15,380,000)	$ 115,785,000

Terms for B1 (LIBOR Index). Under the Swap Agreement, the Bond Bank pays interest to JP Morgan on the notional amounts set forth in the three-month LIBOR agreements at the fixed interest rate of 4.73%, in exchange for which JP Morgan 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, 2011 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.

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

Fair Value (LIBOR Index). Because LIBOR interest rates have decreased since execution of the Swap Agreement, the Swap had a negative fair value of $8,438,000 at June 30, 2011. 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 B2 (SIFMA Municipal Swap Index). Under the Swap Agreement, the Bond Bank pays interest to JP Morgan on the notional amounts set forth in the weekly BMA Municipal Index Swap agreements at the fixed interest rate of 4.80%, in exchange for which JP Morgan pays 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 .66%. The Swap's notional amount of $15,690,000 at June 30, 2011 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 (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 $7,465,000 at June 30, 2011. 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, 2011 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.

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

Terms for B3 (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, 2011 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.

Fair Value (CPI Index). Because interest rates have changed since execution of the Swap Agreement, the Swap had a positive fair value of $523,000 at June 30, 2011. The Swap's positive fair value may be countered by an increase in total interest payments required under the variable-rate bonds, creating a lower 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, 2011. 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.

Credit Risk. As of June 30, 2011, the Bond Bank was not exposed to credit risk for the B1 and B2 series because the SIFMA and the LIBOR index swaps had negative fair values. However, the B3 series exposed the Bond Bank to a credit risk of $523,000, because the CPI Index Swap had a positive 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, 2011.

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, 2011, 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 for the qualified entities.

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

Variable-Rate Bonds (B1, LIBOR Index)

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2012	$ -	$ 259,669	$ 804,581	$ 1,064,250
2013	-	259,669	804,581	1,064,250
2014	-	259,669	804,581	1,064,250
2015	-	259,669	804,581	1,064,250
2016	-	259,669	804,581	1,064,250
2017	-	259,669	804,581	1,064,250
2018	-	259,669	804,581	1,064,250
2019		259,669	804,581	1,064,250
2020	-	259,669	804,581	1,064,250
2021	-	259,669	804,581	1,064,250
2022	-	259,669	804,581	1,064,250
2023	22,500,000	259,669	804,581	1,064,250
Total	$ 22,500,000	$ 3,116,028	$ 9,654,972	$ 12,771,000

Variable-Rate Bonds (B2, BMA Index)

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2012	$ -	$ 114,537	$ 638,583	$ 753,120
2013	-	114,537	638,583	753,120
2014	-	114,537	638,583	753,120
2015	-	114,537	638,583	753,120
2016	-	114,537	638,583	753,120
2017	-	114,537	638,583	753,120
2018		114,537	638,583	753,120
2019	-	114,537	638,583	753,120
2020	-	114,537	638,583	753,120
2021	-	114,537	638,583	753,120
2022	-	114,537	638,583	753,120
2023	15,690,000	114,537	638,583	753,120
Total	$ 15,690,000	$ 1,374,444	$ 7,662,996	$ 9,037,440

(Continued)

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

Fiscal Year Ending June 30	Variable-Rate Bonds (B3, CPI Index) Principal	Interest	Interest Rate Swaps, Net	Total
2012	$ 17,080,000	$ 3,504,423	$ (229,979)	$ 3,274,444
2013	16,920,000	2,740,947	(168,491)	2,572,456
2014	16,665,000	1,979,547	(114,347)	1,865,200
2015	16,930,000	1,224,622	(66,018)	1,158,604
2016	10,000,000	456,000	(22,000)	434,000
Total	$ 77,595,000	$ 9,905,539	$ (600,835)	$ 9,304,704

(6) Concentrations of Credit

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

County	Qualified Obligations Receivable	Concentration Percentage
Marion	$ 404,933,639	19%
Hendricks	187,609,260	9%
Lake	151,012,181	7%
Hamilton	131,884,096	6%

No other county has a concentration over 5.0% of the total qualified obligations receivable at June 30, 2011.

(Continued)

(7) Employee Benefits

The Bond Bank contributes to the Public Employees' Retirement Fund (PERF) of the State, an agent multiple-employer public employee retirement system, which acts as a common investment and administrative agent for State employees and employees of the various subdivisions and instrumentalities of the State. All employees of the Bond Bank participate in this plan. The PERF of the State 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 benefit 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, 2011 and 2010 were $18,959 and $14,184, respectively. Covered payroll for the same periods amounted to $270,840 and $218,211, 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, 2011:

Fiscal Year Ending June 30		Payments
2012	$	54,101
2013		52,772
2014		50,671
2015		50,293
2016		25,253
	$	233,090

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 $35,955 and $64,358 for the years ended June 30, 2011 and 2010, respectively.

(9) Subsequent Events

The following Advance Funding issues have been partially redeemed since the statement of net assets date of June 30, 2011: 2011 A Midyear of $7,215,000, 2011 A Special Notes of $7,990,000 and 2011 B Special Notes of $6,100,000.

The following issues have been approved by the Board of Directors of the Bond Bank for refunding since the statement of net assets date of June 30, 2011, but have not been refunded as of the date of this report: Common School Fund Advancement Purchase Bond, Series 2001 A and 2003 B; Special Program Bonds, Series 2003 E (City of South Bend TIF); and Taxable School Severance Bonds, Series 1.

The Bond Bank has closed on three Hoosier Equipment Lease Purchase (HELP) leases in the amount of $1,239,878 since the statement of net assets date of June 30, 2011.

The following application has been approved since the statement of net assets date of June 30, 2011: Town of Bargersville Sewage Works for $4,500,000.

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Supplemental Schedule of Net Assets Information by Program Type

June 30, 2011

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	$ 21,344,177	$ 40,998,519	$ 15,896,633	$ 2,415,110	$ 37,564,697	$ 821,584	$ 61,225	$ 2,044,511	$ -	$ 121,146,456
Qualified obligations receivable	26,643,000	222,189,406	—	32,566,268	43,189,634	17,080,000	—	2,913,681	—	344,581,989
Accrued interest receivable	9,241,675	1,436,496	—	4,865,441	6,310,404	2,100,200	—	603,800	—	24,558,016
Total current assets	57,228,852	264,624,421	15,896,633	39,846,819	87,064,735	20,001,784	61,225	5,561,992	—	490,286,461
Noncurrent assets:										
Investments, at fair value	4,527,020	—	—	698,319	187,930	27,654,965	—	—	—	33,068,234
Qualified obligations receivable	569,619,090	—	—	199,285,386	677,126,843	246,908,017	—	119,310,209	—	1,812,249,545
Deferred debt issuance costs, net	8,289,366	564,225	—	1,889,890	5,685,560	2,091,285	—	1,307,723	—	19,828,049
Deferred outflows - interest rate swap	—	—	—	—	—	15,380,000	—	—	—	15,380,000
Total noncurrent assets	582,435,476	564,225	—	201,873,595	683,000,333	292,034,267	—	120,617,932	—	1,880,525,828
Total assets	639,664,328	265,188,646	15,896,633	241,720,414	770,065,068	312,036,051	61,225	126,179,924	—	2,370,812,289
Liabilities										
Current liabilities:										
Bonds and notes payable	29,015,000	259,565,000	—	32,490,000	65,690,000	17,080,000	—	2,426,590	—	406,266,590
Accrued interest payable	10,238,829	1,761,825	—	3,971,277	18,474,028	2,100,200	—	2,047,800	—	38,593,959
Funds held for qualified entities	4,201,916	1,075,000	—	—	—	28,420,020	—	—	—	33,696,936
Accounts payable	53,400	30,000	60,138	100	—	243,700	—	—	—	387,338
Total current liabilities	43,509,145	262,431,825	60,138	36,461,377	84,164,028	47,843,920	—	4,474,390	—	478,944,823
Noncurrent liabilities:										
Bonds and notes payable, net of current portion	594,661,128	1,228,260	—	205,406,155	684,840,444	249,061,594	—	121,709,835	—	1,856,907,416
Deferred revenues	7,198	—	481,737	—	—	—	—	—	—	488,935
Derivative instrument liability	—	—	—	—	—	15,380,000	—	—	—	15,380,000
Total noncurrent liabilities	594,668,326	1,228,260	481,737	205,406,155	684,840,444	264,441,594	—	121,709,835	—	1,872,776,351
Total liabilities	638,177,471	263,660,085	541,875	241,867,532	769,004,472	312,285,514	—	126,184,225	—	2,351,721,174
Net Assets										
Restricted for debt service	1,486,857	1,528,561	—	(147,118)	1,060,596	(249,463)	61,225	(4,301)	—	3,736,357
Unrestricted	—	—	15,354,758	—	—	—	—	—	—	15,354,758
Total net assets	$ 1,486,857	$ 1,528,561	$ 15,354,758	$ (147,118)	$ 1,060,596	$ (249,463)	$ 61,225	$ (4,301)	$ -	$ 19,091,115

Indiana Bond Bank
(A Component Unit of the State of Indiana)

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 Budgeting 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

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Supplemental Schedule of Revenues, Expenses and Changes in Net Assets Information by Program Type

Year Ended June 30, 2011

	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
Operating revenues:									
Interest income	$ 33,549,185	$ 3,777,246	$ -	$ 9,489,485	$ 42,446,246	$ 12,841,019	$ 1,259	$ 2,749,548	$ 104,853,988
Acceptance and administration fees	—	—	511,818	—	—	—	93,750	—	605,568
Total operating revenues	33,549,185	3,777,246	511,818	9,489,485	42,446,246	12,841,019	95,009	2,749,548	105,459,556
Operating expenses:									
Interest	31,922,795	1,875,020	—	8,850,295	41,247,877	12,392,289	66,037	2,591,157	98,945,470
Amortization of debt issuance costs	1,386,017	1,604,025	—	631,362	1,050,699	337,163	—	133,300	5,142,566
General and administrative	33,565	—	879,139	7,828	14,904	49,527	—	1,499	986,462
Total operating expenses	33,342,377	3,479,045	879,139	9,489,485	42,313,480	12,778,979	66,037	2,725,956	105,074,498
Operating income (loss)	206,808	298,201	(367,321)	—	132,766	62,040	28,972	23,592	385,058
Nonoperating revenues:									
Interest income on investments	—	—	190,642	—	—	—	—	—	190,642
Change in net assets before transfers	206,808	298,201	(176,679)	—	132,766	62,040	28,972	23,592	575,700
Transfers	—	(140,161)	163,753	—	—	—	—	(23,592)	—
Change in net assets	$ 206,808	$ 158,040	$ (12,926)	$ -	$ 132,766	$ 62,040	$ 28,972	$ -	$ 575,700

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Supplemental Schedule of Revenues, Expenses and Changes in Net Assets 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 Budgeting 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