INDIANA FINANCE AUTHORITY
ANNUAL FINANCIAL STATEMENTS
June 30, 2007

KATZ, SAPPER & MILLER
Certified Public Accountants

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FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT AUDITORS

Members of the Indiana Finance Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Indiana Finance Authority (the "IFA") as of and for the year ended June 30, 2007, which collectively comprise the IFA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the IFA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants,* issued by the Indiana State Board of Accounts. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the IFA as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

(Continued)

The accompanying required supplementary information, such as management's discussion and analysis on pages 3 through 15, budgetary comparison information on pages 77 through 78, and Indiana Toll Road infrastructure condition rating information on page 79 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 accompanying segment reporting schedules are presented for purposes of additional analysis of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report October 19, 2007, on our consideration of the IFA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing results of our audit.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 19, 2007

PART 1 - MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Indiana Finance Authority (the "IFA") financial report provides a discussion and analysis of the financial performance during the year ended June 30, 2007. Please read it in conjunction with the Report of the Independent Auditors at the beginning of this report and the financial statements, which follow this section.

This MD&A is an opportunity for management to make information concerning the IFA meaningful and understandable to the IFA's constituents, including Indiana's citizens and their representatives and the investors who buy and sell the IFA's bonds. In addition to describing the IFA and its work, this MD&A briefly analyzes, discusses or presents:

- Basic financial statements
- Condensed financial information
- Overall financial position and results of operations
- Significant transactions within individual funds
- Significant capital assets and long-term debt activity
- Currently known facts

Background: Formed on May 15, 2005, the IFA combined five formerly independent bodies under one entity. The entities combined included the Indiana Development Finance Authority, State Office Building Commission, Indiana Transportation Finance Authority, Recreational Development Commission and the State Revolving Fund. Effective July 1, 2005, all records, money, and other property held by the Auditor of State with respect to the Supplemental Drinking Water and Wastewater Assistance Program were transferred to the IFA as the successor entity. The IFA is a body both corporate and politic, and though separate from the State of Indiana (the "State"), the exercise by the IFA of its powers constitutes an essential governmental function. Indiana's constitution restricts State incurrence of debt. As a result, the General Assembly created the IFA and authorized it to issue revenue bonds and other obligations to finance projects for lease to the State. These leases do not constitute State debt. Except as described elsewhere in this MD&A, lease rentals are payable solely from appropriations made by the General Assembly.

The IFA finances and refinances state hospitals, state office buildings, state garages, correctional facilities, recreational facilities, highways, bridges, airport facilities, and other related facilities for the benefit of the State. The IFA also provides low interest loans to Indiana communities for environmental improvements. It also promotes business and employment opportunities by issuing tax-exempt financing for industrial development projects, rural development projects, childcare financing, and educational facility projects.

The IFA's revenue bonds and notes are special and limited obligations of the IFA, payable from lease rental revenue, bond or note proceeds and investment income. The IFA's revenue bonds are not general obligations of the IFA nor are they State debt within the meaning of any constitutional provision or limitation. The IFA cannot compel the General Assembly to make appropriations to pay lease rentals.

(Continued)

Financial Highlights: Management believes an important indicator of the IFA's financial health is whether or not the IFA receives sufficient lease rental revenue to pay debt service on the IFA's revenue bonds and meet its other obligations when due. In Fiscal Year 2007 and prior fiscal years since the IFA and its predecessor entities were established, the IFA received sufficient revenue to pay its debts and meet its other obligations.

To note some major accomplishments in Fiscal Year 2007, the IFA:

- paid over $420 million of principal and interest on long-term debt
- issued $211 million of revenue bonds to finance a new stadium in Indianapolis
- refinanced $642 million of Highway Revenue Bonds - savings of $53 million were realized, which equates to a present value savings of $31 million, or 5.0% of the refunded bonds

Management understands that the IFA's revenue and net assets may increase or decrease in any particular fiscal year, but such increases and decreases primarily result from timing of receipts and expenditures, financings, including issuance of new revenue bond and note issues, and construction activities.

Although the IFA reports through a number of enterprise funds, the IFA is not a profit making enterprise. The IFA exists to benefit the State through its ability to finance and refinance important State infrastructure needs, and not to grow revenue and net assets over time.

BASIC FINANCIAL STATEMENTS

The basic financial statements include the kinds of statements required by the Governmental Accounting Standards Board ("GASB") that present different financial views of the IFA:

A. The first two statements are government wide financial statements that provide both long-term and short-term information about the IFA's overall financial status.

B. The remaining statements are fund financial statements that focus on individual parts of the IFA, reporting the IFA's operation in more detail than the government wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide data that are more detailed. Please note the breakdown of the statements is required by GASB and for audited financial statement reporting only.

(Continued)

A. **Government Wide Financial Statements** report information about the IFA as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the IFA's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Net assets, the difference between the IFA's assets and liabilities, are one way to measure the IFA's financial position. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the IFA is improving or deteriorating. The government wide financial statements of the IFA are divided into two categories:

1. **Governmental Activities** generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are reported in governmental funds or internal service funds. Although most internal service funds are associated with business-type activities, some of IFA's internal service funds have characteristics more closely associated with governmental activities. Internal service funds classified as governmental activities include the Highway Revenue Bonds, Stadium and Convention Center Financing, and State Office Building Commission.

   Governmental Activities reported under governmental funds include the Operating Account (General Funds), Capital Access Program Fund, Guaranty Fund, Business Development Loan Fund, Rural & Agriculture Development Loan Fund, Environmental Remediation Revolving Loan Fund, Petroleum Remediation Grant Fund, Brownfield Cleanup Revolving Fund, and Interstate Bridge Fund.

2. **Business-Type Activities** are financed in whole or in part by fees charged to external parties for goods or services. These activities are reported in proprietary funds or internal service funds. Business-Type Activities include the State Revolving Fund, Supplemental Fund, Airport Facilities Fund, Indiana Toll Road Lease Fund, Aviation Technology Center Fund, Toll Bridge Fund, Indiana Toll Road Project Fund, and the Recreational Development Commission.

To determine the appropriate reporting, IFA has considered the following characteristics:

- The relationship between services received and resources provided by the consumer:
  - Governmental – Resources typically not derived from specific services.
  - Business-Type – Direct relationship between the charge and the service provided.

- Revenue-producing capital assets:
  - Governmental – Capital assets do not have a direct relationship to revenue raising capability.
  - Business-Type – Capital assets are typically revenue producing.

(Continued)

- Similarly designated activities and potential for comparison:
  - Governmental – Government may perform multiple or unique functions and are difficult to compare to other governments.
  - Business-Type – Government typically performs a single function that allows for comparability with other governments.
- Nature of funding and budgets:
  - Governmental – Typically part of overall legally adopted governmental budget process.
  - Business-Type – May involve rate setting and appropriations.

- Users and uses of financial reports:
  - Governmental – Emphasis on financial condition and results of operations of a multipurpose functions and broader group of users including citizens, legislative and oversight bodies, and investors/creditors.
  - Business-Type – Emphasis on financial condition and results of operations of a single activity, related compliance and reasonableness of user charges.

B. Fund Financial Statements provide detailed information about the IFA's significant funds, not the IFA entity as a whole. The IFA uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The IFA has two kinds of funds:

1. **Governmental Funds** report activities for the IFA and other State Agencies that support the overall State's basic services. The IFA uses the following governmental funds:

   Operating Account reports on the administrative functions of the IFA, which includes salary, benefits and other expenses that support the related financings and refinancing activities.

   Capital Access Program Fund is a special revenue fund reporting on a credit enhancement program for small business that creates a reserve fund to provide additional collateral for lenders.

   Guaranty Fund is a special revenue fund, which provides principal guarantees to lenders for the benefit of high growth/high skilled companies, manufacturers, and other businesses that create or retain Indiana jobs.

   Business Development Loan Fund is a special revenue fund, which provides direct interest loans to businesses that meet economic development criteria of high skilled/high growth jobs.

   Rural & Agricultural Development Loan Fund is similar to the Guaranty Fund and is a special revenue fund that provides principal guarantees to lenders for rural development and value-added agricultural projects.

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Environmental Remediation Revolving Loan Fund & Petroleum Remediation Grant Fund is a special revenue fund, which provides financing for environmental clean up to local Indiana communities.

Brownfield Cleanup Revolving Fund is a special revenue fund created by statute that provides financial, technical, legal, and educational assistance to eligible entities involved in Brownfield redevelopment.

Interstate Bridge Fund is a capital project fund created by statute for paying the cost of interstate bridges and improvements to such bridges. This fund is held by the IFA and managed by the Indiana Department of Transportation (INDOT) on the IFA's behalf.

2. **Proprietary Funds** report activities for which the IFA charges lease amounts or user fees to customers that are similar. Under the proprietary funds, there are two types of sub-funds: 1) enterprise funds track business-type activities, while 2) internal service funds report activities providing general support for the IFA's programs.

   a. **Enterprise Funds**

State Revolving Fund reports on low interest loans provided to Indiana communities to improve drinking water and wastewater infrastructure.

Supplemental Fund reports on low interest loans and grants provided to Indiana communities to improve drinking water and wastewater infrastructure.

Indiana Toll Road Lease Fund includes the IFA's lease to the Indiana Toll Road Concession Company, LLC ("ITRCC"). The ITRCC is responsible for the operation and maintenance of the Indiana Toll Road.

Airport Facilities Fund reports on the direct financing activities for airport or aviation related property of facilities referred to by the IFA as the Indianapolis Maintenance Center ("IMC").

Aviation Technology Center Fund reports on the direct financing activities for airport or aviation related property or facilities referred to by the IFA as the Aviation Technology Center.

Toll Bridge Fund is specified for accounting of the net assets and operations of the Wabash River Toll Bridge. The IFA has full control and approval responsibilities for the Wabash River Toll Bridge. However, INDOT has responsibility for operation, maintenance, financial control and reporting for the Wabash River Toll Bridge.

(Continued)

b. Internal Service Funds

Indiana Toll Road Project was leased by the IFA to INDOT prior to the lease with the ITRCC. INDOT was responsible for the operation and financing the Indiana Toll Road Project until June 29, 2006.

Highway Revenue Bonds is an internal service fund that provides financing for the construction of highway and bridge projects that are managed by INDOT. This fund reports on the direct financing activities and construction of such projects.

Stadium and Convention Center Financing is an internal service fund providing financing for the new Stadium being built in Indianapolis and managed by the Indiana Stadium and Convention Building Authority.

State Office Building Commission reports on the financing activities for State office buildings, garages, hospitals and correctional facilities. These facilities are owned by the IFA but operated and maintained by the Indiana Department of Administration.

Recreational Development Commission reports on the financing activities of recreational facilities constructed in State parks. The Indiana Department of Natural Resources is responsible for the operation, maintenance and financing of these facilities.

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CONDENSED FINANCIAL INFORMATION; OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND SIGNIFICANT TRANSACTIONS WITHIN INDIVIDUAL FUNDS

This section provides an overview of the overall financial position, results of operations and significant transactions within individual funds.

Net Assets: The following is condensed from the Statement of Net Assets:

Indiana Finance Authority
Condensed Statement of Net Assets (in millions of dollars)
June 30, 2007

	Governmental Activities	Business Activities	Total Activities
Assets			
Cash and investments	$ 360	$ 1,245	$ 1,605
Accounts, loans, and lease receivable	644	1,544	2,188
Investment in direct financing leases	1,315	206	1,521
Capital assets, net	881	310	1,191
Other assets	8	9	17
Total assets	$ 3,208	$ 3,314	$ 6,522
Liabilities and net assets			
Liabilities			
Accounts payable and other liabilities	$ 11	$ 7	$ 18
Interest payable	35	36	71
Deferred revenue	3	3,686	3,689
Due to primary government	1	15	16
Bonds payable and other long-term obligations	2,856	2,030	4,886
Total liabilities	2,906	5,774	8,680
Net assets			
Invested in capital assets, net of related debt	12	1	13
Restricted	196	853	1,049
Unrestricted	94	(3,314)	(3,220)
Total net assets	302	(2,460)	(2,158)
Total liabilities and net assets	$ 3,208	$ 3,314	$ 6,522

(Continued)

The total net assets at June 30 were as follows:

	2007	2006
Assets	$ 6,522	$ 9,719
Liabilities	(8,680)	(12,049)
Net assets (deficiency)	$ (2,158)	$ (2,330)

The net assets (deficiency) were ($2.158) billion at June 30, 2007, which represents a $172 million, or 7.4%, increase from the prior Fiscal Year net assets. Total assets decreased by $3.197 billion, while total liabilities decreased by $3.369 billion.

*The primary reasons for the decreases in assets and liabilities are related to the Indiana Toll Road lease. On June 29, 2006, the IFA leased the Indiana Toll Road for a one-time payment of $3.8 billion to the ITRCC for 75 years. As required under the legislation passed by the Indiana General Assembly, the IFA transferred $3.6 billion of the lease payment to the State in July 2006 to fund the Major Moves initiative to improve both State and local transportation infrastructure. The IFA will recognize lease revenue over the life of the lease on a straight-line basis.

Change in Net Assets: The following is condensed from the Statement of Activities:

Indiana Finance Authority
Statement of Activities (in millions of dollars)
Year Ended June 30, 2007

	Governmental Activities	Business-Type Activities	Total Activities
Revenues			
Lease rental	$ 217	$ 87	$ 304
Investment earnings	16	70	86
Interest on loans	-	44	44
State appropriations and grants	7	37	44
Other	5	29	34
Total revenues	245	267	512
Expenses			
IFA operations and other	43	58	101
Interest expense	132	92	224
Distribution to primary government	7	8	15
Total expenses	182	158	340
Change in net assets	63	109	172
Net assets, beginning of year	239	(2,569)	(2,330)
Net assets, end of year	$ 302	$ (2,460)	$ (2,158)

(Continued)

	2007	2006
Revenues	$ 512	$ 381
Expenses	(340)	(3,885)*
Change in net assets	$ 172	$ (3,504)*

The increase in net assets was $172 million for the Fiscal Year ended June 30, 2007, as compared to a decrease of net assets of $3,504 million for the prior Fiscal Year. Revenue increased by $131 million, which represents a 34% change from the prior Fiscal Year. Expenses decreased by $3.545 billion, which represents a 91% change from the prior Fiscal Year.

*The distribution to the State from the Indiana Toll Road lease payment caused net assets to decrease by $3,618 million in fiscal year 2006. Net assets would have increased by $114 million in 2006 had the distribution not taken place.

SIGNIFICANT CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY

Analysis of Infrastructure Assets: The primary infrastructure assets related to the IFA are within the Highway Revenue Bonds and the Indiana Toll Road Lease Fund.

> **Highway Revenue Bonds** - The nature of the direct financing lease activity between the IFA and INDOT means that the IFA does not own infrastructure assets related to the Highway Revenue Bonds. Instead, the IFA has an interest in direct financing lease assets on the Statement of Net Assets for $1.3 billion. For such leases, the IFA is the lessor and INDOT is the lessee. INDOT is responsible for reporting information regarding the assessment condition and condition level of the road system funded through Highway Revenue Bonds.
>
> **Indiana Toll Road Lease** – Historically, the infrastructure assets related to the Indiana Toll Road were reported separate from IFA's reporting entity. The IFA reported an equity interest in the overall assets held by the Indiana Toll Road Project. During fiscal year 2006, the IFA concluded its lease with INDOT, and leased the Indiana Toll Road to the Indiana Toll Road Concession Company, LLC for 75 years. With the inception of the new lease, the IFA liquidated its equity interest in the Indiana Toll Road Project. IFA's investment in infrastructure assets, land and land improvements, is $280 million.

Capital Assets: Property and equipment used for IFA operations are land, bridges, buildings and equipment related to the following: the prior State Office Building Commission, the prior Recreational Development Commission, the Toll Bridge Fund, and the Indiana Toll Road Lease Fund. The State Office Building Commission assets have a cost basis of $1.137 billion and accumulated depreciation of $256 million. The total decrease in the State Office Building Commission's investment is $8 million. Capital assets related to the Recreational Development Commission have a cost basis of $40 million and accumulated depreciation of $11 million.

(Continued)

Toll Bridge Fund capital assets have a cost basis of $0.6 million and accumulated depreciation of $0.1 million. Indiana Toll Road Lease Fund assets have a cost basis of $323 million and accumulated depreciation of $43 million.

Recreational Development Commission assets have decreased by $1.2 million over the prior year.

The IFA's investment in direct financing leases is presented on the Statement of Net Assets at $1.521 billion.

The IFA's investment in the Indiana Toll Road Project assets is valued at $0.4 million and represents remaining assets less liabilities of the Indiana Toll Road Project after the lease of the Indiana Toll Road on June 29, 2006. The asset value is impacted annually by the change in revenue over expenses of the Indiana Toll Road Project.

IFA
Capital and Infrastructure Assets (in millions of dollars)
June 30, 2007

	Governmental Activities	Business Activities	Total Activities
Capital Assets			
Property, plant and equipment, net:			
State Office Building Commission	$ 881	$ -	$ 881
Recreational Development Commission	-	29	29
Toll Bridge Fund	-	1	1
Indiana Toll Road Lease Fund		280	280
Total	$ 881	$ 310	$ 1,191
Investment in direct financing leases:			
Aviation Technology Center Fund	$ -	$ 8	$ 8
Airport Facilities Fund	-	198	198
Highway Revenue Bonds	1,315	-	1,315
Total	$ 1,315	$ 206	$ 1,521

(Continued)

Long-term Debt Activity: Outstanding debt balances are presented as follows for governmental and business type activities:

Governmental Activities:

Long-term Debt	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Highway Revenue Bonds	$ 1,361,219,842	$ 26,512,835	$ 59,483,947	$ 1,328,248,730
State Office Building Commission and Notes	932,281,351	18,264,916	41,004,814	909,541,453
Stadium Project Bonds	400,000,000	211,525,000	-	611,525,000
	$ 2,693,501,193	$ 256,302,751	$ 100,488,761	$ 2,849,315,183

Business-Type Activities:

Long-term Debt	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Airport Facilities	$ 204,550,000	$ -	$ 4,000,000	$ 200,550,000
Aviation Technology Center	8,725,000	-	575,000	8,150,000
State Revolving Program Fund	1,629,658,127	222,032,436	60,670,000	1,791,020,563
Recreational Development Commission	30,952,185	97,488	1,005,000	30,044,673
	$ 1,873,885,312	$ 222,129,924	$ 66,250,000	$ 2,029,765,236

Long-term Lease Activity: Outstanding lease balances are presented as follows for governmental and business type activities:

Governmental Activities:

Long-term Lease	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Highway Revenue Bonds	$ 1,286,227,548	$ 63,714,041	$ 35,020,000	$ 1,314,921,589

Business-Type Activities:

Long-term Lease	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Airport Facilities	$ 201,871,302	$ -	$ 4,136,810	$ 197,734,492
Aviation Technology Center	8,725,000	-	575,000	8,150,000
	$ 210,596,302	$ -	$ 4,711,810	$ 205,884,492

(Continued)

CURRENTLY KNOWN FACTS

Guaranty Fund; Capital Access Program Fund; Business Development Loan Fund; and Rural & Agricultural Development Loan Fund: On July 1, 2007 the Guaranty Fund; Capital Access Program Fund; Business Development Loan Fund; and Rural & Agricultural Development Loan Fund were transferred to the Indiana Economic Development Corporation. This transfer is based on Enrolled Act 524 that was passed by the State of Indiana General Assembly in the 2007 Spring Session and represents a better alignment of the respective entities strengths.

Indiana Health and Education Finance Authority: In order to gain more efficiencies, the State of Indiana General Assembly abolished the Indiana Health and Educational Facility Financing Authority (in the same enrolled act and session as above) and transferred all its powers and duties to the Indiana Finance Authority.

Qualitech and Heartland Steel Bonds: The IFA was a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation and Heartland Steel, Inc. Both entities are a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code and the Bank of New York Trust Company, N.A. as successor to Bank One, Indiana, relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech) and Series 1998 (Heartland). On August 1, 2006, the Heartland and Qualitech bonds were completely re-paid and defeased and are no longer outstanding.

DISCLOSURE

These annual financial statements are not a disclosure document, an offering memorandum, an official statement or prospectus for any revenue bond issued by the IFA, and no investor should rely on it as such. The information contained in the annual financial statements is limited information. Information and any expression of opinion (other than the report of the independent auditors) contained in the annual financial statements are subject to change. Such information and any opinion (other than the report of independent auditors) speak only as of their date.

PART 2 – BASIC FINANCIAL STATEMENTS

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
ASSETS			
Current assets:			
Cash	$ 840,065	$ 399,872	$ 1,239,937
Investments	344,244,449	600,223,421	944,467,870
Securities lending collateral and receivable	6,837,948	-	6,837,948
Interest receivable on investments and loans	1,271,843	31,007,598	32,279,441
Lease income receivable	9,555,006	4,871,737	14,426,743
Grants and accounts receivable	202,529	36,727,084	36,929,613
Loans receivable	7,234,167	68,191,300	75,425,467
Interfund receivable	203,565	4,514	208,079
Investment in direct financing leases	35,576,550	13,708,282	49,284,832
Amount due from primary government	7,510,084	-	7,510,084
Interest held in assets of the Toll Road Project	-	350,202	350,202
Construction escrows	1,430,632	-	1,430,632
Total current assets	414,906,838	755,484,010	1,170,390,848
Noncurrent assets:			
Investments	7,894,636	644,060,937	651,955,573
Investment in direct financing leases	1,279,345,039	192,176,210	1,471,521,249
Loans receivable	617,704,332	1,402,947,208	2,020,651,540
Deferred charges, net	157,137	-	157,137
Unamortized bond issue cost, net	6,704,929	10,278,861	16,983,790
Capital assets, net	881,229,089	309,701,006	1,190,930,095
Total noncurrent assets	2,793,035,162	2,559,164,222	5,352,199,384
Total Assets	$ 3,207,942,000	$ 3,314,648,232	$ 6,522,590,232

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
LIABILITIES AND NET ASSETS			
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$ 2,229,439	$ 4,263,202	$ 6,492,641
Interfund payable	146,583	61,496	208,079
Interest payable	34,723,443	36,591,086	71,314,529
Amount due to primary government	506,770	14,582,821	15,089,591
Deferred revenue	75,000	50,206,350	50,281,350
Revenue bonds payable - current	94,213,537	84,835,000	179,048,537
Hoosier Notes payable - current	13,152,000	-	13,152,000
Securities lending collateral and payable	6,837,948	-	6,837,948
Allowance for guaranty claims	486,000	-	486,000
Construction retention	1,635,963	-	1,635,963
Total current liabilities	154,006,683	190,539,955	344,546,638
Noncurrent liabilities:			
Revenue bonds payable	2,741,949,646	1,944,930,236	4,686,879,882
Note payable	6,348,815	-	6,348,815
Amount due to primary government	383,763	-	383,763
Amount due to federal government	292,184	2,577,248	2,869,432
Deferred revenue	2,850,000	3,636,205,752	3,639,055,752
Total noncurrent Liabilities	2,751,824,408	5,583,713,236	8,335,537,644
Total Liabilities	2,905,831,091	5,774,253,191	8,680,084,282
Net Assets			
Invested in capital assets, net of related debt	12,692,626	528,903	13,221,529
Restricted for:			
Debt service	195,905,242	5,456,613	201,361,855
Water pollution and drinking water projects	-	847,881,899	847,881,899
Unrestricted	93,513,041	(3,313,472,374)	(3,219,959,333)
Total net assets	302,110,909	(2,459,604,959)	(2,157,494,050)
Total Liabilities and Net Assets	$ 3,207,942,000	$ 3,314,648,232	$ 6,522,590,232

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
				Primary Governmenet		
Functions/Programs	Expenses	Charges for Services	Operating and Capital Grants	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
General Government	$ 766,427	$ 104,553	$ -	$ (661,874)	$ -	$ (661,874)
Business Development	32,265,123	617,964	4,554,703	(27,092,456)	-	(27,092,456)
Environmental	1,740,256	3,000,508	-	1,260,252	-	1,260,252
Transportation Finance	68,545,927	93,803,455	-	25,257,528	-	25,257,528
State Office Buildings Finance	78,586,638	109,584,627	-	30,997,989	-	30,997,989
Stadium and Convention Center Finance	16,470,273	16,470,273	-	-	-	-
Total Governmental Activities	198,374,644	223,581,380	4,554,703	29,761,439	-	29,761,439
Business-Type Activities:						
Drinking Water and Wastewater	84,221,924	44,521,613	36,982,225	-	(2,718,086)	(2,718,086)
Airport Facilities Finance	9,096,217	28,955,959	-	-	19,859,742	19,859,742
Toll Road Lease	32,680,677	82,561,603	-	-	49,880,926	49,880,926
Aviation Technology Center Finance	413,668	838,343	-	-	424,675	424,675
Toll Bridges	2,583,529	788,939	-	-	(1,794,590)	(1,794,590)
Toll Road Project	-	(6,466,988)	-	-	(6,466,988)	(6,466,988)
Recreation Development Finance	3,339,822	2,769,466	-	-	(570,356)	(570,356)
Total Business-Type Activities	132,335,837	153,968,935	36,982,225	-	58,615,323	58,615,323
Total Primary Government	$ 330,710,481	$ 377,550,315	$ 41,536,928	$ 29,761,439	$ 58,615,323	$ 88,376,762
General Revenues						
Investment earnings, net				$ 15,199,571	$ 68,638,240	$ 83,837,811
Other Financing Sources						-
Transfers				18,374,212	(18,374,212)	-
Total General and Other Sources				33,573,783	50,264,028	83,837,811
Change in net assets				63,335,222	108,879,351	172,214,573
Net Assets- Beginning of year, as originally reported				238,775,687	(2,568,984,310)	(2,330,208,623)
Prior period adjustment				-	500,000	500,000
Net Assets - Beginning of year, as restated				238,775,687	(2,568,484,310)	(2,329,708,623)
Net Assets - End of year				$ 302,110,909	$ (2,459,604,959)	$ (2,157,494,050)

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007

	General	Guaranty Fund	Other Governmental Funds	Totals
Assets				
Cash	$ 839,498	$ -	$ 567	$ 840,065
Investments	-	8,116,304	42,713,933	50,830,237
Securities lending collateral	-	-	6,820,881	6,820,881
Securities lending receivable	-	-	17,067	17,067
Interest receivable on investments	-	17,893	95,806	113,699
Interest receivable on loans	-	-	33,025	33,025
Accounts receivable	500	-	197,248	197,748
Amount due from primary government	80,245	-	-	80,245
Loans receivable, net	-	-	7,064,684	7,064,684
Interfund receivable	-	-	119,342	119,342
Capital assets, net of accumulated depreciation	772	-	8,423	9,195
Total assets	$ 921,015	$ 8,134,197	$ 57,070,976	$ 66,126,188
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenses	$ 255,394	$ 721	$ 226,309	$ 482,424
Interfund payable	106,448	-	40,135	146,583
Amount due to primary government	-	-	839,390	839,390
Securities lending collateral	-	-	6,820,881	6,820,881
Securities lending payable	-	-	17,067	17,067
Allowance for guaranty claims	-	486,000	-	486,000
Total liabilities	361,842	486,721	7,943,782	8,792,345
Fund Balances				
Reserved:				
Business Development	-	1,185,540	5,407,500	6,593,040
Environmental	-	-	13,666,510	13,666,510
Unreserved:				
General Fund	559,173	-	-	559,173
Special revenue funds	-	6,461,936	30,052,618	36,514,554
Capital projects funds	-	-	566	566
Total fund balances	559,173	7,647,476	49,127,194	57,333,843
Total Liabilities and Fund Balances	$ 921,015	$ 8,134,197	$ 57,070,976	$ 66,126,188

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF FUND FINANCIAL STATEMENTS BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balances – governmental funds	$ 57,333,843
Amounts reported for governmental activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds for Highway Revenue Bonds, State Office Building Commission and Stadium and Convention Center Financing are included in governmental activities in the statement of net assets.	244,777,066
Net assets of governmental activities	$ 302,110,909

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2007

	General	Guaranty Fund	Other Governmental Funds	Totals
Revenues:				
State appropriations	$ -	$ 4,554,704	$ 2,325,000	$ 6,879,704
Investment earnings, net	-	373,249	2,172,928	2,546,177
Interest on loans	-	-	187,886	187,886
Grant income	-	-	175,706	175,706
Financing fees and premiums	25,000	19,448	386,205	430,653
Other funding	79,552	-	524,227	603,779
Total revenues	104,552	4,947,401	5,771,952	10,823,905
Expenditures:				
General Government	766,427		-	766,427
Business Development	-	24,455,791	7,809,332	32,265,123
Environmental	-	-	1,740,256	1,740,256
Total expenditures	766,427	24,455,791	9,549,588	34,771,806
Excess of Revenues over Expenditures	(661,875)	(19,508,390)	(3,777,636)	(23,947,901)
Other Financing Sources:				
Transfers in (out)	-	18,081,968	33,231	18,115,199
Total other financing sources and uses	-	18,081,968	33,231	18,115,199
Net Change in Fund Balances	(661,875)	(1,426,422)	(3,744,405)	(5,832,702)
Fund Balances- Beginning	1,221,048	9,073,898	52,871,599	63,166,545
Fund Balances- Ending	$ 559,173	$ 7,647,476	$ 49,127,194	$ 57,333,843

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF FUND FINANCIAL STATEMENTS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

Net change in fund balances – governmental funds	$ (5,832,702)
Amounts reported for governmental type activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds for Highway Revenue Bonds, State Office Building Commission and Stadium and Convention Center Financing are included in governmental activities in the statement of net assets.	69,167,924
Change in net assets of governmental activities	$ 63,335,222

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2007

	Enterprise Funds					
	State Revolving Fund	Airport Facilities Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
ASSETS:						
Current assets:						
Cash	$ -	$ -	$ -	$ 399,872	$ 399,872	$ -
Investments	475,775,211	23,169,328	89,485,041	9,594,849	598,024,429	303,507,840
Interest receivable on investments	15,780,786	100,858	243,821	38,581	16,164,046	1,127,181
Interest receivable on loans	14,720,029	-	-	121,461	14,841,490	-
Lease income receivable	-	4,438,653	-	433,084	4,871,737	9,555,006
Grants and accounts receivable	36,588,915	-	-	138,169	36,727,084	4,781
Loans receivable	66,073,269	-	-	2,118,031	68,191,300	6,348,815
Interfund receivable	-	-	1,505	-	1,505	87,232
Investment in direct financing leases	-	13,113,282	-	595,000	13,708,282	35,576,550
Amount due from primary government					-	7,429,839
Interest held in assets of the Toll Road Project	-	-	-	-	-	350,202
Construction escrows	-	-	-	-	-	1,430,632
Total current assets	608,938,210	40,822,121	89,730,367	13,439,047	752,929,745	365,418,078
Noncurrent assets:						
Investments	644,060,937	-	-	-	644,060,937	-
Investment in direct financing leases	-	184,621,210	-	7,555,000	192,176,210	1,279,345,039
Loans receivable	1,388,894,252	-	-	14,052,956	1,402,947,208	611,525,000
Unamortized bond issue cost	9,815,253	-	-	-	9,815,253	7,168,537
Deferred charges, net	-	-	-	-	-	157,137
Capital assets, net of accumulated depreciation	11,157	-	280,397,070	528,903	280,937,130	909,983,770
Total noncurrent assets	2,042,781,599	184,621,210	280,397,070	22,136,859	2,529,936,738	2,808,179,483
Total Assets	$ 2,651,719,809	$ 225,443,331	$ 370,127,437	$ 35,575,906	$ 3,282,866,483	$ 3,173,597,561
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	$ 168,317	$ 10,665	$ 4,072,065	$ 12,110	$ 4,263,157	$ 1,747,060
Interfund payable	59,183	-	2,313	-	61,496	-
Interest payable	35,592,922	134,641	77,000	120,848	35,925,411	35,389,118
Amount due to primary government	-	14,582,821	-	-	14,582,821	51,143
Deferred revenue	-	-	50,206,350	-	50,206,350	75,000
Revenue bonds payable - current	69,475,000	13,300,000	-	595,000	83,370,000	95,678,537
Hoosier Notes payable - current	-	-	-	-	-	13,152,000
Construction retention	-	-	-	-	-	1,635,963
Total current liabilities	105,295,422	28,028,127	54,357,728	727,958	188,409,235	147,728,821
Noncurrent liabilities:						
Revenue bonds payable	1,721,545,562	187,250,000	-	7,555,000	1,916,350,562	2,770,529,320
Note payable	-	-	-	-	-	6,348,815
Amount due to federal government	2,577,248	-	-	-	2,577,248	292,184
Deferred revenue	-	-	3,636,205,752	-	3,636,205,752	2,850,000
Total Noncurrent Liabilities	1,724,122,810	187,250,000	3,636,205,752	7,555,000	5,555,133,562	2,780,020,319
Total Liabilities	1,829,418,232	215,278,127	3,690,563,480	8,282,958	5,743,542,797	2,927,749,140
Net Assets						
Invested in capital assets, net of related debt	-	-	-	528,903	528,903	12,692,626
Restricted for debt service	-	5,454,856	-	1,757	5,456,613	195,905,242
Restricted for water pollution and drinking water projects	822,301,577	-	-	25,580,322	847,881,899	-
Unrestricted	-	4,710,348	(3,320,436,043)	1,181,966	(3,314,543,729)	37,250,553
Total Net Assets	$ 822,301,577	$ 10,165,204	$ (3,320,436,043)	$ 27,292,948	$ (2,460,676,314)	$ 245,848,421

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF FUND FINANCIAL STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO THE GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2007

Total net assets – enterprise funds	$(2,460,676,314)
Amounts reported for business-type activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds for the Indiana Toll Road Project and the Recreational Development Commission are included in business type activities in the statement of net assets.	1,071,355
Net assets of business-type activities	$(2,459,604,959)

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
For the year June 30, 2007

	Enterprise Funds					
	State Revolving Fund	Airport Facilities Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Operating Revenues:						
State appropriations	$ -	$ -	$ -	$ -	$ -	$ 354,456
Lease rental income	-	28,955,959	54,706,350	838,343	84,500,652	218,008,052
Interest on loans	43,767,242	-	-	306,755	44,073,997	113,295
Tolls	-	-	-	788,939	788,939	-
Financing fees and premiums	37,999	-	-	-	37,999	4,151,999
Other funding	-	-	27,855,253	-	27,855,253	19
Total operating revenue	43,805,241	28,955,959	82,561,603	1,934,037	157,256,840	222,627,821
Operating Expenses:						
Personal services	509,500	-	6,178,397	498,183	7,186,080	410,098
Nonpersonal services	17,139	16,611	211,042	48,333	293,125	1,408,830
Professional services	607,253	72,822	2,302,773	4,609	2,987,457	1,496,600
Supplies	6,747	-	26,478		33,225	7,382
Equipment and building fixtures	2,034	-	360,877	1,636	364,547	23,281
Travel	533	-	417		950	16,605
Interest expense	80,813,864	9,006,784	-	361,945	90,182,593	132,938,808
Depreciation expense and amortization	1,169,113	-	1,760,537	1,072	2,930,722	29,750,805
Grants	-	-	-	1,092,886	1,092,886	-
Administrative expenses	-	-	-	84,274	84,274	-
Other expense	-	-	15,817,880	-	15,817,880	473,574
Total operating expneses	83,126,183	9,096,217	26,658,401	2,092,938	120,973,739	166,525,983
Operating income (loss)	(39,320,942)	19,859,742	55,903,202	(158,901)	36,283,101	56,101,838
Nonoperating Revenues (Expenses):						
Investment earnings, net	62,391,070	248,890	5,481,750	473,259	68,594,969	12,696,665
Change in assets held by IFA, net of related costs - Toll Road Project	-	-	-	-	-	(6,466,988)
Distribution to primary government	-	-	(6,022,276)	(2,000,000)	(8,022,276)	(416,677)
Total nonoperating revenue (expenses)	62,391,070	248,890	(540,526)	(1,526,741)	60,572,693	5,813,000
Income (Loss) before Capital Contributions and Transfers	23,070,128	20,108,632	55,362,676	(1,685,642)	96,855,794	61,914,838
Capital contributions	36,982,225	-	-	409,617	37,391,842	-
Transfers in (out)	-	(18,192,901)	(103,608)	(77,703)	(18,374,212)	259,013
Change in Net Assets	60,052,353	1,915,731	55,259,068	(1,353,728)	115,873,424	62,173,851
Net Assets- Beginning of year, as originally reported	762,249,224	8,249,473	(3,375,695,111)	28,646,676	(2,576,549,738)	183,174,570
Prior period adjustment	-	-	-	-	-	500,000
Net Assets - Beginning of year, as restated	762,249,224	8,249,473	(3,375,695,111)	28,646,676	(2,576,549,738)	183,674,570
Total Net Assets - End of year	$ 822,301,577	$ 10,165,204	$ (3,320,436,043)	$ 27,292,948	$ (2,460,676,314)	$ 245,848,421

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF FUND FINANCIAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the year June 30, 2007

Net change in net assets – enterprise funds	$ 115,873,424
Amounts reported for business-type activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds for the Indiana Toll Road Project and the Recreational Development Commission are included in business type activities in the statement of net assets.	(6,994,073)
Change in net assets of business-type activities	$ 108,879,351

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the year June 30, 2007

	Enterprise Funds					
	State Revolving Fund	Airport Facilities Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities						
Lease, rent and toll receipts	$ -	$ 25,116,073	$ 54,706,350	$ 1,330,714	$ 81,153,137	$ 206,939,636
Other operating income	38,000	-	27,855,253	282,131	28,175,384	4,506,474
Payments for general and administrative expenses	(1,137,345)	(18,272,221)	(109,995,900)	(720,655)	(130,126,121)	(11,639,237)
Payments for grants	-	-	-	(1,092,886)	(1,092,886)	-
Reimbursement to INDOT for services	-	-	-	(2,000,000)	(2,000,000)	-
Net Cash Provided (Used) by Operating Activities	(1,099,345)	6,843,852	(27,434,297)	(2,200,696)	(23,890,486)	199,806,873
Cash Flows from Investing Activities						
Principal repayments of loans	59,173,050	-	-	2,123,045	61,296,095	-
Issuance of loans	(355,512,908)	-	-	(2,077,206)	(357,590,114)	(211,525,000)
Change in investments	(74,276,113)	-	-	-	(74,276,113)	-
Interest received on loans and investments, net	104,525,900	192,853	6,264,738	760,601	111,744,092	29,131,992
Purchase of property and equipment	-	-	(16,574,346)	-	(16,574,346)	(18,978,569)
Net Cash Provided (Used) by Investing Activities	(266,090,071)	192,853	(10,309,608)	806,440	(275,400,386)	(201,371,577)
Cash Flows from Non-Capital Financing Activities						
Proceeds from debt issuance	214,160,000	-	-	-	214,160,000	-
Principal payments to reduce indebtedness including refunding	(52,797,565)	-	-	-	(52,797,565)	-
Payment of debt issuance costs, net of refunding	(1,593,606)	-	-	-	(1,593,606)	-
Change in amount due to federal government	2,244,248	-	-	-	2,244,248	-
Interest paid on debt	(75,246,881)	-	-	-	(75,246,881)	-
Net Cash Provided by Non-Capital Financing Activities	86,766,196	-	-	-	86,766,196	-
Cash Flows from Capital Financing Activities						
Proceeds from debt issuance	-	14,582,821	-	-	14,582,821	
Principal payments to reduce indebtedness	-	(4,000,000)	(3,618,527,568)	(575,000)	(3,623,102,568)	285,831,245
Interest paid on debt	-	(9,470,910)	-	(377,614)	(9,848,524)	(130,924,761)
Capital lease principal receipts	-	4,136,809	-	575,000	4,711,809	(136,003,393)
Acquisition of capital assets	(11,157)	-	-	-	(11,157)	35,020,000
Expenditures of funds held for others	-	-	-	-	-	(63,714,041)
Capital contributions (EPA grants)	31,886,304	-	-	409,619	32,295,923	(22,272)
Net Cash Provided (Used) by Capital Financing Activities	31,875,147	5,248,720	(3,618,527,568)	32,005	(3,581,371,696)	(9,813,222)
Net Increase (Decrease) in Cash and Equivalents	(148,548,073)	12,285,425	(3,656,271,473)	(1,362,251)	(3,793,896,372)	(11,377,926)
Cash and Equivalents						
Beginning of Year	624,323,284	10,883,903	3,745,756,514	11,356,972	4,392,320,673	314,885,766
End of Year	$ 475,775,211	$ 23,169,328	$ 89,485,041	$ 9,994,721	$ 598,424,301	$ 303,507,840
Cash and Equivalents						
Cash	$ -	$ -	$ -	$ 399,872	$ 399,872	$ -
Short-term Investments with original maturities of 60 days or less	475,775,211	23,169,328	89,485,041	9,594,849	598,024,429	303,507,840
	$ 475,775,211	$ 23,169,328	$ 89,485,041	$ 9,994,721	$ 598,424,301	$ 303,507,840
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities						
Operating income	$ (39,320,942)	$ 19,859,742	$ 55,903,202	$ (158,901)	$ 36,283,101	$ 56,101,838
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Interest on loans	(43,767,244)	-	-	(306,755)	(44,073,999)	-
Interest expense	80,813,864	9,006,784	-	361,945	90,182,593	116,468,535
Amortization of deferred charges	1,167,790	-	-	-	1,167,790	974,665
Depreciation	-	-	1,760,537	1,072	1,761,609	28,776,140
Distribution to primary government	-	-	(6,022,276)	(2,000,000)	(8,022,276)	(416,677)
Transfer for administrative reimbursement	-	(18,192,901)	(103,608)	(77,703)	(18,374,212)	259,011
Changes in assets and liabilities:						
Accounts receivable and other assets	(585,588)	(3,839,886)	-	(14,437)	(4,439,911)	4,538,230
Accounts payable and accrued expenses	592,775	10,113	92,062	(5,917)	689,033	(6,819,869)
Deferred revenue	-	-	(79,064,214)	-	(79,064,214)	(75,000)
	$ (1,099,345)	$ 6,843,852	$ (27,434,297)	$ (2,200,696)	$ (23,890,486)	$ 199,806,873

See accompanying notes to financial statements.

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION

The accompanying financial statements of the Indiana Finance Authority (IFA) as of June 30, 2007, and for the fiscal year then ended, conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles. The IFA's significant accounting policies are as follows:

Reporting Entity: IFA's primary purpose is to oversee State-related debt issuance and provide efficient and effective financing solutions to facilitate state, local government, and business investment in Indiana. IFA was constituted pursuant to changes made to Indiana Code 4-4-10 & 11 et seq., via Public Law 235-2005 as enacted by the Indiana General Assembly in 2005 ("PL 235").

In order to provide economic efficiencies and management synergies and enable the State to communicate as one voice with the various participants in the financial markets, the Indiana Development Finance Authority (IDFA), the State Office Building Commission (SOBC), the Indiana Transportation Finance Authority (ITFA), State Revolving Fund Programs (SRF) and the Recreational Development Commission (RDC) were consolidated under the new Indiana Finance Authority on May 15, 2005 in PL 235. For purposes of comparison, the previously existing entities are reported in a way that may give the impression that they are still in existence. However, IDFA, SOBC, ITFA, and RDC are no longer existing legal entities.

IFA's primary programs include:

<u>State Finance Programs:</u> As the successor entity to these formerly separate debt issuing entities, IFA is authorized to issue revenue bonds payable from lease rentals under lease agreements with various state agencies and to finance or refinance the cost of acquiring, building and equipping structures for state use including state office buildings, garages, highways, bridges, airport facilities, correctional facilities, state hospitals, and recreational facilities related to State parks.

<u>Business Finance Programs:</u> The following are IFA business finance programs:

- Volume Cap - Indiana's $501 million capacity to issue private activity bonds, competitively awarded based on jobs created and/or retained, wages, capital investment, project location, dedication to low-income housing and other factors.

- Tax-Exempt Bond - Industrial revenue bonds, refunding bonds, 501(c)(3) bonds, and smaller bonds issued monthly.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

- Business Development – Programs such as Capital Access, Loan Guaranty, Broadband, Business Development Loan Fund, Rural and Agricultural Development Fund, and Shovel Ready.

Environmental Finance Programs: The following are IFA environmental finance programs:

- Indiana Brownfields Program - The Program offers financial, technical, legal and educational assistance to eligible entities involved in Brownfields redevelopment. IFA works in partnership with the U.S. Environmental Protection Agency and other Indiana agencies to assist communities in making productive use of their Brownfield properties.

- State Revolving Loan Fund (SRF) - The SRF Loan Program provides low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure.

Segment Reporting: Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. A segment is an identifiable activity reported as, or within, an enterprise fund or other reporting entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt.

For the benefit of stakeholders and to address accounting and reporting requirements commonly set forth in bond indentures, IFA has disclosed condensed segment information for all non-conduit debt financing activities regardless of their reporting treatment as enterprise funds or other types of funds, and treatment as major versus non-major in the body of the basic financial statements.

The basic financial statements include kinds of statements required by the Governmental Accounting Standards Board ("GASB") that present different financial views of the IFA:

- The first two statements are government wide financial statements that provide both long-term and short-term information about the IFA's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the IFA, reporting the IFA's operation in more detail than the government wide statements.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide data that are more detailed. Please note the breakdown of the statements is required by GASB and for audited financial statement reporting only.

A. Government Wide Financial Statements Basis of Presentation: The IFA includes operating functions that conduct governmental activities and business-type activities, which collectively present a government wide summary of the financial position and activities of IFA. The Statement of Net Assets and the Statement of Activities display government wide information. The IFA government wide financial statements are divided into two categories:

- **Governmental activities** include Operating Account (General Funds), Stadium and Convention Center Financing, Business and Environmental Finance Special Revenue Funds, Indiana State Office Building Commission, Interstate Bridge Fund and Highway Revenue Bonds.

- **Business-type activities** include the State Revolving Fund, Airport Facilities Bonds, Aviation Technology Center Fund, Toll Bridge Fund, Indiana Toll Road Lease Fund, Recreational Development Commission, and Indiana Toll Road Project.

Although most internal service funds are associated with business-type activities, some of IFA's internal service funds have characteristics more closely associated with governmental activities. Internal service funds classified as governmental activities include the Highway Revenue Bonds, Stadium and Convention Center Financing, and State Office Building Commission.

B. Fund Financial Statements Presentation: These statements are reported in two categories: Governmental Funds and Proprietary Funds.

1) Governmental Funds - Governmental Funds report activities for the IFA and other State Agencies that support the overall State's basic services. Governmental funds include:

> **General Fund**: The General Fund is used to account for IFA activities not required to be accounted for in another fund. Examples of activities accounted for within the General Fund include IFA operating budget activity, program service revenue and expenses, and certain some business and environmental finance programs, not included in special revenue funds or other fund types.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

Special Revenue Funds: Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for a specified purpose. IFA's Special Revenue Funds include the following:

The **Capital Access Program (CAP) Fund** enables banks to make loans to Indiana businesses that may not meet traditional lending requirements. The foundation of CAP is the establishment of a reserve fund into which the borrower, bank, and IFA contribute. When a CAP loan is made, the borrower and the bank each deposit a small percentage of the loan (1.5% - 3.5%) into the bank's reserve fund, and IFA matches the combined payment. The reserve fund is available for the bank to use to cover any losses of any loans made by it under the CAP program.

The aggregate CAP cash balance includes IFA's matching payments on the aggregate of the borrowers and banks offset by the amount recorded as aggregate borrower and lender contributions to the CAP program. Because aggregate borrower and lender contributions to the CAP program exceeded the balance in the CAP cash accounts, there was no asset reported by IFA as of June 30, 2007.

The **Industrial Development Project Guaranty Fund (Guaranty Fund)** provides flexible loan guarantees to banks for various economic development projects. Indiana businesses that are unable to qualify for conventional financing can utilize IFA's loan guaranty programs for high tech, industrial, rural and agriculture development projects. Guarantees are not backed by the full faith and credit of the State. Payments of guaranty claims can be made only from the Guaranty Fund. At June 30, 2007, the IFA had outstanding loan guaranties aggregating $1,185,540 and no outstanding loan guaranty commitments.

The Allowance for Guaranty Claims of $486,000 represents amounts that management estimates to be adequate to provide for future claims resulting from borrower defaults on loans, bonds or equipment leases guaranteed by IFA pursuant to its Guaranty Program.

The **Business Development Loan Fund** is used for activities relating to the Business Development Loan Program. The primary purpose of the Business Development Loan Fund is to grant loans to qualified borrowers so that they may carry out an industrial development project consistent with the requirements of the related statute (4-4-11-16.5).

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

The **Rural and Agricultural Development Fund** is used for activities relating to the Rural and Agricultural Program. The Fund's primary purpose is to create or retain employment within the State to benefit any agriculture enterprise or rural development project. The loan guaranty program offers guaranties on the principal deficiency on a loan, with a maximum guaranty amount not exceeding $300,000 for rural and agriculture projects.

The **Environmental Remediation Revolving Loan Fund (Brownfields Fund)** was created in 1997 by the General Assembly to facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues.

The **Petroleum Remediation Grant Incentive Fund** is a component of the Environmental Remediation Revolving Loan Fund that provides assistance to cities, towns, and counties in Indiana to complete remediation of petroleum contamination at Brownfield sites. IFA administers the program in conjunction with technical staff of the Indiana Department of Environmental Management ("IDEM").

The **Brownfields Cleanup Revolving Loan Fund** is a grant fund controlled by the Indiana Department of Environmental Management ("IDEM"), which was capitalized by an award from the United States Environmental Protection Agency ("EPA"). The purpose of the Fund is to establish a revolving loan within the grantee's organization, under a Cooperative Agreement with the EPA. The Fund is used solely to finance remediation activities at eligible Brownfield sites. Pursuant to a Memorandum of Understanding with IDEM, IFA serves as the Fund Manager for this program.

IFA has reported $359,261 of invested assets and $480,186 in loans receivable and a corresponding liability in the financial statements for $839,447 at June 30, 2007.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

Capital Project Funds: Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments. IFA's Capital Project Funds include the following:

- The **Interstate Bridge Fund** was created to pay for the cost of interstate bridges and improvements to such bridges. This fund is held by the IFA and managed by INDOT for the IFA.

2) Proprietary Funds

Proprietary funds follow the economic resources measurement focus, which is concerned with the total resources necessary to operate a particular activity. Accordingly, these funds include capital assets and long-term debt that are not included in governmental funds**.** Proprietary funds include enterprise funds and internal service funds.

Enterprise Funds: Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities are reported as enterprise funds if any of the following criteria are met. Governments should apply each of these criteria in the context of an activity's principal revenue source:

- The activity is financed with debt that is secured solely by a pledge of the net revenue from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not solely from fees and charges of the activity.

- Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges rather than taxes or similar revenues.

- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

IFA Enterprise Funds include:

State Revolving Fund Program reports on the Wastewater State Revolving Fund and Drinking Water State Revolving Fund programs. The federal Water Quality Act of 1987, as amended in 1996, authorized the United States Environmental Protection Agency (EPA) to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State established a water pollution control revolving fund program to provide financial assistance, essentially, to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from the WSRF Program, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State has established a public drinking water system program to provide financial assistance for eligible projects. Financial assistance includes making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems.

Supplemental Fund reports on low interest loans or grants provided to Indiana communities to improve drinking water and wastewater infrastructure.

Indiana Toll Road Lease Fund reports on the operating lease between IFA, as lessor, and Indiana Toll Road Concession Company LLC (ITRCC), as lessee, to manage and operate the Indiana Toll Road, as approved by certain legislation adopted by the Indiana General Assembly. The operating lease began on June 29, 2006 with a term of 75 years.

IFA owns the 157-mile highway, and leases it to ITRCC, which will operate from the existing Indiana Toll Road headquarters in Granger. IFA received a cash payment of approximately $3.8 billion upon closing of the lease agreement, and ITRCC will receive all tolls and concession revenues for the next 75 years.

Airport Facilities Lease Revenue Bonds report on the direct financing activities for airport or aviation related property or facilities referred to by the IFA as the Indianapolis Maintenance Center (IMC).

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

Aviation Technology Center Lease Revenue Bonds report on the direct financing activities for airport or aviation related property or facilities referred to by the IFA as the Aviation Technology Center.

Toll Bridge Fund accounts for the net assets and operations of the Wabash River Toll Bridge. By statute, the IFA controls the Toll Bridge. However, INDOT is responsible for operation, maintenance and financial control and reporting for the Toll Bridge.

Internal Service Funds: Internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. IFA Internal Service Funds include:

Indiana Toll Road Project - The Indiana Toll Road Project was a lease between the IFA and INDOT to finance and operate the Indiana Toll Road. Separate reporting of the lease agreement was required and was done under the reporting entity entitled the Indiana Toll Road Project. The net assets of the Indiana Toll Road Project are owned by the IFA and reported as interest held in assets of the Indiana Toll Road Project on the Statement of Net Assets. The IFA and INDOT had specified responsibilities under the lease agreement. Indiana Toll Road Bonds were payable from lease rentals INDOT was obligated to pay under the Indiana Toll Road Lease. INDOT set and collected tolls sufficient to provide for operating expenses, major expense fund requirements and payment of base rent to the IFA in an amount sufficient for payment of debt service on the Bonds.

The Indiana Toll Road was leased to INDOT until June 29, 2006, when a subsequent lease was entered into between IFA and ITRCC. Activity related to the new lease is reported under the Indiana Toll Road Lease Fund.

Highway Revenue Bonds primary purpose is to finance construction of highway and bridge projects that are managed by INDOT. This fund reports on the direct financing activities and construction of such projects.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION ((Continued)

Stadium and Convention Center Financing Program reports on the financing of the Indiana Stadium and Convention Center project managed by the Indiana Stadium and Convention Building Authority (ISCBA). IFA issued $611 million of lease revenue bonds (Stadium), and $40 million of bond anticipation notes (Convention Center) to finance a portion of the construction projects. IFA then entered into a loan agreement with the ISCBA structured with a payment schedule to meet debt service requirements on the bonds.

The previously existing **State Office Building Commission's** primary purpose was to construct, equip and lease state facilities through revenue bonds as authorized by the Indiana General Assembly. This has now been transferred to the IFA. The facilities are leased to the Department of Administration of the State ("DOA") under use and occupancy agreements. The IFA has been authorized to issue debt obligations to provide funds for:

- Financing the implementation of the Indiana Government Center Master Plan

- Infrastructure and transportation facilities in its vicinity, certain correctional facilities and certain hospitals

- Financing the Indiana State Museum acquisition, design and construction costs

- Conducting projects to reduce energy consumption costs and other operating costs at qualified state owned institutions

The previously existing **Recreational Development Commission's** primary purpose was providing funds for projects involving Department of Natural Resources' properties. The Recreational Development Commission (the Commission) was created in 1973 by an Act of the General Assembly. Effective May 15, 2005, all powers and duties of the Commission were transferred to the Indiana Finance Authority under IC 4-4-10.9 & 11.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The government wide statements and the proprietary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues and certain grants and entitlements are recognized in the period when all applicable eligibility requirements have been met.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For IFA, “available” means collectible within one month of the Fiscal Year end. Expenditures are recorded when the related fund liability is incurred. The governmental funds recognize expenditures for these liabilities to the extent they will be matured or liquidated with expendable financial resources.

Fund Accounting: IFA debt financing agreements and indentures may require the use of specific funds or subfunds to account for the activities within a specific bond issue or other IFA activities. As a result, governmental and proprietary funds may have subfunds and accounts that are considered separate accounting entities for internal reporting purposes. The operations of each specific fund are accounted for with a separate set of self-balancing accounts. IFA uses the following subfund types as applicable for debt financing and indenture agreements:

- General Funds
- Expense Funds
- Lease Revenue Funds
- Debt Service Funds
- Debt Service Reserve Funds
- Replacement Reserve Funds
- Construction Funds (including interest and clearing accounts)

Application of Accounting Principles Generally Accepted in the United States: For proprietary fund statements, IFA applies (a) all applicable FASB pronouncements issued before December 1, 1989, and (b) those issued after that date, provided they do not contradict GASB pronouncements. For governmental fund statements, IFA applies GASB pronouncements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from estimates.

Reclassification: Certain prior Fiscal Year amounts have been reclassified to conform to the current Fiscal Year presentation.

Internal Balances and Activity Reporting in Government Wide Financial Statements: Transaction and balances are recorded as follows:

- **Between funds included in governmental activities** column - Eliminated within the governmental activities column.
- **Between funds included in business-type activities** column - Eliminated within the business-type activities column.
- **Between a fund included in governmental activities column and a fund included in the business-type activities column** - Internal balance; eliminate in the total primary government column.

Revenue Recognition: The primary revenues sources of IFA are accounted for as follows:

- State appropriations are made by the General Assembly on a biennial basis. Due to the uncertainty of allotment and release of appropriations, IFA records revenues when cash payments are received.
- Toll lease revenue is recognized on an accrual basis. (proprietary fund and government-wide statements)
- Direct financing lease revenue and operating lease revenue is recognized on an accrual basis. (proprietary funds and government-wide statements)
- Investment earnings are recognized on an accrual basis for proprietary funds government-wide statements, and modified accrual basis for governmental funds.
- Loan interest income is recorded on a modified accrual basis for governmental funds and full accrual for proprietary funds and government-wide statements.
- Grant income is recognized on an accrual basis for proprietary funds, government-wide statements, and modified accrual basis for governmental funds.
- Program revenue is recognized on an accrual basis for proprietary funds, government-wide statements, and modified accrual basis for governmental funds.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other relevant policies related to revenues follow:

- Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizens as a whole. Program revenues are separately classified in three categories—(a) charges for services, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions.

- Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and interest on debt and depreciation on capital assets. Governmental fund transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income. For proprietary funds, revenue and expense transactions normally classified as other than operating cash flows are classified as operating revenues and expenses if those transactions constitute principal ongoing operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

- IFA's policy is to apply externally restricted and reserved funds first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Expense Classification: Expenses have been classified using functional and activity classifications using direct costs and estimated indirect cost allocations based upon time allocation and benefit. Direct expenses (charges based on actual use) are not eliminated, whereas indirect expense allocations made in the funds are reversed (unless reported in the separate column).

Net Assets and Fund Balances**:** Net assets are displayed in three components:

- The Invested in Capital Assets component consists of property or infrastructure that the IFA acquired.

- The Restricted Net Assets component represents net assets with constraints placed on their use that are either (i) externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or (ii) imposed by law through constitutional provisions or enabling legislation, as defined in GASB Statement No. 46 - Net Assets Restricted by Enabling Legislation.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The Unrestricted Net Assets component consists of net assets that do not meet the definition of the preceding two components. IFA has reserved fund equity in special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by IFA's governing body.

  Government Activities: The IFA has reserved fund equity in four special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by the IFA's governing body:

  - The Guaranty Fund has a reserve of $1,185,540 to pay amounts due under the reimbursement agreements.
  - The Business Development Loan Fund has a reserve of $5,407,500 for current loan commitments.
  - The Environmental Remediation Revolving Loan Fund has a reserve of $7,597,968 for current loan and grant commitments.
  - The Petroleum Remediation Grant Fund has a reserve of $6,068,542 for current grant commitments.

<u>Cash and Equivalents:</u> Cash and equivalents include deposits in financial institutions and short-term investments with original maturities of 60 days or less.

<u>Investments</u>: Investments are recorded at fair value based on quoted market prices of the investment or similar investments. Changes in the fair value of investments, including interest, dividends, realized and unrealized gains and losses are included in the statements of activities. Securities traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Securities traded in the over-the-counter market, and listed securities for which no sale was reported on that date, are valued at the last reported bid price.

<u>Capital Assets:</u> Capital assets are recorded at historical cost. Cost includes interest expense, net of interest income, incurred during construction until the asset is placed in service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Infrastructure Assets: The Indiana Toll Road Lease Fund, an enterprise fund, adopted the modified approach for recording infrastructure under GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network (hereafter, eligible infrastructure assets) are not required to be depreciated. Condition assessments are performed annually and disclosed as required supplemental information. Expenditures that qualify as maintenance in nature are recorded by the lessee. Additions and improvements to eligible infrastructure assets are capitalized by IFA when those additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

Capital Leases: Direct financing leases are accounted for by IFA, as lessor, as the sum of minimum lease payments and indirect costs less unearned income. Direct costs and unearned income are amortized over the lease term using the interest rate method that mirrors the underlying long-term debt.

Grants and accounts receivable: Grants and accounts receivable balances consist of amounts billed or billable for services provided, net of an allowance for doubtful accounts. Grants and accounts receivable are recorded at net realizable value when earned. Grant revenue is recognized as earned as the eligible expenses are incurred or activities are completed. Grant expenditures are subject to audit and acceptance by the granting agency and, because of such audit, adjustments could be required.

An allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances, and general economic conditions. Periodically, management reviews grants and accounts receivable and considers the need for an allowance based on current circumstances. Management has estimated that no allowance is necessary at June 30, 2007.

Loans Receivable and Allowance for Loans: Loans are carried at the principal amount outstanding. Interest income is accrued on the principal balances of loans. IFA's sources of funding for loans are from state appropriations and grants. Because there are a small number of significant loans outstanding, management estimates the allowance for loan loss by identifying specific troubled loans. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that as of June 30, 2007, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the areas that funds are loaned would increase the likelihood of additional losses because of credit and market risks and could create the need for additional loss allowance.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Lease Revenue: Operating lease cash receipts that have not been earned are recorded as deferred lease revenue and amortized over the life of the lease agreement on a straight-line basis. The primary deferred lease revenue is related to the Indiana Toll Lease Program cash receipt of $3.8 billion from ITRCC that will be earned over the 75-year operating lease.

Due to/from Primary Government: This represents amounts that were due from or to the State at June 30, 2007 as follows

	Governmental Activities	Business-type Activities
Assets - Due from primary government		
Current:		
Indiana Stadium Convention Building Authority	$ 47,443	$ -
Indiana Health & Education Finance Authority	21,177	-
Office of Management and Budget	11,625	-
Indiana State Department of Health	420,621	-
Indiana Department of Administration	2,774	-
Integrated Public Safety Commission (IPSC)	7,006,444	-
	$ 7,510,084	$ -
Liabilities - Due to primary government		
Current:		
United bankruptcy settlement – Treasurer of State	$ -	$ 14,582,821
Hoosier Safe-T Project – IPSC	39,438	-
BCRLF funds - IDEM	455,627	-
Toxic Lab Project – ISDH	11,705	-
Noncurrent:		
BCRLF funds - IDEM	383,763	-
	$ 890,533	$ 14,582,821

Long-term Debt: Bonds and notes payable are recorded at the principal amount outstanding, net of any applicable premium or discount.

Bond Discount and Issuance Costs: Bond discount and issuance costs are amortized using the interest method over the varying terms of the bonds issued.

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave, which has been earned but not paid, has been accrued in the accompanying financial statements. Compensation for holiday and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or vest.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior Period Adjustment: Several years ago the Recreation Development Commission received $500,000 from the State of Indiana Cigarette Fund, which was previously classified as a loan. However, over the past 20-30 years the expectation has changed. Rather than a loan, the funds were seen as something to be used and not paid back. Furthermore, the current statute IC 14-14-1-43 created a revolving fund to pay for any preliminary work done before the actual construction of a project. Section 43(b) states that "the money in the special revolving fund does not revert to the state general fund." Therefore, the Indiana Finance Authority, in conjunction with the State Board of Accounts, determined that the funds would no longer be classified as a loan and would be considered part of the special revolving fund. This resulted in a $500,000 decrease in liabilities and increase in net assets.

NOTE 3 - DEPOSITS AND INVESTMENTS

Investment Guidelines and Limitations: The following are the significant investment guidelines and limitations related to IFA deposits and investments.

1) Policy Standards and Objectives - In its investment policy, the IFA adopted the prudent investor standard to apply to the IFA and to govern all its investments. This standard provides that an investor, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

Within these governing statutes, the IFA has broad authority to invest the assets. IFA has chosen these policies as the most appropriate policies to achieve the objectives listed below. This policy applies to bond proceeds, gross revenues and other funds for which the IFA and appropriate trustee(s) have investment responsibility. The authority to operate and manage the investment program for all funds is granted to approved signatories of IFA. The Chief Financial Officer in conjunction with the Public Finance Director shall establish controls and procedures to implement this program, which shall include regular reporting to the IFA members.

The primary objectives, in priority order, of the IFA's investment program are:

- Safety -- Safety of principal shall be the foremost objective of the investment program. Investments shall be made in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk will be minimized by diversification and by limiting investments to the safest types of securities. Market risk will be minimized by structuring the portfolio so that securities mature to meet cash requirements thereby avoiding the need to sell securities prior to maturity, and by investing primarily in shorter-term securities.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Liquidity -- The investment portfolio shall be structured so that investments mature concurrent with anticipated cash demand. Further, since all cash demands cannot be anticipated, the portfolio shall consist primarily of cash equivalents and securities with active secondary or resale markets.

- Yield -- The investment portfolio shall be structured with the objective of attaining a market rate of return taking into account the constraints of risk and liquidity described above. Return on investment is less important than safety and liquidity. Return on investment should be in excess of inflation.

2) Allowable Investments – Allowable investment information follows:

A. The IFA is only permitted to invest in securities authorized by the applicable trust indenture which authorizations are made a part of this policy. This policy only relates to the investment of cash within bond indentures to the extent it is not invested in purpose investments, i.e. long-dated United States Treasury Securities required under the Indenture or by the IRS. It is the policy of the IFA to limit allowable investments to the following list of securities.

- United States Government Securities
  - Treasury Notes and Bills
  - Treasury Bonds

- Unites States Agency Obligations
  - Government National Mortgage Association (GNMA)
  - Farmers Home Administration (FmHA)
  - Small Business Administration (SBA)
  - General Services Administration (GSA)
  - Federal Housing Administration (FHA)
  - Housing and Urban Development (HUD)
  - Financial Assistance Corporation (FAC)
  - Student Loan Marketing Association (SLMA)
  - Tennessee Valley Authority (TVA)
  - Including any securities with full faith and credit of the US Government

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- United States Instrumentality Obligations
  - Federal National Mortgage Association (FNMA)
  - Federal Home Loan Banks (FHLB)
  - Federal Home Loan Mortgage Corporation (FHLMC)
  - Federal Farm Credit Banks (FFCB)
  - Federal Land Bank (FLB)
  - Instrumentality obligations must be in the two highest Moody's rating categories

- Obligations of States of the United States or their subdivisions - rated in the highest long-term rating category by Moody's

- Institutional Money Market Mutual Funds:
  - Seeks to maintain a net asset value of $1.00 per share,
  - Are "no load", (meaning no commission or fee shall be charged on purchases or sales of shares)
  - Limit assets of the fund to U.S. Treasury securities, Federal Instrumentality securities, and repurchase agreements collateralized by the same, or are AAA rated
  - Have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7

- Commercial Paper rated in the highest rating category by Moody's, with a maturity not to exceed 270 days

- Repurchase Agreements: Permitted collateral shall be:
  - Bonds or notes issued by the United States Treasury, or other securities guaranteed as to principal and interest by the Government of the United States, its agencies, instrumentalities, or establishments
  - Mortgage-backed securities sponsored by agencies of the Government of the United States
  - Corporate obligations of domestic and foreign issuers with a minimum rating of Aa3 by Moody's Investor Services, Inc. ("Moody's")
  - Asset-backed securities with a minimum rating of Aa3 by Moody's or money market instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper issued by domestic issuers with a minimum rating of A-1 by S&P and P-1 by Moody's)
  - A repurchase agreement shall be deemed to be an acquisition of the underlying securities, provided that the obligation of the seller to repurchase the securities from the Fund is fully collateralized

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Investment Agreements: Security, or debt related to agreement,
  - and qualified institution must both be rated at least Aa3 if greater than 24 months until maturity.
  - Moody's rating of P1 for those less than 24 months until maturity.

- Time Certificates of Deposit with maturities not exceeding five years, in state or nationally chartered banks whose deposits are insured by the Federal Deposit Insurance Corporation and do not exceed $100,000.

B. Additional securities allowable under the appropriate trust indenture may be added to the approved list with the recommendation of the Chief Financial Officer and approval of the Public Finance Director. All such additions shall be reported to and approved by the IFA members at the next regular meeting.

C. It is the policy of the IFA that investments are not permitted in certain derivatives, or in certain mutual funds, which invest primarily in such securities. Investments prohibited by this policy are characterized as being illiquid, highly volatile and difficult to value. Prohibited securities include, but are not limited to, mortgage derivatives such as Z-bonds, PAC-2s, and Re-REMICS

D. It is the policy of IFA pursuant to IC 4-4-11-15(50) to allow for the use of certain swap agreements (as defined in IC 8-9.5-9-4) as part of their bond issuance pursuant to the guidelines of IC 8-9.5-9-5 and IC 8-9.5-9-7 (Appendix E). These agreements include a rate swap agreement, basis swap, forward rate agreement, interest rate option, rate cap agreement, rate floor agreement, rate collar agreement, or any other similar agreement (including any option to enter into any of the agreements described above).

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

3) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. IFA's Investment Policy Statement includes the following provisions:

- Maximum Maturities - to the extent possible, investments will be matched with anticipated cash flow requirements. Unless matched to a specific cash flow, the IFA will not directly invest in securities maturing more than five years from the date of purchase.
- Average Maturity -- The average weighted maturity of the portfolio should not exceed two years.

At June 30, 2007, IFA had the following investments and maturities:

		Investment Maturities (in years)			
Governmental Type Activities:		Less than	One to	Six to	Greater than
Investment Type	Fair Value	One Year	Five Years	Ten Years	Ten Years
Money Market Investment	$ 320,191,268	$ 320,191,268	$ -	$ -	$ -
U.S. Treasury Bills	1,361,100	1,361,100	-	-	-
Government Obligations	24,033,061	16,138,425	6,608,443	240,703	1,045,490
Repurchase Agreements	6,553,656	6,553,656	-	-	-
Total	$ 352,139,085	$ 344,244,449	$ 6,608,443	$ 240,703	$ 1,045,490

		Investment Maturities (in years)			
Business Type Activities:		Less than	One to	Six to	Greater than
Investment Type	Fair Value	One Year	Five Years	Ten Years	Ten Years
Money Market Investment	$ 554,660,156	$ 554,660,156	$ -	$ -	$ -
U.S. Treasury Bills	7,289,000	-	500,000	5,555,000	1,234,000
Repurchase Agreements	33,314,936	33,314,936	-	-	-
Guaranteed Investment Contracts	649,020,266	12,248,329	78,273,504	225,900,640	332,597,793
Total	$ 1,244,284,358	$ 600,223,421	$ 78,773,504	$ 231,455,640	$ 333,831,793

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

4) Custodial Credit Risk

Custodial credit risk is the risk that the IFA will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of IFA, and are held by either the counterparty of the counterparty's trust department of agent but not in IFA's name.

IFA's Investment Policy Statement includes the following provisions

- Securities purchased from any bank or dealer, including collateral when appropriate, shall generally be placed with the appropriate trustee or with an independent third party for safekeeping.
- Any security that is wireable over the FedWire will be safe kept in a customer or trust account in a Federal Reserve Bank through the appropriate custodial bank.
- Non-FedWirable securities held by the Depository Trust Corporation (DTC) shall be held in the name of the IFA or trustee through the appropriate custodial bank. Securities may be held by a broker/dealer to the extent the broker/dealer serves as an agent for the IFA or the appropriate trustee. No securities will be held by a broker/dealer without evidence of adequate Securities Investor Protection Corporation (SIPC) insurance (or protection judged to be equivalent by the IFA or the appropriate trustee).
- Delivery vs. Payment -- All securities will be held in accounts in the name of the IFA or the appropriate trustee. Securities will be deposited prior to release of funds. Securities held by a third party custodian will be evidenced by safekeeping receipts.

There was no custodial credit risk for investments.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

5) Credit Risk

IFA's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2007 are as follows:

Governmental Type Activities:

Investment Type	S & P	Moodys	Fitch	Fair Value
Money Market Investment	unrated	unrated	unrated	$ 11,113
	AAAm	Aaa	unrated	67,936,410
	AAAm	Aaa	AAA/V-1+	251,928,378
	AAAm-G	Aaa	unrated	315,367
U.S. Treasury Bills	AAA	Aaa	AAA	1,361,100
Government Obligations	AAA	Aaa	AAA	18,655,101
	AAA	Aaa	unrated	684,005
	unrated	unrated	unrated	4,693,955
Repurchase Agreements	unrated	unrated	unrated	6,553,656
				$ 352,139,085

Business Type Activities:

Investment Type	S & P	Moodys	Fitch	Fair Value
Money Market Investment	AAAm	Aaa	unrated	$ 179,871
	AAAm	Aaa	AAA	16,403,087
	AAAm	Aaa	AAA/V-1+	538,077,198
U.S. Treasury Bills	AAA	Aaa	AAA	7,289,000
Repurchase Agreements	unrated	unrated	unrated	33,314,936
Guaranteed Investment Contracts	AAA	Aaa	AAA	255,279,539
	AA	Aa2	AA	358,434,902
	AA	Aa1	AA+	35,305,825
				$ 1,244,284,358

6) Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. Under IFA's Investment Policy Statement, Investments shall be diversified by type of security and institution. Except for cash equivalents, Indenture purpose investments, and United States Government Securities, the total portfolio shall consist of no more than (approximately) 40% of any single type of security. At June 30, 2007, there were no concentrations of credit risk.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

7) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Investments are not included as allowable investments per IFA's policy. There was no foreign currency risk exposure at June 30, 2007.

8) Securities Lending

The Interstate Bridge Fund had investments in United States Treasury Bills held and controlled by the State Treasurer, which is used in securities lending transactions. The State Treasurer is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least $10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities.

Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. The collateral securities cannot be pledged or sold by the State Treasurer unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with custodians require them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.
At June 30, 2007, the investments had no credit risk exposure on securities lending.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

9) Deposit Risks

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the two demand deposit accounts are carried at cost and are insured up to $100,000 each. Deposits in the demand accounts held in excess of $100,000 are not collateralized. Deposits with the State Treasurer of State, totaling $332,139, are entirely insured.

The carrying amount of demand deposits was $907,796, and bank balances were $967,700. IFA's maximum risk was $803,597 at June 30, 2007.

NOTE 4 - LOANS RECEIVABLE

The IFA has four programs that provide loans to qualified participants including:

Governmental Activities:

1) Environmental Remediation Revolving Loan Fund (Brownfields) – Loans facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues. Net loans receivable were $4,859,091 at June 30, 2007.

2) Business Development Loan Fund - Loans are provided for industrial development projects. Net loans receivable were $1,725,407 at June 30, 2007.

Business-Type Activities:

3) State Revolving Fund Loan Program - Low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure**.** Net loans receivable were $1,454,967,521 at June 30, 2007.

4) Supplemental Fund - Low interest loans provided to Indiana communities to improve drinking water and wastewater infrastructure. Net loans receivable were $16,170,987 at June 30, 2007.

(Continued)

NOTE 4- LOANS RECEIVABLE (Continued)

Additional disclosures are provided below for each loan program:

1) Environmental Remediation Revolving Loan Fund (Brownfields)

Loans receivable were comprised of the following at June 30, 2007:

Loans receivable - gross	$ 6,052,212
Less: allowance for forgivable portion of Brownfield loans	(1,193,121)
	$ 4,859,091

There were approximately thirty loans and advances outstanding with Indiana municipalities at June 30, 2007. Outstanding loan commitments to three municipalities were approximately $2,550,000. Interest earned on these loans during the year ended June 30, 2007 was approximately $147,000 and accrued interest was approximately $20,000 at June 30, 2007. The program includes a partially forgivable loan program with certain eligibility requirements. Eligible participants have a provision for forgiveness of up to 20% of the original loan balance if certain performance criteria are met. IFA has recorded an allowance that represents the current amount available for forgiveness on loans that qualified under the program.

2) Business Development Loan Fund

Loans receivable under the Business Development Loan Fund were comprised of the following at June 30, 2007:

Midwest Independent Transmission System Operator, Inc
On September 7, 2004, IFA advanced a new partially forgivable $2,000,000 loan under a promissory note to Midwest Independent Transmission System Operator, Inc. ("MISO") in conjunction with a significant economic development and expansion project at MISO's headquarters in Carmel, Indiana. A provision of the note allows $500,000 to be forgiven if certain performance criteria are met. Achievement of performance criteria are measured annually on or before December 31. The note is secured by certain assets of the borrower. The Indiana Department of Commerce, now the Indiana Economic Development Corporation, committed to fund $500,000 of this advance through an appropriation to IFA. The note is payable in quarterly installments of $43,631, including interest at 3%, from January 1, 2005 to October 1, 2014.

Loan receivable	$ 1,632,907
Less: allowance for forgivable portion of loans	(500,000)
	$ 1,132,907

(Continued)

NOTE 4- LOANS RECEIVABLE (Continued)

Interest earned on these loans during the year ended June 30, 2007 was approximately $41,000, and accrued interest was $14,000 at June 30, 2007.

The loans include a partially forgivable portion with certain eligibility requirements. IFA has recorded an allowance of $500,000, which represents the current amount available for forgiveness on loans that qualified but have not met the performance criteria under the program. Due to the nature of the financing under the loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2007 beyond the forgivable portion of the loans.

Indiana Seed Fund I, LLC

In October 2004, IFA made a commitment to loan up to $3,000,000 from the Business Development Loan Fund to Indiana Seed Fund I, LLC, to permit the borrower to fund seed capital equity investments in early stage companies headquartered in Indiana. The Indiana Seed Fund I is to be managed by BC Advisors, LLC, or another affiliate of BC Initiatives, Inc. The loan accrues interest at 1%, but under loan documents, IFA will be entitled to receive additional consideration under certain circumstances.

The loan draws mature October 13, 2019.

Loan receivable	$	592,500
Less: allowance for uncollectible loans		-
	$	592,500

Management has estimated that no allowance for uncollectible loans was necessary at June 30, 2007.

NOTE 4- LOANS RECEIVABLE (Continued)

3) State Revolving Fund Loan Program

The loans receivable balance at June 30, 2007 includes actual advances for construction and related costs on eligible projects net of principal payments from participants as follows:

Wastewater Fund	$ 1,219,674,122
Drinking Water Fund	235,293,399
	$ 1,454,967,521

These amounts represent projects that have been submitted and approved by the SRF Programs, and the loans have been closed. Interest earned on loans receivable was approximately $43,800,000 during the year ended June 30, 2007 and accrued interest on loans was approximately $14,700,000 at June 30, 2007. Due to the nature of the financing under the loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2007.

4) Supplemental Fund

Loans receivable were comprised of the following at June 30, 2007:

Loans receivable - gross	$ 16,170,987
Less: allowance for uncollectible loans	-
	$ 16,170,987

There were approximately forty-five loans and advances outstanding with Indiana municipalities for drinking water and wastewater projects at June 30, 2007. Interest earned on these loans during the year ended June 30, 2007 was approximately $307,000 and accrued interest was approximately $121,000 at June 30, 2007.

Due to the nature of the financing under the loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2007.

(Continued)

NOTE 5 - CAPITAL ASSETS

Capital assets used in governmental activities included the following for the State Office Building Commission Program, Indiana Finance Authority, and Environmental Remediation Revolving Loan Fund:

	Balance at July 1, 2006	Increases	Decreases	Balance at June 30, 2007
Capital assets, not being depreciated				
Land	$ 54,807,366	$ -	$ -	$ 54,807,366
Infrastructure	-	-	-	-
Construction in progress	131,764,171	8,044,401	(128,701,222)	11,107,350
Total capital assets, not being depreciated	186,571,537	8,044,401	(128,701,222)	65,914,716
Capital assets being depreciated:				
Buildings and improvements	930,898,877	139,426,695	-	1,070,325,572
Furniture, machinery and equipment	361,381	10,137	-	371,518
Total capital assets, being depreciated	931,260,258	139,436,832	-	1,070,697,090
Less accumulated for:				
Buildings and improvements	227,672,434	27,351,783	-	255,024,217
Furniture, machinery and equipment	356,127	2,373	-	358,500
Total accumulated depreciation	228,028,561	27,354,156	-	255,382,717
Total capital assets being depreciated, net	703,231,697	112,082,676	-	815,314,373
Capital assets, net	$ 889,803,234	$ 120,127,077	$ (128,701,222)	$ 881,229,089

(Continued)

NOTE 5 - CAPITAL ASSETS (Continued)

Capital assets used in business-type activities included the following for the Toll Bridge Fund, Indiana Toll Road Lease Program, Recreational Development Commission Program, and State Revolving Fund Program:

	Balance at July 1, 2006	Increases	Decreases	Balance at June 30, 2007
Capital assets, not being depreciated				
Land	$ 30,723,770	$ -	$ -	$ 30,723,770
Infrastructure	209,738,886	12,856,097	-	222,594,983
Construction in progress	10,204,640	268,922	(10,204,640)	268,922
Total capital assets, not being depreciated	250,667,296	13,125,019	(10,204,640)	253,587,675
Capital assets being depreciated:				
Buildings and improvements	96,916,094	12,482,263	(1,720,616)	107,677,741
Furniture, machinery and equipment	87,767	3,113,500	(87,767)	3,113,500
Total capital assets, being depreciated	97,003,861	15,595,763	(1,808,383)	110,791,241
Less accumulated for:				
Buildings and improvements	51,492,049	2,941,872	-	54,433,921
Furniture, machinery and equipment	87,767	243,989	(87,767)	243,989
Total accumulated depreciation	51,579,816	3,185,861	(87,767)	54,677,910
Total capital assets being depreciated, net	45,424,045	12,409,902	(1,720,616)	56,113,331
Capital assets, net	$ 296,091,341	$ 25,534,921	$ (11,925,256)	$ 309,701,006

At June 30, 2007, the IFA had construction and related cost commitments as follows:

Governmental Activities:

Highway Revenue Bonds – Construction contract commitments were approximately $34,400,000 for direct finance lease projects financed with proceeds of Series 2003A and 2004A.

Business-Type Activities:

Indiana Toll Road Lease Fund – Commitments related to the Indiana Toll Road were approximately $3,100,000 for road and bridge projects and $110,000 for environmental remediation projects.

(Continued)

NOTE 6 - CAPITAL LEASES

The IFA's future minimum lease amounts receivable under capital leases were as follows:

Governmental Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2008	$ 35,576,550	$ 69,516,157	$ 105,092,707
June 30, 2009	37,784,582	63,008,721	100,793,303
June 30, 2010	39,982,887	61,069,818	101,052,705
June 30, 2011	41,947,744	59,002,996	100,950,740
June 30, 2012	43,513,793	56,821,963	100,335,756
2013 - 2017	253,802,087	244,238,654	498,040,741
2018 - 2022	312,752,650	190,226,593	502,979,243
2023 - 2027	398,009,919	91,777,931	489,787,850
2028 - 2029	183,193,700	12,053,925	195,247,625
	1,346,563,912	847,716,758	2,194,280,670
Less remaining accretion / premium (discount)	(31,642,323)	-	(31,642,323)
	$ 1,314,921,589	$ 847,716,758	$ 2,162,638,347

Business-type Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2008	$ 13,708,282	$ 12,390,233	$ 26,098,515
June 30, 2009	14,324,859	11,569,728	25,894,587
June 30, 2010	14,985,734	10,711,033	25,696,767
June 30, 2011	15,681,257	9,811,398	25,492,655
June 30, 2012	16,327,483	8,869,269	25,196,752
2013 - 2017	90,868,170	28,862,360	119,730,530
2018 - 2019	39,988,707	3,620,898	43,609,605
	$ 205,884,492	$ 85,834,919	$ 291,719,411

(Continued)

NOTE 6 - CAPITAL LEASES (Continued)

IFA's changes in capital leases were as follows based on type of activity:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Amounts Due Within One Year	Amount Due Thereafter
Governmental Activity						
Highway Revenue Bonds	$ 1,286,227,548	$ 63,714,041	$ 35,020,000	$ 1,314,921,589	$ 35,576,550	$ 1,279,345,039
Business-Type Activity						
Airport Facilities	201,871,302	-	4,136,810	197,734,492	13,113,282	184,621,210
Aviation Technology Center	8,725,000	-	575,000	8,150,000	595,000	7,555,000
	210,596,302	-	4,711,810	205,884,492	13,708,282	192,176,210
Total	$ 1,496,823,850	$ 63,714,041	$ 39,731,810	$ 1,520,806,081	$ 49,284,832	$ 1,471,521,249

Capital lease interest rates are structured based on the related bonds principal and interest schedules that are reflected in Note 7 of the financial statements for each bond issue.

Highway Revenue Bonds

The IFA issues its highway revenue bonds to finance and refinance highway and bridge projects, as follows:

- INDOT leases right-of-way and other property, on which a highway or bridge project is to be situated, to the IFA under a ground lease agreement and supplement for the particular project.
- INDOT constructs the project for the IFA under a construction agreement and supplement for the particular project.
- Once constructed, IFA leases the project to INDOT under a master lease agreement and supplement for the particular project.

Lease payments made by INDOT under the master lease and supplements are used to pay debt service on the highway revenue bonds when due.

Under the construction and other agreement and supplements for the highway and bridge projects, the IFA reimburses INDOT for construction and design costs incurred by INDOT. Costs not yet reimbursed are recorded in the construction fund as accrued expenses. $34.6 million of construction and design costs were recognized as additions to capital leases and capital outlay reimbursements to INDOT during Fiscal Year 2007.

NOTE 6 - CAPITAL LEASES (Continued)

Airport Facilities

To finance the construction of the Indianapolis Maintenance Center ("IMC") at Indianapolis International Airport, the IFA, the City of Indianapolis (the "City") and the Indianapolis Airport Authority (the "IAA") entered into a number of agreements, including leases, providing for the acquisition, construction, equipping and financing of the IMC (collectively, the Joint Venture).

Under the Joint Venture, the IFA's undivided interest as a tenant in the IMC is determined in proportion to the money it contributes to the acquisition, construction and equipping of the IMC from proceeds of the IFA's revenue bonds issued to finance the IMC. The City's and the IAA's undivided interests are established in the same way, but by reference to the amount of money they contribute to the IMC from their revenue bond proceeds.

The IFA leases its undivided interest in the IMC to the IAA. Upon termination of that lease, the IAA will succeed to the IFA's interest in the Joint Venture. The IAA is obligated to pay the IFA lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay IFA expenses and ground rent obligations. The IAA expects to pay the lease rentals through appropriations made by the General Assembly.

Aviation Technology Center

The Aviation Technology Center Lease Revenue Bonds were issued to finance and refinance an aviation technology education center at the Indianapolis International Airport. The center is used by Vincennes and Purdue universities to provide a variety of aviation-related post secondary education programs. The IFA leases the center to IAA under a lease agreement. IAA is obligated to pay to the IFA lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay IFA expenses and ground rent obligations. IAA expects to pay the lease rentals through appropriations made by the General Assembly. IAA is not obligated to use any other revenue to pay such lease rentals. The IFA leases the ground on which the center is situated from the IAA under a ground lease agreement. Upon termination of the ground lease agreement, the center will become property of the IAA.

Indiana Toll Road Project

The IFA leased the Indiana Toll Road Project to INDOT under a lease agreement, which required INDOT to operate and maintain the Indiana Toll Road Project in an efficient and economical matter. INDOT was obligated to collect tolls and other revenue sufficient to pay operating expenses, major (capital) expenses and debt service on the Indiana Toll Road Bonds. This lease was terminated prior to June 30, 2006.

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY

During the Fiscal Year ended June 30, 2007, the debt service requirements for bonds payable under governmental and business activities were as follows:

Governmental Activities:

	Highway Revenue	State Office Building Commission	Stadium Project	Governmental Total
Principal:				
June 30, 2008	$ 36,575,000	$ 57,638,537	$ -	$ 94,213,537
June 30, 2009	38,845,000	51,389,076	-	90,234,076
June 30, 2010	41,105,000	52,005,000	-	93,110,000
June 30, 2011	43,125,000	55,330,000	-	98,455,000
June 30, 2012	44,735,000	58,890,000	-	103,625,000
2013 - 2017	260,925,000	297,290,000	-	558,215,000
2018 - 2022	321,530,000	236,490,000	27,525,000	585,545,000
2023 - 2027	409,180,000	86,030,000	52,675,000	547,885,000
2028 - 2032	188,335,000	11,515,000	237,650,000	437,500,000
2033 - 2037	-	-	293,675,000	293,675,000
	1,384,355,000	906,577,613	611,525,000	2,902,457,613
Remaining accretion / premium (discount)/ loss on advanced refunding	(56,106,270)	2,963,840	-	(53,142,430)
	1,328,248,730	909,541,453	611,525,000	2,849,315,183
Interest:				
June 30, 2008	69,516,157	45,942,849	24,461,000	139,920,006
June 30, 2009	63,008,721	43,578,009	25,697,045	132,283,775
June 30, 2010	61,069,818	40,958,749	25,873,623	127,902,190
June 30, 2011	59,002,996	38,151,025	25,873,623	123,027,644
June 30, 2012	56,821,963	35,159,340	25,873,623	117,854,926
2013 - 2017	244,238,654	126,445,791	129,368,114	500,052,559
2018 - 2022	190,226,593	52,903,521	127,285,668	370,415,782
2023 - 2027	91,777,931	10,442,792	118,538,957	220,759,680
2028 - 2032	12,053,925	276,250	90,467,418	102,797,593
2033 - 2037	-	-	30,057,465	30,057,465
	847,716,758	393,858,326	623,496,536	1,865,071,620
Total Debt Service	$ 2,175,965,488	$ 1,303,399,779	$ 1,235,021,536	$ 4,714,386,803

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

IFA has issued variable rate bond anticipation notes for the Convention Center Expansion Project that mature no later than August 1, 2009. They are secured by a loan agreement with the ISCBA. The notes allow for draw down of up to $40,000,000. As of June 30, 2007, draws amounted to $6,348,815. The interest rate range was 4.647% - 4.654%. The bond anticipation note is not included in the governmental activities debt service requirements above.

The plan of financing for the outstanding bond anticipation note is to issue lease appropriation bonds similar to the Stadium Project. IFA has entered into a financing agreement that permits the IFA to refinance the short-term obligation on a long-term basis on terms that are readily determinable, and the agreement does not expire within one year and no violations of the financing agreement have occurred.

Business-type Activities:

	Enterprise				Internal Service	
	Airport Facilities	Aviation Technology Center	State Revolving Program Fund	Total	Recreational Development Commission	Business-type Total
Principal:						
June 30, 2008	$ 13,300,000	$ 595,000	$ 69,475,000	$ 83,370,000	$ 1,465,000	$ 84,835,000
June 30, 2009	13,900,000	620,000	74,140,000	88,660,000	1,830,000	90,490,000
June 30, 2010	14,550,000	640,000	82,865,000	98,055,000	1,940,000	99,995,000
June 30, 2011	15,225,000	670,000	88,240,000	104,135,000	2,070,000	106,205,000
June 30, 2012	15,850,000	700,000	92,370,000	108,920,000	2,200,000	111,120,000
2013 - 2017	88,100,000	4,005,000	504,040,000	596,145,000	12,195,000	608,340,000
2018 - 2022	39,625,000	920,000	517,025,000	557,570,000	7,550,000	565,120,000
2023 - 2027	-	-	301,275,000	301,275,000	1,465,000	302,740,000
2028 - 2029	-	-	6,825,000	6,825,000	-	6,825,000
	200,550,000	8,150,000	1,736,255,000	1,944,955,000	30,715,000	1,975,670,000
Remaining accretion / premium (discount)/ loss on advanced refunding	-	-	54,765,562	54,765,562	(670,327)	54,095,235
	200,550,000	8,150,000	1,791,020,562	1,999,720,562	30,044,673	2,029,765,235
Interest:						
June 30, 2008	12,033,000	357,233	85,391,932	97,782,165	1,314,470	99,096,635
June 30, 2009	11,235,000	334,728	82,687,580	94,257,308	1,261,782	95,519,090
June 30, 2010	10,401,000	310,033	79,380,727	90,091,760	1,198,330	91,290,090
June 30, 2011	9,528,000	283,398	75,499,860	85,311,258	1,126,636	86,437,894
June 30, 2012	8,614,500	254,769	71,317,004	80,186,273	1,046,328	81,232,601
2013 - 2017	28,095,000	767,360	284,271,249	313,133,609	3,716,173	316,849,782
2018 - 2022	3,586,500	34,398	148,849,662	152,470,560	966,913	153,437,473
2023 - 2027	-	-	36,515,339	36,515,339	135,563	36,650,902
2028 - 2029	-	-	334,025	334,025	-	334,025
	83,493,000	2,341,919	864,247,378	950,082,297	10,766,195	960,848,492
Total Debt Service	$ 284,043,000	$ 10,491,919	$ 2,655,267,940	$ 2,949,802,859	$ 40,810,868	$ 2,990,613,727

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Changes in long-term debt were as follows based on type of activity:

	Balance, July 1	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities:						
Revenue bonds and notes payable	$ 2,693,501,193	$ 256,302,751	$ 100,488,761	$ 2,849,315,183	$ 107,365,537	$ 2,741,949,646
Due to primary government	3,055,344	-	3,055,344	-	-	-
Due to federal government	292,184	-	-	292,184	-	292,184
Bond Anticipation Notes	864,380	5,484,435		6,348,815	-	6,348,815
Deferred revenue	3,000,000	-	75,000	2,925,000	75,000	2,850,000
	$ 2,700,713,101	$ 261,787,186	$ 103,619,105	$ 2,858,881,182	$ 107,440,537	$ 2,751,440,645
Business-Type Activities:						
Revenue bonds payable	$ 1,873,885,312	$ 222,129,924	$ 66,250,000	$ 2,029,765,236	$ 84,835,000	$ 1,944,930,236
Due to primary government	3,619,027,566	14,582,821	3,619,027,566	14,582,821	14,582,821	-
Due to federal government	333,000	-	333,000	-	-	-
Deferred revenue	3,765,476,316	-	79,064,215	3,686,412,102	50,206,350	3,636,205,752
	$ 9,258,722,194	$ 236,712,745	$ 3,764,674,781	$ 5,730,760,159	$ 149,624,171	$ 5,581,135,988

The following is a summary of long-term debt outstanding at June 30, 2007, for each fund with the activity categories:

	Future Interest Rate	Maturity Range	Annual Principal Payment Range	Amount
Governmental Activities:				
Highway Revenue	2.63% to 7.40%	2007 to 2029	$35,180,478 to $96,240,000	$1,328,248,730
State Office Building Commission	2.00% to 7.50%	2007 to 2028	$10,480,000 to $64,980,000	909,541,453
Stadium Project	2.80% to 4.00%	2019 to 2037	$5,800,000 to $70,550,000	611,525,000
				$2,849,315,183
Business-type Activities:				
Airport Facilities	0.00% to 6.00%	2007 to 2018	$13,300,000 to $20,150,000	$ 200,550,000
Aviation Technology Center	3.60% to 4.90%	2007 to 2018	$595,000 to $920,000	8,150,000
State Revolving Loan Fund	3.30% to 5.88%	2007 to 2029	$1,195,000 to $119,135,000	1,791,020,562
Recreational Development Commission	2.13% to 5.60%	2007 to 2025	$315,000 to $2,700,000	30,044,673
				$2,029,765,235

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Variable rate long-term debt terms are as follows:

Bond Series	Outstanding Amount	Interest Rate (Range)	Notes
SOBC 2000A	$ 34,500,000	2.00% to 3.95%	(1)
SOBC 2000B	14,600,000	2.00% to 3.95%	(2)
SOBC 2001A	58,800,000	2.26% to 3.96%	(3)
SOBC 2003C	55,075,000	2.90% to 3.80%	(4)
SOBC 2003D	20,250,000	2.85% to 3.80%	(5)
SOBC Hoosier Notes	13,152,000	3.76% to 3.79%	(6)
Total	196,377,000		
Airport Facilities 2004AF	56,025,000	2.75% to 3.55%	(7)
Airport Facilities 2004BF	79,825,000	3.40% to 3.87%	(8)
Airport Facilities 2004CF	64,700,000	3.32% to 5.05%	(9)
Total	200,550,000		
Stadium Project 2005A	400,000,000	2.80% to 4.00%	(10)
Stadium Project 2007A	211,525,000	3.55% to 3.95%	(10)
Total	611,525,000		
Total Variable Rate Debt	$ 1,008,452,000		

Notes on Variable Rate Terms:

(1) Hedged tax-exempt variable rate debt. The hedge is based off the BMA index with a floor of 2% and a cap of 4% and expires on July 1, 2011. The fair value of the collar on June 30, 2007 was $144,514.

(2) Hedged tax-exempt variable rate debt. The hedge is based off the BMA index with a floor of 2% and a cap of 4% and expires on July 1, 2011. The fair value of the collar on June 30, 2007 was $72,472.

(3) Hedged tax-exempt variable rate debt. The hedge is based off the BMA index with a floor of 2% and a cap of 4% and expires on July 1, 2011. The fair value of the collar on June 30, 2007 was $263,288.

(4) Unhedged Variable Rate Debt.

(5) Unhedged Variable Rate Debt.

(6) Short-term commercial paper. Interest rates on the Notes ranged from 3.76% to 3.79%. The Authority has a $75 million letter of credit with a financial institution guaranteeing the Hoosier Notes balance in the case of its default.

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

(7) Hedged tax-exempt variable rate debt. The hedge is based on the BMA index with a cap of 6% and expires on July 1, 2009. As of June 30, 2007, the market value for this hedge is $0 to the Authority. However, should there be a rise in interest rates closer to the index rate in the hedge, there will be a positive market value.

(8) Hedged taxable variable rate debt. The hedge is based on the one month LIBOR index with a cap of 6% and expires on July 1, 2009. As of June 30, 2007, the market value for this hedge is $0 to the Authority. However, should there be a rise in interest rates closer to the index rate in the hedge, there will be a positive market value.

(9) Hedged taxable variable rate debt. The hedge is based on the one month LIBOR index with a cap of 7% and expires on July 1, 2009. As of June 30, 2007, the market value for this hedge is $0 to the Authority. However, should there be a rise in interest rates closer to the index rate in the hedge, there will be a positive market value.

(10) Hedged tax-exempt variable rate debt. An interest rate swap will commence for these bonds on August 15, 2008 with the IFA receiving the BMA Index and paying the swap counterparties a fixed rate of 4.231%.

Interest Rate Swap Agreements

Objective of the Interest Rate Swap Agreement: In order to protect against the potential of rising interest rates, the Indiana Finance Authority entered into two separate pay-fixed, receive-variable interest rate swaps

Terms, fair values, and credit risk. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2007, were as follows. The notional amounts of the swaps match the anticipated principal amounts of the associated debt. The Finance Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in the associated "bonds payable" category.

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date
Stadium Project	$ 611,525,000	8/15/2008	4.231%	BMA*	$5,001,621	2/2037
Convention Center	265,175,000	12/1/2010	4.556%	BMA	(3,078,444)	2/2039
	$ 876,700,000				$1,923,177	

** The Bond Market Assocation Municipal Swap Index.*

The Swap counterparties included Bear Stearns, Goldman Sachs, JP Morgan and Merrill Lynch. They were rated by Moody's as being Aaa, Aa3, Aa2 and Aa3, respectively.

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Termination Risk. The Indiana Finance Authority or the Swap Provider may terminate the Swap if the other party fails to perform under the terms of the contract (as defined by the Swap Agreement). If at the time of termination, the Swap has a positive fair value, the Swap providers would be liable to the Finance Authority for a payment equal to the Swap's fair value.

NOTE 8 – BOND REFUNDINGS AND ESCROW BALANCES ON BONDS

The IFA analyzes its various bond issues to determine if any opportunities exist for debt service requirement savings through the refinancing of long-term debt. IFA had refunding and defeasance activity as reported below. In addition, current period and previous refundings and defeasances had remaining bonds outstanding being paid from escrow accounts that are not included in the IFA financial records based on accounting guidance.

Bond Refundings and Defeasances: The following represents bond refunding and defeasance during the ended June 30, 2007:

Governmental Activities:

- **Highway Revenue Bonds –** In March 2007, the IFA issued $642,300,000 of Highway Revenue Refunding Bonds, Series 2007A, which refunded portions of Series 1996B, 1998A, 2000A, 2003A, and 2004A bonds. The refunding was undertaken to reduce total future debt service payments. The proceeds were deposited in an escrow fund, which will pay principal and interest for the defeased debt. As a result of the refunding, an economic gain, or present value savings, of $31.4 million was realized and a reduction of $52.8 million in future debt service payments.

Escrow Balances on Refunded and Defeased Bonds: The IFA has the following bond issues that have been refunded, but have remaining principal balances to be paid by escrow agents' accounts. The refunded bonds are not reported as a debt of the IFA since payment of principal and interest are from escrowed funds and investment earnings. Activity includes:

Governmental Activities:

- **State Office Building Commission** – The IFA has issued several bonds used to refund prior issues. At June 30, 2007, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $250,680,000.

(Continued)

NOTE 8 - BOND REFUNDINGS AND ESCROW BALANCES ON BOND REFUNDINGS (Continued)

- **Highway Revenue Bonds –** The IFA issued Highway Revenue Bonds, Series 2000, which were used to refund certain Highway Revenue Bonds, Series 1990A and 1993A, when due. The IFA issued Series 2004 B and C, which were used to refund certain Series 1998A, Series 2000, and Series 2003A bonds. The IFA issued Series 2007A, which were used to refund certain Series 1996B, 1998A, 2000A, 2003A, and 2004A bonds. As of June 30, 2007, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $918,785,656.

Business-Type Activities:

- **State Revolving Fund** - The IFA issued Series 2005A Refunding Bonds for the aggregate amount of $277,930,000, which included $258,815,000 of refunding debt. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds. At June 30, 2007, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $216,000,000.

- **Indiana Toll Road Bonds** - In 1985, the IFA issued $256,970,000 of Indiana Toll Road Revenue Refunding Bonds, Series 1985, to refund the Indiana Toll Road Bonds, 1980 Series. At June 30, 2007, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $107,965,000.

- **Airport Facilities -** In December 2004, the IFA issued $204,550,000 of Airport Facilities Multi-Mode Lease Revenue Refunding Bonds, 2004 Series, which refunded Series 1992A, 1995A and 1996A bonds. At June 30, 2007, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $60,545,000.

Conduit Debt Obligations: The IFA is authorized by law to issue conduit and certain other types of revenue bonds to finance projects that serve Indiana public purposes outlined by statute. Except as described below, IFA's revenue bonds are payable solely from revenues of IFA specifically pledged thereto. The bonds are not in any respect a general obligation of IFA or the State, nor are they payable in any manner from revenues raised by taxation. IFA has no power to levy taxes. Pursuant to this authority, IFA has issued numerous revenue bonds.

(Continued)

NOTE 9 - CONDUIT DEBT OBLIGATIONS AND REIMBURSEMENT AGREEMENT LOSS

Reimbursement Agreement Loss: The Qualitech Steel and Heartland Steel bonds described below were completely repaid and defeased on August 1, 2006.

Qualitech Steel – The IFA had been a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation ("Qualitech"), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA ("Bank"), relating to the Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) ("Bonds").

The Bank issued an irrevocable direct-pay letter of credit to secure the Bonds further. Such letter of credit replaced a letter of credit issued by another bank upon original issuance of the Bonds. As a result of Qualitech's payment default with respect to the Bonds, the IFA agreed with the Bank to use money lawfully available to the IFA, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

During the fiscal year ended June 30, 2007, the IFA recorded expenses for such bond and related payments of $17,283,884.

Heartland Steel – The IFA had been a party to an Amended and Restated Reimbursement Agreement with Heartland Steel, Inc. ("Heartland"), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA ("Bank"), relating to the Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) ("Bonds").

The Bank issued an irrevocable direct-pay letter of credit to secure the Bonds further. As a result of Heartland's payment default with respect to the Bonds, IFA agreed with the Bank to use money lawfully available to IFA, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

During the fiscal year ended June 30, 2007, IFA recorded expenses for bond and related payments of $7,006,907.

NOTE 10 – UNAMORTIZED BOND ISSUANCE COSTS AND DEFERRED CHARGES, NET

Bond issuance costs and deferred charges associated with long-term debt at June 30, 2007 were $17,140,927 and include the following activities:

Governmental Activities:

- State Office Building Commission – Amounts include bond issuance costs and other deferred charges, which are being amortized using the interest method over the life of the related bond issue.

Gross amount	$ 17,350,776
Accumulated amortization	(10,488,710)
Net amount	$ 6,862,066

Amortization expense for the year ended June 30, 2007 was approximately $934,000. At June 30, future amortization of deferred charges is estimated as follows

2008	$ 1,027,000
2009	890,000
2010	817,000
2011	740,000
2012	665,000
Thereafter through 2028	2,723,066
	$ 6,862,066

(Continued)

NOTE 10 – UNAMORTIZED BOND ISSUANCE COSTS AND DEFERRED CHARGES, NET (Continued)

Business Type Activities:

- **State Revolving Fund Program** – Amounts represent deferred charges, which are amortized using the interest method over the life of the related bond issue.

Deferred charges	$ 16,221,362
Accumulated amortization	(6,406,109)
Net amount	$ 9,815,253

Amortization expense for the year ended June 30, 2007 was approximately $1,168,000. Future amortization of deferred charges is as follows at June 30:

2008	$ 1,128,490
2009	1,041,906
2010	948,333
2011	860,746
2012	773,565
Thereafter	5,062,213
	$ 9,815,253

- **Recreational Development Commission** - Amounts represent bond issuance costs, which are amortized using the interest method over the life of the related bond issue.

Bond issuance costs	$ 667,540
Accumulated amortization	(203,932)
Net amount	$ 463,608

Amortization expense for the year ended June 30, 2007 was approximately $41,000. Future amortization is estimated as follows at June 30:

2008	$ 50,000
2009	50,000
2010	50,000
2011	50,000
2012	50,000
Thereafter	213,608
	$ 463,608

NOTE 11- OPERATING LEASE COMMITMENTS

The IFA has the following operating lessee and lessor agreements:

Lessee – Governmental Activities

- **General Fund**- The IFA currently leases office space pursuant to a non-cancelable operating lease expiring in March 2011. The future total minimum rental payments of approximately $581,000 range from $141,000 to $147,000 per year from 2008 through 2011. Rental expense for the operating lease was approximately $145,000 for the year ended June 30, 2007.

Lessor – Governmental Activities

- **State Office Building Commission** – Operating lease activity included:

  - The Commission leases state facilities to the Indiana Department of Administration based on use and occupancy agreements. The annual lease terms provide for renewals through supplement agreements. The lease rental payments are based on administrative costs, aggregate debt service requirements on related long-term debt, debt service reserve requirements, and replacement reserve for maintenance and improvements of facilities. During the year ended June 30, 2007, lease revenue of approximately $106 million was recognized.

  - In March of 1995, the Commission entered into a twenty-five year land lease agreement with the White River State Park Development Commission (WRSPDC) to lease a portion of the White River State Park for $1 per year while providing in excess of $15,000,000 of infrastructure improvements.

  - On April 14, 1998, the Commission purchased the IMAX Theatre building and land in White River State Park from the State for $10,000,000. Additionally, the Commission entered into a one hundred-year land lease agreement to lease certain real estate surrounding the IMAX Theatre building from the State for $1 per year. This real estate was required to be used to construct the Indiana State Museum and a parking garage.

(Continued)

NOTE 11- OPERATING LEASE COMMITMENTS (Continued)

Lessor – Business-Type Activities

- **Indiana Toll Road** - On June 29, 2006, the Indiana Toll Road was leased for approximately $3.765 billion and a term of 75 years to the Indiana Toll Road Concession Company, LLC. The entire amount was paid up front and there are no additional lease payments due for the remainder of the term of the lease. The IFA recorded the transaction as an operating lease and recorded the payment as deferred revenue. Lease rental revenue is recognized on a straight-line basis over the life of the 75-year lease. Lease revenue (in thousands) net of related costs, totaling $3.715 billion, will be recognized as follows for the fiscal years ending June 30:

2008	$ 50,206
2009	50,206
2010	50,206
2011	50,206
2012	50,206
2013 - 2017	251,030
2018 - 2022	251,032
2023 - 2027	251,032
2028 - 2032	251,032
2033 - 2037	251,032
2038 - 2042	251,032
2043 – 2047	251,032
2048 – 2052	251,032
2053 – 2057	251,032
2058 – 2062	251,032
2063 – 2067	251,032
2068 – 2072	251,032
2073 – 2077	251,032
2078 – 2081	171,968
Total	$ 3,686,412

(Continued)

NOTE 11- OPERATING LEASE COMMITMENTS (Continued)

Recreational Development Commission - The Commission leases various facilities to the Department of Natural Resources (DNR) that were constructed or renovated using bond issue proceeds. The lease is subject to the terms of the Master Use and Occupancy Agreement dated March 1, 1994, and is accounted for as an operating lease.

Although the initial agreement terminated on June 30, 1995, both parties have extended the term of this agreement until June 30, 2026. The Commission and the DNR have the right to extend the term of the agreement from biennium to biennium. The Commission and the DNR are deemed to have exercised this right to extend. The term of the Master Use and Occupancy Agreement is extended, for each successive biennium, unless either the Commission or the DNR delivers written notice of non-extension to the other party not less than three months prior to the last day of any biennium, in which event the Master Use and Occupancy Agreement will terminate on the last day of such biennium.

Minimum aggregate annual lease payments under the facilities leases are as follows:

2008	$ 3,080,873
2009	3,136,478
2010	3,199,084
2011	3,248,020
2012	3,318,580
2013 - 2017	15,886,399
2018 - 2022	6,673,488
2023 - 2026	1,227,600
Total	$ 39,770,522

NOTE 12- INTERFUND LOANS RECEIVABLE AND PAYABLE

Funds are transferred from one fund to support expenditures of other funds in accordance with authority established for the individual fund. To the extent that certain transactions between funds are not paid or received in the current period, net interfund receivable and payable balances are recorded at June 30, 2007, as follows:

	Interfund Receivable	Interfund Payable
General Fund	$ -	$ 106,448
Special Revenue Funds:		
Business Development Fund	112,207	-
Environmental Remediation Revolving Loan Fund	-	40,135
Petroleum Remediation Grant Fund	7,135	-
Enterprise Funds:		
State Revolving Fund Program	-	59,183
Toll Road Lease	1,505	2,313
Internal Service Funds:		
Recreational Development Commission	3,009	-
Transportation Finance Fund	39,083	-
State Office Building Commission	45,140	-
	$ 208,079	$ 208,079

NOTE 13 – SUBSEQUENT EVENTS

The following subsequent events have been provided for users of the financial statements. None of the subsequent events resulted in changes to the financial statements at June 30, 2007.

Governmental Activities: Responsibility for the Guaranty Fund, Capital Access Program Fund, Business Development Loan Fund and Rural & Agricultural Development Fund was transferred to the Indiana Economic Development Corporation.

Business-Type Activities: The duties and responsibilities of the Indiana Health and Education Finance Authority were transferred to the Indiana Finance Authority.

(Continued)

NOTE 14 - PENSION PLAN

The IFA elected to become a participant in the Public Employers' Retirement Fund (PERF). The IFA contributes to the PERF, 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 instrumentalities of the State. 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 IFA the right to contribute and govern most requirements of the system, including the benefits, which vest after ten years of service. Employees who have reached age 50 may receive retirement benefits with fifteen years of service. An employee may receive benefits at age 65 with ten years of service.

Employees are required to contribute 3% of compensation to an annuity savings account. Effective July 1, 1986, legislation permits a PERF employer to make the employee contributions on behalf of the employee. The IFA elected to pay its employees' 3% contribution. The employer rate of contributions was 5.5% during Fiscal Year 2007. 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 a refund of the savings account.

PERF holds and invest all plan assets. 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. However, PERF performed an actuarial valuation of the IFA’s plan as of June 30, 2007, which is included in the Annual Report of the Indiana Public Employees’ Retirement Fund for state employees and employees of the various subdivisions of the State. The IFA’s contributions to PERF were in accordance with the requirements computed in the actuarial valuation performed June 30, 2007, the last date available. The following shows current year pension plan information relative to contributions:

Year	Employer Contributions	Employee Contributions	Total Contributions	Annual Covered Payroll	Percentage of Employer Contributions to Covered Payroll
2007	$ 68,374	$ 38,267	$ 106,641	$1,243,166	5.50%

Information regarding PERF may be obtained from:

Public Employees’ Retirement Fund
143 W. Market Street
Indianapolis, IN 46204

PART 3 - REQUIRED SUPPLEMENTAL INFORMATION

Budget Basis of Accounting: The IFA's budget process is based on a modified cash basis and accounts for certain transactions on a basis other than GAAP. The most significant differences between the budget basis and the GAAP basis are the manner in which revenues and expenses are recorded. Under the modified cash budget basis, the portion of lease rental income apportioned to principal payments is recorded as revenue and the debt service expense portion related to principal is recorded as expense. For government wide reporting, the portion attributable to principal on capital lease assets and bonds payable are reflected as changes in assets and liabilities in the balance sheet funds and statement of net assets.

The following table shows budget and actual financial results reported under the budgetary basis of accounting. The activities of the Toll Road Lease, the Interstate Bridge Fund, and the Toll Bridge Fund are not included in the table below because these activities were not considered in the IFA budget presented.

	Budget Total	Actual Total	Difference
Revenues			
Lease rental income (Note 1)	$ 286,280,000	$ 299,474,000	$ 13,194,000
Appropriations	7,841,000	6,880,000	(961,000)
Investment Income (Note 2)	75,952,000	80,855,000	4,903,000
Program service, advisory and fees	800,000	1,218,000	418,000
Borrower Interest Payments (Note 3)	38,602,000	44,375,000	5,773,000
EPA Grant (Note 4)	28,700,000	37,567,000	8,867,000
Total revenues	438,175,000	470,369,000	32,194,000
Debt service			
Interest (Note 5)	231,521,000	218,842,000	12,679,000
Principal	201,480,000	201,480,000	-
Heartland and Qualitech reimbursements	24,254,000	24,291,000	(37,000)
Total debt service	457,255,000	444,613,000	12,642,000
Program expenses			
Grants, loans and other program (Note 6)	9,933,000	6,183,000	3,750,000
Total program expenses	9,933,000	6,183,000	3,750,000
Administrative expenses			
Personal services	1,790,000	1,707,000	83,000
Other IFA operations	2,786,000	3,598,000	(812,000)
Total operating expenses	4,576,000	5,305,000	(729,000)
Net revenues over expenses	$ (33,589,000)	$ 14,268,000	$ 47,857,000

Note 1: Completion of highway projects made additional lease rental funds available.

Note 2: Actual interest rates exceeded the budget assumption.

Note 3: IFA's Environmental program disbursed more project funds due in part to the increase in EPA funding.

Note 4: EPA fund availability was higher than anticipated.

Note 5: Variable rate debt is budgeted at the highest rate.

Note 6: Trustee and investment management fees were $1.6M lower than expected. The Brownfield program spent $1.1M of the $2.5M in committed grant funds.

CONDITION RATING OF THE INDIANA TOLL ROAD PROJECT'S HIGHWAYS AND BRIDGES

Roads

	Percentage of Lane Miles in Good or Better Condition		
	2007	2006	2005
Interstate Roads	91%	91%	91%

	Percentage of Lane Miles in Substandard Condition		
	2007	2006	2005
Interstate Roads	0.6%	0.6%	0.6%

The condition of road pavement is measured using a pavement quality index (PQI), which is based on a weighted average of six distress factors found in pavement surfaces. The PQI uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good or better condition (70-100), fair condition (50-69), substandard condition (less than 50). It is the State's policy to maintain at least 85% of its road system at a good or better condition level. No more than 10% should be in substandard condition. Condition assessments are determined every year.

Bridges

	Percentage of Bridges in Good or Better Condition		
	2007	2006	2005
Interstate Bridges	100%	100%	100%

	Percentage of Bridges in Substandard Condition		
	2007	2006	2005
Interstate Bridges	-0-%	-0-%	-0-%

The condition of the State's bridges is determined using its Bridge Management and Inspection Program (BMIP). The bridge condition rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical condition scale ranging from 1.0 (impaired or load restricted) to a 7.0 (new). It is the State's policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1%. All bridges are inspected every two years.

PART 4 - OTHER SUPPLEMENTAL INFORMATION

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF NET ASSETS
June 30, 2007

	Business Type Activities					Governmental Type Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Assets								
Current assets	$ 608,938,210	$ 2,204,063	$ 40,822,121	$ 1,510,341	$ 350,202	$ 243,496,679	$ 112,192,282	$ 6,588,845
Capital and infrastructure assets	11,157	28,763,876	-	-	-	881,219,894	-	-
Noncurrent assets	2,042,770,442	463,608	184,621,210	7,555,000	-	6,862,066	1,279,345,039	611,525,000
Total Assets	2,651,719,809	31,431,547	225,443,331	9,065,341	350,202	1,131,578,639	1,391,537,321	618,113,845
Liabilities								
Current liabilities	35,820,422	665,720	28,028,127	716,013	-	31,697,951	6,286,557	240,030
Long term debt, including current portions	1,791,020,562	30,044,674	187,250,000	7,555,000	-	909,541,453	1,328,248,730	617,873,815
Other noncurrent liabilities	2,577,248	-	-	-	-	3,142,184	-	-
Total liabilities	1,829,418,232	30,710,394	215,278,127	8,271,013	-	944,381,588	1,334,535,287	618,113,845
Net Assets								
Invested in capital assets, net of related debt	-	-	-	-	-	12,692,626	-	-
Unrestricted	-	721,153	4,710,348	792,571	350,202	15,183,634	20,417,583	-
Restricted	822,301,577	-	5,454,856	1,757	-	159,320,791	36,584,451	-
Total Net Assets	$ 822,301,577	$ 721,153	$ 10,165,204	$ 794,328	$ 350,202	$ 187,197,051	$ 57,002,034	$ -

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2007

	Business Type Activities					Governmental Type Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Operating Revenues								
Lease rental	$ -	$ 2,769,466	$ 28,955,959	$ 838,343	$ -	$ 105,938,441	$ 92,943,167	$ 16,356,978
Interest on loans	43,767,242	-	-		-	-	-	113,295
Other	37,999	-	-	-	-	3,646,186	860,288	-
Total Operating Revenues	43,805,241	2,769,466	28,955,959	838,343	-	109,584,627	93,803,455	16,470,273
Operating Expenses								
IFA Operations	1,143,206	24,876	89,433	51,723		2,791,601	662,723	-
Interest expense	80,813,864	1,475,341	9,006,784	361,945	-	47,507,813	67,526,034	16,470,273
Depreciation expense	1,169,113	1,422,928	-	-		28,287,224	-	-
Total Operating Expenses	83,126,183	2,923,145	9,096,217	413,668	-	78,586,638	68,188,757	16,470,273
Operating income (loss)	(39,320,942)	(153,679)	19,859,742	424,675	-	30,997,989	25,614,698	-
Nonoperating Revenues (Expenses)								
Investment earnings, net	62,391,070	43,271	248,890	26,047	-	8,285,256	4,357,043	-
Change in interest in Toll Road Project	-	-	-	-	(6,466,988)	-	-	-
Distribution to primary government	-	(416,677)	-	-	-	-	-	-
Total nonoperating revenues (expenses)	62,391,070	(373,406)	248,890	26,047	(6,466,988)	8,285,256	4,357,043	-
Income before capital contributions and tranfers	23,070,128	(527,085)	20,108,632	450,722	(6,466,988)	39,283,245	29,971,741	-
Capital contributions	36,982,225	-	-	-	-	-	-	-
Transfer in (out)	-	-	(18,192,901)	(77,703)	-	2	(129,504)	-
Change in net assets	60,052,353	(527,085)	1,915,731	373,019	(6,466,988)	39,283,247	29,842,237	-
Total net assets, beginning of year, as originally report	762,249,224	748,238	8,249,473	421,309	6,817,190	147,913,804	27,159,797	-
Prior period adjustment	-	500,000	-	-	-	-	-	-
Total net assets, beginning of year, as restated	762,249,224	1,248,238	8,249,473	421,309	6,817,190	147,913,804	27,159,797	-
Total net assets, end of year	$ 822,301,577	$ 721,153	$ 10,165,204	$ 794,328	$ 350,202	$ 187,197,051	$ 57,002,034	$ -

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF CASH FLOWS
Year ended June 30, 2007

	Business Type Activities					Governmental Type Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Net Cash Provided (Used) By:								
Operating activities	$ (1,099,345)	$ 2,335,544	$ 6,843,852	$ 412,516	$ -	$100,817,967	$ 96,695,647	$ -
Investing activities	(266,090,071)	(167,488)	192,853	25,562	-	(10,563,967)	4,518,119	(195,168,743)
Noncapital financing activities	86,766,196	-	-	-	-	-	-	-
Capital and related financing activities	31,875,147	(2,359,113)	5,248,720	(377,614)	-	(73,839,232)	(128,783,620)	195,168,743
Net Increase (Decrease) in Cash	(148,548,073)	(191,057)	12,285,425	60,464	-	16,414,768	(27,569,854)	-
Cash and cash equivalents, beginning	624,323,284	2,390,049	10,883,903	419,667	-	207,974,245	103,943,904	-
Cash and cash equivalents, ending	$ 475,775,211	$ 2,198,992	$ 23,169,328	$ 480,131	$ -	$224,389,013	$ 76,374,050	$ -

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Year Ended June 30, 2007

To the Members of the Indiana Finance Authority

We have audited the financial statements of Indiana Finance Authority (the "IFA"), as of and for the year ended June 30, 2007, and have issued our report thereon, dated October 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards, issued by the Comptroller General of the United States*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the IFA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IFA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the IFA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the IFA's management and the Indiana State Board of Accounts and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 19, 2007