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Indiana Housing & Community Development Authority

A COMPONENT UNIT OF THE STATE OF INDIANA

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2012

KSM KATZ SAPPER & MILLER

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INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
A COMPONENT UNIT OF THE STATE OF INDIANA

CONTENTS

Independent Auditors' Report

Board of Directors
Indiana Housing and Community Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Indiana Housing and Community Development Authority (the "Authority"), a component unit of the State of Indiana, as of December 31, 2012 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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KSM Business Services, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Indiana Housing and Development Authority as of December 31, 2012, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Required Supplementary Information

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

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Indiana Housing and Community Development Authority's basic financial statements. The supplementary retirement plan schedule of funding progress and employer contributions is presented for purposes of additional analysis and is not a required part of the basic financial statements. The retirement plan schedule of funding progress and employer contributions has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
April 25, 2013

This section of Indiana Housing and Community Development Authority's (the "Authority") annual financial report presents management's discussion and analysis of the Authority's financial position, results of operations and cash flows during the fiscal year ended December 31, 2012. This information is being presented to provide additional information regarding the activities of the Authority. This analysis should be read in conjunction with the Independent Auditors' Report, financial statements and accompanying notes.

Introduction – The Indiana Housing and Community Development Authority

The Authority was created in 1978 as a public body corporate and politic of the State of Indiana (the "State"). The Authority is entirely self-supporting and does not draw upon the general taxing authority of the State. The Authority has been given certain powers, including the power to enter into contracts and agreements, acquire, hold and convey property and issue notes and bonds, for the purpose of financing residential housing for persons and families of low and moderate income. The Authority's funding comes from a variety of sources, including sales of its own securities to private investors, grants from the Federal government, program fees, investment interest earnings and interest earned on loan portfolios.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purpose. The financial transactions of the Authority are recorded in the funds that consist of a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows and outflows of resources, net position, revenues and expenses as appropriate. The Authority is a self-supporting entity and follows enterprise fund reporting. The Authority is considered a component unit of the State and is discretely presented in the State's financial statements.

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Authority. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

Financial Statements

The basic financial statements include three required statements, which provide different views of the Authority. They are the *Statement of Net Position*, the *Statement of Revenues, Expenses and Changes in Net Position* and the *Statement of Cash Flows*. These statements provide current and long-term information about the Authority and its activities.

The *Statement of Net Position* answers the question, "How was our financial health at the end of the year?" This statement includes all assets and liabilities, deferred inflows and outflows of resources, and short-term and long-term, using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. Over time, changes in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through mortgages and loans, externally funded programs and other revenue sources. This statement also helps answer the question "Is the Authority as a whole better off or worse off as a result of the year's activities?"

The primary purpose of the *Statement of Cash Flows* is to provide information about the Authority's cash receipts and cash payments during the accounting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. It provides answers to such questions as "Where did the cash come from?"; "What was the cash used for?"; and "What was the change in cash balance during the reporting period?"

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

2012 Financial Highlights

The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at December 31, 2012 by $416.5 million compared to $375.4 million at December 31, 2011. Net position at December 31, 2012 consisted of $251.8 million restricted by funding sources, $2.5 million net investment in capital assets, and $162.2 million, unrestricted and available to meet the obligations of the Authority's operations.

Total assets and deferred outflows of resources decreased by $209.7 million or 13.7 percent during 2012 from $1,528.3 million to $1,318.6 million due mainly to a decrease in restricted cash and investments.

The Authority's largest liability, bonds payable, decreased by $232.6 million, or 21.8 percent, during 2012, from $1,068.7 million to $836.1 million.

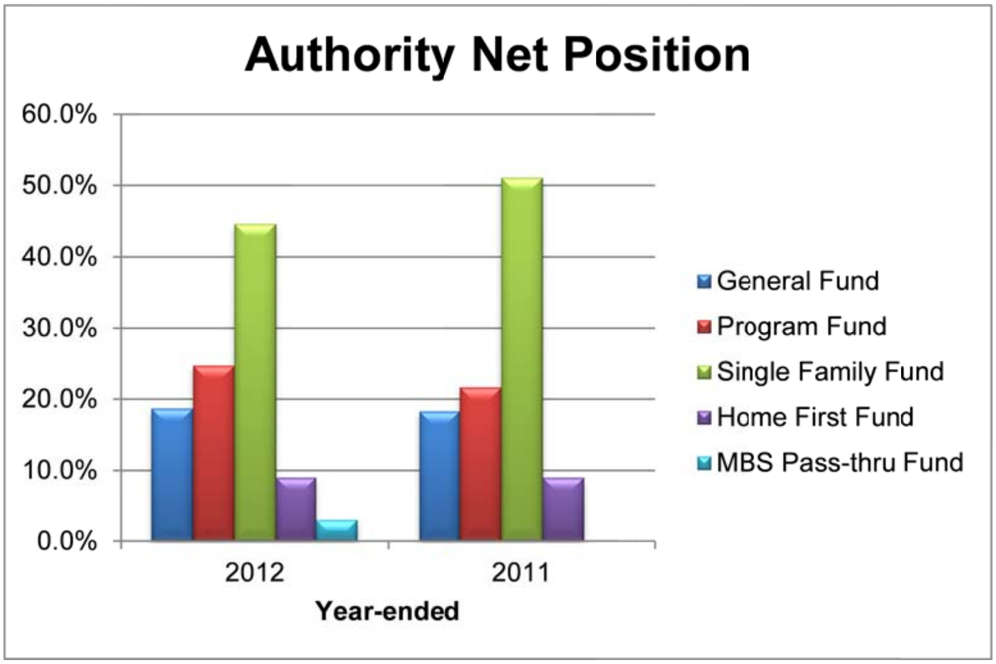
The total change in net position in 2012 was an increase of $12.0 million which includes a net decrease in the fair value of investments of $10.0 million.

In 2012, total operating revenues were $440.7 million, which includes federal and state program income of $393.2 million, interest income on investments of $50.1 million (which includes interest income on investments held against bonds of $39.1 million), a net decrease in the fair value of securities of $10.0 million, $6.2 million in fee income and $1.2 million of other income.

Total operating expenses in 2012 were $428.7 million, which includes $38.0 million of interest expense on bonds, $371.4 million of direct federal and state program expenses, $18.3 million of general and administrative expense and $1.0 million of debt issuance costs.

2012 Financial Condition

The Authority operates within financial policies and guidelines set by the members of its Board of Directors. These guidelines require the Authority to maintain adequate liquid asset levels, good mortgage portfolio performance and a sufficient level of unrestricted assets. Total net position as of December 31, 2012 increased 10.9 percent to $416.5 million compared to $375.4 million in the previous year. Unrestricted net position increased $29 million or 22 percent from the prior year, comprising 2 percent of total assets and 7 percent of total net position.



INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2012

2012 Financial Analysis

The following table is a condensed summary of net position at December 31 (in thousands):

	2012	2011	Change	Percentage
Assets				
Current assets	$ 281,888	$ 404,314	$ (122,426)	-30.3%
Noncurrent assets	1,020,726	1,106,462	(85,736)	-7.7%
Total assets	1,302,614	1,510,776	(208,078)	-13.8%
Deferred outflows of resources	16,027	17,649	(1,622)	-9.2%
Total assets and deferred outflows of resources	1,318,641	1,528,425	(209,784)	-13.7%
Liabilities				
Current liabilities	67,935	115,875	(47,940)	-41.4%
Noncurrent liabilities	834,233	1,037,168	(202,935)	-19.6%
Total liabilities	902,168	1,153,043	(250,875)	-21.8%
Net position				
Net investment in capital assets	2,520	2,209	311	14.1%
Restricted	251,802	240,268	11,534	4.8%
Unrestricted	162,151	132,905	29,246	22.0%
Total net position	$ 416,473	$ 375,382	$ 41,091	10.9%

Operating Analysis

The following table is a condensed summary of operating income for the years ended December 31 (in thousands):

	2012	2011	Change	Percentage
Operating Revenues				
Interest on investments	$ 50,090	$ 51,762	$ (1,672)	-3.2%
Program income	399,429	552,203	(152,774)	-27.7%
Net increase (decrease) in fair value of investments	(10,007)	20,502	(30,509)	-148.8%
Other operating revenue	1,168	730	438	60.0%
Total operating revenues	440,680	625,197	(184,517)	-29.5%
Operating Expenses				
Total interest expense	37,968	40,578	(2,610)	-6.4%
Program expenses	371,380	508,838	(137,458)	-27.0%
Other operating expenses	19,311	21,430	(2,119)	-9.9%
Total operating expenses	428,659	570,846	(142,187)	-24.9%
Operating income	$ 12,021	$ 54,351	$ (42,330)	-77.9%

Interest income on investments, fee income, and program income represent the significant sources of operating revenue for the Authority. Interest income on investment held against bonds of $39.1 million for 2012 decreased compared to $44.6 million for 2011. Interest income on investments of $11.0 million for 2012 increased compared to $7.1 million for 2011.

The decrease in fair value of securities for 2012 was $10.0 million compared to an increase of $20.5 million in 2011. This represents a decrease in the overall fair value of investments held at December 31, 2012, compared to their fair value at December 31, 2011, due to the current interest rate environment. The Authority values its securities at fair value with the change in fair value reported as operating revenue. The change in the fair value of securities is an unrealized gain in market value and has no direct effect on actual cash flows.

Fee income of $6.2 million for the current year decreased compared to $13.8 million in the prior year.

Total interest expense on bonds was $38.0 million in 2012 compared to $40.6 million in 2011.

Federal program income and expense represent funds received and disbursed relating to projects funded by the U.S. Department of Housing and Urban Development Section 8 Contract Administration, Community Development Block Grant, HOME Investment Partnership, and other federal programs totaling $393.2 million in revenue in 2012, compared to $538.4 million in revenue in 2011. The decrease in revenue in 2012 is due to the decrease in the funding provided by the American Recovery and Reinvestment Act.

2012 Debt Administration

Total current and noncurrent bonds payable, not including any original issue premium/(discount), as of December 31, 2012 was $836.1 million, which decreased $232.6 million compared to $1,068.7 million on December 31, 2011. This decrease was due to the $345.1 million of repayments and redemptions of bonds previously issued by the Authority offset by issuances in 2012 totaling $112.5 million. The Authority has maintained its long-term bond ratings of Aaa from Moody's Investors Services and AAA from Fitch IBCA. (The Home First Bond Indenture is only rated by Moody's). More detailed information about the Authority's debt is presented in Note 5 to the financial statements.

The following table summarizes the 2012 mortgage revenue bond issuances (in thousands):

Bond Series	Tax-exempt amount	Taxable amount	Total	Moody's rating	Fitch's rating
2012 Series 1	$ 73,532		$ 73,532	N/A	AAA
2009 Series A-5	39,000		39,000	Aaa	N/A
Total	$ 112,532	$ -	$ 112,532		

Economic Factors and Other Financial Information

The primary business activity of the Authority is funding the purchase of single-family home mortgages and administering various federal programs. The Authority's mortgage financing activities are sensitive to the level of interest rates, the spread between the rate available on Authority loans and those available in the conventional mortgage markets and the availability of affordable housing. The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority's single-family programs and investment income are the main sources of revenues. Market interest rates have an effect on both the single family program and investment income revenues. If interest rates continue at current levels, the Authority expects single family and investment income to be stable. If interest rates rise, the Authority expects single family and investment income to increase as new loans are originated and new investments are purchased at the higher rates. If interest rates fall, the Authority expects single family and investment income to decrease as new loans are originated and new investments are purchased at the lower rates. The Authority also expects a drop in market rates to cause an increase in prepayments on higher rate mortgages. The Authority uses these prepayments to call the corresponding series bonds, which lowers the rate of return on those bond series.

Contacting the Authority's Financial Management

This financial report is designed to provide the citizens of Indiana, our constituents and investors with a general overview of the Authority's finances and resources. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at Indiana Housing and Community Development Authority, 30 South Meridian Street Suite 1000, Indianapolis, IN 46204 or visit our website at www.in.gov/ihcda/.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION
December 31, 2012

Assets	General Fund	Program Fund	Single Family Fund	Home First Fund	MBS Pass-thru Fund	Total
Current Assets						
Cash and cash equivalents	$ 9,020,402	$ 68,243,393	$ 131,891,078	$ 35,437,048	$ 48,718	$ 244,640,639
Accrued interest receivable:						
Investments	486,761		522,501	59,404		1,068,666
Investments held against bonds			1,696,640	903,997	259,943	2,860,580
Accounts and loans receivable, net	397,276	30,857,228				31,254,504
Other assets	81,053	1,982,128				2,063,181
Total current assets	9,985,492	101,082,749	134,110,219	36,400,449	308,661	281,887,570
Noncurrent Assets						
Investments	60,047,452	4,999,700	69,651,714	12,814,647		147,513,513
Investments held against bonds			438,176,950	323,846,479	69,402,369	831,425,798
Accounts and loans receivable, net	1,058,988	38,207,543				39,266,531
Capital assets, at cost, less accumulated depreciation	2,463,952	56,287				2,520,239
Interfund accounts	3,512,889	(3,512,889)				
Total noncurrent assets	67,083,281	39,750,641	507,828,664	336,661,126	69,402,369	1,020,726,081
Total assets	77,068,773	140,833,390	641,938,883	373,061,575	69,711,030	1,302,613,651
Deferred outflows of resources						
Accumulated decrease in fair value of hedging derivatives			8,128,866			8,128,866
Deferred refunding costs					7,898,192	7,898,192
Total deferred outflows of resources	-	-	8,128,866	-	7,898,192	16,027,058
Total assets and deferred outflows of resources	77,068,773	140,833,390	650,067,749	373,061,575	77,609,222	1,318,640,709
Liabilities						
Current Liabilities						
Bonds payable		5,000,000	7,720,000	5,750,000		18,470,000
Accrued interest payable			11,023,665	878,798	160,848	12,063,311
Unearned revenue	106,222	24,772,818				24,879,040
Accounts payable and other liabilities	1,427,073	11,095,593				12,522,666
Total current liabilities	1,533,295	40,868,411	18,743,665	6,628,798	160,848	67,935,017
Noncurrent Liabilities						
Bonds payable			439,215,000	314,650,000	63,723,226	817,588,226
Add original issue premium			3,086,628	3,430,360	1,593,080	8,110,068
Less original issue discount				(14,372)		(14,372)
Net noncurrent bonds payable			442,301,628	318,065,988	65,316,306	825,683,922
Derivative instrument - interest rate swaps			8,128,866			8,128,866
Other liabilities			419,689			419,689
Total noncurrent liabilities			450,850,183	318,065,988	65,316,306	834,232,477
Total liabilities	1,533,295	40,868,411	469,593,848	324,694,786	65,477,154	902,167,494
Net Position						
Net investment in capital assets	2,463,952	56,287				2,520,239
Restricted		99,908,692	91,394,387	48,366,789	12,132,068	251,801,936
Unrestricted	73,071,526		89,079,514			162,151,040
Total net position	$ 75,535,478	$ 99,964,979	$ 180,473,901	$ 48,366,789	$ 12,132,068	$ 416,473,215

See accompanying notes to the financial statements

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2012

	General Fund	Program Fund	Single Family Fund	Home First Fund	MBS Pass-thru Fund	Total
Operating revenues:						
Interest income						
Investments	$ 533,989	$ 345,601	$ 9,168,983	$ 988,997		$ 11,037,570
Investments held against bonds			27,446,787	9,673,815	$ 1,932,248	39,052,850
Fee income	5,905,558	343,373				6,248,931
Program income		393,179,656				393,179,656
Net increase (decrease) in fair value of investments	439,039	(331,493)	(26,846,050)	11,052,860	5,679,141	(10,006,503)
Other income	914,635	253,115				1,167,750
Total operating revenues	7,793,221	393,790,252	9,769,720	21,715,672	7,611,389	440,680,254
Operating expenses:						
Interest expense			26,759,223	9,130,034	2,079,240	37,968,497
Issuance costs				30,000	936,623	966,623
Program expenses		371,380,101				371,380,101
Arbitrage expense			63,068			63,068
General and administrative expenses	4,934,000	11,295,065	1,523,818	527,770		18,280,653
Total operating expenses	4,934,000	382,675,166	28,346,109	9,687,804	3,015,863	428,658,942
Operating income (loss)	2,859,221	11,115,086	(18,576,389)	12,027,868	4,595,526	12,021,312
Transfers	(1,331,976)	1,331,976	(7,536,542)		7,536,542	-
Change in net position	1,527,245	12,447,062	(26,112,931)	12,027,868	12,132,068	12,021,312
Net position, beginning of year	74,008,233	87,517,917	206,586,832	36,338,921	-	404,451,903
Net position, end of year	$ 75,535,478	$ 99,964,979	$ 180,473,901	$ 48,366,789	$ 12,132,068	$ 416,473,215

See accompanying notes to the financial statements.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

	General Fund	Program Fund	Single Family Fund	Home First Fund	MBS Pass-thru Fund	Total
Cash flows from operating activities:						
Cash receipts for services	$ 16,464,318					$ 16,464,318
Program revenue		$ 381,488,133				381,488,133
Program expenses		(381,756,658)				(381,756,658)
Cash payments to suppliers	(1,995,782)		$ (1,951,708)	$ (527,770)		(4,475,260)
Cash payments to employees	(3,236,944)					(3,236,944)
Net cash provided by (used in) operating activities	11,231,592	(268,525)	(1,951,708)	(527,770)		8,483,589
Cash flows from noncapital financing activities:						
Proceeds from bond issues				39,000,000	$ 75,370,033	114,370,033
Debt issuance costs incurred				(30,000)	(936,623)	(966,623)
Repayments and redemption of bonds and bank loans			(269,740,000)	(65,640,000)	(9,808,513)	(345,188,513)
Interfund transfers	(1,331,976)	1,331,976	(7,536,542)		7,536,542	
Interest paid on bonds and bank loans			(32,623,808)	(9,115,949)	(702,585)	(42,442,342)
Net cash provided by (used in) noncapital financing activities	(1,331,976)	1,331,976	(309,900,350)	(35,785,949)	71,458,854	(274,227,445)
Cash flows from capital financing activities:						
Purchases of capital assets	(577,837)	(56,287)				(634,124)
Net cash used in capital financing activities	(577,837)	(56,287)				(634,124)
Cash flows from investing activities:						
Purchases of investments	(59,394,539)		(97,935,015)			(157,329,554)
Refunding costs					(9,114,000)	(9,114,000)
Proceeds from sales or maturities of investments	40,018,214		110,484,749	2,944,413		153,447,376
Purchases of investments held against bonds				(134,382,483)	(73,531,741)	(207,914,224)
Principal received on loans receivable	438,946					438,946
Principal received on investments held against bonds			257,853,235	29,656,957	9,808,513	297,318,705
Interest received on investments held against bonds			28,520,933	9,207,673	1,427,092	39,155,698
Interest received on investments	462,757	429,670	8,877,565	1,006,768		10,776,760
Net cash provided by (used in) investing activities	(18,474,622)	429,670	307,801,467	(91,566,672)	(71,410,136)	126,779,707
Increase (decrease) in cash and cash equivalents	(9,152,843)	1,436,834	(4,050,591)	(127,880,391)	48,718	(139,598,273)
Cash and cash equivalents, beginning of year	18,173,245	66,806,559	135,941,669	163,317,439		384,238,912
Cash and cash equivalents, end of year	$ 9,020,402	$ 68,243,393	$ 131,891,078	$ 35,437,048	$ 48,718	$ 244,640,639

See accompanying notes to the financial statements.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2012

	General Fund	Program Fund	Single Family Fund	Home First Fund	MBS Pass-thru Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	$ 2,859,221	$ 11,115,086	$ (18,576,389)	$ 12,027,868	$ 4,595,526	$ 12,021,312
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:						
Change in fair value of investments	(439,039)	331,493	26,846,050	(11,052,860)	(5,679,141)	10,006,503
Interest on bonds and bank loans			26,759,223	9,130,034	2,079,240	37,968,497
Interest on investments held against bonds			(27,446,787)	(9,673,815)	(1,932,248)	(39,052,850)
Interest on investments	(533,989)	(345,601)	(9,168,983)	(988,997)		(11,037,570)
Debt issuance costs				30,000	936,623	966,623
Depreciation/bond call prem expense	323,037					323,037
Changes in assets and liabilities:						
Unearned revenue	(143,994)	(5,886,422)				(6,030,416)
Accrued interest receivable on loans/investments	(71,232)					(71,232)
Accounts receivable	9,618,971	(1,592,258)				8,026,713
Change in allowance for accounts receivable	25,154	1,785,625				1,810,779
Other assets	(81,053)	(1,982,128)				(2,063,181)
Accounts payable and other liabilities	(325,484)	(3,694,320)	(364,822)			(4,384,626)
Net cash provided by (used in) operating activities	$ 11,231,592	$ (268,525)	$ (1,951,708)	$ (527,770)	$ -	$ 8,483,589

See accompanying notes to the financial statements.

NOTE 1 - AUTHORIZING LEGISLATION AND FUNDS

The Authority was created in 1978 by an act of the Indiana Legislature (the "Act"). The Authority has been given numerous powers under the Act, including the power to enter into contracts and agreements, acquire, hold and convey property and issue notes and bonds, for the purpose of financing residential housing for persons and families of low and moderate incomes.

The powers of the Authority are vested by the Act in seven members who constitute the Board of Directors, four of whom are appointed by the Governor of Indiana and three of whom serve by virtue of holding other Indiana state offices. The three ex-officio members are the Lieutenant Governor, the State Treasurer, and the Public Finance Director of the State of Indiana. The Authority is considered a component unit of the State of Indiana and is discretely presented in the State's financial statements as determined by the Indiana State Board of Accounts.

The Act empowers the Authority to (1) make or participate in the making of construction loans and mortgage loans to sponsors of federally assisted multi-family residential housing; (2) purchase or participate in the purchase from mortgage lenders, mortgage loans made to persons of low and moderate income for residential housing; and (3) make loans to mortgage lenders for the purpose of furnishing funds to be used for making mortgage loans to persons and families of low and moderate incomes. The Act authorizes the Authority to issue its bonds and notes to carry out its purposes, and neither the Act nor the Bond Trust Indentures establish any limitation as to the aggregate amount of obligations which the Authority may have outstanding.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purposes under powers granted to it by the Act. The financial transactions of the Authority are recorded in the funds which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses, as appropriate. The Authority's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which financial activity is controlled. Prior to 2012, the Affordable Housing and Community Development Fund was reported and audited separately. In 2012, the Affordable Housing and Community Development Fund was included in the Authority's financial statements which resulted in an increase in net position of $29,069,323.

Each of the Authority's funds described below is considered a major fund.

General Fund

The General Fund was established by the Authority to account for all fee income and charges that are not required to be recorded in other funds and for operating expenses of the Authority.

Program Fund

The Program Fund accounts for grant activity related to various Federal and State programs administered by the Authority.

Single Family, Home First and MBS Pass-thru Funds

The Single Family, Home First and MBS Pass-thru Funds are bond indentures which use bond proceeds to fund the Single Family Mortgage Programs (the "Mortgage Programs").

NOTE 1 - AUTHORIZING LEGISLATION AND FUNDS (CONTINUED)

The Mortgage Programs provide for the purchase of mortgage loans made to eligible borrowers for owner occupied housing which are then securitized into GNMA, FNMA or FHLMC certificates (collectively “MBS”). Borrowers meeting certain income guidelines may qualify under the Authority’s First Home Plus Program. This program is facilitated by a Down Payment Assistance Program funded by federal HOME Investment Partnerships Program funds which allow the borrower to receive up to $7,500 of down payment assistance funding. This down payment assistance funding is in the form of a non-amortizing second mortgage at a 0% interest rate, which must be repaid in full upon refinancing of the original mortgage or sale of the home.

Commencing in June 1980, the Authority entered into mortgage purchase agreements with certain commercial banks, savings and loan associations and mortgage banking companies admitted to do business in the State of Indiana whereby the lenders agreed to originate mortgage loans on newly constructed and existing dwellings meeting criteria established by the Authority and to sell them to the Authority.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Authority’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The Authority accounts for all of its activity as a Proprietary Fund which includes Business-Type activities that are financed in whole or in part by fees charged to external parties.

Basis of Accounting

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

Accounting Pronouncements

The Authority elected to early adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The application of GASB Statement No. 65 required a restatement of previously presented net position decreasing in the amount of $7,126,917.

The following is a reconciliation of the beginning net position:

Net position, as previously reported	$382,509,497
Net position of Affordable Housing and Community Development Fund	29,069,323
Adoption of GASB No. 65	(7,126,917)
Net position, as restated	$404,451,903

Investment Securities

The Authority reports its investments securities, including MBS, at fair value. The realized and unrealized gains or losses are reported in the Statement of Revenues, Expenses and Changes in Net Position.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
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Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Following is a summary of the effects of valuing investment securities at fair value on total assets and deferred outflows, net position and operating income (loss) for 2012:

	Total Assets and Deferred Outflows	
	Fair value	Cost
General Fund	$ 77,068,773	$ 76,593,717
Program Fund	140,833,390	140,760,437
Single Family Fund	650,067,749	612,305,562
Home First Fund	373,061,575	346,794,769
MBS Pass-thru Fund	77,609,222	71,930,081
Total	$ 1,318,640,709	$1,248,384,566

	Net Position	
	Fair value	Cost
General Fund	$ 75,535,478	$ 75,060,422
Program Fund	99,964,979	99,892,026
Single Family Fund	180,473,901	142,711,714
Home First Fund	48,366,789	22,099,983
MBS Pass-thru Fund	12,132,068	6,452,927
Total	$ 416,473,215	$ 346,217,072

	Operating Income (Loss)	
	Fair value	Cost
General Fund	$ 2,859,221	$ 2,420,182
Program Fund	11,115,086	11,446,579
Single Family Fund	(18,576,389)	8,269,661
Home First Fund	12,027,868	975,008
MBS Pass-thru Fund	4,595,526	(1,083,615)
Total	$ 12,021,312	$ 22,027,815

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Issuance Costs

Bond issuance costs are expensed as incurred.

Original Issue Discounts

Original issue discounts on bonds are amortized using a method that approximates the effective interest method over the life of the bonds to which they relate.

Original Issue Premiums

Original issue premiums on bonds are amortized using a method that approximates the effective interest method over the life of the bonds to which they relate.

Capital Assets

Capital assets consist primarily of office furniture and equipment in the General Fund which are stated at cost less accumulated depreciation. The Authority is in the practice of capitalizing fixed asset purchases over $5,000 into capital assets. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from three to ten years.

A summary of capital assets (in thousands) being depreciated at December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Building improvements	$ 45			$ 45
Furniture and equipment	6,223	$ 638		6,861
Total accumulated depreciation	(4,059)	(327)		(4,386)
Total capital assets being depreciated, net of accumulated depreciation	$ 2,209	$ 311		$ 2,520

Fair Value of Financial Instruments

The carrying values of the Authority’s financial instruments either approximate fair value or are fair value, except for bonds payable. It is not practicable to estimate the fair value of the Authority’s bonds payable because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Operating Revenues

The Authority records all revenues derived from mortgages, investment income and federal programs as operating revenues since these revenues are generated from the Authority’s daily operations needed to carry out its statutory purpose.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fee Income

Fees for Mortgage Credit Certificate and Mortgage Revenue Bond Programs are recorded as fee income in the General Fund as certificates are issued. Rental Housing Tax Credit fees are recognized as applications are submitted. The Authority also receives certain administrative fees for a federal grant program that are recorded as earned.

Provision for Possible Loan Losses on Mortgage Loans Receivable

No provision for possible loan losses on mortgage loans receivable has been made because the Authority has purchased mortgage pool insurance on its loans, or they are fully insured by the FHA. The Authority considers all forgivable loans to be uncollectible and reserves the entire balances.

Allocation of Expenses Among Funds

The Program, Single Family, Home First and MBS Pass-thru Funds provide that funds may be transferred to the General Fund for the purpose of paying reasonable and necessary program expenses.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and on deposit and investments with a maturity of three months or less.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires estimates and assumptions that affect the reported amount of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

The Authority's resources are classified for accounting and financial reporting purposes into the following net position categories:

- *Net investment in capital assets* – resources resulting from capital acquisition, net of accumulated depreciation.
- *Restricted* – net positions subject to externally imposed stipulations as to use.
- *Unrestricted* – net positions which are available for use of the Authority.

Use of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Overdraws of Section 8 Housing Assistance

HUD Notice PIH 2006-03 and subsequent interpretive guidance issued by HUD requires Section 8 voucher funds to be reported as restricted net position in the Financial Data Schedule filings. Therefore, the Authority includes Section 8 overdraws in net positions as restricted.

Subsequent Events

The Authority has evaluated the financial statements for subsequent events occurring through April 25, 2013, the date the financial statements were available to be issued.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash, cash equivalents and investments held by the Authority as of December 31, 2012 were as follows:

	General Fund	Program Fund	Single Family Fund	Home First Fund	MBS Pass-thru Fund	Total
Current						
Unrestricted cash and cash equivalents	$ 8,914,180		$ 56,792,019			$ 65,706,199
Restricted cash and cash equivalents	106,222	$68,243,393	75,099,059	$ 35,437,048	$ 48,718	178,934,440
Total Cash and Cash Equivalents	9,020,402	68,243,393	131,891,078	35,437,048	48,718	244,640,639
Non-Current						
Unrestricted Investments	60,047,452		32,287,495			92,334,947
Restricted:						
Investments		4,999,700	37,364,219	12,814,647		55,178,566
Investments - Held Against Bonds			438,176,950	323,846,479	69,402,369	831,425,798
Total restricted	60,047,452	4,999,700	507,828,664	336,661,126	69,402,369	978,939,311
Total Cash, Cash Equivalents and Investments	$69,067,854	$73,243,093	$639,719,742	$372,098,174	$69,451,087	$1,223,579,950

A summary of cash, cash equivalents and investments as of December 31, 2012 follows:

	Fair value	Cost
Cash and Cash Equivalents	$ 244,640,639	$ 244,640,639
Federal Agency Obligations	131,368,539	129,294,001
Federal Agency Obligations held against bonds	831,425,798	762,996,833
Municipal Bonds	10,238,898	10,486,260
Guaranteed Investment Contracts	5,906,076	5,906,076
	$ 1,223,579,950	$ 1,153,323,809

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Policy

General

Indiana Code 5-20-1 authorizes the Authority to invest in obligations of the State, the United States, or their agencies or instrumentalities and such other obligors as may be permitted under the terms of any resolution authorizing the issuance of the Authority's obligations.

Indentures

The Bond Indentures permit investments in the direct obligations of, or obligations guaranteed by, the United States, obligations issued by certain agencies of the Federal government, and investments collateralized by those types of investments. At December 31, 2012, all investments held by the Authority were in compliance with the requirements of the Indentures.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rate. The Authority's investment policy does not restrict investment maturities. As of December 31, 2012, the Authority had the following investments and maturities (in thousands).

		Investment Maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Federal Agency Obligations	$131,369	$5,084	$23,911	$46,011	$ 56,363
Federal Agency Obligations Held against bonds	831,426				831,426
Municipal Bonds	10,238	50	36	230	9,922
Guaranteed Investment Contracts	5,906				5,906
Total	$978,939	$5,134	$23,947	$46,241	$ 903,617

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that the Authority 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 counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty of the counterparty's trust department or agent but not in the Authority's name. As of December 31, 2012, the Authority had not entered into any agreements subject to this paragraph.

In 1937, the State created the Public Deposit Insurance Fund (PDIF) to protect the public funds of the state and its political subdivisions deposited in approved financial institutions. The PDIF insures those public funds deposited in approved financial institutions which exceed the limits of coverage provided by any federal deposit insurance. As of December 31, 2012, all of the Authority's cash was deposited in an approved financial institution.

Credit Risk Disclosure

The following table (in thousands of dollars) provides information on the credit ratings associated with the Authority's investments in debt securities:

Investment type	S & P	Fitch	Moody's	Fair Value
Federal Agency Obligations	AA+	AAA	Aaa	$ 131,369
Federal Agency Obligations Held against bonds	AA+	AAA	Aaa	831,426
Municipal Bonds	AA+	AAA	Aaa	10,238
Guaranteed Investment Contracts	unrated	unrated	unrated	5,906
Total				$ 978,939

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. The following table shows investments in issuers that represent five percent or more of total investments.

Issuer	Percent of Total Investments
Ginnie Mae	73.80%
Fannie Mae	11.29%
Freddie Mac	6.59%
Small Business Administration	5.64%

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
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Year Ended December 31, 2012

NOTE 4 - ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable at December 31, 2012, were as follows:

General Fund:	
Loans Provided to Subrecipients of Certain Programs	$ 180,934
Mortgage Loans	1,058,988
Accounts Receivable	941,285
	2,181,207
Less: Allowance for Uncollectible Loans	(724,943)
	$ 1,456,264
Current receivables	$ 397,276
Noncurrent receivables	$ 1,058,988
Program Fund:	
Reimbursements Due from Other Governments	$ 10,766,706
Section 1602 Tax Credit Exchange Program Loans	216,292,987
Tax Credit Assistance Program Loans	20,381,013
Rural Rental Housing Loans	2,092,211
HOME Loans	4,957,858
Community Development Block Grant Loans	12,930,996
Development Fund	19,614,061
Hardest Hit Fund	11,645,223
	298,681,055
Less: Allowance for Uncollectible Loans	(229,616,284)
	$ 69,064,771
Current receivables	$ 30,857,228
Noncurrent receivables	$ 38,207,543

The Section 1602 Tax Credit Exchange Program and Hardest Hit Fund Loans are forgivable, as long as borrowers comply with the provisions of the related agreements. Therefore, these loans are included in the allowance for uncollectible loans. Additionally, the Authority creates allowances for loans and receivables to correspond with their perceived collectability.

NOTE 5 - BONDS PAYABLE

Bonds payables at December 31, 2012 consist of (dollars in thousands):

Single Family Fund	Original Amount	Balance
2004 Series A-1:		
Serial bonds (3.50% to 3.90%), due 2014 - 2017	$ 2,920	$ 1,625
Term bonds (4.20%), due 2020	1,360	720
	4,280	2,345
2004 Series A-2:		
Serial bonds (3.65% to 3.80%), due 2013 - 2014	9,210	910
Term bonds (4.45%), due 2024	4,265	2,305
Term bonds (4.45%), due 2025	4,265	2,270
Term bonds (4.60%), due 2034	9,175	4,950
Term bonds (4.60%), due 2035	9,175	4,970
	36,090	15,405
2004 Series B-1:		
Serial bonds (4.40% to 4.75%), due 2014 - 2017	4,275	2,140
	4,275	2,140
2004 Series B-2:		
Term bonds (4.30%), due 2014	4,365	555
Term bonds (4.30%), due 2014	4,370	640
PAC bonds (5.25%), due 2034	18,880	1,055
	27,615	2,250
2004 Series B-2A:		
Term bonds (5.15%), due 2025	6,965	3,400
Term bonds (5.15%), due 2025	6,965	3,365
Term bonds (5.20%), due 2029	4,930	2,400
Term bonds (5.20%), due 2029	4,925	2,405
Term bonds (5.30%), due 2035	10,860	5,265
Term bonds (5.30%), due 2035	10,860	5,270
	45,505	22,105
2004 Series C-1:		
Serial bonds (3.80% to 4.10%), due 2014 - 2017	5,200	2,955
Term bonds (4.35%), due 2020	1,295	790
	6,495	3,745

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2012

NOTE 5 - BONDS PAYABLES (CONTINUED)

Single Family Fund	Original Amount	Balance
2004 Series C-2:		
Serial bonds (4.05% to 4.10%), due 2013	$ 8,140	$ 695
Term bonds (4.70%), due 2025	7,720	4,645
Term bonds (4.85%), due 2029	7,065	4,270
PAC bonds (5.00%), due 2034	9,680	610
Term bonds (4.90%), due 2035	10,900	6,565
	43,505	16,785
2005 Series A-1:		
Serial bonds (3.90% to 4.20%), due 2014 - 2017	2,940	1,015
Term bonds (4.375%), due 2020	1,620	575
	4,560	1,590
2005 Series A-2:		
Serial bonds (4.05% to 4.30%), due 2013 - 2015	695	165
PAC bonds (5.00%), due 2035	22,755	9,420
Term bonds (4.65%), due 2035	28,615	7,790
	52,065	17,375
2005 Series B-2:		
PAC bonds (5.00%), due 2036	27,220	6,455
	27,220	6,455
2005 Series C-1:		
Serial bonds (4.00% to 4.25%), due 2013 - 2016	5,765	225
Term bonds (4.55%), due 2020	4,035	155
	9,800	380
2005 Series C-2:		
Serial bonds (4.25%), due 2013	7,410	20
Term bonds (4.85%), due 2026	980	45
Term bonds (5.00%), due 2031	1,030	35
PAC bonds (5.00%), due 2036	24,600	5,530
Term bonds (5.05%), due 2037	4,180	155
	38,200	5,785
2006 Series A-1:		
Term bonds (5.25%), due 2037	35,065	11,560
	35,065	11,560
2006 Series B-1:		
Serial bonds (3.95% to 4.25%), due 2013 - 2016	17,795	4,210
	17,795	4,210

NOTE 5 - BONDS PAYABLE (CONTINUED)

Single Family Fund	Original Amount	Balance
2006 Series B-2:		
Term bonds (4.80%), due 2021	$ 13,230	$ 6,155
Term bonds (4.90%), due 2026	16,755	7,500
Term bonds (4.95%), due 2031	22,620	11,115
Term bonds (5.00%), due 2037	34,125	16,760
Term bonds (5.50%), due 2037	26,500	8,620
Taxable PAC bonds (5.90%), due 2037	50,000	16,180
	163,230	66,330
2006 Series C-1:		
Serial bonds (4.10% to 4.35%), due 2013 - 2016	11,205	3,720
Term bonds (4.65%), due 2021	8,935	6,125
Term bonds (4.80%), due 2027	14,970	10,235
Term bonds (4.85%), due 2031	13,475	9,230
Taxable PAC bonds (5.75%), due 2037	10,000	3,450
Term bonds (4.90%), due 2037	27,865	19,090
	86,450	51,850
2006 Series C-2:		
Term bonds (5.692%), due 2037	26,000	7,025
	26,000	7,025
2006 Series D-1:		
Serial bonds (4.00% to 4.20%), due 2013 - 2016	10,445	3,560
Term bonds (4.45%), due 2021	8,045	5,725
Term bonds (4.55%), due 2027	13,420	9,580
Term bonds (4.60%), due 2031	12,025	8,570
Taxable PAC bonds (5.50%), due 2038	16,000	5,700
Term bonds (4.625%), due 2038	30,065	13,460
	90,000	46,595
2006 Series D-2:		
Taxable bonds (5.409%), due 2038	25,045	10,815
	25,045	10,815

NOTE 5 - BONDS PAYABLE (CONTINUED)

Single Family Fund	Amount	Balance
2007 Series A-1:		
Serial bonds (4.30%), due 2015	$ 4,580	$ 930
Term bonds (4.170%), due 2014	2,210	1,715
Term bonds (4.375%), due 2017	2,585	2,000
Term bonds (4.650%), due 2022	7,155	1,870
Term bonds (4.780%), due 2027	9,415	590
Term bonds (4.80%), due 2032	12,405	9,645
PAC bonds (5.50%), due 2038	9,030	3,755
Term bonds (4.875%), due 2039	22,620	17,570
	70,000	38,075
2007 Series A-2:		
Taxable PAC bonds (5.505%), due 2039	24,985	12,005
	24,985	12,005
2010 Series 08A-2:		
Term bonds (SIFMA plus 0.95%), due 2039	85,000	69,500
	85,000	69,500
2008 Series A-3:		
Serial bonds (4.450% to 5.30%), due 2013 - 2018	22,920	8,955
Term bonds (5.95%), due 2023	7,015	3,325
Term bonds (6.125%), due 2029	11,165	5,290
Term bonds (6.25%), due 2033	13,370	6,335
Term bonds (6.45%), due 2040	18,370	8,705
	72,840	32,610
	$ 996,020	$ 446,935

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
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NOTE 5 - BONDS PAYABLE (CONTINUED)

Home First Fund	**Original Amount**	**Balance**
2010 Series A:		
Serial bonds (1.10% to 3.55%), due 2013 - 2021	$ 12,225	$ 9,520
Term bonds (4.00%), due 2025	6,035	5,350
PAC bonds (4.50%), due 2028	5,740	4,990
	24,000	19,860
2011 Series A:		
Serial bonds (0.875% to 4.00%), due 2013 - 2021	9,070	7,005
Term bonds (4.45%), due 2027	7,430	6,135
PAC bonds (4.50%), due 2028	7,500	6,805
	24,000	19,945
2011 Series B:		
Serial bonds (0.60% to 4.00%), due 2013 - 2021	8,825	7,540
Term bonds (4.00%), due 2027	7,675	6,635
PAC bonds (4.50%), due 2028	7,500	6,930
	24,000	21,105
2011 Series C:		
Serial bonds (0.65% to 5.00%), due 2013 - 2022	26,325	26,325
Term bonds (3.60%), due 2024	5,090	3,760
Term bonds (4.10%), due 2027	7,905	7,905
PAC bonds (4.50%), due 2027	12,680	11,685
	52,000	49,675
	$ 349,000	$ 320,400

MBS Pass-thru Fund		
2012 Series 1:		
Term bonds (3.029%), due 2038	$ 73,532	$ 63,723
	$ 73,532	$ 63,723

Program Fund		
Term bonds (0%), due 2013	$ 5,000	$ 5,000
	$ 5,000	$ 5,000

NOTE 5 - BONDS PAYABLE (CONTINUED)

The Single Family, Home First and MBS Pass-thru bonds are special obligations of the Authority. The bonds are payable solely from the revenues and assets pledged to the payment thereof pursuant to the Bond Trust Indentures.

The 2006 Series B, 2006 Series C, 2006 Series D, and 2007 Series A include both taxable and tax-exempt bonds. Taxable bonds were utilized to increase resources for the Authority's Mortgage Program.

The 2010 Series 08A-2 bond matures on December 1, 2039, and the interest rate is SIFMA plus .95% (1.08% at December 31, 2012) adjusted weekly.

The following are the scheduled amounts of principal and interest payments on bond payable obligations in the five years subsequent to December 31, 2012 and thereafter (all amounts in thousands). The Authority typically has significant prepayments of principal amounts and therefore does not expect to make all interest payments in their scheduled amounts.

	Program Fund		Single Family Fund		Home First Fund		MBS Pass-thru Fund		Total		Total
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Payments**
2013	$ 5,000		$ 7,720	$ 21,301	$ 5,750	$ 9,709		$ 1,930	$ 18,470	$ 32,940	$ 51,410
2014			8,195	20,969	6,705	9,622		1,930	14,900	32,521	47,421
2015			8,145	20,623	7,000	9,491		1,930	15,145	32,044	47,189
2016			9,175	20,246	7,260	9,326		1,930	16,435	31,502	47,937
2017			10,610	19,799	7,415	9,070		1,930	18,025	30,799	48,824
2018-2022			60,500	90,971	41,295	41,062		1,930	101,795	133,963	235,758
2023-2027			77,925	74,725	49,555	32,669		1,930	127,480	109,324	236,804
2028-2032			111,025	52,328	62,965	23,109		1,930	173,990	77,367	251,357
2033-2037			128,050	22,464	73,530	13,771		1,930	201,580	38,165	239,745
2038-2042			25,590	1,396	58,925	3,499	$ 63,723	16	148,238	4,911	153,149
Original issue premium			3,087		3,430		1,593		8,110		8,110
Original issue discount					(14)				(14)		(14)
Total	$ 5,000	$ -	$450,022	$344,822	$323,816	$161,328	$ 65,316	$17,386	$844,154	$523,536	$1,367,690

Summary of long-term debt as of December 31, 2012 (dollars in thousands):

Interest rate ranges	Maturity range	Annual payment range of principal	Amount
0.95% - 6.45%	2014 - 2041	$14,900 - $93,908	$ 817,588

NOTE 5 - BONDS PAYABLE (CONTINUED)

Changes in Obligations

The following are changes in the obligations of the Authority for the year ended December 31, 2012:

Long-term obligations (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts due within one year	Amounts due thereafter
Bonds payable/notes payable	$ 1,068,715	$112,532	$ 345,189	$ 836,058	$ 18,470	$ 817,588
Less original discount	(17)		3	(14)		(14)
Add original premium	8,732	1,838	2,460	8,110		8,110
Other liabilities	785	63	428	420		420
	$ 1,078,215	$114,433	$ 348,080	$ 844,574	$ 18,470	$ 826,104

The Single Family and Home First bonds are subject to optional redemption provisions at various dates at prices ranging from 100 to 103 percent of the principal amount, extraordinary optional redemption at par from unexpended or uncommitted funds, prepayments of mortgage loans and proportionate amounts in certain related accounts or excess revenues. The Authority redeemed $281,505,000 of bonds in 2012 from prepayments that had been received. The bond redemptions resulted in write-offs of unamortized discount and deferred debt issuance costs related to the redeemed bonds and termination of related swaps.

Swap Agreement – Cash Flow Hedge

On November 6, 2008, the Authority entered into an interest rate swap agreement with Royal Bank of Canada (Counterparty), effective December 2, 2008. The objective of this swap agreement is to create, with respect to the 2008 Series A-2 Bonds in an amount totaling $85,000,000, an approximately fixed rate net obligation. Payments made to the Counterparty by the Authority under this swap agreement are to be made semi-annually, commencing on January 1, 2009, on the basis of a notional principal amount and a fixed interest rate of 3.445%. Payments received by the Authority from the Counterparty under the swap agreement bear interest at a variable rate calculated by reference to the SIFMA Municipal Swap Index.

Objective of the Swap: In order to protect against the potential of rising interest rates, the Authority entered pay-fixed, receive-variable interest rate swap.

Terms, Fair Values, and Credit Risk: The terms, including, the fair values and credit ratings of the outstanding swap as of December 31, 2012, are as follows. The notional amount of the swap matches the principal amount of the associated debt. The Authority's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

Bond series	Notional amounts	Effective date	Fixed rate paid	Variable rate received	Fair value	Swap termination date	Counterparty credit rating S&P/Moody's/Fitch
2010 Series 08A-2	$ 69,500,000	12/2/2008	3.445%	USD-SIFMA	$ (8,128,866)	7/1/2027	AA-/Aa3/AA

NOTE 5 - BONDS PAYABLE (CONTINUED)

Fair Value: Because interest rates declined, the swap had a negative fair value as of December 31, 2012. The negative fair value may be countered by reductions in total interest payments required under the floating-rate bonds, creating lower synthetic interest rates. Because the coupons on the Authority's floating-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases.

Credit Risk: As of December 31, 2012, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

Termination Risk: The Authority or the Counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated floating-rate bonds would no longer carry synthetic interest rates. Also, if at the time of the termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover Risk: The Authority is exposed to rollover risk if the swap matures or is terminated prior to the maturity of the associated debt. When the swap terminates, the Authority will not realize the synthetic rate offered by the swap on the underlying debt issue.

Swaption: The Authority may, starting July 1, 2018 and semiannually thereafter, terminate the swap transaction, in whole or in part, by providing at least thirty days prior written notice to the Counterparty. No payments shall be due from any party in connection with any such optional termination except for accrued amounts that would otherwise be due on the optional termination date.

Swap Payments and Associated Debt: As of December 31, 2012, debt service requirements of the Authority's hedged outstanding variable rate debt and net swap payments (assuming current interest rates remain the same for their term and bonds are called as the swap amortizes) are as follows:

Year Ending December 31	Principal	Interest	Interest Rate, Swaps, Net	Total
2013	$ 7,800,000	$ 687,015	$ 2,108,754	$10,595,769
2014	7,220,000	607,500	1,864,688	9,692,188
2015	6,605,000	534,357	1,640,179	8,779,536
2016	4,650,000	480,897	1,476,087	6,606,984
2017	4,210,000	434,808	1,334,619	5,979,427
2018-2022	24,600,000	1,360,530	4,176,071	30,136,601
2023-2027	14,415,000	285,201	875,409	15,575,610
Total	$69,500,000	$4,390,308	$13,475,807	$87,366,115

NOTE 5 - BONDS PAYABLE (CONTINUED)

Conduit Debt Obligations

The Authority is authorized by law to issue conduit revenue bonds for the purpose of financing residential housing for persons and families of low and moderate income. Except as described below, the Authority's revenue bonds are payable solely from revenues of the Authority specifically pledged thereto. The bonds are not, in any respect, a general obligation the Authority, nor are they payable in any manner from revenues raised by the Authority.

The Authority has issued debt obligations on behalf of a certain 501(c)(3) organization (the "Debtors") for the purpose of acquiring and rehabilitating facilities for housing persons of low and moderate income. These bonds and the interest thereof do not constitute a debt or liability of the Authority, 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. At December 31, 2012, the Authority had outstanding conduit debt of $48.7 million.

NOTE 6 - COMMITMENTS

As of December 31, 2012, the Authority had the following commitments:

Lease

The Authority amended its lease agreement for office space in October 2012. The table below shows the required payments for the ten-year term of the lease. Lease expense for 2012 was $460,527.

Year	Lease Expense
2013	$ 360,306
2014	467,109
2015	467,109
2016	467,109
2017	467,109
2018 - 2023	2,368,746
Total	$ 4,597,488

NOTE 6 - COMMITMENTS (CONTINUED)

Excess Investment Earnings

In order to preserve the exemption of federal and state income taxation on interest received by the bond holders, each bond issue is subject to certain Internal Revenue Code (IRC) and U.S. Treasury Regulations. Under these regulations, the Authority is required to pay the Federal government any excess earnings as defined by IRC Section 148(f) on all nonpurpose investments if such investments were invested at a rate greater than the yield on the bond issue.

The Authority's liability for excess earnings, included in accounts payable and other liabilities on the statements of net position at December 31, follows:

	2012
Single Family Program	$419,689

NOTE 7 - RETIREMENT PLAN

Plan Description

The Authority is a participating employer in the Indiana Public Retirement System (INPRS). The Authority contributes to the INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under the Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all Authority employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the defined pension at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

Participants are required to contribute 3% of compensation to an annuity savings account. Legislation permits an INPRS employer to make the participant's contributions on behalf of the participant.

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

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

NOTE 7 - RETIREMENT PLAN (CONTINUED)

Funding Policy

The Authority contributes the participant's required contribution of 3% of their annual salary to an annuity savings account that may be withdrawn at any time with interest should a participant terminate employment. The Authority is required by State statute to contribute at an actuarially determined rate. The current rate is 9.7% of annual covered payroll. The contribution requirements of participants are determined by State statute.

Annual Pension Cost

For the 2012 plan year, the Authority's annual contribution of $320,726 was less than the required contribution of $416,398. The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2012 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.0% per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual post-retirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

NOTE 8 - CONTINGENCIES

The Authority is subject to various claims which arise primarily in the ordinary course of conducting their business. In management's opinion, the ultimate resolution of such matters will not have a material adverse effect on the Authority's financial position or its results of operations.

SUPPLEMENTARY INFORMATION

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2012

Retirement Plan Schedule of Funding Progress and Employer Contributions (Unaudited)

Asset valuation date	(1) Actuarial value of assets	(2) Actuarial accrued liability (AAL) entry age	(2-1) Unfunded (overfunded) AAL (UAAL)	(1/2) Funded ratio	(3) Covered payroll	[(2-1)/3] UAAL as a percentage of covered payroll	Annual pension cost (APC)	Percentage of APC contributed
June 30, 2012	$ 1,134,000	$ 2,396,000	$ 1,262,000	47%	$ 4,265,617	30%	$ 416,398	77%
June 30, 2011	1,115,000	1,975,000	860,000	56%	3,895,000	22%	402,054	65%
June 30, 2010	1,316,000	1,950,000	634,000	67%	3,928,000	16%	219,411	107%
June 30, 2009	1,372,000	1,579,000	207,000	87%	3,473,000	6%	206,092	104%
June 30, 2008	1,450,000	1,476,000	26,000	98%	3,148,000	1%	168,385	116%