

# **STATE OF INDIANA**

## **Drinking Water State Revolving Fund Loan Program**



**Annual Report  
State Fiscal Year 2011  
July 1, 2011**

**STATE OF INDIANA**  
**DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**  
**STATE FISCAL YEAR 2011 ANNUAL REPORT**

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Exhibits:

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| Exhibit A:   | Goals and Objectives of the DWSRF Loan Program SFY 2011 Intended Use Plan           |
| Exhibit B:   | Green Project Reserve by Capitalization Grant Year                                  |
| Exhibit C:   | Additional Subsidization by Capitalization Grant Year                               |
| Exhibit D:   | SFY 2011 DWSRF Loan Program Project Descriptions                                    |
| Exhibit E:   | Cumulative History of the Federal DWSRF Capitalization Grants                       |
| Exhibit F:   | Cumulative History of the State Match   |
| Exhibit F-1: | Schedule 1 to Exhibit F   |
| Exhibit G:   | Summary of DWSRF Loan Program Loans Closed in SFY 2011                              |
| Exhibit H:   | Expeditious and Timely Use of Funds   |
| Exhibit H-1: | Schedule 1 to Exhibit H, Timely Use of Funds  |
| Exhibit H-2: | Schedule 2 to Exhibit H, SRF Investment Agreements                                  |
| Exhibit I:   | SFY 2011 DWSRF Loan Program Quarterly Interest Rates                                |
| Exhibit J:   | Summary of DWSRF Transfers  |
| Exhibit K:   | Combined Financial Statements   |
| Exhibit L:   | Schedule of Expenditures of Federal Awards and OMB Circular A-133 Auditors' Reports |
| Exhibit M:   | DWSRF Projects Closed in SFY 2011 Map   |
| Exhibit N:   | DWSRF Projects Closed Since 1999 Map  |
| Exhibit O:   | Summary of Set-Aside Funds in SFY 2011  |

STATE OF INDIANA  
DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM  
STATE FISCAL YEAR 2011 ANNUAL REPORT

I. INTRODUCTION

Pursuant to 40 CFR 35.3570, the State of Indiana (State), acting through its Indiana Finance Authority (Authority), submits an Annual Report for the Drinking Water State Revolving Fund Loan Program (DWSRF Loan Program) to the Regional Administrator of the U.S. Environmental Protection Agency (EPA), Region V.

This Annual Report is for State Fiscal Year (SFY) 2011 (July 1, 2010 - June 30, 2011). It is prepared in accordance with Section 1452 of the Safe Drinking Water Act (SDWA), as amended, 42 U.S.C. 300j-12, and with 40 CFR 35.3570.

II. SRF LOAN PROGRAM MANAGEMENT - 40 CFR 35.3570 (a)(3)(i)

Indiana Code 13-18-21 and 4-4-11 govern the establishment and administration of the DWSRF Loan Program by the Authority.

III. GOALS AND OBJECTIVES OF THE SFY 2011 INTENDED USE PLAN – 40 CFR 35.3570 (a)(1)

The purpose of the DWSRF Loan Program is to provide low-cost financial assistance to Indiana utilities to enable the construction of necessary and environmentally sound drinking water infrastructure; facilitate statewide compliance with state and federal drinking water standards; maintain a fiscally self-sufficient program as a continuing source of funding for improvement and protection of public health; and, conduct any other activity permitted by the SDWA.

To accomplish these intentions, the Authority set short-term and long-term goals and objectives as part of the SFY 2011 Intended Use Plan (IUP). A description of how the DWSRF Loan Program has achieved these goals or is working toward them is in Exhibit A.

EPA's Federal Fiscal Year (FFY) 2011 Capitalization Grant required the Authority to allocate 20% of its funds to green projects. In SFY 2011, green projects accounted for 80%, or \$12,611,151, of the 2011 Capitalization Grant. The Authority accomplished this requirement via its Green Project Reserve (GPR) Sustainability Incentive Program, which is offered by the SRF Loan Programs to participants that incorporate green project components into their projects. Exhibit B, Green Project Reserve by Capitalization Grant Year, lists participants that incorporated GPR projects.

Another goal of the Authority was to disburse at least 30% of the 2011 Capitalization Grant in the form of additional subsidization. Additional subsidization could be in the form of principal forgiveness, negative interest rate loans, or grants. As of September 30, 2011, the DWSRF Loan Program has provided \$9,325,000 of Additional Subsidy in the form of principal forgiveness to 8 loan recipients. Of this amount, \$7,000,000 went towards meeting the requirement to allocate at least 30% of the FFY 2010 Capitalization Grant. The remainder, \$2,325,000 went towards meeting the requirement to allocate at least 30% of the FFY 2011 Capitalization Grant. Exhibit C, Additional Subsidization by Capitalization Grant Year, lists participants that received Additional Subsidy in the form of principal forgiveness. Although Exhibit C is not yet satisfied, the Authority has until FFY 2015 for FFY 2011. Exhibit C will be updated in subsequent Annual Reports until the requirement has been met. Priority for additional subsidization was given to communities that could not otherwise afford such projects.

IV. ENVIRONMENTAL REVIEW– 40 CFR 35.3570 (a)(3)(xii-xiii)

All DWSRF Loan Program-funded projects and activities were in compliance with Federal Cross-Cutting Authorities and State Environmental Review Procedures (SERP). A description of each project funded in SFY 2011 is attached in Exhibit D.

V. STATE MATCH – 40 CFR 35.3570 (a)(3)(ii)

The Authority has fully met its State Match requirements through the end of SFY 2011 by means of depositing the net proceeds from revenue bonds issued by the Authority into the Drinking Water State Revolving Loan Fund (DWSRF). The State deposited \$4.437 million of State Match in the DWSRF Loan Program in SFY 2011. To date, the DWSRF Loan Program State Match has aggregated in excess of 20% of the awarded \$185.4 million Capitalization Grants through June 30, 2011. See Exhibit E for a history of the Capitalization Grants awarded to the DWSRF Loan Program. Exhibit F details State Match deposited in the DWSRF through the end of SFY 2011; the sources of such State Match; and how repayment of revenue bonds providing any such State Match has been (and will continue to be) managed in a manner consistent with federal and state law.

VI. BINDING COMMITMENTS – 40 CFR 35.3570 (a)(3)(iii)

During SFY 2011, the DWSRF Loan Program closed 13 loans totaling \$39,635,862. Since the DWSRF Loan Program's inception in 1997, over 170 loans aggregating over approximately \$467 million have been closed, which is more than two times the amount of federal Capitalization Grants that have been awarded to the DWSRF Loan Program (\$185,350,100). For a summary of all loans closed by the DWSRF Loan Program during SFY 2011, see Exhibit G.

## VII. EXPEDITIOUS AND TIMELY USE OF FUNDS – 40 CFR 35.3550 (I)

The DWSRF Loan Program is a leveraged program and has established itself as a highly rated borrower in the national bond market. The Authority has utilized its Capitalization Grants to leverage multiple series of bonds, aggregating over \$269.6 million in outstanding principal as of June 30, 2011, a portion of which has funded DWSRF Loan Program loans. A summary of the accounts and associated balances are set forth in Exhibit H: Expeditious and Timely Use of Funds, attached hereto. Future bond issuances are expected to be used to fund new commitments related to new loans in future years. The balance of the bond proceeds not available for loans are used for reserve funds, administrative expenses, and costs of issuance.

### A. Interest Rates

The Authority recognizes the continued need to balance the level of subsidy with the inherent limited capacity of the DWSRF Loan Program to meet demand for loans and participant affordability constraints. This balancing is reflected in the Authority's present interest rate policy.

Interest rates applied to new loans are reset on the first business day of each January, April, July and October using a Base DWSRF Program Interest Rate (Base Rate). The Base Rate is calculated by using 90% of the average 20-year, AAA-rated general obligation bond Municipal Market Data (MMD) composite index for the most recent calendar month. The Base Rate is then discounted further based upon a participant's Median Household Income (MHI) from the 2000 Census data and projected user rates. User rate information is reviewed by the DWSRF Loan Program staff to finalize a DWSRF Loan Program interest rate.

The DWSRF Loan Program interest rates ranged from 2.00% to 3.87%, during SFY 2011. A summary of interest rates for each quarter of SFY 2011 is set forth in Exhibit I.

The subsidized DWSRF Loan Program interest rate has provided savings of \$22,128,363 to participants closing a DWSRF Loan Program loan during SFY 2011. See "SRF Savings" column Exhibit G for savings provided to each participant.

### B. Terms

Consistent with applicable law, all DWSRF Loan Program loans closed in SFY 2011 were structured with annual principal repayments that commenced no later than one year after expected completion of the proposed project and a final principal payment no later than 20 years after expected completion of the proposed project.

C. Other Assistance Provided

As of September 30, 2011, the DWSRF Loan Program has provided \$9,325,000 of Additional Subsidy in the form of principal forgiveness to 8 loan recipients. Exhibit C, Additional Subsidization by Capitalization Grant Year, lists participants that received principal forgiveness. Priority for additional subsidization was given to communities that could not otherwise afford such projects.

The majority of funds required to be given as Additional Subsidization were provided to those communities that have a lower median household income and/or high post-project user rates. This allowed the DWSRF Loan Program to assist, as much as possible, communities that could not otherwise afford an SRF loan to receive the Additional Subsidization. The DWSRF Loan Program has not set a cap on the amount of principal forgiveness that a community may receive.

During SFY 2011, the DWSRF Loan Program did not provide any DWSRF Pooled Loans, a program that offers eligible participants the “AAA” interest rate that is available to the DWSRF Loan Program at the time of their loan closing.

During SFY 2011, the DWSRF Loan Program did not provide any refinancing assistance.

D. Administrative Fees – 40 CFR 35.3570 (a)(3)(ix)

The cost of financing loans includes the fees and expenses of the SRF Trustee Bank. The Authority may require participants to offset some of these costs through a Loan Closing Fee, which is \$1,000 per participant. The DWSRF Loan Program may also assess a Non-Use Fee against participant for funds not used for project costs two years following a loan closing. In SFY 2011, the DWSRF Loan Program collected \$7,000 in Loan Closing Fees. The DWSRF Loan Program has not collected Non-Use Fees from a participant, to date.

E. Transfers– 40 CFR 35.3570 (a)(3)(x)

The State permits transfers between the DWSRF Loan Program and the CWSRF Loan Program of Capitalization Grants and other funds held in or allocable to such funds to the extent permitted by the Clean Water Act (CWA) and the SDWA. There were no transfers in SFY 2011. For a historic summary of transfers, see Exhibit J.

F. Cross Collateralization – 40 CFR 35.3570 (a)(3)(xi)

To the extent permitted by the CWA and the SDWA, the State has cross-collateralized the CWSRF and the DWSRF Loan Programs to optimize capitalization requirements and to better manage the specific funding needs of projects.

Cross-collateralization maximizes the security for bonds issued by the State to capitalize the SRF Loan Programs. The State expects that any such transfers would occur at any time necessary to prevent a default on any such bonds and would be made between accounts established for like purposes and subject to like restrictions. Historically, no cross-collateralizations have been made.

The State expects to retain the flexibility to reimburse, on a cumulative net basis, any cross-collateralization transfers. Because cross-collateralization is a contingent security concept and transfers are not expected or planned to occur, the State does not expect cross-collateralization to affect negatively the funding capacity of the SRF Loan Programs. However, if such transfers occur and are not reimbursed, it may affect the Authority's ability to make additional loans it otherwise might have been able to make.

#### G. DWSRF Loan Program Financial Statements

The DWSRF Loan Program is audited annually by an independent certified public accounting firm. For SFY 2011, which ended June 30, 2011, the DWSRF Loan Program received an unqualified opinion from an independent auditor, as described in Exhibit K.

The DWSRF Loan Program is audited annually for compliance with the requirements set forth in the U.S. Office of Management and Budget (OMB) Circular A-133. For SFY 2011, which ended June 30, 2011, the DWSRF Loan Program was determined to be "in compliance," as noted in the Schedule of Expenditures of Federal Awards and OMB Circular A-133 Auditors' Reports. The A-133 Report is provided as Exhibit L.

#### H. Federal Requirements

The Authority has fulfilled all applicable federal requirements required by the SDWA including:

- assurances and certifications provided in the IUP have been met;
- closed loans equal more than the required 120% of each quarterly Capitalization Grant payment and were made within one year of receipt of all payments;
- all funds have been used in a timely and expeditious manner; and
- environmental reviews have been done in accordance with federal and state law. All loans made during the SFY 2011 had related projects listed on the Authority's Drinking Water Project Priority List (PPL).

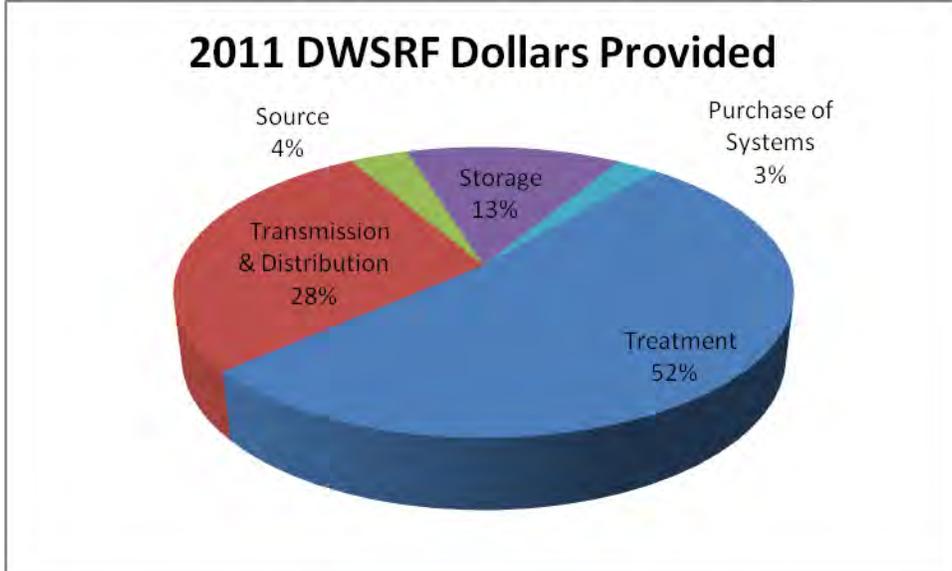
#### I. Compliance with 40 CFR Part 31 – 40 CFR 35.3570 (a)(3)(xiv)

The DWSRF Loan Program complied with all requirements of 40 CFR Part 31.

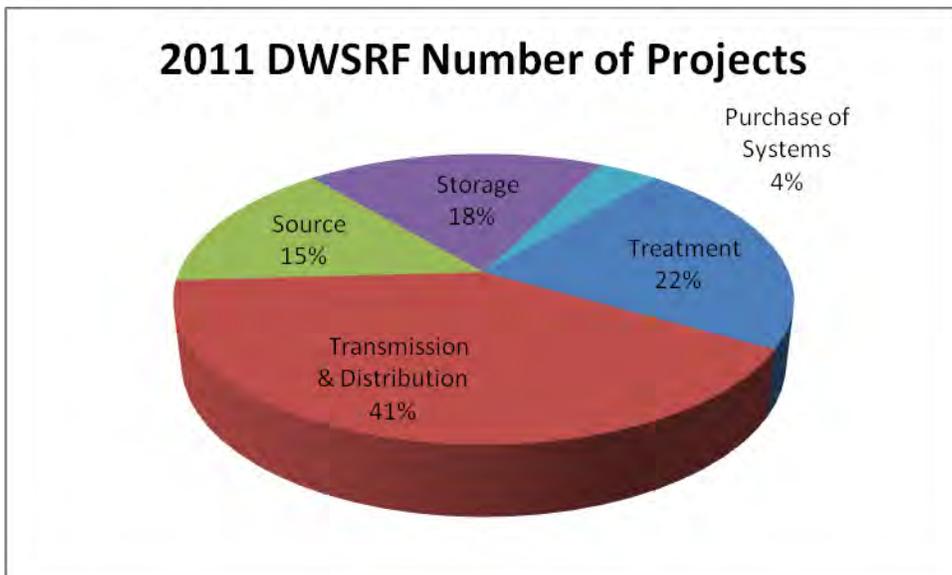
VIII. PROJECTS FUNDED – 40 CFR 35.3570 (a)(3)(iv)

The scoring and ranking system of the DWSRF Loan Program focuses on those projects with the greatest public health need. A map showing the location of projects funded in SFY 2011 is attached as Exhibit M. A map showing the location of all projects funded since the inception of the DWSRF Loan Program is attached as Exhibit N.

Treatment projects accounted for over 50% of the total DWSRF dollars provided in SFY 2011, as shown in the *2011 DWSRF Dollars Provided* pie chart below.



Transmission and distribution projects accounted for about 40% of the types of projects funded, as shown in the *2011 DWSRF Number of Projects* pie chart below.



IX. ELIGIBILITY – 40 CFR 35.3570 (a)(3)(v)

All projects were reviewed for eligibility. It is the goal of the DWSRF Loan Program to ensure that each project:

- A. allows the participant to achieve or maintain compliance with the SDWA;
- B. allows the participant to provide drinking water of adequate quality and quantity to residents;
- C. allows the participant to achieve or maintain technical, financial, and managerial capacity;
- D. does not cause environmental concerns for the Department of Environmental Management (Department) or other environmental review authorities. Prior to funding, each project was reviewed in accordance with the EPA-approved SERP.

In SFY 2011, 100% of DWSRF dollars funded projects that assisted compliant systems maintain compliance with the SDWA.

X. SET-ASIDES – 40 CFR 35.3570 (a)(3)(vi)

The Authority is responsible for managing the Set-Aside funds. See Exhibit O for a summary of Set-Aside activities.

XI. ASSISTANCE TO SMALL SYSTEMS – 40 CFR 35.3570 (a)(3)(vii)

The Authority must provide at least 15% of the DWSRF to small systems, defined in Indiana as a public water system that regularly serves 10,000 or fewer persons. In SFY 2011, 27% of DWSRF dollars funded systems serving fewer than 10,000 persons. Cumulatively, the DWSRF Loan Program has provided 43% of its funds to small systems.



## XII. DISADVANTAGED COMMUNITIES – 40 CFR 35.3570 (a)(3)(viii)

The Authority defines a disadvantaged participant as one with both 1) MHI below \$33,669, as established by the 2000 US Census, and 2) an estimated post project user rate greater than \$45.00 per month. These communities are eligible to receive the lowest interest rate the Authority provides to DWSRF Loan Program participants. See Section VII.A of this Annual Report for a description of the DWSRF Loan Program's interest rate structure.

During SFY 2011, the Authority provided approximately \$27 million to 10 disadvantaged communities. The total disadvantaged population served was 945,846 persons.

Exhibit A  
Goals and Objectives of the DWSRF Loan Program SFY 2011 Intended Use Plan

The DWSRF Loan Program sets short- and long-term goals as required by 40 CFR 35.3555(c)(5). Short-term goals and objectives are those the State expects to achieve during SFY 2011, while long-term goals and objectives are those the State expects to achieve over a longer period.

**A. Short-Term Goals and Objectives**

ST1 Goal: Seek the immediate award of the Federal Fiscal Year (FFY) 2011 Capitalization Grant. Upon award, continue to disburse loan proceeds such that the 2011 Capitalization Grant can promptly be utilized. Ensure that at least 30% of the 2011 Capitalization Grant is used to provide Additional Subsidization in the form of principal forgiveness, negative interest loans or grants. Ensure that 20% of the 2011 Capitalization Grant is allocated to fund green projects. Work diligently to identify and fund projects that address or have components of green infrastructure, water or energy efficiency improvements or include other environmentally innovative activities. Ensure that Davis Bacon Act wage rules apply to all assistance agreements made with funds appropriated under the 2011 Capitalization Grant.

**Result: The FFY 2011 Capitalization Grant was awarded to the Authority on September 13, 2011. The DWSRF Loan Program disbursed sufficient loan proceeds so that the 2011 Capitalization Grant can be fully drawn.**

**In SFY 2011, the Authority provided 15%, or \$2,325,000, of the 2011 Capitalization Grant in the form of principal forgiveness. The Authority has four years to fulfill this requirement. See Exhibit C, Additional Subsidization by Capitalization Grant Year.**

**In SFY 2011, green projects accounted for 80%, or \$12,611,151, of the 2011 Capitalization Grant. See Exhibit B, Green Project Reserve by Capitalization Grant Year.**

**The DWSRF Loan Program continues to ensure that Davis Bacon Act wage rules apply to all assistance agreements made with allocated under the 2011 Capitalization Grant.**

ST2 Goal: Utilize the EPA Drinking Water Project Benefits Reporting System to evaluate the benefits of the Indiana DWSRF Loan Program.

**Result: The EPA Drinking Water Project Benefits Reporting System reports that in SFY 2011, 100% of DWSRF funds went towards projects that assisted compliant systems to maintain compliance with the Safe Drinking Water Act.**

ST3 Goal: Work diligently with Participants who received ARRA funds to effectively manage their Projects so as to meet all of the requirements of the ARRA, including the following:

ST3a Goal: Ensure that none of the funds appropriated are used for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project is produced in the United States unless a waiver is given by EPA. This requirement shall be applied in a manner consistent with the U.S. obligations under international agreements.

**Result: The Authority required all Participants receiving ARRA funds to certify that the project complies with the ARRA Buy American requirement.**

ST3b Goal: The DWSRF Loan Program shall report no less than weekly on the use of the funds provided under the ARRA. The Drinking Water Project Tracking System will be used to gather information regarding key project characteristics and milestones. Project data shall be entered into the reporting system as soon as loan agreements are signed with recipients. The DWSRF Loan Program shall meet all reporting requirements established under the ARRA.

**Result: The Authority began weekly reporting on May 22, 2009 and will continue as required.**

ST3c Goal: Ensure that Davis-Bacon Act wage rules apply to all assistance agreements.

**Result: The Authority has required all Participants receiving ARRA funds to certify that the project complies with the ARRA Davis-Bacon requirement.**

ST3d Goal: Section 1452(k) of the SDWA shall not apply to funds received under the ARRA.

**Result: The Authority took no ARRA Set-Asides under section 1452(k) of the SDWA.**

ST4 Goal: Conduct at least 30 technical inspections during the construction phase and the post-construction phase to document the construction progress, as well as the appropriate use of SRF funds.

**Result: SRF Loan Program staff completed 51 drinking water inspections in SFY 2011.**

ST5 Goal: Conduct financial audits to assess Participants financial strength and their ability to repay loans, and work with Participants as needed.

**Result: SRF Loan Program staff conducted financial audits for 13 drinking water borrowers in SFY 2011. The audits consisted of a combination of reviewing the borrowers' financial due diligence in house, meeting face to face with borrowers, telephone conversations, and on-site visits.**

ST6 Goal: Work diligently with Participants and effectively manage Projects to assist Participants in closing loans and constructing projects in a timely, efficient manner.

**Result: The following statistics demonstrate the excellent customer service provided by the DWSRF Loan Program. In SFY 2011, on average:**

- 1. A completeness review was performed within 4 days of receipt of Preliminary Engineering Report (PER);**
- 2. A technical review was performed within 17 days;**
- 3. An environmental review document was issued within 21 days;**
- 4. A loan was closed with 60 of PER being approved;**
- 5. A loan was closed with 187 days of a PER being submitted.**

## **B. Long-Term Goals and Objectives**

LT1 Goal: Provide financial assistance to current and future Participants, by providing low-cost financing commensurate with prudent fiscal and credit standards.

**Result: 13 loans were closed with interest rates ranging from 0.00%-3.62%. See Exhibit I, Summary of Closed Loans for SFY 2011.**

LT2 Goal: Maintain the long-term financial integrity of the DWSRF by judiciously managing its assets in order to realize a rate of return that will sustain the DWSRF in perpetuity.

**Result: The SRF Loan Program continues to manage the investment and programmatic use of its funds to maintain its financial integrity. See Exhibit H, Expeditious and Timely Use of Funds.**

LT3 Goal: Monitor all outstanding loans and the financial capability of Participants through the use of an in-house monitoring system and, in conjunction with the Bank of New York, ensure the DWSRF Loan Program continues to avoid loan defaults. In particular, review the financial statements for Participants receiving a State Board of Accounts audit in the current calendar year. Require new Participants to utilize paying agent agreements and offer all prior Participants the opportunity to enter into a paying agent agreement. Conduct financial on-site visits as warranted.

**Result: The SRF Loan Program monitors all participants. The SRF Loan Program continuously accesses the State Board of Accounts website for Participants' financial statements as they become available. For those participants with a Paying Agent Agreement, the SRF Loan Program monitors both the debt service reserve account and the bond and interest account. For participants without a Paying Agent Agreement, the SRF Loan Program monitors debt service reserve balances by requesting the balance and a copy of the Participant's bank statement.**

LT4 Goal: Leverage EPA Capitalization Grants to generate loans that exceed two-times the awarded grant amounts.

**Result: The SRF Loan Program continues to access the public debt market to leverage EPA Capitalization Grants. This leveraging structure allows the SRF Loan Program to close loans in an aggregate amount of over two-times the awarded grant amounts.**

LT5 Goal: Monitor Participants' draws of funds to assure loans are being drawn within two years. Assure that un-drawn funds are returned to the DWSRF loan pool and made available to other Participants.

**Result: The SRF Loan Program continues to monitor all Participants' use of funds. As loans are closed out and reamortized, any unused loan funds are made available to other Participants on the Project Priority List.**

LT6 Goal: Submit required reports to EPA in a well-prepared and timely manner, and ensure that EPA funds are accessed within one week of being made available to the State.

**Result: Intended Use Plans, Annual Reports, and National Infrastructure Management System data are well-prepared and submitted to EPA in a timely manner. Within one week of award, the SRF Loan Program begins to access the ASAP Treasury system to access EPA funds as soon as possible.**

LT7 Goal: Monitor DWSRF Set-Aside uses and activities and reconcile balances to EPA Set-Aside account balances quarterly. Continue to encourage the transfer of unused balances to the DWSRF, thereby increasing the DWSRF Set-Aside spending rate.

**Result: The Authority continues to quarterly reconcile Set-Aside balances and close out Capitalization Grants when appropriate.**

LT8 Goal: Provide at least 15% of the DWSRF to systems serving fewer than 10,000 persons.

**Result: In SFY 2011, 27% of DWSRF funds went to systems serving fewer than 10,000 persons.**

LT9 Goal: Periodically publish an SRF Loan Program newsletter.

**Result: A newsletter was published in the fall of 2010 and the spring of 2011.**

LT10 Goal: Work with the other state and federal drinking water infrastructure financing agencies to coordinate efficient and effective financing of drinking water projects.

**Result: The DW and CW Program Administrators continue to participate on the Indiana Rural Development Council's Environmental Infrastructure Working Group (EWIG), which brings state and federal funding agencies together for a one-stop-shop for communities seeking funding for infrastructure projects.**

LT11 Goal: Develop a comprehensive database for staff to reference all information related to each SRF project.

**Result: Authority is developing a detailed comprehensive project tracking system. This system should be online in July 2012.**

LT12 Goal: Complete a drinking water technical training course to ensure that all SRF Loan Program technical reviewers can competently review both wastewater and drinking water Proposed Projects.

**Result: The drinking water technical training course had been on hold but resumed in August 2011 on a limited basis.**

LT13 Goal: Coordinate the co-funding of an Indiana Finance Authority Brownfield Program and DWSRF Loan Program project.

**Result: Although the Indiana Brownfields Program and DWSRF Loan Program staff tracked and discussed potential co-funding opportunities, a co-funded project did not come to fruition.**

LT14 Goal: Provide incentives to Participants through the Green Project Reserve Sustainability Incentive Program. The SRF Loan Programs created the GPR Sustainability Incentive Program to encourage CW and DW SRF Loan Program participants to include green projects components in their SRF projects. The GPR Sustainability Incentive Program provides two main benefits:

- 1) Up to 0.5% interest rate discount over the entire loan and
- 2) Improved ranking on the SRF Project Priority List.

**Result: The GPR Sustainability Incentive Program helped the Authority meet the requirement that no less than 20% of the funds of each Capitalization Grant be appropriated for green project components. In SFY 2011, green projects accounted for 80%, or \$12,611,151, of the 2011 Capitalization Grant. See Exhibit B, Green Project Reserve by Capitalization Grant Year.**

LT15 Goal: Develop the Well Closure Assistance Program with the purpose of providing grant assistance to Community Water Systems for identification and proper closure of unused wells.

**Result: A Well Closure Assistance Program proposal was developed and submitted to EPA on December 1, 2008. The initial EPA review was favorable. The Authority has placed the final implementation of the program on hold due to workload.**

Indiana DWSRF Loan Program  
Exhibit B - Green Project Reserve by Capitalization Grant

**DWSRF Loan Program FFY 2010 Capitalization Grant =**  
20% Green Project Reserve Required =  
28% Green Project Reserve Provided =

**\$22,638,000**  
**\$4,527,600**  
**\$6,295,153**

| Community                              | Project Description                         | Total Project Cost | Total SRF Loan and Principal Forgiveness Amount | Green Project Description     | Category 1: Green Infrastructure | Category 2: Water Efficiency | Category 3: Energy Efficiency | Category 4: Environmentally Innovative | Total Eligible GPR Cost (sum of Categories 1-4 plus engineering) | Business Case posted to the IFA website | Closing Date |
|--|---|--------------------|---|-------------------------------|----------------------------------|------------------------------|-------------------------------|--|--|---|--------------|
| Princeton                              | water mains, water treatment plant, storage | \$ 3,935,610       | \$ 2,866,000                                    | HS Pumps, Transfer Pumps      | \$ -                             | \$ -                         | \$ 781,808                    | \$ -                                   | \$ 781,808   | 11/23/2010                              | 3/30/2010    |
| Dunkirk                                | water treatment plant, water mains          | \$ 1,517,000       | \$ 1,517,000                                    | generator                     | \$ -                             | \$ 632,835                   | \$ 199,930                    | \$ -                                   | \$ 832,765   | 3/7/2011                                | 5/19/2010    |
| Centerville                            | water treatment plant                       | \$ 800,000         | \$ 400,000                                      | HS Pumps w/VFD                | \$ -                             | \$ -                         | \$ 111,257                    | \$ -                                   | \$ 111,257   | 9/7/2010                                | 5/26/2010    |
| Chandler                               | new water treatment plant                   | \$ 6,800,779       | \$ 3,220,000                                    | wtp/SCADA/ VFD                | \$ -                             | \$ -                         | \$ 283,600                    | \$ 1,163,800                           | \$ 1,447,400   | 37/2011                                 | 5/26/2010    |
| Brazil                                 | well, storage, mains                        | \$ 8,131,470       | \$ 4,670,000                                    | SCADA, water main replacement | \$ -                             | \$ 2,229,154                 | \$ 155,848                    | \$ -                                   | \$ 2,385,002   | 9/7/2010                                | 6/21/2010    |
| Cataract Lake                          | water well, water storage                   | \$ 900,000         | \$ 900,000                                      | SCADA, new pumps              | \$ -                             | \$ -                         | \$ 129,500                    | \$ -                                   | \$ 129,500   | 10/6/2010                               | 6/30/2010    |
| Cambridge City                         | water wells, water mains                    | \$ 2,199,000       | \$ 1,652,000                                    | water main/VFD                | \$ -                             | \$ 82,280                    | \$ -                          | \$ -                                   | \$ 82,280  | 10/29/2010                              | 10/13/2010   |
| Glenwood                               | water storage, water mains                  | \$ 845,500         | \$ 356,000                                      | Replace water mains           | \$ -                             | \$ 196,668                   | \$ -                          | \$ -                                   | \$ 196,668   | 10/29/2010                              | 10/13/2010   |
| Decatur County Rural Water Corporation | water storage, water mains                  | \$ 4,121,000       | \$ 2,000,000                                    | Leak Detection Devices        | \$ -                             | \$ 11,000                    | \$ -                          | \$ -                                   | \$ 11,000  | n/a                                     | 10/29/2010   |
| Sugar Creek Utilities / Riley Village  | water mains, meters                         | \$ 483,000         | \$ 483,000                                      | meters                        | \$ -                             | \$ 317,473                   | \$ -                          | \$ -                                   | \$ 317,473   | 10/29/2010                              | 10/29/2010   |

**FFY 2010 Capitalization Grant TOTAL**

**\$6,295,153**

**DWSRF Loan Program FFY 2011 Capitalization Grant =**  
20% Green Project Reserve Required =  
80% Green Project Reserve Provided =

**\$15,709,000**  
**\$3,141,800**  
**\$12,611,151**

| Community              | Project Description  | Total Project Cost | Total SRF Loan and Principal Forgiveness Amount | Green Project Description                          | Category 1: Green Infrastructure | Category 2: Water Efficiency | Category 3: Energy Efficiency | Category 4: Environmentally Innovative | Total Eligible GPR Cost (sum of Categories 1-4 plus engineering) | Business Case posted to the IFA website | Closing Date |
|------------------------|--|--------------------|---|--|----------------------------------|------------------------------|-------------------------------|--|--|---|--------------|
| And-Tro                | storage, water mains, computer system                                | \$ 1,422,000       | \$ 1,422,000                                    | SCADA, VFD   | \$ -                             | \$ -                         | \$ 176,361                    | \$ -                                   | \$ 176,361   | 2/11/2011                               | 1/19/2011    |
| Walton                 | storage, replace lines, hydrants, valves, well houses, chemical feed | \$ 3,641,474       | \$ 3,641,474                                    | water lines, hydrants, valves                      | \$ -                             | \$ 2,794,650                 | \$ -                          | \$ -                                   | \$ 2,794,650   | 2/3/2011                                | 1/31/2011    |
| Earl Park              | Wells  | \$ 696,860         | \$ 110,000                                      | VFDs   | \$ -                             | \$ -                         | \$ 71,307                     | \$ -                                   | \$ 71,307  | 7/21/2011                               | 6/22/2011    |
| Bargersville (Phase 1) | WTP, mains   | \$ 11,000,000      | \$ 11,000,000                                   | mains, water recycling, recycled materials, motors | \$ -                             | \$ 1,580,000                 | \$ 312,000                    | \$ 3,348,000                           | \$ 5,573,000   | 9/20/2011                               | 6/27/2011    |
| Petersburg             | Well, treatment plant, mains   | \$ 1,445,000       | \$ 1,445,000                                    | water lines  | \$ -                             | \$ 646,093                   | \$ -                          | \$ -                                   | \$ 646,093   | 7/21/2011                               | 6/28/2011    |
| Huntington             | WTP, storage, mains  | \$ 10,383,000      | \$ 10,383,000                                   | VFDs, SCADA, lighting                              | \$ -                             | \$ -                         | \$ 3,211,914                  | \$ -                                   | \$ 3,211,914   | 7/21/2011                               | 6/29/2011    |
| Laporte                | WTP, storage, mains  | \$ 5,825,000       | \$ 5,825,000                                    | VFDs, energy efficiency at plant                   | \$ -                             | \$ -                         | \$ 137,826                    | \$ -                                   | \$ 137,826   | 9/9/2011                                | 6/30/2011    |

**FFY 2011 Capitalization Grant TOTAL**

**\$12,611,151**

Indiana DWSRF Loan Program  
Exhibit C - Additional Subsidization by Capitalization Grant

**DWSRF Loan Program FFY 2010 Capitalization Grant =** **\$22,638,000**  
 At Least 30% Additional Subsidization Required = \$6,791,400  
 31% Additional Subsidization Provided = \$7,000,000

| Participant   | Closing Date | SRF Loan Amount | Principal Forgiveness Amount | Total Loan and Principal Forgiveness | Estimated Open Market Interest Rate | Estimated Open Market P & I* | SRF Interest Rate | SRF P & I <sup>2</sup> |
|---|--------------|-----------------|------------------------------|--------------------------------------|-------------------------------------|------------------------------|-------------------|------------------------|
| Indianapolis Water Company (Unserved Areas project) | 9/16/2010    | \$ -            | \$ 318,388                   | \$ 318,388                           | 5.00%                               | \$ 318,388                   | 0.00%             | \$ -                   |
| Glenwood  | 10/13/2010   | \$ 269,000      | \$ 87,000                    | \$ 356,000                           | 5.00%                               | \$ 356,000                   | 2.00%             | \$ 329,023             |
| Decatur County Rural Water                          | 10/29/2010   | \$ -            | \$ 2,000,000                 | \$ 2,000,000                         | 5.00%                               | \$ 2,000,000                 | 0.00%             | \$ -                   |
| Sugar Creek   | 10/29/2010   | \$ 264,000      | \$ 219,000                   | \$ 483,000                           | 5.00%                               | \$ 483,000                   | 2.48%             | \$ 338,057             |
| And-Tro Water Authority                             | 1/19/2011    | \$ 186,000      | \$ 1,236,000                 | \$ 1,422,000                         | 5.00%                               | \$ 1,422,000                 | 3.12%             | \$ 252,825             |
| Walton  | 1/20/2011    | \$ 752,474      | \$ 2,889,000                 | \$ 3,641,474                         | 5.00%                               | \$ 3,641,474                 | 2.87%             | \$ 999,442             |
| Ingalls   | 9/15/2011    | \$ 525,000      | \$ 250,612                   | \$ 775,612                           | 5.00%                               | \$ 775,612                   | 2.97%             | \$ 703,809             |

**FFY 2010 Capitalization Grant TOTAL** **\$7,000,000**

**DWSRF Loan Program FFY 2011 Capitalization Grant =** **\$15,709,000**  
 At Least 30% Additional Subsidization Required = \$4,712,700  
 15% Additional Subsidization Provided<sup>1</sup> = \$2,325,000

| Participant | Closing Date | SRF Loan Amount | Principal Forgiveness Amount | Total Loan and Principal Forgiveness | Estimated Open Market Interest Rate | Estimated Open Market P & I* | SRF Interest Rate | SRF P & I <sup>2</sup> |
|-------------|--------------|-----------------|------------------------------|--------------------------------------|-------------------------------------|------------------------------|-------------------|------------------------|
| LaPorte     | 6/30/2011    | \$ 3,500,000    | \$ 2,325,000                 | \$ 5,825,000                         | 5.00%                               | \$ 9,348,261                 | 3.62%             | \$ 4,369,355           |

**FFY 2011 Capitalization Grant TOTAL** **\$2,325,000**

**FFY 2010 and 2011 TOTAL Additional Subsidization Provided** **\$9,325,000**

<sup>1</sup> Exhibit C is not yet satisfied and will be updated in subsequent Annual Reports until requirement has been met. The Authority has four years to meet the requirement.

<sup>2</sup> P & I = Principal and Interest

Exhibit D  
SFY 2011 DWSRF Loan Program Project Descriptions

| <b>DWSRF Participant: Indianapolis Water Company</b>  |   |
|---|---|
| SRF Project #: DW 09494901  | DWSRF Loan Amount: \$0  |
| PWS ID #: IN 5249004  | Principal Forgiveness: \$318,388  |
| Repayment Period: 4 yrs   | Total Loan and Principle Forgiveness: \$318,388                           |
| DWSRF Loan Closed: 9/16/2010  | Estimated SRF Savings: \$510,966  |
| NIMS Categories:<br>Transmission & Distribution: \$318,388  | Affected Population:<br>Before project: 869,458<br>After project: 869,570 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>   |   |
| <p><b>Project Description:</b><br/>Both the Coburn Avenue and 64<sup>th</sup> Street area and the Hickory Lane area had residents on private wells with water supply and quality issues. The neighborhoods had appealed for service multiple times, shown demonstrated problems with shallow wells and elevated iron levels, and provided letters of support from residents and the health department. In response, the City of Indianapolis installed approximately 6,777 feet of new water lines in these areas to provide reliable and safe drinking water to approximately 112 existing households.</p> |   |

| <b>DWSRF Participant: Glenwood</b>  |   |
|---|---|
| SRF Project #: DW09287001   | DWSRF Loan Amount: \$269,000                                      |
| PWS ID #: IN5270002   | Principal Forgiveness: \$87,000                                   |
| Repayment Period: 20 yrs  | Total Loan and Principle Forgiveness: \$356,000                   |
| DWSRF Loan Closed: 10/13/10   | Estimated SRF Savings: \$242,304                                  |
| NIMS Categories:<br>Transmission & Distribution: \$119,173<br>Storage: \$236,827  | Affected Population:<br>Before project: 318<br>After project: 318 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>   |   |
| <p><b>Project Description:</b><br/>The Town of Glenwood's 75,000 gallon storage tank was built in the 1930s. It was undersized and had reached the end of use life. One of the central lines in the distribution system was old and suffered from regular main breaks; it needed to be replaced.</p> <p>In response, the town installed new 100,000 gallon storage tank and replaced 2,500 linear feet of distribution main with new 8-inch pipe. These improvements enabled the utility to have adequate storage capacity and provide a reliable source of drinking water.</p> |   |

| <b>DWSRF Participant: Cambridge City</b>  |   |
|---|---|
| SRF Project #: DW 09708901  | DWSRF Loan Amount: \$1,652,000  |
| PWS ID #: IN 5289002  | Principal Forgiveness: \$0  |
| Repayment Period: 20 yrs  | Total Loan and Principle Forgiveness: \$1,652,000                     |
| DWSRF Loan Closed: 10/13/2010   | Estimated SRF Savings: \$567,663                                      |
| NIMS Categories:<br>Transmission & Distribution: \$218,827<br>Storage: \$1,433,173  | Affected Population:<br>Before project: 2,200<br>After project: 2,200 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>   |   |
| <p><b>Project Description:</b><br/>The Town of Cambridge City owns and maintains a water treatment and distribution system. The proposed project addressed several deficiencies in the system.</p> <p>Customers in the Mount Auburn area had complained about low pressure and near the intersection of State Road 1 and Delaware Street had experienced inadequate flow and water quality problems with dead end water mains.</p> <p>A 150,000 gallon elevated storage tank on Boundary Street north of College Avenue was constructed in 1955. An inspection identified lead based paints on the interior and exterior of the tank, poor condition of the interior coating, and numerous safety items that did not meet current OSHA standards. In addition, the tank was undersized for the average daily demand flow of 378,000 gallons per day.</p> <p>The top of a 6-inch water main was exposed along the banks and bottom of the Whitewater River along Main Street. Although the main is functioning normally, it is exposed to weather conditions and the hydraulic forces of the river.</p> <p>In response, the town constructed a new 500,000 gallon elevated water storage tank with a Supervisory Control and Data Acquisition (SCADA) system on the site of the existing 150,000 gallon tank, installed a booster station with a SCADA system in the Mount Auburn area, looped the dead end water main at State Road 1 and Delaware Street, and replaced the water main under the Whitewater River.</p> <p>These improvements will allow the utility to provide water in sufficient quantity, quality, and pressure, and maintain efficient and safe operations.</p> |   |
|   |   |
| <p><i>Above: Mount Auburn Booster Station</i></p>   |   |

| <b>DWSRF Participant: Sugar Creek Utilities and Riley Village</b>  |   |
|--|---|
| SRF Project #: DW 09153001   | DWSRF Loan Amount: \$264,000                                      |
| PWS ID #: IN 5230006   | Principal Forgiveness: \$219,000                                  |
| Repayment Period: 20 yrs   | Total Loan and Principle Forgiveness: \$483,000                   |
| DWSRF Loan Closed: 10/29/2010  | Estimated SRF Savings: \$437,086                                  |
| NIMS Categories:<br>Transmission & Distribution: \$483,000   | Affected Population:<br>Before project: 160<br>After project: 160 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>  |   |
| <p><b>Project Description:</b><br/>The Riley Village subdivision is served by the Sugar Creek Utilities. The water mains in the Riley Village subdivision are undersized, do not contain isolation valves, and are located under the homes. When there are leaks, all of the distribution system must be shut down to repair the leak, requiring a boil water alert. Because there are no meters in the subdivision, the utility bills the residents a flat rate for water service, regardless of usage.</p> <p>In response, Sugar Creek Utilities replaced 2- and 4-inch diameter water mains with 6-inch diameter mains and installed water meters and new service connections at each residence.</p> <p>This project allowed residents access to safe, reliable drinking water and enabled the utility to better address repairs. In addition, the utility will start billing based on usage, likely resulting in increased water conservation.</p> |   |

| <b>DWSRF Participant: Decatur County Rural Water Corporation</b>  |   |
|---|---|
| SRF Project #: DW 09311601  | DWSRF Loan Amount: \$0  |
| PWS ID #: IN 5216008  | Principal Forgiveness: \$2,000,000                                    |
| Repayment Period: 4 yrs   | Total Loan and Principle Forgiveness: \$2,000,000                     |
| DWSRF Loan Closed: 10/29/10   | Estimated SRF Savings: \$3,209,703                                    |
| NIMS Categories:<br>Transmission & Distribution: \$1,366,746<br>Storage: \$633,254  | Affected Population:<br>Before project: 1,524<br>After project: 1,524 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>   |   |
| <p><b>Project Description:</b><br/>The Decatur County Rural Water Corporation operated two separate water systems, each with varying water supply and demand. An interconnection was needed to provide an alternative supply and balance the demand. In response, the utility installed approximately 42,000 feet of new mains, a new booster station with chlorination facilities, and a new 500,000 gallon elevated storage tank. The new facilities enable the utility to more efficiently balance supply and demand, and increase overall reliability by providing an interconnect between the north and the south systems.</p> |   |

| <b>DWSRF Participant: And-Tro</b>   |   |
|---|---|
| SRF Project #: DW 09386202  | DWSRF Loan Amount: \$186,000  |
| PWS ID #: IN5262001   | Principal Forgiveness: \$1,236,000                                    |
| Repayment Period: 20 yrs  | Total Loan and Principle Forgiveness: \$1,422,000                     |
| DWSRF Loan Closed: 1/19/2011  | Estimated SRF Savings: \$2,029,274                                    |
| NIMS Categories:<br>Transmission & Distribution: \$1,422,000  | Affected Population:<br>Before project: 4,136<br>After project: 4,306 |
| <p>This Project:<br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>  |   |
| <p>Project Description:<br/>The And-Tro Water Authority's service area was near existing residences that had inadequate drinking water wells. Residents had to haul drinking water to cisterns or other storage tanks or limit the use of their wells during low rainfall periods, since the groundwater is recharged only by rainfall. The water quality from the wells is very poor. In response, the utility extended water service to approximately 68 residences. As a result, these residents now receive safe and reliable drinking water. The SCADA system improvements will allow the water authority to monitor the tanks, booster stations and meter pits without driving to each site daily or weekly. The telemetry improvements will also all the Authority to act quickly during emergency situations.</p> |   |

| <b>DWSRF Participant: Walton</b>   |   |
|--|---|
| SRF Project #: DW 10040901   | DWSRF Loan Amount: \$752,474  |
| PWS ID #: IN5209010  | Principal Forgiveness: \$2,889,000                                    |
| Repayment Period: 20 yrs   | Total Loan and Principle Forgiveness: \$3,641,474                     |
| DWSRF Loan Closed: 1/20/11   | Estimated SRF Savings: \$4,844,583                                    |
| NIMS Categories:<br>Treatment: \$48,112<br>Transmission & Distribution: \$2,698,780<br>Source: \$112,762<br>Storage: \$781,819   | Affected Population:<br>Before project: 1,069<br>After project: 1,069 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>  |   |
| <p><b>Project Description:</b><br/>The Town of Walton's water system was old and undersized. The distribution system experienced low water pressure and high water loss (59% in 2009) likely due to old and leaking lines. The town's water source contained high levels of iron causing water quality concerns as well as the need to flush lines. In addition, storage volume no longer met daily demand and fire protection.</p> <p>In response, the town constructed a 150,000 gallon storage tower, replaced 28,000 feet of distribution mains, including valves and hydrants, replaced the chlorinators, added backup power at the primary well, made repairs to the well houses, and installed a chemical feed at each well. The alternative to install a new water treatment facility was rejected due to cost.</p> <p>The project has improved water pressure, reduced water loss, increased storage volume, and updated chemical treatment systems to improve water quality.</p> |   |

| <b>DWSRF Participant: Cumberland (Gem Water, Inc.)</b>  |   |
|---|---|
| SRF Project #: DW 10153001  | DWSRF Loan Amount: \$1,000,000  |
| PWS ID #: IN5230008   | Principal Forgiveness: \$0  |
| Repayment Period: 20 yrs  | Total Loan and Principle Forgiveness: \$1,000,000                     |
| DWSRF Loan Closed: 6/8/11   | Estimated SRF Savings: \$214,132                                      |
| NIMS Categories:<br>Purchase of System: \$1,000,000   | Affected Population:<br>Before project: 6,558<br>After project: 6,558 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>   |   |
| <p><b>Project Description:</b><br/>In order to improve operational efficiencies and maintain a reliable drinking water supply, the town of Cumberland purchased the Gem drinking water utility (Gem Water, Inc.). The purchase will allow the town to operate the system using greater economies of scale while also maintaining a reliable and safe drinking water supply.</p> |   |

| <b>DWSRF Participant: Earl Park</b>   |   |
|---|---|
| SRF Project #: DW 06990401  | DWSRF Loan Amount: \$110,000                                      |
| PWS ID #: IN5204003   | Principal Forgiveness: \$0  |
| Repayment Period: 20 yrs  | Total Loan and Principle Forgiveness: \$110,000                   |
| DWSRF Loan Closed: 6/22/11  | Estimated SRF Savings: \$37,137                                   |
| NIMS Categories:<br>Treatment: \$23,951<br>Transmission & Distribution: \$43,456<br>Source: \$42,594  | Affected Population:<br>Before project: 485<br>After project: 485 |
| <p>This Project:<br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>  |   |
| <p>Project Description:<br/>The Town of Earl Park was served by two wells, one of which became contaminated with sulfate-reducing bacteria, slime-forming bacteria, and iron-related bacteria. These bacteria are not uncommon in Indiana groundwater and can cause significant water quality and quality problems. In the short-term, the town was able to continue to use the contaminated well with regular cleaning but a long-term solution was needed. In response, the town constructed a new well with all appurtenances and an emergency generator. The new well will allow the town to provide drinking water that is uncontaminated with the aforementioned bacteria and will also meet the town's daily demand.</p> |   |

| <b>DWSRF Participant: Bargersville</b>  |   |
|---|---|
| SRF Project #: DW11044101   | DWSRF Loan Amount: \$11,000,000   |
| PWS ID #: IN5241001   | Principal Forgiveness: \$0  |
| Repayment Period: 20 yrs  | Total Loan and Principle Forgiveness: \$11,000,000                      |
| DWSRF Loan Closed: 6/27/11  | Estimated SRF Savings: \$3,043,074                                      |
| NIMS Categories:<br>Treatment: \$11,000,000   | Affected Population:<br>Before project: 26,152<br>After project: 26,152 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>   |   |
| <p><b>Project Description:</b><br/>The water treatment plant (WTP) serving the Town of Bargersville's drinking water system was exceeding over 90% of its design capacity and received an early warning letter from the Indiana Department of Environmental Management. The population in the 20 year service area is growing steadily, and peak demands had surpassed the WTP's design capacity. In August 2010, the existing WTP operated 24 hours per day for several consecutive days to meet the water demand. Additionally, there was limited space around the WTP and well fields to allow for expansion. Therefore, to meet the existing peak and future projected water demands, the town constructed a new 6.0 million gallons per day WTP. The project also included a 100 KW electrical generator, two clarifiers, media blow down pit, recycle tank, lined backwash storage lagoon, storm water detention area, septic system, new electrical service, and SCADA system.</p> |   |

| <b>DWSRF Participant: Petersburg</b>   |   |
|--|---|
| SRF Project #: DW 10116302   | DWSRF Loan Amount: \$1,445,000  |
| PWS ID #: IN5263002  | Principal Forgiveness: \$0  |
| Repayment Period: 20 yrs   | Total Loan and Principle Forgiveness: \$1,445,000                     |
| DWSRF Loan Closed: 6/28/11   | Estimated SRF Savings: \$399,749                                      |
| NIMS Categories:<br>Treatment: \$519,881<br>Transmission & Distribution: \$715,816<br>Source: \$209,303  | Affected Population:<br>Before project: 3,988<br>After project: 3,988 |
| <p>This Project:<br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>   |   |
| <p>Project Description:<br/>The City of Petersburg's water system had several needs. The water distribution system had areas with 60 year old galvanized water lines that were undersized and suffered frequent breaks. At the well field, some electrical components had exceeded useful life and back-up power was needed. Valves and electrical components at the water treatment plant (WTP) had exceeded useful life. In October 2009, the water system received a lead violation letter, likely due to lead service lines.</p> <p>In response, the city installed approximately 12,100 feet of water main to replace the old galvanized lines. At the well field and WTP, improvements included: 2-inch valve replacement, backwash and filter valve replacement, WTP electrical upgrades, electrical generator and well field electrical upgrades, high service pump removal, and phosphate feed system installation. These improvements allow the city to continue to provide safe, reliable drinking water.</p> |   |

| <b>DWSRF Participant: Huntington</b>  |   |
|---|---|
| SRF Project #: DW 09473502  | DWSRF Loan Amount: \$10,383,000   |
| PWS ID #: IN5235005   | Principal Forgiveness: \$0  |
| Repayment Period: 20 yrs  | Total Loan and Principle Forgiveness: \$10,383,000                      |
| DWSRF Loan Closed: 6/29/11  | Estimated SRF Savings: \$2,223,335                                      |
| NIMS Categories:<br>Treatment: \$5,702,898<br>Transmission & Distribution: \$1,371,646<br>Source: \$1,086,564<br>Storage: \$2,221,892   | Affected Population:<br>Before project: 17,200<br>After project: 17,200 |
| <b>This Project:</b><br>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.   |   |
| <b>Project Description:</b><br>The City of Huntington had several needs: inadequate water storage and water pressure for the northern portion of the service area, limited raw water supply, and no redundancy in water supply sources.<br><br>In response, the city installed a 2.7 MGD water treatment plant, four new wells and well houses, a new electrical generator, new SCADA system, new 1 million gallon elevated storage tank, and approximately 11,910 feet of water main ranging in size from 6-inch to 24-inches in diameter. |   |

| <b>DWSRF Participant: LaPorte</b>   |   |
|---|---|
| SRF Project #: DW10144501   | DWSRF Loan Amount: \$3,500,000  |
| PWS ID #: IN5246017   | Principal Forgiveness: \$2,325,000                                      |
| Repayment Period: 20 yrs  | Total Loan and Principle Forgiveness: \$5,825,000                       |
| DWSRF Loan Closed: 6/30/11  | Estimated SRF Savings: \$4,369,355                                      |
| NIMS Categories:<br>Treatment: \$3,455,689<br>Transmission & Distribution: \$2,369,311  | Affected Population:<br>Before project: 22,000<br>After project: 22,120 |
| <p><b>This Project:</b><br/>Assists a compliant system to maintain compliance with the Safe Drinking Water Act.</p>   |   |
| <p><b>Project Description:</b><br/>The City of La Porte’s water treatment and distribution system had several needs. The East Street water treatment plant (WTP) was constructed in 1968. The aerators were original and had reached end of useful life. The water department was concerned about the hazards of chlorine gas and desired to replace the gaseous chlorine. The detention basin did not have the means for cleaning besides transporting solids to a landfill. Back-up power was needed. The existing wells had decreased in capacity over the years and, despite cleaning, had very little spare capacity for maximum day flows. The Lake Street WTP was constructed in 1928, with improvements in 1950, 1968, and 1998. Parts of the filter equipment had reached end of useful life. The building was in need of masonry, HVAC, and other structural repairs. In addition, the water department was concerned about the hazards of chlorine gas and desired to replace the gaseous chlorine. The Ridge and Tecumseh Street area was served by undersized, old, and deteriorated water mains. The mains were subject to breaks and leaks, provided poor fire service, and acted as a bottleneck to efficient flow of water in the area. In addition, the water system distribution map was incomplete and was maintained by several separate offices.</p> <p>Lastly, the Camp Summit Correctional Facility (PWSID # IN5246030) requested a connection to the La Porte water system. The Camp Summit water system was old, costly to run independently, and had several compliance violations in recent years. Also, the existing elevated tank at Camp Summit needed to be repainted.</p> <p>In response, at the East Street WTP, the city constructed three new wells to meet maximum day needs and increase system reliability, replaced the existing gaseous chlorination system with an on-site hypochlorite generation system, replaced two existing aerators, and installed an emergency standby generator. At the Lake Street WTP, the city replaced the existing gaseous chlorination system with an on-site hypochlorite generation system, replaced heaters, upgraded the walls and ceilings, tuck pointed, made masonry repairs, and replaced filter access hatches and filter isolation valves. The city installed about 1,200 feet of 10 inch diameter main in the Ridge and Tecumseh Street area and combined water system distribution data into a single Geographical Information System. The city also installed approximately 10,900 feet of 12 inch diameter water main, a booster station, and SCADA system to connect to the Camp Summit Correctional Facility. The camp will continue to use its existing distribution system and elevated tank, which will be operated and maintained by La Porte. As part of this project, the tank was repainted. The connection allowed the facility to abandon its supply and treatment systems. These improvements allowed the La Porte water system to continue to provide safe, reliable drinking water.</p> |   |

Exhibit E  
Cumulative History of Federal DWSRF Capitalization Grants

|                |                                       |
|----------------|---------------------------------------|
| \$ 25,371,806  | FFY 1997 Federal Capitalization Grant |
| \$ 8,687,500   | FFY 1998 Federal Capitalization Grant |
| \$ 9,105,300   | FFY 1999 Federal Capitalization Grant |
| \$ 8,989,850   | FFY 2000 Federal Capitalization Grant |
| \$ 9,159,460   | FFY 2001 Federal Capitalization Grant |
| \$ 8,955,100   | FFY 2002 Federal Capitalization Grant |
| \$ 9,398,200   | FFY 2003 Federal Capitalization Grant |
| \$ 9,749,300   | FFY 2004 Federal Capitalization Grant |
| \$ 11,201,850  | FFY 2005 Federal Capitalization Grant |
| \$ 12,166,734  | FFY 2006 Federal Capitalization Grant |
| \$ 11,484,000  | FFY 2007 Federal Capitalization Grant |
| \$ 11,367,000  | FFY 2008 Federal Capitalization Grant |
| \$ 11,367,000  | FFY 2009 Federal Capitalization Grant |
| \$ 22,638,000  | FFY 2010 Federal Capitalization Grant |
| \$ 15,709,000  | FFY 2011 Federal Capitalization Grant |
| \$ 185,350,100 | TOTAL                                 |

Exhibit F  
Cumulative History of the State Match

The State deposited \$4.437 million of State Match in the DWSRF Loan Program in SFY 2011. To date, the DWSRF State Match has aggregated in excess of 20 percent of the awarded \$185,350,100 capitalization grants through June 30, 2011, which results from the following cumulative history of State Matches made to the DWSRF Loan Program:

|              |   |
|--------------|---|
| \$6,860,000  | State Revolving Fund Program Bond, Subordinate Series 1, net proceeds representing a State Match (September 1999)*            |
| 5,640,000    | State Revolving Fund Program Bond, Subordinate Series 2, net proceeds representing a State Match (December 2001)*             |
| 3,823,000    | Series 2001A State Revolving Fund Program Bond net proceeds representing a State Match allocation (November 2001 & July 2002) |
| 1,949,860    | Series 2004B State Revolving Fund Program Bond net proceeds representing a State Match allocation (April 2004)                |
| 2,000,000    | Series 2004B State Revolving Fund Program Bond net proceeds representing a State Match allocation (February 2005)             |
| 2,100,000    | Series 2006A State Revolving Fund Program Bond net proceeds representing a State Match allocation (April 2006)                |
| 2,493,109    | Series 2006B State Revolving Fund Program Bond net proceeds representing a State Match allocation (December 2006)             |
| 2,400,000    | Series 2007B State Revolving Fund Program Bond net proceeds representing a State Match allocation (December 2007)             |
| 7,000,000    | Series 2009A State Revolving Fund Program Bond net proceeds representing a State Match allocation (November 2009)             |
| 4,437,000    | Series 2010B State Revolving Fund Program Bond net proceeds representing a State Match allocation (October 2010)              |
| \$38,702,969 | TOTAL   |

\* Source restructured in SFY 2002 vis-à-vis Series 2001A State Revolving Fund Program Bond net proceeds representing a State Match allocation (November 2001)

As a result of the foregoing, the State has deposited State Match in excess of that required based on grants awarded as of the end of SFY 2011 by \$1,632,949 (also known as over-match), which are banked toward future capitalization grants that are expected to be awarded in SFY 2012. This over-match is intended to permit, and will allow, the State to immediately convert a portion of its next capitalization grant (expected to be awarded in FFY 2012) to cash (and deposit it in the DWSRF) based upon incurred costs during SFY 2011, and banked as a result of their not having yet been used to convert any capitalization grant to cash.

State Match has been provided from State Revolving Fund Program Bonds, the net proceeds of which are allocated between 4 distinct purposes – (1) DWSRF’s State Match; (2) DWSRF’s leveraged loans; (3) WWSRF’s State Match; and (4) WWSRF’s leveraged loans. These bonds are repaid semi-annually and at the time of each payment the Authority tracks, allocates and records their payment *first* between WWSRF and DWSRF purposes (with the percentage paid from DWSRF being equal to the proportion of the net bond proceeds originally deposited in DWSRF from those bonds as compared to their total net bond proceeds) and *second* between State Match and leveraged loans purposes (with the payment allocated as a State Match repayment computed and tracked to be no more than the amount of the total DWSRF earnings applied on each payment date toward that bond payment). Set forth in the attached Exhibit F-1 is the principal amount of the State Revolving Fund Program Bonds allocated to State Match purposes for the DWSRF and the principal amount repaid as of the end SFY 2011.

The Authority annually designates whether principal maturities of the State Revolving Fund Program Bonds retired in a State Fiscal Year relate to State Match or leveraged bonds. Generally, it anticipates retiring State Match related bonds first leaving primarily program bonds allocated to the leveraged loans purposes outstanding. Once all State Revolving Fund Program Bonds allocated to the DWSRF State Match purposes are retired (and/or the number of series with outstanding State Match bonds are reduced), this policy will simplify the tracking of funds, reporting, bond disclosure, and allocation of semi-annual debt service.

Exhibit F-1

| <b><i>DRINKING WATER</i></b> |  |  |                    |                    |                    |                    |                    |   |
|------------------------------|--|--|--------------------|--------------------|--------------------|--------------------|--------------------|---|
| Revenue<br>Bonds             | Original Par Amount of<br>Bonds Designated<br>as State Match | Par Amount retired during SFY Ending June 30 |                    |                    |                    |                    |                    | Remaining Par Amount<br>of Bonds Designated<br>as State Match |
|                              |  | 2011   | 2010               | 2009               | 2008               | 2007               | All Prior SFYs     |   |
| 2001A                        | \$15,680,000   | 2,950,160                                    | 2,433,832          | 1,936,480          | 1,708,775          | 1,431,137          | 1,851,534          | \$3,368,082   |
| 2004B                        | 3,625,835  | 66,299                                       | 650,271            | 619,383            | 590,121            | 567,361            | 1,132,400          | -   |
| 2006A                        | 1,988,671  | -  | -                  | 618,671            | 915,000            | 455,000            | -                  | -   |
| 2006B                        | 2,359,076  | -  | -                  | 1,054,076          | 1,305,000          | -                  | -                  | -   |
| 2007B                        | 2,087,648  | 1,110,000                                    | 800,000            | -                  | -                  | -                  | -                  | 177,648   |
| 2009A                        | 6,610,905  | 170,000                                      | -                  | -                  | -                  | -                  | -                  | 6,440,905   |
| 2010B                        | 4,083,672  | 1,465,000                                    | -                  | -                  | -                  | -                  | -                  | 2,618,672   |
| <b>Total</b>                 | <b>\$36,435,807</b>  | <b>\$5,761,459</b>                           | <b>\$3,884,103</b> | <b>\$4,228,610</b> | <b>\$4,518,896</b> | <b>\$2,453,498</b> | <b>\$2,983,934</b> | <b>\$12,605,307</b>   |

Indiana DWSRF Loan Program  
Exhibit G - Summary of DWSRF Loan Program Loans Closed in SFY 2011

| Participant                | Closing Date | SRF Loan Amount     | Principal Forgiveness Amount | Total Loan and Principal Forgiveness | Estimated Open Market Interest Rate | Estimated Open Market P & I* | SRF Interest Rate | SRF P & I*   | SRF Savings         |
|----------------------------|--------------|---------------------|------------------------------|--------------------------------------|-------------------------------------|------------------------------|-------------------|--------------|---------------------|
| Indianapolis               | 16-Sep-10    | \$0                 | \$318,388                    | \$318,388                            | 5.00%                               | \$510,966                    | 0.00%             | \$0          | \$510,966           |
| Cambridge City             | 13-Oct-10    | \$1,652,000         | \$0                          | \$1,652,000                          | 5.00%                               | \$2,651,215                  | 2.32%             | \$2,083,552  | \$567,663           |
| Glenwood                   | 13-Oct-10    | \$269,000           | \$87,000                     | \$356,000                            | 5.00%                               | \$571,327                    | 2.00%             | \$329,023    | \$242,304           |
| Decatur County Rural Water | 29-Oct-10    | \$0                 | \$2,000,000                  | \$2,000,000                          | 5.00%                               | \$3,209,703                  | 0.00%             | \$0          | \$3,209,703         |
| Sugar Creek                | 29-Oct-10    | \$264,000           | \$219,000                    | \$483,000                            | 5.00%                               | \$775,143                    | 2.48%             | \$338,057    | \$437,086           |
| And-Tro Water Authority    | 19-Jan-11    | \$186,000           | \$1,236,000                  | \$1,422,000                          | 5.00%                               | \$2,282,099                  | 3.12%             | \$252,825    | \$2,029,274         |
| Walton                     | 20-Jan-11    | \$752,474           | \$2,889,000                  | \$3,641,474                          | 5.00%                               | \$5,844,026                  | 2.87%             | \$999,442    | \$4,844,583         |
| Cumberland                 | 8-Jun-11     | \$1,000,000         | \$0                          | \$1,000,000                          | 5.00%                               | \$1,604,852                  | 3.37%             | \$1,390,719  | \$214,132           |
| Earl Park                  | 22-Jun-11    | \$110,000           | \$0                          | \$110,000                            | 5.00%                               | \$176,534                    | 2.37%             | \$139,397    | \$37,137            |
| Bargersville               | 27-Jun-11    | \$11,000,000        | \$0                          | \$11,000,000                         | 5.00%                               | \$17,653,369                 | 2.87%             | \$14,610,295 | \$3,043,074         |
| Petersburg                 | 28-Jun-11    | \$1,445,000         | \$0                          | \$1,445,000                          | 5.00%                               | \$2,319,011                  | 2.87%             | \$1,919,261  | \$399,749           |
| Huntington                 | 29-Jun-11    | \$10,383,000        | \$0                          | \$10,383,000                         | 5.00%                               | \$16,663,176                 | 3.37%             | \$14,439,841 | \$2,223,335         |
| LaPorte                    | 30-Jun-11    | \$3,500,000         | \$2,325,000                  | \$5,825,000                          | 5.00%                               | \$9,348,261                  | 3.62%             | \$4,978,906  | \$4,369,355         |
| <b>TOTAL</b>               |              | <b>\$30,561,474</b> | <b>\$9,074,388</b>           | <b>\$39,635,862</b>                  |                                     |                              |                   |              | <b>\$22,128,363</b> |

\* P & I = Principal and Interest

Exhibit H  
Expeditious and Timely Use of Funds

This Exhibit identifies the intended uses of the funds held in various accounts of the DWSRF, and how those uses support the goals of the DWSRF. This Exhibit also demonstrates how the Authority meets the requirements of 40 CFR 35.3550(1) by using all of the funds in the DWSRF in an expeditious and timely manner.

**Sources, Uses and Available Balances in SRF Accounts**

The following accounts have been created and exist under the Authority's Drinking Water Trust Indenture and comprise its DWSRF. Set forth on the attached Schedule 1 (the "Use Schedule") is detail on what funds are held in the DWSRF and how they were expeditiously and timely used in SFY 2011 and will continue to be in perpetuity.

**Drinking Water Purchase Account.**

*Sources of Funds:* Funds held in this account<sup>1</sup> come from proceeds of Program Bonds<sup>2</sup> issued by the Authority. The Authority expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed as of the end of the SFY 2011 as well as loans anticipated to be closed in SFY 2012 and after.

*Uses of Funds:* These funds are used to make loans for qualified Proposed Projects as permitted by 40 CFR 35.3525(a). This use directly furthers the primary purpose of the DWSRF Loan Program by financing qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

*Available Balance:* As of July 1, 2011, the aggregate amount of closed and committed loans exceeded the balance in this account ("Excess Commitments"). As additional loans are closed in SFY 2012, such committed amounts will contribute to additional Excess Commitments. The aggregate amount held in this account as of July 1, 2011 is shown in the Use Schedule. Accordingly, none of the funds presently on deposit in this account are available for other SRF Loan Program purposes except to finance closed and committed loans related to qualified Proposed Projects.

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<sup>1</sup> Pursuant to SRF Indenture modification, the former State Match Loan Account was consolidated into this Account effective May 30, 2007.

<sup>2</sup> These bonds are revenue bonds within the meaning of 40 CFR 35.3525(e), the net proceeds of which were deposited in the DWSRF. To date, the Authority (or its predecessor issuer) has issued multiple series of bonds including several refunding series (the "Program Bonds"), a portion of which are issued for the DWSRF. An allocated portion of the Program Bonds were deposited in the Purchase Account (with such bonds being referred to as the "Guarantee Revenue Bonds" in this Report) to make loans from the DWSRF and a further allocated portion of the Program Bonds were deposited in the Purchase Account (or the former State Match Loan Account) as State Match (with such bonds being referred to as the "State Match Revenue Bonds" in this Report) to make loans or for other permitted purposes; their proceeds (together with other match sources) have matched all capitalization grants awarded to date as well as a portion of the not-yet-available FFY 2012 (FFY refers to the Federal Fiscal Year ending September 30 of the year listed) grant by reason of over-match.

### **Drinking Water Participant Loan Principal Account.**

*Sources of Funds:* Funds held in this account come from principal payments on loans made from the Purchase Account and the former State Match Loan Account.

*Uses of Funds:* These funds are used to make payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and the Authority's Operating Agreement with EPA. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

*Available Balance:* Approximately annually, this account is fully depleted to make payments on Program Bonds. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

### **Drinking Water Participant Loan Interest Account.**

*Sources of Funds:* Funds held in this account come from interest payments on loans made from the Purchase Account and the former State Match Loan Account.

*Uses of Funds:* These funds are used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

*Available Balance:* Approximately annually, this account is fully depleted to make payments on Program Bonds. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

**DRINKING WATER RESERVE**<sup>3</sup> contains the following accounts:

### **Drinking Water Reserve Earnings Account.**

*Sources of Funds:* Funds held in this account come from interest payments on loans made from the Purchase Account and the State Match Loan Account together with other earnings on invested Reserve accounts.

*Uses of Funds:* These funds are *first* used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR

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<sup>3</sup> Pursuant to SRF Indenture modification, effective May 30, 2007, the following Reserve accounts are pledged to particular series of Program Bonds by means of subaccounts therein. Such pledged accounts serve as the Reserve for only one Series of Program Bonds (a "Series Reserve") and are held at a fixed amount (a "Series Reserve Requirement") subject to annual reductions as principal on such Series of Program Bonds are repaid as required by the SRF indenture. While not labeled under this Reserve group of accounts, amounts held in Equity serve as security for the payment of Program Bonds, and thus, are part of the "reserve" for the purposes of this Report and the federal Safe Drinking Water Act, as amended.

35.3525(e) and 40 CFR 35.3550(g)(3), respectively, and *secondly* transferred to the Reserve Deficiency Account, as described below.

*Available Balance:* Approximately annually, this account is fully depleted to make payments on Program Bonds, with any excess available balances to be transferred to the Reserve Deficiency Account. Accordingly, none of the funds presently on deposit<sup>4</sup> in this account are available for other SRF purposes.

### **Drinking Water Reserve Grant Account.**

*Sources of Funds:* Funds held in this account<sup>5</sup> come from federal capitalization grants drawn when funds are loaned, up to the amount therein (and in the Equity Grant Account) that equals the perpetuity amount, and any amounts in excess thereof come from State Match.<sup>6</sup>

*Uses of Funds:* These funds are used (i) as security<sup>7</sup> for outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and (ii) as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively. This use both directly and indirectly furthers the primary purpose of the DWSRF Loan Program by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

*Available Balance:* The aggregate amount held in this account (as of July 1, 2011 and as anticipated in SFY 2012) is shown in the Use Schedule.<sup>8</sup> In furtherance of these purposes, the funds in this account are invested with certain short-term investments, State and Local Government Series (SLGS) securities, treasury and/or agencies obligations, and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's option as set forth in the attached Schedule 2, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

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<sup>4</sup> And before any transfers to the CWSRF as discussed elsewhere in this Exhibit.

<sup>5</sup> Pursuant to SRF Indenture modification, the former State Match Account was consolidated into this Account effective May 30, 2007.

<sup>6</sup> State Match in this account came from State Match Revenue Bonds, and is from principal on loan repayments funded from such proceeds. As of July 1, 2011, such amounts related to State Match on deposit in this account have not been applied to Guarantee Revenue Bonds but may be so applied to make any regularly scheduled payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and the Authority's Operating Agreement with EPA.

<sup>7</sup> Pursuant to the financing indentures related to the cross-collateralized outstanding Program Bonds, the Authority is presently required to maintain reserves of at least \$554.2 million, which is to be held in the Reserve accounts and is not anticipated to be used to make loans to Participants. A portion of the reserves have been allocated to the DWSRF for purpose of this Annual Report (as shown in the amount set out in the Use Schedule). This is a minimum invested funds requirement. However, the Authority views invested amounts in excess of the foregoing minimum requirement as security and as a source of payment for the outstanding Program Bonds. Further, the Authority expects that the foregoing minimum requirement will increase as additional Program Bonds are issued in SFY 2012 and beyond. Such excess purposes are served by the Equity accounts to the extent that they are not anticipated to be used to make loans to Participants.

<sup>8</sup> And before any transfers to the CWSRF as discussed elsewhere in this Exhibit.

### **Drinking Water Reserve Deficiency Account.**

*Sources of Funds:* Funds held in this account, if any, will come from other Reserve accounts discussed above when the amounts held in the group of accounts serving as the Reserve any Series of Program Bonds (a “Series Reserve”) exceeds its Series Reserve Requirement.

*Uses of Funds:* These funds are used to fund each Series Reserve by immediately transferring them as necessary (the *first* possible use) to each Series Reserve that is below its Series Reserve Requirement on each February 1 and August 1 and secondly (if not required for such *first* use) shall be transferred to an Equity account (the *secondary* use; which is expected to occur). Any such transfer is either made to a Grant Account or Earnings Account depending on the source of the funds transferred to the Reserve Deficiency Account.

*Available Balance:* No amounts were held in this account as of July 1, 2011 nor are any so anticipated in SFY 2011.

**DRINKING WATER EQUITY**<sup>9</sup> contains the following accounts:

### **Drinking Water Equity Grant Account.**

*Sources of Funds:* Funds held in this account come from federal capitalization grants drawn when funds are loaned, up to the amount therein (and in the Reserve Grant Account) that equals the perpetuity amount, and any amounts in excess thereof come from State Match.

*Uses of Funds:* These funds are used (i) as security<sup>10</sup> and as a source of payment for the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e), (ii) to fund any transfers to the Authority's CWSRF as permitted by law including Section 302 of the Safe Drinking Water Act, and (iii) to fund that portion of any loans closed but not presently on deposit in the Purchase Account<sup>11</sup> in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the DWSRF Loan Program by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

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<sup>9</sup> While funds held in these Equity accounts are not pledged to the payment of Program Bonds, the SRF Program Representative may, but is not required to, direct that they be used to pay Program Bonds. Further, the Authority would expect such to occur if it was necessary to pay such bonds and, thus, while not labeled under as Reserve in this Report, the DWSRF treats it as part of the “reserve” for the purposes of this Report and the federal Safe Drinking Water Act, as amended.

<sup>10</sup> Pursuant to the financing indentures, the Authority may use these funds if the Reserve Grant Account were insufficient to pay outstanding Program Bonds. Further, the Authority expects that the foregoing minimum requirement of Reserve accounts will increase as additional Program Bonds are issued in SFY 2012 and will result in a transfer of any uncommitted amounts in the Equity Grant Account to the Reserve Grant Account inclusive of any Capitalization Grants drawn into the SRF after July 1, 2011.

<sup>11</sup> In addition to meeting any Excess Commitments as of July 1, 2011, additional Excess Commitments will occur before additional Guarantee Revenue Bonds are issued. This will result from closing new loans for qualified Proposed Projects with (a) approved preliminary engineering reports (PERs) as of July 1, 2011, (b) PERs submitted and under review by the DWSRF as of July 1, 2011 and (c) additional PERs to be submitted (including as set in the new PPL in SFY 2012), each as detailed in the Use Schedule.

*Available Balance:* The aggregate amount held in this account (as of July 1, 2011 and as anticipated in SFY 2012) is shown in the Use Schedule.<sup>12</sup> In furtherance of these purposes, the funds in this account are invested with certain short-term investments, State and Local Government Series (SLGS) securities, and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's option as set forth in the attached Schedule 2, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

### **Drinking Water Equity Earnings Account.**

*Sources of Funds:* Funds held in this account come from (a) transfers from the Reserve Earnings Account and the Participant Loan Interest Account undertaken approximately annually or at the time of an issuance of additional Program Bonds and (b) earnings on amounts invested in the Equity accounts.

*Uses of Funds:* These funds are used (i) as security and as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively, like the Equity Grant Account and (ii) to fund that portion of any loans closed but not on deposit in the Purchase Account in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the SRF by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

*Available Balance:* The aggregate amount held in this account as of July 1, 2011 is shown in the Use Schedule.<sup>13</sup>

### **ADDITIONAL INFORMATION CONCERNING EXPECTED USES OF SRF FUNDS**

**Use of Available Balances to Meet Closed Loan Commitments.** Under its existing practices, the Authority closes DWSRF loans with Participants without the necessity of having available balances in its Purchase Account to fully fund those loan commitments on the date a DWSRF loan is closed. As of July 1, 2011, there were Excess Commitments. By closing new loans for qualified Proposed Projects with (a) approved PERs as of July 1, 2011, (b) PERs submitted and under review by the DWSRF as of July 1, 2011 and (c) additional PERs to be submitted (including as set in the new PPL in SFY 2012), the aggregate amount of Excess Commitments would become as shown in the Use Schedule.

The Authority expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed and those anticipated to be closed in SFY 2012. Additionally, certain amounts held in the Equity Grant Account and Equity Earnings Account are available and would be used to meet a portion of the projected funding requirements for loans presently closed (and

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<sup>12</sup> And before any transfers to the CWSRF as discussed elsewhere in this Exhibit.

<sup>13</sup> And before any transfers to the CWSRF as discussed elsewhere in this Exhibit.

those anticipated to be closed in SFY 2012) in the event additional Guarantee Revenue Bonds could not to be issued.

**Use of Available Balances as a Reserve and Source of Payment for Guarantee Revenue Bonds.** Amounts held in the Reserve Deficiency Account, Equity Grant Account, Reserve Grant Account Reserve Earnings Account and Equity Earnings Account secure, and are a source of payment, for Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e). In addition to this use, a portion of these funds are also held to meet (a) Excess Commitments in SFY 2011 in the event additional Guarantee Revenue Bonds could not to be issued and (b) any transfers to the CWSRF as permitted by law.

**Use of Available Balances as a Source of Payment for State Match Revenue Bonds.** All SRF earnings including amounts held in the Reserve Earnings Account and Equity Earnings Account secure, and are a source of payment, for State Match Revenue Bonds as permitted by 40 CFR 35.3550(g)(3). In addition to this use, a portion of these funds are held to meet (a) Excess Commitments in SFY 2011 in the event additional Guarantee Revenue Bonds could not to be issued and (b) any transfers to the CWSRF as permitted by law.

**Use of Available Balances to Possibly Transfer Funds to the Wastewater SRF.** As of July 1, 2011, about \$23.6 million has been transferred to DWSRF. As of July 1, 2011, the cumulative transfer amount available for additional transfers from CWSRF to the DWSRF could result in up to approximately \$61.2 million of allowable transfers which includes 33% of the FFY 2011 grant. The full amount of any such potential transfers is banked.

Further, transfers can be made from DWSRF to the CWSRF up to the cumulative amount made from CWSRF to DWSRF to date, together with an amount equal to 33 percent of aggregate Drinking Water Capitalization Grants awarded. The full amount of any such potential transfers is banked.

Since the inception of the DWSRF, the Authority (or its predecessor) has banked transfers up to maximum permitted limit and continues to do so; funds held in the Equity Grant Account might be used for this purpose. Such transfer may be effectuated by a transfer of an invested balance from (a) one or more of the Authority's Investment Agreements or (b) other investments. These invested funds would then be used to support the issuance of Guarantee Revenue Bonds, the proceeds of which would be used to make Program loans. Any such determination would be based on whether the DWSRF or CWSRF program is more in need of funds (when considering their respective priorities) than the other. While a transfer from DWSRF to the CWSRF is not expected, it is also banked to reserve the Authority's discretion.



**Exhibit H-Schedule 1**

|   | Account Balances*<br>as of: | Future Deposits<br>in SFY |
|---|-----------------------------|---------------------------|
|   | 30-Jun-2011<br>(Actual)     |                           |
| <b><u>A. Funds Committed to Projects by DWSRF</u></b> |                             |                           |
| Purchase Account                                      | \$ -                        | \$ -                      |
|   | \$ -                        | \$ -                      |
| <b><u>B. Other Funds Held in DWSRF</u></b>            |                             |                           |
| Reserve Grant Account                                 | \$ 101,300,000              | \$ -                      |
| Reserve Earnings Account                              | 3,800,000                   | -                         |
| Reserve Deficiency Account                            | -                           |                           |
| Equity Grant Account                                  | 60,300,000                  | \$ 20,400,000             |
| Equity Earnings Account                               | 3,800,000                   | -                         |
|   | \$ 169,200,000              | \$ 20,400,000             |
| <b>Total Available Funds (A. and B. above)</b>        | <b>\$ 169,200,000</b>       | <b>\$ 20,400,000</b>      |

**Proof of Timely & Expedious Use of Above Funds Held in DWSRF\***

|  |                       |
|--|-----------------------|
| Closed Loan (Undrawn loan amounts covered by on-hand Purchase A/C Funds)   | \$ -                  |
| Closed Loan Excess Commitments (after Application of above Purchase A/C **)  | 41,800,000            |
| Closed Loan to be funded directly from Equity (undrawn portion of loan)  | 100,000               |
| PERs In-house (approved & under-review) Awaiting Loan Closing  | 134,200,000           |
| Other Projects on new SFY's PPL, Requesting Loan Funding   | 12,000,000            |
| 1. Use: to cover Loan Demand***  | 188,100,000           |
| 2. Use: to cover Series Reserve Requirement  | 115,700,000           |
| <b>Possible Uses of Funds (1 &amp; 2 above without considering other secondary purposes for holding them in the DWSRF) # are as follows:</b> | <b>\$ 303,800,000</b> |

|  |                       |
|--|-----------------------|
| <b>Uses of Funds (1 &amp; 2 above):</b>  | \$ 303,800,000        |
| <b>Less: Total Available Funds (A. and B. above)</b>                           | 189,600,000           |
| <b>Amount by which "Possible Uses of Funds" EXCEED "Total Available Funds"</b> | <b>\$ 114,200,000</b> |

Notes:

\* Amounts are approximate & rounded to nearest \$100,000

\*\* This amount is a net unfunded amount of closed loans after application of the June 30th on-hand balance.

\*\*\* While use will likely be met with future Program Bonds, possible that on-hand funds could be used. When covered by issuance of Program Bonds used to make subsidized loan, a reserve of 40% to 50% is funded from Equity and additional Program Bonds are used to make pooled loan at a market rate. Such Program Bonds would not be sufficient to meet all needs.

SCHEDULE H-2  
SRF INVESTMENT AGREEMENTS

Funds held in the Reserve Grant Account and certain other accounts are invested in the following Investment Agreements which mature, and may be terminated at the Authority's option only, as follows:

| Investment Agreement with:                               | Final Maturity Date <sup>1</sup> | Optional Termination Date <sup>2</sup> | Scheduled Repayments of Invested Amounts <sup>3</sup> |
|--|----------------------------------|--|---|
| Citigroup Global Company Inc., Dated, February 13, 2006  | 8/1/16                           | Any time                               | \$1 to \$5 million                                    |
| Trinity Plus Funding Company, LLC, Dated March 21, 2006  | 2/1/29                           | N/A                                    | \$3 to \$10 million                                   |
| FSA Capital Management Services LLC, Dated June 19, 2007 | 2/1/27                           | N/A                                    | \$-0- to \$0.5 million                                |

The Authority has structured these Investment Agreements in a manner to assure the greatest flexibility as is practical to serve the variety of needs required by the SRF. The long-term nature of these investments assures long-term access to quality investment sources and, thereby, balances revenue certainty against known debt obligations associated with Program Bonds. This fosters the ability to issue additional Program Bonds to fund a prudent, maximum level of leveraged loans. Further, repayment features are consistent with the reserve purposes associated with most of these invested funds. These optional termination dates and scheduled repayment features associated with the Investment Agreements, in total, assure access to invested balances at reasonable intervals and are expected to facilitate future leveraged bond issues. However, it also to be understood that this restricts the SRF Loan Program's ability to make use of these invested sums for other purpose (including certain of those uses recited elsewhere in this Exhibit) without negotiating different termination provisions which could result in charged losses upon any such alternate termination depending upon market conditions and other factors.

<sup>1</sup> If not repaid sooner, all invested sums are required to be repaid to the Authority by this date.

<sup>2</sup> On or after this date, the Authority may terminate the investment at its option and all invested sums will then be required to be repaid to the Authority without any premium (or other market to market payment).

<sup>3</sup> Each February 1, commencing in 2008, a portion of the invested sums is required to be repaid annually to the Authority. These annual amounts are set out in a schedule to each agreement and range within the amounts shown in this column.

Exhibit I  
SFY 2011 DWSRF Loan Program Quarterly Interest Rates

| State Fiscal Year (SFY)<br>By Quarter (Qtr) | User Rates<br>(Over \$45) | User Rates<br>(\$25 to \$45) | User Rates<br>(Under \$25) |
|---|---------------------------|------------------------------|----------------------------|
| Tier III (MHI: under \$33,669)              |                           |                              |                            |
| 1 <sup>st</sup> Qtr SFY 2011                | 2.17%                     | 2.42%                        | 2.92%                      |
| 2 <sup>nd</sup> Qtr SFY 2011                | 2.00%                     | 2.00%                        | 2.48%                      |
| 3 <sup>rd</sup> Qtr SFY 2011                | 2.62%                     | 2.87%                        | 3.37%                      |
| 4 <sup>th</sup> Qtr SFY 2011                | 2.62%                     | 2.87%                        | 3.37%                      |
| Tier II (MHI: \$33,670 to \$41,566)         |                           |                              |                            |
| 1 <sup>st</sup> Qtr SFY 2011                | 2.42%                     | 2.67%                        | 3.17%                      |
| 2 <sup>nd</sup> Qtr SFY 2011                | 2.00%                     | 2.23%                        | 2.73%                      |
| 3 <sup>rd</sup> Qtr SFY 2011                | 2.87%                     | 3.12%                        | 3.62%                      |
| 4 <sup>th</sup> Qtr SFY 2011                | 2.87%                     | 3.12%                        | 3.62%                      |
| Tier I (MHI: over \$41,567)                 |                           |                              |                            |
| 1 <sup>st</sup> Qtr SFY 2011                | 2.67%                     | 2.92%                        | 3.42%                      |
| 2 <sup>nd</sup> Qtr SFY 2011                | 2.23%                     | 2.48%                        | 2.98%                      |
| 3 <sup>rd</sup> Qtr SFY 2011                | 3.12%                     | 3.37%                        | 3.87%                      |
| 4 <sup>th</sup> Qtr SFY 2011                | 3.12%                     | 3.37%                        | 3.87%                      |

Up to an additional .50 percent reduction is possible if a project includes a green component as part of the Green Project Reserve Sustainability Incentive Program.

Exhibit J  
Summary of DWSRF Transfers

Consistent with its Intended Use Plans and EPA Policy Statement (FRL-6884-7, 65 FR 199, 10/13/00, pg. 60940), the State is reporting on transfers between the CWSRF and the DWSRF. In its Intended Use Plans, the State retained the flexibility to make transfers of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. As of June 30, 2011, an amount of up to 33 percent of the Safe Drinking Water Act grants for FFYs 1997 through 2011 could be so transferred on a net cumulative basis. Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2011, to date, approximately \$23.6 million has been transferred to the DWSRF from the CWSRF. The following transfers were made from the 1998 Restricted Subaccount of the Wastewater Equity Account held under the Wastewater Indenture, which represents federal grants previously converted to cash and deposited in that account, to the Drinking Water Trustee for deposit in the 1998 Restricted Subaccount of the Drinking Water Equity Account held under the Drinking Water Indenture:

| <u>Transfer Dates</u> | <u>Transfer Amounts</u> |
|-----------------------|-------------------------|
| August 25, 2000       | \$17,479,407            |
| February 15, 2001     | 2,985,491               |
| May 1, 2002           | <u>3,120,183</u>        |
| Total                 | \$23,585,081            |

Such transfers did not negatively affect the capacity of the CWSRF to finance proposed projects during SFY 2011.



**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
Indianapolis, Indiana**

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## *Independent Auditors' Report*

Members of the Indiana Finance Authority  
State Revolving Fund Loan Programs

We have audited the accompanying combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the years ended June 30, 2011 and 2010, presented on pages 8 - 32. These combined financial statements are the responsibility of the Programs' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the State Revolving Fund Loan Programs, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the Indiana Finance Authority, as of June 30, 2011 and 2010, and the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the State Revolving Fund Loan Programs at June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis presented on pages 3-7 is not a required part of the basic combined financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011, on our consideration of the State Revolving Fund Loan Programs' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Katz, Sappan & Miller, LLP*

Indianapolis, Indiana  
September 27, 2011

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**June 30, 2011**

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As management of the State Revolving Fund Loan Programs (SRF Programs), we offer readers of the SRF Programs' combined financial statements this narrative overview of Management's Discussion and Analysis (MD&A) of the financial activities of the SRF Programs for the fiscal year ended June 30, 2011. All amounts, unless otherwise indicated, are expressed in thousands of dollars and are approximate.

**Financial Highlights:** The SRF Programs' total net assets increased by \$40.3 million during the current fiscal year from \$1,042.4 million to \$1,082.7 million. Of this amount, \$85.4 million consists of capital contributions (grants) from the U.S. Environmental Protection Agency (EPA) offset by \$43.9 million in loan forgiveness. Included in that total is \$36.2 million in grants made available by the American Recovery and Reinvestment Act of 2009. All of these net assets are restricted for water pollution and drinking water projects and related SRF Program purposes.

During the current fiscal year, the SRF Programs' debt decreased by \$11.3 million. The net decrease in debt is the result of the full cash defeasance of the Series 1998A bonds, the partial defeasance of Series 2001A, 2002B and 2004B for a defeasance total of \$93.1 million, and scheduled principal payments totaling \$83.1 million, offset by the issuance of \$164.9 million of new Series 2010B and 2010C bonds. Refinancing the Series 2001A, 2002B and 2004B with the Series 2010C bonds resulted in present value savings of \$2.9 million or 4.4% of the refunded bonds.

The SRF Programs disbursed \$221.9 million to participants during the current year to fund wastewater and drinking water infrastructure project expenses. Loan commitments can be found in Note 3 to the combined financial statements on page 17 of this report.

### **BASIC COMBINED FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the SRF Programs' basic combined financial statements (Report). The accompanying Report only provides information on the financial activities associated with the SRF Programs which are an enterprise fund of the Indiana Finance Authority, where financial transactions are reported as business-type activities. The basic combined financial statements do not represent a comprehensive annual financial report of the Indiana Finance Authority.

Enterprise funds are used to report any activities for which income fees are charged to external users for goods and services. In addition, enterprise funds must be used in situations where debt is backed solely by fees and charges. An enterprise fund is accounted for in a manner similar to a commercial enterprise on the accrual basis of accounting.

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**June 30, 2011**

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The SRF Programs' basic combined financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, and the notes to the combined financial statements. These combined financial statements can be found on pages 8-10 of this report and are summarized below:

- The *combined statements of net assets* present information on all of the SRF Programs' assets and liabilities, with the difference between the two reported as net assets.
- The *combined statements of revenues, expenses and changes in net assets* present information showing how the SRF Programs' net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- In contrast, the *combined statements of cash flows* are concerned solely with flows of cash and cash equivalents. Transactions are recorded when cash is received or exchanged, without concern of when the underlying event causing the transactions occurred.

The Report also contains other supplementary information in addition to the basic combined financial statements themselves.

The notes to the combined financial statements provide additional information that is essential to a full understanding of the data provided in the combined financial statements. The notes to the combined financial statements can be found on pages 11-32 of this report.

In addition to the basic combined financial statements and accompanying notes, this report also presents combining schedules on pages 34-36. These combining schedules are not a required part of the basic combined financial statements, but they provide detailed financial statement information for each individual program. The combining schedules are included to provide other useful information for the readers of the basic combined financial statements.

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**June 30, 2011**

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**FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the government enterprise's financial position. In the case of the SRF Programs, assets exceeded liabilities by \$1,082.7 million at the close of the most recent fiscal year.

**State Revolving Fund Loan Programs' Net Assets**  
(In Thousands of Dollars)

|                       | 2011                | June 30,<br>2010    | 2009              |
|-----------------------|---------------------|---------------------|-------------------|
| Current assets        | \$ 672,886          | \$ 717,323          | \$ 605,256        |
| Noncurrent assets     | <u>2,218,204</u>    | <u>2,148,365</u>    | <u>2,129,269</u>  |
| Total Assets          | <u>2,891,090</u>    | <u>2,865,688</u>    | <u>2,734,525</u>  |
| Current liabilities   | 124,696             | 124,904             | 115,774           |
| Long-term liabilities | <u>1,683,654</u>    | <u>1,698,365</u>    | <u>1,642,671</u>  |
| Total Liabilities     | <u>1,808,350</u>    | <u>1,823,269</u>    | <u>1,758,445</u>  |
| Net Assets            |                     |                     |                   |
| Restricted            | <u>1,082,740</u>    | <u>1,042,419</u>    | <u>976,080</u>    |
| Total Net Assets      | <u>\$ 1,082,740</u> | <u>\$ 1,042,419</u> | <u>\$ 976,080</u> |

Total assets have increased over the years as the SRF Programs continue to mature, manage new and existing projects, and receive new grants. Typically as new and existing projects are undertaken and completed, additional bonds on behalf of the SRF Programs are issued in order to fund the projects. Therefore, long-term liabilities have usually also increased to meet the needs of participants.

In fiscal year 2011, participants needs were met with EPA grants including additional funding made available by the American Recovery and Reinvestment Act of 2009 (ARRA), new bond issuances, and funds on hand. However, long-term liabilities decreased because the early defeasance of debt and scheduled principal payments exceeded the amount of new bond issuances.

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**June 30, 2011**

**State Revolving Fund Loan Programs' Changes in Net Assets**  
(In Thousands of Dollars)

|                                      | Years Ended June 30, |                     |                   |
|--------------------------------------|----------------------|---------------------|-------------------|
|                                      | 2011                 | 2010                | 2009              |
| Operating Revenues                   |                      |                     |                   |
| Interest-investments                 | \$ 18,862            | \$ 32,395           | \$ 106,106        |
| Interest-participants                | 61,693               | 58,179              | 57,000            |
| Other                                | <u>445</u>           | <u>686</u>          | <u>288</u>        |
| Total operating revenues             | <u>81,000</u>        | <u>91,260</u>       | <u>163,394</u>    |
| Operating Expenses                   |                      |                     |                   |
| Interest                             | 76,492               | 79,867              | 81,266            |
| Amortization of deferred charges     | 1,238                | 958                 | 1,075             |
| Trustee fees                         | 80                   | 90                  | 80                |
| Other program and administrative     | <u>4,397</u>         | <u>3,040</u>        | <u>1,524</u>      |
| Total operating expenses             | <u>82,207</u>        | <u>83,955</u>       | <u>83,945</u>     |
| Operating Income (Loss)              | (1,207)              | 7,305               | 79,449            |
| Nonoperating Revenues and (Expenses) |                      |                     |                   |
| Capital contributions (EPA Grants)   | 85,400               | 129,790             | 29,592            |
| Loan forgiveness                     | <u>(43,872)</u>      | <u>(70,756)</u>     | <u>(1,698)</u>    |
| Total nonoperating revenues          | <u>41,528</u>        | <u>59,034</u>       | <u>27,894</u>     |
| Increase in Net Assets               | 40,321               | 66,339              | 107,343           |
| Net Assets:                          |                      |                     |                   |
| Beginning of Year                    | <u>1,042,419</u>     | <u>976,080</u>      | <u>868,737</u>    |
| End of Year                          | <u>\$ 1,082,740</u>  | <u>\$ 1,042,419</u> | <u>\$ 976,080</u> |

The SRF Programs' net assets increased by \$40.3 million during the current fiscal year. Key elements of this increase are as follows:

- The SRF Programs received \$85.4 million in capital contributions (grants) from the EPA for qualified wastewater and drinking water projects and related program purposes. Although lower than last year, EPA grant levels were higher than normal due to the additional funding made available by the ARRA. ARRA grants received in fiscal year 2011 totaled \$36.2 million.
- Operating expenses exceeded interest income on investments and loans by \$1.2 million.
- The majority of the ARRA grants were loaned to communities and are forgivable under the terms of the Act and offset the increases mentioned above.

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**June 30, 2011**

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**DEBT ADMINISTRATION**

Long-term Debt: At the end of the current fiscal year, the SRF Programs' debt, net of premium/discount and unamortized loss on refunding, was \$1.77 billion. The amount due represents bonds issued solely for the State Revolving Fund Loan Programs.

**State Revolving Fund Loan Programs' Outstanding Debt**  
(In Thousands of Dollars)

|                       | <b>Years Ended June 30,</b> |              |              |
|-----------------------|-----------------------------|--------------|--------------|
|                       | <b>2011</b>                 | <b>2010</b>  | <b>2009</b>  |
| Net Bond Indebtedness | \$ 1,771,362                | \$ 1,782,689 | \$ 1,715,974 |

During the current fiscal year, the SRF Programs' debt decreased by \$11.3 million. The net decrease in debt is the result of the full cash defeasance of the Series 1998A bonds, the partial defeasance of Series 2001A, 2002B and 2004B for a defeasance total of \$93.1 million, and scheduled principal payments totaling \$83.1 million, offset by the issuance of \$164.9 million of new Series 2010B and 2010C bonds.

Additional information on the SRF Programs' long-term debt can be found in Notes 7 and 8 to the combined financial statements on pages 21-31 of this report.

**REQUESTS OF INFORMATION**

This financial report is designed to provide a general overview of the SRF Programs' finances for all those with an interest in the SRF Programs' finances. Questions concerning any of the information should be addressed to the Director of Environmental Programs, c/o State Revolving Fund Wastewater and Drinking Water Loan Programs, 100 N. Senate Avenue, Room 1275, IGCN - 12th Floor, Indianapolis, IN 46204.

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
COMBINED STATEMENTS OF NET ASSETS  
Years Ended June 30, 2011 and 2010**

|  | <b>2011</b>             | <b>2010</b>             |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>  |                         |                         |
| Current Assets:  |                         |                         |
| Cash and equivalents   | \$ 520,772,125          | \$ 541,588,990          |
| Interest receivable  | 19,991,460              | 26,130,640              |
| Due from EPA   | 38,284,978              | 51,481,881              |
| Accounts Receivable, net of allowance  | 422,086                 | 3,233,349               |
| Loans receivable   | 93,414,969              | 94,887,655              |
| Total Current Assets   | <u>672,885,618</u>      | <u>717,322,515</u>      |
| Noncurrent Assets:   |                         |                         |
| Investments  | 391,335,676             | 426,553,884             |
| Loans receivable, net of allowance   | 1,818,610,241           | 1,713,450,893           |
| Equipment, net   | 44,590                  | 22,579                  |
| Deferred charges, net  | 8,213,519               | 8,337,489               |
| Total Noncurrent Assets  | <u>2,218,204,026</u>    | <u>2,148,364,845</u>    |
| Total Assets   | <u>2,891,089,644</u>    | <u>2,865,687,360</u>    |
| <b>LIABILITIES</b>   |                         |                         |
| Current Liabilities:   |                         |                         |
| Interest payable   | 34,765,934              | 35,067,840              |
| Accounts payable   | 381,773                 | 263,967                 |
| Amount due to federal government   | 1,302,905               | 3,761,898               |
| Bonds payable-current, net   | 88,245,000              | 85,810,000              |
| Total Current Liabilities  | <u>124,695,612</u>      | <u>124,903,705</u>      |
| Long-term Liabilities:   |                         |                         |
| Amount due to federal government   | 536,634                 | 1,485,502               |
| Bonds payable, net   | 1,683,116,962           | 1,696,879,424           |
| Total Long-term Liabilities  | <u>1,683,653,596</u>    | <u>1,698,364,926</u>    |
| Total Liabilities  | <u>1,808,349,208</u>    | <u>1,823,268,631</u>    |
| <b>NET ASSETS</b>  |                         |                         |
| Restricted for water pollution and drinking<br>water projects and other related program purposes | <u>\$ 1,082,740,436</u> | <u>\$ 1,042,418,729</u> |

*See accompanying notes.*

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Years Ended June 30, 2011 and 2010**

|   | <b>2011</b>             | <b>2010</b>             |
|---|-------------------------|-------------------------|
| <b>OPERATING REVENUE</b>                    |                         |                         |
| Interest income-investments                 | \$ 18,862,184           | \$ 32,395,408           |
| Interest income-loan participants           | 61,692,618              | 58,178,496              |
| Other                                       | 444,808                 | 686,137                 |
| Total Operating Revenue                     | <u>80,999,610</u>       | <u>91,260,041</u>       |
| <b>OPERATING EXPENSES</b>                   |                         |                         |
| Interest                                    | 76,492,305              | 79,867,252              |
| Amortization of deferred charges            | 1,238,219               | 958,031                 |
| Trustee fees                                | 79,538                  | 89,960                  |
| Other program and administrative            | 4,396,721               | 3,040,276               |
| Total Operating Expenses                    | <u>82,206,783</u>       | <u>83,955,519</u>       |
| <b>OPERATING INCOME</b>                     | (1,207,173)             | 7,304,522               |
| <b>NONOPERATING REVENUES AND (EXPENSES)</b> |                         |                         |
| Capital contributions - federal grants      | 85,400,959              | 129,790,385             |
| Loan forgiveness                            | (43,872,079)            | (70,756,376)            |
| Total Nonoperating Revenues                 | <u>41,528,880</u>       | <u>59,034,009</u>       |
| <b>INCREASE IN NET ASSETS</b>               | 40,321,707              | 66,338,531              |
| <b>NET ASSETS</b>                           |                         |                         |
| Beginning of Year                           | <u>1,042,418,729</u>    | <u>976,080,198</u>      |
| End of Year                                 | <u>\$ 1,082,740,436</u> | <u>\$ 1,042,418,729</u> |

*See accompanying notes.*

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2011 and 2010**

|   | <b>2011</b>           | <b>2010</b>           |
|---|-----------------------|-----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                       |                       |
| Cash payments for salaries, administrative and other expenses                       | \$ (1,128,443)        | \$ (5,746,037)        |
| Administration fee  | 26,061                | 75,001                |
| Net Cash (Used) by Operating Activities   | <u>(1,102,382)</u>    | <u>(5,671,036)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                       |                       |
| Maturities of loans to participants   | 118,195,473           | 107,172,406           |
| Issuance of loans to participants   | (221,882,135)         | (176,883,874)         |
| Change in investments   | 35,218,208            | 27,923,204            |
| Interest received on loans and investments  | 86,693,982            | 89,481,452            |
| Purchase of capital assets  | (22,011)              | 7,988                 |
| Net Cash (Used) by Investing Activities   | <u>18,203,517</u>     | <u>47,701,176</u>     |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>                             |                       |                       |
| Proceeds from debt issuance   | 164,925,000           | 427,960,000           |
| Principal payments to reduce indebtedness including refunding                       | (176,252,462)         | (361,244,635)         |
| Payment of debt issuance costs, net of refunding                                    | (1,114,249)           | (1,330,949)           |
| Change in amount due to federal government  | (3,407,861)           | (2,315,875)           |
| Interest paid on debt   | (76,794,211)          | (79,449,219)          |
| Net Cash Provided (Used) by Non-Capital Financing Activities                        | <u>(92,643,783)</u>   | <u>(16,380,678)</u>   |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>                                 |                       |                       |
| Capital contributions (EPA grants)  | 98,597,862            | 107,914,832           |
| Issuance of forgivable loans to participants  | (43,872,079)          | (70,756,376)          |
| Net Cash Provided by Capital Financing Activities                                   | <u>54,725,783</u>     | <u>37,158,456</u>     |
| <b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>                              | (20,816,865)          | 62,807,918            |
| <b>CASH AND EQUIVALENTS</b>   |                       |                       |
| Beginning of Year   | <u>541,588,990</u>    | <u>478,781,072</u>    |
| End of Year   | <u>\$ 520,772,125</u> | <u>\$ 541,588,990</u> |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>  |                       |                       |
| Operating income  | \$ (1,207,173)        | \$ 7,304,522          |
| Adjustments to reconcile operating income to net cash used by operating activities: |                       |                       |
| Interest income   | (80,554,802)          | (90,573,904)          |
| Interest expense  | 76,492,305            | 79,867,252            |
| Amortization of deferred charges  | 1,238,219             | 958,031               |
| Changes in assets and liabilities:  |                       |                       |
| Accounts receivable   | 2,811,263             | (3,233,349)           |
| Accounts payable  | 117,806               | 6,412                 |
| Net Cash (Used) by Operating Activities   | <u>\$ (1,102,382)</u> | <u>\$ (5,671,036)</u> |

*See accompanying notes.*

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Wastewater State Revolving Fund Loan Program (WSRF) and the Drinking Water State Revolving Fund Loan Program (DWSRF), collectively known as the State Revolving Fund Loan Programs (SRF Programs), conform to generally accepted accounting principles as applicable to governmental units in the United States. The following is a summary of significant policies:

Reporting Entity: The accompanying combined financial statements report only on the financial activities associated with the SRF Programs, which are an enterprise fund of the Indiana Finance Authority (Authority). The combined financial statements do not represent a comprehensive annual financial report of the Authority.

Principles of Combination: The combined financial statements of the SRF Programs include the accounts of the WSRF and the DWSRF. All significant intercompany accounts and transactions between the individual programs have been eliminated.

Basis of Presentation and Accounting: The Programs are accounted for as Enterprise Funds. An Enterprise Fund is used to account for an operation where periodic determination of revenues earned, expenses incurred, and net income on an accrual basis is appropriate (accrual method). Accordingly, the State Revolving Fund Loan Programs recognize revenues in the period earned and expenses in the period incurred. Financial transactions are reported as business-type activities.

The SRF Programs follow the accounting rules promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the SRF Programs follow all standards of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict with GASB Statements.

The Wastewater State Revolving Fund Loan Program and Drinking Water State Revolving Fund Loan Program: The federal Water Quality Act of 1987 as amended in 1996 authorized the United States Environmental Protection Agency (EPA) to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State of Indiana (State) originally established a water pollution control revolving fund program to provide financial assistance, essentially, to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from WSRF, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State also has established a public drinking water system program to provide financial assistance for eligible projects. Prior to the SRF Programs receiving funding as a result of the American Recovery and Reinvestment Act of 2009 (ARRA), "financial assistance" included making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems. Beginning in Federal fiscal year 2010, the ARRA and EPA grants awarded to the SRF Programs required the Program to provide both loans and forgivable loans to public water systems for eligible projects.

**STATE REVOLVING FUND LOAN PROGRAMS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

By operation of law, effective May 15, 2005, all assets and liabilities of the SRF Programs (including the outstanding bonds of the Indiana Bond Bank related to the SRF Programs) became the assets and liabilities of the Indiana Finance Authority instead of the State or the Indiana Bond Bank. For years ending on, or before, June 30, 2005, these assets and liabilities of the SRF Programs were previously reported as part of the respective financial statements of the State and/or the Indiana Bond Bank. For the comparative financial statements for the years ended June 30, 2011 and 2010, such are reported as the Authority's assets and liabilities related to the SRF Programs.

The Authority has capitalized its WSRF and DWSRF Programs with payments made under capitalization grants and with required state matching funds. Payments under, and the use of capitalization grants, are subject to federal law and regulated by the federal government, acting through the EPA.

Under the WSRF and DWSRF Acts, the Authority has responsibility for the administration and management of the WSRF and DWSRF Programs. The Authority has entered into Trust Indentures with The Bank of New York Trust Company, N.A., successor to J.P. Morgan Trust Company, N.A., to establish a series of separate funds and accounts for operation of the SRF Programs. The indentures create state revolving funds (the Funds) and govern the use of certain bond proceeds and capitalization grants under the WSRF Act and the DWSRF Act. The SRF Programs are being operated initially as leveraged programs, whereby the earnings on certain moneys deposited in the Funds, including payments on loans made from the Funds, are applied to pay debt service on bonds issued to finance the SRF Programs.

If necessary, the capitalization grants are deposited into the SRF Programs accounts and are available to pay scheduled debt service on the Revenue Bonds. SRF Programs participant loan repayments and interest earned on the SRF Programs investments is used to meet the debt service obligations for the Revenue Bonds. States are required to provide an additional 20 percent of the federal capitalization grant as matching funds in order to receive a grant. SRF Programs matching funds have been provided through the issuance of revenue bonds payable and from the earnings on the funds. Federal contributions are funded and recognized as capital contributions when amounts are received. The Authority may use amounts of up to 4 percent of the federal capitalization grant to pay salaries and administrative costs incurred.

The Indiana Bond Bank, on behalf of the SRF Programs, issued Series 1997A, 1998A, 2000A, 2000B, 2001A, 2002A, 2002B, 2004A, 2004B and 2004C Bonds, which by operation of law effective May 15, 2005, such liabilities of the SRF Programs became the liabilities of the Authority instead of the Indiana Bond Bank. Additionally, the Authority issued Series 2005A, 2006A, 2006B, 2007A, 2007B, 2009A, 2010A, 2010B and 2010C Bonds in respect of the SRF Programs. Such liabilities are summarized in Note 7 and are secured by a common trust estate supported in part by participant loan repayments.

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates used.

Restricted Net Assets: Restricted net assets are available for providing financial assistance related to water pollution control and drinking water projects and other SRF Programs purposes.

Cash and Equivalents: Cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments: Investments are recorded at fair value, based on quoted market prices of the investment or similar investments. For investments at June 30, 2011 and 2010, market approximates cost. Changes in the fair value of investments are included in the combined statement of revenues, expenses and changes in net assets.

Allowance for Doubtful Accounts: Management's estimate of the allowance for doubtful accounts is determined through a review of individual loan balances' collectability, as well as the forgivable loans disbursed pursuant to ARRA. Management had allowed for approximately \$113,815,000 and \$73,026,000 at June 30, 2011 and 2010, respectively.

Equipment: Equipment is recorded at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Deferred Charges: Deferred charges are bond issuance costs, which are amortized using the interest method over the varying terms of the bonds issued.

Operating Revenues and Expenses: Operating revenues and expenses generally result from providing services. Operating expenses include the cost of providing services and interest on debt. For enterprise funds, revenue and expense transactions normally classified as other than operating cash flows are classified as operating revenues and expenses if those transactions constitute principal ongoing operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses, and include capital contributions.

Subsequent Events: The Authority has evaluated the combined financial statements for subsequent events occurring through September 27, 2011, the date the combined financial statements were available to be issued. See Note 11.

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2011 and 2010**

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**NOTE 2 - CASH AND INVESTMENTS**

All cash and investments are held by, or in the name of, The Bank of New York Trust Company, N.A., as trustee under certain indentures of trusts (Trust Indentures) pertaining to the SRF Programs and the bonds issued in connection with the SRF Programs. Pursuant to enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally applicable provisions of Indiana Code 5-13 inapplicable to the SRF Programs' investments.

A summary of cash and investments as of June 30, 2011 and 2010 follows:

|                                 | <u>2011</u>           |                           |                       |
|---------------------------------|-----------------------|---------------------------|-----------------------|
|                                 | <u>Wastewater</u>     | <u>Drinking<br/>Water</u> | <u>Total</u>          |
| Cash                            | \$ 126,736            | \$ -                      | \$ 126,736            |
| Money market funds              | 399,281,966           | 80,730,663                | 480,012,629           |
| Guaranteed investment contracts | 172,546,680           | 32,725,367                | 205,272,047           |
| Government obligations          | <u>163,219,771</u>    | <u>63,476,618</u>         | <u>226,696,389</u>    |
|                                 | <u>\$ 735,175,153</u> | <u>\$ 176,932,648</u>     | <u>\$ 912,107,801</u> |
|                                 | <u>2010</u>           |                           |                       |
|                                 | <u>Wastewater</u>     | <u>Drinking<br/>Water</u> | <u>Total</u>          |
| Money market funds              | \$ 402,026,756        | \$ 94,411,761             | \$ 496,438,517        |
| Guaranteed investment contracts | 178,943,234           | 36,236,677                | 215,179,911           |
| Government obligations          | <u>192,699,995</u>    | <u>63,824,451</u>         | <u>256,524,446</u>    |
|                                 | <u>\$ 773,669,985</u> | <u>\$ 194,472,889</u>     | <u>\$ 968,142,874</u> |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Investment Type and Interest Rate Risk Disclosure: As of June 30, 2011, the SRF Programs had the following investments and maturities (amounts are in thousands):

|                                 | Wastewater                       |                   |                  |                   |                   |
|---------------------------------|----------------------------------|-------------------|------------------|-------------------|-------------------|
|                                 | Investment Maturities (in years) |                   |                  |                   |                   |
|                                 | Fair Value                       | < 1               | 1 - < 5          | 5 - < 10          | > 10              |
| Money market funds              | \$ 399,282                       | \$ 399,282        | \$ -             | \$ -              | \$ -              |
| Guaranteed investment contracts | 172,547                          | 6,871             | 36,633           | 38,287            | 90,756            |
| Government obligations          | <u>163,220</u>                   | <u>28,720</u>     | <u>25,816</u>    | <u>71,306</u>     | <u>37,378</u>     |
|                                 | <u>\$ 735,049</u>                | <u>\$ 434,873</u> | <u>\$ 62,449</u> | <u>\$ 109,593</u> | <u>\$ 128,134</u> |

|                                 | Drinking Water                   |                  |                  |                  |                  |
|---------------------------------|----------------------------------|------------------|------------------|------------------|------------------|
|                                 | Investment Maturities (in years) |                  |                  |                  |                  |
|                                 | Fair Value                       | < 1              | 1 - < 5          | 5 - < 10         | > 10             |
| Money market funds              | \$ 80,731                        | \$ 80,731        | \$ -             | \$ -             | \$ -             |
| Guaranteed investment contracts | 32,725                           | 2,463            | 3,505            | 16,320           | 10,437           |
| Government obligations          | <u>63,477</u>                    | <u>2,579</u>     | <u>25,175</u>    | <u>22,044</u>    | <u>13,679</u>    |
|                                 | <u>\$ 176,933</u>                | <u>\$ 85,773</u> | <u>\$ 28,680</u> | <u>\$ 38,364</u> | <u>\$ 24,116</u> |

Credit Risk Disclosure: The following table (in thousands of dollars) provides information on the credit ratings associated with the SRF Programs' investments in debt securities at June 30, 2011:

|                                 | S&P     | Fitch   | Moody's | Fair Value        |
|---------------------------------|---------|---------|---------|-------------------|
| Money market funds              | AAAm    | AAAmmf  | Aaa-mf  | \$ 480,013        |
| Guaranteed investment contracts | A       | A+      | Aa3     | 21,623            |
|                                 | AA+     | unrated | unrated | 89,625            |
|                                 | unrated | unrated | unrated | 94,024            |
| Government obligations          | AA+     | AAA     | Aaa     | 154,963           |
|                                 | AA+     | AAA     | Aaa     | 32,774            |
|                                 | AA+     | unrated | Aaa     | 568               |
|                                 | unrated | AAA     | unrated | 798               |
|                                 | unrated | unrated | unrated | <u>37,594</u>     |
| Total Rated Investments         |         |         |         | <u>\$ 911,982</u> |

**STATE REVOLVING FUND LOAN PROGRAMS**  
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**NOTES TO COMBINED FINANCIAL STATEMENTS**  
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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk: The SRF Programs have no custodial credit risk. The investments are secured by government securities held pursuant to securities or repurchase contracts or otherwise secured by perfected security interest in the same. Such government securities are either issued or guaranteed by the U.S. Government, including United States Treasury obligations and any other obligations, the timely payment of principal and interest of which, are guaranteed by the U.S. Government and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Fannie Mae, Federal Home Loan Mortgage Corporation, Government National Mortgage Association or any other agency or instrumentality of the United States of America, including, but not limited to, mortgage participation certificates, mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities.

Concentration of Credit Risk: The Program places no limit on the amount the SRF Programs may invest in any one issuer. The following table shows investments in issuers that represent 5% or more of the total investments at June 30, 2011:

|  |     |
|--|-----|
| Dreyfus Gov't Cash Management Fd 289   | 31% |
| Dreyfus Cash Management CI A Fd 288    | 22% |
| U.S. Treasury                          | 17% |
| Trinity Plus Funding Company, LLC GIC  | 10% |
| FSA Capital Management GIC             | 10% |
| Federal Home Loan Mortgage Corporation | 7%  |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
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**NOTE 3 - LOANS RECEIVABLE**

The net proceeds from the issuance of the Revenue Bonds were deposited in the SRF Programs Account and are used primarily to fund loans to participants for eligible projects. The State's current intended use plans include a list of publicly-owned wastewater treatment works, a list of drinking water systems, and other projects proposed by eligible participants, which the State anticipates will be eligible for financial assistance.

The loans receivable balance at June 30, 2011 and 2010 includes actual advances for construction and related costs on eligible projects net of principal payments from participants as follows:

|                     | Loans<br>Receivable<br>as of<br>June 30, 2011 | Loans<br>Receivable<br>as of<br>June 30, 2010 | Actual Loan<br>Available Less<br>Principal<br>Repayments<br>as of<br>June 30, 2011 |
|---------------------|---|---|--|
| Wastewater Fund     | \$ 1,598,289,303                              | \$ 1,532,469,954                              | \$ 1,856,831,293   |
| Drinking Water Fund | <u>313,735,907</u>                            | <u>275,868,594</u>                            | <u>370,936,127</u>   |
| Total All Loans     | <u>\$ 1,912,025,210</u>                       | <u>\$ 1,808,338,548</u>                       | <u>\$ 2,227,767,420</u>  |

These amounts represent projects that have been submitted and approved by the SRF Programs, and the loans have been closed. Loans receivable includes current portions of \$93,414,969 at June 30, 2011 and \$94,887,655 at June 30, 2010.

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2011 and 2010**

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**NOTE 3 - LOANS RECEIVABLE (Continued)**

As of June 30, 2011, the outstanding balances of closed loans exceeding 50 percent of the total loans receivable and representing the SRF Programs' largest borrowers are summarized below:

| <b>Name of Participant</b> | <b>Loans<br/>Receivable<br/>as of<br/>June 30, 2011</b> | <b>Loans<br/>Receivable<br/>as of<br/>June 30, 2010</b> | <b>Actual Loan<br/>Available Less<br/>Principal<br/>Repayments<br/>as of<br/>June 30, 2011</b> |
|----------------------------|---|---|--|
| <b>Wastewater Fund</b>     |   |   |  |
| City of Indianapolis       | \$ 409,151,478  | \$ 421,425,385  | \$ 412,654,250   |
| City of Fort Wayne         | 82,964,602  | 83,933,950  | 83,367,580   |
| City of Columbus           | 81,477,000  | 84,025,000  | 81,477,000   |
| City of Evansville         | 76,727,421  | 72,983,506  | 97,406,510   |
| City of Lafayette          | 48,273,974  | 52,316,201  | 48,506,080   |
| City of Mishawaka          | 38,135,468  | 38,352,845  | 39,573,000   |
| City of Hammond            | 37,430,000  | 40,335,000  | 37,430,000   |
| City of New Albany         | 34,401,900  | 34,307,000  | 40,519,000   |
| <b>Drinking Water Fund</b> |   |   |  |
| City of East Chicago       | \$ 41,910,000   | \$ 22,093,462   | \$ 41,910,000  |
| City of Fort Wayne         | 25,160,000  | 26,960,000  | 25,160,000   |
| City of Bloomington        | 17,648,000  | 18,992,000  | 17,648,000   |
| City of Mishawaka          | 15,165,000  | 16,320,000  | 15,165,000   |
| City of Greensburg         | 14,587,450  | 12,887,175  | 14,587,450   |
| City of Huntington         | 10,383,000  | -   | 10,383,000   |
| City of Jasper             | 9,140,000   | 9,883,000   | 9,140,000  |
| City of Martinsville       | 8,891,424   | 9,402,424   | 9,070,000  |
| City of Michigan City      | 6,024,916   | 6,064,916   | 6,024,916  |
| Town of Santa Claus        | 5,764,000   | 5,986,000   | 5,764,000  |
| Town of Syracuse           | 5,351,568   | 5,596,568   | 5,351,568  |

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2011 and 2010**

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**NOTE 4 - INTEREST RECEIVABLE**

Interest receivable consists of accrued interest on investments and loans to participants as follows:

Interest receivable at June 30, 2011:

|                | Investments         | Loans                | Total                |
|----------------|---------------------|----------------------|----------------------|
| Wastewater     | \$ 4,075,687        | \$ 13,635,372        | \$ 17,711,059        |
| Drinking Water | 905,081             | 1,375,320            | 2,280,401            |
|                | <u>\$ 4,980,768</u> | <u>\$ 15,010,692</u> | <u>\$ 19,991,460</u> |

Interest receivable at June 30, 2010:

|                | Investments         | Loans                | Total                |
|----------------|---------------------|----------------------|----------------------|
| Wastewater     | \$ 4,907,275        | \$ 18,054,520        | \$ 22,961,795        |
| Drinking Water | 1,055,941           | 2,112,904            | 3,168,845            |
|                | <u>\$ 5,963,216</u> | <u>\$ 20,167,424</u> | <u>\$ 26,130,640</u> |

**NOTE 5 - DEFERRED CHARGES, NET**

Deferred charges represent bond issuance costs which are being amortized using the interest method over the life of the related bond issue. Accumulated amortization was \$12,916,418 and \$11,437,216 at June 30, 2011 and 2010, respectively. The net unamortized deferred charges were \$8,213,519 and \$8,337,489 at June 30, 2011 and 2010, respectively. At June 30, 2011, future amortization of deferred charges is as follows:

|               |                     |
|---------------|---------------------|
| June 30, 2012 | \$ 1,076,920        |
| June 30, 2013 | 1,006,237           |
| June 30, 2014 | 931,083             |
| June 30, 2015 | 857,510             |
| June 30, 2016 | 778,086             |
| Thereafter    | <u>3,563,683</u>    |
|               | <u>\$ 8,213,519</u> |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010**

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**NOTE 6 - ARBITRAGE REBATE AND YIELD REDUCTION PAYMENTS TO U.S. TREASURY**

Several series of bonds issued by the Indiana Bond Bank, succeeded by the Authority, in connection with the SRF Programs were the subject of legal opinions as of the date of their issuance to the effect that interest on such bonds was excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). Under the Code, such exclusion is conditioned on continuing compliance with certain tax covenants including payment of certain earnings in excess of the bond yield to the U.S. Treasury as rebate or yield reduction payments. The estimated liabilities, which were calculated as of January 31, 2011, are recorded in both the general short-term debt group for the current portion and the general long-term debt account group for the long term portion. With respect to such bonds, as of June 30, 2011, the SRF Programs had the following liabilities:

|                     | <b>Yield<br/>Reduction</b> | <b>Due Date</b>  |
|---------------------|----------------------------|------------------|
| <b>2004B</b>        |                            |                  |
| Wastewater Fund     | \$ 448,243                 | January 31, 2014 |
| Drinking Water Fund | 88,391                     | January 31, 2014 |
| <b>2007A</b>        |                            |                  |
| Wastewater Fund     | 1,135,431                  | January 31, 2012 |
| Drinking Water Fund | <u>167,474</u>             | January 31, 2012 |
|                     | <u>\$ 1,839,539</u>        |                  |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
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**NOTE 7 - BONDS PAYABLE**

Bonds payable at June 30, 2011 and 2010 for bonds issued on behalf of the SRF Programs are summarized as follows:

|   | 2011          | 2010        |
|---|---------------|-------------|
| <u>Wastewater Fund:</u>   |               |             |
| Series 2010C Refunding Bonds issued October 20, 2010 for the aggregate amount of \$64,925,000 to refund the callable portion of Series 2001A, 2002B and 2004B Bonds, maturing from February 1, 2020 to February 1, 2023 at interest rate of 5.00%. Of this, \$57,370,000 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program.                                 | \$ 57,370,000 | \$ -        |
| Series 2010B Bonds issued October 20, 2010 for the aggregate amount of \$100,000,000, maturing from February 1, 2011 to February 1, 2030 at interest rates ranging from 1.50% to 5.00%. Of this, \$80,000,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.  | 74,000,000    | -           |
| Series 2010A Refunding Bonds issued February 2, 2010 for the aggregate amount of \$288,970,000 to refund the callable portion of Series 2000B, 2001A, 2002B, 2004B and 2004C Bonds, maturing from February 1, 2011 to February 1, 2024 at interest rates ranging from 2.00% to 5.00%. Of this, \$246,735,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. | 246,170,000   | 246,735,000 |
| Series 2009A Bonds issued November 24, 2009 for the aggregate amount of \$138,990,000, maturing from February 1, 2011 to February 1, 2028 at interest rates ranging from 2.00% to 5.00%. Of this, \$121,235,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.  | 121,235,000   | 121,235,000 |

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**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010**

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**NOTE 7 - BONDS PAYABLE (Continued)**

|   | 2011          | 2010          |
|---|---------------|---------------|
| Series 2007B Bonds issued December 13, 2007 for the aggregate amount of \$94,530,000, maturing from February 1, 2010 to February 1, 2028 at interest rates ranging from 4.00% to 5.50%. Of this, \$66,305,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.  | \$ 63,940,000 | \$ 65,325,000 |
| Series 2007A Bonds issued May 30, 2007 for the aggregate amount of \$71,230,000, maturing from February 1, 2008 to February 1, 2027 at interest rates ranging from 4.00% to 5.00%. Of this, \$61,255,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.   | 61,255,000    | 61,255,000    |
| Series 2006B Bonds issued December 13, 2006 for the aggregate amount of \$142,930,000, maturing from February 1, 2008 to February 1, 2028 at interest rates ranging from 3.50% to 5.50%. Of this, \$112,745,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.  | 105,265,000   | 108,345,000   |
| Series 2006A Bonds issued April 25, 2006 for the aggregate amounts of \$221,355,000, maturing from February 1, 2007 to February 1, 2027 at interest rates ranging from 3.60% to 5.25%. Of this, \$203,760,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.  | 164,160,000   | 172,980,000   |
| Series 2005A Refunding Bonds issued December 7, 2005 for the aggregate amount of \$277,930,000 to refund the callable portion of Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds, maturing from February 1, 2006 to February 1, 2029 at interest rates ranging from 3.30% to 5.25%. Of this, \$197,950,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. | 181,420,000   | 189,385,000   |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
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**NOTE 7 - BONDS PAYABLE (Continued)**

|   | 2011          | 2010          |
|---|---------------|---------------|
| Series 2004A Refunding Bonds issued April 7, 2004 for the aggregate amount of \$113,115,000 to refund the callable portion of the Series 1994A and 1995A Bonds, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 1.74% to 3.98%.   | \$ 12,235,000 | \$ 28,180,000 |
| Series 2004B Bonds issued April 7, 2004 for the aggregate amounts of \$200,000,000, maturing from February 1, 2005 to February 1, 2025 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$167,480,000 was the final allocation to the WSRF program based upon the percentage of original bond proceeds allocated to each program. In February 2010, \$13,549,109 was refunded. In October 2010, \$6,528,667 was refunded. The remaining \$125,556,013 matures from February 1, 2012 to February 1, 2025.                                  | 125,556,013   | 135,601,896   |
| Series 2004C Bonds issued June 23, 2004 for the aggregate amount of \$200,000,000, maturing serially through February 1, 2027 at interest rates ranging from 5.00% to 5.25%. In February 2010, \$31,640,000 was refunded. The remaining \$139,910,000 matures from February 1, 2011 to February 1, 2027.  | 133,340,000   | 139,910,000   |
| Series 2002A Refunding Bonds issued December 23, 2002 for the aggregate amount of \$75,070,000 to refund the callable portion of the Series 1993A Bonds, maturing from February 1, 2004 to February 1, 2013 at interest rates ranging from 1.86% to 4.84%.  | 11,185,000    | 20,530,000    |
| Series 2002B Bonds issued December 23, 2002 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates ranging from 4.00% to 5.375%. Of this amount, \$52,422,270 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$3,775,000 was refunded. In February 2010, \$32,063,115 was refunded. In October 2010, \$6,705,000 was refunded. The remaining \$9,878,888 matures from February 1, 2013 to February 1, 2024. | 9,878,888     | 16,583,888    |

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**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010**

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**NOTE 7 - BONDS PAYABLE (Continued)**

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
| Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2003 to February 1, 2023 at interest rates ranging from 3.5% to 5.5%. Of this amount, \$320,104,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$2,885,000 was refunded. In February 2010, \$157,619,688 was refunded. In October 2010, \$45,540,603 was refunded. The remaining balance of \$67,635,627 matures from February 1, 2012 to February 1, 2023. | \$ 67,635,627        | \$ 124,996,070       |
| Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates ranging from 4.00% to 5.00%. Of this amount, \$67,750,534 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$25,983,504 was refunded. In September 2010, the remaining balance of \$20,927,982 was cash defeased.  | -                    | 20,927,982           |
| Subtotal-Wastewater   | <u>1,434,645,528</u> | <u>1,451,989,836</u> |
| <br><u>Drinking Water Fund:</u>   |                      |                      |
| Series 2010C Refunding Bonds issued October 20, 2010 for the aggregate amount of \$64,925,000 to refund the callable portion of Series 2001A, 2002B and 2004B Bonds, maturing from February 1, 2020 to February 1, 2023 at interest rate of 5.00%. Of this, \$7,555,000 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program.   | 7,555,000            | -                    |
| Series 2010B Bonds issued October 20, 2010 for the aggregate amount of \$100,000,000, maturing from February 1, 2011 to February 1, 2030 at interest rates ranging from 1.50% to 5.00%. Of this, \$20,000,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.   | 18,535,000           | -                    |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010**

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**NOTE 7 - BONDS PAYABLE (Continued)**

|   | 2011          | 2010          |
|---|---------------|---------------|
| Series 2010A Refunding Bonds issued February 2, 2010 for the aggregate amount of \$288,970,000 to refund the callable portion of Series 2000B, 2001A, 2002B, 2004B and 2004C Bonds, maturing from February 1, 2011 to February 1, 2024 at interest rates ranging from 2.00% to 5.00%. Of this, \$42,235,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. | \$ 42,165,000 | \$ 42,235,000 |
| Series 2009A Bonds issued November 24, 2009 for the aggregate amount of \$138,990,000, maturing from February 1, 2011 to February 1, 2028 at interest rates ranging from 2.00% to 5.00%. Of this, \$17,755,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.  | 17,585,000    | 17,755,000    |
| Series 2007B Bonds issued December 13, 2007 for the aggregate amount of \$94,530,000, maturing from February 1, 2010 to February 1, 2028 at interest rates ranging from 4.00% to 5.50%. Of this, \$28,225,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.   | 26,315,000    | 27,425,000    |
| Series 2007A Bonds issued May 30, 2007 for the aggregate amount of \$71,230,000, maturing from February 1, 2008 to February 1, 2027 at interest rates ranging from 4.00% to 5.00%. Of this, \$9,975,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.   | 9,035,000     | 9,230,000     |
| Series 2006B Bonds issued December 13, 2006 for the aggregate amount of \$142,930,000, maturing from February 1, 2008 to February 1, 2028 at interest rates ranging from 3.50% to 5.50%. Of this, \$30,185,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.  | 24,055,000    | 25,730,000    |

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**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010**

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**NOTE 7 - BONDS PAYABLE (Continued)**

|   | 2011          | 2010          |
|---|---------------|---------------|
| Series 2006A Bonds issued April 25, 2006 for the aggregate amounts of \$221,355,000, maturing from February 1, 2007 to February 1, 2027 at interest rates ranging from 3.60% to 5.25%. Of this, \$17,595,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.  | \$ 13,980,000 | \$ 14,765,000 |
| Series 2005A Refunding Bonds issued December 7, 2005 for the aggregate amount of \$277,930,000 to refund the callable portion of Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds, maturing from February 1, 2006 to February 1, 2029 at interest rates ranging from 3.30% to 5.25%. Of this, \$77,535,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.   | 57,035,000    | 61,540,000    |
| Series 2004B Bonds issued April 7, 2004 for the aggregate amount of \$200,000,000, maturing from February 1, 2005 to February 1, 2025 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$32,520,000 was the final allocation to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In February 2010, \$2,310,891 was refunded. In October 2010, \$1,201,333 was refunded. The remaining \$24,758,987 matures from February 1, 2012 to February 1, 2025. | 24,758,987    | 26,643,104    |
| Series 2002B Bonds issued December 23, 2004 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates ranging from 4.00% to 5.375%. Of this amount, \$14,272,730 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$2,165,000 was refunded. In February 2010, \$5,246,885 was refunded. The remaining \$6,861,112 matures from February 1, 2013 to February 1, 2024.        | 6,861,112     | 6,861,112     |

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**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010**

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**NOTE 7 - BONDS PAYABLE (Continued)**

|   | 2011                    | 2010                    |
|---|-------------------------|-------------------------|
| Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2004 to February 1, 2023 at interest rates ranging from 3.5% to 5.5%. Of this amount, \$79,896,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$16,600,000 was refunded. In February 2010, \$22,685,312 was refunded. In October 2010, \$6,559,397 was refunded. The remaining \$21,739,373 matures from February 1, 2012 to February 1, 2023. | \$ 21,739,373           | \$ 31,248,930           |
| Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates ranging from 4.00% to 5.00%. Of this amount, \$22,249,466 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$10,421,496 was refunded. In September 2010, the remaining balance of \$4,192,018 was cash defeased.  | <u>-</u>                | <u>4,192,018</u>        |
| Subtotal-Drinking Water   | <u>269,619,472</u>      | <u>267,625,164</u>      |
| Total Principal   | 1,704,265,000           | 1,719,615,000           |
| Loss on refunding   | (27,743,968)            | (26,605,175)            |
| Net premium on bonds payable  | <u>94,840,930</u>       | <u>89,679,599</u>       |
| Total Bonds Payable   | 1,771,361,962           | 1,782,689,424           |
| Less: Current portion   | <u>88,245,000</u>       | <u>85,810,000</u>       |
| Long-term Portion   | <u>\$ 1,683,116,962</u> | <u>\$ 1,696,879,424</u> |

In December 2005, the Authority issued Series 2005A Refunding Bonds for the aggregate amount of \$277,930,000, which included \$258,815,000 of refunding debt. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds.

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2011 and 2010**

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In March 2008, the Authority cash defeased the remaining maturities of the Series 2000A Bonds. A cash deposit of \$30,585,073 was made to an escrow fund, which will pay principal and interest for the defeased debt totaling \$28,725,000.

In February 2010, the Authority issued Series 2010A Refunding Bonds for the aggregate amount of \$288,970,000. The bonds were sold at a premium and refunded \$292,770,000 of prior debt. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 2000B, 2001A, 2002B, 2004B and 2004C Bonds. The cash flow difference between the debt service on the refunded bonds and the new debt was \$14,768,576 and the economic gain was \$13,417,876.

The Authority cash defeased the remaining maturities of the Series 1998A Bonds in September 2010. All bonds were redeemed and are no longer outstanding.

In October 2010, the Authority issued Series 2010C Refunding Bonds for the aggregate amount of \$64,925,000. The bonds were sold at a premium and refunded \$66,535,000 of prior debt. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 2001A, 2002B and 2004B Bonds. Debt service payments on the new bonds are \$3,541,767 less than on the refunded bonds and the economic gain was \$2,902,053.

The bonds referred to above are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding balances of \$369,625,000 and \$480,665,000 as of June 30, 2011 and 2010, respectively.

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2011 and 2010**

**NOTE 7 - BONDS PAYABLE (Continued)**

The aggregate debt service requirements for all bonds allocable to the SRF Programs as of June 30, 2011, are as follows:

|                   | Principal              |                      |                        | Interest              |                       |                       | Debt Service Total     |
|-------------------|------------------------|----------------------|------------------------|-----------------------|-----------------------|-----------------------|------------------------|
|                   | Wastewater Fund        | Drinking Water Fund  | Total                  | Wastewater Fund       | Drinking Water Fund   | Total                 |                        |
| 2012              | \$ 74,143,001          | \$ 14,101,999        | \$ 88,245,000          | \$ 70,073,314         | \$ 13,098,590         | \$ 83,171,904         | \$ 171,416,904         |
| 2013              | 79,285,753             | 15,269,247           | 94,555,000             | 66,532,094            | 12,418,560            | 78,950,654            | 173,505,654            |
| 2014              | 88,738,599             | 16,721,401           | 105,460,000            | 62,536,172            | 11,702,819            | 74,238,991            | 179,698,991            |
| 2015              | 90,947,319             | 17,492,681           | 108,440,000            | 58,440,357            | 10,946,846            | 69,387,203            | 177,827,203            |
| 2016              | 95,395,000             | 18,165,000           | 113,560,000            | 54,097,819            | 10,156,040            | 64,253,859            | 177,813,859            |
| 2017-2021         | 508,669,037            | 104,875,963          | 613,545,000            | 198,508,450           | 36,360,811            | 234,869,261           | 848,414,261            |
| 2022-2026         | 375,606,819            | 65,328,181           | 440,935,000            | 81,255,731            | 12,491,825            | 93,747,556            | 534,682,556            |
| 2027-2030         | <u>121,860,000</u>     | <u>17,665,000</u>    | <u>139,525,000</u>     | <u>11,437,662</u>     | <u>1,550,869</u>      | <u>12,988,531</u>     | <u>152,513,531</u>     |
|                   | 1,434,645,528          | 269,619,472          | 1,704,265,000          | 602,881,599           | 108,726,360           | 711,607,959           | 2,415,872,959          |
| Loss on Refunding | (23,679,565)           | (4,064,403)          | (27,743,968)           | -                     | -                     | -                     | (27,743,968)           |
| Premium           | <u>80,019,103</u>      | <u>14,821,827</u>    | <u>94,840,930</u>      | <u>-</u>              | <u>-</u>              | <u>-</u>              | <u>94,840,930</u>      |
| Total             | <u>\$1,490,985,066</u> | <u>\$280,376,896</u> | <u>\$1,771,361,962</u> | <u>\$ 602,881,599</u> | <u>\$ 108,726,360</u> | <u>\$ 711,607,959</u> | <u>\$2,482,969,921</u> |

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2011 and 2010**

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**NOTE 7 - BONDS PAYABLE (Continued)**

The following is a summary of total debt service:

|                         | Interest<br>Rates Ranges | Maturity<br>Range | Annual<br>Payment Range       | Principal               |
|-------------------------|--------------------------|-------------------|-------------------------------|-------------------------|
| Wastewater Fund         | 2.00%-5.50%              | 2012-2030         | \$ 13,050,000 - \$110,360,320 | \$ 1,434,645,528        |
| Drinking Water Fund     | 2.00%-5.50%              | 2012-2029         | 4,375,000 - 22,020,000        | <u>269,619,472</u>      |
| Combined Programs       | 2.00%-5.50%              | 2012-2030         | 13,050,000 - 131,360,000      | 1,704,265,000           |
| Less: Current Portion   |                          |                   |                               | <u>88,245,000</u>       |
| Total Long-term Portion |                          |                   |                               | <u>\$ 1,616,020,000</u> |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010**

**NOTE 8 - LONG-TERM LIABILITIES**

Long-term liabilities activity for the years ended June 30, 2011 and 2010 was as follows:

|                                  | Balance<br>Beginning<br>of Year | Increases             | Decreases             | Balance<br>End of Year | Amounts Due<br>Within<br>One Year | Amounts<br>Due<br>Thereafter |
|----------------------------------|---------------------------------|-----------------------|-----------------------|------------------------|-----------------------------------|------------------------------|
| June 30, 2011:                   |                                 |                       |                       |                        |                                   |                              |
| Amount due to federal government | \$ 5,247,400                    | \$ 925,176            | \$ 4,333,037          | \$ 1,839,539           | \$ 1,302,905                      | \$ 536,634                   |
| Bonds payable                    | 1,719,615,000                   | 164,925,000           | 180,275,000           | 1,704,265,000          | 88,245,000                        | 1,616,020,000                |
| Loss on refunding                | (26,605,175)                    | 5,539,847             | 6,678,640             | (27,743,968)           | -                                 | (27,743,968)                 |
| Net premium on bonds payable     | 89,679,599                      | 19,648,109            | 14,486,778            | 94,840,930             | -                                 | 94,840,931                   |
|                                  | <u>\$ 1,787,936,824</u>         | <u>\$ 191,038,132</u> | <u>\$ 204,012,344</u> | <u>\$1,773,201,501</u> | <u>\$ 89,547,905</u>              | <u>\$ 1,683,653,596</u>      |
| June 30, 2010:                   |                                 |                       |                       |                        |                                   |                              |
| Amount due to federal government | \$ 7,563,275                    | \$ 1,063,129          | \$ 3,379,004          | \$ 5,247,400           | \$ 3,761,898                      | \$ 1,485,502                 |
| Bonds payable                    | 1,663,615,000                   | 427,960,000           | 371,960,000           | 1,719,615,000          | 85,810,000                        | 1,633,805,000                |
| Loss on refunding                | (7,369,941)                     | 5,288,128             | 24,523,362            | (26,605,175)           | -                                 | (26,605,175)                 |
| Net premium on bonds payable     | 59,729,000                      | 45,963,711            | 16,013,112            | 89,679,599             | -                                 | 89,679,599                   |
|                                  | <u>\$ 1,723,537,334</u>         | <u>\$ 480,274,968</u> | <u>\$ 415,875,478</u> | <u>\$1,787,936,824</u> | <u>\$ 89,571,898</u>              | <u>\$ 1,698,364,926</u>      |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010**

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**NOTE 9 - FUND TRANSFERS**

Consistent with its Intended Use Plans and EPA's related Policy Statement, the Authority is required to report on transfers between the DWSRF and the WSRF in its Financial Statements. In its Intended Use Plans, the SRF Programs retained the flexibility to make transfers of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. As of June 30, 2011, an amount up to 33% of the Safe Drinking Water Act grants for Federal Fiscal Years (FFY) 1997 through 2011 could be so transferred on a net cumulative basis between the two SRF Program funds.

Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2011, to date, the following transfers were made:

|      |               |
|------|---------------|
| 2001 | \$ 20,464,898 |
| 2002 | 3,270,417     |

**NOTE 10 - PROGRAM REVENUE**

For the years ended June 30, 2011 and 2010, program revenues consisted of the following:

|  | 2011                  | 2010                  |
|--|-----------------------|-----------------------|
| Interest and other income              | \$ 80,999,610         | \$ 91,260,041         |
| Capital contributions - federal grants | <u>85,400,959</u>     | <u>129,790,385</u>    |
|  | <u>\$ 166,400,569</u> | <u>\$ 221,050,426</u> |

**NOTE 11 - SUBSEQUENT EVENTS**

On August 26, 2011, the City of Indianapolis' wastewater utility was sold to a private entity and as a result, all of the SRF obligations associated with the City of Indianapolis Sanitary District were defeased in their entirety pursuant to an Escrow Deposit Agreement dated as of August 1, 2011 between the Indianapolis Bond Bank and The Bank of New York Mellon Trust Company, N.A. As a consequence, the defeased Indianapolis SRF Bonds are payable solely from the Indianapolis Escrow Funds.

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*Independent Auditors' Report  
on Combining Schedules*

Members of the Indiana Finance Authority  
State Revolving Fund Loan Programs

Our report on our audits of the basic combined financial statements of the State Revolving Fund Loan Programs for the years ended June 30, 2011 and 2010, appears on pages 1-2. Those audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying combining schedules are presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position, results of operations and cash flows of the individual programs. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
September 27, 2011

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**COMBINING SCHEDULES - STATEMENTS OF NET ASSETS INFORMATION**  
**June 30, 2011 and 2010**

|   | <b>Wastewater Program</b> |                       | <b>Drinking Water Program</b> |                       | <b>Combined</b>         |                         |
|---|---------------------------|-----------------------|-------------------------------|-----------------------|-------------------------|-------------------------|
|   | <b>2011</b>               | <b>2010</b>           | <b>2011</b>                   | <b>2010</b>           | <b>2011</b>             | <b>2010</b>             |
| <b>ASSETS</b>   |                           |                       |                               |                       |                         |                         |
| Current Assets:   |                           |                       |                               |                       |                         |                         |
| Cash and equivalents  | \$ 434,999,778            | \$ 441,628,842        | \$ 85,772,347                 | \$ 99,960,148         | \$ 520,772,125          | \$ 541,588,990          |
| Interest receivable-investments   | 4,075,687                 | 4,907,275             | 905,081                       | 1,055,941             | 4,980,768               | 5,963,216               |
| Interest receivable-loans   | 13,635,372                | 18,054,520            | 1,375,320                     | 2,112,904             | 15,010,692              | 20,167,424              |
| Due from EPA  | 27,548,683                | 36,296,641            | 10,736,295                    | 15,185,240            | 38,284,978              | 51,481,881              |
| Accounts receivable   | 422,086                   | 2,229,349             | -                             | 1,004,000             | 422,086                 | 3,233,349               |
| Loans receivable, net of allowance  | 79,136,513                | 81,041,135            | 14,278,456                    | 13,846,520            | 93,414,969              | 94,887,655              |
| Total Current Assets  | <u>559,818,119</u>        | <u>584,157,762</u>    | <u>113,067,499</u>            | <u>133,164,753</u>    | <u>672,885,618</u>      | <u>717,322,515</u>      |
| Noncurrent Assets:  |                           |                       |                               |                       |                         |                         |
| Investments   | 300,175,375               | 332,041,143           | 91,160,301                    | 94,512,741            | 391,335,676             | 426,553,884             |
| Loans receivable, net of allowance  | 1,519,152,790             | 1,451,428,819         | 299,457,451                   | 262,022,074           | 1,818,610,241           | 1,713,450,893           |
| Equipment, net  | 30,423                    | 16,412                | 14,167                        | 6,167                 | 44,590                  | 22,579                  |
| Deferred charges, net   | 6,924,261                 | 7,037,037             | 1,289,258                     | 1,300,452             | 8,213,519               | 8,337,489               |
| Total Noncurrent Assets   | <u>1,826,282,849</u>      | <u>1,790,523,411</u>  | <u>391,921,177</u>            | <u>357,841,434</u>    | <u>2,218,204,026</u>    | <u>2,148,364,845</u>    |
| Total Assets  | <u>2,386,100,968</u>      | <u>2,374,681,173</u>  | <u>504,988,676</u>            | <u>491,006,187</u>    | <u>2,891,089,644</u>    | <u>2,865,687,360</u>    |
| <b>LIABILITIES</b>  |                           |                       |                               |                       |                         |                         |
| Current Liabilities:  |                           |                       |                               |                       |                         |                         |
| Interest payable  | 29,286,022                | 29,608,506            | 5,479,912                     | 5,459,334             | 34,765,934              | 35,067,840              |
| Accounts payable  | 358,386                   | 263,967               | 23,387                        | -                     | 381,773                 | 263,967                 |
| Amount due to federal government  | 1,135,431                 | 3,230,255             | 167,474                       | 531,643               | 1,302,905               | 3,761,898               |
| Bonds payable-current, net  | 74,143,001                | 72,517,056            | 14,101,999                    | 13,292,944            | 88,245,000              | 85,810,000              |
| Total Current Liabilities   | <u>104,922,840</u>        | <u>105,619,784</u>    | <u>19,772,772</u>             | <u>19,283,921</u>     | <u>124,695,612</u>      | <u>124,903,705</u>      |
| Long-term Liabilities:  |                           |                       |                               |                       |                         |                         |
| Amount due to federal government  | 448,243                   | 1,270,489             | 88,391                        | 215,013               | 536,634                 | 1,485,502               |
| Bonds payable, net  | 1,416,842,065             | 1,432,543,588         | 266,274,897                   | 264,335,836           | 1,683,116,962           | 1,696,879,424           |
| Total Long-term Liabilities   | <u>1,417,290,308</u>      | <u>1,433,814,077</u>  | <u>266,363,288</u>            | <u>264,550,849</u>    | <u>1,683,653,596</u>    | <u>1,698,364,926</u>    |
| Total Liabilities   | <u>1,522,213,148</u>      | <u>1,539,433,861</u>  | <u>286,136,060</u>            | <u>283,834,770</u>    | <u>1,808,349,208</u>    | <u>1,823,268,631</u>    |
| <b>NET ASSETS</b>   |                           |                       |                               |                       |                         |                         |
| Restricted for water pollution and drinking water projects and other related program purposes | <u>\$ 863,887,820</u>     | <u>\$ 835,247,312</u> | <u>\$ 218,852,616</u>         | <u>\$ 207,171,417</u> | <u>\$ 1,082,740,436</u> | <u>\$ 1,042,418,729</u> |

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**COMBINING SCHEDULES - STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION**  
**Years Ended June 30, 2011 and 2010**

|   | Waste water Program   |                       | Drinking Water Program |                       | Combined                |                         |
|---|-----------------------|-----------------------|------------------------|-----------------------|-------------------------|-------------------------|
|   | 2011                  | 2010                  | 2011                   | 2010                  | 2011                    | 2010                    |
| <b>OPERATING REVENUE</b>                    |                       |                       |                        |                       |                         |                         |
| Interest income-investments                 | \$ 14,647,112         | \$ 24,815,480         | \$ 4,215,072           | \$ 7,579,928          | \$ 18,862,184           | \$ 32,395,408           |
| Interest income-loan participants           | 52,341,579            | 49,436,480            | 9,351,039              | 8,742,016             | 61,692,618              | 58,178,496              |
| Administration and premium fees             | 19,000                | 49,001                | 7,061                  | 26,000                | 26,061                  | 75,001                  |
| Other                                       | -                     | -                     | 418,747                | 611,136               | 418,747                 | 611,136                 |
| Total Operating Revenue                     | <u>67,007,691</u>     | <u>74,300,961</u>     | <u>13,991,919</u>      | <u>16,959,080</u>     | <u>80,999,610</u>       | <u>91,260,041</u>       |
| <b>OPERATING EXPENSES</b>                   |                       |                       |                        |                       |                         |                         |
| Interest                                    | 64,564,773            | 66,755,699            | 11,927,532             | 13,111,553            | 76,492,305              | 79,867,252              |
| Amortization of deferred charges            | 1,042,116             | 809,566               | 196,103                | 148,465               | 1,238,219               | 958,031                 |
| Trustee fees                                | 79,538                | 89,960                | -                      | -                     | 79,538                  | 89,960                  |
| Other program and administrative            | 3,681,921             | 2,413,900             | 714,800                | 626,376               | 4,396,721               | 3,040,276               |
| Total Operating Expenses                    | <u>69,368,348</u>     | <u>70,069,125</u>     | <u>12,838,435</u>      | <u>13,886,394</u>     | <u>82,206,783</u>       | <u>83,955,519</u>       |
| <b>OPERATING INCOME (LOSS)</b>              | (2,360,657)           | 4,231,836             | 1,153,484              | 3,072,686             | (1,207,173)             | 7,304,522               |
| <b>NONOPERATING REVENUES AND (EXPENSES)</b> |                       |                       |                        |                       |                         |                         |
| Capital contributions                       | 65,767,047            | 95,563,548            | 19,633,912             | 34,226,837            | 85,400,959              | 129,790,385             |
| Loan forgiveness                            | (34,765,882)          | (51,781,912)          | (9,106,197)            | (18,974,464)          | (43,872,079)            | (70,756,376)            |
| Total Nonoperating Revenues and (Expenses)  | <u>31,001,165</u>     | <u>43,781,636</u>     | <u>10,527,715</u>      | <u>15,252,373</u>     | <u>41,528,880</u>       | <u>59,034,009</u>       |
| <b>INCREASE IN NET ASSETS</b>               | 28,640,508            | 48,013,472            | 11,681,199             | 18,325,059            | 40,321,707              | 66,338,531              |
| <b>NET ASSETS</b>                           |                       |                       |                        |                       |                         |                         |
| Beginning of Year                           | <u>835,247,312</u>    | <u>787,233,840</u>    | <u>207,171,417</u>     | <u>188,846,358</u>    | <u>1,042,418,729</u>    | <u>976,080,198</u>      |
| End of Year                                 | <u>\$ 863,887,820</u> | <u>\$ 835,247,312</u> | <u>\$ 218,852,616</u>  | <u>\$ 207,171,417</u> | <u>\$ 1,082,740,436</u> | <u>\$ 1,042,418,729</u> |

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**COMBINING SCHEDULES - STATEMENTS OF CASH FLOWS INFORMATION**  
**Years Ended June 30, 2011 and 2010**

|   | Wastewater Program    |                       | Drinking Water Program |                       | Combined              |                       |
|---|-----------------------|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
|   | 2011                  | 2010                  | 2011                   | 2010                  | 2011                  | 2010                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                       |                       |                        |                       |                       |                       |
| Cash receipts (payments) for salaries, administrative, interest and other revenues (expenses) | \$ (1,859,777)        | \$ (4,709,390)        | \$ 731,334             | \$ (1,036,647)        | \$ (1,128,443)        | \$ (5,746,037)        |
| Administration fee  | 19,000                | 49,001                | 7,061                  | 26,000                | 26,061                | 75,001                |
| Net Cash Provided (Used) by Operating Activities  | <u>(1,840,777)</u>    | <u>(4,660,389)</u>    | <u>738,395</u>         | <u>(1,010,647)</u>    | <u>(1,102,382)</u>    | <u>(5,671,036)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                       |                       |                        |                       |                       |                       |
| Maturities of loans to participants   | 101,433,749           | 93,596,921            | 16,761,724             | 13,575,485            | 118,195,473           | 107,172,406           |
| Issuance of loans to participants   | (167,253,098)         | (153,725,056)         | (54,629,037)           | (23,158,818)          | (221,882,135)         | (176,883,874)         |
| Change in investments   | 31,865,768            | 27,116,252            | 3,352,440              | 806,952               | 35,218,208            | 27,923,204            |
| Interest received on loans and investments  | 72,239,427            | 73,221,405            | 14,454,555             | 16,260,047            | 86,693,982            | 89,481,452            |
| Purchase of capital assets  | (14,011)              | 5,988                 | (8,000)                | 2,000                 | (22,011)              | 7,988                 |
| Net Cash (Used) by Investing Activities   | <u>38,271,835</u>     | <u>40,215,510</u>     | <u>(20,068,318)</u>    | <u>7,485,666</u>      | <u>18,203,517</u>     | <u>47,701,176</u>     |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>                                       |                       |                       |                        |                       |                       |                       |
| Proceeds from debt issuance   | 137,370,000           | 367,970,000           | 27,555,000             | 59,990,000            | 164,925,000           | 427,960,000           |
| Principal payments to reduce indebtedness including refunding                                 | (151,445,578)         | (308,101,419)         | (24,806,884)           | (53,143,216)          | (176,252,462)         | (361,244,635)         |
| Payment of debt issuance costs, net of refunding  | (929,340)             | (1,143,603)           | (184,909)              | (187,346)             | (1,114,249)           | (1,330,949)           |
| Change in amount due to federal government  | (2,917,070)           | (1,877,879)           | (490,791)              | (437,996)             | (3,407,861)           | (2,315,875)           |
| Interest paid on debt   | (64,887,257)          | (66,314,882)          | (11,906,954)           | (13,134,337)          | (76,794,211)          | (79,449,219)          |
| Net Cash Provided (Used) by Non-Capital Financing Activities                                  | <u>(82,809,245)</u>   | <u>(9,467,783)</u>    | <u>(9,834,538)</u>     | <u>(6,912,895)</u>    | <u>(92,643,783)</u>   | <u>(16,380,678)</u>   |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>   |                       |                       |                        |                       |                       |                       |
| Capital Contributions (EPA Grants)  | 74,515,005            | 76,123,694            | 24,082,857             | 31,791,138            | 98,597,862            | 107,914,832           |
| Issuance of forgivable loans to participants  | (34,765,882)          | (51,781,912)          | (9,106,197)            | (18,974,464)          | (43,872,079)          | (70,756,376)          |
| Net Cash Provided by Capital Financing Activities   | <u>39,749,123</u>     | <u>24,341,782</u>     | <u>14,976,660</u>      | <u>12,816,674</u>     | <u>54,725,783</u>     | <u>37,158,456</u>     |
| <b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>  | (6,629,064)           | 50,429,120            | (14,187,801)           | 12,378,798            | (20,816,865)          | 62,807,918            |
| <b>CASH AND EQUIVALENTS</b>   |                       |                       |                        |                       |                       |                       |
| Beginning of Year   | 441,628,842           | 391,199,722           | 99,960,148             | 87,581,350            | 541,588,990           | 478,781,072           |
| End of Year   | <u>\$ 434,999,778</u> | <u>\$ 441,628,842</u> | <u>\$ 85,772,347</u>   | <u>\$ 99,960,148</u>  | <u>\$ 520,772,125</u> | <u>\$ 541,588,990</u> |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES</b>     |                       |                       |                        |                       |                       |                       |
| Operating income (loss)   | \$ (2,360,657)        | \$ 4,231,836          | \$ 1,153,484           | \$ 3,072,686          | \$ (1,207,173)        | \$ 7,304,522          |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities:    |                       |                       |                        |                       |                       |                       |
| Interest income   | (66,988,691)          | (74,251,960)          | (13,566,111)           | (16,321,944)          | (80,554,802)          | (90,573,904)          |
| Interest expense  | 64,564,773            | 66,755,699            | 11,927,532             | 13,111,553            | 76,492,305            | 79,867,252            |
| Amortization of deferred charges  | 1,042,116             | 809,566               | 196,103                | 148,465               | 1,238,219             | 958,031               |
| Changes in assets and liabilities:  |                       |                       |                        |                       |                       |                       |
| Accounts receivable   | 1,807,263             | (2,229,349)           | 1,004,000              | (1,004,000)           | 2,811,263             | (3,233,349)           |
| Accounts payable  | 94,419                | 23,819                | 23,387                 | (17,407)              | 117,806               | 6,412                 |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ (1,840,777)</u> | <u>\$ (4,660,389)</u> | <u>\$ 738,395</u>      | <u>\$ (1,010,647)</u> | <u>\$ (1,102,382)</u> | <u>\$ (5,671,036)</u> |



**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
OMB CIRCULAR A-133 AUDITORS' REPORTS**

**June 30, 2011**

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

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*Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards*

*Year Ended June 30, 2011*

Members of the Indiana Finance Authority  
State Revolving Fund Loan Programs

We have audited the combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

## **Compliance and Other Matters**

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

This report is intended solely for the information and use of management, Members of the Indiana Finance Authority, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Katz, Sapp & Miller, LLP*

Indianapolis, Indiana  
September 27, 2011

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2011**

|  | <b>Federal<br/>CFDA<br/>Number</b> | <b>Grant<br/>Number</b> | <b>Program<br/>or Award<br/>Amount</b> | <b>Federal<br/>Expenditures</b> |
|--|------------------------------------|-------------------------|--|---------------------------------|
| <b>U.S. ENVIRONMENTAL PROTECTION AGENCY:</b> |                                    |                         |  |                                 |
| Capitalization Grants for Clean              |                                    |                         |  |                                 |
| Water State Revolving Funds                  | 66.458                             | CS 18000110-0           | 49,104,000                             | 8,074,136                       |
|  | 66.458                             | CS 18000111-0           | 35,588,000                             | <u>27,548,683</u>               |
|  |                                    |                         |  | <u>35,622,819</u>               |
| ARRA-Capitalization Grants for Clean         |                                    |                         |  |                                 |
| Water State Revolving Funds                  | 66.458                             | 2W-00E73001             | 94,447,500                             | <u>30,142,965</u> *             |
|  |                                    |                         |  | <u>65,765,784</u>               |
| Capitalization Grants for Drinking           |                                    |                         |  |                                 |
| Water State Revolving Funds                  | 66.468                             | FS98548609-0            | 454,680                                | 324,230                         |
|  | 66.468                             | FS98548610-0            | 22,185,240                             | 2,642,856                       |
|  | 66.468                             | FS98548610-0            | 452,760                                | 94,517                          |
|  | 66.468                             | FS98548611-0            | 15,394,820                             | 10,712,908                      |
|  | 66.468                             | FS98548606-0            | 208,744                                | <u>208,744</u>                  |
|  |                                    |                         |  | <u>13,983,255</u>               |
| ARRA-Capitalization Grants for Drinking      |                                    |                         |  |                                 |
| Water State Revolving Funds                  | 66.468                             | 2F-00E72901             | 27,212,000                             | <u>6,069,404</u> *              |
|  |                                    |                         |  | <u>20,052,659</u>               |
|  |                                    |                         |  | <u>\$ 85,818,443</u>            |

\* Grant relates to the American Recovery and Reinvestment Act of 2009

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

**NOTE 2 - SUBRECIPIENTS**

The State Revolving Fund Loan Programs provided federal awards to subrecipients as follows:

| <b>Program Title</b>   | <b>CFDA<br/>Number</b> | <b>Amount<br/>Provided</b> |
|--|------------------------|----------------------------|
| Capitalization Grants for Clean Water<br>State Revolving Funds         | 66.458                 | \$35,622,819               |
| ARRA-Capitalization Grants for Clean Water<br>State Revolving Funds    | 66.458                 | \$30,142,965               |
| Capitalization Grants for Drinking Water<br>State Revolving Funds      | 66.468                 | \$13,355,764               |
| ARRA-Capitalization Grants for Drinking Water<br>State Revolving Funds | 66.468                 | \$ 6,069,404               |

*Independent Auditors' Report on Compliance With  
Requirements That Could Have a Direct and  
Material Effect on Each Major Program and on  
Internal Control Over Compliance in  
Accordance with OMB Circular A-133*

*Year Ended June 30, 2011*

Members of the Indiana Finance Authority  
State Revolving Fund Loan Programs

## **Compliance**

We have audited the State Revolving Fund Loan Programs' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of State Revolving Fund Loan Programs' major federal programs for the year ended June 30, 2011. The State Revolving Fund Loan Programs' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State Revolving Fund Loan Programs' management. Our responsibility is to express an opinion on the State Revolving Fund Loan Programs' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State Revolving Fund Loan Programs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State Revolving Fund Loan Programs' compliance with those requirements.

In our opinion, the State Revolving Fund Loan Programs complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## **Internal Control Over Compliance**

Management of the State Revolving Fund Loan Programs is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State Revolving Fund Loan Programs' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State Revolving Fund Loan Programs' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

## **Schedule of Expenditures of Federal Awards**

We have audited the combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 27, 2011. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise the State Revolving Fund Loan Programs' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, Members of the Indiana Finance Authority, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Katz, Sappan & Miller, LLP*

Indianapolis, Indiana  
September 27, 2011

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

**SECTION I – Summary of Auditors’ Results**

*Financial Statements*

Type of auditor’s report issued [*unqualified, qualified, adverse, or disclaimer*]: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Type of auditor’s report issued on compliance for major programs [*unqualified, qualified, adverse, or disclaimer*]: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  yes  no

Identification of major programs:

| CFDA Number | Agency                             | Title   |
|-------------|------------------------------------|---|
| 66.458      | U.S. Environment Protection Agency | Capitalization Grants for Clean Water State Revolving Funds         |
| 66.458      | U.S. Environment Protection Agency | ARRA-Capitalization Grants for Clean Water State Revolving Funds    |
| 66.468      | U.S Environment Protection Agency  | Capitalization Grants for Drinking Water State Revolving Funds      |
| 66.468      | U.S Environment Protection Agency  | ARRA-Capitalization Grants for Drinking Water State Revolving Funds |

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2011**

**SECTION I – Summary of Auditors’ Results (Continued)**

|  |   |
|--|---|
| Dollar threshold used to distinguish between type A and type B programs: | \$2,574,553   |
| Auditee qualified as low-risk auditee?                                   | <input checked="" type="checkbox"/> yes <input type="checkbox"/> no |

**SECTION II – Financial Statement Findings**

None

**SECTION III – Federal Award Findings and Questioned Costs**

None

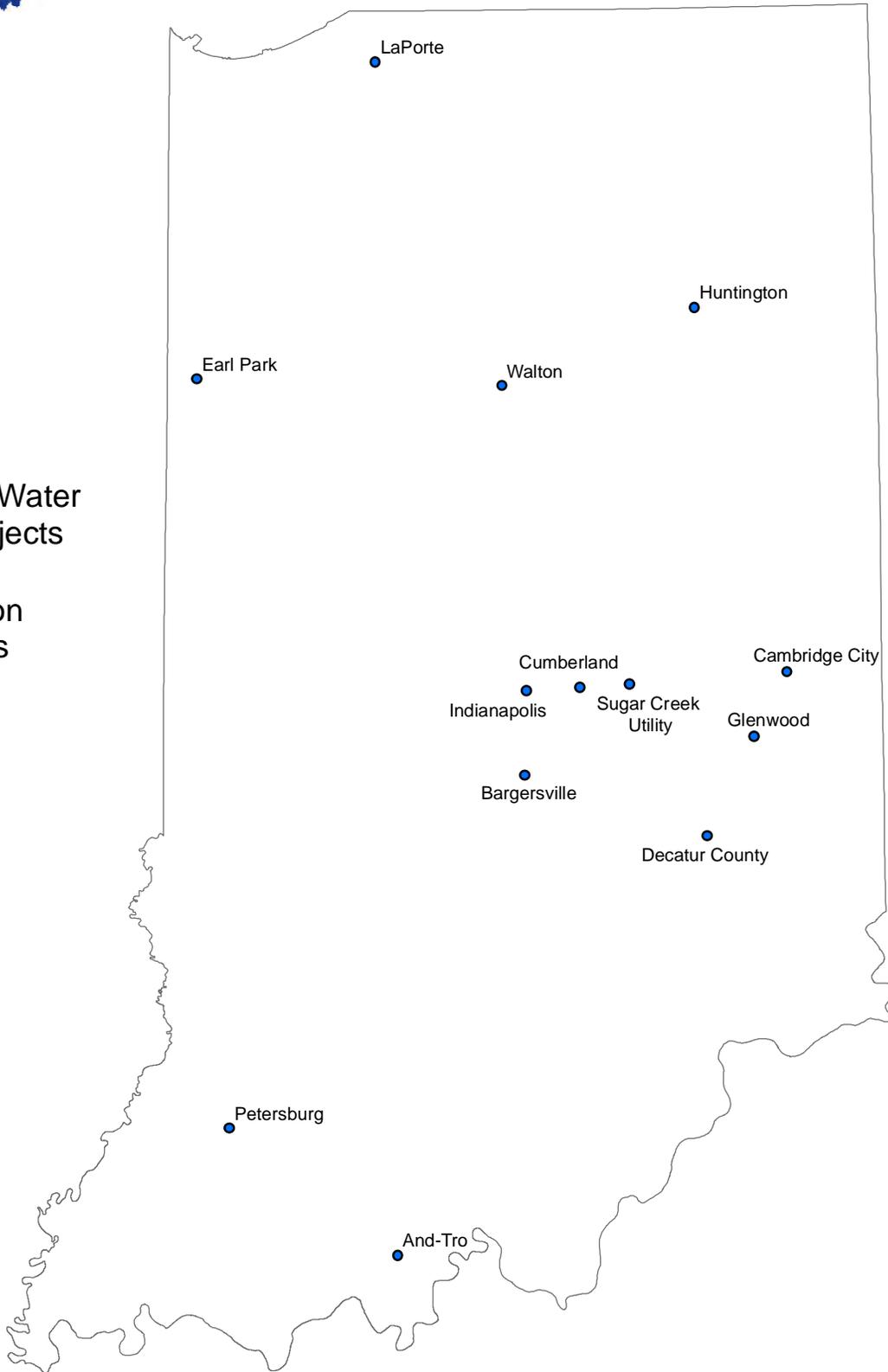


Drinking Water Projects Closed in State Fiscal Year 2011  
(July 1, 2010 - June 30, 2011)

**Legend**

● Drinking Water  
2011 Projects

\$40 million  
13 loans





Indiana DWSRF Loan Program  
Exhibit O - Summary of Set-Aside Funds in SFY 2011

| Cap Grant Year | Set-Aside                            | Current Award Amount | Balance on 7/1/10 | ASAP Activity Date | Activity Amount | Description                                    | Balance on 6/30/11 |
|----------------|--------------------------------------|----------------------|-------------------|--------------------|-----------------|--|--------------------|
| 2006           | Administrative                       | \$ 417,488.00        | \$ 208,744.00     | 1/28/2011          | \$ (208,744.00) | Transfer to the loan fund                      | \$ -               |
|                |                                      |                      |                   |                    |                 |  |                    |
| 2008           | Small System<br>Technical Assistance | \$ 100,000.00        | \$ 100,000.00     | No draws           |                 |  | \$ 100,000.00      |
|                |                                      |                      |                   |                    |                 |  |                    |
| 2009           | Administrative                       | \$ 454,680.00        | \$ 324,229.78     | 1/28/2011          | \$ (173,612.44) | Salary and fringe                              |                    |
|                |                                      |                      |                   | 4/7/2011           | \$ (150,617.34) | Salary and fringe                              | \$ -               |
|                |                                      |                      |                   |                    |                 |  |                    |
| 2010           | Administrative                       | \$ 452,760.00        | \$ -              | 4/7/2011           | \$ (2,117.06)   | Salary and fringe                              |                    |
|                |                                      |                      |                   | 5/28/2011          | \$ 452,760.00   | <b>Amendment 1:</b> deposit from the loan fund |                    |
|                |                                      |                      |                   | 6/30/2011          | \$ (69,013.02)  | Salary and fringe                              | \$ 381,629.92      |
|                |                                      |                      |                   |                    |                 |  |                    |