INDIANA FINANCE AUTHORITY
ANNUAL FINANCIAL STATEMENTS
June 30, 2008

KATZ, SAPPER & MILLER
Certified Public Accountants

INDIANA FINANCE AUTHORITY
FINANCIAL STATEMENTS
June 30, 2008

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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, 2008, 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, 2008, 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 16, budgetary comparison information on pages 80 through 81, and Indiana Toll Road infrastructure condition rating information on page 82 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 17, 2008, 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, Sapp & Miller, LLP

Indianapolis, Indiana
October 17, 2008

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, 2008. 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: Established 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 transferred to the IFA as the successor entity. On July 1, 2007, the duties and responsibilities of the Indiana Health and Education Facility Finance Authority were transferred to the IFA, and the responsibilities of the following programs were transferred from the IFA to the Indiana Economic Development Corporation: Guaranty Fund, Capital Access Program Fund, Business Development Loan Fund and Rural & Agriculture Development Fund.

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, health care facilities, and educational facility projects.

(Continued)

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.

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 2008 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 2008, the IFA:

- paid $414 million of principal and interest on long-term bonds
- loaned $269 million to Indiana communities to fund drinking water and waste water infrastructure projects
- refinanced $187 million of Airport Facility bonds resulting in present value savings of $19 million or 10.3% of the refunded bonds
- quickly converted $612 million of Stadium bonds from auction rate to variable rate bonds when the auction rate market collapsed

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 <u>government wide financial statements</u> that provide both long-term and short-term information about the IFA's overall financial status.

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

(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** 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), 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, Indiana Health and Education Facilities 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 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.

   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.

(Continued)

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.

   Conduit Debt Program reports on financing alternatives for projects eligible for tax-exempt financing under the Internal Revenue Code, Indiana health care organizations and private institutions of higher education.

   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.

   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.

(Continued)

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 and Convention Center expansion 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, 2008

	Governmental Activities	Business Activities	Total Activities
Assets			
Cash and investments	$ 322	$ 1,146	$ 1,468
Accounts, loans, and lease receivable	655	1,716	2,371
Due from primary government	4	-	4
Investment in direct financing leases	1,305	187	1,492
Capital assets, net	868	435	1,303
Other assets	6	10	16
Total assets	$ 3,160	$ 3,494	$ 6,654
Liabilities and net assets			
Liabilities			
Accounts payable and other liabilities	$ 3	$ 9	$ 12
Interest payable	29	39	68
Deferred revenue	3	3,669	3,672
Bonds payable and other long-term obligations	2,797	2,005	4,802
Total liabilities	2,832	5,722	8,554
Net assets (deficiency)			
Invested in capital assets, net of related debt	39	1	40
Restricted	208	894	1,102
Unrestricted	81	(3,123)	(3,042)
Total net assets (deficiency)	328	(2,228)	(1,900)
Total liabilities and net assets (deficiency)	$ 3,160	$ 3,494	$ 6,654

(Continued)

The total net assets (deficiency) at June 30 were as follows:

	2008	2007
Assets	$ 6,654	$ 6,522
Liabilities	(8,554)	(8,680)
Net assets (deficiency)	$ (1,900)	$ (2,158)

The net assets (deficiency) were ($1.9) billion at June 30, 2008, which represents a $258 million, or 12%, increase from the prior Fiscal Year net assets. Total assets increased by $132 million, while total liabilities decreased by $126 million.

An increase in State Revolving Fund loan receivables caused assets to be higher than the prior year. While the primary reason for the decrease in liabilities is due to a lower balance of bonds payable. Bonds payable are lower because very little new debt was issued with the exception of the State Revolving Fund and due to scheduled principal payments. Liabilities also decreased due to the recognition of Indiana Toll Road lease revenue. 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 recognizes lease revenue over the life of the lease on a straight-line basis.

(Continued)

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

Indiana Finance Authority
Statement of Activities (in millions of dollars)
Year Ended June 30, 2008

	Governmental Activities	Business Activities	Total Activities
Revenues			
Lease rental	$ 207	$ 64	$ 271
Investment earnings	13	60	73
Interest on loans	1	55	56
State appropriation and grants	4	-	4
Other	6	170	176
Total revenues	231	349	580
Expenses			
IFA operations and other	40	15	55
Interest expense	141	102	243
Distribution to primary government	-	9	9
Total expenses	181	126	307
Transfers in (out)	(24)	9	(15)
Change in net assets	26	232	258
Net assets, beginning of year	302	(2,460)	(2,158)
Net assets, end of year	$ 328	$ (2,228)	$ (1,900)

	2008	2007
Revenues	$ 580	$ 512
Expenses	(307)	(340)
Transfers in (out)	(15)	-
Change in net assets	$ 258	$ 172

The increase in net assets was $258 million for the Fiscal Year ended June 30, 2008, as compared to a increase of net assets of $172 million for the prior Fiscal Year. Revenue increased by $68 million, which represents a 13% change from the prior Fiscal Year. Expenses decreased by $33 million, which represents a 10% change from the prior Fiscal Year.

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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 $402 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 $1.151 billion and accumulated depreciation of $283 million. The total decrease in the State Office Building Commission's investment is $13 million. Capital assets related to the Recreational Development Commission have a cost basis of $45 million and accumulated depreciation of $13 million and have increased by $3 million over the prior year. 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 $449 million and accumulated depreciation of $47 million.

The IFA's investment in direct financing leases is presented on the Statement of Net Assets at $1.492 billion.

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INDIANA FINANCE AUTHORITY
Capital and Infrastructure Assets (in millions of dollars)
June 30, 2008

	Governmental Activities	Business Activities	Total Activities
Capital Assets			
Property, plant and equipment, net:			
State Office Building Commission	$ 868	$ -	$ 868
Recreational Development Commission	-	32	32
Toll Bridge Fund	-	1	1
Indiana Toll Road Lease Fund	-	402	402
Total	$ 868	$ 435	$ 1,303
Investment in direct financing leases:			
Aviation Technology Center Fund	$ -	$ 8	$ 8
Airport Facilities Fund	-	179	179
Highway Revenue Bonds	1,305	-	1,305
Total	$ 1,305	$ 187	$ 1,492

(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, 2007	Increases	Decreases	Balance June 30, 2008
Highway Revenue Bonds	$ 1,328,248,730	$ 4,019,476	$ 36,575,000	$ 1,295,693,206
State Office Building Commission and Notes	909,541,453	231,644	47,786,536	861,986,561
Stadium Project Bonds	611,525,000	-	-	611,525,000
	$ 2,849,315,183	$ 4,251,120	$ 84,361,536	$ 2,769,204,767

Business-Type Activities:

Long-term Debt	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Airport Facilities	$ 200,550,000	$ -	$ 21,410,000	$ 179,140,000
Aviation Technology Center	8,150,000	-	595,000	7,555,000
State Revolving Program Fund	1,791,020,563	96,835,960	98,200,000	1,789,656,523
Recreational Development Commission	30,044,673	92,830	1,465,000	28,672,503
	$ 2,029,765,236	$ 96,928,790	$ 121,670,000	$ 2,005,024,026

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, 2007	Increases	Decreases	Balance June 30, 2008
Highway Revenue Bonds	$ 1,314,921,589	$ 26,315,086	$ 36,575,000	$ 1,304,661,675

Business-Type Activities:

Long-term lease	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Airport Facilities	197,734,492	2,815,508	21,410,000	179,140,000
Aviation Technology Center	8,150,000	-	595,000	7,555,000
	205,884,492	2,815,508	22,005,000	186,695,000
	$ 1,520,806,081	$ 29,130,594	$ 58,580,000	$ 1,491,356,675

(Continued)

CURRENTLY KNOWN FACTS

Governmental Activities

In July 2008, IFA issued the final amount of bonds needed to complete Lucas Oil Stadium. Bonds with a principal amount of $55,000,000 were issued. IFA entered into an interest rate swap beginning August 15, 2008 that hedged all but $8,125,000 of the $55,000,000 issued. Please see Note 12 – Subsequent Events for more details.

State Office Building Commision bond issues 2003C and 2003D were converted in August 2008 from auction rate securities into fixed rate bonds. Additional details are available in Note 12 – Subsequent Events.

IFA issued the first series of bonds for the Convention Center expansion project in August 2008 in the amount of $120,000,000. Proceeds in the amount of $31,732,322 were used to repay the Convention Center Bond Anticipation Note that was issued in December 2005. More information is available in Note 12-Subsequent Events.

In October 2008, portions of IFA variable rate debt issued for Lucas Oil Stadium and state office buildings were not able to be remarketed and were tendered as bank bonds. Bonds in the amounts of $170,500,000 of the Series 2005 Stadium bonds, $68,225,000 of the 2007 Stadium bonds, $30,600,000 of the State Office Building Series 2000A, $10,700,000 of the State Office Building Series 2000B and $53,900,000 of the State Office Building Series 2001A were purchased by the liquidity providers.

Business-Type Activities

In September 2008, the State Revolving Fund program terminated its guaranteed investment contracts with AIG and received $56,985,746 in excess of the investment par value of $355,672,942.

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, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
ASSETS			
Current assets:			
Cash	$ 417,216	$ 2,447,725	$ 2,864,941
Investments	321,608,220	473,603,507	795,211,727
Interest receivable on investments and loans	642,467	33,775,012	34,417,479
Lease income receivable	9,474,342	6,905,640	16,379,982
Grants and accounts receivable	128,983	11,178,152	11,307,135
Loans receivable	696,893	72,337,384	73,034,277
Interfund receivable	156,095	7,093	163,188
Investment in direct financing leases	38,440,181	14,650,000	53,090,181
Amount due from primary government	3,532,729	-	3,532,729
Interest held in assets of the Toll Road Project	-	9,080	9,080
Construction escrows	61,319	-	61,319
Total current assets	375,158,445	614,913,593	990,072,038
Noncurrent assets:			
Investments	-	670,552,757	670,552,757
Investment in direct financing leases	1,266,221,494	172,045,000	1,438,266,494
Loans receivable	644,311,561	1,592,245,296	2,236,556,857
Deferred charges, net	150,612	-	150,612
Unamortized bond issue cost, net	5,800,383	9,654,092	15,454,475
Capital assets, net	868,113,069	434,636,913	1,302,749,982
Total noncurrent assets	2,784,597,119	2,879,134,058	5,663,731,177
Total Assets	$ 3,159,755,564	$ 3,494,047,651	$ 6,653,803,215

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
LIABILITIES AND NET ASSETS			
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$ 2,298,968	$ 2,778,141	$ 5,077,109
Interfund payable	82,226	80,962	163,188
Interest payable	28,593,142	38,600,683	67,193,825
Amount due to primary government	338,658	66	338,724
Deferred revenue	75,000	77,063,341	77,138,341
Revenue bonds payable - current	90,234,077	85,450,000	175,684,077
Hoosier Notes payable - current	9,852,000	-	9,852,000
Note payable - current	27,915,905	-	27,915,905
Construction retention	229,089	-	229,089
Total current liabilities	159,619,065	203,973,193	363,592,258
Noncurrent liabilities:			
Revenue bonds payable	2,669,118,690	1,919,574,026	4,588,692,716
Amount due to federal government	292,184	6,351,215	6,643,399
Deferred revenue	2,775,000	3,592,285,421	3,595,060,421
Total noncurrent liabilities	2,672,185,874	5,518,210,662	8,190,396,536
Total Liabilities	2,831,804,939	5,722,183,855	8,553,988,794
Net Assets			
Invested in capital assets, net of related debt	39,089,217	531,223	39,620,440
Restricted for:			
Debt service	207,732,021	4,067	207,736,088
Water pollution and drinking water projects	-	894,365,990	894,365,990
Unrestricted	81,129,387	(3,123,037,484)	(3,041,908,097)
Total net assets	327,950,625	(2,228,136,204)	(1,900,185,579)
Total Liabilities and Net Assets	$ 3,159,755,564	$ 3,494,047,651	$ 6,653,803,215

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

		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	$ 3,015,992	$ 2,410,320	$ -	$ (605,672)	$ -	$ (605,672)
Business Development	162,793	257,310	-	94,517	-	94,517
Environmental	4,373,378	4,320,088	-	(53,290)	-	(53,290)
Transportation Finance	73,747,612	72,032,883	-	(1,714,729)	-	(1,714,729)
State Office Buildings Finance	74,477,198	114,763,400	-	40,286,202	-	40,286,202
Stadium and Convention Center Finance	24,244,684	24,244,684	-	-	-	-
Total Governmental Activities	180,021,657	218,028,685	-	38,007,028	-	38,007,028
Business-Type Activities:						
Drinking Water and Wastewater	91,685,340	53,698,637	30,010,936	-	(7,975,767)	(7,975,767)
Airport Facilities Finance	11,735,754	10,975,655	-	-	(760,099)	(760,099)
Toll Road Lease	13,082,923	182,461,706	-	-	169,378,783	169,378,783
Aviation Technology Center Finance	511,568	354,665	-	-	(156,903)	(156,903)
Toll Bridges	609,139	769,946	-	-	160,807	160,807
Health and Education	3,445,935	1,757,965	-	-	(1,687,970)	(1,687,970)
Recreation Development Finance	2,876,229	7,593,098	-	-	4,716,869	4,716,869
Total Business-Type Activities	123,946,888	257,611,672	30,010,936	-	163,675,720	163,675,720
Total Primary Government	$ 303,968,545	$ 475,640,357	$ 30,010,936	$ 38,007,028	$ 163,675,720	$ 201,682,748
General Revenues						
Investment earnings, net				$ 11,880,441	$ 58,932,703	$ 70,813,144
Other Financing Sources						
Transfers				(24,047,753)	8,860,332	(15,187,421)
Total General and Other Sources				(12,167,312)	67,793,035	55,625,723
Change in net assets				25,839,716	231,468,755	257,308,471
Net Assets- Beginning of year				302,110,909	(2,459,604,959)	(2,157,494,050)
Net Assets - End of year				$ 327,950,625	$ (2,228,136,204)	$ (1,900,185,579)

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	General	Business Development Loan Fund	Other Governmental Funds	Totals
Assets				
Cash	$ 416,650	$ -	$ 566	$ 417,216
Investments	-	-	27,905,555	27,905,555
Interest receivable on investments	-	-	50,038	50,038
Interest receivable on loans	-	-	18,542	18,542
Accounts receivable	124,899	-	4,084	128,983
Loans receivable, net	-	-	5,567,549	5,567,549
Interfund receivable	995	-	155,100	156,095
Capital assets, net of accumulated depreciation	1,497	-	43,818	45,315
Total assets	$ 544,041	$ -	$ 33,745,252	$ 34,289,293
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenses	$ 340,540	$ -	$ 92,970	$ 433,510
Interfund payable	-	-	50,936	50,936
Total liabilities	340,540	-	143,906	484,446
Fund Balances				
Reserved:				
Environmental	-	-	14,418,513	14,418,513
Unreserved:				
General Fund	203,501	-	-	203,501
Special revenue funds	-	-	19,182,267	19,182,267
Capital projects funds	-	-	566	566
Total fund balances	203,501	-	33,601,346	33,804,847
Total Liabilities and Fund Balances	$ 544,041	$ -	$ 33,745,252	$ 34,289,293

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, 2008

Total fund balances – governmental funds	$ 33,804,847
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.	294,145,778
Net assets of governmental activities	$ 327,950,625

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, 2008

	General	Business Development Loan Fund	Other Governmental Funds	Totals
Revenues:				
State appropriations	$ 2,402,608	$ -	$ 1,162,500	$ 3,565,108
Investment earnings, net	(310)	-	1,381,439	1,381,129
Interest on loans	-	-	167,176	167,176
Grant income	-	-	891,221	891,221
Financing fees and premiums	-	-	192,310	192,310
Other funding	8,022	-	2,164,191	2,172,213
Total revenues	2,410,320	-	5,958,837	8,369,157
Expenditures:				
General Government	3,015,992	-	-	3,015,992
Business Development	-	-	162,793	162,793
Environmental	-	-	4,373,378	4,373,378
Total expenditures	3,015,992	-	4,536,171	7,552,163
Excess of Revenues over Expenditures	(605,672)	-	1,422,666	816,994
Other Financing Sources:				
Transfers in (out)	250,000	(8,777,892)	(15,818,098)	(24,345,990)
Total other financing sources and uses	250,000	(8,777,892)	(15,818,098)	(24,345,990)
Net Change in Fund Balances	(355,672)	(8,777,892)	(14,395,432)	(23,528,996)
Fund Balances- Beginning	559,173	8,777,892	47,996,778	57,333,843
Fund Balances- Ending	$ 203,501	$ -	$ 33,601,346	$ 33,804,847

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, 2008

Net change in fund balances – governmental funds	$ (23,528,996)
Amounts reported for governmental type activities in the statement of activities 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 activities.	49,368,712
Change in net assets of governmental activities	$ 25,839,716

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2008

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
ASSETS:					
Current assets:					
Cash	$ -	$ -	$ 2,447,725	$ 2,447,725	$ -
Investments	327,044,359	121,181,108	22,874,989	471,100,456	296,205,716
Interest receivable on investments	16,341,991	115,373	53,541	16,510,905	575,320
Interest receivable on loans	17,126,336	-	136,338	17,262,674	-
Lease income receivable	-	-	6,905,640	6,905,640	9,474,342
Grants and accounts receivable	11,178,152	-	-	11,178,152	-
Loans receivable	71,300,293	-	1,037,091	72,337,384	-
Interfund receivable	-	-	7,093	7,093	-
Investment in direct financing leases	-	-	14,650,000	14,650,000	38,440,181
Amount due from primary government	-	-	-	-	3,532,729
Interest held in assets of the Toll Road Project	-	-	-	-	9,080
Construction escrows	-	-	-	-	61,319
Total current assets	442,991,131	121,296,481	48,112,417	612,400,029	348,298,687
Noncurrent assets:					
Investments	670,552,757	-	-	670,552,757	-
Investment in direct financing leases	-	-	172,045,000	172,045,000	1,266,221,494
Loans receivable	1,578,146,387	-	14,098,909	1,592,245,296	639,440,905
Unamortized bond issue cost	9,231,137	-	-	9,231,137	6,223,338
Deferred charges, net	-	-	-	-	150,612
Capital assets, net of accumulated depreciation	29,982	402,222,331	531,223	402,783,536	899,921,131
Total noncurrent assets	2,257,960,263	402,222,331	186,675,132	2,846,857,726	2,811,957,480
Total Assets	$ 2,700,951,394	$ 523,518,812	$ 234,787,549	$ 3,459,257,755	$ 3,160,256,167
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	$ 238,429	$ 1,689,739	$ 843,741	$ 2,771,909	$ 1,871,690
Interfund payable	78,700	192	1,785	80,677	31,575
Interest payable	35,889,548	77,000	1,992,058	37,958,606	29,235,219
Amount due to primary government	-	-	66	66	338,658
Deferred revenue	-	77,063,341	-	77,063,341	75,000
Revenue bonds payable - current	68,970,000	-	14,650,000	83,620,000	101,916,077
Hoosier Notes payable - current	-	-	-	-	9,852,000
Note payable	-	-	-	-	27,915,905
Construction retention	-	-	-	-	229,089
Total current liabilities	105,176,677	78,830,272	17,487,650	201,494,599	171,465,213
Noncurrent liabilities:					
Revenue bonds payable	1,720,686,523	-	172,045,000	1,892,731,523	2,686,109,193
Amount due to federal government	6,351,215	-	-	6,351,215	292,184
Deferred revenue	-	3,592,285,421	-	3,592,285,421	2,775,000
Total noncurrent liabilities	1,727,037,738	3,592,285,421	172,045,000	5,491,368,159	2,689,176,377
Total Liabilities	1,832,214,415	3,671,115,693	189,532,650	5,692,862,758	2,860,641,590
Net Assets (Deficiency)					
Invested in capital assets, net of related debt	-	-	531,223	531,223	39,089,217
Restricted for debt service	-	-	4,067	4,067	207,732,021
Restricted for water pollution and drinking water projects	868,736,979	-	25,629,011	894,365,990	-
Unrestricted	-	(3,147,596,881)	19,090,598	(3,128,506,283)	52,793,339
Total Net Assets (Deficiency)	$ 868,736,979	$ (3,147,596,881)	$ 45,254,899	$ (2,233,605,003)	$ 299,614,577

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, 2008

Total net assets (deficiency) – enterprise funds	$(2,233,605,003)
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.	5,468,799
Net assets (deficiency) of business-type activities	$(2,228,136,204)

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 ended June 30, 2008

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Operating Revenues:					
State appropriations	$ -	$ -	$ -	$ -	$ 294,352
Lease rental income	-	57,097,290	3,738,476	60,835,766	209,915,629
Interest on loans	52,861,795	-	1,697,173	54,558,968	499,593
Tolls	-	-	769,946	769,946	-
Financing fees and premiums	479,137	-	7,590,239	8,069,376	3,198,323
Other funding	-	125,364,416	373,406	125,737,822	4,726,168
Total operating revenue	53,340,932	182,461,706	14,169,240	249,971,878	218,634,065
Operating Expenses:					
Personal services	570,448	86,483	627,057	1,283,988	638,706
Nonpersonal services	12,963	48,265	517,606	578,834	1,692,258
Professional services	545,293	107,116	156,461	808,870	275,604
Supplies	4,106	2,379	1,039	7,524	6,724
Equipment and building fixtures	3,800	6,287	95,472	105,559	25,451
Travel	8,457	102	404	8,963	6,113
Interest expense	88,194,230	-	12,261,030	100,455,260	142,596,848
Depreciation expense and amortization	1,182,678	3,804,580	5,359	4,992,617	30,095,964
Grants	-	-	685,634	685,634	-
Reimbursement agreement loss	440,511	-	-	440,511	-
Other expense	-	42,319	2,675,188	2,717,507	8,055
Total operating expenses	90,962,486	4,097,531	17,025,250	112,085,267	175,345,723
Operating income (loss)	(37,621,554)	178,364,175	(2,856,010)	137,886,611	43,288,342
Nonoperating Revenues (Expenses):					
Investment earnings, net	54,046,020	3,251,475	1,613,511	58,911,006	10,520,699
Distribution to primary government	-	(8,985,392)	-	(8,985,392)	-
Total nonoperating revenue (expenses)	54,046,020	(5,733,917)	1,613,511	49,925,614	10,520,699
Income (Loss) before Capital Contributions and Transfers	16,424,466	172,630,258	(1,242,499)	187,812,225	53,809,041
Capital contributions	30,010,936	-	46,696	30,057,632	-
Transfers in (out)	-	208,904	8,992,550	9,201,454	(42,885)
Change in Net Assets	46,435,402	172,839,162	7,796,747	227,071,311	53,766,156
Net Assets (Deficiency) - Beginning of year	822,301,577	(3,320,436,043)	37,458,152	(2,460,676,314)	245,848,421
Net Assets (Deficiency) - End of year	$ 868,736,979	$ (3,147,596,881)	$ 45,254,899	$ (2,233,605,003)	$ 299,614,577

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 ended June 30, 2008

Net change in net assets – enterprise funds	$ 227,071,311
Amounts reported for business-type activities in the statement of activities 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 activities.	4,397,444
Change in net assets of business-type activities	$ 231,468,755

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the year ended June 30, 2008

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities					
Lease, rent and toll receipts	$ -	$ 40,033,950	$ 2,474,519	$ 42,508,469	$ 186,756,183
Other operating income	31,001	(265,425)	8,203,817	7,969,393	8,218,843
Payments for general and administrative expenses	(1,053,933)	(11,452,381)	(3,416,495)	(16,819,079)	1,965,608
Payments for grants	-	-	(685,634)	(685,634)	-
Reimbursement to INDOT for services	-	-	629,939	629,939	-
Net Cash Provided (Used) by Operating Activities	(1,022,932)	28,316,144	7,206,146	34,499,358	196,940,634
Cash Flows from Investing Activities					
Principal repayments of loans	74,881,579	-	29,818,148	104,699,727	-
Issuance of loans	(269,360,738)	-	(1,143,710)	(270,504,448)	(21,567,090)
Change in investments	(26,600,269)	-	58,309,053	31,708,784	-
Interest received on loans and investments, net	104,048,749	3,379,923	3,635,123	111,063,795	34,812,263
Purchase of property and equipment	(24,120)	-	-	(24,120)	(19,081,603)
Net Cash Provided (Used) by Investing Activities	(117,054,799)	3,379,923	90,618,614	(23,056,262)	(5,836,430)
Cash Flows from Non-Capital Financing Activities					
Proceeds from debt issuance	94,530,000	-	-	94,530,000	-
Principal payments to reduce indebtedness including refunding	(95,888,744)	-	(77,600,000)	(173,488,744)	-
Payment of debt issuance costs, net of refunding	(593,267)	-	-	(593,267)	-
Change in amount due to federal government	3,773,967	-	(14,582,755)	(10,808,788)	-
Interest paid on debt	(87,897,604)	-	(2,967,942)	(90,865,546)	-
Net Cash Used by Non-Capital Financing Activities	(86,075,648)	-	(95,150,697)	(181,226,345)	-
Cash Flows from Capital Financing Activities					
Principal payments to reduce indebtedness	-	-	(22,005,000)	(22,005,000)	21,659,920
Interest paid on debt	-	-	(7,746,586)	$ (7,746,586)	(81,575,414)
Capital lease principal receipts	-	-	19,189,492	19,189,492	(148,750,747)
Acquisition of capital assets	-	-	-	-	36,575,000
Expenditures of funds held for others	-	-	-	-	(26,315,087)
Capital contributions (EPA grants)	55,422,527	-	46,696	55,469,223	-
Net Cash Provided (Used) by Capital Financing Activities	55,422,527	-	(10,515,398)	44,907,129	(198,406,328)
Net Increase (Decrease) in Cash and Equivalents	(148,730,852)	31,696,067	(7,841,335)	(124,876,120)	(7,302,124)
Cash and Equivalents					
Beginning of Year	475,775,211	89,485,041	33,164,049	598,424,301	303,507,840
End of Year	$ 327,044,359	$ 121,181,108	$ 25,322,714	$ 473,548,181	$ 296,205,716
Cash and Equivalents					
Cash	$ -	$ -	$ 2,447,725	$ 2,447,725	$ -
Short-term Investments with original maturities of 60 days or less	327,044,359	121,181,108	22,874,989	471,100,456	296,205,716
	$ 327,044,359	$ 121,181,108	$ 25,322,714	$ 473,548,181	$ 296,205,716
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	$ (37,621,554)	$ 178,364,175	$ (2,856,010)	$ 137,886,611	$ 43,288,342
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Interest on loans	(52,861,795)	-	(1,697,173)	(54,558,968)	-
Interest expense	88,194,230	-	12,261,030	100,455,260	118,352,164
Amortization of deferred charges	1,177,383	-	-	1,177,383	951,722
Amortization of deferred revenue	-	(49,395,540)	-	(49,395,540)	-
Depreciation	-	3,804,580	5,359	3,809,939	29,144,242
Contributed propery and equipment	-	(125,629,841)	-	(125,629,841)	-
Distribution to primary government	-	(8,985,392)	-	(8,985,392)	-
Transfer for administrative reimbursement	-	208,904	463,920	672,824	298,237
Changes in assets and liabilities:					
Accounts receivable and other assets	(825)	-	(1,793,731)	(1,794,556)	5,944,081
Accounts payable and accrued expenses	89,629	(2,382,942)	822,751	(1,470,562)	(963,154)
Deferred revenue	-	32,332,200	-	32,332,200	(75,000)
	$ (1,022,932)	$ 28,316,144	$ 7,206,146	$ 34,499,358	$ 196,940,634
Supplemental disclosure of non-cash transactions:					
Contributed propery and equipment	$ -	$ 125,629,841	$ -	$ 125,629,841	$ -

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, 2008, 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. On July 1, 2007, the Indiana Health and Education Finance Authority (IHEFA) was consolidated under the IFA. 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, IHEFA 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 $539 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.

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

- Tax-Exempt Bond - Industrial revenue bonds, refunding bonds, 501(c)(3) bonds, Indiana health care organizations, private institutions of higher education and smaller bonds issued monthly.

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, Supplemental Fund, Airport Facilities Bonds, Aviation Technology Center Fund, Toll Bridge Fund, Indiana Toll Road Lease Fund, Indiana Health and Education Facilities 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 **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, 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.

Capital Project Funds: Capital project 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.

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

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.

Conduit Debt Program reports on financing alternatives for projects eligible for tax-exempt financing under the Internal Revenue Code (including Indiana health care organizations and private institutions of higher education).

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.

(Continued)

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

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).

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.

(Continued)

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

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.

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

(Continued)

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

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.

Transfers in (out) – During the year ended June 30, 2008, four funds were transferred out to another agency and one fund was transferred in from another agency.

	Governmental Activities	Business-type Activities
Transfers in:		
Indiana Health and Educational Finance Authority	$ -	$ 9,158,569
	$ -	$ 9,158,569
Transfers out:		
Guaranty Fund	$ 7,647,476	$ -
Capital Access Program Fund	6,410,331	-
Business Development Loan Fund	8,777,892	-
Rural and Agricultural Development Fund	1,510,291	-
	$ 24,345,990	$ -

(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 non-exchange revenues and voluntary non-exchange 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 those 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.

<u>Expense Classification</u>: 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).

<u>Net Assets and Fund Balances</u>**:** 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 two 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 Environmental Remediation Revolving Loan Fund has a reserve of $9,474,408 for current loan and grant commitments.

  - The Petroleum Remediation Grant Fund has a reserve of $4,944,105 for current grant commitments.

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

Investments: 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.

Capital Assets: 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.

(Continued)

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, 2008.

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, 2008, 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.

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 Primary Government: This represents amounts that were due to the State at June 30, 2008 as follows

	Governmental Activities	Business-type Activities
Liabilities - Due to primary government		
Current:		
United bankruptcy settlement – Treasurer of State	$ -	$ 66
Hoosier Safe-T Project – IPSC	25,546	-
Toxicology Lab Project – ISDH	313,112	-
	$ 338,658	$ 66

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.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS

I. Scope and Intent

This policy applies to the investment of all funds, including, but not limited to, bond proceeds and gross revenues for which the IFA and appropriate trustee(s) have investment responsibility[1]. The Members of the IFA are responsible for fiduciary oversight of these invested funds. The Members have approved the Investment Policy in furtherance of their goal to meet the investment objectives listed in Section II hereof.

II. Objectives

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

1. 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 both by diversification (limiting the potential for loss from any one issuer or any one type of security) and by limiting investments to the types of securities described in Section V hereof. Market risk will be minimized both by structuring the portfolio so that investments generally mature in time to meet anticipated cash requirements (limiting the need to sell securities prior to maturity) and by investing primarily in shorter-term securities.
2. Liquidity -- The investment portfolio shall be structured so that investments generally mature in time to meet anticipated cash requirements. Further, since all cash requirements cannot be anticipated, the portfolio shall consist primarily of cash equivalents and securities with active secondary or resale markets.
3. Yield -- The investment portfolio shall be structured with the objective of attaining a market rate of return, taking into account the constraints of safety and liquidity described above. Return on investment is less important than safety and liquidity. Return on investment should be in excess of inflation, and should typically approximate or exceed the calculated yield on 3-month constant-maturity U.S. Treasury obligations.
4. Full Investment -- To the extent practicable, all funds shall be fully deployed as earning assets.
5. Minimal Turnover -- Securities shall typically not be sold prior to maturity, with the following exceptions: (1) A declining-credit security can be sold early to minimize the potential loss of principal. (2) A security can be sold and replaced with another if such action improves the quality or yield of the portfolio. (3) A security can be sold early to meet liquidity needs.

[1] As it relates to the investment of indentured funds, it relates only to the extent those funds are not invested in purpose investments, *i.e.* investments that are acquired to carry out the governmental purpose of the bond issue.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

III. Delegation of Authority

The authority to operate and manage the investment program is granted to the Public Finance Director, together with any investment officer(s) that he or she designates as such (together, the "Investment Officers"). The Public Finance Director and any additional Investment Officers shall establish controls and procedures to implement this program which shall include regular reporting to the Members of the IFA.

IV. Standard of Care

1. Prudence -- Investments shall be made in accordance with the prudent person standard. This standard provides that an investor shall act with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.
   Investment officers acting in accordance with this investment policy statement and any written procedures and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market price changes, provided that deviations from expected results are reported in a timely fashion and that appropriate action is taken to control adverse developments.
2. Ethics and Conflicts of Interest -- Investment Officers shall refrain from personal business activity that could conflict with the proper execution and management of the IFA's investment program, or that could impair their ability to make impartial decisions. Investment Officers should also maintain knowledge of all applicable laws, rules, and regulations; and not knowingly violate, or participate or assist in the violation of, such laws, rules, and regulations.

V. Permitted Investments

1. The IFA is only permitted to invest indentured funds in those securities authorized by the applicable trust indenture, which authorizations are hereby made a part of this policy. In addition to restrictions under indentures, it is the policy of the IFA to limit allowable investments to the following types of securities:
   - U.S. Treasury securities (*e.g.* bills, notes, bonds, SLGS, STRIPS, and TIPS), which are backed by the full faith and credit of the U.S. government

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Federal agency obligations (including both federally related institution securities and federally sponsored agency securities)
  - any full-faith-and-credit securities are permitted
  - non-full-faith-and-credit debt securities are permitted if rated in one of the two highest rating categories by one of the following rating agencies: Fitch, Moody's, and Standard & Poor's (the "Rating Agencies")

- Mortgage pass-through securities issued by certain entities
  - any full-faith-and-credit securities are permitted
  - non-full-faith-and-credit pass-through securities are permitted if guaranteed by the issuing agency, and if the issuing agency is rated in one of the two highest rating categories by one of the Rating Agencies

- Obligations of state and local governments in the United States and their political subdivisions, if rated in one of the three highest rating categories by one of the Rating Agencies

- Repurchase agreements, if at least 102% collateralized by any of the above

- Money market mutual funds regulated by the Securities and Exchange Commission
  - only no-load funds are permitted (*i.e.* no commission or fee shall be charged on purchases or sales of shares)
  - permitted funds will be those that limit assets of the fund to U.S. Treasury securities, federal agency securities, and repurchase agreements collateralized by the same; or that are rated in the highest rating category by one of the Rating Agencies
  - these funds seek to maintain a stable net asset value of $1.00 per share
  - by definition these funds will meet the requirements for portfolio maturity, portfolio quality, and portfolio diversification in Rule 2a-7 under the Investment Company Act of 1940

- Commercial paper, if rated in the highest rating category by one of the Rating Agencies, with a maturity not to exceed 270 days

- Investment agreements, if the provider is rated in one of the two highest rating categories by one of the Rating Agencies

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Time deposits with maturities not exceeding five years, in state- or nationally chartered banks whose deposits are insured by the Federal Deposit Insurance Corporation, with balances not to exceed $100,000 per institution

2. Additional securities may be added to the above approved list with the approval of the Public Finance Director. All such additions shall be reported to the IFA Members at the next regular meeting.
3. Investments are not permitted in certain derivatives, nor in certain mutual funds which invest primarily in such securities. Investments specifically prohibited are those 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.
4. Pursuant to IC 4-4-11-15(50), certain swap agreements (as defined in IC 8-9.5-9-4) are permissible as part of the bond issuance process, pursuant to the guidelines of IC 8-9.5-9-5 and IC 8-9.5-9-7 (Appendix E). These agreements include rate swap agreements, basis swaps, forward rate agreements, interest rate options, rate cap agreements, rate floor agreements, rate collar agreements, and any similar agreements (including any option to enter into any such agreement).
5. At times, funds may be invested for the betterment of the state economy or that of local entities within the state. These development-oriented investments may not fit the permitted investments listed above. In the future, any such investments will be subject to the prior approval of the Members.

VI. Investment Parameters

1. Maximum Maturity -- to the extent possible, investments will be matched with anticipated cash flow requirements. Unless matched to a specific cash flow, the IFA will not typically invest in securities maturing more than five years from the date of purchase. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years, if the maturities of such investments precede the expected use of funds.
2. Average Maturity -- The average weighted maturity of the portfolio should not typically exceed two years.
3. Diversification -- Investments shall be diversified by type of security and issuer. Except for cash equivalents and U.S. Treasury securities, the total portfolio shall consist of no more than 40% of any single type of security.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

4. In lieu of specific investment directives, an Investment Officer may issue general directives to the appropriate trustee for the investment of certain funds, which directives shall be consistent with this policy and the appropriate trust indenture.

VII. Authorized Broker/Dealers

1. All financial institutions currently serving as trustee for any component unit of the IFA are authorized to provide investment services, including investment advice, to the IFA. In addition, the Investment Officers shall maintain a list of broker/dealers authorized to provide the IFA with investment services and advice. Such list shall be reported to the IFA on an annual basis. Broker/dealers may be primary dealers or regionally recognized dealers. However, any broker/dealer which desires to serve in any capacity other than advisor shall provide the IFA with the following:

   - Current audited financial statements
   - Proof of National Association of Securities Dealers (NASD) certification
   - Certification of having read the Investment Policy

2. Each Investment Officer, with the approval of the Public Finance Director, is authorized to enter into safekeeping agreements, wire transfer agreements or other agreements necessary or useful in administering this policy.

3. The Investment Officers shall conduct an annual review of the financial condition and registration of all broker/dealers on the authorized list.

VIII. Safekeeping and Custody

1. All investment transactions, including, but not limited to, those completed by telephone, shall be supported in writing and approved by an Investment Officer. Written communication may be made by facsimile on IFA letterhead.

2. Book Entry -- The IFA shall strive to invest in book-entry securities, thus avoiding physical delivery of securities. No securities shall be physically stored or kept in the offices of the IFA.

3. Custodial Safekeeping -- 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.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Any security that is able to be wired over the FedWire will be kept safe in a customer or trust account in a Federal Reserve Bank through the appropriate custodial bank.

Any security not able to be wired over the FedWire, that is 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).

4. 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 the release of funds. Securities held by a third party custodian will be evidenced by safekeeping receipts.

IX. Performance and Reporting

1. Annual Report -- The Investment Officers shall prepare an investment report at least annually which shall provide a clear picture of the status of the portfolio and transactions made over the preceding year. Such report shall be designed to allow Members of the IFA to ascertain whether the investment activities during the reporting period have conformed to this policy.

2. Performance -- The portfolio should achieve a market rate of return during a market environment of stable interest rates. Portfolio performance shall be compared at least annually to the yield on 3-month U.S. Treasury obligations. Such performance comparison shall be included in the annual report.

X. 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:

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- 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. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years, if the maturities of such investments precede the expected use of funds.
- Average Maturity -- The average weighted maturity of the portfolio should not typically exceed two years.
- Diversification –- investments will be diversified by type of security and issuer except for cash equivalents and U.S. Treasury securities, the total portfolio shall consist of no more than 40% of any single type of security.

At June 30, 2008, 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	$ 310,795,857	$ 310,795,857	$ -	$ -	$ -
Government Obligations	4,034,633	4,034,633	-	-	-
Repurchase Agreements	6,777,730	6,777,730	-	-	-
Total	$ 321,608,220	$ 321,608,220	$ -	$ -	$ -

		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	$ 458,031,748	$ 458,031,748	$ -	$ -	$ -
U.S. Treasury	46,694,340	34,490	4,681,796	12,194,520	29,783,534
Government Obligations	940,249	940,249	-	-	-
Private Equity	667,441	667,441	-	-	-
Guaranteed Investment Contracts	637,822,486	13,929,579	84,508,120	230,291,642	309,093,145
Total	$ 1,144,156,264	$ 473,603,507	$ 89,189,916	$ 242,486,162	$ 338,876,679

XI. 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.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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.

XII. 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, 2008 are as follows:

Governmental Type Activities:

Investment Type	S & P	Moodys	Fitch	Fair Value
Money Market Investment	AAAm	Aaa	unrated	$ 36,512,501
	AAAm	Aaa	AAA/V-1+	274,283,356
Government Obligations	AAA	Aaa	AAA	4,034,633
Repurchase Agreements	unrated	unrated	unrated	6,777,730
				$ 321,608,220

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Business Type Activities:

Investment Type	S & P	Moodys	Fitch	Fair Value
Money Market Investment	AAA	Aaa	AAA	$ 2,041,701
	AAA	Aaa	AAA/V-1+	389,402,906
	AA	Aa3	AA	66,587,141
U.S. Treasury Bills	AAA	Aaa	AAA	46,694,340
Government Obligations	AAA	Aaa	AAA	940,249
Equity Investments	unrated	unrated	unrated	667,441
Guaranteed Investment Contracts	AA	unrated	unrated	32,109,708
	AA	Aa3	unrated	354,792,156
	AAA	unrated	unrated	153,740,331
	AAA	Aaa	AAA	97,180,291
				$ 1,144,156,264

XIII. 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, 2008, there were no concentrations of credit risk.

XIV. 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, 2008.

XV. 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.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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, 2008, the investments had no credit risk exposure on securities lending.

XVI. 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.

The carrying amount of demand deposits was $9,131,037, and bank balances were $9,144,358. IFA's maximum risk was $8,984,136 at June 30, 2008.

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 $5,183,786 at June 30, 2008.

2) **Stadium\Convention Center Expansion Project –** Loans provided to the Indiana Stadium and Convention Center Building Authority (ISCBA) for the construction of Lucas Oil Stadium and the expansion of the Indianapolis Convention Center. Loans receivable were $639,440,905 at June 30, 2008.

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 $1,649,446,680 at June 30, 2008.

4) **Supplemental Fund -** Low interest loans provided to Indiana communities to improve drinking water and wastewater infrastructure. Net loans receivable were $15,136,000 at June 30, 2008.

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, 2008:

Loans receivable - gross	$ 6,331,234
Less: allowance for forgivable portion of Brownfield loans	(1,147,448)
	$ 5,183,786

There were approximately thirty loans and advances outstanding with Indiana municipalities at June 30, 2008. Approximately $334,000 was available for disbursement on one outstanding loan commitment. Interest earned on these loans during the year ended June 30, 2008 was approximately $156,000 and accrued interest was approximately $19,000 at June 30, 2008.

(Continued)

NOTE 4- LOANS RECEIVABLE (Continued)

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) Stadium\Convention Center Project

Loans receivable is equal to the balance of the Stadium bonds issued by the IFA and the draws on the bond anticipation note issued on the Convention Center.

Stadium	$ 611,525,000
Convention Center	27,915,905
	$639,440,905

Interest earned on loan receivable was $24,244,684 during the year ended June 30, 2008 and accrued interest on loans was approximately $975,000 at June 30, 2008.

Due to the nature of the financing of these loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2008.

3) State Revolving Fund Loan Program

The loans receivable balance at June 30, 2008 includes actual advances for construction and related costs on eligible projects net of principal payments from participants as follows:

Wastewater Fund	$1,396,332,029
Drinking Water Fund	253,114,651
	$1,649,446,680

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 $52,862,000 during the year ended June 30, 2008 and accrued interest on loans was approximately $17,126,000 at June 30, 2008.

Due to the nature of the financing under the loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2008.

(Continued)

NOTE 4- LOANS RECEIVABLE (Continued)

4) Supplemental Fund

Loans receivable were comprised of the following at June 30, 2008:

Loans receivable - gross	$ 15,136,000
Less: allowance for uncollectible loans	-
	$ 15,136,000

There were approximately forty-five loans and advances outstanding with Indiana municipalities for drinking water and wastewater projects at June 30, 2008. Interest earned on these loans during the year ended June 30, 2008 was approximately $299,000 and accrued interest was approximately $136,000 at June 30, 2008.

Due to the nature of the financing under the loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2008**.**

(Continued)

NOTE 5 - CAPITAL ASSETS

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

	Balance at July 1, 2007	Increases	Decreases	Balance at June 30, 2008
Capital assets, not being depreciated				
Land	$ 54,807,366	$ -	$ -	$ 54,807,366
Infrastructure	-	-	-	-
Construction in progress	11,107,350	8,764,060	-	19,871,410
Total capital assets, not being depreciated	65,914,716	8,764,060	-	74,678,776
Capital assets being depreciated:				
Buildings and improvements	1,066,104,846	4,142,079	-	1,070,246,925
Furniture, machinery and equipment	4,592,245	1,723,568	-	6,315,813
Total capital assets, being depreciated	1,070,697,091	5,865,647	-	1,076,562,738
Less accumulated for:				
Buildings and improvements	255,024,217	26,471,848	-	281,496,065
Furniture, machinery and equipment	358,500	1,273,880	-	1,632,380
Total accumulated depreciation	255,382,717	27,745,728	-	283,128,445
Total capital assets being depreciated, net	815,314,374	(21,880,081)	-	793,434,293
Capital assets, net	$ 881,229,090	$ (13,116,021)	$ -	$ 868,113,069

(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, Indiana Health and Educational Finance Authority, Recreational Development Commission Program, and State Revolving Fund Program:

	Balance at July 1, 2007	Increases	Decreases	Balance at June 30, 2008
Capital assets, not being depreciated				
Land	$ 31,126,793	$ -	$ -	$ 31,126,793
Infrastructure	222,594,983	44,914,623	-	267,509,606
Construction in progress	271,021	45,633,427	(195,238)	45,709,210
Total capital assets, not being depreciated	253,992,797	90,548,050	(195,238)	344,345,609
Capital assets being depreciated:				
Buildings and improvements	107,274,716	10,893,126	-	118,167,842
Furniture, machinery and equipment	3,111,403	28,923,842	-	32,035,245
Total capital assets, being depreciated	110,386,119	39,816,968	-	150,203,087
Less accumulated for:				
Buildings and improvements	54,433,866	3,280,872	-	57,714,738
Furniture, machinery and equipment	244,043	1,953,002	-	2,197,045
Total accumulated depreciation	54,677,909	5,233,874	-	59,911,783
Total capital assets being depreciated, net	55,708,210	34,583,094	-	90,291,304
Capital assets, net	$ 309,701,007	$ 125,131,144	$ (195,238)	$ 434,636,913

At June 30, 2008, the IFA had construction and related cost commitments as follows:

Governmental Activities:

Highway Revenue Bonds – Construction contract commitments were approximately $10,900,000 for direct finance lease projects financed with proceeds of Series 2003A and 2004A.

Business-Type Activities:

Indiana Toll Road Lease Fund – Previous commitments related to the Indiana Toll Road that were part of the lease agreement were approximately $77,000 for road and bridge projects and $9,500,000 for environmental remediation projects.

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, 2009	$ 38,440,181	$ 63,008,721	$ 101,448,902
June 30, 2010	40,676,629	61,069,818	101,746,447
June 30, 2011	42,675,577	59,002,996	101,678,573
June 30, 2012	44,268,799	56,821,963	101,090,762
June 30, 2013	45,664,105	54,342,140	100,006,245
2014 - 2018	270,407,302	232,122,049	502,529,351
2019 - 2023	333,720,541	174,014,364	507,734,905
2024 - 2028	422,644,074	73,863,410	496,507,484
2029	95,237,044	3,955,139	99,192,183
	1,333,734,252	778,200,600	2,111,934,852
Less remaining accretion / premium (discount)	(29,072,577)	-	(29,072,577)
	$ 1,304,661,675	$ 778,200,600	$ 2,082,862,275

Business-type Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2009	$ 14,650,000	$ 9,211,130	$ 23,861,130
June 30, 2010	15,745,000	7,870,692	23,615,692
June 30, 2011	15,985,000	7,268,951	23,253,951
June 30, 2012	16,255,000	6,575,068	22,830,068
June 30, 2013	16,660,000	5,782,665	22,442,665
2014 - 2018	89,255,000	15,930,343	105,185,343
2019 - 2023	18,145,000	453,624	18,598,624
	$ 186,695,000	$ 53,092,473	$ 239,787,473

(Continued)

NOTE 6 - CAPITAL LEASES (Continued)

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

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Amounts Due Within One Year	Amount Due Thereafter
Governmental Activity						
Highway Revenue Bonds	$ 1,314,921,589	$ 26,315,086	$ 36,575,000	$ 1,304,661,675	$ 38,440,181	$ 1,266,221,494
Business-Type Activity						
Airport Facilities	197,734,492	2,815,508	21,410,000	179,140,000	14,030,000	165,110,000
Aviation Technology Center	8,150,000	-	595,000	7,555,000	620,000	6,935,000
	205,884,492	2,815,508	22,005,000	186,695,000	14,650,000	172,045,000
Total	$ 1,520,806,081	$ 29,130,594	$ 58,580,000	$ 1,491,356,675	$ 53,090,181	$ 1,438,266,494

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. $24.7 million of construction and design costs were recognized as additions to capital leases and capital outlay reimbursements to INDOT during Fiscal Year 2008.

(Continued)

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 the IAA under a lease agreement. The 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. The IAA expects to pay the lease rentals through appropriations made by the General Assembly. The 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.

NOTE 7 – LONG-TERM DEBT ACTIVITY

During the Fiscal Year ended June 30, 2008, the debt service requirements for bonds payable under governmental and business activities were as follows:

	Highway Revenue	State Office Building Commission	Stadium Project	Governmental Total
Principal:				
June 30, 2009	$ 38,845,000	$ 61,241,077	$ -	$ 100,086,077
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
June 30, 2013	46,145,000	61,590,000	-	107,735,000
2014 - 2018	273,255,000	285,355,000	-	558,610,000
2019 - 2023	337,235,000	220,450,000	36,300,000	593,985,000
2024 - 2028	427,095,000	63,930,000	76,775,000	567,800,000
2029 - 2033	96,240,000	-	264,675,000	360,915,000
2034 - 2037	-	-	233,775,000	233,775,000
	1,347,780,000	858,791,077	611,525,000	2,818,096,077
Remaining accretion / premium (discount)/ loss on advanced refunding	(52,086,794)	3,195,484	-	(48,891,310)
	$ 1,295,693,206	$ 861,986,561	$ 611,525,000	$ 2,769,204,767
Interest:				
June 30, 2009	$ 63,008,721	$ 43,578,009	$ 25,700,969	$ 132,287,699
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
June 30, 2013	54,342,140	31,655,524	25,873,623	111,871,287
2014 - 2018	232,122,049	110,897,965	129,368,114	472,388,128
2019 - 2023	174,014,364	40,587,060	125,966,390	340,567,814
2024 - 2028	73,863,410	6,927,806	115,885,415	196,676,631
2029 - 2033	3,955,140	-	79,936,019	83,891,159
2034 - 2037	-	-	18,688,063	18,688,063
	778,200,601	347,915,478	599,039,462	1,725,155,541
Total Debt Service	$ 2,073,893,807	$ 1,209,902,039	$ 1,210,564,462	$ 4,494,360,308

(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, 2008, draws and accrued interest amounted to $27,915,905. The interest rate range was 2.064% - 5.046%. 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, 2009	$ 14,030,000	$ 620,000	$ 68,970,000	$ 83,620,000	$ 1,830,000	$ 85,450,000
June 30, 2010	15,105,000	640,000	79,190,000	94,935,000	1,940,000	96,875,000
June 30, 2011	15,315,000	670,000	85,005,000	100,990,000	2,070,000	103,060,000
June 30, 2012	15,555,000	700,000	89,060,000	105,315,000	2,200,000	107,515,000
June 30, 2013	15,930,000	730,000	93,050,000	109,710,000	2,375,000	112,085,000
2014 - 2018	85,060,000	4,195,000	533,305,000	622,560,000	12,335,000	634,895,000
2019 - 2023	18,145,000	-	532,540,000	550,685,000	5,375,000	556,060,000
2024 - 2028	-	-	250,270,000	250,270,000	1,125,000	251,395,000
2029	-	-	1,195,000	1,195,000	-	1,195,000
	179,140,000	7,555,000	1,732,585,000	1,919,280,000	29,250,000	1,948,530,000
Remaining accretion/ premium (discount)/ loss on advanced refunding	-	-	57,071,523	57,071,523	(577,497)	56,494,026
	$ 179,140,000	$ 7,555,000	$ 1,789,656,523	$ 1,976,351,523	$ 28,672,503	$ 2,005,024,026
Interest:						
June 30, 2009	$ 8,876,402	$ 334,728	$ 86,006,038	$ 95,217,168	$ 1,261,783	$ 96,478,951
June 30, 2010	7,560,660	310,033	82,976,125	90,846,818	1,198,330	92,045,148
June 30, 2011	6,985,554	283,398	79,306,547	86,575,499	1,126,636	87,702,135
June 30, 2012	6,320,299	254,769	75,335,556	81,910,624	1,046,328	82,956,952
June 30, 2013	5,558,500	224,165	71,020,592	76,803,257	958,051	77,761,308
2014 - 2018	15,352,750	577,593	278,441,734	294,372,077	12,335,000	306,707,077
2019 - 2023	453,625	-	136,104,736	136,558,361	624,213	137,182,574
2024 - 2028	-	-	30,690,151	30,690,151	77,288	30,767,439
2029	-	-	59,750	59,750	-	59,750
	51,107,790	1,984,686	839,941,229	893,033,705	18,627,629	911,661,334
Total Debt Service	$ 230,247,790	$ 9,539,686	$ 2,629,597,752	$ 2,869,385,228	$ 47,300,132	$ 2,916,685,360

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

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

	Balance, July 1	Increases	Decreases	Balance, June 30	Within One Year	Amounts Due Thereafter
Governmental Activities:						
Revenue bonds and notes payable	$ 2,849,315,183	$ (628,579)	$ 79,481,837	$ 2,769,204,767	$ 109,938,077	$ 2,659,266,690
Due to primary government	890,533	2,595,728	3,147,603	338,658	338,658	-
Due to federal government	292,184	-	-	292,184	-	292,184
Bond Anticipation Notes	6,348,815	21,567,090	-	27,915,905	27,915,905	-
Deferred revenue	2,925,000	-	75,000	2,850,000	75,000	2,775,000
	$ 2,859,771,715	$ 23,534,239	$ 82,704,440	$ 2,800,601,514	$ 138,267,640	$ 2,662,333,874
Business-Type Activities:						
Revenue bonds payable	$ 2,029,765,237	$ 96,928,789	$ 121,670,000	$ 2,005,024,026	$ 85,450,000	$ 1,919,574,026
Due to primary government	14,582,821	-	14,582,755	66	66	-
Due to federal government	2,577,248	3,773,967	-	6,351,215	-	6,351,215
Deferred revenue	3,686,412,102	60,000,001	77,063,341	3,669,348,762	77,063,341	3,592,285,421
	$ 5,733,337,408	$ 160,702,757	$ 213,316,096	$ 5,680,724,069	$ 162,513,407	$ 5,518,210,662

The following is a summary of long-term debt outstanding at June 30, 2008, for each fund with the activity categories:

	Future Interest Rate	Maturity Range	Annual Principal Payment Range	Amount
Governmental Activities:				
Highway Revenue	3.04% to 7.40%	2008 to 2029	$36,929,025 to $96,240,000	$1,295,693,206
State Office Building Commission	2.85% to 7.50%	2008 to 2028	$10,480,000 to $63,765,000	861,986,561
Stadium Project	1.35% to 4.23%	2019 to 2037	$5,800,000 to $70,550,000	611,525,000
				$2,769,204,767
Business-type Activities:				
Airport Facilities	3.13% to 4.43%	2008 to 2019	$13,300,000 to $20,150,000	$ 179,140,000
Aviation Technology Center	3.80% to 4.93%	2008 to 2018	$620,000 to $920,000	7,555,000
State Revolving Loan Fund	3.15% to 5.50%	2008 to 2029	$1,195,000 to $122,785,000	1,789,656,523
Recreational Development Commission	2.50% to 5.60%	2008 to 2026	$315,000 to $2,700,000	28,672,503
				$2,005,024,026

(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	$ 32,600,000	1.15% to 3.94%	(1)
SOBC 2000B	14,400,000	1.15% to 3.94%	(2)
SOBC 2001A	56,500,000	1.10% to 3.90%	(3)
SOBC 2003C	55,075,000	3.15% to 4.69%	(4)
SOBC 2003D	18,250,000	3.20% to 4.69%	(5)
SOBC Hoosier Notes	9,852,000	1.00% to 3.82%	(6)
Total	186,677,000		
Stadium Project 2005A	400,000,000	1.35% to 15.00%	(7)
Stadium Project 2007A	211,525,000	1.35% to 10.05%	(7)
Total	611,525,000		
Total Variable Rate Debt	$ 798,202,000		

Notes on Variable Rate Terms:

(1) Hedged tax-exempt variable rate debt. The hedge is based off the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA") with a floor of 2% and a cap of 4% ("Collar") and expires on July 1, 2011. The fair value of the Collar on June 30, 2008 was ($13,402). The 2000A Bonds are secured by a Standby Bond Purchase Agreement ("SBPA") in the amount of $32,929,563, which expires August 1, 2016. The Bonds are payable solely from and secured exclusively by a pledge of the income and revenues of the Facility financed by the 2000A Bonds. The Bonds are subject to optional redemption by the IFA on any date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date.

(2) Hedged tax-exempt variable rate debt. The hedge is based off the SIFMA 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, 2008 was ($3,723). The 2000B Bonds are secured by a SBPA in the amount of $14,545,574, which expires August 1, 2016. The Bonds are payable solely from and secured exclusively by a pledge of the income and revenues of the Facility financed by the 2000B Bonds. The Bonds are subject to optional redemption by the IFA on any date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date.

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

(3) Hedged tax-exempt variable rate debt. The hedge is based off the SIFMA 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, 2008 was ($20,063). The 2001A Bonds are secured by a SBPA in the amount of $57,071,175, which expires August 1, 2016. The Bonds are payable solely from and secured exclusively by a pledge of the income and revenues of the Facility financed by the 2001A Bonds. The Bonds are subject to optional redemption by the IFA on any date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to he redemption date.

(4) Hedged tax-exempt variable rate debt. The hedge is based on the SIFMA index with a cap of 6% and expires on July 1, 2009. As of June 30, 2008, the market value for this hedge is ($27) to the Authority. The 2003C Bonds are payable solely from and secured exclusively by a pledge of the income and revenues of the Facility financed by the Bonds. The Bonds are subject to optional redemption by the IFA on the Business Day immediately succeeding any Auction Date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date.

(5) Hedged tax-exempt variable rate debt. The hedge is based on the SIFMA index with a cap of 6% and expires on July 1, 2009. As of June 30, 2008, the market value for this hedge is ($23) to the Authority. The 2003D Bonds are payable solely from and secured exclusively by a pledge of the income and revenues of the Facility financed by the Bonds. The Bonds are subject to optional redemption by the IFA on the Business Day immediately succeeding any Auction Date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date.

(6) Short-term, tax-exempt commercial paper. The Notes are secured by a Letter of Credit in the amount $75,000,000, which expires December 31, 2008. The Notes are payable from amounts held in certain accounts under the Indenture and other revenues received by the Authority and available for such payment. The Notes are subject to redemption prior to maturity on any business day at the option of the IFA upon at least 90 days notice, at amounts equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date.

(7) Hedged tax-exempt variable rate debt. An interest rate swap will commence for these bonds on August 15, 2008 with the IFA receiving the SIFMA Index and paying the swap counterparties a fixed rate of 4.231%. The 2005 and 2007 Bonds are secured by a SBPA in the amount of $620,823,531, which expires March 28, 2011. The Bonds are payable solely from and secured by a pledge of the trustee of the trust estate. The trust estate includes payments made by the Indiana Stadium and Convention Building Authority ("ISCBA"), pursuant to the promissory note; all monies are obligated to be paid under the revenue deposit agreement, the lease, and the sublease. The Bonds are subject to optional redemption by the IFA, in whole or in part, in Authorize Denominations on any business date, at amounts equal to 100% of the principal amount redeemed plus interest accrued to the redemption date. The 15% maximum rate was only for one week and was only one tranche of bonds. The average interest rate on the 2005A and 2007A bonds for the fiscal year was 3.6%.

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Interest Rate Swap Agreements

Objective of the Interest Rate Swap Agreement: In order to protect against the potential of rising interest rates, the IFA 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, 2008, were as follows. The notional amounts of the swaps match the anticipated principal amounts of the associated debt. The IFA'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%	SIFMA*	$(30,921,332)	2/2037
Convention Center	265,175,000	12/1/2010	4.556%	SIFMA*	(15,403,901)	2/2039
	$ 876,700,000				$(46,325,233)	

** The Securities Industry and Financial Markets Association Municipal Swap Index.*

The Swap counterparties included JP Morgan Chase Bank, Goldman Sachs Capital Markets, and Merrill Lynch Capital Services. They were rated by Moody's as being Aa3, Aa3 and A1, respectively.

Termination Risk. The IFA 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.

(Continued)

NOTE 8 – BOND REFUNDINGS AND ESCROW BALANCES ON BONDS (Continued)

Bond Refundings and Defeasances: The following represents bond refunding and defeasance during the ended June 30, 2008:

Business-Type Activities:

- **Airport Facilities Bonds –** In March 2008, the IFA issued $179,140,000 of Airport Facilities Bonds, Series 2008, which refunded Series 2004A, 2004B, and 2004C 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 $19.2 million was realized and a reduction of $23.9 million in future debt service payments.

- **State Revolving Fund –** In March 2008, the IFA cash defeased the remaining maturities of the Series 2000A Bonds. A cash deposit of $30,585,073 was made to an escrow fund, which will pay principal and interest for the defeased debt. The outstanding amount of the refunded debt at June 30, 2008 was $28,725,000.

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, 2008, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $248,335,000.

- **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 2008A, which were used to refund certain Series 1996B, 1998A, 2000A, 2003A, and 2004A bonds. As of June 30, 2008, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $916,590,000.

(Continued)

NOTE 8 – BOND REFUNDINGS AND ESCROW BALANCES ON BONDS (Continued)

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, 2008, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $182,165,000.

- **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, 2008, 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, 2008, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $49,745,000.

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.

The IFA has issued debt obligations on behalf of certain health and higher education facilities for the purpose of construction, improvement of facilities or the refinancing of outstanding debt. These bonds, notes and other obligations and the interest thereof do no constitute debt or liability of the IFA, the State of Indiana, or any political subdivision thereof, but are special obligations between investors and the debtors payable solely from the payments received by the trustee under the loan agreements and meet the definition of conduit debt in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The IFA has health and higher education outstanding conduit debt of $6.522 billion outstanding at June 30, 2008.

(Continued)

NOTE 9 – UNAMORTIZED BOND ISSUANCE COSTS AND DEFERRED CHARGES, NET

Bond issuance costs and deferred charges associated with long-term debt at June 30, 2008 were $15,605,087 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	(11,399,781)
Net amount	$ 5,950,995

Amortization expense for the year ended June 30, 2008 was approximately $911,000. At June 30, future amortization of deferred charges is estimated as follows

2009	$ 841,211
2010	770,377
2011	695,067
2012	622,496
2013	546,535
Thereafter	2,475,309
	$ 5,950,995

(Continued)

NOTE 9 – 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	$ 16,814,629
Accumulated amortization	(7,583,492)
Net amount	$ 9,231,137

Amortization expense for the year ended June 30, 2008 was approximately $1,177,000. Future amortization of deferred charges is as follows at June 30:

2009	$ 1,086,253
2010	1,001,093
2011	921,067
2012	841,425
2013	781,907
Thereafter	4,599,392
	$ 9,231,137

- **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	(244,585)
Net amount	$ 422,955

Amortization expense for the year ended June 30, 2008 was approximately $41,000. Future amortization is estimated as follows at June 30:

2009	$ 40,653
2010	40,653
2011	40,653
2012	40,653
2013	40,653
Thereafter	219,690
	$ 422,955

(Continued)

NOTE 10- 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 $441,000 range from $146,000 to $148,000 per year from 2009 through 2011. Rental expense for the operating lease was approximately $158,000 for the year ended June 30, 2008.

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, 2008, lease revenue of approximately $111 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 10- 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 net of related costs, totaling $3.705 billion, will be recognized on a straight-line basis over the life of the 75-year lease. The unamortized portion of this revenue (in thousands) will be recognized as follows for the fiscal years ending June 30:

2009	$ 49,396
2010	49,396
2011	49,396
2012	49,396
2013	49,396
2014 – 2018	246,978
2019 – 2023	246,978
2024 – 2028	246,978
2029 – 2033	246,978
2034 – 2038	246,978
2039 – 2043	246,978
2044 – 2048	246,978
2049 – 2053	246,978
2054 – 2058	246,978
2059 – 2063	246,978
2064 – 2068	246,978
2069 – 2073	246,978
2074 – 2078	246,978
2079 – 2081	148,180
Total	$ 3,605,874

NOTE 10- 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 for the fiscal years ending June 30:

2009	$ 3,136,478
2010	3,199,084
2011	3,248,020
2012	3,318,580
2013	3,391,180
2014 – 2018	15,480,613
2019 – 2023	4,098,719
2024 – 2026	816,975
Total	$ 36,689,649

(Continued)

NOTE 11- 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, 2008, as follows:

	Interfund Receivable	Interfund Payable
General Fund	$ 995	$ -
Special Revenue Funds:		
Business Development Fund	155,100	-
Environmental Remediation Revolving Loan Fund	-	50,936
Supplemental Fund	7,093	-
Health and Educational Finance Fund	-	1,785
Enterprise Funds:		
State Revolving Fund Program	-	78,700
Toll Road Lease	-	192
Internal Service Funds:		
Recreational Development Commission	-	285
Transportation Finance Fund	-	14,228
State Office Building Commission	-	17,062
	$ 163,188	$ 163,188

NOTE 12 – SUBSEQUENT EVENTS

The following subsequent events have been provided for users of the financial statements. None of the subsequent events resulted in charges to the financial statements at June 30, 2008.

Governmental Activities

On July 3, 2008, the IFA entered into a forward interest rate swap with a notional amount of $46,875,000 on the final Stadium bond issuance. Beginning on August 15, IFA will pay interest on the notional amount at a fixed rate of 3.796%.

The IFA issued the final Stadium variable rate bonds in the amount of $55,000,000 on July 24, 2008. All but $8,125,000 of the $55,000,000 issued is hedged by the interest rate swap noted above.

In October 2008, portions of IFA variable rate debt issued for Lucas Oil Stadium and state office buildings were not able to be remarketed and were tendered as bank bonds. Bonds in the amounts of $170,500,000 of the Series 2005 Stadium bonds, $68,225,000 of the 2007 Stadium bonds, $30,600,000 of the State Office Building Series 2000A, $10,700,000 of the State Office Building Series 2000B and $53,900,000 of the State Office Building Series 2001A were purchased by the liquidity providers.

(Continued)

NOTE 12 – SUBSEQUENT EVENTS (Continued)

The 2003C and 2003D weekly auction rate bonds issued by the State Office Building Commision experienced several failed auctions since the auction rate market collapse began in February 2008 and failed two times after June 30, 2008. The failed auctions reset at a low index-based rate. The highest average reset for the two issues was 4.69%, which occurred in February 2008. In August 2008, the IFA converted the 2003C and 2003D bonds into fixed rate securities at an all in rate of 4.493%.

In August 2008, the IFA issued $120,000,000 of variable rate bonds for the Convention Center expansion project. A portion of the proceeds $31,732,322 were used to repay the 2005 Convention Center Bond Anticipation Notes. In 2005, the IFA entered into a forward interest rate swap on the Convention Center bonds beginning on December 1, 2010, which fixed the rate at 4.556% on a notional amount of $265,000,000. The Convention Center expansion project is expected to be completed in December 1, 2010.

Business-Type Activities

On September 10 and 22, 2008, the State Revolving Fund Program terminated its Guaranteed Investment Contracts with AIG. A credit downgrade at AIG triggered the termination event. The State Revolving Fund received $56,985,746 in excess of the investment par value of $355,672,942.

(Continued)

NOTE 13 - 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 6.3% during Fiscal Year 2008. 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, 2008, 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, 2008, 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
2008	$ 76,648	$ 52,901	$ 129,549	$1,392,998	6.30%

Information regarding PERF may be obtained from:

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

PART 3 - REQUIRED SUPPLEMENTAL INFORMATION

INDIANA FINANCE AUTHORITY
SCHEDULE OF ACTUAL OPERATING REVENUES AND EXPENSES COMPARED TO BUDGET – CASH BASIS
Year ended June 30, 2008

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
Revenue			
Lease rental income (Note 1)	$ 280,644,487	$ 277,717,664	$ (2,926,823)
Appropriations (Note 2)	6,162,500	1,162,500	(5,000,000)
Investment Income (Note 3)	73,733,450	72,638,365	(1,095,085)
Program service, advisory and fees (Note 4)	916,448	4,571,866	3,655,418
Borrower Interest Payments	55,427,800	55,878,743	450,943
EPA Grant (Note 5)	35,976,000	31,396,988	(4,579,012)
Total revenues	452,860,685	443,366,126	(9,494,559)
Debt service			
Interest (Note 6)	253,466,072	239,600,766	13,865,306
Principal (Note 7)	174,006,537	210,841,537	(36,835,000)
Total debt service	427,472,609	450,442,303	(22,969,694)
Program expenses			
Grants, loans and other program (Note 8)	13,534,452	8,343,654	5,190,798
Total program expenses	13,534,452	8,343,654	5,190,798
Administrative expenses			
Personal services	2,122,455	2,062,128	60,327
Other IFA operations	3,311,497	2,776,230	535,267
Total operating expenses	5,433,952	4,838,358	595,594
Net revenues over expenses	$ 6,419,672	$ (20,258,189)	$ (26,677,861)

Note 1: Variable rate debt rates were lower than budget.

Note 2: The Indiana State General Assembly appropriated $10 million for a three county water project in the 2008/2009 biennium. IFA budgeted $5 million in fiscal year 2008 but did not draw on the appropriation because the legislators in this area are still working through issues.

Note 3: Interest rates dropped below budget projection.

Note 4: Supplemental Environmental Project funds received as part of a new program initiative not contemplated when the budget was created, insurance proceeds for damage at Turkey Run Lodge and reimbursement of United bankruptcy fees.

Note 5: Fewer EPA funds available than expected.

Note 6: Actual interest rates paid on IFA variable rate debt was lower than budget.

Note 7: The State Revolving Fund Program cash defeased $28 million of its series 2000A bonds ahead of schedule. When the Airport Facility series 2004A, 2004B, and 2004C bonds were refinanced, the premium on the new bonds and funds on deposit under the indenture were used to retire $8 million of the refunded bonds.

Note 8: Lower environmental clean up costs - $3.6 million, reduced trustee and insurance fees - $1 million, and delayed Brownfield grants - $600k (funds committed but not paid in fiscal year 2008).

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

Roads

	Percentage of Lane Miles in Fair, Good or Better Condition		
	2008	2007	2006
Interstate Roads	94%	92%	91%

	Percentage of Lane Miles in Substandard Condition		
	2008	2007	2006
Interstate Roads	6%	8%	9%

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 fair, good or better condition (70-100) and substandard condition (less than 70). It is the State's policy that no more than 10% should be in substandard condition. Condition assessments are determined every year.

Bridges

	Percentage of Bridges in Fair, Good or Better Condition		
	2008	2007	2006
Interstate Bridges	100%	100%	100%

	Percentage of Bridges in Substandard Condition		
	2008	2007	2006
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, 2008

	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	$ 442,991,130	$ 2,504,484	$ 24,941,534	$ 1,388,813	$ 9,080	$ 250,556,646	$ 93,853,508	$ 745,011
Capital and infrastructure assets	29,982	31,853,377	-	-	-	868,067,754	-	-
Noncurrent assets	2,257,930,282	422,955	165,110,000	6,935,000	-	5,950,995	1,266,221,494	639,440,905
Total Assets	2,700,951,394	34,780,816	190,051,534	8,323,813	9,080	1,124,575,395	1,360,075,002	640,185,916
Liabilities								
Current liabilities	36,206,677	648,594	15,912,165	818,204	-	24,884,389	5,489,009	745,011
Long term debt, including current portions	1,789,656,523	28,672,503	165,110,000	6,935,000	-	861,986,561	1,295,693,206	639,440,905
Other noncurrent liabilities	6,351,215	-	-	-	-	3,067,184	-	-
Total liabilities	1,832,214,415	29,321,097	181,022,165	7,753,204	-	889,938,134	1,301,182,215	640,185,916
Net Assets								
Invested in capital assets, net of related debt	-	-	-	-	-	39,089,217	-	-
Unrestricted	-	5,459,719	9,029,369	566,542	9,080	19,953,847	26,754,963	-
Restricted	868,736,979	-	-	4,067	-	175,594,197	32,137,824	-
Total Net Assets	$ 868,736,979	$ 5,459,719	$ 9,029,369	$ 570,609	$ 9,080	$ 234,637,261	$ 58,892,787	$ -

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2008

	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	$ -	$ 2,868,612	$ 3,383,811	$ 354,665	$ -	$ 111,269,043	$ 72,032,883	$ 23,745,091
Interest on loans	52,861,795	-	-	-	-	-	-	499,593
Other	479,137	4,724,486	7,591,844	-	-	3,494,357	-	-
Total Operating Revenues	53,340,932	7,593,098	10,975,655	354,665	-	114,763,400	72,032,883	24,244,684
Operating Expenses								
IFA Operations	1,585,578	28,945	2,602,492	161,675	-	1,461,178	689,725	-
Interest expense	88,194,230	1,424,356	9,133,262	349,893	-	44,383,637	72,584,824	24,244,684
Depreciation expense	1,182,678	1,422,928	-	-	-	28,632,383	-	-
Total Operating Expenses	90,962,486	2,876,229	11,735,754	511,568	-	74,477,198	73,274,549	24,244,684
Operating income (loss)	(37,621,554)	4,716,869	(760,099)	(156,903)	-	40,286,202	(1,241,666)	-
Nonoperating Revenues (Expenses)								
Investment earnings, net	54,046,020	21,697	(292,726)	16,192	-	7,154,008	3,331,243	-
Total nonoperating revenues (expenses)	54,046,020	21,697	(292,726)	16,192	-	7,154,008	3,331,243	-
Income before capital contributions and tranfers	16,424,466	4,738,566	(1,052,825)	(140,711)	-	47,440,210	2,089,577	-
Capital contributions	30,010,936	-	-	-	-	-	-	-
Transfer in (out)	-	-	(83,010)	(83,009)	(341,122)	-	(198,824)	-
Change in net assets	46,435,402	4,738,566	(1,135,835)	(223,720)	(341,122)	47,440,210	1,890,753	-
Total net assets, beginning of year	822,301,577	721,153	10,165,204	794,329	350,202	187,197,051	57,002,034	-
Total net assets, end of year	$ 868,736,979	$ 5,459,719	$ 9,029,369	$ 570,609	$ 9,080	$ 234,637,261	$ 58,892,787	$ -

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF CASH FLOWS
Year ended June 30, 2008

	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	$ (1,471,067)	$ 7,573,634	$ 6,246,566	$ 197,080	$ -	$118,000,123	$ 71,297,594	$ -
Investing activities	(117,054,799)	(4,490,104)	(201,492)	17,585	-	(7,004,649)	3,472,184	2,172,613
Noncapital financing activities	(86,075,648)	-	(14,582,755)	-	-	-	-	-
Capital and related financing activities	55,870,662	(2,779,471)	(10,204,861)	(357,233)	-	(97,623,002)	(95,831,242)	(2,172,613)
Net Increase (Decrease) in Cash	(148,730,852)	304,059	(18,742,542)	(142,568)	-	13,372,472	(21,061,464)	-
Cash and cash equivalents, beginning	475,775,211	2,198,992	23,169,328	480,131	-	224,389,013	76,374,050	-
Cash and cash equivalents, ending	$ 327,044,359	$ 2,503,051	$ 4,426,786	$ 337,563	$ -	$237,761,485	$ 55,312,586	$ -

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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, 2008

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, 2008, and have issued our report thereon, dated October 17, 2008. 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 be 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 17, 2008