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

Financial Statements with
Supplementary Information and
Independent Auditors' Report

June 30, 2012 and 2011

KATZ
SAPPER
& MILLER

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

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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, 2012 and 2011, 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, 2012 and 2011, 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.

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 3 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 10, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2012. 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 $366,458,873, including $261,459,920 of Advance Funding Notes.
- Repayments of bonds and notes payable totaled $629,524,519, including $359,299,920 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, 2012, 2011 and 2010:

	2012	2011	2010
Net assets			
Current assets	$ 385,892,052	$ 490,286,461	$ 582,675,603
Noncurrent assets	1,714,967,448	1,880,525,828	1,929,822,284
Total assets	2,100,859,500	2,370,812,289	2,512,497,887
Current liabilities	379,175,441	478,944,823	571,090,032
Noncurrent liabilities	1,702,573,319	1,872,776,351	1,922,892,440
Total liabilities	2,081,748,760	2,351,721,174	2,493,982,472
Restricted for debt service	3,542,320	3,736,357	3,147,731
Unrestricted	15,568,420	15,354,758	15,367,684
Total net assets	$ 19,110,740	$ 19,091,115	$ 18,515,415
Revenues, expenses and changes in net assets			
Operating revenues:			
Interest income	$ 95,717,826	$ 104,853,988	$ 106,169,983
Acceptance and administration fees	544,657	605,568	936,127
Total operating revenues	96,262,483	105,459,556	107,106,110
Operating expenses:			
Interest	90,358,507	98,945,470	98,923,551
Amortization of debt issuance costs	4,545,209	5,142,566	5,968,349
General and administrative	1,577,907	986,462	1,678,157
Total operating expenses	96,481,623	105,074,498	106,570,057
Operating income	(219,140)	385,058	536,053
Nonoperating revenue	238,765	190,642	391,332
Change in net assets	19,625	575,700	927,385
Net assets - beginning of year	19,091,115	18,515,415	17,588,030
Net assets - end of year	$ 19,110,740	$ 19,091,115	$ 18,515,415

(Continued)

Statement of Net Assets

Total assets and total liabilities and net assets decreased by approximately $270 million in 2012 from 2011. The decrease in the current qualified obligations receivable resulted primarily from a lower balance outstanding on the Advanced Funding Note Program. Similarly, there was a corresponding decrease in the current bonds and notes payable due to a lower outstanding balance on the Advanced Funding Note Program. The decrease in the noncurrent qualified obligations receivable was due to repayment of loans, refunding bond issues and there being only one new Special Program bond issue. 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 - 2012

Total Assets as of June 30, 2011		$ 2,370,812,289
Decrease in current qualified obligations receivable	$ (79,832,035)	
Decrease in other current assets	(24,562,374)	
Decrease in noncurrent qualified obligations receivable	(159,304,680)	
Decrease in other noncurrent assets	(6,253,700)	
Total decrease in assets		(269,952,789)
Total Assets as of June 30, 2012		$ 2,100,859,500
Total Liabilities and Net Assets as of June 30, 2011		$ 2,370,812,289
Increase in net assets	$ 19,625	
Decrease in current bonds and notes payable	(93,626,633)	
Increase in other current liabilities	(6,142,749)	
Decrease in noncurrent bonds and notes payable	(169,439,013)	
Decrease in other noncurrent liabilities	(764,019)	
Total decrease in liabilities and net assets		(269,952,789)
Total Liabilities and Net Assets as of June 30, 2012		$ 2,100,859,500

(Continued)

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

Operating revenues consist of interest income earned on qualified obligations receivable and the related long-term investments in guaranteed investment contracts. The operating interest income for the year was 5.0% for 2012, 4.9% for 2011 and 4.7% for 2010 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 $61,000 from 2011 to 2012, $331,000 from 2010 to 2011 and $97,000 from 2009 to 2010.

Operating expenses include interest expense on bonds and notes payable. Interest expense for the year represented 4.5% for 2012, 4.4% for 2011 and 4.1% for 2010 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.

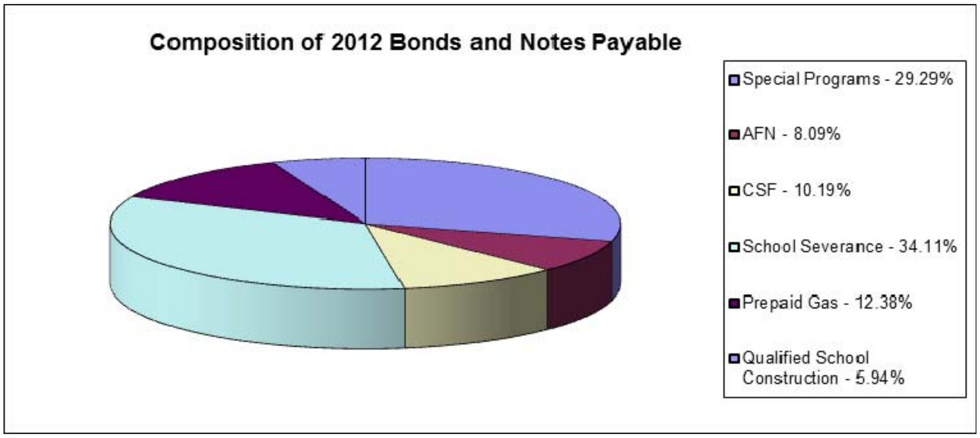
Net assets in 2012 have increased in total approximately $20,000 from 2011. Net assets in 2012 restricted for debt service decreased approximately $194,000 and unrestricted net assets increased approximately $214,000 from 2011. In comparison, net assets in 2011 increased approximately $576,000 from 2010. Net assets in 2011 restricted for debt service increased approximately $589,000 and unrestricted net assets decreased approximately $13,000 from 2010.

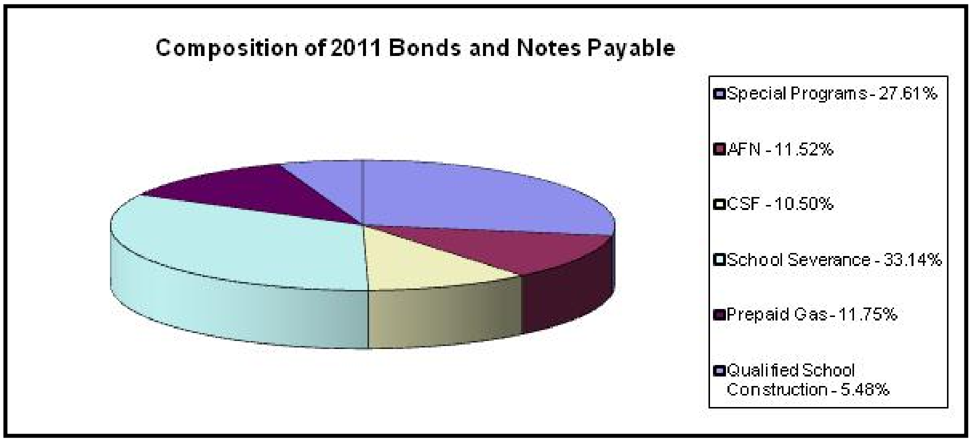
DEBT ADMINISTRATION

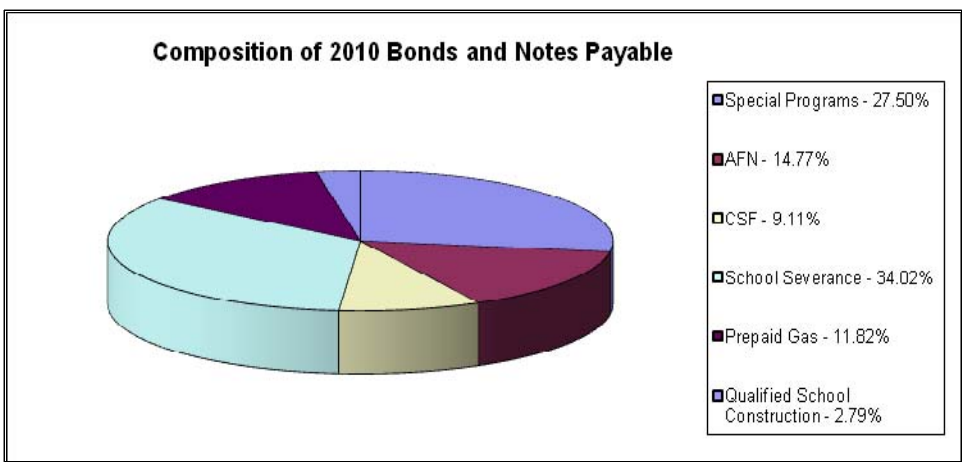
Below is a listing of the amount of debt issued by program for the fiscal years ended June 30, 2012, 2011 and 2010:

Programs	2012	2011	2010
Special Program	$ 33,020,000	$ -	$ 98,805,000
Advance Funding Program	261,459,920	475,068,000	816,765,000
School Severance Program	30,250,000	-	-
Common School Fund Program	50,165,000	54,120,000	53,760,000
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 2012, the graph in the middle depicts 2011 and the graph on the bottom shows 2010. 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.

FINANCIAL STATEMENTS

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

Statements of Net Assets

June 30, 2012 and 2011

Assets

	2012	2011
Current assets:		
Cash and cash equivalents	$ 99,666,510	$ 121,146,456
Qualified obligations receivable	264,749,954	344,581,989
Accrued interest receivable	21,475,588	24,558,016
Total current assets	385,892,052	490,286,461
Noncurrent assets:		
Investments, at fair value	29,775,331	33,068,234
Qualified obligations receivable, net of current portion	1,652,944,865	1,812,249,545
Deferred debt issuance costs, net of accumulated amortization of $25,709,770 in 2012 and $23,719,004 in 2011	17,630,252	19,828,049
Deferred outflows - interest rate swap	14,617,000	15,380,000
Total noncurrent assets	1,714,967,448	1,880,525,828
Total assets	2,100,859,500	2,370,812,289

Liabilities

	2012	2011
Current liabilities:		
Bonds and notes payable	312,639,957	406,266,590
Accrued interest payable	33,408,705	38,593,959
Funds held for qualified entities	32,528,587	33,696,936
Accounts payable	598,192	387,338
Total current liabilities	379,175,441	478,944,823
Noncurrent liabilities:		
Bonds and notes payable, net of current portion	1,687,468,403	1,856,907,416
Deferred revenues	487,916	488,935
Derivative instrument liability	14,617,000	15,380,000
Total noncurrent liabilities	1,702,573,319	1,872,776,351
Total liabilities	2,081,748,760	2,351,721,174

Net Assets

	2012	2011
Restricted for debt service	3,542,320	3,736,357
Unrestricted	15,568,420	15,354,758
Total net assets	$ 19,110,740	$ 19,091,115

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, 2012 and 2011

	2012	2011
Operating revenues:		
Interest income	$ 95,717,826	$ 104,853,988
Acceptance and administration fees	544,657	605,568
Total operating revenues	96,262,483	105,459,556
Operating expenses:		
Interest	90,358,507	98,945,470
Amortization of debt issuance costs	4,545,209	5,142,566
General and administrative	1,577,907	986,462
Total operating expenses	96,481,623	105,074,498
Operating income (loss)	(219,140)	385,058
Nonoperating revenues:		
Interest income on investments	238,765	190,642
Change in net assets	19,625	575,700
Net assets, beginning of year	19,091,115	18,515,415
Net assets, end of year	$ 19,110,740	$ 19,091,115

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from interest, acceptance and administrative fees on deferred revenue	$ 99,343,892	$ 105,457,083
Cash payments for loaned amounts, operating expense of the operating fund and amortization of cost of issuance	(95,626,309)	(100,053,343)
Cash payments to suppliers and employees	(1,284,505)	(891,304)
Net cash provided by operating activities	2,433,078	4,512,436
Cash flows from non-capital financing activities:		
Proceeds from debt issuances	366,458,873	583,095,827
Debt issuance costs paid	(2,347,412)	(3,033,372)
Repayment of bonds and notes payable	(629,524,519)	(725,706,198)
Net cash used in non-capital financing activities	(265,413,058)	(145,643,743)
Cash flows from investing activities:		
Purchases of investments	(45,919,210)	(66,293,466)
Purchases of qualified obligations receivable	(328,880,119)	(551,672,592)
Interest received on investments	238,765	190,642
Maturities of investments	49,212,113	63,691,773
Maturities of qualified obligations receivable	566,848,485	676,608,949
Net cash provided by investing activities	241,500,034	122,525,306
Net decrease in cash and cash equivalents	(21,479,946)	(18,606,001)
Cash and cash equivalents, beginning of year	121,146,456	139,752,457
Cash and cash equivalents, end of year	$ 99,666,510	$ 121,146,456
Supplemental disclosure of cash flow information:		
Interest received during the year	$ 98,800,254	$ 104,854,324
Interest paid during the year	95,543,761	100,190,784
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (219,140)	$ 385,058
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization of debt issuance costs	4,545,209	5,142,566
Changes in certain assets and liabilities:		
Accrued interest receivable	3,082,428	336
Accrued interest payable	(5,185,254)	(748,214)
Accounts payable	210,854	(264,501)
Deferred revenues	(1,019)	(2,809)
Net cash provided by operating activities	$ 2,433,078	$ 4,512,436

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.

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.

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

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.

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, 2012 and 2011, fair value 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.

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

Deferred Revenues

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

Defeasance of Debt

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

Net 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, 2012 and 2011, 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 10, 2012, the date the financial statements were available to be issued. See Note 9.

(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, 2012 are summarized as follows:

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

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 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, 2012, 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	$ 15,093,277	$15,093,277			
Money market funds	82,536,389	82,536,389			
Guaranteed investments	29,775,331		$ 1,877,365	$30,929	$ 27,867,037
Totals	$127,404,997	$97,629,666	$ 1,877,365	$30,929	$ 27,867,037

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	AA+	AAA	Aaa	$ 15,093,277
Money market funds	AAA	AAA	Aaa	82,536,389
Guaranteed investment contracts:				
Aegon	A+	A-	A3	27,369,675
GE Capital Corp	AA+	AAA	A1	309,010
Natixis Funding Corp	A	A+	A2	1,359,983
West LB	BBB+	A+	Unrated	736,663
Total Rated Investments				$ 127,404,997

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, 2012:

Fidelity Institutional US Government Portfolio Money Market Fund	24%
Dreyfus Government Prime Cash Management	21%
Aegon GIC	21%
Bank of America Treasury Reserve	7%

(Continued)

(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, 2012 and 2011, qualified obligations receivable included $57,525,000 and $62,715,000, 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, 2012 and 2011, the Bond Bank's Board of Directors authorized the purchase and subsequent leasing of equipment totaling approximately $3,438,510 and $5,479,923, 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:

		2012	2011
Special Program Bonds:			
Series 1998 A	Refunding Bonds (rates vary from 4.50% to 4.75% with maturities to October 1, 2011)	$ —	$ 510,000
Series 2002 A	(rates vary from 4.30% to 5.50% with maturities from October 1, 2011 to October 1, 2027)	30,875,000	32,430,000
Series 2002 C	(rates vary from 4.20% to 5.00% with maturities from February 1, 2012 to February 1, 2017)	515,000	730,000
Series 2002 D	(rates vary from 5.00% to 5.38% with maturities to April 1, 2012)	—	1,550,000
Series 2002 E	(rates vary from 3.50% to 5.25% with maturities from February 1, 2012 to February 1, 2023)	7,315,000	7,805,000
Series 2003 A	(rates vary from 3.75% to 5.25% with maturities from February 1, 2012 to February 1, 2033)	35,010,000	35,985,000
Series 2003 B	(rates vary from 3.75% to 5.00% with maturities from February 1, 2012 to February 1, 2023)	4,965,000	5,460,000
Series 2003 C	(rates vary from 3.50% to 5.00% with maturities from July 25, 2011 to January 1, 2016)	3,140,000	3,615,000
Series 2003 D	(rates vary from 3.25% to 5.00% with maturities from August 1, 2011 to February 1, 2025)	23,970,000	25,280,000
Series 2003 E	(rates vary from 3.50% to 5.00% with maturities from September 1, 2011 to September 1, 2025, refunded in 2012)	—	31,905,000
Series 2003 F	(rates vary from 3.00% to 4.75% with maturities from February 1, 2012 to February 1, 2024)	6,760,000	7,585,000
Series 2004 A	(rates vary from 3.00% to 5.00% with maturities from August 1, 2011 to February 1, 2024, paid off in 2012)	—	13,035,000
Series 2004 B	(rates vary from 3.00% to 5.00% with maturities from February 1, 2012 to February 1, 2023)	11,410,000	12,335,000
Series 2004 C	(rates vary from 4.00% to 5.38% with maturities from August 1, 2011 to February 1, 2031)	30,220,000	31,170,000
Series 2004 D	(rates vary from 3.00% to 5.00% with maturities from February 1, 2012 to February 1, 2022)	20,205,000	21,780,000
Series 2005 A	(rates vary from 3.00% to 4.50% with maturities from August 1, 2011 to February 1, 2027)	10,645,000	11,205,000
Series 2005 B	(rates vary from 4.00% to 4.15% with maturities from February 15, 2012 to February 15, 2020)	5,685,000	6,280,000
Series 2005 C	(rates vary from 3.75% to 4.25% with maturities from June 1, 2012 to June 1, 2026)	8,655,000	9,110,000

(4) Bonds and Notes Payable (Cont.)

		2012	2011
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)	$ 3,800,000	$ 3,950,000
Series 2006 B-1	(rates vary from 3.75% to 5.00% with maturities from September 1, 2011 to March 1, 2027)	10,560,000	11,420,000
Series 2006 B-2	(rates vary from 5.50% to 5.80% with maturities from September 1, 2011 to September 1, 2017)	2,315,000	2,020,000
Series 2006 A (Ref)	(rates vary from 4.00% to 5.13% with maturities from August 1, 2011 to September 1, 2024)	19,550,000	20,755,000
Series 2006 C	(rates vary from 4.25% to 5.00% with maturities from February 1, 2012 to February 1, 2023)	17,290,000	18,475,000
Series 2006 D	(rates vary from 4.00% to 4.25% with maturities from August 1, 2011 to February 1, 2027)	9,220,000	10,015,000
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 B	(rates vary from 4.00% to 5.79% with maturities from June 1, 2012 to June 1, 2034)	88,091,725	86,869,734
Series 2008 D	(rates vary from 4.00% to 4.50% with maturities from February 1, 2012 to February 1, 2013)	1,025,000	3,390,000
Series 2009 A	(rates vary from 3.00% to 5.50% with maturities from August 1, 2011 to February 1, 2029)	67,830,000	70,385,000
Series 2009 C	(rates vary from 3.00% to 4.77% with maturities from February 1, 2012 to February 1, 2030)	22,735,000	23,390,000
Series 2009 D	(rates vary from 3.00% to 5.00% with maturities from August 1, 2011 to August 1, 2020	48,175,000	49,960,000
Series 2010 A-1	(rates vary from 3.00% to 4.00% with maturities from February 1, 2012 to February 1, 2021	6,800,000	7,665,000
Series 2010 A-2	(rates vary from 1.08% to 4.62% with maturities from February 1, 2012 to February 1, 2020	3,335,000	4,825,000
Series 2010 A-3	(rates vary from 3.00% to 4.00% with maturities from February 1, 2012 to February 1, 2024)	750,000	765,000
Series 2011 A (Ref)	(rates vary from 2.00% to 5.00% with maturities from September 1, 2012 to September 1, 2021)	28,825,000	—
Series 2012 A	(rates are fixed at 3.06% with maturities from October 1, 2012 to April 1, 2027)	3,880,000	—
Total Special Program Bonds		$ 578,466,725	$ 616,569,734

(4) Bonds and Notes Payable (Cont.)

		2012	2011
Advance Funding Program Notes:			
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
Series 2011 A	Year End Assistance (interest rate of 0.80%, maturing on December 31, 2012)	5,245,000	—
Series 2012 A	(interest rate of 1.02%, maturing on December 31, 2012)	116,300,000	—
Series 2012 A	Special Notes (interest rate of 1.65%, maturing on January 3, 2013)	25,695,000	—
Series 2012 C	Special Notes (interest rate of 0.81%, maturing on October 1, 2012)	5,610,000	—
Series 2012 A	Midyear (interest rate of 0.79%, maturing on January 3, 2013)	3,025,000	—
Series 2012 B	Midyear (interest rate of 0.785%, maturing on January 3, 2013)	5,850,000	—
Total Advance Funding Program Notes		$ 161,725,000	$ 259,565,000
Common School Fund Bonds:			
Series 1996 A	(interest rate of 5.75% with maturities from August 1, 2011 to August 1, 2013)	$ 490,000	$ 1,020,000
Series 1999 A	(interest rate of 5.00% with maturities from February 1, 2012 to February 1, 2014)	4,610,000	8,040,000
Series 2001	(interest rate of 5.00% with maturities from February 1, 2012 to February 1, 2019, refunded in 2012)	—	6,895,000
Series 2003 A and B	(rates vary from 3.00% to 5.00% with maturities from August 1, 2011 to February 1, 2020, partially refunded in 2012)	24,295,000	79,200,000
Series 2009 A	(rates vary from 2.92% to 4.05% with maturities from August 1, 2011 to August 1, 2013)	20,580,000	34,010,000
Series 2010 A	(rates vary from 0.53% to 4.04% with maturities from August 1, 2011 to February 1, 2017)	51,345,000	51,345,000
Series 2010 B	(rates vary from 1.35% to 4.30% with maturities from August 1, 2011 to August 1, 2018)	52,220,000	53,875,000
Series 2012 A	(rates vary from 0.558% to 1.946% with maturities from February 1, 2013 to February 1, 2018	5,920,000	—
Series 2012 B	(rates vary from 0.427% to 2.296% with maturities from August 1, 2012 to February 2, 2019)	44,245,000	—
Total Common School Fund Bonds		$ 203,705,000	$ 234,385,000

(4) Bonds and Notes Payable (Cont.)

		2012	2011
School Severance Program Bonds:			
Series 1	(rates vary from 5.75% to 6.30% with maturities from July 15, 2011 to January 15, 2018, refunded in 2012)	$ —	$ 11,730,000
Series 2	(rates vary from 4.82% to 5.72% with maturities from July 15, 2011 to July 15, 2023, refunded in 2012)	—	21,010,000
Series 3	(rates vary from 4.75% to 5.85% with maturities from July 15, 2011 to January 15, 2023)	31,790,000	37,175,000
Series 4	(rates vary from 3.85% to 5.07% with maturities from July 15, 2011 to January 15, 2024)	28,145,000	31,210,000
Series 5A	(rates vary from 4.37% to 5.82% with maturities from July 15, 2011 to January 15, 2024)	94,610,000	107,685,000
Series 5B	(interest rate of 5.05% with maturities from July 15, 2011 to January 15, 2019)	8,525,000	9,515,000
Series 5C	(interest rate of 5.15% with maturities from July 15, 2011 to January 15, 2019)	2,255,000	2,515,000
Series 6A	(rates vary from 4.91% to 6.24% with maturities from July 15, 2011 to January 15, 2025)	99,425,000	109,850,000
Series 6B	(interest rate of 5.79% with maturities from July 15, 2011 to January 15, 2025)	11,175,000	11,830,000
Series 7A	(rates vary from 4.18 to 5.73% with maturities from July 15, 2011 to January 15, 2030)	65,860,000	72,970,000
Series 7B	(rates vary from 4.50% to 5.30% with maturities from July 15, 2011 to January 15, 2020)	8,030,000	8,835,000
Series 8A	(rates vary from 4.17% to 5.64% with maturities from July 15, 2011 to January 15, 2029)	85,335,000	94,155,000
Series 8B	(rates vary from 4.17% to 5.49% with maturities from July 15, 2011 to January 15, 2026)	48,985,000	51,955,000
Series 9	(rates vary from 4.19% to 5.53% with maturities from July 15, 2011 to January 15, 2026)	23,440,000	25,355,000
Series 10	(rates vary from 4.93% to 5.68% with maturities from July 15, 2011 to January 15, 2031)	50,380,000	51,730,000
Series 11	(rates vary from 5.47% to 6.20% with maturities from July 15, 2011 to January 15, 2029)	97,570,000	103,080,000
Series 11A	(interest rate of 2.15% with maturities from July 15, 2012 to January 15, 2018)	10,265,000	—
Series 12A	(rates vary from 1.39% to 3.32% with maturities from July 15, 2012 to January 15, 2023)	14,115,000	—
Series 12B	(rates vary from 1.54% to 3.52% with maturities from July 15, 2012 to July 15, 2022)	4,705,000	—
Total School Severance Program Bonds		$ 684,610,000	$ 750,600,000

(4) Bonds and Notes Payable (Cont.)

		2012	2011
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, 2012 was 0.47%, 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, 2012 was 0.15%, 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, 2012 was 2.30%, with maturities from October 15, 2011 to October 15, 2015.	$ 244,995,000	$ 262,075,000
Total Prepaid Gas Funding Program Bonds		$ 244,995,000	$ 262,075,000
Qualified School Construction Bonds:			
Series 2009	(rates vary from 1.51% to 1.75% with maturities from January 15, 2012 to January 15, 2025)	$ 63,922,000	$ 66,348,590
Series 2010	(rates vary from 2.96% to 5.49% with maturities from July 15, 2011 to July 15, 2027)	54,510,000	57,020,000
Total Qualified School Construction Bonds		$ 118,432,000	$ 123,368,590
Totals		1,991,933,725	2,246,563,324
Add: Net unamortized premium		14,696,426	18,256,296
Less: Deferred charge on refunding		(6,521,791)	(1,645,614)
Total bonds and notes payable		2,000,108,360	2,263,174,006
Less: Current portion		(312,639,957)	(406,266,590)
Noncurrent portion of bonds and notes payable		$ 1,687,468,403	$ 1,856,907,416

The bonds and notes payable listed above were issued under respective indentures of trust. Each indenture requires the maintenance of various trust accounts, and several of the bonds and notes payable require debt service reserve accounts. Assets held in debt service reserve accounts are included in investments and amounted to $13,312,690 and $16,473,187 at June 30, 2012 and 2011, 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, 2012.

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

Special Program Bonds (Cont.)
- Series 2007 A Refunding
- Series 2008 B
- Series 2008 D-1 & D-2
- Series 2010 A-1, A-2 (Taxable) & A-3 Multipurpose
- Series 2011 A Refunding

Common School Fund Bonds
- Series 1996 A
- Series 1999 A
- Series 2003 A & B

School Severance Program Bonds
- Series 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, 2012 are as follows:

Series	Eligible Amount
Special Program Bonds, Series 2002 A	$ 3,185,294
Special Program Bonds, Series 2002 C	394,000
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 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
Special Program Bonds, Series 2011 A Refunding	3,008,950
Advanced Funding Program, Series 2012 A	10,497,000

(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, 2012 or 2011.

At June 30, 2012, maturities of long-term debt and interest are as follows:

Fiscal Year Ending June 30	Principal	Interest
2013	$ 312,639,957	$ 88,065,425
2014	156,006,699	80,295,283
2015	153,301,289	74,316,093
2016	151,762,081	68,970,001
2017	150,126,083	62,976,585
2018-2022	633,199,236	215,153,416
2023-2027	328,279,655	80,464,984
2028-2032	92,721,022	14,127,318
2033-2037	13,897,703	697,562
	1,991,933,725	$ 685,066,667
Add: Unamortized premium	14,696,426	
Less: Deferred charge	(6,521,791)	
	$ 2,000,108,360	

The Bond Bank issued $52,960,000 of debt on behalf of seventeen not-for-profit qualified water utilities. At June 30, 2012 and 2011, the balance outstanding for these qualified water utilities totaled $13,520,000 and $16,160,000, 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	$ 1,991,933,725
Less: Debt recorded which does not require reserve funds	1,511,123,725
Debt outstanding for statutory debt limit purposes at June 30, 2012	480,810,000
Available remaining debt limit for statutory purposes	519,190,000
Statutory debt limit	$ 1,000,000,000

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

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

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

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

(4) Bonds and Notes Payable (Cont.)

The total bonds considered to have been defeased and removed from the financial statements and in total have remaining outstanding principal balances of approximately $92,730,000 and $48,660,000 at June 30, 2012 and 2011, respectively.

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2012					
Bonds and notes payable	$ 2,264,819,620	$ 371,335,050	$ 629,524,519	$ 2,006,630,151	$ 312,639,957
Less deferred amounts	1,645,614	4,876,177	-	6,521,791	-
	2,263,174,006	366,458,873	629,524,519	2,000,108,360	312,639,957
Deferred revenues	488,935	-	1,019	487,916	-
Derivative instrument liability	15,380,000	-	763,000	14,617,000	-
Total	$ 2,279,042,941	$ 366,458,873	$ 630,288,538	$ 2,015,213,276	$ 312,639,957
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

(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, 2012	
Business-Type Activities	Classification	Amount	Amount	Notional Amount
Pay-fixed interest rate swap - LIBOR Index Rate Bonds (B-1)	Deferred Outflow	$ 1,044,000	$ (7,394,000)	$ 22,500,000
Pay-fixed interest rate swap - SIFMA Index Rate Bonds (B-2)	Deferred Outflow	752,000	(6,713,000)	15,690,000
Pay-fixed interest rate swap - CPI Index Rate Bonds (B-3)	Deferred Outflow	(1,033,000)	(510,000)	60,515,000
		$ 763,000	$ (14,617,000)	$ 98,705,000

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, 2012 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 $7,394,000 at June 30, 2012. 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.

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

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 SIFMA 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 SIFMA Municipal Index Swap plus a spread of .66%. The Swap's notional amount of $15,690,000 at June 30, 2012 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 $6,713,000 at June 30, 2012. The Swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the current weekly SIFMA Municipal Index to be used for the July 15, 2012 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.

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 4.18% 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 pays interest to the Bond Bank on notional amounts at a variable interest rate equal to the rate of change for a one year period of the CPI index three months prior to the settlement date plus a spread of 1.34% 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 $60,515,000 at June 30, 2012 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 negative fair value of $510,000 at June 30, 2012. 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, 2012. The method calculates the future net settlement payments required by the Swap, assuming that the current CPI index reflects the fair value of the Swap payments. These payments are then discounted using the current CPI index on the coupon due on the date of the future net settlement on the Swap.

Credit Risk. As of June 30, 2012, the Bond Bank was not exposed to credit risk because the index swaps had negative fair values. However, should interest rates change and the fair value of the Swap become positive, the Bond Bank would be exposed to credit risk in the amount of the derivative's fair value.

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

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, 2012.

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 rates vary, variable-rate bond interest payments and net swap payments will vary for the qualified entities. As of June 30, 2012, 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.

(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
2013	$ -	$ 288,500	$ 775,750	$ 1,064,250
2014	-	288,500	775,750	1,064,250
2015	-	288,500	775,750	1,064,250
2016	-	288,500	775,750	1,064,250
2017	-	288,500	775,750	1,064,250
2018	-	288,500	775,750	1,064,250
2019	-	288,500	775,750	1,064,250
2020	-	288,500	775,750	1,064,250
2021	-	288,500	775,750	1,064,250
2022	-	288,500	775,750	1,064,250
2023	22,500,000	288,500	775,750	1,064,250
Total	$ 22,500,000	$ 3,173,500	$ 8,533,250	$ 11,706,750

Variable-Rate Bonds (B2, SIFMA Index)

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2013	$ -	$ 127,089	$ 626,031	$ 753,120
2014	-	127,089	626,031	753,120
2015	-	127,089	626,031	753,120
2016	-	127,089	626,031	753,120
2017	-	127,089	626,031	753,120
2018	-	127,089	626,031	753,120
2019	-	127,089	626,031	753,120
2020	-	127,089	626,031	753,120
2021	-	127,089	626,031	753,120
2022	-	127,089	626,031	753,120
2023	15,690,000	127,089	626,031	753,120
Total	$ 15,690,000	$ 1,397,979	$ 6,886,341	$ 8,284,320

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

	Variable-Rate Bonds (B3, CPI Index)			
Fiscal Year Ending June 30	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
2013	$ 16,920,000	$ 2,220,518	$ 351,939	$ 2,572,457
2014	16,665,000	1,604,630	260,571	1,865,201
2015	16,930,000	993,024	165,580	1,158,604
2016	10,000,000	370,000	64,000	434,000
Total	$ 60,515,000	$ 5,188,172	$ 842,090	$ 6,030,262

(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 and are as follows:

County	Qualified Obligations Receivable	Concentration Percentage
Marion	$ 377,840,012	20%
Hendricks	179,959,758	9%
Hamilton	124,133,336	6%
Lake	115,723,938	6%

No other county has a concentration over 5.0% of the total qualified obligations receivable at June 30, 2012.

(7) Employee Benefits

The Bond Bank has elected to participate in the Public Employers' Retirement Fund (PERF) which, along with the Teacher's Retirement Fund (TRF), merged into the Indiana Public Retirement System (INPRS) effective July 1, 2011. The Bond Bank contributes to the INPRS, an agent multiple-employer public employee retirement system, which acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is a qualified plan under Internal Revenue Code 401(a) and is tax exempt.

All full-time state employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give the Bond Bank the right to contribute and govern most requirements of the system, including the benefits, which vest after ten years of service. Plan participants who have reached age 50 may receive retirement benefits with fifteen years of service. A participant may receive benefits at age 65 with ten years of service.

Participants are required to contribute 3% of compensation to an annuity savings account. Legislation permits an INPRS employer to make the participant's contributions on behalf of the participant. The Bond Bank elected to make its participants' 3% contributions. The employer rate of contributions was 8.6% and 7% during fiscal years 2012 and 2011, respectively. These accumulated participant contributions and allocated interest income are maintained by INPRS in a separate system-wide fund for all participants.

Upon retirement, participants may elect a lump sum distribution of all or part of the savings account. Participants who leave employment before qualifying for benefits receive a refund of the savings account.

All assets of the plan are held and invested by INPRS. Investments are in obligations of the U.S. Government, federal agencies, corporate bonds and equity securities.

There is no (i) pension benefit obligation information, (ii) assets available for benefits at cost information or (iii) an analysis of funding disclosed in the annual financial statements. INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

The following shows pension plan information relative to contributions for fiscal years 2012 and 2011:

Year	Employer Contributions	Participant Contributions	Total Contributions	Annual Covered Payroll	Percentage of Employer Contributions to Covered Payroll
2012	$18,044	$6,295	$24,339	$209,820	8.60%
2011	$14,015	$6,006	$20,021	$200,212	7.00%

(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, 2012:

Fiscal Year Ending June 30		Payments
2013	$	52,772
2014		50,671
2015		50,293
2016		25,253
	$	178,989

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 $32,332 and $35,955 for the years ended June 30, 2012 and 2011, respectively.

(9) Subsequent Events

The following Advance Funding Program 2012 A Special Notes of $7,600,000 and the Special Program Bonds Series 2002 A of $16,600,000 has been partially redeemed since the statement of net assets date of June 30, 2012.

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, 2012, but have not been refunded as of the date of this report: Special Program Bonds Series 2003 A, Special Program Bonds Series 2002 C, Special Program Bonds Series 2002 E, Special Program Bonds Series 2003 B, and School Severance Program Bonds Series 3.

The following issues have been closed by the Board of Directors of the Bond Bank since the statement of net assets date of June 30, 2012: Special Program Bonds Series 2012 C Refunding and Special Program Bonds Series 2012 D Refunding.

The Bond Bank has closed on one Hoosier Equipment Lease Purchase (HELP) leases in the amount of $1,707,846 since the statement of net assets date of June 30, 2012.

SUPPLEMENTARY INFORMATION

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

Supplemental Schedule of Net Assets Information by Program Type

June 30, 2012

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	$ 20,776,937	$ 21,598,829	$ 16,109,649	$ 579,432	$ 37,297,735	$ 969,453	$ 87,987	$ 2,246,488	$ —	$ 99,666,510
Qualified obligations receivable	26,451,957	141,402,978	—	30,225,903	45,442,116	16,920,000	—	4,307,000	—	264,749,954
Accrued interest receivable	8,044,987	880,563	—	4,386,667	5,795,871	2,070,900	—	296,600	—	21,475,588
Total current assets	55,273,881	163,882,370	16,109,649	35,192,002	88,535,722	19,960,353	87,987	6,850,088	—	385,892,052
Noncurrent assets:										
Investments, at fair value	1,308,515	—	—	1,045,673	51,468	27,369,675	—	—	—	29,775,331
Qualified obligations receivable	534,242,210	—	—	168,019,212	608,149,025	229,699,695	—	112,834,723	—	1,652,944,865
Deferred debt issuance costs, net	7,589,155	419,634	—	1,807,263	4,892,181	1,776,096	—	1,145,923	—	17,630,252
Deferred outflows - interest rate swap	—	—	—	—	—	14,617,000	—	—	—	14,617,000
Total noncurrent assets	543,139,880	419,634	—	170,872,148	613,092,674	273,462,466	—	113,980,646	—	1,714,967,448
Total assets	598,413,761	164,302,004	16,109,649	206,064,150	701,628,396	293,422,819	87,987	120,830,734	—	2,100,859,500
Liabilities										
Current liabilities:										
Bonds and notes payable	28,042,957	161,725,000	—	32,110,000	68,905,000	16,920,000	—	4,937,000	—	312,639,957
Accrued interest payable	8,573,123	915,164	—	3,517,800	16,612,518	2,070,900	—	1,719,200	—	33,408,705
Funds held for qualified entities	4,201,916	—	—	—	—	28,326,671	—	—	—	32,528,587
Accounts payable	53,400	—	59,492	100	241,500	243,700	—	—	—	598,192
Total current liabilities	40,871,396	162,640,164	59,492	35,627,900	85,759,018	47,561,271	—	6,656,200	—	379,175,441
Noncurrent liabilities:										
Bonds and notes payable, net of current portion	556,134,558	531,971	—	170,583,368	614,510,976	231,528,695	—	114,178,835	—	1,687,468,403
Deferred revenues	6,179	—	481,737	—	—	—	—	—	—	487,916
Derivative instrument liability	—	—	—	—	—	14,617,000	—	—	—	14,617,000
Total noncurrent liabilities	556,140,737	531,971	481,737	170,583,368	614,510,976	246,145,695	—	114,178,835	—	1,702,573,319
Total liabilities	597,012,133	163,172,135	541,229	206,211,268	700,269,994	293,706,966	—	120,835,035	—	2,081,748,760
Net Assets										
Restricted for debt service	1,401,628	1,129,869	—	(147,118)	1,358,402	(284,147)	87,987	(4,301)	—	3,542,320
Unrestricted	—	—	15,568,420	—	—	—	—	—	—	15,568,420
Total net assets	$ 1,401,628	$ 1,129,869	$ 15,568,420	$ (147,118)	$ 1,358,402	$ (284,147)	$ 87,987	$ (4,301)	$ —	$ 19,110,740

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

Year Ended June 30, 2012

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

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