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Indiana Housing & Community Development Authority

A COMPONENT UNIT OF THE STATE OF INDIANA

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2011

KSM KATZ SAPPER & MILLER

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

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Independent Auditors' Report

Board of Directors
Indiana Housing and Community Development Authority

We have audited the accompanying statement of net assets of the business-type activities of Indiana Housing and Community Development Authority (the “Authority”), a component unit of the State of Indiana, as of December 31, 2011, and the related individual statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major funds and business-type activities of Indiana Housing and Community Development Authority at December 31, 2011, and the results of the Authority’s operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming opinions on the financial statements of the Indiana Housing and Community Development Authority. The supplementary schedule of retirement plan funding progress and employer contributions for the year ended December 31, 2011, and the supplementary schedule of net assets of the Hardest Hit Fund as of December 31, 2011, the related supplementary schedule of revenues, expenses and changes in net assets of the Hardest Hit Fund for the year then ended are presented for purposes of additional analysis of the basic financial statements, and are not a required part of the basic financial statements. The schedule of retirement plan funding progress and employer contributions has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it. The schedule of net assets of the Hardest Hit Fund and the schedule of revenues, expenses, and changes in net assets of the Hardest Hit Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. That supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
April 26, 2012

This section of Indiana Housing and Community Development Authority's (the "Authority") annual financial report presents management's discussion and analysis of the Authority's financial position, results of operations and cash flows during the fiscal year ended December 31, 2011. This information is being presented to provide additional information regarding the activities of the Authority. This analysis should be read in conjunction with the Independent Auditors' Report, financial statements and accompanying notes.

Introduction – The Indiana Housing and Community Development Authority

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

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

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

Financial Statements

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

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

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

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

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

2011 Financial Highlights

The assets of the Authority exceeded its liabilities at December 31, 2011 by $382.5 million compared to $328.4 million at December 31, 2010. Net assets at December 31, 2011 consisted of $189.3 million restricted by bond indentures, $58.1 million restricted by funding sources, $2.2 million invested in capital assets, and $132.9 million, which is unrestricted and available to meet the obligations of the Authority's operations.

Total assets decreased by $105.2 million or 6.4 percent during 2011 from $1,640.8 million to $1,535.6 million due mainly to a decrease in restricted cash and investments.

The Authority's largest liability, bonds payable, decreased by $87.4 million, or 7.6 percent, during 2011, from $1,151.1 million to $1,063.7 million.

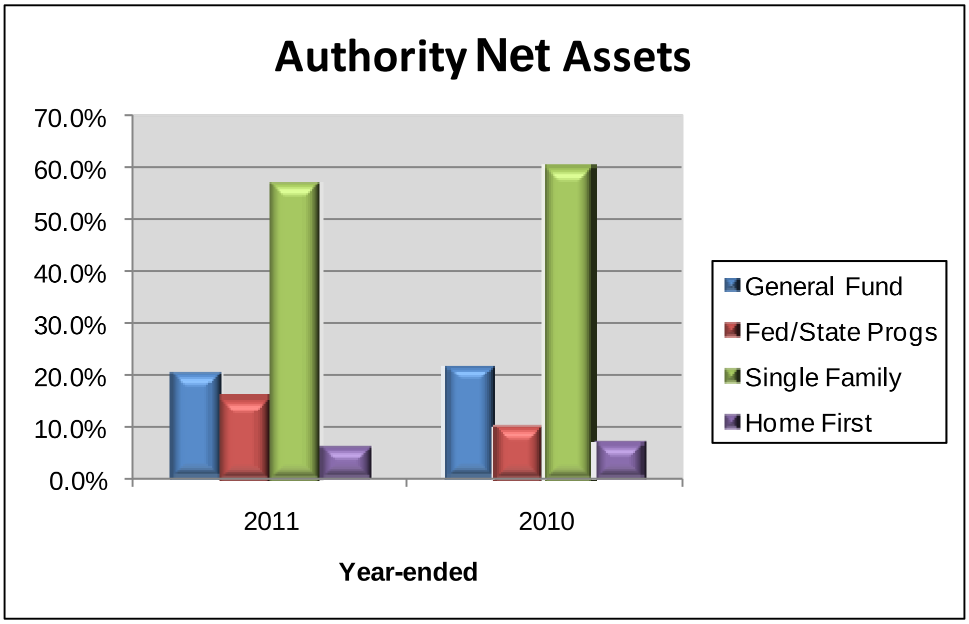
The total change in net assets in 2011 was an increase of $54.1 million which includes a net increase in the fair value of investments of $20.5 million.

In 2011, total operating revenues were $625.2 million, which includes federal and state program income of $538.4 million, interest income on investments of $51.8 million (which includes interest income on investments held against bonds of $44.6 million), a net increase in the fair value of securities of $20.5 million, $13.8 million in fee income and $0.7 million of other income.

Total operating expenses in 2011 were $571.1 million, which includes $40.5 million of interest expense on bonds, $508.8 million of direct federal and state program expenses, $19.7 million of general and administrative expense, $1.6 million of amortization of debt issuance costs and $0.5 million of other expenses.

2011 Financial Condition

The Authority operates within financial policies and guidelines set by the members of its Board of Directors. These guidelines require the Authority to maintain adequate liquid asset levels, good mortgage portfolio performance and a sufficient level of unrestricted net assets. Total net assets as of December 31, 2011 increased 16.5 percent to $382.5 million from $328.4 million in the previous year. Unrestricted net assets increased $64.0 million or 92.9 percent from the prior year, comprising 8.7 percent of total assets and 35.3 percent of total net assets.



2011 Financial Analysis

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

	2011	2010	Change	Percentage
Assets				
Current assets	$ 404,314	$ 523,728	$ (119,414)	-22.8%
Noncurrent assets	1,131,238	1,117,045	14,193	1.3%
Total assets	1,535,552	1,640,773	(105,221)	-6.4%
Liabilities				
Current liabilities	115,875	342,953	(227,078)	-66.2%
Noncurrent liabilities	1,037,168	969,441	67,727	7.0%
Total liabilities	1,153,043	1,312,394	(159,351)	-12.1%
Net assets				
Restricted	247,395	257,766	(10,371)	-4.0%
Invested in capital assets	2,209	1,720	489	28.4%
Unrestricted	132,905	68,893	64,012	92.9%
Total net assets	$ 382,509	$ 328,379	$ 54,130	16.5%

Operating Analysis

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

	2011	2010	Change	Percentage
Operating Revenues				
Interest on investments	$ 51,762	$ 62,193	$ (10,431)	-16.8%
Program revenues	552,203	639,662	(87,459)	-13.7%
Net increase in fair value of investments	20,502	18,373	2,129	11.6%
Other operating revenue	730	424	306	72.2%
Total operating revenues	625,197	720,652	(95,455)	-13.2%
Operating Expenses				
Total interest expense	40,578	47,566	(6,988)	-14.7%
Program expenses	508,838	604,118	(95,280)	-15.8%
Other operating expenses	21,650	19,541	2,109	10.8%
Total operating expenses	571,066	671,225	(100,159)	-14.9%
Operating income	$ 54,130	$ 49,427	$ 4,703	9.5%

Interest income on investments, fee income, and federal grant income represent the significant sources of operating revenue for the Authority. Interest income on investment held against bonds of $44.6 million for 2011 decreased compared to $49.6 million for 2010. Interest income on investments of $7.1 million for 2011 decreased compared to $12.4 million for 2010.

The increase in fair value of securities for 2011 was $20.5 million compared to an increase of $18.4 million in 2010. This represents an increase in the overall fair value of investments held at December 31, 2011, compared to their fair value at December 31, 2010, due to the current interest rate environment. The Authority values its securities at fair value with the change in fair value reported as operating revenue. The change in the fair value of securities is an unrealized gain in market value and has no direct effect on actual cash flows.

Fee income of $13.8 million for the current year decreased compared to $15.2 million in the prior year.

Total interest expense on bonds was $40.5 million in 2011 compared to $46.7 million in 2010.

Federal program income and expense represent funds received and disbursed relating to projects funded by the U.S. Department of Housing and Urban Development Section 8 Contract Administration, Community Development Block Grant, HOME Investment Partnership, and other federal programs totaling $538.4 million in revenue in 2011, compared to $624.5 million in revenue in 2010. The decrease in revenue in 2011 is due to the decrease in the funding provided by the American Recovery and Reinvestment Act.

2011 Debt Administration

Total current and noncurrent bonds payable, not including any original issue premium/(discount), as of December 31, 2011 was $1,063.7 million, which decreased $87.5 million compared to $1,151.2 million on December 31, 2010. This decrease was due to the $187.5 million of repayments and redemptions of bonds previously issued by the Authority offset by issuances in 2011 of a series of mortgage revenue bonds under the Home First Indenture totaling $100 million. The Authority has maintained its long-term bond ratings of Aaa from Moody's Investors Services and AAA from Fitch IBCA. (The Home First Bond Indenture is only rated by Moody's). More detailed information about the Authority's debt is presented in Note 5 to the financial statements.

The following table summarizes the 2011 mortgage revenue bond issuances (in thousands):

Home First Mortgage Revenue Bonds	Tax-exempt amount	Taxable amount	Total	Moody's rating
2011 Series A	$ 24,000		$ 24,000	Aaa
2011 Series B	24,000		24,000	Aaa
2011 Series C	52,000		52,000	Aaa
Total	$ 100,000		$ 100,000	

Economic Factors and Other Financial Information

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

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

Contacting the Authority's Financial Management

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

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2011

Assets	General Fund	Federal and State Programs	Single Family Fund	Home First Fund	Total
Current Assets					
Unrestricted cash and cash equivalents	$ 17,923,029	$ 309,267	$ 60,796,765		$ 79,029,061
Restricted cash and cash equivalents	250,216	49,728,121	75,144,904	$ 163,317,439	288,440,680
Accrued interest receivable:					
Unrestricted investments	415,529				415,529
Restricted investments			231,083	77,175	308,258
Restricted investments held against bonds			2,770,786	675,067	3,445,853
Unrestricted accounts receivable and other assets	5,155,663				5,155,663
Restricted accounts receivable and other assets		27,519,239			27,519,239
Total current assets	23,744,437	77,556,627	138,943,538	164,069,681	404,314,283
Noncurrent Assets					
Unrestricted investments	40,160,856				40,160,856
Restricted investments			85,946,771	16,660,501	102,607,272
Restricted investments held against bonds			722,404,472	207,597,683	930,002,155
Mortgage loans receivable	1,497,934				1,497,934
Deferred debt issuance costs, net			4,819,172	2,307,745	7,126,917
Deferred outflow of resources			17,648,500		17,648,500
Capital assets, at cost, less accumulated depreciation	2,209,152				2,209,152
Unrestricted accounts receivable and other assets	131,322				131,322
Restricted accounts receivable and other assets, net		29,854,009			29,854,009
Interfund accounts	8,267,305	(6,540,570)	(1,295,704)	(431,031)	-
Total noncurrent assets	52,266,569	23,313,439	829,523,211	226,134,898	1,131,238,117
Total assets	$ 76,011,006	$ 100,870,066	$ 968,466,749	$ 390,204,579	$ 1,535,552,400
Liabilities					
Current Liabilities					
Bonds payable			$ 11,860,000	$ 41,835,000	$ 53,695,000
Accrued interest payable			16,888,250	867,754	17,756,004
Accounts payable and other liabilities	$ 1,752,557	$ 11,762,232			13,514,789
Deferred revenue	250,216	30,659,240			30,909,456
Total current liabilities	2,002,773	42,421,472	28,748,250	42,702,754	115,875,249
Noncurrent Liabilities					
Bonds payable			704,815,000	305,205,000	1,010,020,000
Add original issue premium			5,064,484	3,667,572	8,732,056
Less original issue discount				(17,413)	(17,413)
Net noncurrent bonds payable			709,879,484	308,855,159	1,018,734,643
Derivative instrument - interest rate swaps			17,648,500		17,648,500
Other liabilities			784,511		784,511
Total noncurrent liabilities			728,312,495	308,855,159	1,037,167,654
Total liabilities	2,002,773	42,421,472	757,060,745	351,557,913	1,153,042,903
Net Assets					
Invested in capital assets	2,209,152				2,209,152
Restricted by bond indenture			150,609,239	38,646,666	189,255,905
Restricted by funding source		58,139,327			58,139,327
Unrestricted	71,799,081	309,267	60,796,765		132,905,113
Total net assets	$ 74,008,233	$ 58,448,594	$ 211,406,004	$ 38,646,666	$ 382,509,497

See accompanying notes to financial statements.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

	General Fund	Federal and State Programs	Single Family Fund	Home First Fund	Total
Operating revenues:					
Interest income					
Investments	$ 1,536,829		$ 4,419,364	$ 1,182,668	$ 7,138,861
Investments held against bonds			40,333,770	4,289,154	44,622,924
Fee income	13,753,258				13,753,258
Federal and state program income		$ 538,449,647			538,449,647
Net increase in fair value of investments	(100,706)		8,728,903	11,873,667	20,501,864
Other income	730,166				730,166
Total operating revenues	15,919,547	538,449,647	53,482,037	17,345,489	625,196,720
Operating expenses:					
Interest expense on bonds			37,225,311	3,233,046	40,458,357
Interest expense on bank loans	119,400				119,400
Amortization of debt issuance costs	65,854		1,498,225	49,634	1,613,713
Federal and state program expenses		508,838,161			508,838,161
Arbitrage expense			330,653		330,653
General and administrative expenses	11,737,591	5,246,041	2,277,815	444,531	19,705,978
Total operating expenses	11,922,845	514,084,202	41,332,004	3,727,211	571,066,262
Operating income	3,996,702	24,365,445	12,150,033	13,618,278	54,130,458
Transfers	(1,645,225)	687,366	(18)	957,877	-
Change in net assets	2,351,477	25,052,811	12,150,015	14,576,155	54,130,458
Net assets, beginning of year	71,656,756	33,395,783	199,255,989	24,070,511	328,379,039
Net assets, end of year	$ 74,008,233	$ 58,448,594	$ 211,406,004	$ 38,646,666	$ 382,509,497

See accompanying notes to financial statements.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

	General Fund	Federal and State Programs	Single Family Fund	Home First Fund	Total
Cash flows from operating activities:					
Cash receipts for services	$ 15,153,425				$ 15,153,425
Program revenue		$ 516,657,624			516,657,624
Program expenses		(485,897,837)			(485,897,837)
Cash payments to suppliers	(7,579,781)		$ (4,118,424)	$ (444,523)	(12,142,728)
Cash payments to employees	(4,614,453)				(4,614,453)
Net cash provided by (used in) operating activities	2,959,191	30,759,787	(4,118,424)	(444,523)	29,156,031
Cash flows from noncapital financing activities:					
Proceeds from bond issues				104,198,126	104,198,126
Debt issuance costs incurred				(1,393,817)	(1,393,817)
Repayments and redemption of bonds and bank loans	(100,000,000)		(185,485,000)	(1,960,000)	(287,445,000)
Interfund transfers	(2,338,936)	354,396	655,632	1,328,908	-
Interest paid on bonds and bank loans	(119,400)		(41,343,677)	(2,667,342)	(44,130,419)
Net cash provided by (used in) noncapital financing activities	(102,458,336)	354,396	(226,173,045)	99,505,875	(228,771,110)
Cash flows from capital financing activities:					
Purchases of capital assets	(758,313)				(758,313)
Net cash used in capital financing activities	(758,313)				(758,313)
Cash flows from investing activities:					
Purchases of investments	(47,772,937)		(53,919,546)		(101,692,483)
Proceeds from sales or maturities of investments	161,305,091			1,851,075	163,156,166
Purchases of investments held against bonds				(186,540,926)	(186,540,926)
Principal received on mortgage loans	626,692				626,692
Principal received on investments held against bonds			197,003,780	31,357,947	228,361,727
Interest received on investments held against bonds			41,177,747	3,757,854	44,935,601
Interest received on investments	1,462,671		4,365,321	1,198,275	7,026,267
Net cash provided by (used in) investing activities	115,621,517	-	188,627,302	(148,375,775)	155,873,044
Increase (decrease) in cash and cash equivalents	15,364,059	31,114,183	(41,664,167)	(49,314,423)	(44,500,348)
Cash and cash equivalents, beginning of year	2,809,186	18,923,205	177,605,836	212,631,862	411,970,089
Cash and cash equivalents, end of year	$ 18,173,245	$ 50,037,388	$ 135,941,669	$ 163,317,439	$ 367,469,741

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2011

	General Fund	Federal and State Programs	Single Family Fund	Home First Fund	Total
Reconciliation of cash and cash equivalents:					
Current unrestricted cash and cash equivalents as presented in the statement of net assets	$ 17,923,029	$ 309,267	$ 60,796,765		$ 79,029,061
Current restricted cash and cash equivalents as presented in the statement of net assets	250,216	49,728,121	75,144,904	$ 163,317,439	288,440,680
Cash and cash equivalents as presented in the statement of cash flows	$ 18,173,245	$ 50,037,388	$ 135,941,669	$ 163,317,439	$ 367,469,741
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income	$ 3,996,702	$ 24,365,445	$ 12,150,033	$ 13,618,278	$ 54,130,458
Adjustments to reconcile operating income to cash provided by operating activities:					
Change in fair value of investments	100,706		(8,728,903)	(11,873,667)	(20,501,864)
Interest on bonds and bank loans	119,400		37,225,311	3,233,046	40,577,757
Interest on investments held against bonds			(41,177,747)	(3,757,854)	(44,935,601)
Interest received on investments	(1,462,671)		(4,365,321)	(1,198,275)	(7,026,267)
Amortization and write-off of debt issuance costs and discount amortization	65,854		1,828,878	49,634	1,944,366
Depreciation/Bond call prem expense	269,429				269,429
Changes in assets and liabilities:					
Commitment fee deposits	125,394				125,394
Accrued interest receivable on loans/investments	(249,711)		789,924	(515,685)	24,528
Other assets	450,731	(22,122,287)			(21,671,556)
Accounts payable and other liabilities	(456,643)	28,516,629	(1,840,599)		26,219,387
Net cash provided by (used in) operating activities	$ 2,959,191	$ 30,759,787	$ (4,118,424)	$ (444,523)	$ 29,156,031

See accompanying notes to financial statements.

NOTE 1 - AUTHORIZING LEGISLATION AND FUNDS

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

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

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

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purposes under powers granted to it by the Act. The financial transactions of the Authority are recorded in the funds which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. The Authority's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which financial activity is controlled. Each of the Authority's funds described below is considered a major fund.

General Fund

The General Fund was established by the Authority to account for all fee income and charges that are not required to be recorded in other funds and for operating expenses of the Authority. In 2011, the Authority elected to set aside $160,000,000 of its single family bonding authority for the issuance of Mortgage Credit Certificates primarily to first-time home buyers.

Federal and State Programs Fund

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

NOTE 1 - AUTHORIZING LEGISLATION AND FUNDS (CONTINUED)

Single Family and Home First Funds

The Single Family and Home First Funds are bond indentures which use bond proceeds to fund the Single Family Mortgage Programs (the "Mortgage Programs")

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Basis of Accounting

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 and those issued after that date which do not contradict any previously issued GASB pronouncements.

Investment Securities

The Authority reports its investments securities, including MBS, at fair value. The realized and unrealized gains or losses are reported in the Statement of Revenues, Expenses and Changes in Net Assets. Realized gains or losses were computed as the difference between the proceeds of investment sales and the original cost of the investments sold. The calculation of realized gains or losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in prior years and the current year. The realized gain in the General Fund amounted to $120,636 for the year ended December 31, 2011.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Following is a summary of the effects of valuing investment securities at fair value on total assets, net assets and change in net assets for 2011:

	Total Assets	
	Fair value	Cost
General Fund	$ 76,011,006	$ 75,974,989
Federal and State Programs	100,870,066	100,870,066
Single Family Fund	968,466,749	906,629,296
Home First Fund	390,204,579	375,665,698
Total	$ 1,535,552,400	$ 1,459,140,049

	Net Assets	
	Fair value	Cost
General Fund	$ 74,008,233	$ 73,972,216
Federal and State Programs	58,448,594	58,448,594
Single Family Fund	211,406,004	146,797,765
Home First Fund	38,646,666	23,432,719
Total	$ 382,509,497	$ 302,651,294

	Income Before Transfers	
	Fair value	Cost
General Fund	$ 3,996,702	$ 4,097,408
Federal and State Programs	24,365,445	24,365,445
Single Family Fund	12,150,033	3,421,130
Home First Fund	13,618,278	1,744,611
Total	$ 54,130,458	$ 33,628,594

Bond Issuance Costs

Bond issuance costs are amortized using a method that approximates the effective interest method over the contractual life of the respective bond issue.

Original Issue Discounts

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

Original Issue Premiums

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets consist primarily of office furniture and equipment in the General Fund which are stated at cost less accumulated depreciation. The Authority is in the practice of capitalizing fixed asset purchases over $5,000 into capital assets. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from three to ten years. On January 1, 2011, the Authority reevaluated the estimated useful life of certain software from three to ten years.

A summary of capital assets (in thousands) being depreciated follows:

	Balance at December 31, 2010	Increases	Decreases	Balance at December 31, 2011
Building improvements	$ 45			$ 45
Furniture and equipment	5,465	$ 758		6,223
Total accumulated depreciation	(3,790)	(269)		(4,059)
Total capital assets being depreciated, net of accumulated depreciation	$ 1,720	$ 489		$ 2,209

Fair Value of Financial Instruments

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

Operating Revenues

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

Fee Income

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

Provision for Possible Loan Losses on Mortgage Loans Receivable

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

Allocation of Expenses Among Funds

The Federal and State, Single Family and Home First programs provide that funds may be transferred to the General Fund for the purpose of paying reasonable and necessary program expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Use of Estimates

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

Net Assets

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

- *Invested in Capital Assets* – resources resulting from capital acquisition, net of accumulated depreciation.

- *Restricted by Bond Indenture* – net assets subject to externally imposed stipulations as to use. These net assets are restricted to use for the purposes of the Authority's Mortgage Programs.

- *Restricted by Funding Source* – net assets subject to externally imposed stipulations as to use. These net assets are restricted for use for the purposes of certain loan programs.

- *Unrestricted* – net assets which are available for use of the Authority.

Use of Restricted and Unrestricted Resources

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

Overdraws of Section 8 Housing Assistance Fund

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

Subsequent Events

The Authority has evaluated the financial statements for subsequent events occurring through April 26, 2012, the date the financial statements were available to be issued.

NOTE 3 –DEPOSITS AND INVESTMENTS

Cash, cash equivalents and investments held by the authority as of December 31, 2011 were as follows:

	General Fund	Program Fund	Single Family Fund	Home First Fund	Total
Current					
Unrestricted					
Cash	$ 17,923,029	$ 309,267			$ 18,232,296
Revenue Accounts			$ 60,796,765		60,796,765
Total unrestricted	17,923,029	309,267	60,796,765	—	79,029,061
Restricted					
Refundable Fee Escrow Accounts	250,216				250,216
Bond Proceeds Accounts				$ 155,188,250	155,188,250
Revenue Accounts			75,144,904	2,493,960	77,638,864
Home First Indenture Reserve Account				5,635,229	5,635,229
Federal programs funds		48,982,896			48,982,896
State programs funds		745,225			745,225
Total restricted	250,216	49,728,121	75,144,904	163,317,439	288,440,680
Total Current Cash, Cash Equivalents and Investments	$ 18,173,245	$ 50,037,388	$ 135,941,669	$ 163,317,439	$ 367,469,741
Non-Current					
Unrestricted					
Investments	$ 40,160,856				$ 40,160,856
Total unrestricted	40,160,856	—	—	—	40,160,856
Restricted					
Cost of Bond Issuance Accounts			$ 36,686	$ 625,737	$ 662,423
Revenue Accounts			85,910,085		85,910,085
Home First Indenture Reserve Account				16,034,764	16,034,764
Total restricted	—	—	85,946,771	16,660,501	102,607,272
Restricted - Held Against Bonds	—	—	722,404,472	207,597,683	930,002,155
Total Non-Current Investments	$ 40,160,856	$ —	$ 808,351,243	$ 224,258,184	$ 1,072,770,283
Total Cash, Cash Equivalents and Investments	$ 58,334,101	$ 50,037,388	$ 944,292,912	$ 387,575,623	$ 1,440,240,024

NOTE 3 –DEPOSITS AND INVESTMENTS (CONTINUED)

A summary of cash and investments as of December 31, 2011 follows:

	Fair value	Cost
Cash and Cash Equivalents	$ 367,469,741	$ 367,469,741
Federal Agency Obligations	113,010,789	110,753,426
Guaranteed Investment Contracts	29,757,339	29,757,339
Mortgage Backed Securities	930,002,155	855,847,167
	$ 1,440,240,024	$ 1,363,827,673

Investment Policy

General

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

Indentures

The Bond Indentures permit investments in the direct obligations of, or obligations guaranteed by, the United States of America, obligations issued by certain agencies of the Federal government, and investments collateralized by those types of investments. At December 31, 2011, all investments held by the Authority were in compliance with the requirements of the Indentures.

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

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rate. The Authority's investment policy does not restrict investment maturities. As of December 31, 2011, the Authority had the following investments and maturities (in thousands).

		Investment Maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Federal Agency Obligations	$ 113,011		$ 8,867	$ 35,547	$ 68,597
Guaranteed Investment Contracts	29,757				29,757
Mortgage Backed Securities	930,002				930,002
Total	$ 1,072,770	-	$ 8,867	$ 35,547	$ 1,028,356

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that the Authority will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty of the counterparty's trust department or agent but not in the Authority's name. As of December 31, 2011, the Authority had not entered into any agreements subject to this paragraph.

Cash is exposed to risk if it is not covered by depository insurance by the pledging financial institution. The Authority's cash is held at one financial institution and is insured up to the FDIC limit of $250,000 for interest bearing accounts, and unlimited insurance for non-interest bearing accounts. As of December 31, 2011, the Authority had $18,173,245 of cash, with a maximum risk of $4,290,293.

Credit Risk Disclosure

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

	S & P	Fitch	Moody's	Fair Value
Bonds	AA+	AAA	Aaa	$ 113,011
Guaranteed Investment Contracts	unrated	unrated	unrated	29,757
Mortgage Backed Securities	AA+	AAA	Aaa	930,002
Total Rated Investments				$ 1,072,770

Concentration of Credit Risk

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

Issuer	**Percent of Total Investments**
Fannie Mae	9.78%
Small Business Administration	6.17%

NOTE 4 – ACCOUNTS RECEIVABLE AND OTHER ASSETS

Accounts receivable and other assets at December 31, 2011, were as follows:

General Fund:		
Loans Provided to Subrecipients of Certain Programs	$	2,652,323
Other Accounts Receivable and Assets		2,634,662
	$	5,286,985
Amount Not Scheduled for Collection During the Subsequent Year	$	131,322
Federal and State Programs:		
Section 1602 Tax Credit Exchange Program Loans	$	231,401,909
Tax Credit Assistance Program Loans		30,721,792
Rural Rental Housing Loans		490,042
HOME Loans		2,394,824
Community Development Block Grant Loans		11,544,763
Reimbursements Due from Other Governments		12,221,827
		288,775,157
Less: Allowance for Uncollectible Loans		(231,401,909)
	$	57,373,248
Amount Not Scheduled for Collection During the Subsequent Year	$	261,255,918
Less: Allowance for Uncollectible Loans		(231,401,909)
	$	29,854,009

The Section 1602 Tax Credit Exchange Program Loans are forgivable loans, as long as borrowers comply with the provisions of the related agreements. Therefore, these loans are included in the allowance for uncollectible loans. The Authority believes all other accounts receivable are collectable; therefore, no additional provision for uncollectible balances has been made.

NOTE 5 - BONDS PAYABLE

Bonds payable at December 31, 2011 consist of (dollars in thousands):

Single Family Fund	Original Amount	Balance
2002 Series B:		
Serial bonds (4.70%), due 2012	$ 6,930	$ 170
Term bonds (5.45%), due 2022	5,435	140
Term bonds (5.55%), due 2032	10,310	890
	22,675	1,200
2002 Series D-2:		
Serial bonds (3.95% to 4.05%), due 2012 - 2013	9,105	675
Term bonds (4.85%), due 2022	5,900	1,785
	15,005	2,460
2003 Series A:		
Serial bonds (4.20% to 4.35%), due 2012 - 2013	7,185	650
Term bonds (4.90%), due 2022	4,945	450
Term bonds (4.90%), due 2023	3,000	1,345
	15,130	2,445
2003 Series B:		
Serial bonds (3.25% to 3.90%), due 2012 - 2016	3,805	1,780
Term bonds (4.25%), due 2024	8,015	4,965
Term bonds (4.40%), due 2033	7,070	4,375
Term bonds (4.40%), due 2034	7,000	4,340
PAC bonds (4.00%), due 2034	19,060	1,680
	44,950	17,140
2003 Series C-1:		
Serial bonds (4.05% to 4.45%), due 2012 - 2016	3,785	1,730
	3,785	1,730
2003 Series C-2:		
Serial bonds (4.25% to 4.35%), due 2012 - 2013	3,155	145
Term bonds (5.10%), due 2024	3,810	2,195
Term bonds (5.10%), due 2024	3,810	2,215
Term bonds (5.20%), due 2034	7,605	4,415
Term bonds (5.20%), due 2034	7,605	4,410
PAC bonds (5.00%), due 2034	15,180	1,470
	41,165	14,850
2003 Series D-1:		
Serial bonds (3.90% to 4.20%), due 2012 - 2014	5,355	1,800
	5,355	1,800
2003 Series D-2:		
Term bonds (4.85%), due 2023	5,715	3,220
Term bonds (4.85%), due 2023	5,380	3,035
Term bonds (4.90%), due 2029	5,305	2,995
Term bonds (4.90%), due 2029	5,400	3,035
PAC bonds (5.25), due 2033	10,500	1,055
Term bonds (4.95%), due 2034	8,205	4,625
	40,505	17,965

NOTE 5 - BONDS PAYABLE (CONTINUED)

Single Family Fund	Original Amount	Balance
2004 Series A-1:		
Serial bonds (3.50% to 3.90%), due 2014 - 2017	$ 2,920	$ 1,830
Term bonds (4.20%), due 2020	1,360	830
	4,280	2,660
2004 Series A-2:		
Serial bonds (3.50% to 3.80%), due 2012 - 2014	9,210	1,665
Term bonds (4.45%), due 2024	4,265	2,585
Term bonds (4.45%), due 2025	4,265	2,585
PAC bonds (5.00%), due 2034	9,630	1,040
Term bonds (4.60%), due 2034	9,175	5,600
Term bonds (4.60%), due 2035	9,175	5,600
	45,720	19,075
2004 Series B-1:		
Serial bonds (4.40% to 4.75%), due 2014 - 2017	4,275	2,345
	4,275	2,345
2004 Series B-2:		
Term bonds (4.30%), due 2014	4,365	1,055
Term bonds (4.30%), due 2014	4,370	1,025
PAC bonds (5.25%), due 2034	18,880	3,280
	27,615	5,360
2004 Series B-2A:		
Term bonds (5.15%), due 2025	6,965	3,695
Term bonds (5.15%), due 2025	6,965	3,700
Term bonds (5.20%), due 2029	4,930	2,625
Term bonds (5.20%), due 2029	4,925	2,625
Term bonds (5.30%), due 2035	10,860	5,760
Term bonds (5.30%), due 2035	10,860	5,765
	45,505	24,170
2004 Series C-1:		
Serial bonds (3.80% to 4.10%), due 2014 - 2017	5,200	3,155
Term bonds (4.35%), due 2020	1,295	835
	6,495	3,990
2004 Series C-2:		
Serial bonds (3.90% to 4.10%), due 2012-2013	8,140	1,435
Term bonds (4.70%), due 2025	7,720	4,955
Term bonds (4.85%), due 2029	7,065	4,535
PAC bonds (5.00%), due 2034	9,680	1,895
Term bonds (4.90%), due 2035	10,900	6,990
	43,505	19,810
2005 Series A-1:		
Serial bonds (3.90% to 4.20%), due 2014 - 2017	2,940	1,325
Term bonds (4.375%), due 2020	1,620	750
	4,560	2,075
2005 Series A-2:		
Serial bonds (4.05% to 4.30%), due 2013 - 2015	695	195
PAC bonds (5.00%), due 2035	22,755	11,430
Term bonds (4.65%), due 2035	28,615	10,695
	52,065	22,320

NOTE 5 - BONDS PAYABLE (CONTINUED)

Single Family Fund	Original Amount	Balance
2005 Series B-1:		
Serial bonds (3.90% to 4.15%), due 2014 - 2017	$ 4,565	$ 745
Term bonds (4.30%), due 2020	1,660	275
	6,225	1,020
2005 Series B-2:		
Serial bonds (3.95% to 4.30%), due 2012 - 2015	12,960	795
Term bonds (4.625%), due 2025	480	75
Term bonds (4.75%), due 2030	400	70
PAC bonds (5.00%), due 2036	27,220	12,385
Term bonds (4.80%), due 2036	715	120
Term bonds (variable rate), due 2036	32,000	29,865
	73,775	43,310
2005 Series C-1:		
Serial bonds (4.00% to 4.25%), due 2013 - 2016	5,765	1,455
Term bonds (4.55%), due 2020	4,035	1,025
	9,800	2,480
2005 Series C-2:		
Serial bonds (4.15% to 4.25%), due 2012 - 2013	7,410	490
Term bonds (4.85%), due 2026	980	250
Term bonds (5.00%), due 2031	1,030	200
PAC bonds (5.00%), due 2036	24,600	8,855
Term bonds (5.05%), due 2037	4,180	1,060
	38,200	10,855
2005 Series C-3:		
Term bonds (variable rate), due 2036	32,000	29,865
	32,000	29,865
2006 Series A-1:		
Serial bonds (4.10% to 4.40%), due 2012 - 2016	18,365	1,280
Term bonds (4.75%), due 2026	2,215	285
Term bonds (4.85%), due 2030	1,465	185
Term bonds (5.25%), due 2037	35,065	18,055
Term bonds (4.90%), due 2037	2,890	365
	60,000	20,170
2006 Series A-2:		
Term bonds (variable rate), due 2037	40,000	37,330
	40,000	37,330
2006 Series B-1:		
Serial bonds (3.85% to 4.25%), due 2012 - 2016	17,795	6,045
	17,795	6,045
2006 Series B-2:		
Term bonds (4.80%), due 2021	13,230	7,130
Term bonds (4.90%), due 2026	16,755	8,685
Term bonds (4.95%), due 2031	22,620	12,880
Term bonds (5.00%), due 2037	34,125	19,425
Term bonds (5.50%), due 2037	26,500	12,515
Taxable PAC bonds (5.90%), due 2037	50,000	22,130
	163,230	82,765

NOTE 5 - BONDS PAYABLE (CONTINUED)

Single Family Fund	Original Amount	Balance
2006 Series C-1:		
Serial bonds (4.00% to 4.35%), due 2012 - 2016	$ 11,205	$ 5,045
Term bonds (4.65%), due 2021	8,935	6,715
Term bonds (4.80%), due 2027	14,970	11,240
Term bonds (4.85%), due 2031	13,475	10,130
PAC bonds (5.75%), due 2037	10,000	4,855
Term bonds (4.90%), due 2037	27,865	20,940
	86,450	58,925
2006 Series C-2:		
Term bonds (5.692%), due 2037	26,000	11,350
	26,000	11,350
2006 Series D-1:		
Serial bonds (3.95% to 4.20%), due 2012 - 2016	10,445	5,200
Term bonds (4.45%), due 2021	8,045	6,655
Term bonds (4.55%), due 2027	13,420	11,135
Term bonds (4.60%), due 2031	12,025	9,965
PAC bonds (5.50%), due 2038	16,000	8,075
Term bonds (4.625%), due 2038	30,065	15,680
	90,000	56,710
2006 Series D-2:		
Taxable bonds (5.409%), due 2038	25,045	14,265
	25,045	14,265
2007 Series A-1:		
Serial bonds (4.10% to 4.30%), due 2012 - 2015	4,580	1,860
Term bonds (4.170%), due 2014	2,210	1,845
Term bonds (4.375%), due 2017	2,585	2,160
Term bonds (4.650%), due 2022	7,155	2,015
Term bonds (4.780%), due 2027	9,415	620
Term bonds (4.80%), due 2032	12,405	10,395
PAC bonds (5.50%), due 2038	9,030	5,200
Term bonds (4.875%), due 2039	22,620	18,950
	70,000	43,045
2007 Series A-2:		
Taxable PAC bonds (5.505%), due 2039	24,985	15,665
	24,985	15,665
2010 Series 08A-2:		
Term bonds (SIFMA plus 0.95%), due 2039	85,000	77,445
	85,000	77,445
2008 Series A-3:		
Serial bonds (4.20% to 5.30%), due 2012 - 2018	22,920	13,145
Term bonds (5.95%), due 2023	7,015	4,340
Term bonds (6.125%), due 2029	11,165	6,905
Term bonds (6.25%), due 2033	13,370	8,275
Term bonds (6.45%), due 2040	18,370	11,370
	72,840	44,035
	$ 1,343,935	$ 716,675

NOTE 5 - BONDS PAYABLE (CONTINUED)

Home First Fund	Original Amount	Balance
2009 Series A:		
Taxable bonds (floating rate), due 2012 [(1), (2), (3), (4)]	$ 225,000	$ 39,000
2009 Series A-1:		
Term bonds (3.01%), due 2041 [(1)]	36,000	35,555
2009 Series A-2:		
Term bonds (3.53%), due 2041 [(2)]	36,000	35,720
2009 Series A-3:		
Term bonds (2.32%), due 2041 [(3)]	36,000	36,000
2009 Series A-4:		
Term bonds (2.49%), due 2041 [(4)]	78,000	78,000
	411,000	224,275
2010 Series A:		
Serial bonds (0.70% to 3.55%), due 2012 - 2021	12,225	11,660
Term bonds (4.00%), due 2025	6,035	5,960
PAC bonds (4.50%), due 2028	5,740	5,525
	24,000	23,145
2011 Series A:		
Serial bonds (0.375% to 3.625%), due 2012 - 2021	9,070	8,850
Term bonds (4.45%), due 2027	7,430	7,330
PAC bonds (4.50%), due 2028	7,500	7,440
	24,000	23,620
2011 Series B:		
Serial bonds (0.30% to 4.00%), due 2012 - 2021	8,825	8,825
Term bonds (4.00%), due 2027	7,675	7,675
PAC bonds (4.50%), due 2028	7,500	7,500
	24,000	24,000
2011 Series C:		
Serial bonds (0.65% to 3.55%), due 2013 - 2022	26,325	26,325
Term bonds (3.60%), due 2024	5,090	5,090
Term bonds (4.10%), due 2027	7,905	7,905
PAC bonds (4.50%), due 2027	12,680	12,680
	52,000	52,000
	$ 535,000	$ 347,040

(1) $36,000 has been released from 2009 Series A and converted to 2009 Series A-1
(2) $36,000 has been released from 2009 Series A and converted to 2009 Series A-2
(3) $36,000 has been released from 2009 Series A and converted to 2009 Series A-3
(4) $78,000 has been released from 2009 Series A and converted to 2009 Series A-4

NOTE 5 - BONDS PAYABLE (CONTINUED)

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

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

The 2009 Series A includes only taxable bonds.

The 2010 Series 08A-2 bond matures on December 1, 2039, and the interest rate is SIFMA plus .95% (1.05% at December 31, 2011) adjusted weekly.

The following are the scheduled amounts of principal and interest payments on bond payable obligations in the five years subsequent to December 31, 2011 and thereafter (all amounts in thousands). The Authority typically has significant prepayments of principal amounts and therefore does not expect to make all interest payments in their scheduled amounts.

	Single Family Fund		Home First Fund		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Payments
2012	$ 11,860	$ 33,366	$ 41,835	$ 9,423	$ 53,695	$ 42,789	$ 96,484
2013	12,085	32,872	6,130	9,448	18,215	42,320	60,535
2014	12,390	32,357	6,280	9,361	18,670	41,718	60,388
2015	12,450	31,825	6,445	9,247	18,895	41,072	59,967
2016	14,415	31,249	6,645	9,099	21,060	40,348	61,408
2017-2021	95,500	144,244	37,130	41,599	132,630	185,843	318,473
2022-2026	126,170	118,737	46,245	33,703	172,415	152,440	324,855
2027-2031	170,930	84,898	57,890	24,024	228,820	108,922	337,742
2032-2036	200,580	40,007	68,980	15,128	269,560	55,135	324,695
2037-2041	60,295	4,113	69,460	5,136	129,755	9,249	139,004
Original issue premium	5,064		3,668		8,732		8,732
Original issue discount			(17)		(17)		(17)
Total	$ 721,739	$ 553,668	$ 350,691	$ 166,168	$ 1,072,430	$ 719,836	$ 1,792,266

NOTE 5 - BONDS PAYABLE (CONTINUED)

Summary of long-term debt as of December 31, 2011 (dollars in thousands):

Interest rate ranges	Maturity range	Annual payment range of principal	Amount
0.30% - 6.45%	2012 - 2041	$ 1,995 - 42,705	$ 1,063,715

Changes in Obligations

The following are changes in the obligations of the Authority for the year ended December 31, 2011:

Short-term obligations (in thousands):

	Balance at December 31, 2010	Borrowings	Repayments	Balance at December 31, 2011
Line of Credit	$ 100,000		$ 100,000	$ -

Long-term obligations (in thousands):

	Balance at December 31, 2010	Increases	Decreases	Balance at December 31, 2011	Amounts due within one year	Amounts due thereafter
Bonds payable/notes payable	$ 1,151,160	$ 100,000	$ 187,445	$ 1,063,715	$ 53,695	$ 1,010,020
Less original discount	-	(17)		(17)		(17)
Add original premium	7,469	3,257	1,994	8,732		8,732
Other liabilities	2,625	331	2,171	785	428	357
	$ 1,161,254	$ 103,571	$ 191,610	$ 1,073,215	$ 54,123	$ 1,019,092

Variable Rate Demand Bonds

Included in long-term debt are $97,060,000 of 2005 Series B-2, 2005 Series C-3 and 2006 Series A-2 variable rate demand bonds maturing serially at various dates from January 1, 2016 to January 1, 2037. The bonds are payable solely from the revenues and assets pledged to the payment thereof pursuant to the Bond Trust Indentures. The redemption schedule for these bonds is included in the bond redemption schedule.

NOTE 5 - BONDS PAYABLE (CONTINUED)

Variable Rate Demand Bonds (Continued)

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on one days' notice and delivery to the Authority's remarketing agents. The remarketing agents are authorized to use their best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate.

The Authority has entered into a Standby Purchase Agreement ("SBPA") with JPMorgan Chase & Co. to buy any bonds that are "put" back by the remarketing agents. Once these bonds are purchased by the SBPA provider, they are called "bank bonds". If the bonds are "bank bonds" for a period of 60 days from the purchase date, the "bank bonds" convert to a installment loan payable over a three-year period bearing an adjustable interest rate equal to the bank's rate per annum equal to (a) for the period from and including the Bank Purchase Date to and including the ninetieth (90th) day thereafter, the Base Rate from time to time in effect and (b) from and including the ninety-first (91st) day immediately following the related Bank Purchase Date and thereafter, the Base Rate from time to time in effect plus 1.0% ("Base Rate" means the highest of (a) the Prime Rate plus 1.5%; (b) the Federal Funds Rate plus 2.0%; and (c) 8.5 %.).

The 2005 Series B-2 and 2005 Series C-3 SBPA expires on August 8, 2012, while the 2006 Series A-2 SBPA expires on November 29, 2013. If the SBPA were to be exercised because any portion of demand bonds was "put" and not resold, the bonds shall be subject to mandatory redemption in equal semi-annual principal installments plus interest, so that such bonds are paid in full within three years.

The Authority pays JPMorgan Chase & Co. a SBPA annual fee based on amount of outstanding principal amount of the bonds. In addition, the remarketing agents receive an annual fee based on the outstanding principal amount of the bonds.

The Single Family bonds are subject to optional redemption provisions at various dates at prices ranging from 100 to 103 percent of the principal amount, extraordinary optional redemption at par from unexpended or uncommitted funds, prepayments of mortgage loans and proportionate amounts in certain related accounts or excess revenues. The Authority redeemed $174,580,000 of bonds in 2011 from prepayments that had been received. The bond redemptions resulted in write-offs of unamortized discount and deferred debt issuance costs related to the redeemed bonds.

Swap Agreements – Cash Flow Hedges

On September 22, 2005, the Authority entered into an interest rate swap agreement with Goldman Sachs Mitsui Marine Derivatives Products, L.P. (Counterparty), effective April 6, 2006. The objective of this swap agreement is to create, with respect to the 2005 Series B-2 Bonds in an amount totaling $32,000,000, an approximately fixed interest rate net obligation. Payments made to the Counterparty by the Authority under this swap agreement are to be made semi-annually, commencing on July 1, 2006, on the basis of a notional principal amount and a fixed interest rate of 3.626%. Payments received by the Authority from the Counterparty under the swap agreement bear interest at a variable rate calculated by reference to the LIBOR.

On November 30, 2005, the Authority entered into an interest rate swap agreement with UBS AG (Counterparty), effective June 1, 2006. The objective of this swap agreement is to create, with respect to the 2005 Series C-3 Bonds in an amount totaling $32,000,000, an approximately fixed interest rate net obligation. Payments made to the Counterparty by the Authority under this swap agreement are to be made semi-annually, commencing on July 1, 2006, on the basis of a notional principal amount and a fixed interest rate of 3.782%. Payments received by the Authority from the Counterparty under the swap agreement bear interest at a variable rate calculated by reference to the LIBOR.

NOTE 5 - BONDS PAYABLE (CONTINUED)

Swap Agreements – Cash Flow Hedges (Continued)

On February 14, 2006, the Authority entered into an interest rate swap agreement with Goldman Sachs Mitsui Marine Derivatives Products, L.P. (Counterparty), effective September 29, 2006. The objective of this swap agreement is to create, with respect to the 2006 Series A-2 Bonds in an amount totaling $40,000,000, an approximately fixed rate net obligation. Payments made to the Counterparty by the Authority under this swap agreement are to be made semi-annually, commencing on January 1, 2007, on the basis of a notional principal amount and a fixed interest rate of 3.954%. Payments received by the Authority from the Counterparty under the swap agreement bear interest at a variable rate calculated by reference to the LIBOR.

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

The Authority had one line of credit, which had an interest rate of 0.34%, and was matured and paid down in 2011. At December 31, 2011, the Authority had no other line of credit borrowings

NOTE 5 - BONDS PAYABLE (CONTINUED)

Swap Agreements - Cash Flow Hedges (Continued)

Objective of the Swaps: In order to protect against the potential of rising interest rates, the Authority entered four separate pay-fixed, receive-variable interest rate swaps.

Terms, Fair Values, and Credit Risk: The terms, including, the fair values and credit ratings of the outstanding swaps as of December 31, 2011, are as follows. The notional amounts of the swaps match the principal amounts of the associated debt. The Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

Associated bond series	Notional amounts	Effective date	Fixed rate paid	Variable rate received	Fair values	Swap termination date	Counterparty credit rating S&P/Moody's/Fitch
2005 Series B-2 Swap	$ 25,520,000	4/6/2006	3.626%	58% of 1 month LIBOR Plus 41 Basis Points	$ (2,416,937)	7/1/2036	AAA/Aa1/N.A.
2005 Series C-3 Swap	26,440,000	6/1/2006	3.782%	58% of 1 month LIBOR Plus 41 Basis Points	(2,891,941)	7/1/2036	A/Aa3/N.A.
2006 Series A-2 Swap	29,170,000	9/29/2006	3.954%	66.9% of 3 month LIBOR	(4,380,024)	1/1/2037	AAA/Aa1/N.A.
2010 Series 08A-2 Swap	77,445,000	12/2/2008	3.445%	USD-SIFMA	(7,959,598)	7/1/2027	AA-/Aa1/AA
Total	$ 158,575,000				$ (17,648,500)		

Fair Value: Because interest rates declined, all swaps had a negative fair value as of December 31, 2011. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the Authority's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases.

Credit Risk: As of December 31, 2011, the Authority was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Authority would be exposed to credit risk in the amount of the derivatives' fair value.

Although the Authority executes swap transactions with various counterparties, approximately 49% of the notional amount of swaps outstanding are held by one counterparty. That counterparty is rated AA-/Aa1/AA The remaining three swaps are held by two different counterparties.

Basis Risk: The Authority is exposed to basis risk on the swaps when the variable payment received is based on an index other than SIFMA. As of December 31, 2011, the SIFMA rate was .10%, whereas 1 month LIBOR was .2953% and 3 month LIBOR was .58%

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

Rollover risk: The Authority is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, the Authority will not realize the synthetic rate offered by the swaps on the underlying debt issues. The 2010 Series 08A-2 is exposed to termination risk since the swap termination date precedes the debt maturity date.

(1) The Authority renamed the 2008 Series A-2 bonds to 2010 Series 08A-2 as part of the conversion from AMT to non-AMT.

NOTE 5 - BONDS PAYABLE (CONTINUED)

Swap Agreements – Cash Flow Hedges (Continued)

Swap Payments and Associated Debt: As of December 31, 2011, debt service requirements of the Authority's hedged outstanding variable rate debt and net swap payments (assuming current interest rates remain the same for their term, there are no mandatory redemptions under a SBPA and bonds are called as the Swap amortizes) are as follows:

Hedged Variable Rate Demand Bonds

Year Ending December 31	Principal	Interest	Interest Rate, Swaps, Net	Total
2012	$ 7,945,000	$ 832,326	$ 5,056,579	$ 13,833,905
2013	7,800,000	749,061	4,791,321	13,340,382
2014	7,220,000	671,755	4,545,045	12,436,800
2015	6,605,000	600,644	4,318,505	11,524,149
2016	5,140,000	548,419	4,144,091	9,832,510
2017-2021	39,170,000	1,953,271	17,175,409	58,298,680
2022-2026	39,370,000	707,403	10,224,885	50,302,288
2027-2031	23,720,000	159,833	5,219,514	29,099,347
2032-2037	21,605,000	48,998	1,627,819	23,281,817
Total	$ 158,575,000	$ 6,271,710	$ 57,103,168	$ 221,949,878

Conduit Debt Obligations

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

The Authority has issued debt obligations on behalf of a certain 501(c)(3) organization (the "Debtors") for the purpose of acquiring and rehabilitating facilities for housing persons of low and moderate income. These bonds and the interest thereof do not constitute a debt or liability of the Authority, but are special obligations between investors and the Debtors payable solely from the payments received by the trustee under the loan agreements and meet the definition of conduit debt in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At December 31, 2011, the Authority had outstanding conduit debt of $16 million.

NOTE 6 - COMMITMENTS

As of December 31, 2011, the Authority had the following commitments:

Lease

The Authority entered into a lease agreement for new office space in February 2003. The lease requires payments of $43,913 per month ($526,960 per year) for the ten-year term of the lease. Lease expense for 2011 was $530,790.

Excess Investment Earnings

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

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

	2011
Single Family Program	$ 784,511

Supplementary Information

RETIREMENT PLAN

Plan Description

The Authority elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective July 1, 2011. The Authority contributes to the INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under the Internal Revenue Code Section 401(a) and is tax exempt.

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

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

Participants have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

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

Funding Policy

The Authority contributes the participant's required contribution of 3% of their annual salary to an annuity savings account that may be withdrawn at any time with interest should a participant terminate employment. The Authority is required by State statute to contribute at an actuarially determined rate. The current rate is 7.0% of annual covered payroll. The contribution requirements of participants are determined by State statute.

Annual Pension Cost

For the 2011 plan year, the Authority's annual contribution of $261,327 was less than the required contribution of $400,272. The PERF funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2011 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 8.6% per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual post retirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

RETIREMENT PLAN (CONTINUED)

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

Asset valuation date	(1) Actuarial value of assets	(2) Actuarial accrued liability (AAL) entry age	(2-1) Unfunded (overfunded) AAL (UAAL)	(1/2) Funded ratio	(3) Covered payroll	[(2-1)/3] UAAL as a percentage of covered payroll	Annual pension cost (APC)	Percentage of APC contributed
June 30, 2011	$ 1,115,000	$ 1,975,000	$ 859,928	56%	$ 3,895,000	22%	$ 402,054	65%
June 30, 2010	1,316,000	1,950,000	634,000	67%	3,928,000	16%	219,411	107%
June 30, 2009	1,372,000	1,579,000	207,000	87%	3,473,000	6%	206,092	104%
June 30, 2008	1,450,000	1,476,000	26,000	98%	3,148,000	1%	168,385	116%
June 30, 2007	1,227,000	1,207,000	(20,000)	102%	2,823,000	1%	134,003	109%

HARDEST HIT FUND

SCHEDULE OF NET ASSETS
DECEMBER 31, 2011

Assets		
Cash	$	18,228,077
Accounts receivable		24,300
Total assets	$	18,252,377
Liabilities		
Accounts payable	$	178,142
Deferred revenue		18,074,235
Total liabilities		18,252,377
Net assets		
Net assets		-
Total net assets	$	-

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2011

HARDEST HIT FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

Revenue		
Program revenue	$	1,474,613
Administrative revenue		2,300,550
Total revenue	$	3,775,163
Expenses		
Program expenses	$	1,474,613
Administrative expenses		
One-time or start-up		
Building, equipment & technology		(2,989)
Professional services		120,000
Supplies & miscellaneous		3,141
Marketing & communications		175,000
Travel		9,813
Website development & translation		175,000
Total one-time or start-up		479,965
Operating and administrative		
Salaries		96,340
Professional services		255,888
Travel		3,832
Buildings, leases & equipment		18,758
Information technology & communications		346,056
Office supplies, postage and delivery & subscriptions		9,071
Training		4,332
Marketing & PR		75,804
Miscellaneous		
Misc. - monitoring		25,000
Misc. - US Bank payment collection		6,500
Misc. - Core Logic		135,000
Misc. - outreach		28,640
Total operating and administrative		1,005,222
Transaction		
Recording fees		2,430
Wire transfer fees		19,337
Total transaction		21,767
Intake and processing		
File intake		156,180
Decision costs		150,150
Successful file		83,300
Key business partners on-going		403,967
Total intake and processing		793,597
Total expenses	$	3,775,163