

*In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Bonds (as hereinafter defined) is exempt from income taxation in the State of Indiana for all purposes, except for the Indiana financial institutions tax. See "TAX MATTERS" and Appendix C herein. INTEREST ON THE BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.*

**\$5,920,000**  
**INDIANA BOND BANK**  
**COMMON SCHOOL FUND ADVANCEMENT**  
**PURCHASE REFUNDING BONDS,**  
**SERIES 2012 A (TAXABLE)**

**\$44,245,000**  
**INDIANA BOND BANK**  
**COMMON SCHOOL FUND ADVANCEMENT**  
**PURCHASE REFUNDING BONDS,**  
**SERIES 2012 B (TAXABLE)**

**Dated Date:** Date of Delivery

**Due:** As Shown Herein.

The Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2012 A (Taxable) (the "2012 A Bonds") and the Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2012 B (Taxable) (the "2012 B Bonds") and together with the 2012 A Bonds, the "Bonds"), are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry-only form, in the denomination of \$5,000 and integral multiples thereof. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Bonds.

Interest on the Bonds is payable on February 1 and August 1 of each year, commencing on August 1, 2012. Such interest on the 2012 A Bonds, together with the principal of the 2012 A Bonds, will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., as trustee (the "2012 A Trustee"), under the Trust Indenture dated as of March 1, 2012 (the "2012 A Indenture"), as described herein, so long as DTC or its nominee is the registered owner of the 2012 A Bonds. Interest on the 2012 B Bonds, together with the principal of the 2012 B Bonds, will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., (successor to Fifth Third Bank, Indiana), as trustee (the "2012 B Trustee" and together with the 2012 A Trustee, the "Trustee"), under the Indenture of Trust, dated as of July 1, 2003, as supplemented by a First Supplemental Trust Indenture dated as of March 1, 2012 (as supplemented, the "2012 B Indenture" and together with the 2012 A Indenture, the "Indentures"), as described herein so long as DTC or its nominee is the registered owner of the 2012 B Bonds. The Indiana Bond Bank (the "Bond Bank") may provide for payment of interest to any holder of Bonds in amounts aggregating \$1,000,000 or more by wire transfer or other method which is acceptable to the Trustee and the Bondholder. The final disbursement of such payments to the Beneficial Owner of the Bonds will be the responsibility of the DTC Direct Participants and the Indirect Participants, all as defined and more fully described herein under "THE BONDS — Book-Entry-Only System."

The 2012 A Bonds are being issued by the Indiana Bond Bank for the principal purpose of providing funds to currently refund all of the Bond Bank's outstanding Common School Fund Advancement Purchase Funding Bonds of 2001 (the "Refunded 2001 Bonds"). The Refunded 2001 Bonds were used to purchase, pursuant to the terms of an Advancement Acquisition and Administration Agreement, dated August 23, 2001 (as more particularly described herein) (the "2001 Advancement Acquisition and Administration Agreement"), all or a portion of certain advancement agreements (the "2001 Advancement Agreements") evidencing the right to make deductions from school tuition support payments appropriated by the General Assembly (the "General Assembly") of the State of Indiana (the "State") to repay certain advancements (the "2001 Advancements") previously made from the State Common School Fund to certain Indiana school corporations (as shown on Appendix A-1) (the "2001 School Corporations") to finance the construction of school facilities and the purchase of school equipment. The 2001 Advancement Agreements and the 2001 Advancement Acquisition and Administrative Agreement will be pledged as security for the 2012 A Bonds pursuant to the 2012 A Indenture. See "THE ORIGINAL PURCHASE OF THE ADVANCEMENT AGREEMENTS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS".

The 2012 B Bonds are being issued by the Bond Bank for the principal purpose of providing funds to advance refund a portion of the Bond Bank's Common School Fund Advancement Purchase Funding Bonds, Series 2003 B (the "2003 Bonds"), maturing on and after August 1, 2014 (the "Refunded 2003 B Bonds" and together with the Refunded 2001 Bonds, the "Refunded Bonds"). The 2003 B Bonds were used to purchase, pursuant to the terms of an Advancement Acquisition and Administration Agreement, dated July 1, 2003 (as more particularly described herein) (the "2003 Advancement Acquisition and Administration Agreement" and together with the 2001 Advancement Acquisition and Administration Agreement, the "Administration Agreements"), all or a portion of certain advancement agreements (the "2003 Advancement Agreements" and together with the 2001 Advancement Agreements, the "Advancement Agreements") evidencing the right to make deductions from school tuition support payments appropriated by the General Assembly of the State to repay certain advancements (the "2003 Advancements" and together with the 2001 Advancements, the "Advancements") previously made from the State Common School Fund to certain Indiana school corporations (as shown on Appendix A-2) (the "2003 School Corporations" and together with the 2001 School Corporations, the "School Corporations") to finance the construction of school facilities and the purchase of school equipment. The 2003 Advancement Agreements and the 2003 Advancement Acquisition and Administration Agreement will be pledged as security for the 2012 B Bonds pursuant to the 2012 B Indenture. The 2012 B Bonds will be issued on a parity basis with the outstanding 2003 B Bonds. See "THE ORIGINAL PURCHASE OF THE ADVANCEMENT AGREEMENTS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS".

The Bonds are not subject to optional or mandatory redemption prior to maturity.

The Bonds are payable from amounts deducted by the State Board of Education (the "Board of Education") and the State Board of Finance (the "Board of Finance") from school tuition support payments appropriated by the General Assembly of the State to the School Corporations and available to repay the applicable Advancements or, if such funds are not adequate, from amounts deducted from other funds appropriated by the General Assembly to such School Corporations and available for such purpose (such amounts are individually referred to herein as the "2001 Advancement Payments" or the "2003 Advancement Payments" and collectively, as "Advancement Payments"), and are secured by the Advancement Agreements. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS".

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE APPLICABLE ADVANCEMENT PAYMENTS AND THE OTHER SOURCES MORE PARTICULARLY DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE STATE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS AND THE PROVISIONS OF INDIANA CODE 5-1.5-5 REGARDING THE REPLENISHMENT OF A RESERVE FUND WILL NOT APPLY TO THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR EACH SERIES OF BONDS ARE MORE FULLY DESCRIBED HEREIN. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS".

The Bonds are being offered when, as and if issued by the Bond Bank and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by its special counsel, Graham & Associates PC, Indianapolis, Indiana, and for the Underwriters by their counsel, Ice Miller LLP, Indianapolis, Indiana. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about March 22, 2012.

**RAYMOND JAMES®**

**MORGAN KEEGAN**

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Dated: March 1, 2012

## MATURITY SCHEDULE

**\$5,920,000**  
**INDIANA BOND BANK**  
**COMMON SCHOOL FUND ADVANCEMENT**  
**PURCHASE REFUNDING BONDS, SERIES 2012 A (TAXABLE)**

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP</u>
February 1, 2013	\$1,335,000	0.558%	100%	4546242V8
February 1, 2014	2,090,000	0.747	100	4546242W6
February 1, 2015	1,335,000	0.970	100	4546242X4
February 1, 2016	450,000	1.327	100	4546242Y2
February 1, 2017	450,000	1.627	100	4546242Z9
February 1, 2018	260,000	1.946	100	4546243A3

**\$44,245,000**  
**INDIANA BOND BANK**  
**COMMON SCHOOL FUND ADVANCEMENT**  
**PURCHASE REFUNDING BONDS, SERIES 2012 B (TAXABLE)**

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP</u>
August 1, 2012	\$865,000	0.427%	100%	4546243B1
February 1, 2013	790,000	0.558	100	4546243C9
August 1, 2013	795,000	0.658	100	4546243D7
February 1, 2014	795,000	0.747	100	4546243E5
August 1, 2014	7,775,000	0.847	100	4546243F2
February 1, 2015	7,735,000	0.970	100	4546243G0
August 1, 2015	7,780,000	1.070	100	4546243H8
February 1, 2016	3,515,000	1.327	100	4546243J4
August 1, 2016	3,120,000	1.427	100	4546243K1
February 1, 2017	3,095,000	1.627	100	4546243L9
August 1, 2017	3,075,000	1.727	100	4546243M7
February 1, 2018	2,080,000	1.946	100	4546243N5
August 1, 2018	2,075,000	2.046	100	4546243P0
February 1, 2019	750,000	2.296	100	4546243Q8

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

The information set forth herein has been obtained from the Bond Bank, the Trustee, the State Board of Education, the State Department of Education, the State Board of Finance, the State Budget Agency, the State Treasurer's Office, the State Auditor's Office, the Depository Trust Company and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Indiana Bond Bank, the Trustee, the State Board of Education, the State Department of Education, the State Board of Finance, the State Budget Agency, the State Treasurer's Office, the State Auditor's Office or The Depository Trust Company since the date hereof.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THE OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS A PART OF, THEIR RESPONSIBILITIES UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION AND REASONABLY BELIEVE SUCH INFORMATION TO BE ACCURATE AND COMPLETE, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION, AND IT IS NOT TO BE CONSTRUED AS THE PROMISE OR GUARANTEE OF THE UNDERWRITERS.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE INDIANA BOND BANK OR BY THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BONDS, THE SECURITY FOR THE BONDS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Information set forth in this SUMMARY STATEMENT is qualified by the entire Official Statement. A full review of the entire Official Statement should be made by potential investors. Capitalized terms as used herein and not otherwise defined are defined in Appendix D.

### SUMMARY STATEMENT

Description: Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2012 A (Taxable) (the "2012 A Bonds").

Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2012 B (Taxable) (the "2012 B Bonds" and together with the 2012 A Bonds, the "Bonds").

Principal Amount: 2012 A Bonds: \$5,920,000

2012 B Bonds: 44,245,000

Denominations: \$5,000 and integral multiples thereof.

Dated Date: Date of Delivery of the Bonds.

Interest and Principal Payments: Interest on the Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2012. Principal of the 2012 A Bonds is payable on February 1 of each year, commencing February 1, 2013, through February 1, 2018, inclusive. Principal of the 2012 B Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2012, through February 1, 2019, inclusive.

Form: The Bonds will be issued only as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York. See "THE BONDS — Book-Entry-Only System."

Redemption: The Bonds are not subject to optional or mandatory redemption prior to maturity.

Authority for Issuance: 2012 A Bonds: Indiana Code §§ 5-1-5, 5-1.5 and 20-49-4, each as amended and the Trust Indenture between the Bond Bank and the 2012 A Trustee, dated as of March 1, 2012 (the "2012 A Indenture").

2012 B Bonds: Indiana Code §§ 5-1-5, 5-1.5 and 20-49-4, and the Indenture of Trust dated as of July 1, 2003, as supplemented by a First Supplemental Trust Indenture dated as of March 1, 2012, each between the Bond Bank and the 2012 B Trustee (the "2012 B Indenture").

Use of Proceeds: 2012 A Bonds: The 2012 A Bonds will be issued by the Bond Bank to provide funds for the current refunding and defeasance of the Indiana Bond Bank's outstanding Common School Fund Advancement Purchase Funding Bonds of 2001 (the "Refunded 2001 Bonds") and to pay the costs of issuing the 2012 A Bonds.

2012 B Bonds: The 2012 B Bonds will be issued by the Bond Bank to advance refund a portion of the Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2003 B (the "2003 B Bonds") maturing on and after August 1, 2014 (the "Refunded 2003 B Bonds" and together with the Refunded 2001 Bonds, the "Refunded Bonds") and to pay the costs of issuing the 2012 B Bonds.

Security:

2012 A Bonds: The 2012 A Bonds are secured by the 2012 A Indenture and the security granted thereunder (the "2012 A Trust Estate"), including but not limited to the 2001 Advancement Agreements, including the interest in and to the 2001 Advancement Payments and the 2001 Advancement Acquisition and Administration Agreement.

2012 B Bonds: The 2012 B Bonds and the outstanding 2003 B Bonds are secured on a parity basis by the 2012 B Indenture and the security granted thereunder (the "2012 B Trust Estate"), including but not limited to the 2003 Advancement Agreements, including the interest in and to the 2003 Advancement Payments and the 2003 Advancement Acquisition and Administration Agreement.

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE APPLICABLE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS AND THE PROVISIONS OF INDIANA CODE 5-1.5-5 REGARDING THE ESTABLISHMENT AND REPLENISHMENT OF A RESERVE FUND WILL NOT APPLY TO THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

Continuing Disclosure:

As long as the State is committed by contract or other arrangement to facilitate payment of the obligations on the Bonds (or until such time as the Bonds may be defeased all as more fully set forth in the Undertaking), the State has agreed to provide or cause to be provided through the Bond Bank, as dissemination agent, information specified in subsections (b)(5)(i) and (b)(5)(ii) of Rule 15c2-12 of the Securities and Exchange Commission. The State has agreed to provide such information to the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access System at [www.emma.msrb.org](http://www.emma.msrb.org)

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## OFFICIAL STATEMENT

\$5,920,000  
INDIANA BOND BANK  
COMMON SCHOOL FUND ADVANCEMENT  
PURCHASE REFUNDING BONDS,  
SERIES 2012 A (TAXABLE)

\$44,245,000  
INDIANA BOND BANK  
COMMON SCHOOL FUND ADVANCEMENT  
PURCHASE REFUNDING BONDS,  
SERIES 2012 B (TAXABLE)

### INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of \$5,920,000 Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2012 A (Taxable) (the "2012 A Bonds") and \$44,245,000 Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2012 B (Taxable) (the "2012 B Bonds" and together with the 2012 A Bonds, the "Bonds"). The Bonds are being issued pursuant to certain provisions of Indiana Code § 20-49-4, Indiana Code § 5-1-5 and Indiana Code § 5-1.5, each as amended (as so amended, collectively, the "Act"). Capitalized terms not otherwise defined are used herein as defined in Appendix D.

The 2012 A Bonds are to be issued under and secured by the Trust Indenture dated as of March 1, 2012 (the "2012 A Indenture"), between the Bond Bank and The Bank of New York Mellon Trust Company, N.A., as trustee (the "2012 A Trustee") to currently refund the Bond Bank's outstanding Common School Fund Advancement Purchase Funding Bonds of 2001 (the "Refunded 2001 Bonds") originally issued in the aggregate principal amount of \$55,460,000 and currently outstanding in the aggregate principal amount of \$5,875,000.

The 2012 B Bonds are to be issued under and secured by the Indenture of Trust dated as of July 1, 2003, as supplemented by the First Supplemental Trust Indenture dated as of March 1, 2012 (as supplemented, the "2012 B Indenture" and together with the 2012 A Indenture, the "Indentures") between the Bond Bank and The Bank of New York Mellon Trust Company, N.A., ( as successor to Fifth Third Bank, Indiana), as trustee (the "2012 B Trustee" and together with the 2012 A Trustee, the "Trustee") to advance refund the Indiana Bond Bank's Common School Fund Advancement Purchase Funding Bonds, Series 2003 B (the "2003 B Bonds") maturing on and after August 1, 2014 (the "Refunded 2003 B Bonds" and together with the Refunded 2001 Bonds, the "Refunded Bonds") originally issued in the amount of \$107,895,000 and currently outstanding in the amount of \$66,775,000. The 2012 B Bonds will be issued on a parity basis with those 2003 B Bonds which will remain outstanding following the issuance of the 2012 B Bonds.

The principal of, premium, if any, and interest on the 2012 A Bonds are payable from moneys deducted from school tuition support payments appropriated by the General Assembly (the "General Assembly") of the State of Indiana (the "State") to the school corporations within the State listed on Appendix A-1 (collectively, the "2001 School Corporations"), and available for such purpose or from other funds appropriated by the General Assembly to the 2001 School Corporations and available for such purpose (collectively, the "2001 Advancement Payments"). The 2001 Advancement Payments are collected by the State Board of Education (the "Board of Education") and the State Board of Finance (the "Board of Finance") in accordance with Indiana Code § 20-49-4-18 and -19 and pursuant to certain advancement agreements ("2001 Advancement Agreements") entered into between the Board of Education and the 2001 School Corporations and thereafter paid over to the Bond Bank pursuant to the 2001 Advancement Acquisition and Administration Agreement (as defined herein) as more fully described herein. See "THE ORIGINAL PURCHASE OF THE ADVANCEMENT AGREEMENTS."

The principal of, premium, if any, and interest on the 2012 B Bonds are payable from moneys deducted from school tuition support payments appropriated by the General Assembly of the State to the school corporations within the State listed on Appendix A-2 (collectively, the "2003 School Corporations" and together with the 2001 School Corporations, the "School Corporations"), and available for such purpose or from other funds appropriated by the General Assembly to the 2003 School Corporations and available for such purpose (collectively, the "2003 Advancement Payments" and together with the 2001 Advancement Payments, the "Advancement Payments"). The 2003 Advancement Payments are collected by the Board of Education and the Board of Finance in accordance with Indiana Code § 20-49-4-18 and -19 and pursuant to certain advancement agreements ("2003 Advancement Agreements" and together with the 2001 Advancement Agreements, the "Advancement Agreements") entered into

between the Board of Education and the 2003 School Corporations and thereafter paid over to the Bond Bank pursuant to the 2003 Advancement Acquisition and Administration Agreement (as defined herein) as more fully described herein. See "THE ORIGINAL PURCHASE OF THE ADVANCEMENT AGREEMENTS."

### **THE REFUNDING PROGRAM**

The proceeds from the sale of the 2012 A Bonds will be used to provide funds to establish an irrevocable escrow to defease and effect a current refunding of all of the Refunded 2001 Bonds and pay for certain costs of issuance of the 2012 A Bonds, including the Underwriters' discount. The proceeds from the sale of the 2012 B Bonds will be used to provide funds to establish an irrevocable escrow to defease and effect an advance refunding of the Refunded 2003 B Bonds and pay for certain costs of issuance of the 2012 B Bonds, including the Underwriters' discount. See the caption "PLAN OF REFUNDING" for a discussion of the Refunded Bonds. The Refunded Bonds, as originally issued, are also referred to herein collectively as the "Prior Bonds."

The proceeds of the Refunded 2001 Bonds were originally used to finance the purchase by the Bond Bank of the 2001 Advancement Agreements pursuant to an Advancement Acquisition and Administration Agreement, dated August 23, 2001 (the "2001 Advancement Acquisition and Administration Agreement") by and among the Board of Finance, the Treasurer of the State, the Board of Education and the Bond Bank. The proceeds of the Refunded 2003 B Bonds were originally used to finance the purchase by the Bond Bank of the 2003 Advancement Agreements pursuant to an Advancement Acquisition and Administration Agreement dated July 1, 2003 (the "2003 Advancement Acquisition and Administration Agreement" and together with the 2001 Advancement Acquisition and Administration Agreement, the "Administration Agreements"). The Administration Agreements constitute valid and enforceable contractual obligations, but are not a debt of the Board of Education, the Board of Finance, the Treasurer of the State or the State within the meaning of any constitutional prohibition against State indebtedness. The proceeds of the Refunded Bonds, other than proceeds applied to the costs of issuance of the Refunded Bonds, were used to purchase the applicable Advancement Agreements (including accrued interest on the respective Advancement Agreements). The Bond Bank purchased and paid for the applicable Advancement Agreements on the respective closing date of each series of Refunded Bonds. The Advancement Agreements are more particularly described in Appendix A-1 and A-2 hereto.

The 2001 Advancement Agreements, and all payments, proceeds, receipts, issues and benefits thereunder, are pledged under the 2012 A Indenture to the Trustee for the benefit of the Owners of the 2012 A Bonds.

The 2003 Advancement Agreements, and all payments, proceeds, receipts, issues and benefits thereunder, are pledged under the 2012 B Indenture to the Trustee for the benefit of the Owners of the 2012 B Bonds and the Owners of the 2003 B Bonds which remain outstanding following the issuance of the 2012 B Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE APPLICABLE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS AND THE PROVISIONS OF INDIANA CODE 5-1.5-5 REGARDING THE REPLENISHMENT OF A RESERVE FUND WILL NOT APPLY TO THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

The 2012 A Bonds and the interest thereon are special obligations of the Bond Bank payable solely from the security pledged under the 2012 A Indenture (the "2012 A Trust Estate"), and shall be a valid claim of the owners

thereof only against such 2012 A Trust Estate, which 2012 A Trust Estate is pledged for the equal and ratable payment of the 2012 A Bonds, and shall be used for no other purpose than to pay the principal of and interest on the 2012 A Bonds, except as otherwise expressly authorized in the 2012 A Indenture. The Bond Bank has pledged and assigned to the Trustee all of the Bond Bank's right, title and interest in and to the 2001 Advancement Agreements, including the 2001 Advancement Payments, for the equal benefit of all the 2012 A Bondholders. See "SECURITY AND SOURCES OF PAYMENT FOR BONDS."

The 2012 B Bonds and the interest thereon are special obligations of the Bond Bank payable solely from the security pledged under the 2012 B Indenture (the "2012 B Trust Estate"), and shall be a valid claim of the owners thereof only against such 2012 B Trust Estate, which 2012 B Trust Estate is pledged for the equal and ratable payment of the 2012 B Bonds and the outstanding 2003 B Bonds, and shall be used for no other purpose than to pay the principal of and interest on the 2012 B Bonds and the outstanding 2003 B Bonds, except as otherwise expressly authorized in the 2012 B Indenture. The Bond Bank has pledged and assigned to the Trustee all of the Bond Bank's right, title and interest in and to the 2003 Advancement Agreements, including the 2003 Advancement Payments, for the equal benefit of all the 2012 B and 2003 B Bondholders. See "SECURITY AND SOURCES OF PAYMENT FOR BONDS."

Brief descriptions of the Bonds, the Indentures, the Administration Agreements, the Advancement Agreements, and the Undertaking (as defined herein) are included in this Official Statement. All summaries herein of documents and agreements and all references herein to the Bonds are qualified in their entirety by reference to the documents and agreements themselves and the form of Bond included in the respective Indenture.

### **THE INDIANA BOND BANK**

The Bond Bank was created in 1984 and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity, and has no taxing powers. The Bond Bank was empowered under the Act to purchase the Advancement Agreements.

#### **Powers Under the Act**

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a loan to or a lease or an agreement with a qualified entity; a purchase, acquisition or a sale of qualified obligations or other investments; or the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers available, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;
4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;
5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;

6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other program expenses properly attributable to qualified entities;

7. To the extent permitted by the indenture or other agreements under its contracts with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the Indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 20-49-4; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest and premium on the bonds, notes or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee or make investments other than as permitted by the Act;
3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;
4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business, or act as a savings bank, savings and loan association or any other kind of financial institution; or
5. Engage in any form of private or commercial banking business.

### **Organization and Membership of Bond Bank**

The membership of the Board of Directors of the Bond Bank (the "Board") consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Public Finance Director of the State of Indiana, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management.

Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four (4) of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four (4) Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board.

## **Directors**

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Richard E. Mourdock, Treasurer of the State, February 10, 2007 to present and Chairman Ex Officio. Residence: Evansville, Indiana. President, R.E. Mourdock and Associates, LLC, 2001 to present; Vanderburgh County Commissioner, 1995 to 2002; Executive, Koester Companies, 1984 to 2000; Senior Geologist, Standard Oil Company, 1979 to 1984; Geologist, Amax Coal Company, 1974 to 1979.

Kendra York, Public Finance Director of the State, January 17, 2011 to present. Residence: Bargersville, Indiana. Indiana Finance Authority, Chief Operating Officer and General Counsel, 2007 to 2011; previously, attorney, of counsel, with Ice Miller LLP, municipal finance section, licensed to practice law in the state of Indiana and California.

William S. Konyha, Vice Chairman; term expires July 1, 2012. Residence: Wabash, Indiana. President & CEO, Economic Development Group of Wabash County, Inc., 2006 to present; Chairman, Indiana Main Street Council; Advisory Counsel, Office of Community and Rural Affairs; Governance Committee Member, Indiana Economic Development Association; Advisory Board, Ivy Tech State Community College.

Patrick F. Carr, Director; term expired July 1, 2011. Residence: Indianapolis, Indiana. President & Chief Financial Officer, Golden Rule Insurance Company, United Healthcare, 2010 to present; Golden Rule, Senior Vice President, Chief Financial Officer, 2005 to 2010; Mayflower Transit, Inc., President and CEO, 1995-2005; President of the Board, American Medical Insurance Company, 2006 to present; Treasurer of the Board, Center for Leadership, 2006 to present; Chairman of the Investment Committee, Catholic Community Foundation, 2009 to present; Board of Advisors, Langham Logistics, 2008 to present; Treasurer of Board of Directors, Legatus of Indiana, 1995 to present; Member of the Indiana CPA Society, American Institute of CPAs, and Financial Executive Institute.

Philip C. Belt, Director; term expires June 30, 2013. Residence: Indianapolis, Indiana. Senior Vice President and Chief Operating Officer, VMS BioMarketing, 2011 to present; Vice President, Private Equity, Credit Suisse, 2009 to 2011; Eli Lilly and Company, 1997 to 2009, Senior Director, Global Product Communications, 2008 to 2009; Senior Director, Corporate Communications, 2004 to 2008; Senior Director, Mergers and Acquisitions, 2000 to 2004; Director, Investor Relations, 1998 to 2000; Financial Manager/Financial Analyst, various roles, 1993 to 1997; Member of the Board of Elders, Church at the Crossing, 2004 to 2007.

Marni McKinney, Director, term expired July 1, 2004. Residence: Indianapolis, Indiana. Chairman, 2008 to present, Indiana Community Bank Advisory Board, M&I Marshall & Isley Bank; Vice President, 1984 to 1989, and Chairman of the Board, 1999 to 2008, First Indiana Bank; Vice Chairman and Chief Executive Officer, 1999 to 2005, and Chairman of the Board, 2005 to 2008, First Indiana Corporation; President and CEO, 1995 to 2000, The Somerset Group; Board of Directors, Fairbanks Hospital, Inc.; Board of Directors, Indiana State Symphony Society; Member, Advisory Panel of the Butler Business Accelerator; Member, Central Indiana Community Foundation Investment Committee; Member, Housing Trust Fund Advisory Committee of the City of Indianapolis.

J. Scott Davison, Director; term expires July 1, 2012. Residence: Zionsville, Indiana. Chief Financial Officer, One America Financial Partners, Inc., June 1, 2004 to present; Senior Vice President, Corporate Planning, July 1, 2002 to June 1, 2004; Vice President, Corporate Planning, December 1, 2000 to July 1, 2002; Senior Vice President and Chief Financial Officer, AUL Reinsurance Management Services, January 15, 2000 to December 1, 2000; Senior Vice President and Chief Financial Officer, Duncanson & Holt, Inc., October 1997 to January 15, 2000. Vice Chair, Indiana Sports Corporation, January 1, 2008 to present; Member of the Clarian Health Subcommittee on Investments, April 1, 2009 to present; Chairman of the Board for Camptown Inc., January 1, 2008 to present.

Although the expiration date of the term of two Directors has passed, the Act provides that the Director's term will not expire until the Director's successor is appointed and qualified. No such successor has been appointed and qualified.

The Board is authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board. Lisa Cottingham was appointed Executive Director of the Indiana Bond Bank effective July 28, 2010. Ms. Cottingham previously served as Controller for the Indiana Department of Corrections and was Executive Director of the Bond Bank from January, 1992 to July, 1995.

### **Outstanding Indebtedness**

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$1,992,819,740 in separate program obligations. The total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed the aggregate limit currently imposed by the Act of \$1,000,000,000. However, such aggregate limit does not apply to, *inter alia*, bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5 or to the Bonds. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$495,465,000 in separate program obligations which count against the \$1,000,000,000 limitation. All previously issued obligations are secured separately and independently and do not constitute Bonds under the Indenture or for purposes of this Official Statement. The Bond Bank has never failed to punctually pay principal of and interest on any previously issued obligations.

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financings will be secured separately and independently from the Bonds and will not constitute Bonds under the 2012 A Indenture, the 2012 B Indenture or for the purposes of this Official Statement.

### **THE STATE OF INDIANA AND THE INDIANA BOND BANK**

The purpose of the Bond Bank is to foster and promote, in accordance with the Act, the provision of adequate markets for the borrowing of funds for public projects and purposes by the State's political subdivisions and certain public educational institutions. The programs of the Bond Bank allow many of these entities throughout the State to achieve lower costs of borrowing than they could if acting alone. The Bond Bank's programs thus serve in promoting and providing the necessary infrastructure to support the expanding needs of the State's broad and diverse economy. The financial statements of the Bond Bank for fiscal year ended June 30, 2011, is available upon request. See "MISCELLANEOUS."

A more detailed discussion of the State and its financial condition and procedures is set forth in Appendix B, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA." Appendix B contains "forward-looking statements" based on current expectations, estimates, forecasts and projections about and assumptions made by the State. These forward-looking statements may be identified by the use of forward-looking terms such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "targets," "forecasts," and "seeks" or the negatives of such terms or other variations on such terms or comparable terminology. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that could cause actual outcomes and results to differ materially. These risks and uncertainties include demographic

changes and general domestic economic conditions, including economic conditions of the State. The Bond Bank and the State disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The faith, credit and taxing power of the State are not pledged to the payment of the principal of, premium, if any, and interest on any of the Bonds, and the Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State.

### **STATE BOARD OF EDUCATION**

The Board of Education was established in 1945 and is organized, exists and is operated pursuant to IC 20-1-1. The Board of Education consists of the State Superintendent of Public Instruction and ten other members, each of whom is appointed by the Governor. The Superintendent of Public Instruction serves as chairman of the Board of Education. Appointed board members serve terms of four years.

The current membership of the Board of Education is as follows:

Dr. Tony Bennett Indianapolis, Indiana	Ms. Jo Blacketor South Bend, Indiana	Mr. Neil Pickett Carmel, Indiana
Mr. Stephen Gabet Fort Wayne, Indiana	Ms. Sarah M. O'Brien Avon, Indiana	Ms. Vicki Snyder Evansville, Indiana
Mr. Michael Pettibone Monroe, Indiana	Mr. Daniel J. Elsener Indianapolis, Indiana	Mr. Tony Walker Gary, Indiana
Mr. James D. Edwards Santa Claus, Indiana	Mr. David Shane Indianapolis, Indiana	Ms. Becky Bowman Indianapolis, Indiana

The State Superintendent of Public Instruction is Dr. Tony Bennett.

In connection with the original issuance of the Refunded Bonds and in accordance with IC 20-49-4-23, the Board of Education requested that the Board of Finance sell the respective Advancement Agreements to the Bond Bank. The Board of Education and the Board of Finance reduce each distribution of school tuition support payments to repay advancements made to School Corporations. Pursuant to the Administration Agreements and IC 20-49-4-23, the Board of Education is permitted to deduct the respective Advancement Payments for payment to the Bond Bank.

### **STATE DEPARTMENT OF EDUCATION**

The Indiana State Department of Education (the "Department of Education") was established in 1984. The Superintendent of Public Instruction is the Director of the Department of Education.

The Department of Education was required by IC 20-49-4-23, to advise the Board of Education in making its request to the Board of Finance to sell the respective Advancement Agreements to the Bond Bank. The Department of Education so advised the Board of Education in connection with the issuance of each series of Refunded Bonds.

### **STATE BOARD OF FINANCE**

The Governor, Auditor and Treasurer of the State constitute the Board of Finance. The Board of Finance elects from its membership a president. The Governor currently serves as the President of the Board of Finance. The Auditor serves as the Secretary of the Board of Finance.

The Board of Finance has advisory supervision of the safekeeping of all funds coming into the State Treasury and all other funds belonging to the State coming into the possession of any state officer or agency.

The Board of Finance was empowered to sell, transfer, or liquidate the respective Advancement Agreements, pursuant to IC 20-49-4-23. Accordingly, the Board of Finance entered into the respective Administration Agreements on the date of delivery of each series of the Refunded Bonds in order to effect the sale of the Advancement Agreements to the Bond Bank.

### **STATE BUDGET AGENCY**

The State Budget Agency (the "Budget Agency") was established as a State Agency in 1961. The State Budget Director, appointed by the Governor to serve at his pleasure, is the chief executive officer of the Budget Agency. The current State Budget Director is Adam M. Horst.

A State Budget Committee (the "Budget Committee"), consisting of five regular members and four alternate members, cooperates in the preparation of a recommended budget report and budget bill, serves as liaison between the legislative and executive departments of State government, and provides information to the General Assembly with respect to the management of State fiscal affairs. The Budget Committee consists of the State Budget Director, two State Senators appointed by the President Pro-Tem of the Senate, one of whom is nominated by the leader of the minority political party in the Senate, and two State Representatives appointed by the Speaker of the House of Representatives, one of whom is nominated by the leader of the minority political party in the House of Representatives. All members, except the State Budget Director, serve at the will and pleasure of the respective appointing leadership or until such member's term as a member of the General Assembly expires, whichever is shorter.

Pursuant to IC 20-49-4-23, each proposed sale, transfer, or liquidation must be reviewed by the Budget Committee and approved by the Budget Agency. The Budget Committee reviewed the respective Advancement Agreements in connection with the issuance of each series of the Refunded Bonds and the Budget Agency approved the sale of the respective Advancement Agreements.

### **THE COMMON SCHOOL FUND**

The Common School Fund was created by Article 8, Section 2, of the Indiana Constitution (the "Constitution"). The Constitution provides for funding the Common School Fund from a number of other funds, many of which no longer exist, as well as fines assessed for breaches of penal laws of the State, forfeitures, and funds which escheat to the State. The Constitution provides that the Common School Fund shall never be diminished in principal amount. **NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS.**

The Board of Education is authorized to advance money in the Common School Fund to School Corporations to be used for school building construction and educational technology programs. Advancements with respect to school building construction programs may not exceed the greater of \$15,000,000 or the product of \$15,000 multiplied by the number of pupils accommodated as a result of the school construction building program unless the School Corporation has sustained a loss caused by fire, wind, cyclone or other disaster, in which event such limitation may be waived by the Board of Education after consulting with the Department of Education and the Budget Agency. Advances for educational technology programs are not limited in amount other than the availability of funds in the Common School Fund set aside for this purpose and the ability of the School Corporation to repay the advancement in accordance with the terms of its Advancement Agreement.

Under State law, money from the Common School Fund may be advanced to School Corporations for school building construction programs for periods of time not exceeding 25 years. None of the Advancement Agreements which were entered into in connection with the issuance of each series of Refunded Bonds, may be prepaid. The State Board of Finance periodically establishes a rate or rates of interest payable on advances for school building construction programs. However, such interest rates are limited under IC 20-49-4-15 to (i) four percent (4%) for Advancements made to School Corporations with Advancements outstanding on July 1, 1993, bearing rates of seven and one-half percent (7½%) or more, and (ii) seven and one-half percent (7½%) for Advancements made to other School Corporations.

Money may be advanced to school corporations for educational technology programs for periods not to exceed five years. The Board of Finance periodically establishes rates of interest payable on Advancements for educational technology programs which may not be less than one percent (1%) and which may not exceed four percent (4%).

To provide for the repayment of any Advancement, the Board of Education and the Board of Finance are authorized in their sole discretion to withhold from funds due to the School Corporation, which received an Advancement, an amount of money that is necessary to repay such Advancement and interest thereon over the term of the applicable Advancement Agreement. The Advancement Payments necessary to repay the Advancement to a School Corporation are deducted from school tuition support payments appropriated by the General Assembly to each School Corporation as available for such purpose and other moneys appropriated by the General Assembly to such School Corporation as available for such purpose. State school tuition support is a line item in the State budget, and is funded from the State's General and Property Tax Replacement Fund. See: Appendix B "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA", "State Revenues and Expenses" and "Financial Results of Operations." State school tuition support is the largest single revenue source for most School Corporations.

### **THE ORIGINAL PURCHASE OF THE ADVANCEMENT AGREEMENTS**

Pursuant to IC 20-49-4-23, the Board of Finance was authorized, upon the request of the Board of Education, on the recommendation of the Department of Education, to sell, transfer or liquidate the respective Advancement Agreements to the Bond Bank. IC 20-49-4-20 provides that the Advancement Agreements do not constitute a debt of the State within the meaning of the constitutional prohibition against State indebtedness.

In connection with the issuance of each series of Refunded Bonds, the Board of Education, acting upon the recommendation of the Department of Education, requested that the Board of Finance sell all or a portion of the respective Advancement Agreements to the Bond Bank. The sale of the applicable Advancement Agreements was reviewed by the Budget Committee and was approved by the Budget Agency.

A list of the outstanding 2001 Advancement Agreements and the outstanding 2003 Advancement Agreements sold by the Board of Finance to the Bond Bank and the aggregate principal amount outstanding and rate of interest on each Advancement Agreement are set forth in Appendix A-1 and A-2, respectively. No future advancements made from the Common School Fund will be used to secure the Bonds. No portion of the Common School Fund will be available to pay debt service on the Bonds.

The respective Advancement Agreements were sold to provide additional funds to the Common School Fund for the purpose of making future advancements from the Common School Fund. The applicable purchase price for the respective Advancement Agreements was paid to the Treasurer of the State for deposit in the Common School Fund. The purchase of the respective Advancement Agreements did not have an effect on School Corporations which had outstanding Advancements or change the way in which outstanding Advancements were structured or administered.

### **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

Limited Obligations. The 2012 A Bonds are special obligations of the Bond Bank, payable as to principal, premium, if any, and interest solely from the 2012 A Trust Estate and shall be a valid claim of the owners thereof only against such 2012 A Trust Estate, which 2012 A Trust Estate is pledged for the equal and ratable payment of the 2012 A Bonds and shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the 2012 A Bonds, except as otherwise expressly authorized in the 2012 A Indenture.

The 2012 B Bonds are special obligations of the Bond Bank, payable as to principal, premium, if any, and interest solely from the 2012 B Trust Estate and shall be a valid claim of the owners thereof only against such 2012 B Trust Estate, which 2012 B Trust Estate is pledged for the equal and ratable payment of the 2012 B Bonds and the outstanding 2003 B Bonds and shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the 2012 B Bonds and the outstanding 2003 B Bonds, except as otherwise expressly authorized in the 2012 B Indenture.

The Bonds and the interest thereon shall never constitute an obligation of the State, any political subdivision thereof, including the applicable School Corporations, within the meaning of any constitutional or statutory provision or limitation on indebtedness. The Bonds and the interest thereon shall never constitute nor give rise to a charge against the general credit, funds or assets of the State, any political subdivision thereof including the applicable School Corporations, or the taxing powers of the State or any political subdivision thereof, including the applicable School Corporations. No holder of any Bond may compel the exercise of the taxing power of the State or any political subdivision thereof, including the applicable School Corporations to pay principal of, premium, if any, or interest on the applicable series of Bonds. No portion of the Common School Fund is available to pay the Bonds. The Bond Bank has no taxing power.

The ability of the Bond Bank to pay principal of, premium, if any, and interest on the 2012 A Bonds depends solely upon the receipt by the Bond Bank of the 2001 Advancement Payments. The ability of the Bond Bank to pay principal of, premium, if any, and interest on the 2012 B Bonds depends solely upon the receipt by the Bond Bank of the 2003 Advancement Payments. There can be no representation or assurance that the Bond Bank will receive sufficient Advancement Payments to make the required payments of principal of, premium, if any, and interest on the applicable series of Bonds. The receipt of such Advancement Payments by the Bond Bank is subject to, among other things, future economic conditions and other conditions affecting the State and the applicable School Corporations which are variable and cannot be predicted.

Advancement Payments Subject to Biennial Appropriation. The Advancements to School Corporations from the Common School Fund are repayable from the applicable Advancement Payments. State school tuition support, the primary source of the Advancement Payments, is a line item in the State's biennial budget, and must be approved by the General Assembly. State school tuition support payments currently are the primary source of funding for most School Corporations in the State. There can be no assurance that sufficient funds will be appropriated by the General Assembly for State school tuition support to provide the deductions necessary to support the Board of Education's rights under the applicable Advancement Agreement and the Board of Finance's obligations under the respective Administration Agreement. Bondholders have no right to have taxes levied or to compel appropriations by the General Assembly to pay the Bonds. Moreover, there can be no assurance that any funds so appropriated will be available to make the applicable Advancement Payments. If sufficient funds are not appropriated and available, the applicable Advancement Payments will be insufficient to pay principal of, premium, if any, or interest on the applicable series of Bonds. See Appendix B for the financial and economic information relating to the State.

Remedies Limited. The remedies available to the Trustee, to the Bond Bank or to the Owners of the Bonds upon an event of default under the 2012 A Indenture or the 2012 B Indenture, as applicable, the applicable Advancement Agreements or the respective Administration Agreements are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the 2012 A Indenture, the 2012 B Indenture, the applicable Advancement Agreements or the respective Administration Agreements may not be readily available or may be limited. Further, under both the 2012 A Indenture and the 2012 B Indenture, the Trustee is required to pursue certain courses of action upon the written request of the Owners of fixed percentages of the applicable Bonds Outstanding. There is no assurance that the interests of the owners of such percentage of the applicable series of Bonds Outstanding will be identical to those of the Owners of all other Bonds. Nonetheless, the request of the Owners of the percentage of the principal amount of all outstanding Bonds is sufficient to direct the actions of the Trustee under the respective Indenture.

Security for the Bonds. The Board of Finance, pursuant to the respective Administration Agreements, sold a portion of its rights, title, and interest in and to each of the Advancement Agreements to the Bond Bank. The Advancement Agreements and the Act permit the Board of Education and the Board of Finance to deduct the applicable Advancement Payments. The respective Administration Agreements require the Board of Finance, the Treasurer of the State, and the Board of Education, as applicable, to take all actions in the best interest of the Bond Bank and exercise for the benefit of the Bond Bank, to the maximum extent permitted under the Indiana Code, all rights (including without limitation the rights under the Act) and options available under the Indiana Code relating in any way to (i) the withholding by any of them of funds of the State due any School Corporation that is a party to an Advancement Agreement secured under an Administration Agreement; (ii) the collection of amounts due from such School Corporation by reason of being a party to an Advancement Agreement; and (iii) the remittance and payment

of such amounts to the Bond Bank by reason of its purchase and ownership of the Advancement Agreements. The Bond Bank has assigned its rights under each of the Administration Agreements to the Trustee for the benefit of the Owners of the applicable series of Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE APPLICABLE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS AND THE PROVISIONS OF INDIANA CODE 5-1.5-5 REGARDING THE ESTABLISHMENT AND REPLENISHMENT OF A RESERVE FUND WILL NOT APPLY TO THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

#### **PLAN OF REFUNDING**

A portion of the proceeds of the 2012 A Bonds, together with certain remaining funds under the 2001 Indenture, will be held as uninvested cash in escrow under the Escrow Agreement dated as of March 1, 2012 (the "2001 Escrow Agreement") by and among the Bond Bank and The Bank of New York Mellon Trust Company, N.A., (successor to BNY Trust Company of Missouri), as prior trustee and escrow trustee, to provide funds for the payment when due of the principal of, redemption premium, if any, and interest on the Refunded 2001 Bonds up to and including the date of redemption thereof.

A portion of the proceeds of the 2012 B Bonds, together with certain remaining funds under the 2012 B Indenture, will be held uninvested in cash and a portion will be used to purchase non-callable U.S. Government Obligations (the "Escrowed Securities") to be held in escrow under the Escrow Agreement dated as of March 1, 2012 (the "2003 Escrow Agreement") by and among the Bond Bank and The Bank of New York Mellon Trust Company, N.A., (successor to Fifth Third Bank, Indiana), as prior trustee and escrow trustee, to provide funds for the payment when due of the principal of, redemption premium, if any, and interest on the Refunded 2003 B Bonds up to and including the date of redemption thereof. The 2012 B Bonds and the outstanding 2003 B Bonds will be secured under the 2012 B Indenture on a parity basis.

THE 2012 A BONDS ARE SECURED SOLELY UNDER THE 2012 A INDENTURE. THE 2012 B BONDS AND THE OUTSTANDING 2003 B BONDS ARE SECURED SOLELY UNDER THE 2012 B INDENTURE. THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE APPLICABLE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS AND THE PROVISIONS OF INDIANA CODE 5-1.5-5 REGARDING THE ESTABLISHMENT AND REPLENISHMENT OF A RESERVE FUND WILL NOT APPLY TO THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

## THE BONDS

The 2012 A Bonds are secured under and pursuant to the 2012 A Indenture and the 2012 B Bonds are secured under and pursuant to the 2012 B Indenture. The following is a combined summary of the Bonds and the Indentures. Unless otherwise noted herein, the 2012 A Bonds, the 2012 B Bonds and the Indentures contain similar provisions in all respects.

General Description. The Bonds are being issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Each Bond will be dated the date of delivery thereof. If any Bond is authenticated on or prior to July 15, 2012, it will bear interest from the original issue date. Each Bond authenticated after July 15, 2012, will bear interest from the most recent Interest Payment Date on which interest was paid prior to the date of authentication of such Bond, unless the Bond is authenticated after a Record Date but prior to the related Interest Payment Date. Bonds authenticated after a Record Date but prior to the related Interest Payment Date will bear interest from the related Interest Payment Date.

The 2012 A Bonds and the 2012 B Bonds will be issued in the respective aggregate principal amounts of \$5,920,000 and \$44,245,000, and shall mature and bear interest as set forth on the inside cover page of this Official Statement.

For so long as the Bonds are registered in the name of The Depository Trust Company ("DTC"), New York, New York, or its nominee, payments of the principal of, premium, if any, and interest on the Bonds will be paid only to DTC or its nominee. Interest on the Bonds will be paid on each Interest Payment Date by wire transfer to DTC or its nominee. Principal of, and premium, if any, will be paid to DTC or its nominee upon presentation and surrender of the Bonds at the principal office of the Trustee. Neither the Bond Bank nor the Trustee will have any responsibility for the Beneficial Owner's (as hereinafter defined) receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant (both as hereinafter defined), of any payments of principal of, premium, if any, or interest on the Bonds. See "THE BONDS – Book-Entry-Only System."

If the Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing on the first Interest Payment Date after the Bonds are no longer so registered by check issued by the Paying Agent dated the due date and mailed on each Interest Payment Date to the registered Owners as of the close of business on the most recent Record Date or by wire transfer to Owners of \$1,000,000 or more in principal amount of the Bonds upon written request of such owners. Principal on the Bonds will be payable on the Maturity Date of such Bond upon presentation of the Bond at the principal corporate trust office of the Trustee.

Redemption. The Bonds are not subject to redemption prior to maturity.

Exchange and Transfer. The Bonds may be transferred or exchanged at the principal corporate trust office of the Trustee, to the extent and upon the conditions set forth in the Indenture, including the payment of a sum sufficient to cover any tax or other governmental charge for any such transfer or exchange that may be imposed upon the Bond Bank or the Trustee.

If any Bond is mutilated, lost, stolen or destroyed, the Bond Bank may issue and the Trustee may authenticate a new Bond in accordance with the provisions therefor in the Indenture including an indemnity satisfactory to both, and the Bond Bank and the Trustee may charge the holder or Owner of such Bonds for its reasonable fees and expenses in connection therewith, including the cost of having a replacement Bond printed.

For so long as the Bonds are registered in the name of DTC or its nominee, the Trustee will transfer and exchange Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank, nor the Trustee will have any responsibility for transferring or exchanging any Beneficial Owner's interests in the Bonds. See "THE BONDS — Book-Entry-Only System."

## **BOOK-ENTRY-ONLY SYSTEM**

The information provided in this caption has been provided by DTC. No representation is made by the Bond Bank, the Trustee or the Underwriters as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Depository Trust Company ("DTC"), New York, New York, will act as the depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. The ownership of one fully-registered Bond for each maturity, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co.

DTC, the world's largest depository is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission ("SEC"). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of

significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption and tender notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Bond Bank as soon as possible after the Record Date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the "Omnibus Proxy").

Payments of principal, interest, redemption prices and purchase prices, respectively, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee or the Bond Bank, as the case may be, on payable date in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, redemption prices and purchase prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee as well as the Bond Bank. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Bank and the Trustee, as applicable. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

THE INFORMATION PROVIDED ABOVE HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE BOND BANK, THE TRUSTEE OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

For so long as the Bonds are registered in the name of DTC or its nominee, Cede & Co., the Bond Bank and the Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Bonds for all purposes, including payments, notices and voting.

The Trustee and the Bond Bank, with respect to the Bonds may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). Once the Bond Bank has requested that holders withdraw securities from DTC, DTC will notify its Participants of such request and such Participants may utilize DTC's withdrawal process to withdraw their Bonds from DTC. In the event a Participant utilizes DTC's withdrawal process, Bond certificates will be printed and delivered.

Under the Indentures, payments made by the Trustee to DTC or its nominee will satisfy the Bond Bank's obligations under the applicable Indenture to the extent of the payments so made.

Neither the Bond Bank, the Underwriters nor the Trustee will have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant with respect to any beneficial ownership interest in any Bond, (ii) the delivery to any DTC Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any notice with respect to any Bond including,

without limitation, any notice of redemption, tender, purchase or any event which would or could give rise to a tender or purchase right or option with respect to any Bond, (iii) the payment of any DTC Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of, any Bond or (iv) any consent given by DTC as registered owner.

Prior to any discontinuation of the book-entry-only system described above, the Bond Bank and the Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Bonds, (ii) giving notices of redemption and other matters with respect to the Bonds, (iii) registering transfers with respect to the Bonds and (iv) the selection of Bonds for redemption.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds related to refunding the Refunded 2001 Bonds and paying costs incidental to the sale and delivery of the 2012 A Bonds are estimated as shown below:

#### 2012 A BONDS

##### Sources of Funds

Principal Amount of 2012 A Bonds	\$5,920,000.00
Funds on Hand	<u>223,974.17</u>
<b>TOTAL SOURCES</b>	<b>\$6,143,974.17</b>

##### Use of Funds:

2001 Escrow Account	\$5,948,437.50
Costs of Issuance*	194,400.00
Deposit to General Account	<u>1,136.67</u>
<b>TOTAL USES</b>	<b>\$6,143,974.17</b>

\*Includes Underwriters' discount.

The estimated sources and uses of funds related to refunding the Refunded 2003 B Bonds and paying costs incidental to the sale and delivery of the 2012 B Bonds are estimated as shown below:

#### 2012 B BONDS

##### Sources of Funds

Principal Amount of 2012 B Bonds	\$44,245,000.00
Funds on Hand	<u>2,091,538.08</u>
<b>TOTAL SOURCES</b>	<b>\$46,336,538.08</b>

##### Use of Funds:

2003 Escrow Account	\$45,551,804.87
Costs of Issuance*	781,837.50
Deposit to General Account	<u>2,895.71</u>
<b>TOTAL USES</b>	<b>\$46,336,538.08</b>

\*Includes Underwriters' discount.

## OPERATION OF FUNDS AND ACCOUNTS

The Indentures establish the following Funds to be held by the Trustee:

- A. General Fund, consisting of the following:
  - 1. General Account
  - 2. Redemption Account
- B. Costs of Issuance Fund

General Fund-General Account. The Trustee shall deposit in the General Account all Advancement Payments, all income or gain on Investment Securities attributable to any fund or account, and all other Revenues not otherwise required to be deposited in the Redemption Account of the General Fund.

Moneys in the General Account of the General Fund will be disbursed as follows: (i) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary to pay interest due to be paid on Outstanding Bonds on such Interest Payment Date; (ii) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary, if any, to pay principal due to be paid on Outstanding Bonds on such Interest Payment Date; and (iii) at such times as may be necessary, to pay Program Expenses, but only (a) upon the receipt by the Trustee of a requisition from an Authorized Officer, describing the Program Expense for which such payment is sought and the amount thereof and certifying that such Program Expense is properly payable under the Indenture, and (b) to the extent that any such Program Expense, when added to all other Program Expenses paid or payable following the date of the most recent Cash Flow Certificate, does not exceed the amount of such Program Expenses contemplated by such Cash Flow Certificate.

General Fund-Redemption Account. There shall be deposited in the Redemption Account of the General Fund all moneys received as a result of a default under any of the Advancement Agreements and from the mandatory repayment provisions under the applicable Acquisition Agreement. Moneys in the Redemption Account will be distributed as follows: (i) on the second Business Day prior to any Interest Payment Date, if amounts in the General Account of the General Fund are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account of the General Fund amounts in the Redemption Account available for such transfer and not otherwise committed under the Indenture to the redemption of Bonds for which notice of redemption has been given; and (ii) after provision has been made for the payments required under (i) above to purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence. Such price may not, however, exceed the par amount of the Bonds so purchased unless the Bond Bank provides the Trustee with a Positive Cash Flow Certificate. The Trustee shall pay the interest accrued on any Bonds so purchased to the date of delivery thereof from the General Account of the General Fund and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of forty-five (45) days next preceding an Interest Payment Date or a date on which such Bonds are subject to redemption.

At the direction of the Bond Bank, the Trustee may transfer any amounts in the Redemption Account to the General Account of the General Fund provided that the Trustee is provided with a Positive Cash Flow Certificate taking into account such transfer.

Cost of Issuance Fund. The Trustee shall deposit \$150,000.00 of the proceeds of the 2012 A Bonds, together with other legally available funds of the Bond Bank, in the Costs of Issuance Fund established under the 2012 A Indenture for the purpose of paying the costs associated with issuing the 2012 A Bonds. The Trustee shall deposit \$450,000.00 of the proceeds of the 2012 B Bonds, together with other legally available funds of the Bond Bank, in the Costs of Issuance Fund established under the 2012 B Indenture for the purpose of paying the costs associated with issuing the 2012 B Bonds. All funds in the Costs of Issuance Fund which are not expended for such costs of

issuance or which have not been expended for costs of issuance within one-hundred eighty (180) days following the issuance of the respective Bonds, shall be transferred to the applicable General Account of the General Fund.

Investment of Funds. The Trustee shall as continuously as reasonably possible invest and reinvest the funds on deposit in the Funds and Accounts from time to time in Investment Securities as may be directed by the Bond Bank. Income or interest earned or gains realized in any Fund or Account due to such investment will be credited to the General Account of the General Fund.

## **THE BONDS AS LEGAL INVESTMENTS**

Under the Act, all financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees and other fiduciaries in the State may legally invest sinking funds, money or other funds belonging to or within the control of such fiduciaries in the bonds and notes of the Bond Bank issued under the Act.

## **TAX MATTERS**

Interest on the Bonds is not excludable from gross income for federal income tax purposes. In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Bonds is exempt from the income taxation in the State for all purposes, except the State financial institutions tax. See Appendix C for the form of opinions of Bond Counsel.

Although Bond Counsel will render opinions that interest on the Bonds is exempt from State income tax, the accrual or receipt of interest on the Bonds may otherwise affect an owner's state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors with regard to the other tax consequences of owning the Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Bonds.

## **LITIGATION**

Bond Bank. There is not pending, or to the Bond Bank's knowledge, threatened any litigation restraining, questioning or enjoining the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Bond Bank taken with respect to the issuance or sale thereof or the pledge or application of any money or security provided for the payment of the Bonds. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present Directors or other officers of the Bond Bank to their respective offices is being contested.

Board of Finance. There is not pending, or to the Board of Finance's knowledge, threatened any litigation in any way contesting or affecting the validity of the Advancement Agreements, or any proceedings of the Board of Finance taken with respect to the original sale thereof. Neither the creation, organization or existence of the Board of Finance nor the title of any of the present members of the Board of Finance to their respective offices is being contested.

## **LEGAL MATTERS**

Certain legal matters incident to the authorization and issuance of the Bonds by the Bond Bank are subject to the approval of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, whose approving opinions will be delivered with the Bonds. Certain legal matters will be passed upon for the Bond Bank by its special counsel, Graham & Associates PC, Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriters by their counsel, Ice Miller LLP, Indianapolis, Indiana.

## UNDERWRITING

Under the Bond Purchase Contract entered into between Raymond James & Associates, Inc. (the "Representative") on behalf of itself and the other underwriter of the Bonds (collectively, the "Underwriters"), and the Bond Bank, the 2012 A Bonds are being purchased by the Underwriters for reoffering at an aggregate purchase price of \$5,875,600.00, which amount equals the par amount of the 2012 A Bonds, less an Underwriters' discount of \$44,400.00. The 2012 B Bonds are being purchased by the Underwriters for reoffering at an aggregate purchase price of \$43,913,162.50, which amount equals the par amount of the 2012 B Bonds, less an Underwriters' discount of \$331,837.50. The Bond Purchase Contract provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligations of the Bond Bank to deliver the Bonds and of the Underwriters to accept delivery of the Bonds are subject to various conditions contained in the Bond Purchase Contract.

The Underwriters have agreed to make a bona fide public offering of all of the Bonds at prices not in excess of the initial public offering prices set forth or reflected on the inside cover of this Official Statement. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than the public offering price.

Raymond James Financial, Inc., announced on January 11, 2012, that it has entered into a definitive stock purchase agreement to acquire Morgan Keegan & Company, Inc. The transaction is expected to close on or about March 31, 2012, subject to regulatory approvals and other customary conditions.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

London Witte Group, LLC, independent certified public accountants, will deliver to the Bond Bank its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Bond Bank, the Underwriters and their representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash deposited in the 2001 Escrow Account to pay, when due, the maturing principal and called principal of and redemption premium, if any, and interest on the Refunded 2001 Bonds; and (b) the mathematical computations of the adequacy of the cash and the maturing principal of, and interest on, securities deposited in the 2003 Escrow Account to pay, when due, the maturing principal and called principal of and redemption premium, if any, and interest on the Refunded 2003 Bonds.

Crowe Horwath LLP, independent certified public accountants, will deliver to the Bond Bank its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accounts, the information and assertions provided by the Bond Bank, the Underwriters and their representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of: (a) the mathematical computations of the adequacy of the 2001 Advancement Payments to pay debt service on the 2012 A Bonds; and (b) the mathematical computations of the adequacy of the 2003 Advancement Payments to pay debt service on the 2012 B Bonds and the outstanding 2003 B Bonds.

## CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent (the "Agent"), certain annual financial information and operating data described below.

Pursuant to the terms of the State's Continuing Disclosure Undertaking Agreement (the "Undertaking"), the State will agree to provide the following information as long as the State is committed by contract or other arrangement to facilitate payment of the obligations on the Bonds (or until such time as the Bonds may be defeased, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To the Municipal Securities Rulemaking Board (the "MSRB") in its capacity as the sole nationally recognized municipal securities information repository through

its Electronic Municipal Market Access ("EMMA") system and to the Indiana state information depository then in existence, if any (the "State Depository"), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 2011, within 60 days of receipt from the Board of Accounts of the State; if audited financial statements are not available within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2011, the Annual Information (as defined below) shall contain unaudited financial-statements, in a format similar to the audited financial statements most recently prepared by the State; and

2. Financial Information in this Official Statement. To the MSRB's EMMA system and to the State Depository within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2011, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix B — "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA."

(The information described in items 1 and 2 above is referred to as the "Annual Information.")

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to the MSRB, and to the State Depository, the following event notices ("Event Notice"), if material, within ten (10) business days of occurrence:

- 1) non-payment related defaults;
- 2) modifications to rights of Bondholders;
- 3) bond calls;
- 4) release, substitution or sale of property securing repayment of the Bonds;
- 5) the consummation of a merger, consolidation or acquisition, or certain asset sales, involving the obligated person, or entry into or termination of a definitive agreement relating to the foregoing;
- 6) appointment of a successor trustee or change of name of a trustee.

In addition to the above events, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) has agreed to provide the following event notices, regardless of materiality, within ten (10) business days of occurrence:

- 1) principal and interest payment delinquencies;
- 2) unscheduled draws on debt service reserves reflecting financial difficulties;
- 3) unscheduled draws on credit enhancements reflecting financial difficulties;
- 4) substitution of credit or liquidity providers, or their failure to perform;
- 5) defeasances;
- 6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
- 7) ratings changes;
- 8) tender offers;
- 9) bankruptcy, insolvency, receivership or similar event of the obligated person.

The State or the Bond Bank may from time to time choose to disseminate other information including other annual information or notice of the occurrence of certain other events, in addition to those listed above. If the State or the Bond Bank chooses to provide any such additional information, they shall have no obligation to update such information or include it in any future Annual Information or Event Notice.

Failure to Disclose. If the Trustee does not receive any annual financial information or operating data by the date which is ten days before the date required therefor, as stated in the Undertaking, the Trustee shall notify the Bond Bank and the State, via registered or certified mail, that it has not received such annual financial information or operating data. However, no failure by the Trustee to provide such notice shall operate to relieve the State of its obligation to provide such annual financial information and operating data in the manner and within the time

specified in the Undertaking. In a timely manner, the Trustee shall notify the MSRB's EMMA system, and the State Depository of any failure on the part of the State to provide the Annual Information by the deadline specified above.

Accounting Principles. The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

Remedy. The Undertaking is solely for the benefit of the holders and beneficial owners of the Bonds and creates no new contractual or other rights for the SEC, any underwriter (other than the Underwriters), brokers, dealers, municipal securities dealers, potential customers, other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State's disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State, or any instrumentality or officer thereof, is a party.

The remedy set forth in the preceding paragraph may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State to comply with its obligations under the Undertaking.

Modification of Undertaking. The Bond Bank, the State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the beneficial owners of the Bonds if either: (a)(i) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds as determined either by (A) any person selected by the State that is unaffiliated with the State (including the Counterparty as Trustee under the Indenture) or (B) an approving vote of the holders of the requisite percentage of Outstanding Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the holders, or (b) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by the Rule.

The Annual Information for the fiscal year during which any such amendment or waiver occurs that contains the amended or waived Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of information being provided in the Annual Information.

Compliance with Previous Undertakings. In the previous five years, the Bond Bank and the State have never failed to comply in all material respects with any previous undertakings in a written contract or agreement that either of them entered into pursuant to subsection (b)(5) of the Rule.

Copies of the Undertaking are available from the Bond Bank upon request.

## **RATING**

Standard & Poor's has given the Bonds a rating of "AA+." A further explanation of such rating may be obtained from such agency at 25 Broadway, New York, New York, 10004. Such rating reflects only the view of Standard & Poor's and is not a recommendation to buy, sell or hold the Bonds. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely if, in the judgment of Standard & Poor's, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect upon the market price or marketability of the Bonds.

Additionally, due to the ongoing uncertainty regarding the debt of the United States of America, including without limitation, the general economic conditions in the country, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the

Bonds, could be subject to a rating downgrade. Furthermore, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, and market value of outstanding debt obligations, such as the Bonds.

#### MISCELLANEOUS

The Bond Bank's offices are located at 10 West Market Street, Suite 2980, Indianapolis, Indiana 46204, Telephone (317) 233-0888.

Crowe Horwath LLP, Indianapolis, Indiana, is employed as financial advisor to the Bond Bank and has acted as such with respect to the Bonds.

All quotations from, and summaries and explanations of the Act, the Indentures, the Administration Agreements, the Advancement Agreements, the Undertaking and the Bonds contained in this Official Statement do not purport to be complete and reference is made to the Act, the Indentures, the Administration Agreements, the Advancement Agreements, the Undertaking and the Bonds for full and complete statements of their provisions. The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements. Copies in reasonable quantity of the Act, the Indentures, the Undertaking and the Administration Agreements may be obtained upon request directed to the Bond Bank.

Neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement has been duly approved, signed and delivered by the Bond Bank.

INDIANA BOND BANK

By: /s/ Richard E. Mourdock  
Richard E. Mourdock, Chairman, Ex Officio

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**APPENDIX A-1**

**LIST OF OUTSTANDING 2001 ADVANCEMENT AGREEMENTS ORIGINALLY ACQUIRED  
UNDER THE 2001 ADVANCEMENT ACQUISITION AND ADMINISTRATION AGREEMENT**

INDIANA BOND BANK  
COMMON SCHOOL FUND ADVANCEMENT PURCHASE REFUNDING BONDS  
SERIES 2012 A (TAXABLE)

Name of School Corporation	Loan Number	Interest Rate	Principal Purchased	Final Maturity Purchased*
Batesville Community Schools	298	6.00%	\$24,250.00	7/1/2012
Monroe-Gregg School District	303	6.00%	37,500.00	7/1/2012
Baugo Community Schools	304	5.00%	28,856.33	7/1/2012
Hamilton Heights Community Schools	310	5.00%	57,694.02	7/1/2014
Mt. Pleasant Township Community School Corp.	311	6.00%	37,499.98	1/1/2013
Crawfordsville Community School Corp.	312	6.00%	31,311.30	1/1/2013
Nineveh-Hensley-Jackson United School Corp.	313	5.00%	37,500.00	1/1/2014
South Putnam Community School Corp.	315	5.00%	75,000.00	1/1/2015
Brownsburg Community School Corp.	318	5.00%	37,500.00	7/1/2013
North Harrison Community School Corp.	319	5.00%	37,500.00	7/1/2013
Bloomfield School District	320	5.00%	37,101.12	7/1/2013
West Noble School Corp.	321	5.00%	19,821.93	7/1/2012
East Washington School Corp.	322	5.00%	37,500.00	1/1/2014
Spencer-Owen School Corp.	323	5.00%	34,129.34	7/1/2013
North Vermillion Community School Corp.	324	5.00%	66,150.00	1/1/2015
Mitchell Community School Corp.	325	5.00%	37,500.00	7/1/2013
Plainfield School Corp.	326	5.00%	37,500.00	7/1/2013
Covington Community School Corp.	327	5.00%	33,765.52	7/1/2014
Westfield-Washington Schools	328	5.00%	37,500.00	7/1/2012
Mill Creek Community School Corp.	329	5.00%	28,916.98	1/1/2014
Rossville Community School Corp.	330	5.00%	37,500.00	7/1/2014
Southwest Parke Community School Corp.	331	5.00%	14,202.50	7/1/2013
Flatrock-Hawcreek School Corp.	332	5.00%	37,500.00	7/1/2014
Barr-Reeve Community Schools	333	5.00%	42,970.02	7/1/2014
Griffith Public Schools	334	5.00%	37,500.00	7/1/2014
North Spencer Community School Corp.	335	5.00%	74,655.96	1/1/2015
Decatur County Community Schools	336	5.00%	60,102.42	7/1/2014
Northwestern Community School Corp.	337	5.00%	75,000.00	1/1/2015
Mt. Vernon Community School Corp.	338	5.00%	37,500.00	7/1/2014
North Putnam Community School Corp.	339	6.00%	17,100.00	7/1/2014
Hamilton Heights Community Schools	340	5.00%	116,906.45	1/1/2015
Daleville Community Schools	343	5.00%	23,402.43	1/1/2014
North Newton School Corp.	345	5.00%	37,500.00	1/1/2014
Middlebury Community Schools	349	5.00%	37,500.00	7/1/2014
Center Grove Community School Corp.	351	5.00%	180,000.00	1/1/2015
Griffith Public Schools	418	5.25%	508,344.50	1/1/2019
Switzerland County School Corp.	419	5.25%	1,524,109.01	1/1/2019
City of Hammond School	421	4.75%	422,227.12	1/1/2014
Hanover Community School Corp.	422	4.75%	135,000.00	1/1/2014
East Washington School Corp.	428	4.75%	114,000.00	1/1/2014
New Castle Community School Corp.	431	4.75%	1,293,780.19	1/1/2014
Greater Clark County School Corp.	432	4.75%	90,000.00	1/1/2014
Huntington County School Corp.	433	4.75%	234,757.56	1/1/2014

\*Equals Treasury Payment Date

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**APPENDIX A-2**

**LIST OF OUTSTANDING 2003 ADVANCEMENT AGREEMENTS ORIGINALLY ACQUIRED UNDER  
THE 2003 ADVANCEMENT ACQUISITION AND ADMINISTRATION AGREEMENT**

INDIANA BOND BANK  
COMMON SCHOOL FUND ADVANCEMENT PURCHASE REFUNDING BONDS  
SERIES 2012 B (TAXABLE)

Name of School Corporation	Loan Number	Interest Rate	Principal Purchased	Final Maturity Purchased*
South Putnam Community School Corporation	315	5.00%	\$37,500.00	7/1/2015
North Spencer Community School Corporation	335	5.00%	37,327.86	7/1/2015
Southern Wells Community School Corporation	342	4.00%	700,000.00	7/1/2015
Wabash City Schools	344	4.00%	700,000.00	7/1/2015
Centerville-Abington Community School Corp.	346	4.00%	1,225,334.26	1/1/2016
Crown Point Community School Corporation	347	4.00%	585,341.87	7/1/2015
West Noble School Corporation	350	4.00%	700,000.00	7/1/2015
Center Grove Community School Corporation	351	5.00%	300,000.00	1/1/2020
M.S.D. of Boone Township	352	4.00%	904,145.61	1/1/2016
Eastern School District of Greene County	354	4.00%	434,000.00	7/1/2015
Greater Clark County School Corp.	355	4.00%	175,000.00	7/1/2015
Western Wayne Schools	356	4.00%	1,613,463.00	7/1/2015
Tippecanoe Valley School Corporation	357	4.00%	210,000.00	7/1/2015
Porter Township School Corp.	358	4.00%	312,852.11	7/1/2015
Cloverdale Community School Corporation	400	4.25%	1,121,475.63	7/1/2017
Crown Point Community School Corporation	401	4.25%	1,100,000.00	7/1/2017
Cowan Community School Corporation	403	4.25%	787,500.00	7/1/2015
M.S.D. of Bluffton Harrison	404	4.25%	1,362,663.37	1/1/2016
Hanover Community School Corporation	406	4.25%	1,461,889.22	7/1/2017
Smith-Green Community Schools	407	4.00%	334,286.26	7/1/2015
M.S.D. of Shakamak	408	4.00%	485,646.35	7/1/2015
Crawford County Community School Corporation	409	4.25%	162,041.65	1/1/2016
Western Wayne Schools	410	4.25%	548,933.00	7/1/2017
Crown Point Community School Corporation	411	4.25%	1,100,000.00	7/1/2017
Sunman-Dearborn Community School Corp.	412	4.00%	1,232,555.40	7/1/2015
Community Schools of Frankfort	413	4.25%	1,980,000.00	7/1/2017
Penn-Harris-Madison School Corporation	414	4.00%	8,298,703.14	7/1/2015
Manchester Community Schools	415	4.25%	1,937,100.00	7/1/2017
East Gibson School Corporation	416	4.25%	1,496,650.98	7/1/2017
South Madison Community School Corporation	417	4.00%	2,351,628.08	7/1/2015
Griffith Public Schools	418	5.25%	101,668.90	1/1/2020
Switzerland County School Corporation	419	5.25%	355,139.84	1/1/2020
M.S.D. of Decatur Township	420	4.00%	244,116.04	7/1/2015
School City of Hammond	421	4.75%	1,266,681.36	1/1/2020
Hanover Community School Corporation	422	4.75%	540,000.00	1/1/2020
M.S.D. of Decatur Township	425	4.00%	700,000.00	7/1/2015
Clay Community Schools	426	4.25%	167,040.00	7/1/2012
East Washington School Corporation	428	4.75%	456,000.00	1/1/2020
South Dearborn Community School Corporation	429	4.00%	2,010,572.41	7/1/2015
New Castle Community School Corporation	431	4.75%	5,605,382.82	7/1/2019
Greater Clark County School Corporation	432	4.75%	360,000.00	1/1/2020

**APPENDIX A-2  
(continued)**

**LIST OF OUTSTANDING 2003 ADVANCEMENT AGREEMENTS ORIGINALLY ACQUIRED  
UNDER THE 2003 ADVANCEMENT ACQUISITION AND ADMINISTRATION AGREEMENT**

INDIANA BOND BANK  
COMMON SCHOOL FUND ADVANCEMENT PURCHASE REFUNDING BONDS  
SERIES 2012 B (TAXABLE)

Name of School Corporation	Loan Number	Interest Rate	Principal Purchased	Final Maturity Purchased*
Huntington County Community School Corp.	433	4.75%	\$939,030.24	1/1/2020
Perry Central Community School Corporation	435	4.50%	2,360,000.00	1/1/2020
Crawford County Community School Corporation	436	4.50%	677,193.60	1/1/2020
Lake Ridge Schools	437	4.50%	435,984.96	1/1/2020
Rising Sun-Ohio County Community School Corp.	438	4.50%	1,182,297.12	1/1/2020
Crawford County Community School Corporation	439	4.50%	1,344,000.00	1/1/2020
Cloverdale Community School Corporation	440	4.50%	780,356.20	1/1/2020
Scott County District 1	441	4.50%	1,386,771.52	1/1/2020
Lake Ridge Schools	442	4.50%	1,268,758.08	1/1/2020
Lake Ridge Schools	443	4.50%	445,168.96	1/1/2020
Scott County District 1	444	4.50%	1,939,628.48	1/1/2020
Spencer-Owen School Corporation	445	4.50%	4,659,727.36	1/1/2020
West Washington School Corporation	446	4.00%	403,013.69	7/1/2015
Lake Station Community Schools	447	4.00%	122,000.08	1/1/2015
Paoli Community School Corporation	448	4.00%	72,669.80	7/1/2015
Porter Township School Corporation	450	4.00%	254,778.18	7/1/2015
Loogootee Community School Corporation	451	4.00%	448,786.95	7/1/2015
North West Hendricks School Corporation	455	4.00%	246,595.48	7/1/2015
North Miami Community Schools	458	4.00%	196,000.00	7/1/2015
Paoli Community School Corporation	461	4.00%	131,250.00	7/1/2015
Lake Station Community Schools	467	4.00%	87,500.00	7/1/2015
Charles A. Beard Memorial School Corporation	471	4.00%	936,600.00	7/1/2015
Clay Community Schools	473	4.00%	723,333.31	7/1/2015
Franklin County Community School Corporation	474	4.00%	563,500.00	7/1/2015
School City of Hammond	477	4.00%	490,000.00	7/1/2015
Loogootee Community School Corporation	479	4.00%	45,353.56	7/1/2015
School City of Hammond	485	4.00%	175,000.00	7/1/2015
Rossville Consolidated School District	493	4.00%	231,215.60	7/1/2015

\*Equals Treasury Payment Date

**APPENDIX B**  
**FINANCIAL AND ECONOMIC STATEMENT**  
**FOR**  
**STATE OF INDIANA**

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## INTRODUCTION

This Financial and Economic Statement (this "Appendix B") for the State of Indiana (the "State") includes a description of the State's economic and fiscal condition, the results of operations and revenue and expenditure projections through the end of the biennium ending June 30, 2011. The information is compiled on behalf of the State by the State Budget Agency (the "Budget Agency") and the Indiana Finance Authority and includes information and data taken from the Budget Agency's unaudited reports. It also includes information obtained from other sources the State believes to be reliable.

This Appendix B should be read in its entirety, together with any supplements.

## STRUCTURE OF STATE GOVERNMENT

### 1. Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any department may exercise any function of another department, unless expressly authorized to do so by the constitution.

### 2. Executive Department

The Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General and Superintendent of Public Instruction comprise the executive department of the State. All are elected for four-year terms.

The executive power of the State is vested in the Governor. The State constitution requires the Governor to take care that the laws are faithfully executed. The Governor may recommend legislation to the General Assembly of the State (the "General Assembly"), call special sessions of the General Assembly and veto any bill passed by the General Assembly (although any veto may be overridden if the bill is re-passed by a majority of all the members elected to each house of the General Assembly).

The Lieutenant Governor serves as the President of the State Senate. The Lieutenant Governor also serves as Secretary of Agriculture and Rural Development, is a member of the Indiana Housing and Community Development Authority, oversees the Office of Tourism Development, oversees the Office of Energy and Defense Development and chairs the Counter-Terrorism and Security Council.

The Secretary of State administers State laws regulating the chartering of new businesses, the filing of commercial liens and the issuance of trademarks, notaries public and summonses. In addition, the Secretary of State regulates the State's securities industry and oversees the State's elections.

The Treasurer of State is responsible for the investment and safekeeping of State moneys. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority. The Treasurer of State is a member of the State Board of Finance, Indiana Finance Authority, Indiana Housing and Community Development Authority, Indiana Wireless Enhanced 911 Advisory Board, Indiana Public Retirement System and Deferred Compensation Plan and is a Trustee of the Indiana State Police Pension Trust.

The Auditor of State maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for State funds, overseeing and disbursing tax distributions to local governments, paying the State's bills and paying the State's employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is the administrator of the Deferred Compensation Plan, the secretary of the State Board of Finance and a member of the Board for Depositories and the Indiana Public Retirement System.

The Attorney General is the chief legal officer of the State and is required to represent the State in lawsuits in which the State is a party. The Attorney General, upon request, gives legal opinions to the Governor, members of

the General Assembly and officers of the State. In addition, the Attorney General investigates and prosecutes certain consumer complaints and Medicaid fraud.

The Superintendent of Public Instruction chairs the State Board of Education and directs the Department of Education.

### **3. Legislative Department**

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Special sessions of the General Assembly may be convened by the Governor at any time. A special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

### **4. Judicial Department**

The judicial power of the State is vested in a Supreme Court, a Court of Appeals, Circuit Courts and such other courts as the General Assembly may establish.

The Judicial Nominating Commission (comprised of the Chief Justice or his designee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote serve a ten-year term, after which they are again subject to referendum.

## **FISCAL POLICIES**

### **1. Fiscal Years**

The State's fiscal year is the twelve-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

### **2. Accounting System**

The State maintains a central accounting system that processes all payments for State agencies and institutions, except State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of

its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

### 3. Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

***Governmental Funds.*** Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when susceptible to accrual (that is, when it is "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

General Fund. The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Special Revenue Funds include the Motor Vehicle Highway Fund, which receives revenue from gasoline taxes and motor vehicle registrations and operator licensing fees, and distributes that revenue among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds. Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund ("BIF"), Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

***Proprietary Funds.*** Proprietary Funds are used to account for a government's business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds: Enterprise Funds and Internal Service Funds.

Enterprise Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions.

Internal Service Funds. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government. For example, the Indiana Office of Technology and the State Personnel Department provide centralized resources to state agencies.

***Fiduciary Funds.*** Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of Fiduciary Funds: Pension Trust Funds, Private-purpose Trust Funds and Agency Funds.

Pension Trust Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans or other employee benefit plans. Examples are the State Police Pension Fund and the Employees' Deferred Compensation Fund.

Private-purpose Trust Funds. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund.

Agency Funds. Agency Funds are used to account for situations where the government's role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

#### 4. **Budget Process**

***State Budget Agency.*** The Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

***State Budget Committee.*** The Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President pro tempore of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

***Budget Development.*** The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request. In the fall of each even-numbered year, the Budget Committee begins hearings on budget requests. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

***Revenue Projections.*** Revenue projections are prepared by the State's Technical Forecast Committee (the "Forecast Committee"). Starting with the December 2008 forecast, Global Insight, Inc. provided the forecasted independent variables. Global Insight, Inc. was chosen following a thorough evaluation of submitted proposals based on forecasting capabilities and detailed knowledge of the State, national, and international economies.

The Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenue. Each regular member of the Budget Committee appoints a member of the Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Forecast Committee are individuals with expertise in public finance.

***Budget Report.*** The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bill are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers the budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes a budget bill first and sends it to the Senate for consideration.

The budget report includes (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, (e) the requests for appropriations by State agencies and (f) the Budget Agency's recommended appropriations.

**Appropriations.** Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

**Intra-Agency Transfers.** The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may, with the approval of the Governor and the State Budget Director, transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

**Contingency Appropriations.** The General Assembly may also make "contingency appropriations" to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. The Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following: (a) necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made; (b) repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made; (c) emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made; or (d) supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if it is found necessary to accomplish the orderly administration of the agency or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

## 5. State Board of Finance

The State Board of Finance (the "Finance Board") consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenue. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenue is not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenue.

## **6. Office of Management and Budget**

The Office of Management and Budget ("OMB") directs the fiscal management and budget policy of the State. The Director ("Director") of the OMB is the chief financial officer of the State, and reports directly to the Governor. The Director is responsible for and has authority over all functions performed by the Budget Agency, the Department of State Revenue, and the Department of Local Government Finance, as well as all budgeting, accounting and spending functions within the various agencies, departments and programs of State government. The Director may also serve as the State Budget Director. By statutory designation, the State Budget Director also serves as the Chairman of the Indiana Finance Authority. Pursuant to Executive Order 05-02, the OMB oversees and coordinates the functions, responsibilities and duties of the Indiana Public Retirement System and the State Board of Accounts to the fullest extent permitted by law.

The Division of Government Efficiency and Financial Planning of the OMB conducts operational and procedural audits of State government, performs financial planning, designs and implements efficiency projects, and carries out such other responsibilities as may be designated by the Director.

## **7. Cash Management and Investments**

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund and more than 60 other funds. The investments in which the Treasurer of State may invest State funds are limited to: (a) securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by the United States Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise; (b) obligations issued by (i) agencies or instrumentalities of the United States government, (ii) federal government sponsored enterprises or (iii) the Indiana Bond Bank that are secured by tax anticipation time warrants or notes that (A) are issued by a political subdivision of the State and (B) have a maturity date not later than the end of the calendar year following the year of issuance; (c) certain money market mutual funds, the portfolio of which is limited to (i) direct obligations of the United States, (ii) obligations issued by any federal agency, federal instrumentality or federal government sponsored enterprise or (iii) repurchase agreements fully collateralized by obligations described in (i) or (ii); (d) deposit accounts of certain designated depositories; or (e) certain other securities. Investments may be made only in securities having a maturity of up to two years, except that up to 25% of the total portfolio of funds invested by the Treasurer of State may be invested in securities having a maturity of up to five years.

## **8. Audits**

The State Board of Accounts is the State agency responsible for (a) auditing all State and local units of government and (b) approving uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

## **9. 2011 Financial Report**

The Indiana Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2011 (the "2011 Financial Report"), contains certain financial information about the State, including the financial statements of the State as of and for the Fiscal Year ended June 30, 2011, as set forth therein. The 2011 Financial Report,

which is available to the public on the Municipal Securities Rulemaking Board's Internet Web site, is included in this Appendix B by specific reference.

A copy of the 2011 Financial Report is available from the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") System. In addition, the 2011 Financial Report may be found at: <http://www.in.gov/auditor/>.

The 2011 Financial Report speaks only as of its date. The inclusion of the 2011 Financial Report in this Appendix B does not imply that there has been no change in the information therein since the date thereof.

## **STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS**

### **1. Property Tax Reform**

In 2008, the General Assembly enacted significant property tax legislation, P.L. 146-2008. The plan included both short-term relief and long-term reform. Short-term relief, \$620 million of additional State homestead credits in calendar year 2008, was funded through the revenues generated from the 1% increase, from 6% to 7%, in the state sales and use tax which was effective April 1, 2008. The long-term reform is based on the State assumption of costs historically funded through property taxes levied by local units of government. These expenses include but are not limited to the school general fund, five child welfare levies, certain police and fire pension benefit payments, juvenile incarceration costs, and certain levies for state purposes. Funding for these expenditures are provided by the increase in sales tax, the retention and redirection of funds deposited and formerly used for state property tax replacement and homestead credits, and gaming revenue from the taxation of slot machines operated at two licensed horse racing facilities.

Other elements of the reform plan include caps on the amount property owners must pay. Any impact on local budgets resulting from the caps will be borne by the local unit of government. The State has no obligation to compensate local units of government for any lost property tax revenue as a result of the caps. The caps were subject to state-wide user referendum, which was overwhelmingly approved to be incorporated into the State of Indiana Constitution on November 2, 2010.

P.L. 146-2008 increased the state Earned Income Tax Credit rate from 6% to 9%. In addition, the renter's deduction was increased from \$2,500 to \$3,000.

### **2. Operating Revenue**

While certain revenue of the State is required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenue is general revenue until applied. No lien or priority is created to secure the application of such revenue to any particular purpose or to any claim against the State. All revenue not allocated to a particular fund is credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

The combined State receipts in the General Fund are referred to as "State Operating Revenue" or "Operating Revenue." Operating Revenue is defined as the General Fund and other revenue forecasted by the Technical Forecast Committee. Total Operating Revenue together with "DSH revenue" transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State's unappropriated balance reflected on the General Fund Unappropriated Reserve Statement. "DSH" is an acronym for "Disproportionate Share for Hospitals (federal funds)," and DSH revenue constitutes additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people.

### **3. General Fund Revenue Sources**

Sales and use taxes, corporate and individual income taxes and wagering taxes are the three primary sources of State Operating Revenue. Table 1 provides annual revenue by source and growth rates over time. The following is a summary of Operating Revenue by source.

***Sales and Use Taxes.*** As part of the property tax reform legislation enacted in P.L. 146-2008, the sales and use tax rate was increased from 6.0% to 7.0%, effective April 1, 2008. This tax is imposed on the sale and rental of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 7.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, research and development equipment after July 1, 2007, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

### ***Corporate Income Taxes.***

**Corporate Adjusted Gross Income Tax.** The corporate adjusted gross income tax is applicable to corporations doing business in the State. The corporate adjusted gross income tax rate is 8.5% of apportioned Indiana adjusted gross income (AGI). P.L 172-2011 reduced the corporate AGI tax rate from 8.5% to 6.5% in 0.5% increments over four years beginning on July 1, 2012. The phase-in of the tax rate reduction will be complete on July 1, 2015. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations, limited liability companies, partnerships and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the corporate adjusted gross income tax. Corporate adjusted gross income tax collections are allocated to the General Fund.

**Financial Institution Tax.** This tax is applicable to a financial institution for the privilege of exercising its franchise or the corporate privilege of transacting the business of a financial institution in Indiana. It applies to any business which is primarily engaged in extending credit, or engaged in leasing. The tax base is a taxpayer's apportioned adjusted gross income with statutory deductions and additions. Insurance companies, international banking facilities, federally chartered credit unions, and S corporations are exempt. The tax rate is 8.5%. Local units of government are guaranteed revenue based on the former Financial Institution Taxes in 1989. Any remaining revenue collected is deposited in the state General Fund.

**Utilities Receipts Tax.** The utilities receipts tax is based on gross receipts from retail utility sales and is imposed at a rate of 1.4%. All revenue is deposited in the state General Fund. Utilities must also pay the corporate adjusted gross income tax. Effective July 1, 2007, a use tax was imposed on consumers of utilities if the Utilities Receipts Tax was not paid by the seller. The use tax is imposed at the rate of 1.4% on the gross purchase price of the utilities.

***Individual Adjusted Gross Income Tax.*** Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenue derived from the collection of the adjusted gross income tax imposed on persons is credited to the General Fund.

***Wagering Tax.*** The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Riverboat gambling operations are permitted to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. Riverboats that adopt flexible scheduling are required to pay a graduated tax currently set at 15% of the first \$25 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25 million and \$50 million, 25% of receipts between \$50 million and \$75 million, 30% of receipts between \$75 million and \$150 million, 35% of receipts between \$150 million and \$600 million, and 40% of all adjusted gross receipts exceeding \$600 million.

In addition, the first \$33 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations, and 75% is deposited in the General Fund. The legislation capped the amounts that may be distributed to the cities and towns with riverboat operations at the amounts distributed in Fiscal Year 2002. All revenue in excess of the capped amounts is deposited in the General Fund. The General Fund receives 37.5% of wagering tax from the Orange County Casino. The remaining wagering tax revenue from the Orange County Casino is deposited in the local funds. From the revenue distributed to the General Fund, an amount is distributed annually to the BIF. The transfer amount is such that the total lottery and gaming revenue deposited in the BIF equals \$250 million in a Fiscal Year. Interest revenue deposited in the fund does not count against the \$250 million cap.

In 2007, the General Assembly enacted legislation authorizing the two existing licensed horse racing facilities in Indiana to install up to 2,000 slot machines on their premises. P.L. 233-2007 imposed a one-time license fee of \$250 million per track and graduated wagering taxes in the amount of 25% of the first \$100 million of adjusted gross receipts in a fiscal year, 30% of receipts between \$100 million and \$200 million, and 35% of receipts exceeding \$200 million.

In 2011, the General Assembly enacted P.L 172-2011 that provides that the graduated slot machine wagering tax applies to 99% of the adjusted gross receipts received beginning July 1, 2012.

The license fee receipts were deposited in the Property Tax Reduction Trust Fund to fund homestead credits for calendar years 2007 and 2008. Until December 31, 2008, wagering taxes from the two licensed horse racing facilities were deposited in the Property Tax Reduction Trust Fund. Any remaining funds in the Property Tax Reduction Trust Fund were transferred to the General Fund. Beginning January 1, 2009, the wagering taxes are deposited in the General Fund.

**Other Operating Revenue.** Other revenue ("Other Revenue") is derived from cigarette taxes, alcoholic beverage taxes, inheritance taxes, insurance taxes, interest earnings and miscellaneous revenue. The current cigarette tax is \$0.995 per pack.

#### 4. Lottery and Gaming Revenue

By statute, certain revenue from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenue") must be deposited in the BIF. Currently, the annual distributions of wagering tax revenue to the BIF is in the amount of \$250 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250 million is to remain in the General Fund. For a description of wagering taxes, see "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS - General Fund Revenue Sources—Wagering Tax."

Before Hoosier Lottery profits are transferred to the BIF, \$60 million annually is used to fund pension liabilities—\$30 million goes to the Teachers' Retirement Fund and \$30 million goes to the local Police and Firefighter Pension Fund. For Fiscal Year 2011, the Hoosier Lottery changed the revenue transfer schedule from quarterly to monthly, thus accelerating two months of profits transferred to state funds. As a result, \$35 million was transferred to the Teachers' Retirement Fund and \$35 million was transferred to the local Police and Fire Pension Fund (for a total of \$70 million in Fiscal Year 2011). All lottery and gaming revenue deposited to BIF is appropriated by the General Assembly, and the statute that governs deposits of that revenue also governs priority of distribution in the event that revenue falls short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State's counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles; \$236.4 million was appropriated for Fiscal Year 2011.

As shown below, gaming revenue totaling \$1,033.7 million was collected by the State in Fiscal Year 2011. These numbers include revenue deposited in the state and local funds but does not include riverboat admissions tax revenue distributed in Fiscal Year 2011 to state and local units in the amount of \$76.9 million. The \$794.6 million for wagering taxes includes \$131.2 million in revenues from slot machine operations allowed at Indiana horse racing facilities under P.L. 233-2007.

<u>Type of Tax</u>	<u>FY 2011</u>
Wagering Taxes	\$794.6
Lottery	\$230.2
Charity Gaming	\$5.7
Horse Racing	\$2.8
Type II Gambling	<u>\$0.4</u>
Total	\$1,033.7

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Source: State Budget Agency

P.L. 233-2007, enacted in 2007, imposed a license fee and directed wagering taxes to be deposited in the State Property Tax Reduction Trust Fund. This fund was established to provide additional property tax relief to property owners. As part of the property tax reform legislation in P.L. 146-2008, the State Property Tax Reduction Trust Fund was eliminated on December 31, 2008. Any remaining funds were, and future wagering taxes will be, deposited in the General Fund. Beginning January 1, 2009, the wagering taxes are deposited in the General Fund.

## 5. Revenue History

Annual percentage changes for each component of Operating Revenue are reflected in Table 1. The table also includes actual revenue for prior Fiscal Years as well as projected revenue for Fiscal Year 2011.

**Table 1**  
**State Operating Revenue**  
(Millions of Dollars)

	FY 2007 <sup>(1)</sup>	FY 2008 <sup>(1)</sup>	FY 2009 <sup>(1)</sup>	FY 2010 <sup>(1)</sup>	FY 2011 <sup>(1)</sup>	FY 2012 <sup>(2)</sup>	FY 2013 <sup>(2)</sup>
Sales Tax	5,379.1	5,686.0	6,153.2	5,914.7	6,217.5	6,617.6	6,864.6
Changes from Prior Year	2.92%	5.71%	8.22%	-3.88%	5.12%	6.44%	3.73%
Individual Income	4,615.6	4,837.5	4,313.8	3,875.6	4,585.6	4,890.1	5,084.0
Change from Prior Year	6.78%	4.81%	-10.83%	-10.16%	18.32%	6.64%	3.97%
Corporate Income <sup>(3)</sup>	987.1	909.5	839.0	592.2	704.8	795.5	784.9
Change from Prior Year	6.67%	-7.86%	-7.75%	-29.42%	19.01%	12.87%	-1.33%
Wagering Tax	625.3	582.9	608.2	658.9	660.3	617.5	567.1
Change from Prior Year	6.00%	-6.78%	4.34%	8.34%	0.21%	-6.48%	-8.16%
Other <sup>(4)</sup>	1,019.1	1,066.3	1,021.1	1,145.4	1,106.0	1,154.2	1,131.4
Change from Prior Year	2.28%	4.63%	-4.24%	12.17%	-3.44%	4.36%	-1.98%
Total <sup>(5)(6)</sup>	12,626.2	13,082.2	12,935.3	12,186.7	13,274.2	14,074.9	14,432.0
Change from Prior Year	4.69%	3.61%	-1.12%	-5.79%	8.92%	6.03%	2.54%

<sup>(1)</sup> Actual, but unaudited, Operating Revenue.

<sup>(2)</sup> Revenues are as projected by the Technical Forecast Committee on December 14, 2011. Revenues exclude Disproportionate Share Hospital (DSH), Quality Assessment Fee (QAF), and other miscellaneous revenues excluded from the forecast such as Marion County Juvenile Arrearage payments and dedicated statewide cost allocation plan revenues.

<sup>(3)</sup> Corporate Income Tax collections were under-reported in FY 2007 through FY 2011 as the result of a programming error. The amounts listed above should be increased by \$4.7 million for FY 207, \$29.6 million for FY 2008, \$56.2 million for FY 2009, \$58.3 million for FY 2010, and

\$139.2 million for FY 2011. This revenue is reflected in Table 4 as "Prior Year Corporate Income Tax (e-check).

<sup>(4)</sup> See "General Fund Revenue Sources – Other Operating Revenue

<sup>(5)</sup> "P.L. 146-2008, the Governor's property tax reform legislation, included the following revenue changes in Fiscal Year 2009: an increase in sales tax from 6% to 7% effective April 1, 2008; individual income impacted by state-captured miscellaneous revenues and increase in renter's deduction; wagering tax from slots at the race tracks; and loss of reimbursement for juvenile incarceration costs.

<sup>(6)</sup> Excluding P.L. 156-2008, total revenues increased by 2.4% in Fiscal Year 2008, and then decreased by 7.4% in Fiscal Year 2009.

Excluding

P.L. 146-2008, wagering tax revenues decreased by 6.4% in Fiscal Year 2009. Excluding P.L. 146-2008, other revenues decreased by 7.6% in

Fiscal Year 2009.

Source: State Budget Agency

## 6. Operating Expenditures

Actual expenditures may differ from estimated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State's five largest expenditure categories (as of FY 2009) include local school aid, higher education, property tax relief, Medicaid and correction. Table 2 sets forth operating expenditures and estimates for all major expenditure categories for Fiscal Years 2007 through 2013.

**Table 2**  
**Expenditures**  
(Millions of Dollars)

	FY 2007 <sup>(1)</sup>	FY 2008 <sup>(1)</sup>	FY 2009 <sup>(1)</sup>	FY 2010 <sup>(1)</sup>	FY 2011 <sup>(1)</sup>	FY 2012 <sup>(2)</sup>	FY 2013 <sup>(2)</sup>
Local School Aid <sup>(3)</sup>	4,628.8	4,795.6	5,673.1	7,147.2	7,249.0	7,276.1	7,342.8
Change from Prior Year	2.48%	3.60%	18.30%	25.98%	1.42%	0.37%	0.92%
Property Tax Relief <sup>(4)</sup>	2,211.6	2,346.4	1,660.0	0.0	0.0	0.0	0.0
Change from Prior Year	1.94%	6.10%	-29.25%	-100.00%	N/A	N/A	N/A
Higher Education <sup>(5)</sup>	1,589.8	1,704.8	1,756.3	1,711.7	1,703.1	1,696.1	1,701.7
Change from Prior Year	1.35%	7.23%	3.02%	-2.54%	-0.50%	-0.41%	0.33%
Medicaid <sup>(6)</sup>	1,514.6	1,583.2	1,321.8	1,259.9	1,436.0	1,857.8	2,023.8
Change from Prior Year	4.09%	4.53%	-16.51%	-4.68%	13.98%	29.37%	8.94%
Correction	589.2	615.7	634.8	652.4	647.5	664.6	672.4
Change from Prior Year	0.89%	4.50%	3.10%	2.77%	-0.75%	2.64%	1.17%
Other <sup>(7)</sup>	1,712.8	1,834.0	2,005.9	2,143.8	2,001.5	2,360.1	2,453.7
Change from Prior Year	7.04%	7.08%	9.37%	6.87%	-6.64%	17.92%	3.97%
Total	12,246.8	12,879.7	13,051.9	12,915.0	13,037.1	13,854.7	14,194.4
Change from Prior Year	2.96%	5.17%	1.34%	-1.05%	0.95%	6.27%	2.45%

<sup>(1)</sup> Actual, but unaudited, expenditures.

<sup>(2)</sup> Estimated expenditures.

<sup>(3)</sup> Fiscal Year 2009 figures exclude \$536.4 million of Education Stabilization Funds provided under the American Recovery and Reinvestment Act (ARRA). Inclusion of these funds would result in a total of \$6,209.5 million, an increase of 29.48% over Fiscal Year 2008, primarily attributable to P.L. 146-2008. Fiscal Year 2010 figures also exclude Education Stabilization Funds provided under AARA.

<sup>(4)</sup> P.L. 146-2008, the Governor's property tax reform legislation, replaced Property Tax Replacement Credits with the State assuming 100% of the Tuition Support Levy and various other local levies previously borne by local government.

<sup>(5)</sup> Higher education figures exclude federal stimulus finds provided under the ARRA; the exact timing of the distribution of these funds is still being determined.

<sup>(6)</sup> Medicaid figures for Fiscal Years 2009, 2010, and 2011 exclude federal stimulus funds provided under the ARRA in the form of increased federal medical assistance percentages.

<sup>(7)</sup> P.L. 146-2008 also required the State to assume a number of local levies now included under "Other", such as the Family and Children Levy, the Children with Special Health Care Needs Levy, the State Fair Levy, the State Forestry Levy, and Public Safety Pensions costs.

Source: State Budget Agency

**Local School Aid.** Funding for elementary and secondary education is the State's largest operating expense. Through December 31, 2008, local school aid was payable from both the General Fund and the Property Tax Replacement Fund ("PTR Fund"). With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. Local school aid is payable from the General Fund only after December 31, 2008. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS – Governor's Property Tax Reform Legislation" for a summary of P.L. 146-2008.

Local school aid includes distributions for programs such as assessment and performance, as well as tuition support. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation enacted in 2002, the State provided approximately 85% of the school corporations' general fund budgets. As part of the property tax reform legislation enacted by P.L. 146-2008, the State assumed responsibility for the local share of tuition support and began providing 100% of the tuition support for school corporation general funds in January 2009. Also included in P.L. 146-2008 were Fiscal Year 2009 appropriations for new facilities appeals (\$10 million), a preschool special education levy (\$3 million), and circuit breaker replacement credits (\$25 million), each of which were formerly paid by local property taxes.

Primarily due to the assumption of the local share of tuition support by the State, local school aid funding increased 18.3% for Fiscal Year 2009 on a statewide basis. These figures exclude \$536.4 million of ARRA funds; including these funds would result in an increase of 29.5% for Fiscal Year 2009. General Fund expenditures for Fiscal Year 2010 were \$7,147.2 million, excluding ARRA funds. Expenditures for local school aid from the General Fund for Fiscal Year 2011 were \$7,249.0 million. Estimated General Fund expenditures for local school aid for Fiscal Year 2012 and 2013 are \$7,276.1 million and \$7,342.8 million, respectively. These figures represent increases of 0.4% and 0.9% following an increase of 1.4% in Fiscal Year 2011 for the General Fund (excluding

ARRA funds). See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS - Financial Results of Operations."

**Property Tax Relief.** Prior to 2009, spending for property tax relief primarily consisted of Property Tax Relief Credits ("PTR Credits") and the Homestead Credits. Prior to 2003, PTR Credits equaled 20% of property taxes charged excluding property taxes imposed for debt service or imposed in excess of the State's levy limitations. Homestead Credits equaled 10% of property taxes charged on homesteads excluding property taxes imposed for debt service or imposed in excess of the State's levy limitations. Appropriations for PTR Credits and Homestead Credits were made from the PTR Fund. A special legislative session in 2002 resulted in PTR Credits being increased, subject to appropriation, to 60% of property taxes imposed by school corporations for general fund purposes and 20% of all other property taxes excluding property taxes imposed for debt service or imposed in excess of the State's levy limitations. Property taxes imposed on personal property were made ineligible to receive the 20% PTR Credits. During the same special legislative session, Homestead Credits were increased to 20%, subject to appropriation. These changes were effective January 1, 2003. Beginning with the Fiscal Years 2005-2007 biennium, the total amount of PTR Credits and Homestead Credits distributed in a Fiscal Year from the PTR Fund was limited to the amount distributed in Fiscal Year 2002 plus an amount equal to the increase in the State sales tax from 5.0% to 6.0% enacted during the 2002 special legislative session. HEA 1835-2007 established the Property Tax Reduction Trust Fund for the purpose of providing additional property tax relief payable solely from new revenues resulting from the operation of slot machines at horse racing tracks located within the state.

P.L. 146-2008 eliminated the appropriation for PTR Credits, replacing them with Homestead Credits and the State's assumption of 100% of the tuition support for school corporation general funds beginning in January 2009. P.L. 146-2008 provided for \$690 million in Homestead Credits during the Fiscal Years 2007-2009 biennium.

**Higher Education.** Through the General Fund, the State supports seven higher education institutions: Ball State University, Indiana University, Indiana State University, Ivy Tech Community College of Indiana, Purdue University, University of Southern Indiana and Vincennes University. Higher education expenditures for Fiscal Year 2009 were \$1,756.3 million, an increase of 3.0% from Fiscal Year 2008. Higher education expenditures for Fiscal Year 2010 were \$1,711.7 million, a decrease of 2.5%. General Fund expenditures for Fiscal Year 2011 were \$1,703.1 million, a decrease of 0.5%. Estimated expenditures for higher education from the General Fund are \$1,696.1 million for Fiscal Year 2012 and \$1,701.7 million for Fiscal Year 2013. These figures exclude ARRA funds. Appropriations for higher education include university operating, university fee-replaced debt service, university line items, other higher education line items, university repair and rehabilitation, university capital projects, and State student aid. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS -Financial Results of Operations."

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding student fee and building facilities fee bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

Table 3 sets forth the aggregate principal amount of bonds and notes outstanding as of June 30, 2011, for each State university and college eligible for Fee Replacement Appropriations and the amount of Fee Replacement Expenditures for Fiscal Year 2011 and Fee Replacement Appropriations for Fiscal Year 2012.

**Table 3**  
**Schedule of Fee Replacement Debt**

	Estimated Amount of Debt Outstanding June 30, 2011	Fiscal Year 2011 Fee Replacement Expenditures	Fiscal Year 2012 Fee Replacement Appropriations
Ball State University	\$128,310,000	\$11,535,537	\$14,038,557
Indiana University	\$409,736,980	\$72,552,738	\$51,638,252
Indiana State University	\$68,121,645	\$8,889,341	\$8,887,196
Ivy Tech Community College	\$293,644,000	\$28,595,503	\$29,817,924
Purdue University	\$297,353,330	\$30,482,430	\$32,052,452
University of Southern Indiana	\$88,181,760	\$11,003,966	\$10,998,767
Vincennes University	\$36,361,619	\$4,974,399	\$4,176,639
<b>Total</b>	<b>\$1,321,709,333</b>	<b>\$168,033,913</b>	<b>\$151,609,787</b>

(1) Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

(2) Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

(3) Totals may not add due to rounding.

Source: State Budget Agency

**Medicaid.** Medicaid is a state/federal shared fiscal responsibility with the State supporting 26.71% of the total program through a combination of State General Fund and dedicated funds over the biennium. Federal funding accounts for the remaining 73.29%. The federal share increased during Fiscal Years 2009, 2010, and 2011 as a result of the ARRA. For Fiscal Year 2010, State General Fund Medicaid expenditures totaled \$1,259.9 million. In Fiscal Year 2011, State General Fund Medicaid expenditures totaled \$1,436.0 million. Enrollment was estimated to be 959,121 at the end of Fiscal Year 2011 and is expected to reach 1,001,999 by the end of Fiscal Year 2012 (these figures exclude the Children's Health Insurance Program and the Healthy Indiana Program). Indiana's base federal reimbursement rate equaled 65.93% for the first quarter of Fiscal Year 2011 and 66.52% for the remaining three quarters of Fiscal Year 2011 and the first quarter of Fiscal Year 2012. State General Fund Medicaid appropriations needed for Fiscal Years 2012 and 2013 are projected to total \$1,857.8 million and \$2,023.8 million, respectively. All figures above exclude ARRA funds and only represent the State General Fund expenditures or appropriations.

**Correction.** Appropriations for the Department of Correction, payable almost entirely from the General Fund, include funds for incarceration and rehabilitation of adult and juvenile offenders, as well as parole programs. Correction expenditures were \$652.4 million for Fiscal Year 2010 and \$647.5 million for Fiscal Year 2011. General Fund appropriations for Fiscal Year 2012 total \$664.6 million.

Offender population is the most significant driver of Correction expenditures. The total offender population, including those in jail and contract beds, increased to 28,760 in Fiscal Year 2011 and is projected to reach 29,438 by the end of Fiscal Year 2012.

**Other.** The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State's share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. Other categories expenditures for Fiscal Year 2009 from the General Fund totaled \$2,005.9 million, an increase of 9.4% over Fiscal Year 2008. This increase was attributable to a number of local levies assumed by the State under P.L. 146-2008, such as the Family and Children Levy, the Children with Special Health Care Needs Levy, the State Fair Levy, the State Forestry Levy, and Public Safety Pension costs. Other categories of General Fund expenditures totaled \$2,143.8 million for Fiscal Year 2010 and \$2,001.5 million for Fiscal Year 2011. Other categories of expenditures for Fiscal Year 2012 (\$2,360.1 million) and Fiscal Year 2013 (\$2,453.7 million) increase for a number of reasons including the full phasing-in of costs associated with the levies assumed by the State under P.L. 146-2008 and the complete phasing-out of ARRA funding.

**Expenditure Limits.** In 2002, the General Assembly enacted a law establishing a State spending cap. The law provides that the maximum annual percentage growth in State's spending cap from the General Fund and the PTR Fund must be the lesser of the average percentage change in Indiana non-farm personal income during the past six calendar years or 6%. At present, State expenditures are well below the spending cap. The law excludes

expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, State capital projects, judgments and settlements, distributions of specified State tax revenue to local governments and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund and Rainy Day Fund and, prior to 2009, the PTR Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income or 6%. The legislation allows the State spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The Budget Agency computed the spending growth quotient for Fiscal Years 2012 and 2013 to be 2.4% and 2.8%, respectively.

## 7. Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the State Tuition Reserve, the Medicaid Reserve, and the General Fund. Each of these funds is described below.

**Rainy Day Fund.** In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the "Rainy Day Fund." One of three primary funds into which general purpose tax revenue is deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. An automatic withdrawal of \$370.9 million from the Rainy Day Fund occurred in Fiscal Year 2010, and an automatic deposit of \$53.5 million from the General Fund into the Rainy Day Fund occurred in Fiscal Year 2011. In addition, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time to time during periods of economic recession. The General Assembly has also authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS - Financial Results of Operations."

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenue is less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenue for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the General Fund. See Table 4 for Rainy Day Fund balances.

**State Tuition Reserve.** The Tuition Reserve was a cash flow device intended to assure that the State had sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimated and established the Tuition Reserve for the ensuing Fiscal Year. See Table 4 for Tuition Reserve Fund balances. P.L. 146-2008 formally created the State Tuition Reserve Fund to which the balance of the Tuition Reserve was transferred and can only be used to make local school aid payments. An additional \$50 million was deposited in the Tuition Reserve Fund on June 30, 2008, two-and-a-half years before the legislative deadline of December 31, 2010. The Budget Agency transferred \$536.4 million from the General Fund to the State Tuition Reserve Fund on June 30, 2009, to support tuition support appropriations from the General Fund in Fiscal Year 2010 and Fiscal Year 2011. The Budget Agency ordered net transfers of \$945.7 million from the State Tuition Reserve Fund to the General Fund during Fiscal Year 2010 to support tuition support appropriations.

**Medicaid Reserve.** In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. The Budget Agency transferred \$57.6 million from the Medicaid Reserve to the General Fund during Fiscal Year 2010 to support Medicaid obligations. See Table 4 for Medicaid Reserve Fund balances.

**General Fund.** The General Fund is the primary fund into which general purpose tax revenue, or Operating Revenue, is deposited or transferred. Prior to its repeal, the PTR Fund was often times combined with the General Fund to provide a more complete and accurate description of the State's Operating Revenue and discretionary spending, especially for local school aid and property tax relief.

With the enactment of P.L. 146-2008, the PTR Fund ceased to exist on December 31, 2008, and any remaining funds were transferred to the General Fund. See "FISCAL POLICIES - Fund Structure — Governmental Funds – Special Revenue Funds" and "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS –Property Tax Reform" for a summary of P.L. 146-2008.

## 8. Financial Results of Operations

The State closed Fiscal Year 2011 with combined balances of \$1,181.5 million in the General Fund, which was 8.8% of that Fiscal Year's operating revenue.

Fiscal Year 2011 was highlighted by continued fiscal restraint, rebounding state revenues, and the phasing down of ARRA funds. The Governor caused approximately \$1,124 million of reversions to the General Fund, following \$785 million of reversions in Fiscal Year 2010.

## 9. Revenue Forecast for Fiscal Years 2012 and 2013

The Forecast Committee updated the forecast of State revenue for Fiscal Years 2012 and 2013 on December 14, 2011. Fiscal Year 2011 State revenue increased by \$1,087.5 million (or 8.9%) over 2010 revenues. Revenue growth of 6.0% (\$800.7 million) and 2.5% (\$357.1 million) are projected for Fiscal Years 2012 and 2013, respectively.

P.L. 146-2008 increased the sales tax from 6.0% to 7.0% effective April 1, 2008, as part of the property tax reform legislation. The increase generated \$151.6 million in Fiscal Year 2008, and generated \$879.0 million in Fiscal Year 2009. P.L. 146-2008 increased wagering tax collections for Fiscal Year 2009 to the General Fund by \$62.8 million, caused by the elimination of the Property Tax Reduction Trust Fund on December 31, 2008. P.L. 146-2008 also increased "Other" collections for Fiscal Year 2009 by \$25.8 million due to state captured miscellaneous revenues.

## 10. Combined Balance Statements

Table 4 sets forth the Budget Agency's unaudited end-of-year combined balance statements and estimates and projections, including revenue and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency's "working" statements may differ from the results included in the 2011 Financial Report or the Auditor of State's comprehensive annual financial reports for other Fiscal Years. Forecasted revenue is developed by the Forecast Committee, and actual revenue may be higher or lower than forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2012 and 2013.

**Table 4**  
**General Fund and Property Tax Replacement Fund**  
**Combined Statement of Actual and Estimated Unappropriated Reserve**  
(Millions of Dollars)

	Actual FY2009	Actual FY2010	Actual FY2011	Estimated FY2012 <sup>(1)</sup>	Estimated FY2013 <sup>(1)</sup>
<b>Resources:</b>					
Working Balance on July 1	592.5	54.9	830.7	1,124.3	1,704.9
<b>Current Year Resources:</b>					
Forecast Revenue	12,935.3	12,186.7	13,274.2	14,074.9	14,432.0
Miscellaneous Revenue	21.8	38.7	12.2	-	-
DSH Revenue	60.1	57.9	58.2	58.0	58.0
Quality Assessment Fee	34.4	33.3	39.6	36.6	46.2
Prior Year Corporate Income Tax (E-check)	-	-	-	288.0	-
Transfer from Medicaid Reserve to General Fund	-	57.6	-	-	-
Transfer from Rainy Day Fund to General Fund	-	370.9	-	-	-
Transfer from General Fund to Rainy Day Fund	-	-	-53.5	-	-
Transfer from General Fund to State Tuition Reserve	-536.4	-73.6	-	-	-
Transfer from State Tuition Reserve to General Fund	-	1,019.3	-	-	-
<b>Total Current Year Resources</b>	<b><u>12,515.2</u></b>	<b><u>13,690.8</u></b>	<b><u>13,330.7</u></b>	<b><u>14,457.5</u></b>	<b><u>14,536.2</u></b>
<b>Total Resources</b>	<b>13,107.7</b>	<b>13,745.7</b>	<b>14,161.4</b>	<b>15,581.8</b>	<b>16,241.1</b>
<b>Uses: Appropriations, Expenditures and Reversions:</b>					
<b>Appropriations</b>					
Budgeted Appropriations	14,549.5	13,571.4	14,113.0	13,980.7	14,317.6
Adjustments to Appropriations(2)	27.7	125.8	33.5	24.6	20.6
Enrolled Acts 2008 (excluding P.L. 146-2008)	4.9	-	-	-	-
<b>Total Appropriations</b>	<b>14,582.1</b>	<b>13,697.2</b>	<b>14,146.5</b>	<b>14,005.3</b>	<b>14,338.2</b>
<b>Other Expenditures and Transfers</b>					
Local Option Income Tax Distributions	8.7	11.6	1.6	-	-
PTRC and Homestead Credit Adjustments	-23.5	26.2	-14.0	-	-
Adjustment for Stadium/Convention Center Appropriation	-	-40.0	-42.0	-112.1	-111.0
Judgments and Settlements(3)	5.3	4.7	8.0	13.7	8.7
Statutory Distribution to Pension Stabilization Fund	-	-	-	-	166.8
Automatic Taxpayer Refund	-	-	-	-	166.8
<b>Total Appropriations and Expenditures</b>	<b>14,572.6</b>	<b>13,699.7</b>	<b>14,100.1</b>	<b>13,906.9</b>	<b>14,569.5</b>
<b>Payment Delays</b>					
Property Tax Replacement Credit	-105.5	-	-	-	-
Reversions	<u>-1,414.2</u>	<u>-784.7</u>	<u>-1,063.0</u>	<u>-30.0</u>	<u>-30.0</u>
<b>Total Net Uses</b>	<b><u>13,052.9</u></b>	<b><u>12,915.0</u></b>	<b><u>13,037.1</u></b>	<b><u>13,876.9</u></b>	<b><u>14,539.5</u></b>
General Fund Reserve Balance at June 30	54.9	830.7	1,124.3	1,704.9	1,701.6
<b>Reserved Balances</b>					
Medicaid Reserve	57.6	0.0	0.0	0.0	0.0
Tuition Reserve	941.7	0.0	0.0	0.0	0.0
Rainy Day Fund <sup>(4)</sup>	<u>365.2</u>	<u>0.0</u>	<u>57.2</u>	<u>60.5</u>	<u>63.7</u>
<b>Total Combined Balances</b>	<b><u>1,419.4</u></b>	<b><u>830.7</u></b>	<b><u>1,181.5</u></b>	<b><u>1,765.4</u></b>	<b><u>1,765.3</u></b>
Payment Delay Liability	0.0	0.0	0.0	0.0	0.0
Combined Balance as a Percent of Operating Revenue	10.9%	6.7%	8.8%	12.5%	12.1%

<sup>(1)</sup> Revenues are those projected by the Technical Forecast Committee on April 15, 2011; appropriations are those authorized by the 2011 General Assembly for Fiscal Years 2012 and 2013.

<sup>(2)</sup> Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total.

<sup>(3)</sup> Represents the estimated cost to the State of judgments and other legal and equitable claims. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. See "LITIGATION."

<sup>(4)</sup> Net of outstanding loans to local governments. The loans are authorized by the General Assembly and are illiquid.

Source: State Budget Agency

## 11. Toll Road Lease

In 2006, the General Assembly enacted legislation authorizing the Indiana Finance Authority to lease the Indiana Toll Road to a private entity to operate for a term not to exceed 75 years. A lease agreement with ITR Concession Company LLC was signed in April 2006 and the transaction was closed on June 29, 2006. Shortly after the closing, the revenues from the lease, \$3.8 billion (net of expenses and the bond repayments), were transferred to a trust fund and are being used to fund nearly 200 statewide transportation and economic growth projects throughout the State.

## STATE INDEBTEDNESS

### 1. Constitutional Limitations on State Debt

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except: to meet casual deficits in revenue; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the State constitution. *See* "FISCAL POLICIES—State Board of Finance."

### 2. Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as "contingent obligations." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. *See* "STATE INDEBTEDNESS - Obligations Payable from Possible State Appropriations—Authorized but Unissued Debt."

In 2005, the General Assembly enacted legislation establishing the Indiana Finance Authority, a body politic and corporate, separate from the State. The Indiana Finance Authority is required, after consulting with the Treasurer of State, the Indiana Bond Bank (the "Bond Bank"), the Budget Agency and the Indiana Commission for Higher Education, to establish and periodically update a State debt management plan.

### 3. Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the Indiana Finance Authority and the Indiana Bond Bank, each of which is a body politic and corporate, separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance various capital projects. Certain agencies of the State, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the State), have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bonds issued by any such financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability, or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

***Indiana Finance Authority.*** Before 2005, there had been numerous bodies corporate and politic of the State, each with separate decision making and borrowing authority, that issued bonds and otherwise accessed the financial markets. On May 15, 2005, to provide economic efficiencies and management synergies and to enable the State to communicate, with a single voice, with the various participants in the financial markets, the Indiana Development Finance Authority, the State Office Building Commission, the Indiana Transportation Finance

Authority, the Recreational Development Commission, the State Revolving Fund Programs, and the Indiana Brownfields Program were consolidated into the Indiana Finance Authority. Effective July 1, 2007, the Indiana Health and Educational Facility Financing Authority was also merged into the Indiana Finance Authority. As the successor entity, the Indiana Finance Authority has assumed responsibility for the financing of certain buildings, highways, aviation facilities and recreation facilities.

For a description of other powers and responsibilities of the Indiana Finance Authority, including its authority to issue other debt, *see* "STATE INDEBTEDNESS - Contingent Obligations" and Table 8.

Buildings. The Indiana Finance Authority is authorized (and its predecessor, the State Office Building Commission, had been authorized) to issue revenue bonds, payable from lease rentals under use and occupancy agreements with various State agencies, to finance or refinance the cost of acquiring, constructing or equipping buildings, structures, improvements or parking areas for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing parking for State employees or persons having business with State government; (c) providing buildings, structures or improvements for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing buildings, structures or improvements for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing buildings, structures or improvements for the care, maintenance or treatment of adults or children with mental illness, developmental disabilities, addictions or other medical or rehabilitative needs; or (f) providing the infrastructure of a State-wide wireless public safety communications system. Lease rentals under the use and occupancy agreements are payable primarily from possible State appropriations. *See* "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—STATE BUILDINGS."

The Indiana Finance Authority has the authority to provide (and its predecessor, the State Office Building Commission, had provided) short-term, or construction, financing for authorized projects through the issuance of commercial paper payable from proceeds of its revenue bonds. As of June 30, 2011, there is no commercial paper outstanding.

Highways. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from lease rentals under lease agreements with the Indiana Department of Transportation, to finance or refinance the cost of construction, acquisition, reconstruction, improvement or extension of the State's highways, bridges, streets, roads or other public ways. Lease rentals under the lease agreements are payable primarily from possible State appropriations. *See* "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—HIGHWAY REVENUE BONDS."

In 2005, legislation was enacted that authorizes the Indiana Finance Authority to issue grant anticipation revenue bonds to finance highway projects eligible for federal highway revenues. However, none have been issued to date.

Aviation Facilities. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from the revenues pledged thereto, to finance or refinance improvements related to airports or aviation-related property or facilities.

Pursuant to this authority, the Indiana Transportation Finance Authority issued its revenue bonds to finance and refinance (a) improvements related to an airport and aviation-related property and facilities at the Indianapolis International Airport and (b) an aviation technology center at the Indianapolis International Airport. The bonds are payable from lease rentals under lease agreements with the Indianapolis Airport Authority. Lease rentals under the lease agreements are payable primarily from possible State appropriations. *See* "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—AVIATION FACILITIES."

Recreation Facilities. The Indiana Finance Authority is authorized (and its predecessor, the Recreational Development Commission, had been authorized) to issue revenue bonds, payable from the revenues pledged thereto, to finance or refinance the costs of the acquisition, construction, renovation, improvement or equipping of facilities for the operation of public parks.

Pursuant to this authority, the Recreational Development Commission issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various lodging and other facilities for public parks in the State. The bonds are payable from lease rentals under use and occupancy agreements with the State's Department of Natural Resources or the Indiana State Museum and Historic Sites Corporation. The lease rentals under the use and occupancy agreements are payable primarily from possible State appropriations. See "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—RECREATIONAL FACILITIES."

**Bond Bank.** The Bond Bank issued its revenue bonds, payable from possible State appropriations, to finance or refinance certain State interests or initiatives, including the State's Animal Disease and Diagnostic Laboratory ("ADDL") at Purdue University, West Lafayette, and the Columbus Learning Center ("CLC"), an educational facility to be used by a number of State post-secondary educational institutions to provide services in South Central Indiana. See "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—BOND BANK" and "Table 8—Schedule of Long Term Debt—Contingent Obligations—BOND BANK Special Program Pool." For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see "STATE INDEBTEDNESS - Contingent Obligations—Indiana Bond Bank" and "Table 8—Schedule of Long Term Debt—Contingent Obligations – BOND BANK Special Program Pool."

**Schedule of Long Term Debt.** Table 5 lists, by type of financing, long-term debt that is subject to possible State appropriations as of June 30, 2011. See "Authorized but Unissued Debt" and "Table 3 – Schedule of Fee Replacement Debt" for related debt that is subject to possible State appropriations.

**Table 5**  
**Schedule of Long Term Debt**  
**Obligations Payable from Possible State Appropriations**

<u>Type/Series</u>	<u>Original Par Amount</u>	<u>Ending Balance 6/30/2010</u>	<u>(Redeemed)/ Issued</u>	<u>Ending Balance 6/30/2011</u>
<b>STATE BUILDINGS</b>				
Forensic & Health Sciences Lab				
Series 2006A	\$62,900,000	\$58,760,000	(\$2,195,000)	\$56,565,000
Subtotal	\$62,900,000	\$58,760,000	(\$2,195,000)	\$56,565,000
<b>Government Center Parking Facilities</b>				
Series 1990A	\$26,669,824	\$6,325,000	\$0	\$6,325,000
Series 2003A	26,735,000	11,160,000	(3,285,000)	7,875,000
Subtotal	\$53,404,824	\$17,485,000	(\$3,285,000)	\$14,200,000
<b>Government Center North</b>				
Series 1990B	\$77,123,542	\$19,620,000	\$0	\$19,620,000
Series 2003B	73,205,000	44,365,000	(6,535,000)	37,830,000
Subtotal	\$150,328,542	\$63,985,000	(\$6,535,000)	\$57,450,000
<b>Government Center South</b>				
Series 1990C	\$18,063,800	\$4,285,000	\$0	\$4,285,000
Series 1990D	110,675,000	20,335,000	(9,830,000)	10,505,000
Series 2000B	43,400,000		0	
Series 2003C	7,835,000	4,615,000	(695,000)	3,920,000
Series 2008B	13,725,000	13,725,000	0	13,725,000
Subtotal	\$193,698,800	\$42,960,000	(\$10,525,000)	\$32,435,000
<b>Other Facilities</b>				
Series 1995B	\$47,975,000	\$17,375,000	(\$2,055,000)	\$15,320,000
Series 1998A	93,020,000	0	0	0
Series 1999A	96,785,000	0	0	0
Series 2000A	44,800,000	0	0	0
Series 2001A	66,600,000	0	0	0
Series 2002A	128,110,000	40,400,000	(5,710,000)	34,690,000
Series 2003A	83,530,000	34,415,000	(3,510,000)	30,905,000
Series 2003B	31,930,000	27,000,000	(1,320,000)	25,680,000
Series 2003C	55,075,000	52,280,000	(930,000)	51,350,000
Series 2003D	20,475,000	15,270,000	(315,000)	14,955,000
Series 2004A	46,180,000	45,925,000	(4,795,000)	41,130,000

Series 2004B	61,890,000	61,890,000	0	61,890,000
Series 2004C	33,950,000	33,950,000	0	33,950,000
Series 2004D	33,995,000	31,750,000	(1,185,000)	30,565,000
Series 2004E	57,005,000	53,280,000	(1,965,000)	51,315,000
Series 2008A	29,715,000	29,275,000	(1,955,000)	27,320,000
Series 2008C	53,035,000	52,500,000	(2,105,000)	50,395,000
Series 2009A	47,360,000	47,360,000	(1,385,000)	45,975,000
Series 2009B	13,825,000	13,825,000	0	13,825,000
Subtotal	\$1,045,255,000	\$556,495,000	(\$27,230,000)	\$529,265,2000
<b>TOTAL STATE BUILDINGS</b>	<b>\$1,505,587,166</b>	<b>\$739,685,000</b>	<b>(\$49,770,000)</b>	<b>\$689,915,000</b>
<b>HIGHWAY REVENUE BONDS</b>				
Series 1990A	\$72,498,391	\$24,695,000	(\$2,090,000)	\$22,605,000
Series 1992A	74,035,000	35,285,000	(4,105,000)	31,180,000
Series 1993A	193,531,298	75,966,298	(9,020,000)	66,946,298
Series 1998A	175,360,000	34,490,000	0	34,490,000
Series 2000	269,535,000	16,235,000	(16,235,000)	0
Series 2003A	433,155,000	90,890,000	(63,075,000)	27,815,000
Series 2004A	320,550,000	11,645,000	(11,645,000)	0
Series 2004B	147,345,000	147,345,000	0	147,345,000
Series 2004C	146,080,000	144,795,000	(1,430,000)	143,365,000
Series 2007A	642,300,000	632,655,000	(13,650,000)	619,005,000
Series 2010A				74,040,000
<b>TOTAL HIGHWAYS</b>	<b>\$2,474,389,689</b>	<b>\$1,214,001,298</b>	<b>(\$47,210,000)</b>	<b>\$1,166,791,298</b>
<b>AVIATION FACILITIES</b>				
Airport Facilities Bonds				
Series 2008A	\$127,655,000	\$127,655,000	\$0	\$127,655,000
Series 2008B	51,485,000	22,350,000	(15,315,000)	7,035,000
Subtotal	\$179,140,000	\$150,005,000	(\$15,135,000)	\$134,690,000
Aviation Technology Bonds				
Series 2002	\$10,095,000	\$6,295,000	(\$670,000)	\$5,625,000
Subtotal	\$10,095,000	\$6,295,000	(\$670,000)	\$5,625,000
<b>TOTAL AVIATION FACILITIES</b>	<b>\$189,235,000</b>	<b>\$156,300,000</b>	<b>(\$15,985,000)</b>	<b>\$140,315,000</b>
<b>RECREATIONAL FACILITIES</b>				
Series 1997	\$6,600,000	\$3,665,000	(\$325,000)	\$3,340,000
Series 2002	14,400,000	10,690,000	(1,040,000)	9,650,000
Series 2004	12,780,000	11,125,000	(705,000)	10,420,000
<b>TOTAL RECREATIONAL FACILITIES</b>	<b>\$33,780,000</b>	<b>\$25,480,000</b>	<b>(\$2,070,000)</b>	<b>\$23,410,000</b>
<b>BOND BANK</b>				
Series 1998A (ADDL)	\$10,830,000	\$1,495,000	(\$985,000)	\$510,000
<b>TOTAL BOND BANK</b>	<b>\$10,830,000</b>	<b>\$1,495,000</b>	<b>(\$985,000)</b>	<b>\$510,000</b>
<b>TOTAL ALL BONDS</b>	<b>\$4,213,821,855</b>	<b>\$2,136,961,298</b>	<b>(\$116,020,000)</b>	<b>\$2,020,941,298</b>

Source: Indiana Finance Authority (as of June 30, 2011). Excludes accreted value of capital appreciation bonds.

***Scheduled Principal and Interest Payments.*** Table 6 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased) as of June 30, 2011. See "Authorized but Unissued Debt" and "Table 3 – Schedule of Fee Replacement Debt" for related debt that is subject to possible State appropriations.

**Table 6**  
**Scheduled Principal and Interest Payments**  
**Obligations Payable from Possible State Appropriations**

<u>Type/Series</u>	<u>FY 2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>Thereafter</u>
<b>STATE BUILDINGS</b>					
Forensic & Health Sciences Lab					
Series 2006A	\$4,811,465	\$4,808,265	\$4,806,365	\$4,794,190	\$62,056,860
Subtotal	\$4,811,465	\$4,808,265	\$4,806,365	\$4,794,190	\$62,056,860
<b>Government Center Parking Facilities</b>					
Series 1990A	\$468,050	\$468,050	\$2,355,530	\$2,350,125	\$2,343,620
Series 2003A	3,668,863	1,214,563	1,211,081	1,209,481	1,210,181
Subtotal	\$4,136,913	\$1,682,613	\$3,566,611	3,559,606	\$3,553,801
<b>Government Center North</b>					
Series 1990B	\$1,451,880	\$1,451,880	\$7,306,920	\$7,290,350	\$7,269,370
Series 2003B	8,528,928	8,526,053	8,520,053	8,534,933	8,492,219
Subtotal	\$9,980,808	\$9,977,933	\$15,826,973	\$15,825,283	\$15,761,589
<b>Government Center South</b>					
Series 1990C	\$317,090	\$317,090	\$1,597,880	\$1,590,945	\$1,586,610
Series 1990D	10,867,423	0	0	0	0
Series 2003C	867,538	873,038	866,850	868,444	868,063
Series 2008B	686,250	14,068,125	0	0	0
Subtotal	\$12,738,301	\$15,258,253	\$2,464,730	\$2,459,389	\$2,454,673
<b>Other Facilities</b>					
Series 1995B	\$3,069,375	\$3,068,750	\$3,064,219	\$3,060,313	\$6,098,906
Series 2002A	7,576,794	7,569,488	1,567,813	1,097,750	29,541,125
Series 2003A	5,062,963	5,049,960	5,059,785	1,106,513	26,340,770
Series 2003B	2,545,245	2,543,436	2,541,798	2,541,798	25,227,584
Series 2003C	4,278,213	4,239,813	4,186,563	4,151,913	53,162,019
Series 2003D	1,033,638	1,021,038	1,032,938	1,019,338	16,325,306
Series 2004A	7,062,156	7,031,519	7,022,363	7,013,375	20,995,288
Series 2004B	3,249,225	3,249,225	9,169,625	9,731,6695	56,714,306
Series 2004C	1,789,141	1,813,455	1,881,206	5,708,450	34,730,700
Series 2004D	2,657,188	2,657,188	2,648,563	2,647,638	34,241,481
Series 2004E	4,489,638	4,486,438	4,473,913	4,479,594	57,800,863
Series 2008A	3,208,788	3,688,238	3,639,363	3,604,763	20,102,819
Series 2008C	4,794,138	5,761,138	5,775,638	5,673,388	45,543,544
Series 2009A	8,593,100	1,799,600	2,204,225	9,247,350	34,826,975
Series 2009B	691,250	7,462,625	7,052,000	0	0
Subtotal	\$60,100,852	\$61,441,911	\$61,320,012	\$61,083,848	\$461,651,685
<b>TOTAL STATE BUILDINGS</b>	<b>\$91,768,339</b>	<b>\$93,168,975</b>	<b>\$87,984,691</b>	<b>\$87,722,315</b>	<b>\$545,478,608</b>
<b>HIGHWAY REVENUE BONDS</b>					
Series 1990A	\$6,708,863	\$6,716,288	\$6,711,525	\$6,708,488	\$0
Series 1992A	6,351,320	6,343,280	6,324,500	6,318,450	12,610,490
Series 1993A	14,435,250	14,437,213	14,462,263	14,471,875	16,056,298
Series 1998A	1,896,950	1,896,950	1,896,950	1,896,950	45,998,475
Series 2000	0	0	0	0	0
Series 2003A	14,851,898	15,080,088	0	0	0
Series 2004A	0	0	0	0	0
Series 2004B	8,192,175	8,192,175	8,192,175	23,334,000	159,798,013
Series 2004C	16,581,113	13,289,613	23,408,488	12,087,888	141,962,044
Series 2007A	28,574,845	28,574,133	28,578,933	28,578,289	892,475,452
Series 2010A	3,302,350	4,976,850	10,282,850	7,585,050	74,760,525
<b>TOTAL HIGHWAYS</b>	<b>\$100,894,763</b>	<b>\$99,506,588</b>	<b>\$99,857,683</b>	<b>\$100,980,989</b>	<b>\$1,343,661,296</b>
<b>AVIATION FACILITIES</b>					
<b>Airport Facilities Bonds</b>					
Series 2008A	\$14,689,750	\$21,488,500	\$21,038,125	\$20,570,000	\$77,403,250
Series 2008B	7,185,549	0	0	0	0
Subtotal	\$21,875,299	\$21,488,500	\$21,038,125	\$20,570,000	\$77,403,250
<b>Aviation Technology Bonds</b>					
Series 2002	\$954,769	\$954,165	\$951,248	\$956,015	2,865,330
Subtotal	\$954,769	\$954,165	\$951,248	\$956,015	\$4,772,593
<b>TOTAL AVIATION FACILITIES</b>	<b>\$22,830,068</b>	<b>\$22,442,665</b>	<b>\$21,989,373</b>	<b>\$21,526,015</b>	<b>\$82,175,843</b>
<b>RECREATIONAL FACILITIES</b>					

Series 1997	\$520,963	\$517,190	\$516,920	\$516,940	\$2,064,200
Series 2002	1,562,493	1,637,343	1,672,095	1,712,845	5,155,059
Series 2004	1,162,873	1,178,519	1,196,575	1,212,088	8,645,875
<b>TOTAL RECREATIONAL FACILITIES</b>	<b>\$3,246,329</b>	<b>\$3,333,052</b>	<b>\$3,385,590</b>	<b>\$3,441,873</b>	<b>\$15,865,134</b>
BOND BANK					
Series 1998A (ADDL)	\$522,113	\$0	\$0	\$0	\$0
<b>TOTAL BOND BANK</b>	<b>\$522,113</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL ALL BONDS</b>	<b>\$219,261,604</b>	<b>\$218,451,274</b>	<b>\$213,217,331</b>	<b>\$213,671,192</b>	<b>\$1,987,180,880</b>

Source: Indiana Finance Authority (as of June 30, 2011)

**Table 7**  
**Ratios of Outstanding Debt Subject to Possible Appropriation**  
**to Population and Personal Income**

<u>Fiscal Year</u>	<u>Population<sup>(1)</sup></u>	<u>Personal Income<sup>(1)(2)</sup></u>	<u>Outstanding Debt Subject to Appropriation<sup>(2)</sup></u>	<u>Debt/Capita</u>	<u>Debt/Income</u>
2001	6,124,967	\$171,799	\$1,556	\$254	0.9%
2002	6,149,007	175,398	1,713	279	1.0%
2003	6,181,789	182,817	1,747	283	1.0%
2004	6,214,454	190,329	2,467	397	1.3%
2005	6,253,120	195,590	2,518	403	1.3%
2006	6,301,700	206,959	2,460	390	1.2%
2007	6,346,113	213,875	2,466	389	1.2%
2008	6,388,309	220,670	2,362	370	1.1%
2009	6,423,113	220,670	2,245	350	1.0%
2010	6,483,802	226,561	2,137	330	1.0%

<sup>(1)</sup> Estimated.

<sup>(2)</sup> In millions.

Source: Population: United States Census Bureau, July 2011. Personal Income: United States Department of Commerce, Bureau of Economic Analysis. Outstanding Debt: Indiana Finance Authority.

**Authorized but Unissued Debt.** The General Assembly has authorized the Indiana Finance Authority (as successor to the State Office Building Commission) to issue bonds to finance additional State facilities, including:

Two additional regional mental health facilities;  
State-wide wireless public safety communications network; and  
Parking facilities in the area of the state capitol complex.

In addition, legislation was enacted in 2005 that authorizes the Indiana Finance Authority to provide funds for research and technology grants and loans.

The Indiana Finance Authority may initially provide short-term, or construction, financing for these facilities through its commercial paper program. As of June 30, 2011, no commercial paper was outstanding.

See "STATE INDEBTEDNESS – Contingent Obligations – Economic Development" for a description of the revenue bonds the Indiana Finance Authority has issued for the Stadium and Convention Center expansion projects.

The Indiana Finance Authority monitors refinancing opportunities for its bonds and may issue refunding bonds to restructure outstanding indebtedness or achieve debt service savings.

#### 4. Contingent Obligations

Certain State-authorized entities, including the Bond Bank and Indiana Finance Authority, may issue obligations that, in certain circumstances, may require the entity to request an appropriation from the General Assembly to fund debt service on the obligations. The General Assembly is not required to make any such appropriations. Such obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

In 2005, legislation was enacted that requires review by the Budget Committee and approval by the Budget Director of (a) the issuance by the Bond Bank or the Indiana Finance Authority of any indebtedness that establishes a procedure for requesting an appropriation from the General Assembly to restore a debt service or other fund to required levels or (b) the execution by the Indiana Bond Bank or the Indiana Finance Authority of any other agreement that creates a moral obligation of the State to pay any indebtedness issued by the Indiana Bond Bank or the Indiana Financing Authority.

**Bond Bank.** The Bond Bank, a body corporate and politic, is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The Bond Bank is empowered to issue bonds or notes, payable solely from revenue and funds that are specifically allocated for such purpose, and loan the proceeds therefrom to local governments and other qualified entities.

To assure maintenance of the required debt service reserve in any reserve fund established for Bond Bank bonds or notes, the General Assembly may, but is not obligated to, appropriate to the Bond Bank for deposit in any such reserve funds the sum that is necessary to restore any such reserve funds to the required debt service reserve.

Bonds or notes issued by the Bond Bank for which such a debt service reserve is established are considered "moral obligation bonds." However, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security for bonds issued by the Bond Bank, and a debt service reserve fund restoration appropriation would only be requested in the event that the particular designated sources were insufficient.

The total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is limited to \$1.0 billion plus (a) up to \$200 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to \$30 million for certain qualified entities that operate as telephone cooperative corporations. However, these limits do not apply to bonds or notes not secured by a reserve fund eligible for State appropriations.

For a list of Bond Bank bonds secured by a reserve fund eligible for State appropriations, see "Table 8—Schedule of Long Term Debt—Contingent Obligations—BOND BANK Special Program Pool."

**Toll Road.** The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from tolls and other revenues derived from the ownership and operation of toll roads, to finance or refinance the cost of any toll road projects.

Pursuant to this authority, the Indiana Transportation Finance Authority and its predecessors issued their revenue bonds (the "Toll Road Bonds") to finance and refinance the construction and improvement of the 157-mile Indiana East-West Toll Road (the "Toll Road") in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. These bonds were redeemed on June 29, 2006, and are no longer outstanding.

In 2006, the General Assembly enacted legislation authorizing the Indiana Finance Authority to lease the Toll Road to a private entity to operate for a term not to exceed 75 years. A lease agreement with ITR Concession Company LLC was signed in April 2006, and the transaction was closed on June 29, 2006. On June 29, 2006 a portion of the \$3.8 billion in revenues from the lease was applied to pay off all of the Toll Road Bonds. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Toll Road Lease."

**Economic Development.** The Indiana Finance Authority is authorized (and its predecessor, the Indiana Development Financing Authority, had been authorized) to issue revenue bonds to finance or refinance (a) industrial

development projects, rural development projects, mining operations, international exports and agricultural operations; (b) educational facility projects; (c) farming and agricultural enterprises; (d) environmental pollution prevention and remediation; (e) child care facilities; and (f) broadband development projects.

Pursuant to this authority, the Indiana Finance Authority (and its predecessor, the Indiana Development Finance Authority) issued its revenue bonds to finance and refinance a wide variety of projects. The bonds are payable solely from the revenues pledged thereto, are not in any respect a general obligation of the State and are not payable in any manner from revenue raised by taxation.

The Indiana Finance Authority is authorized to issue revenue bonds and loan the proceeds thereof to the Indiana Stadium and Convention Building Authority for the purpose of financing the acquisition and construction of a stadium and the expansion of a convention center in Indianapolis. The legislation authorizes the Indiana Stadium and Convention Building Authority to lease such capital improvements to a State agency pursuant to a lease, which requires the State agency: (1) to seek biennial appropriations from the General Assembly in an amount sufficient to pay rent equal to the debt service due on such bonds, only if: (a) the amount of such rent is fair and reasonable; and (b) such capital improvements are available for use and occupancy; and (2) to pay, from such appropriated amounts, rent sufficient to pay such debt service, only if certain local tax revenues expected to satisfy debt service are insufficient. In addition, the Indiana Finance Authority, in connection with the issuance of such revenue bonds, may establish a debt service reserve fund and a procedure for requesting appropriations from the General Assembly to restore the debt service reserve fund to required levels. The Indiana Finance Authority has issued \$666,525,000 of such revenue bonds for the stadium project, which was substantially complete and ready for use and occupancy in August 2008. The Indiana Finance Authority has issued \$329,230,000 of such revenue bonds for the convention center expansion project, which was completed in January 2011.

In addition, legislation was authorized by the Indiana Finance Authority to issue up to \$1.0 billion of its revenue bonds, payable from the revenues pledged thereto, to provide funds for research and technology grants and loans. The Indiana Finance Authority may establish a debt service fund or reserve fund for the bonds, to which the General Assembly may, if requested, appropriate funds necessary to pay debt service or restore the required debt service reserve. As of June 30, 2011, no such revenue bonds have been issued.

**Schedule of Long Term Debt.** Table 8 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2011. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund, or, in the case of the stadium and convention center debt, to pay rent sufficient to pay debt service only if certain local tax revenues expected to satisfy debt service are insufficient.

**Table 8**  
**Schedule of Long Term Debt**  
**Contingent Obligations**

<u>Type/Series</u>	<u>Original Par Amount</u>	<u>Ending Balance 6/30/2010</u>	<u>(Redeemed)/ Issued</u>	<u>Ending Balance 6/30/2011</u>
BOND BANK Special Program Pool				
Series 2002A	42,910,000	33,920,000	(1,490,000)	32,430,000
Series 2002C	3,940,000	935,000	(205,000)	730,000
Series 2002D	60,000,000	3,025,000	(1,475,000)	1,550,000
Series 2002E	10,155,000	8,280,000	(475,000)	7,805,000
Series 2003A	40,385,000	36,925,000	(940,000)	35,985,000
Series 2003B	8,885,000	5,935,000	(475,000)	5,460,000
Series 2003C	10,425,000	4,535,000	(920,000)	3,615,000
Series 2003D <sup>(1)</sup> (CLC)	27,515,000	26,540,000	(1,260,000)	25,280,000
Series 2003E	36,530,000	32,905,000	(1,000,000)	31,905,000
Series 2003F-1	17,155,000	8,390,000	(805,000)	7,585,000
Series 2004A	17,210,000	13,775,000	(740,000)	13,035,000
Series 2004B	17,590,000	13,215,000	(880,000)	12,335,000
Series 2004C	35,010,000	32,080,000	(910,000)	31,170,000
Series 2004D	29,275,000	23,305,000	(1,525,000)	21,780,000
Series 2005A	14,790,000	11,765,000	(560,000)	11,205,000
Series 2005C	11,160,000	9,550,000	(440,000)	9,110,000

Series 2005D	4,505,000	4,100,000	(150,000)	3,950,000
Series 2006B-1	12,400,000	11,770,000	(350,000)	11,420,000
Series 2006B-2	2,890,000	2,315,000	(295,000)	2,020,000
Series 2006A (Ref)	26,485,000	21,915,000	(1,160,000)	20,755,000
Series 2006C <sup>(1)</sup>	20,660,000	19,230,000	(755,000)	18,475,000
Series 2006D	13,985,000	10,775,000	(760,000)	10,015,000
Series 2007A (Ref)	44,915,000	44,915,000	0	44,915,000
Series 2008D-1	4,265,000	4,265,000	(875,000)	3,390,000
Series 2009A	75,000,000	72,865,000	(2,480,000)	70,385,000
Series 2009C-1	22,235,000	22,235,000	(555,000)	21,680,000
Series 2009C-2 <sup>(2)</sup>	1,790,000	1,790,000	(80,000)	1,710,000
Series 2009D	52,000,000	51,690,000	(1,730,000)	49,960,000
Series 2010 Multi-purpose A-1	8,595,000	8,595,000	(930,000)	7,665,000
Series 2010 Multi-purpose A-2 <sup>(2)</sup>	6,395,000	6,395,000	(1,575,000)	4,820,000
Series 2010 Multi-purpose A-3	770,000	770,000	0	770,000
<b>TOTAL BOND BANK</b>	<b>\$747,065,000</b>	<b>\$548,705,000</b>	<b>(\$25,795,000)</b>	<b>\$522,910,000</b>
<b>INDIANA FINANCE AUTHORITY</b>				
Stadium Project Series 2005A <sup>(3)</sup>	\$400,000,000	\$400,000,000	\$0	\$400,000,000
Stadium Project Series 2007A <sup>(3)</sup>	211,525,000	211,525,000	0	211,525,000
Stadium Project Series 2008A <sup>(3)</sup>	55,000,000	46,435,000	(9,125,000)	37,310,000
Convention Center Expansion Project Series 2008A <sup>(3)</sup>	120,000,000	120,000,000	0	120,000,000
Convention Center Expansion Project Series 2009A	17,665,000	17,665,000	0	17,665,000
Convention Center Expansion Project Series 2009B <sup>(4)</sup>	191,565,000	191,565,000	0	191,565,000
<b>TOTAL INDIANA FINANCE AUTHORITY</b>	<b>\$995,755,000</b>	<b>\$987,190,000</b>	<b>(\$9,125,000)</b>	<b>\$978,065,000</b>
<b>TOTAL ALL BONDS</b>	<b>\$1,742,820,000</b>	<b>\$1,535,895,000</b>	<b>(\$34,920,000)</b>	<b>\$1,500,975,000</b>

<sup>(1)</sup> Qualified obligation revenues are expected to be sufficient to pay debt service. However, a portion of qualified obligation revenues are payable solely from General Assembly appropriations to the qualified entity.

<sup>(2)</sup> Issued as taxable bonds.

<sup>(3)</sup> Issued as variable rate bonds. To hedge against the risk of interest rate increases, the Indiana Finance Authority has entered into certain interest rate swap agreements. There are termination, collateral posting, counterparty, basis and other risks associated with these agreements.

<sup>(4)</sup> Issued under the America Recovery and Reinvestment Act of 2009 as Build America Bonds. The bonds are federally taxable, and the Indiana Finance Authority will receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on the bonds.

Source: Indiana Finance Authority (as of June 30, 2011)

## 5. Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenue and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	Provide guarantees for industrial development or credit enhancement for Indiana enterprises.
Indiana Housing and Community Development Authority <sup>(1)</sup>	Provide funds for construction or mortgage loans for federally assisted multi-family housing or for low and moderate income residential housing.
Ports of Indiana	Provide funds for ports and other projects.
Indiana Secondary Market for Education Loans, Inc. <sup>(2)</sup>	Provide funds for secondary market for higher education loans.
Indiana State Fair Commission	Provide funds for State fairgrounds.

State Revolving Fund Loan Program                      Provide funds to assist local municipalities in financing drinking water and waste water infrastructure projects.

(1)                      Formerly, Indiana Housing Finance Authority. Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds, but has not issued and does not currently expect to issue any such bonds.

(2)                      A not-for-profit corporation authorized by the General Assembly.

## **INDIANA PUBLIC RETIREMENT SYSTEM AND STATE PENSION FUNDING OBLIGATIONS**

### **1. INPRS and State Retirement Plans**

Prior to July 1, 2011, the retirement plans for public employees in the State of Indiana were administered by independent instrumentalities governed by separate boards of appointed trustees, including the Public Employees' Retirement Fund (PERF) and the Indiana State Teachers' Retirement Fund (TRF). Legislation adopted in 2010 called for a consolidation of these entities, which began with the appointment of a joint Executive Director in May 2010, and resulted in the creation, effective July 1, 2011, of the Indiana Public Retirement System (INPRS). INPRS administers seven (7) separate public retirement funds. The State Police Pension Trust continues to be separately administered.

INPRS is governed by a nine-member Board of Trustees, appointed by the Governor pursuant to the following criteria:

- (a) one trustee with experience in economics, finance, or investments,
- (b) one trustee with experience in executive management or benefits administration,
- (c) one trustee who is an active or retired member of the 1977 fund,
- (d) two trustees who are TRF members with at least 10 years of creditable service,
- (e) one trustee who is a PERF member with at least 10 years of creditable service,
  
- (f) the Director of the State Budget Agency, or designee,
- (g) the Auditor of the State, or nominee and
- (h) the Treasurer of the State, or nominee.

The initial members of the Board of Trustees are as follows:

**Ken Cochran**  
President  
Hamilton Southeastern Utilities, Inc.

**Michael Pinkham**  
Ft. Wayne Firefighter

**Greg Hahn**  
Chief Investment Officer and President  
Winthrop Capital Management

**Adam M. Horst**  
Office of Management and Budget Director

**Tim Berry**  
Auditor of the State of Indiana

**Bret Swanson**  
President  
Entropy Economics

**Jodi Golden**  
Executive Director  
Indiana Education Savings Authority

**Cari Whicker**  
Teacher  
Riverview Middle School

Vacancy (TRF Member)

The Executive Director of INPRS is Steve Russo, who had previously served as TRF's Executive Director since 2008. Russo is a graduate of Purdue University. His career has included leadership roles with the Naval Avionics Center and technology company Thomson.

INPRS administers and manages the following plans:

- (a) Public Employees' Retirement Fund
- (b) Indiana State Teachers' Retirement Fund
- (c) Prosecuting Attorneys' Retirement Fund
- (d) 1977 Police Officers' and Firefighters' Pension and Disability Fund
- (e) Legislators' Retirement System
- (f) Judges' Retirement System
- (g) State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan

INPRS also oversees three non-retirement funds, including the Pension Relief Fund, the Public Safety Officers' Special Death Benefit Fund, and the State Employees' Death Benefit Fund.

Each retirement fund will continue as a separate fund under the oversight of a combined INPRS nine-member board of trustees. INPRS is not a merger of PERF and TRF Funds and neither the assets nor the liabilities of one fund become the assets or liabilities of the other. Individual funded status for each plan will continue to be calculated separately.

Each year, INPRS will make actuarial valuations of the assets and liabilities of each of the retirement funds. At least once every five years, there will be separate actuarial investigation into the mortality, service, and compensation experience of the members of the systems and their beneficiaries.

The consolidation of retirement plan administration is anticipated to enable greater efficiency, by eliminating duplication of efforts and by pooling assets together for investment purposes.

The combined membership of all plans administered by INPRS is approximately 480,000 people.

### ***Explanatory Comments***

Reference is made hereby to the INPRS website ([www.IN.gov/INPRS](http://www.IN.gov/INPRS)) for access to copies of relevant plan documents. The discussions and tables which follow contain technical information for which the following explanatory comments may be helpful.

- (a) Certain key definitions applicable to the State's pension plans are shown in Key Definitions below.
- (b) Pension plan financial reporting contains both actual historical information and actuarially determined information. Actuarially determined information is based on specific sets of assumptions. Detailed descriptions of relevant assumptions for each plan can be found in each plan's applicable Comprehensive Annual Financial Report (CAFR) as referenced herein.
- (c) Annual Required Contributions (or ARC) are determined by the plan's administrator or board to be the aggregate amount expected to be required from each participating employer based on the plan's assumptions in various matters, in order to pay "normal costs" and payments made to amortize any "unfunded accrual actuarial liability." The administrator will assess each participating employer a contribution requirement expressed as percentage of covered payroll which is projected to produce the desired ARC amount. Actual employer contributions reflect the application of the designated percentage to actual payroll during the period and, thus, often vary from the ARC as calculated and assessed.
- (d) Discussions under this Section "INPRS and State Retirement Plans" are focused primarily on financial reporting and plan descriptions for the State Plans. Discussions under the following Section "State Pension Funding Obligations" are intended to highlight the actual funding requirements of State government.

## ***Key Definitions***

Actuarial Accrued Liability (AAL). That portion, as determined by a particular Actuarial Cost Method, of the actuarial present value of pension plan benefits and expenses that is not provided for by future Normal Costs.

Actuarial Cost Method. A method used to develop the actuarial present value of benefits and the allocations of such costs to certain periods of time in order to develop the AAL. Two common Actuarial Cost Methods are projected unit credit, or PUC, and entry age normal, or EAN. The PUC method tends to push more costs into the later part of a member's service. The EAN method develops a level contribution as a percent of pay (Normal Cost) which, if contributed and invested through the member's career, is expected to generate sufficient funds to equal the actuarial value of the future benefits by the time the member retires. In order to keep the costs level, EAN allocates a large Normal Cost for the earlier years and a relatively smaller Normal Cost to the later years compared to the PUC method. All plans administered by INPRS use EAN, except the Legislators' Defined Benefit Plan which uses PUC.

Actuarial Value of Assets (AVA). The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. An Actuarial Value (in contrast to a current market value) attempts to smooth annual investment return performance over multiple years to reduce annual return volatility.

Amortization Period. The period over which the UAAL (defined below) is amortized, which can be either a "fixed" (or "closed") period of a "rolling" (or "open") period. During a fixed period, the UAAL is amortized over a declining number of years; for example, 30 years the first year, 29 years the second year, etc. During a rolling period, the UAAL is amortized over an unchanging number of years; for example, 15 years the first year, 15 years the second year, etc. All plans administered by INPRS use closed 30-year amortization periods.

Annual Pension Costs (APC). The aggregate in a particular year of (i) the ARC, (ii) one year's interest on the NPO (defined below), and (iii) an adjustment to the ARC to offset, approximately, the amount included in item (i) for amortization of past contribution deficiencies.

Annual Required Contribution (ARC). The aggregate in a particular year of (i) the Normal Cost and (ii) payments made to amortize the UAAL.

Assumptions. An actuarial report will utilize demographic and economic assumptions as to the occurrence of future events affecting pension costs, such as investment rate of return, inflation rate, interest credited to member contributions, salary increase rate, annual cost-of-living adjustment, rates of separation from active membership, post-retirement mortality active member mortality, and rates of retirement.

Funded Ratio. The ration of (A) the AVA or market value of assets to (B) AAL. Such valuation can be on an actuarial or a market value basis. If a plan has a funded ratio of less than 100%, then the plan has a UAAL.

GASB. Governmental Accounting Standards Board of the Financial Accounting Foundation.

Market Value of Assets. As of the valuation date, the value of assets as if they were liquidated on that date.

Net Pension Obligation (NPO). The cumulative differences between the APC and actual employer contribution (e.g., does not include contributions by the employees or any Employer Offset) in a particular year.

Normal Cost. The present value of the benefits that the pension system projects to become payable in the future that are attributable to a valuation year's payroll.

Smoothing Method. A method used in determining AVA that is intended to reduce the impact of market volatility on the assets of a pension plan. Under a Smoothing Method, the annual investment return performance is "smoothed" over multiple years to reduce annual contribution volatility. For example, by use of a "five-year smoothing" methodology, a percentage difference between the net market value and the net book value for each of

the most recent five years is calculated. The resulting percentages are averaged for the five-year period and applied to the valuation's year's market value of assets to arrive at the actuarial value of assets, with the result that only 20% of investment gains or losses in a particular year are taken into account in the annual actuarial valuation. All INPRS-administered plans use a four-year smoothing method with a 20% corridor.

Unfunded Actuarial Accrued Liability (or UAAL). The difference between (A) the AVA or market value of assets and (B) the AAL. Such valuation can be on an actuarial or a market value basis.

### ***Public Employees' Retirement Fund***

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. Prior to July 1, 2011, PERF was administered by a six-member Board of Trustees, and after that date, by INPRS.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. On June 30, 2011, PERF had over 310,000 members. The PERF benefit consists of (1) a pension formula benefit based upon years of service and an average of the member's annual compensation as defined by statute, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions ("PERF ASA"). The employee contribution rate is defined by law as 3.0% of each employee's salary. For State employees, the law requires the State to pick up the employee's contributions to PERF.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. The State's contribution rate effective July 1, 2010 to June 30, 2011 was 7.0%. Funding for the State's obligation to PERF is included as part of the expenditures for fringe benefits by each State agency. The tables below highlight the funded status (Table 9) and contribution history (Table 10) for PERF for the last six (6) valuation dates.

**Table 9**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	\$10,471,937	\$10,858,322	\$386,385	96.4%	\$4,318,450	8.9%
6/30/2006	11,177,971	11,450,928	272,957	97.6	4,322,180	6.3
6/30/2007	12,220,934	12,439,798	218,864	98.2	4,385,676	5.0
6/30/2008	12,780,116	13,103,221	323,105	97.5	4,600,354	7.0
6/30/2009	12,569,336	13,506,280	936,944	93.1	4,931,423	19.0
6/30/2010	12,357,199	14,506,052	2,148,853	85.2	4,896,013	43.9
6/30/2011	12,000,586	14,913,147	2,912,561	80.5	4,818,774	60.4

**Table 10**  
**Schedule of Employer Contributions**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Annual Employer Contributions	Percentage Contributed
6/30/2005	6/30/2004	\$212,658	\$206,323	97.0%
6/30/2006	6/30/2005	248,120	230,357	92.8
6/30/2007	6/30/2006	275,171	260,150	94.5
6/30/2008	6/30/2007	291,397	303,877	104.3
6/30/2009	6/30/2008	316,059	323,151	102.2
6/30/2010	6/30/2009	360,183	331,090	91.9
6/30/2011	6/30/2010	483,842	342,779	70.8

For further information about PERF including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications".

For more information on the State's funding obligations regarding PERF, see "INDIANA PUBLIC RETIREMENT SYSTEM AND STATE PENSION FUNDING OBLIGATIONS— State Pension Funding Obligations, 1. PERF as to State Employees."

***Indiana State Teachers' Retirement Fund***

The Indiana State Teachers' Retirement Fund ("TRF") is a multiple-employer retirement fund established to provide pension benefits for teachers and their supervisors in the State's public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. Prior to July 1, 2011, TRF was administered by a six-member Board of Trustees. Effective July 1, 2011, TRF is administered by INPRS. On June 30, 2011, TRF had over 153,000 total members.

The TRF benefit consists of (1) a defined benefit based upon years of service and final average salary and (2) an additional benefit based upon the member's annuity savings account ("TRF ASA") balance, derived from member contributions. The mandatory member contribution rate to his or her TRF ASA is defined by law as 3.0% of each member's salary. Each employer is authorized to elect to pick up the member contribution.

The TRF is comprised of two plans and related accounts. For members hired prior to July 1, 1995, the plan was closed (the "Pre 1996 Plan"). For members hired after that date, a separate plan was established (the "1996 Plan").

For the Pre 1996 Plan, monies to pay the related TRF benefits are primarily provided from General Fund appropriations as the liabilities come due each year, or on a "pay as you go" basis. To reduce the amount of future state appropriations in the Pre 1996 Plan, the State established the Pension Stabilization Fund in July 1, 1995, to partially pre-fund liabilities in the Pre 1996 Plan. The Pension Stabilization Fund has the result of limiting the peak required annual appropriations to the Pre 1996 Plan at a 3.0% increase over the prior year based on an assumed annual investment return of 5.0%. As of June 30, 2011, the balance of the Pension Stabilization Fund was approximately \$2.3 billion. See also INDIANA PUBLIC RETIREMENT SYSTEM AND STATE PENSION FUNDING OBLIGATIONS - "[State Pension Funding Obligations](#), 2. Pre 1996 TRF Plan" for a further discussion on the State funding obligations for the Pre 1996 TRF Plan.

The following tables establish the six (6) year history of funding progress and contributions, respectively, for the Pre-1996 Plan (Tables 11 and 12), the 1996 Plan (Tables 13 and 14) and for total TRF plans (Tables 15 and 16).

**Table 11**  
**Pre 1996 Plan**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	\$5,796,724	\$14,254,147	\$8,457,423	40.7%	\$2,305,725	366.8%
6/30/2006	5,477,221	15,002,471	9,525,250	36.5	2,237,380	425.7
6/30/2007	5,763,508	15,988,259	10,224,751	36.0	2,376,390	430.3
6/30/2008	5,953,991	15,792,305	9,838,314	37.7	2,295,816	428.5
6/30/2009	5,109,086	16,027,093	10,918,007	31.9	2,030,484	537.7
6/30/2010	5,382,410	16,282,066	10,899,656	33.1	1,865,102	584.4
6/30/2011	5,227,402	16,318,404	11,091,002	32.0	1,762,751	629.2

**Table 12**  
**Pre 1996 Plan**  
**Schedule of Contributions**  
**From the Employers and other Contributing Entities**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
6/30/2005	6/30/2003	\$516,267	\$394,387	76.4%
6/30/2006	6/30/2004	556,460	601,259	108.1
6/30/2007	6/30/2005	602,904	636,039	105.5
6/30/2008	6/30/2006	678,050	675,682	99.7
6/30/2009	6/30/2007	700,307	706,366	100.9
6/30/2010	6/30/2008	850,493	731,149	86.0
6/30/2011	6/30/2009	894,507	748,978	83.7

For the 1996 Plan, the State capped its pension benefit obligation by (i) shifting the obligation for all teachers hired after July 1, 1995, to local school districts and (ii) implementing a level percent of payroll current funding approach. INPRS sets the contribution rate for the 1996 Plan based on an actuarial valuation of the 1996 Plan. The 1996 Plan was intended to be responsible not only for newly hired teachers into the schools, but also for the cost of teachers who began service before 1995 but subsequently transferred to other school corporations after 1995. The liability for these transferred teachers, which shifted from the Pre 1996 Plan to the 1996 Plan, began to cause an unfunded liability in the 1996 Plan. The General Assembly in 2005 addressed this growing unfunded liability in the 1996 Plan by stopping the transfer of liabilities—therefore transferred teachers remain part of the Pre 1996 Plan, which is "pay as you go". In addition, the actuarial assumptions used for calculating the contributions rate into the 1996 Plan now include an assumption for a cost of living adjustment, thereby making the contribution rate for which local schools are liable more realistic. The contribution rate effective July 1, 2010 to June 30, 2011 for the 1996 Plan was 7.5%.

**Table 13**  
**1996 Plan**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	\$1,268,575	\$2,010,746	\$742,171	63.1%	\$1,428,604	52.0%
6/30/2006	2,209,468	2,363,101	153,633	93.5	1,565,341	9.8
6/30/2007	2,713,051	2,827,554	114,503	96.0	1,891,605	6.1
6/30/2008	3,080,057	2,957,758	(122,299)	104.1	2,052,720	(6.0)
6/30/2009	2,920,735	3,135,533	214,798	93.1	2,308,548	9.3
6/30/2010	3,422,554	3,614,559	192,005	94.7	2,447,509	7.8
6/30/2011	3,664,657	3,996,839	332,182	91.7	2,507,193	13.2

**Table 14**  
**1996 Plan**  
**Schedule of Contributions**  
**From the Employers and other Contributing Entities**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
6/30/2005	6/30/2003	\$102,919	\$90,392	87.8%
6/30/2006	6/30/2004	116,096	100,081	86.2
6/30/2007	6/30/2005	139,978	117,001	83.6
6/30/2008	6/30/2006	122,009	132,446	108.6
6/30/2009	6/30/2007	119,331	147,425	123.5
6/30/2010	6/30/2008	101,627	154,491	152.0
6/30/2011	6/30/2009	154,142	166,633	108.1

**Table 15**  
**Total of TRF Plans**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	\$7,065,299	\$16,264,893	\$9,199,594	43.4%	\$3,734,329	246.4%
6/30/2006	7,686,689	17,365,572	9,678,883	44.3	3,802,721	254.5
6/30/2007	8,476,559	18,815,813	10,339,254	45.1	4,267,995	242.3
6/30/2008	9,034,048	18,750,063	9,716,015	48.2	4,348,536	223.4
6/30/2009	8,029,821	19,162,626	11,132,805	41.9	4,339,032	256.6
6/30/2010	8,804,964	19,896,625	11,091,661	44.3	4,312,611	257.2
6/30/2011	8,892,059	20,315,243	11,423,184	43.8	4,269,944	267.5

**Table 16**  
**Total of TRF Plans**  
**Schedule of Contributions**  
**From the Employers and other Contributing Entities**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
6/30/2005	6/30/2003	\$619,186	\$484,779	78.3%
6/30/2006	6/30/2004	672,556	701,340	104.3
6/30/2007	6/30/2005	742,882	753,040	101.4
6/30/2008	6/30/2006	800,059	808,128	101.0
6/30/2009	6/30/2007	819,638	853,791	104.2
6/30/2010	6/30/2008	952,120	885,640	93.0
6/30/2011	6/30/2009	1,048,649	915,611	87.3

For further information about TRF including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications". In addition, CAFRs and actuarial reports are also available for prior fiscal years at the referenced website.

**Other Plans**

INPRS also administers five other plans in addition to PERF and TRF. These include the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Judges' Retirement System, the Legislators' Retirement System, the State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan, and the Prosecuting Attorneys' Retirement Fund. Table 17 highlights the actuarial valuation findings for these plans as of June 30, 2011.

**Table 17**  
**Other State Pension Funds**  
**Summary of Results of Actuarial Valuation as of June 30, 2011**  
(dollars in thousands)

	Judges' Retirement System <sup>(1)</sup>	Legislators' Defined Benefit Plan	State Excise Police, Gaming Agent, Gaming Control Officer & Conservation Enforcement Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	1977 Police Officers' and Firefighters' Pension and Disability Fund
<b>Funded Status</b>					
Actuarial Value of Assets	\$248,623	\$3,634	\$72,600	\$25,651	\$3,593,787
Actuarial Accrued Liability (AAL)	400,273	4,621	101,534	53,252	3,638,956
Unfunded/(Overfunded) AAL	151,650	987	28,934	27,601	45,169
Funded Ratio	62.1%	78.6%	71.5%	48.2%	98.8%
<b>Contribution History</b>					
Annual Required Contributions	\$18,910	\$113	\$5,179	\$1,960	\$133,903
Actual Employer Contributions	19,200	0	5,197	170	133,726
Percentage Contributed	101.5%	0.0%	100.3%	8.7%	99.9%

<sup>(1)</sup>Actuarial cost method is a pay-as-you-go-plan

Source: Actuarial Valuation Reports, June 30, 2011

Further information about other plans including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications". In addition, CAFRs and actuarial reports are also available for prior fiscal years.

1977 Police Officers' and Firefighters' Pension Disability Fund

The 1977 Police Officers' and Firefighters' Pension and Disability Fund ("1977 Fund") has been in existence since 1977 to provide retirement, disability and survivor benefits for Police Officers and Firefighters. Prior to July 1, 2011, the 1977 Fund was administered by a six-member Board of Trustees, and after that date, by INPRS.

On June 30, 2011, the 1977 Fund had 17,259 members, survivors and beneficiaries. The pension benefit consists of a pension formula benefit based upon years of service and the first-class salary as defined by statute. The employee contribution rate is defined by law as 6% of first-class salary.

Contributions are made to the 1977 Fund by the participating employer units as determined by INPRS. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. Funding for the participating employer unit's obligation to the 1977 Fund is included as part of the expenditures for fringe benefits by the participating unit. The tables below highlight the funded status (Table 18) and contribution history (Table 19) for the 1977 Fund for the last six (6) valuation dates.

**Table 18**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2005	\$2,347,986	\$2,415,053	\$67,067	97.2%	\$522,227	12.8%
12/31/2006	2,860,512	2,649,525	(210,987)	108.0	557,644	(37.8)
12/31/2007	3,281,480	2,889,295	(392,185)	113.6	603,963	(64.9)
12/31/2008	3,352,705	3,150,827	(201,878)	106.4	644,936	(31.3)
6/30/2009	3,265,598	3,332,686	67,088	98.0	649,018	10.3
6/30/2010	3,374,438	3,639,669	265,231	92.7	675,797	39.2
6/30/2011	3,593,787	3,638,956	45,169	98.8	687,342	6.6

**Table 19**  
**Schedule of Employer Contributions**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Annual Employer Contributions	Percentage Contributed
12/31/2005	12/31/2004	\$97,286	\$108,768	111.8%
12/31/2006	12/31/2005	102,964	143,272	139.1
12/31/2007	12/31/2006	108,741	122,712	112.7
12/31/2008	12/31/2007	117,773	133,196	112.6
6/30/2009	6/30/2008	62,881	64,285	102.2
6/30/2010	6/30/2009	126,558	130,775	103.3
6/30/2011	6/30/2010	133,903	133,726	99.9

The 1977 Fund provides pension and disability benefits for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members. In addition, the INPRS Board of Trustees administers a Pension Relief Fund for local police and fire units whose employees participate in the 1925 police pension fund, the 1937

firefighters' pension fund and the 1953 police pension fund (the "Old Funds"). Benefits for the members who participate in the Old Funds have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenue of cities and towns and by plan members' contributions. The State currently reimburses cities and towns for their entire pension benefit expenditure under the Old Funds via the Pension Relief Fund, but previously reimbursed cities and towns for a portion of their pension benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits, and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2011, \$219 million was expended from the Pension Relief Fund, and on June 30, 2011, the total net assets of the Pension Relief Fund were \$53 million.

Further information about the 1977 Fund including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications".

### Judges' Retirement System

The Judges' Retirement System ("JRS") has been in existence since 1953 to provide retirement, disability and survivor benefits for Judges. Prior to July 1, 2011, The Judges' Retirement System was administered by a six-member Board of Trustees, and after that date, by INPRS.

All Judges and magistrates in covered positions are required to join the JRS. On June 30, 2011, the JRS had 770 members, survivors and beneficiaries. The pension benefit consists of a pension formula benefit based upon years of service and the member's salary as defined by statute. The employee contribution rate is defined by law as 6% of each employee's salary.

Contributions are made to the JRS by the State as determined by INPRS. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on the annual actuarial valuation. The State's obligation to the JRS is funded by appropriations from the state general fund. The tables below highlight the funded status (Table 20) and contribution history (Table 21) for the JRS for the last six (6) valuation dates.

**Table 20**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	\$151,003	\$272,855	\$121,852	55.3%	\$32,231	378.1%
6/30/2006	178,276	272,997	94,721	65.3	34,065	278.1
6/30/2007	211,747	283,995	72,248	74.6	29,712	243.2
6/30/2008	234,881	338,749	103,868	69.3	33,729	307.9
6/30/2009	240,954	330,551	89,597	72.9	36,196	247.5
6/30/2010	242,143	364,123	121,980	66.5	36,722	332.2
6/30/2011	248,623	400,273	151,650	62.1	45,764	331.4

**Table 21**  
**Schedule of Employer Contributions**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Annual Employer Contributions	Percentage Contributed
6/30/2005	6/30/2004	\$10,064	\$13,540	134.5%
6/30/2006	6/30/2005	14,932	13,537	90.7
6/30/2007	6/30/2006	12,249	14,662	119.7
6/30/2008	6/30/2007	10,028	15,920	158.8
6/30/2009	6/30/2008	16,131	20,861	129.3
6/30/2010	6/30/2009	16,077	18,631	115.9
6/30/2011	6/30/2010	18,910	19,200	101.5

Further information about the JRS including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications".

Prosecuting Attorneys' Retirement Fund

("PARF") has been in existence since 1990 to provide retirement, disability and survivor benefits for Prosecuting Attorneys, Chief Deputy Prosecuting Attorneys and Deputy Prosecuting Attorneys. Prior to July 1, 2011, PARF was administered by a six-member Board of Trustees, and after that date, by INPRS.

All Prosecuting Attorneys, Chief Deputy Prosecuting Attorneys and Deputy Prosecuting Attorneys are required to join PARF. PARF members are also required to join PERF. On June 30, 2011, PARF had 550 members, survivors and beneficiaries. The PARF benefit consists of a pension formula benefit based upon years of service and the member's annual compensation as defined by statute. The employee contribution rate is defined by law as 6% of each employee's salary. The employer may pick up the employee's contributions to PARF.

Contributions are made to PARF by the State determined by normal cost and amortizing the unfunded accrued liability during periods established pursuant to statute. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. The tables below highlight the funded status (Table 22) and contribution history (Table 23) for PARF for the last six (6) valuation dates.

**Table 22**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	\$16,876	\$25,744	\$8,868	65.6%	\$16,659	53.2%
6/30/2006	20,053	29,184	9,131	68.7	19,225	47.5
6/30/2007	23,815	32,052	8,237	74.3	18,092	45.5
6/30/2008	26,350	38,069	11,719	69.2	20,617	56.8
6/30/2009	26,467	44,632	18,165	59.3	20,782	87.4
6/30/2010	26,166	49,174	23,008	53.2	21,016	109.5
6/30/2011	25,651	53,252	27,601	48.2	18,082	152.6

**Table 23**  
**Schedule of Employer Contributions**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Annual Employer Contributions	Percentage Contributed
6/30/2005	6/30/2004	\$889	\$961	108.1%
6/30/2006	6/30/2005	952	170	17.9
6/30/2007	6/30/2006	1,044	190	18.2
6/30/2008	6/30/2007	1,040	170	16.3
6/30/2009	6/30/2008	1,340	170	12.7
6/30/2010	6/30/2009	1,663	170	10.2
6/30/2011	6/30/2010	1,960	170	8.7

Further information about PARF including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications".

Legislators' Retirement System

The Legislators' Retirement System ("LRS") has been in existence since 1989 to provide retirement, disability and survivor benefits for members of the General Assembly. Prior to July 1, 2011, the LRS was administered by a six-member Board of Trustees, and after that date, by INPRS. The LRS includes two plans: The Legislators' Defined Benefit Plan ("LEDBP") and the Legislators' Defined Contribution Plan ("LEDCP"). The LEDBP includes only legislators of the state of Indiana who were serving on April 30, 1989, and elected participation. Legislators elected or appointed after April 30, 1989 participate in the LEDCP.

On June 30, 2011, the LEDBP had 112 members, survivors and beneficiaries. The LEDBP benefit consists of a pension formula benefit based upon the lesser of \$40 per month times the years of service in the General Assembly prior to November 8, 1989 or the highest consecutive three-year average annual salary at termination, divided by twelve.

Contributions are made to the LEDBP by the State determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. The LEDBP is funded by appropriations from the State general fund. The tables below highlight the funded status of the LEDBP (Table 24) and contribution history (Table 25) for the LEDBP for the last six (6) valuation dates.

**Table 24**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Number of Active Participants (c)	UAAL per Covered Participant ((b-a)/c)
6/30/2005	\$4,339	\$4,999	\$660	86.8%	48	\$14
6/30/2006	4,721	5,232	511	90.2	46	11
6/30/2007	5,035	5,169	134	97.4	43	3
6/30/2008	5,120	5,039	(81)	101.6	34	(2)
6/30/2009	4,730	5,087	357	93.0	33	11
6/30/2010	4,075	4,909	834	83.0	20	42
6/30/2011	3,634	4,621	987	78.6	7	141

**Table 25**  
**Schedule of Employer Contributions**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Annual Employer Contributions	Percentage Contributed
6/30/2005	6/30/2004	\$89	\$206	231.5%
6/30/2006	6/30/2005	91	100	109.9
6/30/2007	6/30/2006	120	100	83.3
6/30/2008	6/30/2007	66	100	151.5
6/30/2009	6/30/2008	45	100	222.2
6/30/2010	6/30/2009	63	-	0.0
6/30/2011	6/30/2010	113	-	0.0

On June 30, 2011 the LEDCP had 222 members. The LEDCP employee contribution rate is defined by law as 5%. Contributions are made to the LEDCP by the state based on a rate determined by the INPRS board and confirmed by the budget agency not to exceed the total contribution rate paid that year by the state to INPRS for state employees.

Further information about the LEDBP including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications."

State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan

The State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan ("EPCEP") has been in existence since 1972 to provide retirement, disability and survivor benefits for Excise Police, Gaming Agents, Gaming Control Officers and Conservation Enforcement Officers. Prior to July 1, 2011, EPCEP was administered by a six-member Board of Trustees, and after that date, by INPRS.

All Excise Police, Gaming Agents, Gaming Control Officers and Conservation Enforcement Officers are required to join EPCEP. On June 30, 2011, EPCEP had 680 members, survivors and beneficiaries. The EPCEP benefit consists of a pension formula benefit based upon years of service and the member's annual compensation as defined by statute. The employee contribution rate is defined by law as 4% of each employee's salary. The employer may pick up the employee's contributions to EPCEP.

Contributions are made to EPCEP by the State determined by normal cost and amortizing the unfunded accrued liability during periods established pursuant to statute. Contribution rates are set by INPRS (and prior to July 1, 2011, by the PERF Board of Trustees) based on annual actuarial valuations. Funding for the State's obligation to EPCEP is included as part of the expenditures for fringe benefits by each State agency. The tables below highlight the funded status (Table 26) and contribution history (Table 27) for EPCEP for the last six (6) valuation dates.

**Table 26**  
**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	\$41,663	\$59,964	\$18,301	69.5%	\$13,223	138.4%
6/30/2006	48,496	64,765	16,269	74.9	14,892	109.2
6/30/2007	57,414	74,451	17,037	77.1	17,715	96.2
6/30/2008	65,375	77,177	11,802	84.7	21,333	55.3
6/30/2009	68,170	89,296	21,126	76.3	25,238	83.7
6/30/2010	70,327	97,862	27,535	71.9	26,709	103.1
6/30/2011	72,600	101,534	28,934	71.5	24,028	120.4

**Table 27**  
**Schedule of Employer Contributions**  
(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Annual Employer Contributions	Percentage Contributed
6/30/2005	6/30/2004	\$1,867	\$2,165	116.0%
6/30/2006	6/30/2005	2,710	2,498	92.2
6/30/2007	6/30/2006	3,128	3,359	107.4
6/30/2008	6/30/2007	3,676	4,854	132.0
6/30/2009	6/30/2008	4,427	5,294	119.6
6/30/2010	6/30/2009	5,237	5,256	100.4
6/30/2011	6/30/2010	5,179	5,197	100.3

Further information about EPCEP including CAFRs for the most recent fiscal years, as well as the most recent actuarial valuation report, current investment policy statement and other materials, go to [www.IN.gov/INPRS](http://www.IN.gov/INPRS) and click "Publications".

***Indiana State Police Pension Trust***

The Indiana State Police Pension Trust was established in 1937. The Trust consists of a two-part State Police Benefit System, the Pre-1987 Plan and the 1987 Plan, that provide retirement benefits to the employee beneficiaries. The Trust is administered by the Pension Advisory Board, which consists of the Superintendent of the Department of State Police; a representative of the pension consultants and the Trustee (Treasurer of State of Indiana), who both serve on a nonvoting basis; three active employees of the Department of State Police; and an Executive Secretary who is appointed by the Superintendent.

The State Police Pension Fund shall consist of voluntary contributions from the Department, contributions deducted from the wages of employees of the Department, any other payments or contributions made by the State of Indiana in the form of appropriations from the State's General Fund and the Motor Vehicle Highway Fund, and the income and proceeds derived from the investment of the Fund.

Employees who are participating in the Pre-1987 Plan shall make contributions equal to 5% of their salary, provided that the maximum contribution shall be equal to 5% of the Six Year Trooper Salary. Employees who are participating in the 1987 Plan shall make contributions equal to 6% of their salary. The method used in determining the annual required contributions and the calculation of the unfunded actuarial accrued liability is the Entry Age Actuarial Cost Method. A smoothed basis method is used for the asset valuation.

See the following tables for the funding status and a contribution history.

**Table 28**

Valuation Date	<u>Schedule of Funding Progress</u>					
	(a)	(b)	(c)	(d)		UAAL as % of Payroll (c)/(d)
	Actuarial Value of Assest	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll	
7/1/2006	\$339,122,497	\$392,809,758	\$ 53,687,261	86.3%	\$54,156,357	99.1%
7/1/2007	\$371,918,092	\$413,968,601	\$ 42,050,509	89.8%	\$59,862,892	70.2%
7/1/2008	\$386,872,985	\$438,460,280	\$ 51,587,295	88.2%	\$65,421,105	78.9%
7/1/2009	\$356,056,202	\$453,687,692	\$ 97,631,490	78.5%	\$68,283,255	143.0%
7/1/2010	\$363,487,316	\$447,063,504	\$ 83,576,188	81.3%	\$66,603,419	125.5%
7/1/2011	\$361,457,004	\$470,852,078	\$109,395,074	76.8%	\$64,947,968	168.4%

\*Determined under the Entry Age Actuarial Cost Method, as defined in Statement #27 of the Governmental Account Standards Board. Under this method, the Actuarial Present Value of the Projected Benefits of each individual is allocated on a level basis over the earnings of the individual between age at hire and assumed retirement age. The amortization of the Unfunded Actuarial Accrued Liability is based on a 40-year closed period from July 1, 1997.

**Table 29**

Schedule of Employer Contributions

Plan Year Ended June 30	Annual Required Contribution (ARC)*	Actual Employer Contribution	Percentage of ARC Contributed	Net Pension Obligation (NPO)
2007	\$9,472,493	\$12,113,595	127.9%	\$8,606,962
2008	\$9,173,931	\$9,412,228	102.6%	\$8,277,546
2009	\$10,361,583	\$9,472,493	91.4%	\$9,071,870
2010	\$14,229,907	\$9,471,135	66.6%	\$13,718,223
2011	\$12,266,567	\$9,449,670	77.0%	\$16,389,890
2012	\$14,517,041			

\*The Annual Required Contribution (ARC) is not equal to the minimum annual contribution in accordance with Indiana Code 10-12-2-2(i) but instead determined under the Entry Age Actuarial Cost Method as defined in Statement #27 of the Governmental Account Standards Board GASB#27). The amortization of the Unfunded Actuarial Accrued Liability is based on a 40-year closed period from July 1, 1997 and is determined as a level dollar amount. Effective July 1, 2010, the amortization is based on a 30-year closed period from July 1, 2010 as a level dollar amount.

## 2. State Pension Funding Obligations

The State is obligated to fund various components of the plans described above as follows:

### 1. PERF as to State Employees

Table 30 below represents the historical presentation showing only the active, State-related portion, not including the PERF ASA.

**Table 30**  
**Public Employees' Retirement Fund**  
**(Active, State-Related Portion, Not Including the PERF ASA)<sup>(1)</sup>**  
(dollars in thousands)

	<u>June 30, 2006<sup>(2)</sup></u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>
<b>Funded Status</b>						
Actuarial Value of Assets	\$2,169,620	\$2,350,652	\$2,469,431	\$2,121,550	\$1,803,664	\$1,433,516
Actuarial Accrued Liability (AAL)	2,210,377	2,335,082	2,513,791	2,443,039	2,678,031	2,538,861
Unfunded/(Overfunded) AAL	40,757	(15,570)	44,360	321,489	874,367	1,105,345
Funded Ratio	98.2%	100.7%	98.2%	86.8%	67.4%	56.5%
Contribution Rate <sup>(3)</sup>	6.3%	6.3%	6.5%	7.0%	8.6%	9.7%
<b>Contribution History</b>						
Annual Required Contributions	\$87,947	\$96,430	\$99,135	\$107,981	\$118,200	\$176,290
Actual Employer Contributions	72,890	89,801	106,867	111,214	111,555	115,232
Percentage Contributed	82.9%	93.1%	107.8%	103.0%	94.4%	65.4%

<sup>(1)</sup> State-related portion does not include any information from schools.

<sup>(2)</sup> The 1.0% lifetime cost of living adjustment assumption was changed to a 1.5% lifetime cost of living adjustment assumption as the final step in phasing in this assumption. Also, the actuarial assumptions were revised based on the recommendations of an actuarial experience study prepared for the period 2000-2005.

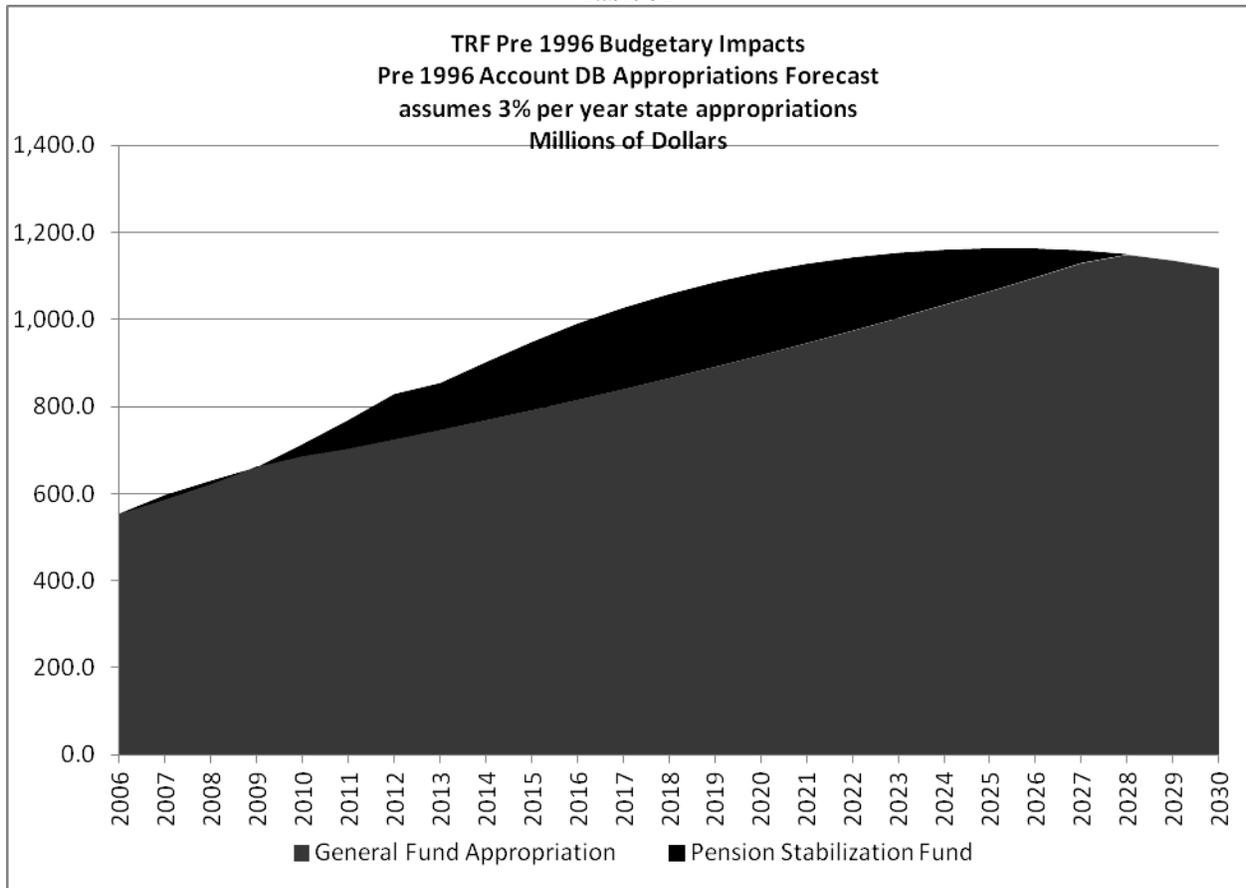
<sup>(3)</sup> Contribution rate is a blended rate for all employers participating in the PERF plan, and is set using the most recently completed actuarial valuation that goes into effect July 1 of the next calendar year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, June 30, 2011.

### 2. Pre 1996 TRF Plan

The Pension Stabilization Fund has been a source of State contributions to the Pre 1996 Plan in the last five years, and projections indicate that the Pension Stabilization Fund will be expended over the next approximately 16 years for this purpose at which time the State's Obligations under the Pre 1996 Plan are expected to be lower each succeeding year. If the annual amount of benefit liabilities for the Pre 1996 Plan retirees exceeds the annual state appropriation allotted to the Pre 1996 Plan, the Pension Stabilization Fund supplements the shortfall. The Pension Stabilization Fund amount is impacted each year by investment earnings and monies allotted from the Lottery. Projections of future annual benefit payments from the Pre 1996 Plan range from approximately \$123 million/year to almost \$1.2 billion. Projections of future annual benefit payments from the Pre 1996 Plan will continue to grow from the current level of \$0.8 billion annually and will peak at almost \$1.2 billion annually. This funding will be provided by the annual state appropriations which are projected to grow by 3% per year with any remaining required amounts coming from the Pension Stabilization Fund. Table 31 below shows the projected value of the Pension Stabilization Fund over time and Table 32 shows the payments (and the sources therefore) under the Pre 1996 Plan in recent years.

**Table 31**



Projections assume, inter alia, (1) a 5% annual investment return on the Pension Stabilization Fund, (ii) continued annual funding of Pension Stabilization Fund from lottery revenues of \$30 million, and (iii) 103% year over year appropriations from General Fund for Pre-1996 Plan benefits. Projections are subject to change.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2011.

See the following table for the contribution history.

**Table 32  
TRF Pre-1996 Pension Stabilization Fund Balances**

(Dollars in Millions)

<u>Fiscal Year</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
PSF Balance	\$1,537.0	\$1,880.1	\$2,084.5	\$1,614.4	\$1,932.8	\$2,263.5

3. Other Plan Obligations

The State's funding obligations for each of the other components of the State pension system are small relative to PERF and TRF and can be seen in prior tables under "Annual Employer Contributions".

## ECONOMIC AND DEMOGRAPHIC INFORMATION

### 1. Summary

Indiana is expanding the diversity of its economy while maintaining its strong tradition in the manufacturing sector. Manufacturing capacity has contributed to Indiana's estimated 2010 State Gross Domestic Product (GDP) of approximately \$276 billion (current dollars), ranking sixteenth largest in the country in terms of the value of goods and services produced. The Manufacturing sector now represents 16% of total employment in Indiana, a decrease from 22% in 2000. From 2000 to 2010, Indiana witnessed significant shifts in the distribution of employment between sectors. Employment in the Education and Health Services sector increased by 28.9%; followed by a 11.3% gain in Professional & Business Services. Trade, Transportation & Utilities is the largest employment super sector in Indiana.

Indiana is rich in assets with a low cost of living, a business-friendly regulatory environment and an efficient transportation system. Well-located for goods production and distribution, Indiana is within a day's drive of nearly two-thirds of the United States' population. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. The Governor's 2006 Major Moves transportation initiative, calling for \$10.6 billion invested over 10 years, will fund both maintenance and new construction for Indiana's roadways. Coupled with the elimination of the state's inventory tax and the adoption of Daylight Savings Time in 2006, Indiana becomes even more attractive as a site for production, warehousing and distribution and transportation activities.

The cost of living index for Indiana's major cities has been consistently below the national average. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana due to the ready availability of ample natural resources. According to the U.S. Energy Information Administration, year-to-date average retail electric utility rates through December 2010 were 14% lower than the national average for all industrial consumers; while residential retail electric bills were almost 25% lower than the national average.

The Indiana Economic Development Corporation (IEDC) is Indiana's lead economic development agency. Officially established in February 2005 to replace the State's former Department of Commerce, the IEDC is a public private partnership governed by a 12-member board of directors chaired by the Governor. Since its inception, the IEDC has worked with more than 1,230 companies from across Indiana and around the globe who have collectively committed to create more than 143,300 new jobs and invest more than \$28 billion of private capital in their Indiana operations. In 2011 alone, the IEDC worked with 219 companies who have committed to create more than 19,000 new jobs and invest more than \$2.7 billion in new or expanded operations in industries ranging from advanced manufacturing, life sciences, defense and information technology.

### 2. Population

Indiana is the 16<sup>th</sup> most populous state in the United States. The capital and largest city is Indianapolis. From 2000 to 2010, the Indianapolis-Carmel Metropolitan Statistical Area ("MSA") grew by 13.1%. While Indiana's educational attainment rate for bachelors' degrees has lagged the nation and several neighboring states, estimates from Census 2000 and the 2001-2009 American Community Survey indicates that between 2000 and 2009, the number of individuals with "some college", associates' degrees and bachelors' degrees were increasing at a substantially higher rate than the population 25 years and older. In addition, of those Hoosiers who have completed a bachelors' degree or above, 36% have attained masters', doctoral or professional degrees, closely matching the national average of 36.9%.

**Table 33**  
**Educational Attainment, Indiana Population 25 Years & Over**

<u>Year</u>	<u>Some college, no degree</u>	<u>Assoc Degree</u>	<u>BA/BS or Above</u>	<u>Population 25 Yrs &amp; Over</u>
2000	727,387	210,265	749,872	3,893,278
2001	739,281	244,714	789,776	3,882,504
2002	725,926	219,712	794,098	3,845,706
2003	747,449	253,224	811,771	3,863,200
2004	768,437	250,762	838,435	3,889,833
2005	789,952	276,886	840,876	3,956,723
2006	793,292	296,052	891,489	4,110,754
2007	803,293	293,297	914,471	4,143,159
2008	866,304	313,410	956,371	4,177,420
2009	884,767	314,491	943,472	4,193,210
<hr/>				
2000-2009 Growth	21.6%	49.6%	25.8%	7.7%

Sources: Census 2000, 2001-2009, American Community Survey, September 2010

Indiana's excellent state colleges and universities attract the brightest students both nationally and globally (the state ranks 2<sup>nd</sup> nationally in terms of net domestic migration of college freshmen, according to the National Center for Education Studies).<sup>(1)</sup> These schools also serve as the focus of research and development efforts; assist in the formation of small business "incubators," and award advanced degrees in fields as varied as engineering, economics and pharmacy. In 2007, based on a National Science Foundation (NSF) survey, among the nation's public universities, Indiana ranked 19<sup>th</sup> in the nation in Academic Research & Development from Institutional funding (including grants and endowments) and 15<sup>th</sup> in terms of both Industry (for-profit entities) funding and 15<sup>th</sup> in funding from "All Other" sources<sup>(2)</sup>. In the National Science Foundation 2006-2008 Science and Engineering State Profiles report, Indiana ranks in the top 20 for numbers of Doctoral Scientists, Science and Engineering (S&E) doctorates awarded, S&E and health post doctorates and graduate students in doctorate granting institutions.<sup>(3)</sup> Indiana University, Purdue University and the University of Notre Dame have all been included in the Financial Times rankings of the world's top business schools.<sup>(4)</sup>

Section Footnotes:

<sup>(1)</sup> <http://www.stats.indiana.edu/sip/>

<sup>(2)</sup> [http://www.nsf.gov/statistics/nsf09303/content.cfm?pub\\_id=3871&id=2](http://www.nsf.gov/statistics/nsf09303/content.cfm?pub_id=3871&id=2)

<sup>(3)</sup> <http://www.nsf.gov/statistics/nsf10302/>

<sup>(4)</sup> Financial Times Report: Global MBA Rankings, 2010; <http://rankings.ft.com/businessschoolrankings/global-mba-rankings>

**Table 34**  
**Population, including Selected Indiana MSAs**

	<u>2000*</u>	<u>2010</u>	<u>Percentage Change</u> <u>2000-2010</u>
Indiana	6,080,485	6,483,802	6.6%
Indianapolis-Carmel MSA	1,525,104	1,724,161	13.1%
Fort Wayne MSA	390,156	409,242	4.9%
Evansville-Henderson MSA (IN part)	283,866	289,568	2.0%
South Bend MSA	316,663	319,224	0.8%
Gary PMSA	675,971	697,220	0.3%
United States	281,421,906	308,745,538	9.7%

\* These Indiana Metropolitan Statistical Areas were reconfigured in 2005. The above population estimates are based on the areas as defined by the Office of Management and Budget as of December 2005. Consistent aggregate historical data are not yet readily available. Source: U.S. Census Bureau, May 2011.

### 3. Employment

During this past decade, employment in Indiana has shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Within the Manufacturing sector, some well-paying industry components continued to experience employment declines in 2010, generally mirroring the nation. Medical Equipment & Supplies Manufacturing, however, has continued to see high growth through 2010. Listed on the table below are some examples of high wage subsectors in Indiana.

**Table 35**  
**Indiana High Wage Subsectors**

<u>NAICS Subsector</u>	<u>Sector Description</u>	<u>2005-2010 Employment Change</u>	<u>Indiana % Change</u>	<u>Indiana 2010 Annual Average Wage</u>
3362	Motor Vehicle Body & Trailer Manufacturing	-13,400	-35%	\$47,900
3361	Motor Vehicle Manufacturing	700	5%	\$74,140
6113	Colleges, Universities & Professional Schools	3,800	6%	\$43,300
6220	Hospitals	11,400	10%	\$45,100
3391	Medical Equipment & Supplies Manufacturing	2,900	17%	\$62,400

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment & Wages, June 2011.

The fastest growing super sectors overall during the last decade were Education and Health Services, which grew by 28.9% from 2000 to 2010, followed by Professional & Business Services (11.3% growth). Although Manufacturing is still the second largest super sector at 16% of total employment, it was the slowest growing sector from 2000 to 2010 and has undergone significant diversification and acquired an international presence in recent years. While Transportation Equipment Manufacturing employment has taken heavy losses as part of the turmoil and restructuring of that industry, Indiana's mix of foreign and domestic auto makers has served to buffer the State somewhat compared to neighboring states and the U.S. overall. In particular, Indiana's employment in the Motor Vehicle Manufacturing sub-sector has actually grown by about 37% between 2000 and 2010.

**Table 36**  
**Indiana Non-Farm Employment by Super Sector; December 2000 to December 2010**  
(Not Seasonally Adjusted)

<u>NAICS Super Sectors</u>	<u>2000</u>	<u>Percentage of Total</u>	<u>2010</u>	<u>Percentage of Total</u>	<u>Growth 2000-2010</u>
Total Non Farm	3,005,000	100%	2,805,800	100%	-6.6%
Education & Health Svc.	336,400	12%	433,500	15%	28.9%
Prof & Business Svc.	256,400	9%	285,400	10%	11.3%
Government	411,100	14%	439,700	16%	7.0%
Leisure and Hospitality	261,700	9%	261,700	9%	0.0%
Other Services	108,400	4%	105,600	4%	-2.6%
Financial Activities	144,900	5%	130,000	5%	-10.3%
Trade, Transport. & Util.	639,500	21%	550,400	20%	-13.9%
Construction	142,700	5%	109,700	4%	-23.1%
Information	46,300	2%	35,300	1%	-24.3%
Manufacturing	650,900	22%	447,800	16%	-31.2%
Services Providing	2,204,700	73%	2,241,600	80%	1.7%
Goods Producing	800,300	27%	564,200	20%	-29.5%

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics, March 2011

**Table 37**  
**Unemployment Rate**  
(Annual Averages of Monthly Data)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana as Percentage of U.S.</u>
2000	2.9%	4.0%	72.5%
2001	4.2%	4.7%	89.4%
2002	5.2%	5.8%	89.7%
2003	5.3%	6.0%	88.3%
2004	5.3%	5.5%	96.4%
2005	5.4%	5.1%	105.9%
2006	5.0%	4.6%	108.7%
2007	4.6%	4.6%	100.0%
2008	5.9%	5.8%	101.7%
2009	10.2%	9.3%	109.7%
2010	10.2%	9.6%	106.3%

Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, April 2011

The unemployment statistics listed above are indicative of average annual data. More recent unemployment statistics (Indiana 8.2, seasonally adjusted in May 2011 vs. 9.1 for the U.S.) highlight the relative strength of the recovery of Indiana's job market versus the national trend.

#### 4. Income

In 2010, Indiana's per capita personal income increased to \$34,943 or 3.7% from 2009. Indiana's personal income growth ranked eighth among states in the nation last year. During the past eleven years, Indiana's personal income grew at an average annual rate of 2.8%.

**Table 38**  
**Growth in Per Capita Personal Income**  
(Current Dollars)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
2000	27,460	30,318	6.2%	7.0%
2001	28,049	31,145	2.1%	2.7%
2002	28,525	31,462	1.7%	1.0%
2003	29,573	32,271	3.7%	2.6%
2004	30,627	33,881	3.6%	5.0%
2005	31,279	35,424	2.1%	4.6%
2006	32,842	37,698	5.0%	6.4%
2007	33,702	39,392	2.6%	4.5%
2008	34,543	40,166	2.5%	2.0%
2009	33,725	39,138	-2.4%	-2.6%
2010	34,943	40,584	3.7%	3.0%
Average Annual Growth Rate (2000-2010):			2.8%	3.3%
Total Growth Rate (2000-2010):			30.8%	36.2%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2011.

## 5. Gross Domestic Product by State

With an estimated 2010 Gross Domestic Product by State of approximately \$275.6 billion, Indiana's economy ranks sixteenth largest in the country in terms of the value of goods and services produced. Since 2000, Indiana's Gross Domestic Product by State has grown at an average annual rate of 3.9% (current dollars).

**Table 39**  
**Indiana Gross Domestic Product by Sector: 2000 to 2010**  
(Millions of Current Dollars)

<u>NAICS Industry Sectors</u>	<u>2000</u>	<u>Percentage of Total</u>	<u>2010</u>	<u>Percentage of Total</u>	<u>Percentage Growth 2000-2010</u>
Arts, entertainment, and recreation	\$ 2,563	1.3%	\$ 2,939	1.1%	14.7%
Educational services	1,339	0.7%	2,539	0.9%	89.6%
Administrative and waste services	4,479	2.2%	7,089	2.6%	58.3%
Health care and social assistance	11,996	6.1%	22,257	8.1%	85.5%
Professional and technical services	6,506	3.3%	11,421	4.1%	75.5%
Transportation and warehousing	6,805	3.4%	9,025	3.3%	32.6%
Finance and insurance	12,206	6.2%	18,981	6.9%	55.6 %
Other services, except government	5,164	2.6%	6,449	2.3%	24.9%
Government	19,115	9.7%	27,848	10.1%	45.7%
Accommodation and food services	4,587	2.3%	6,164	2.2%	34.4%
Real estate, rental, and leasing	20,111	10.2%	25,693	9.3%	27.8%
Mining	669	0.3%	1,086	0.4%	62.3%
Manufacturing	57,437	29.0%	74,917	27.2%	30.4%
Wholesale trade	10,961	5.6%	14,102	5.1%	28.7%
Information	3,888	2.0%	5,901	2.1%	51.8%
Construction	9,130	4.6%	9,616	3.5%	5.3%
Retail trade	13,497	6.8%	16,548	6.0%	22.6%
Utilities	3,962	2.0%	6,147	2.2%	35.5%
Management of companies and enterprises	2,195	1.1%	2,860	1.0%	30.3%
Agriculture, forestry, fishing, and hunting	1,414	0.7%	4,038	1.5%	185.6%
<b>Total Gross Domestic Product by State</b>	<b>\$198,020</b>	<b>100.0%</b>	<b>\$275,676</b>	<b>100.0%</b>	<b>39.2%</b>

Note: Individual sectors may not sum to totals due to rounding. NAICS Industry detail is based on the 2002 North American Industry Classification System (NAICS).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, June 2011.

## 6. Exports

Since 2003, Indiana businesses have significantly increased exported output. The value of exports in calendar year 2004 jumped to \$19,212 million, a 16.7% increase over 2003, in 2005 the total value increased to \$21,594 million, a 12.4% growth rate, in 2006 the total value increased to \$22,666 million, a 5.0% increase, in 2007 increased to \$25,956 million, a 14.5% increase and in 2008 improved to \$26,502 million, a 2.1% increase. After decreasing in 2009, Indiana's exports increased by 25.6% in 2010. Since 2000, Indiana's exports have grown at an average annual rate of 8.0% as compared to 6.3% for the United States as a whole.

**Table 40**  
**Exports – Annual Percentage Change**  
(Millions)

<u>Year</u>	<u>Exports</u>		<u>Annual Percentage Change</u>		<u>Indiana as a Percentage of U.S. Exports</u>
	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>	
2000	15,386	781,918	19.2%	12.4%	2.0%
2001	14,365	729,100	-6.6%	-6.8%	2.0%
2002	14,956	693,103	4.1%	-4.9%	2.2%
2003	16,468	724,771	10.1%	4.6%	2.3%
2004	19,212	818,775	16.7%	13.0%	2.4%
2005	21,594	901,082	12.4%	10.1%	2.4%
2006	22,666	1,025,967	5.0%	13.9%	2.2%
2007	25,956	1,148,198	14.5%	11.9%	2.3%
2008	26,502	1,287,442	2.1%	12.1%	2.1%
2009	22,907	1,056,042	-13.6%	-18.0%	2.2%
2010	28,774	1,278,263	25.6%	21.0%	2.3%
Average Annual Growth Rate (2000-2010):			8.0%	6.3%	
Total Growth (2000-2010):			88.5%	69.2%	

Source: Office of Trade and Industry Information (OTII), Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, June 2011

**Table 41**  
**Indiana's Leading Export Industries and Destinations**  
(Millions)

<u>Top Export Industries</u>		<u>Export Destinations</u>	
<u>Industry</u>	<u>2010 Exports</u>	<u>Country</u>	<u>2010 Exports</u>
Transportation Equipment Mfg	\$7,959.0	Canada	\$10,694
Chemical Manufacturing	7,608.7	Mexico	2,613
Machinery Manufacturing	3,540.1	Germany	1,830
Computer & Electronic Products	1,744.0	United Kingdom	1,467
Misc. Manufacturing	1,705.8	France	1,408
Primary Metal Manufacturing	1,541.3	Japan	1,197
Elect Equip, Appl. & Component	814.4	China	1,089
Fabricated Metal Products	673.1	Spain	942
Rubber & Plastics Products	651.4	Brazil	820
Food Manufacturing Products	612.8	Australia	568
Other	<u>1,924.3</u>	Other	<u>6,147</u>
Total	\$28,774.9		\$28,775

Sources: Office of Trade and Industry Information (OTII), Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, June 2011

## LITIGATION

The following litigation liability survey is a summary of certain significant litigation and claims currently pending against the State involving amounts exceeding \$10.0 million individually or in the aggregate. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any.

### 1. Employment Litigation

In July 1993, in *Paula Brattain, et al v. Richmond State Hospital*, plaintiffs filed a breach of employment contract lawsuit in a state trial court alleging that the State has failed to pay certain similarly classified State employees at an equal rate of pay from September 19, 1973, to September 19, 1993. The Court certified plaintiffs' class, and class notification was completed. Plaintiffs seek to recover damages as well as attorneys' fees and costs. Mediation was unsuccessful. A claims-made basis class action settlement was preliminarily approved on August 18, 2008, with an \$8.5 million settlement cap (inclusive of fees and costs). If the State's purported total liability for claims, attorneys' fees and expenses exceed \$8.5 million the State may exercise its option to terminate the Settlement Agreement and proceed to trial. On October 20, 2008, the Court conducted a fairness hearing for the purpose of considering any timely written objections that may have been filed and determining pursuant to Ind. Trial Rule 23(E) whether the Court should approve the agreed settlement as fair, reasonable, and adequate. Only three objections to the proposed settlement were filed with the Court, and one was subsequently withdrawn. The Court found the two remaining objections were meritless. The Court approved the settlement on October 30, 2008, subject to the State Defendants' option to terminate the settlement agreement. On November 10, 2008, the State Defendants filed a Notice Regarding Settlement Agreement in which they gave notice that the conditions for terminating the settlement agreement have been met, and the State Defendants elect to exercise their option to terminate the settlement pursuant to the settlement agreement. Trial was reset for March 10, 2009. The Court has ordered the parties to return a second mediation session for February 5, 2009. Mediation was unsuccessful. A four-day bench trial was conducted March 10-13, 2009. The Court took the matter under advisement and gave the parties until March 31, 2009 to submit proposed findings of fact and conclusions of law. Findings and conclusions of law were submitted. Settlement discussions continued but the parties were unable to reach an agreement. On July 28, 2009, the Court entered judgment against the state in the total amount of \$42,422,788.00 (\$20,979,490.00 awarded to merit, overtime eligible employees; \$16,762,773.00 awarded to non-merit, overtime eligible employees; \$2,696,812.00 awarded to merit, overtime exempt employees; \$1,983,713.00 awarded to non-merit, overtime exempt employees). On July 31, 2009, the State filed a Notice of Appeal and Motion to Stay Judgment Pending Appeal. On August 28, 2009, the trial court granted the motion to stay judgment pending appeal. On August 31, 2009, the State's Case Summary and Notices of Appearance were filed in the Court of Appeals. On September 23, 2009, plaintiffs filed Notices of Appearance and a Motion for pre-appeal conference and appellate alternative dispute resolution. On October 13, 2009, the State filed a response to Appellees' motion. On October 20, 2009, the court of appeals denied Appellees' Motion for Pre-Appeal Conference and Appellate Alternative Dispute Resolution. The trial court reporter was granted an extension until January 18, 2010, to file the transcript of proceedings. On November 17, 2009, plaintiffs reduced their settlement demand to \$20 million. Defendants responded on December 1, 2009, with offer of \$8.5 million (inclusive of fees and costs) and later increased the offer to \$10 million, which plaintiffs rejected. The matter was fully briefed in the Court of Appeals. Oral Argument was held on August 23, 2010 and taken under advisement. Opinion issued by the Court of Appeals on October 8, 2010, reversed in part, affirmed in part and remanded to trial court for determination of damages; excused exhaustion of administrative remedies but limited back pay to 10 days (instead of 20 years) for merit employees; affirmed 20 years of back pay for non-merit employees. The Impact of this opinion is a reduction in trial court's judgment from \$42.4 million to approximately \$19 million. Both plaintiffs and defendants filed Petitions for Rehearing. Defendants' Petition for Rehearing denied. Plaintiffs' Petition for Rehearing granted in part remanding to trial court for determination of if/when individual merit plaintiffs filed administrative complaints. Plaintiffs and defendants each filed Petitions for Transfer to the Indiana Supreme Court, which were granted June 3, 2011. Oral argument was held in the Supreme Court on September 8, 2011 and taken under advisement.

## **2. Civil Rights Litigation**

In 1968, in *United States of America, et al v. Board of School Commissioners, et al*, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The District Court entered its final judgment in 1981 holding the State responsible for most of the costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court for some school corporations and a 13-year phase out of the desegregation plan for the school corporations that had already began the desegregation plan. State expenditures will be gradually reduced as the plan is phased out.

## **3. Other Contingencies**

In May 2010, the State of Indiana on behalf of the Indiana Family and Social Services Administration and IBM ("IBM") sued each other regarding the company's contract to fix the state's welfare system. The state filed suit against IBM for breach of contract and unjust enrichment seeking to recover more than \$43.4 million in payments, indemnification, damages, costs, fees, interest, treble damages, declaratory judgment and other relief. IBM filed suit seeking deferred costs and fees alleged in the amount of \$43.4 million, and costs of IBM equipment allegedly retained by the state after termination of the contract for any reason in the amount of \$9.3 million. Both lawsuits were filed in Marion County Superior Court and were consolidated on June 1, 2010. Trial is set for February 2012.

In July 2010, IBM served a Notice of Claim and Demand for Return of Property alleging unlawful appropriation of approximately \$10 million of IBM's private property after termination of its contract.

**APPENDIX C-1**

**FORM OF BOND COUNSEL OPINION**

*Upon the delivery of the 2012 A Bonds, Barnes & Thornburg LLP, as bond counsel, proposes to deliver an opinion in substantially the following form:*

March 22, 2012

Indiana Bond Bank  
Indianapolis, Indiana

Re: Indiana Bond Bank  
Common School Fund Advancement Purchase Refunding Bonds, Series 2012 A (Taxable)

Ladies and Gentlemen:

We have acted as bond counsel to the Indiana Bond Bank (the “Issuer”) in connection with the issuance by the Issuer of its Common School Fund Advancement Purchase Refunding Bonds, Series 2012 A (Taxable), dated March 22, 2012 (the “Bonds”), in the aggregate principal amount of \$5,920,000, pursuant to Indiana Code 5-1-5, as amended, Indiana Code 5-1.5, as amended, the resolution adopted by the Board of Directors of the Issuer on June 14, 2011, and the Trust Indenture, dated as of March 1, 2012 (the “Indenture”), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee. In such capacity, we have examined such law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the Issuer contained in the Indenture and the 2001 Advancement Acquisition and Administration Agreement (as defined in the Indenture), the certified proceedings and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer and others, without undertaking to verify the same by independent investigation. We have relied upon the legal opinion of Graham & Associates, PC, Indianapolis, Indiana, special counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the report of Crowe Horwath LLP, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein, and the report of London Witte Group, LLC, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under the laws of the State of Indiana (the "State"), with the corporate power to enter into the Indenture and perform its obligations thereunder and to issue the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).

3. The Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Interest on the Bonds is exempt from income taxation in the State for all purposes, except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated March 1, 2012, or any other offering material relating to the Bonds.

We express no opinion regarding any tax consequences arising with respect to the Bonds, other than as expressly set forth herein.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) the enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that, in our opinion, the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

This opinion is given only as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

**APPENDIX C-2**

**FORM OF BOND COUNSEL OPINION**

*Upon the delivery of the 2012 B Bonds, Barnes & Thornburg LLP, as bond counsel, proposes to deliver an opinion in substantially the following form:*

March 22, 2012

Indiana Bond Bank  
Indianapolis, Indiana

Re: Indiana Bond Bank  
Common School Fund Advancement Purchase Refunding Bonds, Series 2012 B (Taxable)

Ladies and Gentlemen:

We have acted as bond counsel to the Indiana Bond Bank (the "Issuer") in connection with the issuance by the Issuer of its Common School Fund Advancement Purchase Refunding Bonds, Series 2012 B (Taxable), dated March 22, 2012 (the "Bonds"), in the aggregate principal amount of \$44,245,000, pursuant to Indiana Code 5-1-5, as amended, Indiana Code 5-1.5, as amended, the resolution adopted by the Board of Directors of the Issuer on June 14, 2011, and the Trust Indenture, dated as of July 1, 2003 (the "Original Indenture"), as supplemented and amended by the First Supplemental Trust Indenture, dated as of March 1, 2012 (the "First Supplemental Indenture", and together with the Original Indenture, collectively, the "Indenture"), each of which is between the Issuer and The Bank of New York Mellon Trust Company, N.A. (ultimate successor to Fifth Third Bank, Indiana), as trustee. In such capacity, we have examined such law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the Issuer contained in the Indenture and the 2003 Advancement Acquisition and Administration Agreement (as defined in the Indenture), the certified proceedings and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer and others, without undertaking to verify the same by independent investigation. We have relied upon the legal opinion of Graham & Associates, PC, Indianapolis, Indiana, special counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the report of Crowe Horwath LLP, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein, and the report of London Witte Group, LLC, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under the laws of the State of Indiana (the "State"), with the corporate power to enter into the First Supplemental Indenture and perform its obligations under the Indenture and to issue the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture), on a parity with the pledge thereof to the Outstanding 2003 B Bonds (as defined in the Indenture).

3. The First Supplemental Indenture has been duly authorized, executed and delivered by the Issuer, and the Indenture is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Interest on the Bonds is exempt from income taxation in the State for all purposes, except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated March 1, 2012, or any other offering material relating to the Bonds.

We express no opinion regarding any tax consequences arising with respect to the Bonds, other than as expressly set forth herein.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) the enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that, in our opinion, the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

This opinion is given only as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

## **APPENDIX D**

### **DEFINITIONS**

*The following are definitions of certain key terms used in the Official Statement, including the Appendices thereto, which terms may also be used in the 2012 A Indenture and 2012 B Indenture, respectively.*

"Account" or "Accounts" means any of the accounts established, held and disbursed by the Trustee under the Indentures.

"Acquisition Agreements" means, collectively, the 2001 Advancement Administration and Acquisition Agreement and the 2003 Advancement Administration and Acquisition Agreement.

"Act" means, collectively, Indiana Code Title 5, Article 1.5, and Indiana Code Title 20, Article 49, Chapter 4, each as amended.

"Advancement Payments" means, collectively, the 2001 Advancement Payments and the 2003 Advancement Payments.

"Advancement Agreements" means, collectively, the 2001 Advancement Agreements and the 2003 Advancement Agreements.

"Authorized Officer" means the Chairman, the Vice Chairman, or the Executive Director of the Bond Bank.

"Bond or Bonds" means, collectively, the 2012 A Bonds and the 2012 B Bonds.

"Bond Bank" means the Indiana Bond Bank, established and existing under the provisions of the Act as a body corporate and politic and an instrumentality, but not an agency, of the State, or any agency, board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Bond Bank by the Act shall be given by law.

"Bondholder," "Owner," or "Owners" or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Outstanding Bond or Bonds.

"Bond Register" means the registration books maintained by the Trustee as Registrar pursuant to the terms of the applicable Indenture.

"Bond Registrar" or "Registrar" means the Trustee acting as Registrar for the respective Bonds under the terms of the applicable Indenture.

"Bond Year" means, with respect to the Bonds, the one-year period (or shorter period from the date of issue) ending on January 31 of each year.

"Business Day" means any day other than a Saturday, Sunday or legal holiday or any other day on which banking institutions are authorized to close in the State.

"Cash Flow Certificate" means a Positive Cash Flow Certificate or an Improving Cash Flow Certificate.

"Closing Date" means the date on which the Bonds are delivered by the Bond Bank in exchange for payment therefor pursuant to the provisions of the applicable Indenture.

"Costs of Issuance Fund" means the separate funds so designated, established, held and disbursed by the Trustee pursuant to the terms of the applicable Indenture.

"Defeasance Obligations" means: (1) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGs"); (2) direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (3) the interest component of Resolution Funding Corp. strips, which have been stripped by request to the Federal Reserve Bank of New York in book entry form; (4) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's. If however, the issue is only rated by Standard & Poor's (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or "AAA" rated pre-refunded municipals; and (5) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: (a) U.S. Export-Import Bank (Eximbank), direct obligations or fully guaranteed certificates of beneficial ownership; (b) Farmers Home Administration (FmHA) certificates of beneficial ownership; (c) Federal Financing Bank; (d) General Services Administration, participation certificates; (e) U.S. Maritime Administration, guaranteed Title XI financing; (f) U.S. Department of Housing and Urban Development (HUD), project notes, local authority bonds, new communities debentures-U.S. government guaranteed debentures, and U.S. Public Housing notes and bonds-U.S. Government guaranteed public housing notes and bonds.

"DTC" means The Depository Trust Company, New York, New York, its successors and assigns, including without limitation (i) any surviving, resulting or transferee corporation, or any successor corporation appointed consistent with the Indenture and (ii) any direct or indirect participants in DTC, including, without limitation, any banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant either directly or indirectly.

"Event of Default" means any one or more of the events specified as such pursuant to the terms of the applicable Indenture.

"Fiscal Year" means the period commencing on the first day of July and terminating on the last day of June of the following calendar year.

"Fund" or "Funds" means any of the funds established, held and disbursed by the Trustee under the respective Indentures.

"General Account" means the separate Accounts so designated and established within the General Fund of the respective Indentures and held and disbursed by the Trustee pursuant to the terms of the applicable Indenture.

"General Fund" means the separate Funds so designated, established, held and disbursed by the Trustee pursuant to the terms of the applicable Indenture.

"Improving Cash Flow Certificate" means a certificate prepared by the Bond Bank in accordance with terms of the respective Indentures to the effect that, in its judgment, the action proposed to be taken by the Bond Bank will result in the same or greater ability of the Bond Bank to pay projected required debt service on all Outstanding Bonds from Revenues expected to be received after taking such action in each Fiscal Year, together with other moneys in the Funds and Accounts under the respective Indenture available therefor in accordance with terms of the applicable Indenture, than would otherwise have been the case without the taking of such action.

"Indentures" means, collectively, the 2012 A Indenture and the 2012 B Indenture.

"Interest Payment Date" means any date on which interest is payable on the Bonds.

"Investment Securities" means any of the following:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America ("U.S. Government Securities").

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- (a) U.S. Export-Import Bank (Eximbank) Direct obligations or fully guaranteed certificates of beneficial ownership
- (b) Farmers Home Administration (FmHA) Certificates of beneficial ownership
- (c) Federal Financing Bank
- (d) Federal Housing Administration Debentures (FHA)
- (e) General Service Administration Participation certificates
- (f) Government National Mortgage Association (GNMA or "Ginnie Mae") GNMA - guaranteed mortgage-backed bonds; and GNMA - guaranteed pass-through obligations
- (g) U.S. Maritime Administration Guaranteed Title XI financing
- (h) U.S. Department of Housing and Urban Development (HUD) Project Notes; Local Authority Bonds; New Communities Debentures - U.S. government guaranteed debentures; U.S. Public Housing Notes and Bonds - U.S. government; and guaranteed public housing notes and bonds

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (a) Federal Home Loan Bank System Senior debt obligations
- (b) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") Participation Certificates; and Senior debt obligations
- (c) Federal National Mortgage Association (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations
- (d) Student Loan Marketing Association (SLMA or "Sallie Mae") Senior debt obligations
- (e) Resolution Funding Corp. (REFCORP) obligations
- (f) Farm Credit System Consolidated systemwide bonds and notes

(4) Money market funds, including those of the Trustee, registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of "AAAm-G," "AAAm," "AA+m-G" or "AA+m" and, if rated by Moody's, rated "Aaa," "Aa1" or "Aa2".

(5) Certificates of deposit secured at all times by collateral described in clauses (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(7) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's.

(8) Bonds or notes issued by any state or municipality, which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.

(9) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.

(10) Repurchase agreements that meet the following criteria:

(a) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Securities Industry and Financial Markets Association master repurchase agreement, governs the transaction;

(b) Acceptable providers shall consist of registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of "A3/P-1" or better by Moody's and "A-/A-1" or better by S&P;

(c) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FHLMC or FNMA described in clauses (2)(f), (3)(b) and (3)(c) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 102% for U.S. Government Securities, GNMA's, FHLMCs or FNMA's. The repurchase agreement shall require (i) the Trustee or the Agent (as defined in clause (d) below) to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two business days of such valuation;

(d) The repurchase securities shall be delivered free and clear of any lien to the Trustee or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than \$50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee;

(e) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below "A3" or P-1" from Moody's, or "A-" or "A-1" from S&P. Within 10 days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments;

(f) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the Bond Bank and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof;

(g) The repurchase agreement shall have a term of one year or less, or shall be due on demand; and

(h) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities:

(i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;

(ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under clause (c) above; or

(iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

(11) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

(a) A master agreement or specific written investment agreement governs the transaction;

(b) Acceptable providers of uncollateralized investment agreements shall consist of: (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least "Aa2" by Moody's and "AA" by S&P; and (ii) domestic insurance companies rated "Aaa" by Moody's and "AAA" by S&P;

(c) Acceptable providers of collateralized investment agreements shall consist of: (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of "A1" or better by Moody's and "A+" or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least "A1" by Moody's and "A+" by S&P; and (iii) domestic insurance companies rated at least "A1" by Moody's and "A+" by S&P. Required collateral levels shall be as set forth in clause (f) below;

(d) The investment agreement shall provide that if the provider's ratings fall below "Aa3" by Moody's or "AA-" by S&P, the provider shall within 10 days either: (i) repay the principal amount plus any accrued unpaid interest on the investment; or (ii) deliver Permitted Collateral as provided below in clause (f);

(e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below "A3" from Moody's or "A-" from S&P. Within 10 days, the provider shall repay the principal amount plus any accrued unpaid interest on the agreement, without penalty to the Bond Bank;

(f) The investment agreement shall provide for the delivery of collateral described in clause (i) or (ii) below ("Permitted Collateral"), which shall be maintained at the following collateralization levels at each valuation date:

(i) U.S. Government Securities at 104% of principal plus accrued interest; or

(ii) Obligations of GNMA, FHLMC or FNMA (described in clauses (2)(f), (3)(b) and (3)(c) above) at 105% of principal and accrued interest;

(g) The investment agreement shall require the Trustee or the Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:

(i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;

(ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or

(iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued;

(h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent;

(i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under clause (f) above, the Trustee shall receive an opinion of counsel as to the perfection of the security interest in the collateral;

(j) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:

- (i) In the event of a deficiency in the General Account of the General Fund;
- (ii) Upon acceleration after an Event of Default; or
- (iii) Upon refunding of the Bonds in whole or in part.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the Bond Bank's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the Bonds;

(k) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities:

- (i) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;
- (ii) Insolvency of the provider or the guarantor (if any) under the investment agreement;
- (iii) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;
- (iv) Failure by the provider to make a payment or observe any covenant under the agreement;
- (v) The guaranty (if any) is terminated, repudiated or challenged; or
- (vi) Any representation or warranty furnished to the Trustee or the Bond Bank in connection with the agreement is false or misleading; and

(l) The investment agreement must incorporate the following general criteria:

- (i) "Cure periods" for payment default shall not exceed two business days;
- (ii) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee;
- (iii) The provider shall be required to immediately notify the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings; and
- (iv) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim.

"Opinion of Bond Counsel" means a written opinion of a nationally recognized law firm experienced in matters relating to the tax exemption of interest payable on obligations of states and their instrumentalities and political subdivisions under federal law, and which is acceptable to the Bond Bank and the Trustee.

"Outstanding" when used with reference to the Bonds, means at any date as of which the amount of outstanding Bond is to be determined, the aggregate of all Bonds authorized and issued by the Bond Bank and authenticated and delivered by the Trustee under respective Indenture, including any Bonds held by the Bond Bank, except:

(a) Bonds canceled or surrendered to the Trustee for cancellation after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds deemed to have been redeemed or paid as provided under the terms of the respective Indentures; and

(c) Any Bond in lieu of or in substitution for which another Bond or Bonds shall have been issued by the Bond Bank and authenticated and delivered by the Trustee pursuant to the terms of the applicable Indenture.

"Paying Agent" means the Trustee acting as Paying Agent for the Bonds under the terms of the respective Indentures.

"Positive Cash Flow Certificate" means a certificate prepared in accordance the terms of the respective Indentures to the effect that immediately after the occurrence or non-occurrence of a specific action or omission, as appropriate, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts under the applicable Indenture and available therefor as provided in accordance with the terms of the applicable Indenture, will at least be sufficient on each Interest Payment Date to provide payment of the principal of and interest on the Outstanding Bonds due on such date and the payment of Program Expenses, if any.

"Principal Payment Date" means an Interest Payment Date which is also a maturity date of any Bond.

"Program" means the program of the Bond Bank for purchasing the Advancement Agreements from the State Board of Finance with proceeds of the Bonds pursuant to the Act.

"Program Expenses" means the expenses authorized to be incurred by the Bond Bank in connection with the implementation, operation and continuation of the Program, including reasonable fees and expenses of the Trustee, fees and expenses of Bond Bank, counsel, bond counsel, professional consultants and other service professionals in connection with the implementation, administration and continuation of the Program (including the costs of developing, implementing and administering future financings substantially identical to the Program), costs of preparing and delivering Cash Flow Certificates pursuant to the terms of the respective Indentures, and other incidental and related costs.

"Record Date" means the fifteenth calendar day of the month next preceding an Interest Payment Date.

"Redemption Account" means the separate Accounts so designated and established within the General Fund of the respective Indentures and held and disbursed by the Trustee pursuant to the terms of the applicable Indenture.

"Refunded Bonds" means, collectively, the Refunded 2001 Bonds and the Refunded 2003 Bonds.

"Refunded 2001 Bonds" means all of the outstanding 2001 Bonds, which will be currently refunded with a portion of the proceeds from the 2012 A Bonds.

"Refunded 2003 Bonds" means the 2003 Bonds maturing on and after August 1, 2014, which will be advance refunded with a portion of the proceeds from the 2012 B Bonds.

"Refunding Bonds" means Bonds issued pursuant to the terms of the respective Indentures and a Supplemental Indenture thereto.

"Revenues" means the income, revenues and profit of the Funds and Accounts referred to in the granting clauses of the respective Indentures including, without limitation, all Advancement Payments.

"School Corporations" means, collectively, the 2001 School Corporations and the 2003 School Corporations.

"Standard & Poor's" means Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, a corporation organized and existing under the laws of the State of New York, and its successors and assigns, and in the event that such corporation no longer performs the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Bond Bank with notice to the Trustee.

"State" means the State of Indiana.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the respective Indentures as originally executed which is duly executed in accordance with the provisions of the respective Indentures.

"2001 Advancement Administration and Acquisition Agreement" means the Advancement Acquisition and Administration Agreement, dated August 23, 2001, by and among the Bond Bank, State Board of Finance, the State Board of Education and the Treasurer of the State evidencing the agreement of the Bond Bank to purchase, and the State Board of Finance to sell, the 2001 Advancement Agreements and the administration thereof.

"2001 Advancement Agreements" means the various instruments by and between each respective School Corporation (listed in Appendix A-1 to this Official Statement) and the Board of Education evidencing all or a part of the advancements and loans to the 2001 School Corporations for capital projects and equipment.

"2001 Advancement Payments" means the payment from the Treasurer of the State of Indiana to the 2012 A Trustee representing that amount of principal and interest due under each respective 2001 Advancement Agreement as provided for in the 2001 Advancement Administration and Acquisition Agreement.

"2001 Bonds" means the Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds of 2001, dated August 1, 2001, issued in the original aggregate principal amount of \$55,460,000 and outstanding in the aggregate principal amount of \$5,875,000.

"2001 School Corporations" means those school districts located within Indiana and listed in Appendix A-1 hereto which have previously received an advancement from the State Common School Fund.

"2003 Advancement Administration and Acquisition Agreement" means the Advancement Acquisition and Administration Agreement, dated July 1, 2003, by and among the Bond Bank, State Board of Finance, the State Board of Education and the Treasurer of the State evidencing the agreement of the Bond Bank to purchase, and the State Board of Finance to sell, the 2003 Advancement Agreements and the administration thereof.

"2003 Advancement Agreement" means the various instruments by and between each respective School Corporation (listed in Appendix A-2 to this Official Statement) and the Board of Education evidencing all or a part of the advancements and loans to the 2003 School Corporations for capital projects and equipment.

"2003 Advancement Payment" means the payment from the Treasurer of the State of Indiana to the 2012 B Trustee representing that amount of principal and interest due under each respective 2003 Advancement Agreement as provided for in the 2003 Advancement Administration and Acquisition Agreement.

"2003 Bonds" means the Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds, Series 2003 B, dated July 1, 2003, issued pursuant to the 2012 B Indenture in the original aggregate principal amount of \$107,895,000 and outstanding in the aggregate principal amount of \$72,650,000. The 2003 Bonds

maturing prior to August 1, 2014 will remain outstanding under the 2012 B Indenture following the issuance of the 2012 B Bonds.

"2003 School Corporations" means those school districts located within Indiana and listed in Appendix A-2 hereto which have previously received an advancement from the State Common School Fund.

"2012 A Bond" or "2012 A Bonds" means the Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2012 A (Taxable), and any refunding bonds issued under the Act and the 2012 A Indenture.

"2012 A Indenture" means the Trust Indenture, dated as of March 1, 2012, between the Bond Bank and the 2012 A Trustee, authorizing and securing the 2012 A Bonds.

"2012 A Trust Estate" means the trust estate defined, described and established under the granting clauses of the 2012 A Indenture, including but not limited to (i) the 2001 Advancement Agreements, including the interest in and to the 2001 Advancement Payments, and (ii) the 2001 Advancement Acquisition and Administration Agreement.

"2012 A Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association, and any successor trustee thereto, which serves as trustee under the 2012 A Indenture.

"2012 B Bond" or "2012 B Bonds" means the Indiana Bond Bank Common School Fund Advancement Purchase Refunding Bonds, Series 2012 B (Taxable), and any refunding bonds issued under the Act and the 2012 B Indenture.

"2012 B Indenture" means the Indenture of Trust, dated as of July 1, 2003, as supplemented and amended by the First Supplemental Trust Indenture, dated as of March 1, 2012, each of which is between the Bond Bank and the 2012 B Trustee, authorizing and securing the 2012 B Bonds and the outstanding 2003 Bonds.

"2012 B Trust Estate" means the trust estate defined, described and established under the granting clauses of the 2012 B Indenture, including but not limited to (i) the 2003 Advancement Agreements, including the interest in and to the 2003 Advancement Payments, and (ii) the 2003 Advancement Acquisition and Administration Agreement.

"2012 B Trustee" means The Bank of New York Mellon Trust Company, N.A. (ultimate successor to Fifth Third Bank, Indiana), a national banking association, and any successor trustee thereto, which serves as trustee under the 2012 B Indenture.

"Trustee" means, collectively, the 2012 A Trustee and the 2012 B Trustee.

"Underwriters" means Raymond James & Associates, Inc., as representative of itself and Morgan Keegan & Co., as the initial underwriters for the Bonds.

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## APPENDIX E

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES

The following is a combined summary of certain provisions of the Indentures not otherwise discussed in this Official Statement. Unless otherwise noted, the 2012 A Indenture and the 2012 B Indenture contain similar provisions in all material respects. This summary is qualified in its entirety by reference to the Indentures.

#### Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Program and the Funds and Accounts established by the Indentures. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month following the end of a six-month period, commencing with the period ending December 31, 2012, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding six-month period.

#### Covenants Concerning the Program

In order to provide for the payment of the principal of and interest on the Bonds and any Program Expenses of the Bond Bank permitted to be paid under the Indentures, the Bond Bank will from time to time, promptly and in a sound and economical manner consistent in all respects with the Act, the Indentures and sound banking practices and principles (i) do all acts and things as necessary to receive and collect Revenues (including enforcement of the prompt collection of all arrears on all Advancement Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Advancement Agreements and to enforce all terms, covenants and conditions of the Advancement Agreements. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Agreement under which any School Corporation is in default. The Bond Bank is not required to take such actions noted herein if the Bond Bank provides the Trustee with a Positive Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies; provided, however, that all decisions as to the enforcement of particular remedies will be within the sole discretion of the Trustee.

#### Covenants with Respect to Agreements

With respect to the Advancement Agreements, the Bond Bank covenants as follows:

- (a) To diligently enforce and take all steps, actions and proceedings reasonably necessary in its judgment to protect its rights with respect to any Agreement and to enforce all terms, covenants and conditions of the Advancement Agreements, and to enforce, authorize or require the enforcement of all remedies available to the Board of Education under any Agreement, unless the Bond Bank provides the Trustee with a Positive Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies; provided, however, that all decisions as to the enforcement of particular remedies will be within the sole discretion of the Trustee.
- (b) Not to permit or agree to any material change in any Agreement unless the Bond Bank first provides the Trustee with a Cash Flow Certificate giving effect to such change.
- (c) Not to sell or dispose of any Agreement unless the Bond Bank first provides the Trustee with a Cash Flow Certificate giving effect to such sale or disposition.

## Budgets

The Bond Bank will adopt and file with the Trustee and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 30 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 30, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year unless and until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

## Defeasance and Discharge of Lien of Indentures

If payment or provision for payment is made to the Trustee of the whole amount of principal of and interest due and to become due on all of the Bonds then Outstanding under the respective Indenture, and if the Trustee receives all payments due and to become due under the respective Indenture, then the applicable Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to the respective Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest to its due date, either (i) has been made or has been caused to be made in accordance with its terms, or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (1) moneys sufficient to make such payment, (2) Defeasance Obligations (as defined in the Indentures), which shall not contain provisions permitting the redemption thereof at the option of the issuer of such obligations prior to the maturity thereof, and maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (3) a combination of such moneys and Investment Securities, and (b) all other sums payable under the respective Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the applicable series of Bonds, have been paid to or deposited with the Trustee.

## Events of Default and Remedies

Any of the following events constitutes an "Event of Default" under the Indentures:

- (a) A default occurs in the due and punctual payment of the principal of (whether at stated maturity or on any date fixed for redemption) or interest on any Bond;
- (b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indentures or in the Bonds, and fails to remedy such Event of Default within 30 days after receipt of notice of such default by the Trustee;
- (c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indentures, or in any instrument furnished in compliance with or in reference to the Indentures, is false or misleading when made, in any material respect, and there has been a failure to remedy such Event of Default within 30 days after receipt of notice of such Event of Default;
- (d) The Bond Bank fails to make remittances required by the Indentures to the Trustee within the time limits prescribed in the Indentures;
- (e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 30 days after such filing;

(f) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 30 days; or

(h) The Bond Bank is rendered incapable of fulfilling its obligations under the Indentures for any reason.

Upon the occurrence and continuance of an Event of Default under either of the Indentures, the Trustee will notify the Owners of all Outstanding Bonds for the applicable series of Bonds of such Event of Default by registered or certified mail and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the applicable Indenture, including any and all such actions arising under, or by reason of, the applicable Advancement Agreements;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the applicable Owners of the Bonds, and may then take any action with respect to the applicable Advancement Agreements as the Trustee deems necessary or appropriate and in the best interest of the Owners of Bonds, subject to the terms of the applicable Advancement Agreements;

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the applicable Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the applicable Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds then Outstanding under the applicable Indenture to be due and payable immediately.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds then Outstanding under the applicable Indenture, and if indemnified as provided in the Indentures, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the applicable Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Owners of the Bonds.

The Owners of a majority in aggregate principal amount of the Bonds then Outstanding under the Indentures will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indentures, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indentures.

#### Waivers of Events of Default

At its discretion, the Trustee may waive any Event of Default and its consequences and may rescind any declaration of maturity of all the Bonds, and must do so upon the written request of the Owners of (a) two-thirds in aggregate principal amount of all Bonds then Outstanding in the case of default in the payment of principal of or

interest on the Bonds or (b) more than one-half in aggregate principal amount of all Bonds then Outstanding in the case of any other Event of Default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indentures at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indentures unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the Owners of Bonds will be restored to their former respective positions and right under the Indentures. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

#### Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indentures or for the execution of any trust thereof or for any other remedy under the Indentures, unless (a) an Event of Default has occurred and the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the powers granted in the Indentures or to institute such action, suit or proceeding in its own name, (b) such Owners of Bonds have offered to indemnify the Trustee, as provided in the Indentures, and (c) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indentures or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indentures and for the equal benefit of the Owners of all Outstanding Bonds. However, nothing contained in the Indentures will affect or impair the right of any Owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective Owners of the Bonds at the time and place, from the source and in the manner expressed in the Indentures and the Bonds.

#### Supplemental Indentures

The Bond Bank and the Trustee, without the consent of or notice to any of the Bondholders, may enter into an indenture or indentures supplemental to the respective Indentures for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indentures;
- (b) To grant to or confer upon the Trustee for the benefit of the Owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Owners of Bonds or the Trustee or either of them, or to make any change which, in the judgment of the Trustee exercised in accordance with the standards under the Indentures does not materially and adversely affect the interests of the Bondholders;
- (c) To subject to the lien and pledge of the respective Indentures additional Revenues, properties or collateral;
- (d) To modify, amend or supplement the Indentures or any Supplemental Indenture in order to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under any federal or state securities laws, and, if the Bond Bank and the Trustee so determine, to add to the Indentures or to any Supplemental Indenture such other terms, conditions and provisions as may be permitted or required by the Trust Indenture Act of 1939, as amended, or any other federal or state statute; provided that any Supplemental Indenture shall not, in the judgment of the Trustee, be to the prejudice of any of the Owners of the Bonds;

(e) To provide for the issuance of bearer bonds in exchange for the fully registered Bonds originally authorized to be issued under the Indentures and to provide all necessary and appropriate supplements to the Indentures in connection therewith;

(f) To evidence the appointment of a co-trustee, successor Trustee, successor Bond Registrar, or successor Paying Agent; and

(g) To effect or facilitate the issuance of Refunding Bonds in accordance with the Indentures; and

With the exception of Supplemental Indentures for the purposes set forth in the preceding paragraph and subject to the terms of the Indentures, the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any Supplemental Indenture or Indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indentures or in any Supplemental Indenture. However, no Supplemental Indenture may permit or be construed as permitting, without the consent of the Owners of all Bonds then Outstanding under the Indentures, (a) an extension of the stated date for maturity or redemption or a reduction in the principal amount of or redemption premium on, or reduction in the rate or extension of the time of payment of the interest on, any Bonds, or (b) the creation of any lien on the Trust Estate or any part thereof pledged under the Indentures prior to or on a parity with the lien of the Indentures other than a lien ratably securing all of the Bonds Outstanding under the Indentures, or (c) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (d) the creation of a privilege, priority or preference of any Bond or Bonds over any other Bond or Bonds, or (e) any amendment or modification of the trusts, powers, obligations, remedies, rights, duties or immunities of the Trustee without the written consent of the Trustee.

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**APPENDIX F**  
**SUMMARY OF CERTAIN PROVISIONS**  
**OF THE ADMINISTRATION AGREEMENTS**

The following is a combined summary of certain provisions of the Administration Agreements. Unless otherwise noted, the 2001 Administration Agreement and the 2003 Administration Agreement contain similar provisions in all respects. This summary is qualified in its entirety by reference to the Administration Agreements.

Parties

The principal parties to the Administration Agreements are the Bond Bank, as purchaser of the Advancement Agreements, and the Board of Finance as seller of the Advancement Agreements. The Board of Education and the Treasurer of the State are also parties to the Administration Agreements for the purpose of making the representations and covenants more particularly described below.

Purpose

The Administration Agreements provide for the sale of the Advancement Agreements as more particularly described therein and in Appendix A-1 and Appendix A-2 to this Official Statement by the Board of Finance to the Bond Bank, and the administration thereof pursuant to the Administration Agreements. In addition, the Board of Education and the Treasurer of the State each covenant to take certain actions more particularly described below relating to the Administration Agreements.

Representations

The parties to the Administration Agreements make to and for the benefit of each other various representations relating principally to the authority to enter into the Administration Agreements and to undertake the covenants made therein by each of the parties thereto.

Covenants

The Treasurer of the State and the Board of Education agree and covenant with the Bond Bank that they and each of them, as appropriate, will:

- (a) Provide to the Bond Bank all information, financial and otherwise, reasonably requested by the Bond Bank and in their possession relating to each Advancement Agreement, to each School Corporation that is a party to each Advancement Agreement, to the common school fund generally and to any other matter material to the applicable series of Bonds;
- (b) Fully support and cooperate in obtaining all legislative and administrative actions to maintain in force the prohibition against the prepayment of amounts due from borrowing School Corporations under the Advancement Agreements to the maximum extent allowable by law;
- (c) As specifically requested by the Bond Bank from time to time, take all actions in the best interest of the Bond Bank relating to and exercise for the benefit of the Bond Bank to the maximum extent permissible under the Indiana Code, all rights (including without limitation the rights set forth in Indiana Code 20-49-4-15) and options available under the Indiana Code relating in any way to: (i) the withholding by any of them of funds of the State due any School Corporation that is a party to an Advancement Agreement; (ii) the collection of amounts due from such School Corporation by reason of being a party to an Advancement Agreement; and (iii) the remittance and payment of such amounts to the Bond Bank by reason of its purchase and ownership of the Advancement Agreements, which remittance and payment is to be made not later than the first day of each January and July;
- (d) Treat and regard at all times the Bond Bank in its capacity as owner of the Advancement Agreements as having a claim to fiends of the State that is prior and superior to any claim of any party to

such funds under any agreement similar to an Advancement Agreement. In particular, the position, status and rights of the Bond Bank are prior and superior to those of the parties and signatories to the Administration Agreements or to any claim or rights of any other division, department, agency or instrumentality of the State;

(e) Use at all times the proceeds of the issuance and sale of the applicable series of Bonds used to acquire the applicable Advancement Agreements to make additional advancements to School Corporations for the purpose of assisting such School Corporations with their construction projects, their acquisition of technology equipment, or otherwise as permitted and allowed by the Constitution and statutes of the State, and require, as a condition to receiving any portion of such advancement, that the School Corporations comply with all of the provisions of Indiana Code 5-1-14-10, as if such advancement were deemed to be "obligations" thereunder. Such proceeds will, at all times consistent with sound management practices and fiscal prudence and to the extent legally permissible, be expended as expeditiously as is possible and, in any event, prior to the expenditure of any other funds of the State available for such purpose. All such proceeds will, pending their expenditure, be held separate and segregated from other funds of the State and will be subject during such period to investment as allowable by law. The Treasurer of the State will maintain detailed records in accordance with the usual and customary practice of the Treasurer of the State as to such funds, and, in particular, such records will include the disbursements and expenditures of such funds and the investment income allocable to such funds. The Treasurer of the State will make such records available to the Bond Bank;

(f) Take all actions and not omit to take any action within their control and requested by the Bond Bank that is necessary or appropriate to confirm and maintain the tax exempt status of the Bonds; and

(g) Do all things and take all actions reasonably requested by the Bond Bank for the purpose of confirming, securing and documenting the rights of the Bond Bank under the Administration Agreements and the rights, status and position of the holders of the Bonds as beneficiaries and assignees of the rights of the Bond Bank thereunder.

#### Term

The rights and obligations of the parties under and by reason of the Administration Agreements extend until such time as all of the Advancement Agreements have been paid in full.

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