NEW ISSUE
(BOOK-ENTRY ONLY)

RATINGS:
Moody's: Aaa
Standard & Poor's: AAA
Fitch: AAA
See "RATINGS" herein.

In the opinion of Bond Counsel, assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, under existing law, and rendered in reliance on certain schedules described herein, interest on the 2014A Bonds and the 2014D Bonds (collectively, the "Tax-Exempt Bonds") is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference in computing the alternative minimum tax on individuals and corporations. Interest on the Tax-Exempt Bonds will be taken into account in computing an adjustment made in determining a corporate Bondholder's alternative minimum tax based on such Tax-Exempt Bondholder's adjusted current earnings, and holders of Tax-Exempt Bonds could be subject to the consequences of other provisions of the Internal Revenue Code of 1986, as amended, as further described herein. Further, in the opinion of Bond Counsel, stated interest on the 2014B Bonds and the 2014C Bonds (collectively, the "Taxable Bonds" and collectively with the Tax-Exempt Bonds, the "Bonds") will be treated as interest income of the holders of the Taxable Bonds for federal income tax purposes. INTEREST EARNED ON THE TAXABLE BONDS IS NOT EXCLUDABLE FROM GROSS INCOME OF THE HOLDERS OF THE TAXABLE BONDS FOR FEDERAL INCOME TAX PURPOSES. In the opinion of Bond Counsel, interest on the Bonds is exempt from present State of Georgia income taxation. See APPENDIX E and APPENDIX F herein for the forms of the opinions Bond Counsel proposes to deliver in connection with the issuance of the Bonds. For a more complete discussion of such opinions and certain other tax consequences of owning the Bonds, including certain exceptions to the exclusion of the interest on the Bonds from gross income, see "LEGAL AND TAX STATUS - Tax Consequences of Owning the Bonds" herein.

$982,905,000
State of Georgia

$658,690,000 General Obligation Bonds 2014A
$151,115,000 General Obligation Bonds 2014B (Federally Taxable)
$13,750,000 General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay)
$159,350,000 General Obligation Refunding Bonds 2014D

Dated: Date of Delivery **Due: As shown on inside cover**

This Official Statement has been prepared by the Georgia State Financing and Investment Commission (the "Commission") for and on behalf of the State of Georgia (the "State") to provide information on the above-captioned bonds (the "2014A Bonds," the "2014B Bonds," the "2014C Bonds" and the "2014D Bonds") (collectively, the "Bonds"). The summary information on this cover is for convenience only. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety.

Security	The Bonds constitute general obligations of the State to which its full faith, credit and taxing powers are pledged.
Redemption	Certain of the Bonds are not subject to optional redemption prior to their maturity and certain of the Bonds are subject to redemption prior to their maturities, as further described herein.
Purpose	The Bonds are being issued to provide funds for various capital outlay projects of the State and to provide funds to refund certain outstanding general obligation bonds of the State, as further described herein.
Interest Payment Dates	Semiannual, as described herein.
Denomination	$5,000 and integral multiples thereof.
Registration	Full book-entry only and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York.
Closing/Delivery Date	On or about July 10, 2014.

The Bonds are being offered when, as and if issued by the State and accepted by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, validation by the Superior Court of Fulton County, Georgia and approval as to legality by Holland & Knight LLP, Atlanta, Georgia, Bond Counsel. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Kutak Rock LLP, Atlanta, Georgia. Public Resources Advisory Group is serving as Financial Advisor to the State.

The date of this Official Statement is June 18, 2014.

$658,690,000
State of Georgia
General Obligation Bonds 2014A Maturity Schedule

Maturing February 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)
2015	$34,655,000	5.000%	0.095%	373384Q66
2016	36,320,000	5.000	0.210	373384Q74
2017	38,130,000	5.000	0.490	373384Q82
2018	40,045,000	5.000	0.840	373384Q90
2019	42,040,000	5.000	1.180	373384R24
2020	24,985,000	5.000	1.490	373384R32
2021	26,235,000	5.000	1.750	373384R40
2022	27,545,000	5.000	1.970	373384R57
2023	28,920,000	5.000	2.150	373384R65
2024	30,375,000	5.000	2.290	373384R73
2025	27,150,000	5.000	2.440*	373384R81
2026	28,510,000	4.000	2.640*	373384R99
2027	29,650,000	5.000	2.640*	373384S23
2028	31,130,000	4.000	2.930*	373384S31
2029	32,375,000	3.000	3.200	373384S49
2030	33,345,000	4.000	3.170*	373384S56
2031	34,680,000	4.000	3.240*	373384S64
2032	36,070,000	4.000	3.310*	373384S72
2033	37,515,000	4,000	3.380*	373384S80
2034	39,015,000	4.000	3.430*	373384S98

* Priced to February 1, 2024 optional redemption date

$151,115,000
State of Georgia
General Obligation Bonds 2014B (Federally Taxable) Maturity Schedule

Maturing February 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)
2015	$9,450,000	1.000%	0.200%	373384T22
2016	9,920,000	0.550	0.550	373384T30
2017	10,415,000	0.980	0.980	373384T48
2018	10,940,000	1.380	1.380	373384T55
2019	11,485,000	1.750	1.750	373384T63
2020	4,590,000	2.750	2.040	373384T71
2021	4,820,000	2.450	2.450	373384T89
2022	5,060,000	2.640	2.640	373384T97
2023	5,310,000	4.000	2.790	373384U20
2024	5,570,000	4.000	2.940	373384U38
2025	5,850,000	3.090	3.090	373384U46
2026	6,140,000	3.240	3.240	373384U53
2027	6,445,000	3.390	3.390	373384U61
2028	6,775,000	3.490	3.490	373384U79
2029	7,110,000	3.540	3.540	373384U87
2030	7,465,000	3.640	3.640	373384U95
2031	7,840,000	3.740	3.740	373384V29
2032	8,230,000	3.840	3.840	373384V37
2033	8,640,000	3.890	3.890	373384V45
2034	9,060,000	3.940	3.940	373384V52

$13,750,000
State of Georgia
General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay) Maturity Schedule

Maturing February 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)
2015	$415,000	0.250%	0.250%	373384V60
2016	435,000	0.750	0.600	373384V78
2017	460,000	1.250	1.080	373384V86
2018	480,000	1.750	1.580	373384V94
2019	505,000	2.125	1.990	373384W28
2020	530,000	2.375	2.240	373384W36
2021	555,000	2.750	2.600	373384W44
2022	585,000	3.000	2.800	373384W51
2023	615,000	3.250	2.990	373384W69
2024	645,000	3.250	3.090	373384W77
2025	675,000	3.500	3.240*	373384W85
2026	710,000	3.500	3.340*	373384W93
2027	745,000	3.500	3.440*	373384X27
2028	785,000	3.500	3.540	373384X35
2029	825,000	3.750	3.640*	373384X43
2030	865,000	4.000	3.740*	373384X50
2031	910,000	4.000	3.890*	373384X68
2034	3,010,000#	4.000	4.000	373384X76

* Priced to February 1, 2024 optional redemption date

Term bonds subject to mandatory redemption as described herein. See “DESCRIPTION OF THE BONDS – *Mandatory Redemption of 2014C Bonds*” herein.

$159,350,000
State of Georgia
General Obligation Refunding Bonds 2014D Maturity Schedule

Maturing July 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)
2015	$63,255,000	5.000%	0.085%	373384Q25
2016	56,480,000	5.000	0.240	373384Q33
2017	27,565,000	5.000	0.570	373384Q41
2018	12,050,000	5.000	0.950	373384Q58

(a) CUSIP numbers have been assigned by an organization not affiliated with the State and are included for the convenience of the holders of the Bonds. Neither the State nor the Commission is responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their accuracy on the Bonds, or as indicated above.

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STATE OF GEORGIA

Governor
NATHAN DEAL

Lieutenant Governor
CASEY CAGLE

Georgia State Financing and Investment Commission
270 Washington Street
Suite 2140
Atlanta, Georgia 30334
Telephone (404) 463-5700

Members
NATHAN DEAL - Governor, Chair
CASEY CAGLE - President of the Senate, Vice-Chair
DAVID RALSTON - Speaker of the House of Representatives
SAMUEL S. OLENS - Attorney General
GARY W. BLACK - Commissioner of Agriculture
STEVEN McCOY - State Treasurer
GREG S. GRIFFIN - State Auditor, Secretary and Treasurer

Financing and Investment Division
DIANA POPE - Director

Construction Division
STEVE STANCIL - Director and
Executive Secretary to the Commission

State Law Department
SAMUEL S. OLENS - Attorney General

Bond Counsel
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Atlanta, Georgia

Disclosure Counsel
KUTAK ROCK LLP
Atlanta, Georgia

Financial Advisor
PUBLIC RESOURCES ADVISORY GROUP
New York, New York

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No dealer, broker, salesperson or other person has been authorized by the Commission or the State to give any information or to make any representations, other than as contained in this Official Statement in connection with the issuance of the Bonds described herein and, if given or made, such information or representations must not be relied upon as having been authorized by the Commission or the State. This Official Statement does not constitute a contract between the Commission or the State and any one or more owners of the Bonds, nor does this Official Statement constitute an offer to sell the Bonds or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been furnished by the Commission or the State and by other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implications that there has been no change in the affairs of the State or any other parties described herein since the date hereof.

This Official Statement (including the Appendices attached hereto) contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement (including the Appendices attached hereto), the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward looking statements. These forward looking statements speak only as of the date of this Official Statement. The Commission and the State disclaim any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained herein to reflect any change in the Commission's or the State's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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SUMMARY STATEMENT

(Subject in all respects to more complete information herein this Official Statement.)

Issuer:	The State of Georgia ("State") acting by and through the Georgia State Financing and Investment Commission.
Offering:	$658,690,000 General Obligation Bonds 2014A $151,115,000 General Obligation Bonds 2014B (Federally Taxable) $13,750,000 General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay) $159,350,000 General Obligation Refunding Bonds 2014D
Maturity:	The 2014A Bonds and 2014B Bonds mature on each February 1, from February 1, 2015 to February 1, 2034. The 2014C Bonds mature on each February 1, from February 1, 2015 to February 1, 2031 inclusive and on February 1, 2034. The 2014C Bonds maturing February 1, 2034 are subject to mandatory redemption as described in "DESCRIPTION OF THE BONDS – *Mandatory Redemption of 2014C Bonds*" herein. The 2014D Bonds mature on each July 1, from July 1, 2015 to July 1, 2018 inclusive. See "DESCRIPTION OF THE BONDS – Redemption Provisions" herein.
Interest:	Interest on the 2014A, 2014B and 2014C Bonds is payable each February 1 and August 1, with the first interest payment due on February 1, 2015, until final payment. Interest on the 2014D Bonds is payable each July 1 and January 1, with the first interest payment due on January 1, 2015, until final payment.
Dated Date:	Date of Initial Delivery.
Delivery Date:	On or about July 10, 2014.
Purpose:	The 2014A Bonds, the 2014B Bonds and the 2014C Bonds are being issued to provide funds for various capital outlay projects of the State. See "PURPOSE OF THE 2014A BONDS, 2014B BONDS AND 2014C BONDS" herein for details. The 2014D Bonds are being issued to provide funds to refund certain outstanding general obligation bonds of the State. See "PURPOSE OF THE 2014D BONDS – PLAN OF REFUNDING" herein for details.
Security:	General obligations of the State to which its full faith, credit and taxing power are pledged.
Book-Entry Bonds:	Bonds will be issued in fully registered form without interest coupons in denominations of $5,000 and integral multiples thereof. Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York.
Redemption:	See "DESCRIPTION OF THE BONDS – Redemption Provisions" herein.
Bond Counsel:	Holland & Knight LLP, Atlanta, Georgia.
Disclosure Counsel:	Kutak Rock LLP, Atlanta, Georgia.
Financial Advisor:	Public Resources Advisory Group, New York, New York.
Registrar/ Paying Agent:	The Bank of New York Mellon Trust Company, N.A.
Bond Ratings:	Credit ratings are as shown on the front cover of this Official Statement and as more completely described in "RATINGS" herein.

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$982,905,000
State of Georgia

$658,690,000 General Obligation Bonds 2014A
$151,115,000 General Obligation Bonds 2014B (Federally Taxable)
$13,750,000 General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay)
$159,350,000 General Obligation Refunding Bonds 2014D

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to provide certain information concerning the State of Georgia (the "State") and the above referenced bonds comprised of: (i) State of Georgia General Obligation Bonds 2014A (the "2014A Bonds"), (ii) State of Georgia General Obligation Bonds 2014B (Federally Taxable) (the "2014B Bonds"), (iii) State of Georgia General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds Direct Pay) (the "2014C Bonds") and (iv) State of Georgia General Obligation Refunding Bonds 2014D (the "2014D Bonds"). The 2014A Bonds, the 2014B Bonds, the 2014C Bonds and the 2014D Bonds are referred to herein, collectively, as the "Bonds". The 2014A Bonds and the 2014D Bonds also are referred to herein, collectively, as the "Tax-Exempt Bonds" and the 2014B Bonds and the 2014C Bonds also are referred to herein, collectively, as the "Taxable Bonds."

The Bonds are being issued by the Georgia State Financing and Investment Commission (the "Commission"), acting for and on behalf of the State, pursuant to the Constitution and laws of the State of Georgia and resolutions adopted by the Commission on June 18, 2014 (collectively, the "Resolutions"). The Bonds will constitute a debt of the State for which the full faith, credit and taxing power of the State are pledged to the payment of the Bonds and the interest thereon. See "SECURITY FOR THE BONDS" herein. The proceeds from the sale of the 2014A Bonds, the 2014B Bonds and the 2014C Bonds will be used to finance various capital outlay projects as described under "PURPOSE OF THE 2014A BONDS, 2014B BONDS AND 2014C BONDS" herein. The State currently expects to use the original issue premium, if any, generated from the sale of the 2014A Bonds, the 2014B Bonds and the 2014C Bonds to fund a portion of various capital projects of the State, including the projects funded by the 2014A Bonds, the 2014B Bonds, and the 2014C Bonds, or pay all or a portion of the costs of issuance of the 2014A Bonds, the 2014B Bonds and 2014C Bonds. See "USE OF PREMIUM ON THE 2014A BONDS, 2014B BONDS AND 2014C BONDS" herein. The proceeds from the sale of the 2014D Bonds will be used to pay all or a portion of the cost of issuance of the 2014D Bonds and to refund certain outstanding general obligation bonds of the State as described under "PURPOSE OF THE 2014D BONDS – PLAN OF REFUNDING" herein.

The Bonds are authorized to be issued pursuant to powers granted to the Commission in Article VII, Section IV of the Constitution of the State of Georgia (the "State Constitution") and the Georgia State Financing and Investment Commission Act (Ga. Laws 1973, p. 750, et seq., as amended, codified at Official Code of Georgia Annotated ("O.C.G.A.") § 50-17-20, et seq., referred to herein as the "Commission Act"). See "SECURITY FOR THE BONDS," "THE COMMISSION" and "APPENDIX A - DEBT AND REVENUE INFORMATION – DEBT INFORMATION - Appropriations and Debt Limitations" herein.

In the opinion of Bond Counsel, under existing laws, regulations, and judicial decisions, and assuming continued compliance with certain tax covenants, interest on the Tax-Exempt Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, interest on the Tax-Exempt Bonds and Taxable Bonds is exempt from present State of Georgia income taxation. See "APPENDIX E" and "APPENDIX F" herein for the forms of opinions Bond Counsel proposes to deliver in connection with the issuance of the Tax-Exempt Bonds and the Taxable Bonds, respectively. For a more complete discussion of such opinions and certain other tax consequences of owning the Bonds, including certain exceptions to the exclusion of the interest on the Tax-Exempt Bonds from gross income, see "LEGAL AND TAX STATUS - Tax Consequences of Owning the Bonds" herein.

The Bonds are offered when, as, and if issued, subject to validation by the Superior Court of Fulton County, Georgia, and the approving legal opinions of Holland & Knight LLP, Atlanta, Georgia, Bond Counsel. Certain legal matters will be passed on for the State by its Disclosure Counsel, Kutak Rock LLP, Atlanta, Georgia. See "LEGAL MATTERS" herein.

It is expected that the Bonds will be available for delivery in New York, New York, on or about July 10, 2014, in book-entry form only, with actual bond certificates immobilized in the custody of The Depository Trust Company ("DTC"), New York, New York, a registered securities depository, or its agent.

This Official Statement speaks only as of its date and is subject to change. This Introduction and the Summary Statement presented above represent a brief description of the matters contained herein, and a full review should be made of the entire Official Statement, as well as the appendices hereto and any documents described or summarized herein. Requests for additional information with respect to this Official Statement (including the appendices attached hereto) or a copy of the Resolution may be directed to Diana Pope, Director, Financing and Investment Division, Georgia State Financing and Investment Commission, 270 Washington Street, S.W., Suite 2140, Atlanta, Georgia 30334, telephone number (404) 463-5700.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of delivery.

Interest on the 2014A Bonds, 2014B Bonds and 2014C Bonds is payable semiannually on February 1 and August 1 in each year (each as to the 2014A Bonds, 2014B Bonds and 2014C Bonds an "Interest Payment Date"), commencing February 1, 2015, until final payment.

Interest on the 2014D Bonds is payable semiannually on July 1 and January 1 in each year (each as to the 2014D Bonds an "Interest Payment Date"), commencing January 1, 2015, until final payment.

The Bonds will bear interest from the Interest Payment Date next preceding their date of authentication to which interest has been paid at the rates per annum set forth on the inside cover page of this Official Statement (computed on the basis of a 360-day year comprised of twelve 30-day months). Payment of the principal of and interest on the Bonds will be made by the designated corporate trust office of The Bank of New York Mellon Trust Company, N.A., as Bond Registrar and Paying Agent, directly to Cede & Co., as nominee for DTC, as registered owner of the Bonds, and subsequently will be disbursed to DTC Participants and thereafter to beneficial owners thereof (the "Beneficial Owners") of the Bonds as described below. When not in book-entry form, interest on the Bonds is payable by check or draft mailed by first-class mail on the Interest Payment Date to the owners thereof as shown on the books and records of the Bond Registrar on the 15th day of the calendar month next preceding the Interest

Payment Date. When not in book-entry form, principal of the Bonds is payable upon surrender thereof at the designated corporate trust office of the Paying Agent.

Redemption Provisions

Optional Redemption of the Bonds

The 2014A Bonds, 2014B Bonds and 2014C Bonds maturing on or before February 1, 2024 are not subject to optional redemption. The 2014A Bonds, 2014B Bonds and 2014C Bonds maturing on or after February 1, 2025 will be subject to optional redemption on and after February 1, 2024, in whole or in part at any time at par plus interest accrued thereon to the date fixed for redemption.

The 2014D Bonds are not subject to optional redemption.

Extraordinary Optional Redemption of the 2014C Bonds

The 2014C Bonds are subject to redemption on any Business Day prior to their maturity at the option of the Commission, on behalf of the State, in whole or part, upon the occurrence of an Extraordinary Event (described below), at a redemption price (the "2014C Extraordinary Optional Redemption Price") equal to the greater of (i) 100 percent of the principal amount of the 2014C Bonds to be redeemed; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such 2014C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the applicable 2014C Bonds are to be redeemed, discounted to the date on which such 2014C Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below), plus 50 basis points; plus, in each case, accrued interest on the 2014C Bonds to be redeemed to the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular 2014C Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than 45 calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the 2014C Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

An "Extraordinary Event" will have occurred with respect to the 2014C Bonds if (i) Sections 54A, 54F or 6431 of the Code are modified, amended or interpreted in a manner (including the sequestration provisions of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, as discussed under "Designation of 2014C Bonds as 'Qualified School Construction Bonds'"), pursuant to which the State's Qualified School Construction Bond Federal Direct Payments for the 2014C Bonds are reduced by 10% or more or eliminated or (ii) if any other event occurs that results in a reduction of the State's Qualified School Construction Bond Federal Direct Payments to a level that is 10% or more below the level set forth in Section 54D or Section 6431 of the Code.

Extraordinary Mandatory Redemption of the 2014C Bonds

The Code requires all of the proceeds of the 2014C Bonds and investment earnings thereon to be expended within three years of the date of issue of the 2014C Bonds or within 90 days of any IRS approved extension for School Projects (the "Expenditure Period"). In the event such expenditure requirements are not satisfied, the 2014C Bonds are subject to extraordinary mandatory redemption, in whole or in part, on a date designated by the State within 90 days after the end of the Expenditure Period, at a redemption price equal to the principal amount of the 2014C Bonds to be redeemed together with accrued interest, if any, to the redemption date in an amount computed by reference to the unexpended proceeds of the 2014C Bonds or such amount as may be required to preserve the status of the 2014C Bonds as "qualified school construction bonds."

Mandatory Redemption of the 2014C Bonds

The 2014C Bonds maturing on February 1, 2034 are subject to mandatory redemption at a redemption price equal to 100 percent of the principal amount thereof, plus accrued interest to the date fixed for redemption, and without premium on the dates and principal amounts as follows:

Redemption Dates	Amount
February 1, 2032	$955,000
February 1, 2033	1,000,000
February 1, 2034*	1,055,000

*Maturity

If the Commission optionally redeems or purchases 2014C Bonds, the par amount of the 2014C Bonds so redeemed or purchased shall be credited against the scheduled mandatory redemption amounts on a pro rata basis, subject to the operating procedures of DTC.

Redemption Notices - Selection of Bonds to be Redeemed

Upon receipt of notice from the State of its election to redeem the Bonds, the Paying Agent is to give notice of such redemption by mail to the holders of such Bonds to be redeemed not less than 30 days or more than 60 days prior to the date set for redemption. Failure by a particular holder to receive notice, or any defect in the notice to such holder, will not affect the redemption of any other Bond. The particular maturities of the Bonds to be redeemed will be determined by the Commission, on behalf of the State, in its sole discretion.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for redemption prior to maturity, the particular Bonds of such maturity, or portions thereof to be redeemed shall be selected for redemption on a pro rata pass-through distribution of principal basis among the registered owners of such maturity, in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Bonds will be selected for redemption, in accordance with DTC procedures then in effect.

It is the Commission's intent that redemption allocations for the Bonds made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, the Commission cannot provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of the Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis as discussed above, then the Bonds to be redeemed will be selected for redemption in accordance with DTC procedures then in effect. If the Bonds are not registered in book-entry only form, any redemption of less than all of a series and maturity of the Bonds shall be allocated among the registered owners of such Bonds on a pro-rata basis. See "DESCRIPTION OF THE BONDS - Book-Entry System" herein.

Registration, Exchange and Transfer

The Bonds will be issued only as fully registered bonds without coupons in denominations of $5,000 and integral multiples thereof. The Commission and the Bond Registrar and Paying Agent may deem and treat the registered owner of a Bond as the absolute owner of such Bond for purposes of receiving payment of or on account of principal and interest payable thereon, and for other purposes; the Commission and the Bond Registrar and Paying Agent will not be affected by any notice to the contrary.

The Bonds will be issued in book-entry form registered in the name of Cede & Co., the nominee of DTC. Beneficial Owners of the Bonds will not receive physical delivery of bond certificates. While in book-entry form, registration of exchanges and transfers of beneficial ownership interests in the Bonds will be effected in accordance with DTC practices and procedures described below.

When not in book-entry form, ownership of any Bond is transferable upon surrender thereof to the Bond Registrar, together with an instrument of transfer assignment duly executed by the registered owner or its duly authorized agent, in such form as shall be satisfactory to the Bond Registrar. Upon any such transfer of ownership, the Bond Registrar will cause to be authenticated and delivered a new Bond or Bonds registered in the name of the transferee in an authorized denomination in the same aggregate principal amount and interest rate as the Bonds surrendered for such transfer. The Bonds may be exchanged for a like principal amount of Bonds of the same interest rate of other authorized denominations. For every exchange or registration of transfer, the Bond Registrar may charge an amount sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the owner for any exchange or registration of transfer of the Bonds.

Book-Entry System

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources believed to be reliable. No representation is made herein by the Commission or the State as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date of this Official Statement.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity in the aggregate principal amount of such maturity, and will be deposited with DTC. Purchasers may own beneficial interests in the Bonds in the United States through DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents relating to the Bonds. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct

Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Commission and the Paying Agent. Under such circumstances, in the event that a substitute or successor securities depository is not obtained, Bond certificates will be printed and delivered as provided in the Resolution.

The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered as provided in the Resolution.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE COMMISSION AND THE STATE BELIEVE TO BE RELIABLE, BUT NEITHER THE COMMISSION NOR THE STATE TAKE ANY RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE COMMISSION, THE STATE, NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (i) SENDING TRANSACTION STATEMENTS; (ii) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (iii) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS; (iv) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY NOTICE OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS OR OWNERS OF THE BONDS; OR (v) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE BONDS.

So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, reference herein to the registered owners of the Bonds (other than under the heading "LEGAL AND TAX STATUS - Tax Consequences of Owning the Bonds" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

SECURITY FOR THE BONDS

The Bonds are direct and general obligations of the State. The Bonds are issued by the Commission pursuant to powers granted to the Commission in Article VII, Section IV of the State Constitution and the Commission Act. Article VII, Section IV, Paragraph VI of the State Constitution provides:

> The full faith, credit, and taxing power of the state are hereby pledged to the payment of all public debt incurred under this article and all such debt and the interest on the debt shall be exempt from taxation. Such debt may be validated by judicial proceedings in the manner provided by law. Such validation shall be incontestable and conclusive.

Article VII, Section IV, Paragraph III(a)(1) of the State Constitution provides:

> General obligation debt may not be incurred until legislation is enacted stating the purposes, in general or specific terms, for which such issue of debt is to be incurred, specifying the maximum principal amount of such issue and appropriating an amount at least sufficient to pay the highest annual debt service requirements for such issue. All such appropriations for debt service purposes shall not lapse for any reason and shall continue in effect until the debt for which such appropriation was authorized shall have been incurred, but the General Assembly may repeal any such appropriation at any time prior to the incurring of such debt. The General Assembly shall raise by taxation and appropriate each fiscal year, in addition to the sum necessary to make all payments required under contracts entitled to the protection of the second paragraph of Paragraph I(a), Section VI, Article IX of the Constitution of 1976, such amounts as are necessary to pay debt service requirements in such fiscal year on all general obligation debt.

Article VII, Section IV, Paragraph III(a)(2)(A) of the State Constitution provides:

> The General Assembly shall appropriate to a special trust fund to be designated "State of Georgia General Obligation Debt Sinking Fund" such amounts as are necessary to pay annual debt service requirements on all general obligation debt. The sinking fund shall be used solely for the retirement of general obligation debt payable from the fund. If for any reason the monies in the sinking fund are insufficient to make, when due, all payments required with respect to such general obligation debt, the first revenues thereafter received in the general fund of the state shall be set aside by the appropriate state fiscal officer to the extent necessary to cure the deficiency and shall be deposited by the fiscal officer into the sinking fund. The appropriate state fiscal officer may be required to set aside and apply such revenues at the suit of any holder of any general obligation debt incurred under this section.

Article VII, Section IV, Paragraph V of the State Constitution provides, in relevant part:

> The state may incur general obligation debt or guaranteed revenue debt to fund or refund any such debt or to fund or refund any obligations issued upon the security of contracts to which the provisions of the second paragraph of Paragraph I(a), Section VI, Article IX of the Constitution of 1976 are applicable. The issuance of any such debt for the purposes of said funding or refunding shall be subject to the 10 percent limitation in Paragraph II(b) of this section to the same extent as debt incurred under Paragraph I of this section; provided, however, in making such computation the annual debt service requirements and annual contract payments remaining on the debt or obligations being funded or refunded shall not be taken into account. The issuance of such debt may be accomplished by resolution of the Georgia State Financing and Investment Commission without any action on the part of the General Assembly and any

appropriation made or required to be made with respect to the debt or obligation being funded or refunded shall immediately attach and inure to the benefit of the obligations to be issued in connection with such funding or refunding.

In compliance with the above provisions of the State Constitution, the General Assembly has appropriated to the State of Georgia General Obligation Debt Sinking Fund (the "Sinking Fund") amounts sufficient to pay the highest annual debt service requirements on all outstanding general obligation debt. There are no contracts currently outstanding which are entitled to the protection of the second paragraph of Paragraph I(a), Section VI, Article IX of the Constitution of 1976. See "APPENDIX A – DEBT AND REVENUE INFORMATION – DEBT INFORMATION" and "APPENDIX B – BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2013."

PURPOSE OF THE 2014A BONDS, 2014B BONDS AND 2014C BONDS

The State Constitution provides that the State may incur two types of debt: (i) general obligation debt and (ii) guaranteed revenue debt. General obligation debt may be incurred to: acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, structures, equipment, or facilities of the State, its agencies, departments, institutions and certain State authorities; to provide educational facilities for county and independent school systems and to provide public library facilities for county and independent school systems, counties, municipalities, and boards of trustees of public libraries or boards of trustees of public library systems; and to make loans to counties, municipal corporations, political subdivisions, local authorities and other local government entities for water or sewerage facilities or systems or for regional or multijurisdictional solid waste recycling or solid waste facilities or systems. Guaranteed revenue debt may be incurred by guaranteeing the payment of certain revenue obligations issued by an instrumentality of the State as set forth in the State Constitution to finance certain specified public projects. There being no bonds scheduled to retire on or between the date of this Official Statement and prior to July 1, 2014, as of June 30, 2014, the State will have general obligation debt outstanding in an aggregate principal amount of $8,763,845,000 and guaranteed revenue debt outstanding in an aggregate principal amount of $348,635,000. See "APPENDIX A – DEBT AND REVENUE INFORMATION – DEBT INFORMATION."

The proceeds of the Bonds are expected to be used for the purposes described below. A more detailed description of the purposes may be obtained from the legislative authorizations for the Bonds, as required by the State Constitution, in appropriations enacted as follows: (i) the General Appropriations Act for State Fiscal Year 2009-2010 (Ga. L. 2009, Volume One, Book Two Appendix, commencing at p. 1 of 330, Act No. 345, 2009 Regular Session, H.B. 119) signed by the Governor on May 11, 2009, as amended by the Supplementary General Appropriations Act for State Fiscal Year 2009-2010 (Ga. L. 2010, Volume One, Book Two Appendix, commencing at p. 1 of 242, Act No. 352, 2010 Regular Session, H.B. 947) signed by the Governor on May 6, 2010; (ii) the General Appropriations Act for State Fiscal Year 2010-2011 (Ga. L. 2010, Volume One, Book Two Appendix, commencing at p. 1 of 164, Act No. 684, 2010 Regular Session, H.B. 948) signed by the Governor on June 4, 2010, as amended by the Supplementary General Appropriations Act for State Fiscal Year 2010-2011 (Ga. L. 2011, Volume One, Book Two Appendix, commencing at p. 1 of 147, Act No. 2, 2011 Regular Session, H.B. 77) signed by the Governor on March 9, 2011, as further amended by the Supplementary General Appropriations Act for State Fiscal Year 2012-2013 (Ga. L. 2013, Volume One Appendix, commencing at p. 1 of 131, Act No. 11, 2013 Regular Session, H.B. 105) signed by the Governor on March 27, 2013; (iii) the General Appropriations Act for State Fiscal Year 2011-2012 (Ga. L. 2011, Volume One, Book Two Appendix, commencing at p. 1 of 231, Act No. 223, 2011 Regular Session, H.B. 78) signed by the Governor on May 12, 2011, as amended by the Supplementary General Appropriations Act for State Fiscal Year 2011-2012 (Ga. L. 2012, Volume One Appendix, commencing at p. 1 of 216, Act No. 406, 2012 Regular Session, H.B. 741) signed by the Governor on March 15, 2012, as further amended by the General

Appropriations Act for State Fiscal Year 2014-2015 (Ga. L. 2014, Volume One Appendix, commencing at p. 1 of 139, Act No. 632, 2014 Regular Session, H.B. 744) signed by the Governor on April 28, 2014; (iv) the General Appropriations Act for State Fiscal Year 2012-2013 (Ga. L. 2012, Volume One Appendix, commencing at p. 1 of 175, Act No. 775, 2012 Regular Session, H.B. 742) signed by the Governor on May 7, 2012, as amended by the Supplementary General Appropriations Act for State Fiscal Year 2012-2013 (Ga. L. 2013, Volume One Appendix, commencing at p. 1 of 131, Act No. 11, 2013 Regular Session, H.B. 105) signed by the Governor on March 27, 2013; (v) the General Appropriations Act for State Fiscal Year 2013-2014 (Ga. L. 2013, Volume One Appendix, commencing at p. 1 of 239, Act No. 309, 2013 Regular Session, H.B. 106) signed by the Governor on May 7, 2013, as amended by the Supplementary General Appropriations Act for State Fiscal Year 2013-2014 (Ga. L. 2014, Volume One Appendix, commencing at p. 1 of 174, Act No. 347, 2014 Regular Session, H.B. 743) signed by the Governor on February 26, 2014 ("H.B. 743"); and (vi) the General Appropriations Act for State Fiscal Year 2014-2015 (Ga. L. 2014, Volume One Appendix, commencing at p. 1 of 139, Act No. 632, 2014 Regular Session, H.B. 744) signed by the Governor on April 28, 2014 ("H.B. 744").

Amount	Purpose
$1,100,000	To finance projects and facilities for the Vocational Rehabilitation Agency
4,120,000	To finance projects and facilities for the Department of Public Safety (Public Safety Training Center)
8,035,000	To finance projects and facilities for the Department of Agriculture
560,000	To finance projects and facilities for the Department of Public Health
535,000	To finance projects and facilities for the Department of Defense
282,025,000	To finance grants to county and independent school systems for educational facilities and equipment through the State Board of Education (Department of Education)
1,250,000	To finance projects and facilities for the Department of Education
44,620,000	To finance projects and facilities for the Technical College System of Georgia
6,155,000	To finance projects and facilities for the State Forestry Commission
3,150,000	To finance projects and facilities for the Department of Human Services
18,190,000	To finance projects and facilities for the Department of Community Affairs
1,410,000	To finance projects and facilities for the Department of Behavioral Health and Developmental Disabilities
18,100,000	To finance projects and facilities for the Department of Juvenile Justice
28,700,000	To finance projects and facilities for the Department of Natural Resources
815,000	To finance projects and facilities for the State Board of Pardons and Paroles
17,270,000	To finance projects and facilities for the Department of Public Safety
30,075,000	To finance projects and facilities for the Department of Corrections
2,365,000	To finance projects and facilities for the Georgia Bureau of Investigation
173,350,000	To finance projects and facilities for the Board of Regents of the University System of Georgia
2,000,000	To finance public library facilities through the Board of Regents of the University System of Georgia by grants to the governing boards of various public libraries
500,000	To finance public library facilities through the Board of Regents of the University System of Georgia by grant to the West Georgia Regional Library System
2,000,000	To finance public library facilities through the Board of Regents of the University System of Georgia by grant to the Troup-Harris-Coweta Regional Library
4,000,000	To finance projects and facilities for the Department of Revenue
1,380,000	To finance projects and facilities for the Department of Driver Services
600,000	To finance projects and facilities for the Soil and Water Conservation Commission
152,695,000	To finance projects and facilities for the Department of Transportation
22,000,000	To finance projects and facilities for the Georgia Building Authority
22,335,000	To finance projects and facilities for the Department of Economic Development
50,000,000	To finance a grant to the Georgia Environmental Finance Authority to provide loans to local governments and local government entities for water and sewerage facilities
$899,335,000	Total

The Commission Act provides that the Commission shall be responsible for the proper application of the proceeds of the 2014A Bonds, 2014B Bonds and 2014C Bonds to the purposes for which they are incurred and that the proceeds received from the sale of the 2014A Bonds, 2014B Bonds and 2014C Bonds shall be held in trust by the Commission and disbursed promptly by the Commission in accordance with the original purpose set forth in the authorization of the General Assembly and in accordance with rules and regulations established by the Commission.

PURPOSE OF THE 2014D BONDS – PLAN OF REFUNDING

The State expects to use the proceeds of the 2014D Bonds to pay all or a portion of the cost of issuance on the 2014D Bonds and to refund all or a portion of certain previously issued State of Georgia general obligation bonds. Simultaneously with the issuance of the 2014D Bonds, the Commission will deposit or cause to be deposited a portion of the proceeds derived from the sale of the 2014D Bonds into a special fund (the "Refunding Escrow Fund") created under the terms of an Escrow Deposit Agreement, dated as of July 1, 2014 (the "Refunding Escrow Deposit Agreement"), by and among the Commission, acting for and on behalf of the State, The Bank of New York Mellon Trust Company, N.A., as Escrow Agent (the "Refunding Escrow Agent"), and The Bank of New York Mellon Trust Company, N.A., as Paying Agent for certain previously issued State of Georgia general obligation bonds, providing for the terms of the refunding of all or portions of such previously issued bonds (the portions of such bonds are herein collectively referred to as the "Refunded Bonds"). See "APPENDIX G" herein. The Refunded Bonds are being refunded to effect interest cost savings to the State. The Commission also has paid, or will cause to be paid, the fees of the Refunding Escrow Agent and the above-named Paying Agent in accordance with each of their regular billing procedures. The sums deposited into the Refunding Escrow Fund together with scheduled interest earnings shall be sufficient to provide for the payment of the principal of and interest on the Refunded Bonds. Said sums will be invested by the Refunding Escrow Agent in certain non-callable, general and direct obligations of the United States of America (the "Refunding Escrow Obligations") or held as cash in the Refunding Escrow Fund, all as set forth in the Refunding Escrow Deposit Agreement. The Refunding Escrow Obligations shall mature and bear interest at such times and in such amounts as shall be at all times sufficient to pay the interest on the Refunded Bonds from the date of delivery of the Bonds to and including the applicable redemption date for any such Refunded Bonds, and to redeem any such Refunded Bonds on the applicable redemption date and at the applicable redemption price, plus interest accrued thereon to the applicable redemption date. Under the terms of the Refunding Escrow Deposit Agreement, the Paying Agent for the Refunded Bonds has agreed to give appropriate notice of the redemption of the Refunded Bonds, as required under the terms of the various resolutions authorizing the issuance thereof. Moneys available from time to time in the Refunding Escrow Fund shall be held in trust and used by the Refunding Escrow Agent to pay such principal and interest and redemption price with respect to the Refunded Bonds, and will not be available for payment of debt service on the Bonds. Upon issuance of the 2014D Bonds and compliance with the requirements of the Refunding Escrow Deposit Agreement for the payment of all the Refunded Bonds now outstanding, pursuant to Article VII, Section IV, Paragraph V of the State Constitution, the annual debt service requirements of the Refunded Bonds shall not be included in any constitutional debt limitations.

The accuracy of the mathematical computations of the adequacy of the principal of and interest on the Refunding Escrow Obligations to provide for the payment when due of the interest on and the respective redemption prices of the Refunded Bonds will be verified by Samuel Klein and Company, Certified Public Accountants. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS – 2014D BONDS" herein.

The following table sets forth the estimated sources and uses of the proceeds of the 2014D Bonds.

Sources of Funds	
Principal Amount of 2014D Bonds	$159,350,000.00
Original Issue Premium	13,819,309.70
Total Sources of Funds	$173,169,309.70
Uses of Funds	
Deposit to Refunding Escrow Fund	$173,032,311.45
Costs of Issuance, Including Underwriter's Discount	136,998.25
Total Uses of Funds	$173,169,309.70

USE OF PREMIUM ON THE 2014A BONDS, 2014B BONDS AND 2014C BONDS

The State currently expects to use the original issue premium, if any, generated from the sale of the 2014A Bonds, 2014B Bonds and 2014C Bonds to fund a portion of various capital projects of the State, including the projects funded by the 2014A Bonds, 2014B Bonds and 2014C Bonds, or to pay all or a portion of the costs of issuance of the 2014A Bonds, 2014B Bonds and 2014C Bonds.

AUTHORIZED INDEBTEDNESS

During the 2014 General Session, the General Assembly adopted H.B. 744, the General Appropriations Act for the State's Fiscal Year beginning July 1, 2014 and ending June 30, 2015 ("FY 2015"), and the Governor approved the authorization of an aggregate principal amount of $878,100,000 of new general obligation debt, the proceeds of which are to be used for various planned capital projects of the State, its departments and agencies; the General Assembly also provided for the repeal of an aggregate principal amount of $12,930,000 of previously authorized but unissued general obligation debt pursuant to H.B. 743 (the Amended General Appropriations Act for the State's Fiscal Year beginning July 1, 2013 and ending June 30, 2014 ("FY 2014")) and H.B. 744. Prior to the issuance of the Bonds as described herein and adjusting for the repeal of authorized but unissued general obligation debt as described above, the State had a total of $437,575,000 of authorized unissued general obligation debt from the FY 2014 and prior years' authorizations. Upon the issuance of the Bonds, there will be $416,340,000 of authorized but unissued general obligation debt. (This amount reflects a reduction in the authorized unissued general obligation debt equal to the issue price (par plus net original issue premium) of the 2014A Bonds, the 2014B Bonds, and the 2014C Bonds in the expectation that previously authorized general obligation debt will be repealed to the extent authorized projects and facilities are financed with net original issue premium.) See "APPENDIX A – DEBT AND REVENUE INFORMATION – DEBT INFORMATION – Authorized Indebtedness."

THE COMMISSION

The Commission is an agency and instrumentality of the State, and its members are the Governor, the President of the Senate, the Speaker of the House of Representatives, the State Auditor, the Attorney General, the State Treasurer, and the Commissioner of Agriculture.

The Commission is responsible for the issuance of all public debt of the State, including general obligation debt and guaranteed revenue debt. The Commission is further responsible for the proper application of the proceeds of such debt to the purposes for which it is incurred.

The Commission has two statutory divisions, a Financing and Investment Division and a Construction Division, each administered by a Director who reports directly to the Commission. The Financing and Investment Division performs all services relating to the issuance of public debt, the investment and accounting of all proceeds derived from the incurring of general obligation debt or such other amounts as may be appropriated to the Commission for capital outlay purposes, the management of other State debt, and all financial advisory matters pertaining thereto. The Construction Division is responsible for all construction and construction related matters resulting from the issuance of public debt or from any such other amounts as may be appropriated to the Commission for capital outlay purposes, except that in the case of bond proceeds for public road and bridge construction or reconstruction, the Commission contracts with the Department of Transportation or the Georgia Highway Authority for the supervision of and contracting for designing, planning, building, rebuilding, constructing, improving, operating, owning, maintaining, leasing and managing of public roads and bridges for which general obligation debt has been authorized. In all other cases when the Commission contracts with a State department, authority or agency for the acquisition or construction of projects, the projects are acquired and constructed under policies, standards and operating procedures established by the Commission. The Construction Division also is responsible for performing such construction-related services for State agencies and instrumentalities as may be assigned to the Commission by Executive Order of the Governor.

See "APPENDIX A – DEBT AND REVENUE INFORMATION" for information regarding, among other things, the State's appropriations and debt limitations, State revenues, authorized indebtedness, outstanding debt, State Treasury receipts, assessed valuation and debt ratios, and analysis of general fund receipts and revenues. See "APPENDIX B – BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2013" for information regarding, among other things, the budgetary processes, the accounting policies, the retirement systems, and the financial position of the State. See "APPENDIX C – STATISTICAL INFORMATION" for certain information regarding the economy and population of the State.

INVESTMENT OF STATE FUNDS

All funds within the State Treasury (which include proceeds of general obligation debt administered by the Commission) are invested in accordance with Georgia law and the investment policy established by the State Depository Board (the "Investment Policy"). The Investment Policy has four objectives and each portfolio is managed in a manner that is intended to: (1) preserve principal; (2) ensure adequate liquidity; (3) obtain a market rate of return taking cash flow requirements into consideration; and (4) diversify the portfolio. The Investment Policy also sets forth various credit constraints and limitations, as discussed more fully below.

Investment of General Obligation Debt Proceeds. The Commission Act provides that investments of proceeds of general obligation debt shall be limited to (i) general obligations of the United States or of subsidiary corporations of the United States government fully guaranteed by such government; (ii) obligations issued by the Federal Land Bank, Federal Home Loan Bank, Federal Intermediate Credit Bank, Bank for Cooperatives, Federal Farm Credit Banks regulated by the Farm Credit Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association; (iii) tax exempt obligations issued by any state, county, municipal corporation, district, or political subdivision, or civil division or public instrumentality of any such government or unit of such government; (iv) prime bankers' acceptances; (v) units of any unit investment trusts the assets of which are exclusively invested in obligations of the type described above; or (vi) shares of any mutual fund the investments of which are limited to securities of the type described in clauses (i), (ii), (iii), and (iv) above and distributions from which are treated for federal income tax purposes in the same manner as the interest on such obligations, provided that at the time of investment such obligations or the obligations held by any such unit investment trust or the obligations held or to be acquired by any such mutual fund are limited to obligations which are rated within one of the top two rating categories of any nationally recognized rating service or any rating service recognized by the State Commissioner of Banking and Finance, and no others, or to securities lending transactions involving securities of the type described in this paragraph. Pursuant to Article VII, Section IV, Paragraph VII of the State Constitution, the Commission is responsible for the investment of the proceeds of general obligation debt and, as provided by law, including the Commission Act, is required to use the income earned on such proceeds to pay operating expenses of the Commission or to purchase and retire State debt. See "APPENDIX A – DEBT AND REVENUE INFORMATION – DEBT INFORMATION - Market Transactions to Retire Debt."

Investment of Sinking Fund Monies. Article VII, Section IV, Paragraph III(c) of the State Constitution and the Commission Act provide that (i) funds in the Sinking Fund be as fully invested as is practicable, consistent with the requirements to make current principal and interest payments and (ii) any Sinking Fund investments shall be restricted to obligations constituting direct and general obligations of the United States government or obligations unconditionally guaranteed as to the payment of principal and interest by the United States government, maturing no longer than 12 months from date of purchase.

Investment of State General Funds. Under Georgia law the State may invest its general fund monies in: (i) bankers' acceptances; (ii) commercial paper; (iii) bonds, bills, certificates of indebtedness, notes, or other obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government including, but not limited to, obligations or securities issued or guaranteed by Banks for Cooperatives regulated by the Farm Credit Administration, the Commodity Credit Corporation, Farm Credit Banks regulated by the Farm Credit Administration, Federal Assets Financing Trusts, the Federal Financing Bank, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Financial Assistance Corporation chartered by the Farm Credit Administration, the Government National Mortgage Association, the Import-Export Bank, Production Credit Associations regulated by the Farm Credit Administration, the Resolution Trust Corporation, and the Tennessee Valley Authority; (iv) obligations of corporations organized under the laws of Georgia or any other state but only if the corporation has a market capitalization equivalent of at least $100 million; provided, however, that such obligation shall be listed as investment grade by a nationally recognized rating agency; (v) bonds, notes, warrants, and other securities not in default which are the direct obligations of the government of any foreign country which the International Monetary Fund lists as an industrialized country and for which the full faith and credit of such government has been pledged for the payment of principal and interest, provided that such securities are listed as investment grade by a nationally recognized rating agency; or (vi) obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation, provided that such securities are listed as investment grade by a nationally recognized rating agency and are fully negotiable and transferable. The Depository Board may also permit the lending of any securities of the type identified in this paragraph.

Georgia law also provides that the State may invest in the securities described above by selling and purchasing such obligations under agreements to resell or repurchase the obligations at a date certain in the future at a specific price which reflects a premium over the purchase or selling price equivalent to a stated rate of interest ("Repurchase Agreements").

Because of the credit constraints and limitations contained in the Investment Policy established by the State Depository Board, the State currently is authorized to invest the monies on deposit in its general fund in: direct obligations of the United States Treasury; obligations unconditionally guaranteed by agencies of the United States government; obligations of subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government; and other permitted investments subject to certain criteria established by statute and the State Depository Board which include, among other things, credit and diversification requirements. Such other permitted investments include: repurchase agreements, certificates of deposit, commercial paper, negotiated investment deposit agreements, prime bankers' acceptances, obligations of the State or state agencies, obligations of other political subdivisions of the State, obligations of corporations, obligations issued by the government of any foreign country, obligations issued by the International Bank for Reconstruction and Development or the International Financial Corporation, and other such limitations as determined by the State Treasurer to be necessary for the preservation of principal, liquidity, or marketability of any of the portfolios.

Other State Treasury Investments. The Office of the State Treasury ("OST") manages the Local Government Investment Pools (comprised of "Georgia Fund 1" and the "Georgia Extended Asset Pool"). The local government monies invested in Georgia Fund 1 are commingled with State operating funds and State agencies' funds in the Georgia Fund 1 portfolio. Georgia Fund 1 maintains Standard & Poor's ratings of AAAf for fund credit quality and S1+ for fund volatility. The Georgia Extended Asset Pool consists of deposits of the State, State agencies, and local governments. The Georgia Extended Asset Pool maintains Standard & Poor's ratings of AA+f for fund credit quality and S1 for fund volatility. The OST also manages investment portfolios for the Commission, the Georgia Department of Transportation, the Georgia Lottery for Education Account, the Department of Administration Services' Risk Management Fund, the Guaranteed Revenue Debt Common Reserve Fund, and the Revenue Shortfall Reserve Fund.

LEGAL AND TAX STATUS

Legality for Investments

The Commission Act provides that the Bonds are securities in which all public officers and bodies of the State and all municipalities and all municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, saving banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons whatsoever who are authorized to invest in bonds or other obligations of the State may properly and legally invest funds, including capital, in their control or belonging to them. The Commission Act further provides that the Bonds are securities which may be deposited with and shall be received by all public officers and bodies of the State and all municipalities and municipal subdivisions for any purpose for which the deposit of the Bonds or other obligations of the State may be authorized.

Tax Consequences of Owning the Bonds

2014A and 2014D Bonds

Federal Tax Exemption. In the opinion of Holland & Knight, LLP, Bond Counsel, under existing law and in reliance upon certain schedules, interest on the Tax-Exempt Bonds is excludable from gross income for federal income tax purposes.

The Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds in order for the interest thereon to be and remain excludable from gross income for federal income tax purposes. Examples include: the requirement that, unless an exception applies, that the State, acting by and through the Commission (in such capacity, the "Issuer"), rebate certain excess earnings on proceeds and amounts treated as proceeds of the Tax-Exempt Bonds to the United States Treasury Department; restrictions on the investment of such proceeds and other amounts; and certain restrictions on the ownership and use of the facilities financed or refinanced with the proceeds of the Tax-Exempt Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds to maintain the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes. Failure to comply with such requirements may cause the inclusion of interest on the Tax-Exempt Bonds in the gross income of the holders thereof for federal income tax purposes, retroactive to the date of issuance of the Tax-Exempt Bonds. The Issuer has covenanted to comply with each such requirement of the Code that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel is subject to the condition that the Issuer complies with all such requirements. Bond Counsel has not been retained to monitor compliance with the described post-issuance tax requirements subsequent to the issuance of the Tax-Exempt Bonds.

Bond Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law, will not cause the interest on the Tax-Exempt Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent the holders of the Tax-Exempt Bonds from realizing the full current benefit of the tax status of the interest on the Tax-Exempt Bonds. During recent years, legislative proposals have been introduced in Congress, and in some cases have been enacted, that altered or could alter certain federal tax consequences of owning obligations similar to the Tax-Exempt Bonds. In some cases, these proposals have contained provisions that were to be applied on a retroactive basis. It is possible that legislation could be introduced in the near term that, if enacted, could change the federal tax consequences of owning the Tax-Exempt Bonds and, whether or not enacted, could have an adverse effect upon their market value. Prospective purchasers of the Tax-Exempt Bonds are encouraged to consult their own tax advisors regarding any pending or proposed federal legislation, as to which Bond Counsel expresses no view.

As to certain questions of fact material to the opinion of Bond Counsel, Bond Counsel has relied upon representations and covenants made on behalf of the Issuer and certificates of appropriate officers and public officials (including certifications as to the use of proceeds of the Tax-Exempt Bonds and of the property financed or refinanced thereby).

Reference is made to the proposed form of opinion of Bond Counsel attached hereto as "APPENDIX E – Form of Bond Counsel Opinion - Tax-Exempt Bonds" for the complete text thereof. Also see "LEGAL MATTERS" herein.

Alternative Minimum Tax. An alternative minimum tax is imposed by the Code on both corporations (as defined for federal income tax purposes) and on certain taxpayers other than corporations. Interest on the Tax-Exempt Bonds will not be treated as an item of tax preference for purposes of the alternative minimum tax and there therefore will not be included in the alternative minimum taxable income of corporations or of taxpayers other than corporations. Interest on the Tax-Exempt Bonds received by a corporate Bondholder, however, will be included in such Bondholder's adjusted current earnings. A corporation's alternative minimum taxable income will be increased by seventy-five percent (75%) of the corporation's adjusted current earnings not otherwise included in its alternative minimum taxable income. The rate of the alternative minimum tax imposed on corporations is twenty percent (20%).

Original Issue Premium. The 2014A Bonds maturing on February 1 in the years 2015 through 2028 and 2030 through 2034, and the 2014D Bonds maturing on July 1 in the years 2015 through 2018 (the "Tax-Exempt Premium Bonds"), have been sold to the public at an original issue premium. Section 171(a) of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, no deduction is allowable for the amortizable bond premium in the case of bonds, like the Tax-Exempt Premium Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a Tax-Exempt Premium Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(a)(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a Tax-Exempt Premium Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such Tax-Exempt Premium Bond and not as interest.

The federal income tax treatment of original issue premium under the Code, including the determination of the amount of amortizable bond premium that is allocable to each year, is complicated and holders of Tax-Exempt Premium Bonds should consult an independent tax advisor in order to determine the federal income tax consequences to them of purchasing, holding, selling or surrendering a Tax-Exempt Premium Bond at its maturity.

Original Issue Discount. The 2014A Bonds maturing on February 1, 2029 (the "Tax-Exempt Discount Bonds"), have been sold to the public at an original issue discount. Generally, the original issue discount is the excess of the stated redemption price at maturity of such a Tax-Exempt Discount Bond over the initial offering price to the public (excluding underwriters and other intermediaries) at which price a substantial amount of that maturity of the Tax-Exempt Discount Bonds was sold. Under existing law, an appropriate portion of any original issue discount, depending in part on the period a Tax-Exempt Discount Bond is held by the purchaser thereof, will be treated for federal income tax purposes as interest that is excludable from gross income rather than as taxable gain.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compounded basis. The amount of original issue discount that accrues to an owner of a Tax-Exempt Discount Bond, who acquires the Tax-Exempt Discount Bond in this initial offering, during any accrual period generally equals (i) the issue price of such Tax-Exempt Discount Bond plus the amount of original issue discount accrued in all prior accrual periods multiplied by (ii) the yield to maturity of such Tax-Exempt Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Tax-Exempt Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Proceeds received from the sale, exchange, redemption or payment of a Tax-Exempt Discount Bond in excess of the owner's adjusted basis (as increased by the amount of original issue discount that has accrued and has been treated as tax-exempt interest in such owner's hands), will be treated as a gain from the sale or exchange of such Tax-Exempt Discount Bond and not as interest.

The federal income tax consequences from the purchase, ownership and redemption, sale or other disposition of Tax-Exempt Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Owners of Tax-Exempt Discount Bonds should consult their own tax advisors with respect to the consequences of owning Tax-Exempt Discount Bonds, including the effect of such ownership under applicable state and local laws.

Other Tax Consequences. Prospective purchasers of the Tax-Exempt Bonds should be aware that ownership of the Tax-Exempt Bonds may result in collateral federal income tax consequences to certain taxpayers, including, but not limited to, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S Corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Tax-Exempt Bonds. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should also be aware that ownership of the Tax-Exempt Bonds may result in adverse tax consequences under the laws of various states. Prospective purchasers of the Tax-Exempt Bonds should consult independent advisors as to the consequences of owning the Tax-Exempt Bonds, including the effect of such ownership under applicable state and local laws and any collateral federal income tax and state tax consequences.

Information Reporting and Backup Withholding. Interest paid on the Tax-Exempt Bonds, is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes, however, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Tax-Exempt Bonds, under certain circumstances, to "backup withholding" at the fourth lowest rate applicable to unmarried individuals with respect to payments on the Tax-Exempt Bonds and proceeds from the sale of the Tax-Exempt Bonds. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Tax-Exempt Bonds. This backup withholding generally applies if the owner of Tax-Exempt Bonds (i) fails to furnish the paying agent (or other person who otherwise would be required to withhold tax from such interest payments) such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the paying agent an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the paying agent or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Tax-Exempt Bonds also may wish to consult with independent tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding and the procedures for obtaining exemptions from backup withholding.

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE TAX-EXEMPT BONDS AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE HOLDERS OF THE TAX-EXEMPT BONDS, INCLUDING, BUT NOT LIMITED TO, THE CONSEQUENCES DESCRIBED ABOVE. PROSPECTIVE PURCHASERS OF THE TAX-EXEMPT BONDS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

Reference is made to the proposed form of opinion of Bond Counsel attached hereto as "APPENDIX E – Form of Bond Counsel Opinion - Tax-Exempt Bonds" for the complete text thereof. Also see "LEGAL MATTERS" herein.

2014B Bonds and 2014C Bonds

Opinion of Bond Counsel. The following general discussion sets forth certain of the anticipated federal income tax consequences from the purchase, ownership or disposition of the Taxable Bonds. This summary and the opinions referred to below are based upon the Code, including regulations, rulings and decisions now in effect, all of which are subject to change. The discussion below does not purport to address all aspects of federal taxation that may be relevant to particular investors in light of their individual circumstances, or to certain types of investors subject to special treatment under the federal income tax laws. Moreover there can be no assurance that contrary positions to those positions expressed below will not be taken by the Internal Revenue Service.

In the opinion of Bond Counsel, stated interest on the Taxable Bonds will be treated as interest income of the holders of the Taxable Bonds for federal income tax purposes. INTEREST EARNED ON THE TAXABLE BONDS IS NOT EXCLUDABLE FROM GROSS INCOME OF THE HOLDERS OF THE TAXABLE BONDS FOR FEDERAL INCOME TAX PURPOSES.

A prospective purchaser of the Taxable Bonds or other taxpayer should seek advice from an independent tax advisor which is based on the taxpayer's particular circumstances. Prospective purchasers are advised to consult their own tax advisors regarding both the federal income tax consequences from the purchase, ownership or disposition of the Taxable Bonds and any tax consequences arising under the laws of any state or other taxing jurisdiction.

Reference is made to the proposed form of opinion of Bond Counsel attached hereto as "APPENDIX F – Form of Bond Counsel Opinion for Taxable Bonds" for the complete text thereof. Also see "LEGAL MATTERS" herein.

Original Issue Premium. The 2014B Bonds maturing on February 1 in the years 2015, 2020, and 2023 through 2024, and the 2014C Bonds maturing on February 1 in the years 2016 through 2027 and 2029 through 2031 (collectively, the "Taxable Premium Bonds"), have been sold to the public at an original issue premium. Section 171 of the Code provides rules under which a premium paid for a Taxable Premium Bond may be amortized. Those rules permit the interest paid on a Taxable Premium Bond that would otherwise be included in the bondholder's gross income for federal income tax purposes to be reduced by the amount of the amortizable bond premium for the taxable year. Each holder of a Taxable Premium Bond may elect whether to amortize the original issue premium paid by it for federal income tax purposes. An election to amortize the original issue premium shall apply to all Taxable Premium Bonds held by the bondholder at the beginning of the first taxable year to which the election applies or thereafter acquired by the bondholder, and would be irrevocable without the consent of the Internal Revenue Service. If an election to amortize the original issue premium is made, Section 1016(a)(5) of the Code generally requires a reduction of the bondholder's basis in a Taxable Premium Bond held by it by the amount of the amortizable bond premium applied to reduce the interest income received on such Taxable Premium Bond. Proceeds received from the sale, exchange, redemption or payment of a Taxable Premium Bond in excess of the bondholder's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such Taxable Premium Bond and not as interest.

The federal income tax treatment of original issue premium under the Code, including the determination of the amount of amortizable bond premium that is allocable to each year, is complicated and holders of Taxable Premium Bonds should consult their own tax advisors in order to determine the federal income tax consequences to them of purchasing, holding, selling or surrendering Taxable Premium Bonds at their maturity.

Original Issue Discount. The 2014C Bonds maturing on February 1, 2028 (the "Taxable Discount Bonds"), have been sold to the public at an original issue discount. Generally, the original issue discount is the excess of the stated redemption price at maturity of such a Taxable Discount Bond over the initial offering price to the public (excluding underwriters and other intermediaries) at which price a substantial amount of that maturity of the Taxable Discount Bonds was sold. However, if the amount of the original issue discount is less than 0.25% of the stated redemption price at maturity of such Taxable Discount Bond multiplied by the number of complete years from the issue date of such Taxable Discount Bonds to its stated maturity, the amount of original issue discount will be considered to be zero. Original issue discount represents interest which is includable in gross income for federal income tax purposes.

Under Section 1272 of the Code, original issue discount accrues on a compounded basis. The amount of original issue discount that accrues to a holder of a Taxable Discount Bond who acquires the Taxable Discount Bond in the initial offering during any accrual period generally equals (i) the issue price of such Taxable Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Taxable Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Taxable Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period. Accordingly, federal income taxes may be payable with respect to accrued original issue discount, despite the fact that no such discount is actually received in cash by a holder of Taxable Discount Bonds until such time as a holder of Taxable Discount Bonds either sells such Taxable Discount Bond or receives payment of the principal amount thereof at maturity.

The federal income tax treatment of original issue discount under the Code, including the determination of the amount thereof that is includable in gross income each year, is complicated and holders of Taxable Discount Bonds should consult an independent tax advisor in order to determine the federal income tax consequences to them of purchasing, holding, selling and surrendering a Taxable Discount Bond at its maturity. The federal income tax consequences from the purchase, ownership and redemption, sale or other disposition of Taxable Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above.

Tax Treatment of Foreign Investors. Under Sections 871 and 881 of the Code, interest income with respect to the Taxable Bonds held by non-resident alien individuals, foreign corporations or other non-United States persons (“Non-residents”) may be subject to a 30% United States withholding tax unless that tax is reduced or eliminated pursuant to an applicable tax treaty. That withholding tax generally will not be imposed if the paying agent (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement identifying the beneficial owner of the Taxable Bonds and stating, among other things, that the beneficial owner is a Non-resident. The withholding tax will also not apply if interest on the Taxable Bonds is effectively connected with a United States business conducted by the Non-resident. Foreign investors should consult an independent tax advisor regarding potential imposition of the 30% withholding tax.

Backup Withholding. The Code subjects certain non-corporate owners of Taxable Bonds, under certain circumstances, to “backup withholding” at fourth lowest rate applicable to unmarried individuals with respect to interest payments on the Taxable Bonds and proceeds from the sale of Taxable Bonds. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Taxable Bonds. This withholding generally applies if the owner of Taxable Bonds (i) fails to furnish the paying agent (or other person who would otherwise be required to withhold tax from such payments) such owner's social security number or other TIN, (ii) furnishes the paying agent an incorrect TIN, (iii) fails to properly report interest, dividends, or other “reportable payments” as defined in the Code, or (iv) under certain circumstances, fails to provide the paying agent or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Taxable Bonds also may wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding and the procedures for obtaining exemptions from backup withholding.

Sales, Exchanges and Transfers. If a holder of a Taxable Bond sells or otherwise transfers a Taxable Bond, taxable gain or loss may result, as in the case of any sale or other transfer of an investment.

Defeasance. Defeasance of any Taxable Bond may result in a deemed reissuance thereof for U.S. federal income tax purposes, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the deemed exchange (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the Taxable Bond.

State Tax Exemption

In the opinion of Bond Counsel, under existing law, interest on the Bonds is exempt from present state income taxation within the State of Georgia. Interest on the Bonds may or may not be subject to state or local income taxation in jurisdictions other than the State of Georgia. Each purchaser of the Bonds should consult an independent tax advisor regarding the tax-exempt status of interest on the Bonds in a particular state or local jurisdiction other than the State of Georgia.

VALIDATION

As required by and in accordance with the procedure of the Commission Act, prior to delivery, the Bonds must and will be validated by order of the Superior Court of Fulton County prior to their issuance. Under the laws of the State of Georgia, the judgment of validation is final and conclusive with respect to the Bonds and the security therefor.

RATINGS

Moody's Investors Service, Inc. ("Moody's), Standard & Poor's Financial Services LLC, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), and Fitch Ratings ("Fitch") have assigned the Bonds ratings of "Aaa", "AAA" and "AAA," respectively. The ratings reflect only the view of the respective rating agency. Any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing it. Generally, rating agencies base their ratings on information and materials furnished to the agencies and on investigations, studies and assumptions by the rating agencies. There is no assurance that any rating will remain in effect for a given period of time or that any rating will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such change or withdrawal of a rating could have an adverse effect on the market price of the Bonds. Except as described under "CONTINUING DISCLOSURE" herein, neither the Commission nor the Underwriters have undertaken any responsibility either to bring to the attention of the holders of the Bonds any proposed revision, suspension or withdrawal of a rating or to oppose any such revision, suspension or withdrawal.

SALE AT COMPETITIVE BIDDING - UNDERWRITING

The 2014A Bonds, 2014B Bonds, 2014C Bonds and 2014D Bonds were be awarded pursuant to electronic competitive bidding on June 17, 2014 and Commission action on June 18, 2014. The 2014A Bonds maturing on each February 1 from February 1, 2015 to February 1, 2024, inclusive (the "2014A Tranche 1 Bonds") were awarded to Wells Fargo Bank, National Association ("Wells") at an aggregate discount of $384,382.91 from the initial public offering prices derived from the yields set forth on the inside cover page of this Official Statement. Wells has supplied the information as to the initial yields on the 201A Tranche 1 Bonds as set forth on the inside cover of this Official Statement. The 2014A Bonds maturing each February 1 from February 1, 2025 to February 1, 2034, inclusive (the "2014A Tranche 2 Bonds") were awarded to Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill") at an aggregate discount of $682,936.04 from the initial public offering prices derived from the yields set forth on the inside cover page of this Official Statement. Merrill has supplied the information as to the initial yields on the 2014A Tranche 2 Bonds as set forth on the inside cover of this Official Statement. The 2014B Bonds were awarded to Citigroup Global Markets Inc. ("Citi") at an aggregate discount of $992,825.55 from the initial public offering prices derived from the yields set forth on the inside cover page of this Official Statement. Citi has supplied the information as to the initial yields on the 2014B Bonds as set forth on the inside cover of this Official Statement. The 2014C Bonds were awarded to Raymond James & Associates, Inc. ("Raymond James") at an aggregate discount of $94,725.00 from the initial public offering prices derived from the yields set forth on the inside cover page of this Official Statement. Raymond James has supplied the information as to the initial yields on the 2014C Bonds as set forth on the inside cover of this Official Statement. The 2014D Bonds were awarded to J.P. Morgan Securities LLC ("J.P. Morgan") at an aggregate discount of $43,791.61 from the initial public offering prices derived from the yields set forth on the inside cover page of this Official Statement. J.P. Morgan has supplied the information as to the initial yields on the 2014D Bonds as set forth on the inside cover of this Official Statement. All other information as to the nature and terms and any reoffering of the 2014A Tranche 1 Bonds, the 2014A Tranche 2 Bonds, the 2014B Bonds, the 2014C Bonds, or the 2014D Bonds should be obtained from Wells, BAML, Citi, Raymond James, or J.P. Morgan, as applicable, and not from the State

LEGAL MATTERS

Legal matters incident to the validity of the Bonds are subject to the approving opinions of Holland & Knight LLP, Atlanta, Georgia, Bond Counsel. Bond Counsel has not been engaged to express any opinion with respect to the accuracy, completeness or sufficiency of any offering documents used in connection with the offering or sale of the Bonds. A copy of the proposed text of the opinion of Bond Counsel for the Tax-Exempt Bonds and Taxable Bonds, respectively, are set forth in APPENDIX E and APPENDIX F. A signed copy of such opinions for the Bonds dated and speaking only as of the date of original delivery of the Bonds will be available at the time of original delivery of the Bonds. See "LEGAL AND TAX STATUS" herein. Certain legal matters will be passed on for the State by its Disclosure Counsel, Kutak Rock LLP, Atlanta, Georgia.

ABSENCE OF CERTAIN LITIGATION

The Commission and the State, like other similar entities, are each subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. The Commission, after reviewing the current status of all pending and threatened litigation with its counsel, the Department of Law of the State, believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits that have been filed and of any actions or claims pending or threatened against the Commission or its officials in such capacity are adequately covered by insurance or self-insurance reserves maintained by the Commission or will not have a material adverse effect upon the financial position or results of operations of the Commission. The Commission, on behalf of the State, after reviewing the current status of all pending and threatened litigation with the State's counsel, the Department of Law of the State, believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits that have been filed and of any actions or claims pending or threatened against the State or its officials in such capacity are adequately covered by insurance or self-insurance reserves maintained by the State or will not have a material adverse effect upon the financial position or results of operations of the State. See "APPENDIX A – DEBT AND REVENUE INFORMATION – SIGNIFICANT CONTINGENT LIABILITIES" and "APPENDIX B - BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2013 – Notes to the Financial Statements – Note 16: Litigation, Contingencies and Commitments."

There is no controversy or litigation pending, or to the knowledge of the Commission threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or the pledge by the State of the full faith, credit and taxing power of the State to the payment of the Bonds, or the organization or powers of the Commission, including the power to issue general obligation debt on behalf of the State and to pledge the full faith, credit and taxing power of the State to the payment thereof. The State is a party to certain litigation from time to time, which the Commission believes will not have a material adverse effect upon the ability of the Commission, on behalf of the State, to issue, sell, execute and deliver the Bonds and pledge the full faith, credit and taxing power of the State to the payment thereof.

CERTIFICATION AS TO OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Chairman and Secretary of the Commission will furnish a certificate to the effect that, to the best of their knowledge, the Final Official Statement does not, as of the Date of Delivery of the Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purpose for which the Final Official Statement is to be used or which is necessary in order to make the statements contained therein, in light of the circumstances in which they were made, not misleading.

FINANCIAL STATEMENTS

The Basic Financial Statements of the State as of and for the Fiscal Year ended June 30, 2013, included as APPENDIX B, have been prepared by the State Accounting Office and audited by the Department of Audits and Accounts. According to the Independent Auditor's Report, the financial statements of each major fund, aggregated remaining funds, aggregated discretely presented component units, business-type activities, and governmental activities are fairly presented in conformity with accounting principles generally accepted in the United States of America.

CONTINUING DISCLOSURE

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than twelve (12) months after the end of each fiscal year, commencing with the fiscal year ended June 30, 2014 (the "Annual Report"), and to provide notice of the occurrence of certain events (the "Listed Events"). The Annual Report and any notices of Listed Events will be filed by the State with the centralized information repository developed and operated by the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Market Access ("EMMA") System in an electronic format as prescribed by the MSRB and with any similar repositories established by the State (if any). The specific nature of the information to be contained in the Annual Report and a description of the Listed Events is provided in "APPENDIX D – CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12. In the last five years, the State has not failed to comply in any material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of Listed Events as required under Rule 15c2-12. Certain financial information and operating data required to be provided for fiscal years 2009 and 2012 pursuant to certain of the State's prior continuing disclosure agreements were filed timely by the State with the MSRB on EMMA through the posting of various official statements and/or comprehensive annual financial reports. Such filings with the MSRB on EMMA may not have initially cross referenced all applicable CUSIP numbers for the State's bonds to denote such filings.

FORWARD LOOKING STATEMENTS

Any statements made in this Official Statement, including in the Appendices, involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized.

The statements contained in this Official Statement, including in the Appendices, that are not purely historical, are forward looking statements. Readers should not place undue reliance on forward looking statements. All forward looking statements included in this Official Statement are based on information available on the date hereof and the State does not assume any obligation to update any such forward looking statements. It is important to note that the actual results could differ materially from those in such forward looking statements. The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the State. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward looking statements included in this Official Statement, including in the appendices, would prove to be accurate.

MISCELLANEOUS

The references herein to the Bonds and the Resolution are brief outlines of certain provisions thereof. Such outlines do not purport to be complete. For full and complete statements of such provisions, reference is made to the Bonds and the Resolution. A copy of the Resolution is on file in the offices of the Commission and following the delivery of the Bonds will be on file at the designated corporate trust office of the Paying Agent.

The agreement of the Commission with the holders of the Bonds is fully set forth in the Bonds and the Resolution, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement by the Commission with the purchasers of the Bonds.

The attached Appendices are integral parts of this Official Statement and should be read together with all of the foregoing statements. All estimates and other statements in this Official Statement, including the Appendices attached hereto, involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

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The execution and distribution of this Official Statement has been approved in connection with the public offering of the Bonds.

/s/ ***Greg S. Griffin***

Greg S. Griffin
Secretary and Treasurer
Georgia State Financing and Investment Commission

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APPENDIX A

DEBT AND REVENUE INFORMATION

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APPENDIX A

TABLE OF CONTENTS

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This APPENDIX A to the Official Statement sets forth certain information with respect to the constitutional and statutory limitations with respect to indebtedness incurred by the State and its various institutions, departments and agencies and certain selected budgetary and financial data.

DEBT INFORMATION

Appropriations and Debt Limitations

Article III, Section IX, Paragraph IV(b) of the State Constitution provides in relevant part:

> The General Assembly shall not appropriate funds for any given fiscal year which, in aggregate, exceed a sum equal to the amount of unappropriated surplus expected to have accrued in the state treasury at the beginning of the fiscal year together with an amount not greater than the total treasury receipts from existing revenue sources anticipated to be collected in the fiscal year, less refunds, as estimated in the budget report and amendments thereto.

Article III, Section IX, Paragraph V of the State Constitution provides in relevant part:

> In addition to the appropriations made by the general appropriations Act and amendments thereto, the General Assembly may make additional appropriations by Acts, which shall be known as supplementary appropriation Acts, provided no such supplementary appropriation shall be available unless there is an unappropriated surplus in the state treasury or the revenue necessary to pay such appropriation shall have been provided by a tax laid for such purpose and collected into the general fund of the state treasury.

Article VII, Section IV, Paragraph III(a)(1) of the State Constitution provides in relevant part:

> All such appropriations for debt service purposes shall not lapse for any reason and shall continue in effect until the debt for which such appropriation was authorized shall have been incurred, but the General Assembly may repeal any such appropriation at any time prior to the incurring of such debt.

Article VII, Section IV, Paragraph I of the State Constitution provides that the State may incur two types of debt: (i) general obligation debt and (ii) guaranteed revenue debt. Pursuant to subparagraphs (c), (d), and (e) of Paragraph I, general obligation debt may be incurred to: acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, structures, equipment, or facilities of the State, its agencies, departments, institutions and certain State authorities; to provide educational facilities for county and independent school systems and to provide public library facilities for county and independent school systems, counties, municipalities, and boards of trustees of public libraries or boards of trustees of public library systems; and to make loans to counties, municipal corporations, political subdivisions, local authorities, and other local government entities for water or sewerage facilities or systems or for regional or multijurisdictional solid waste recycling or solid waste facilities or systems. Pursuant to subparagraph (f) of Paragraph I, guaranteed revenue debt may be incurred by guaranteeing the payment of certain revenue obligations issued by an instrumentality of the State as set forth in the State Constitution to finance certain specified public projects.

Article VII, Section IV, Paragraph II (b) – (e) of the State Constitution provides that:

> (b) No debt may be incurred under subparagraphs (c), (d), and (e) of Paragraph I of this section or Paragraph V of this section at any time when the highest aggregate annual debt service requirements for the then current year or any subsequent year for outstanding general obligation debt and guaranteed revenue debt, including the proposed debt, and the highest aggregate annual payments for the then current year or any subsequent fiscal year of the state under all contracts then in force to which the provisions of the second paragraph of Article IX, Section VI, Paragraph I(a) of the Constitution of 1976 are applicable, exceed 10 percent of the total revenue receipts, less refunds of the state treasury in the fiscal year immediately preceding the year in which any such debt is to be incurred.
>
> (c) No debt may be incurred under subparagraphs (c) and (d) of Paragraph I of this section at any time when the term of the debt is in excess of 25 years.
>
> (d) No guaranteed revenue debt may be incurred to finance water or sewage treatment facilities or systems when the highest aggregate annual debt service requirements for the then current year or any subsequent fiscal year of the state for outstanding or proposed guaranteed revenue debt for water facilities or systems or sewage facilities or systems exceed 1 percent of the total revenue receipts less refunds, of the state treasury in the fiscal year immediately preceding the year in which any such debt is to be incurred.
>
> (e) The aggregate amount of guaranteed revenue debt incurred to make loans for educational purposes that may be outstanding at any time shall not exceed $18 million, and the aggregate amount of guaranteed revenue debt incurred to purchase, or to lend or deposit against the security of, loans for educational purposes that may be outstanding at any time shall not exceed $72 million.

In addition, Article VII, Section IV, Paragraph IV of the State Constitution provides:

> The state, and all state institutions, departments and agencies of the state are prohibited from entering into any contract, except contracts pertaining to guaranteed revenue debt, with any public agency, public corporation, authority, or similar entity if such contract is intended to constitute security for bonds or other obligations issued by any such public agency, public corporation, or authority and, in the event any contract between the state, or any state institution, department or agency of the state and any public agency, public corporation, authority or similar entity, or any revenues from any such contract, is pledged or assigned as security for the repayment of bonds or other obligations, then and in either such event, the appropriation or expenditure of any funds of the state for the payment of obligations under any such contract shall likewise be prohibited.

Article VII, Section IV, Paragraph I (b) of the State Constitution provides that the State may incur: "Public debt to supply a temporary deficit in the state treasury in any fiscal year created by a delay in collecting the taxes of that year. Such debt shall not exceed, in the aggregate, 5 percent of the total revenue receipts, less refunds, of the state treasury in the fiscal year immediately preceding the year in which such debt is incurred. The debt incurred shall be repaid on or before the last day of the fiscal year in which it is incurred out of taxes levied for that fiscal year. No such debt may be incurred in any fiscal year under the provisions of this subparagraph (b) if there is then outstanding unpaid debt from any previous fiscal year which was incurred to supply a temporary deficit in the state treasury." Pursuant to O.C.G.A. § 50-17-24(b)(2), the amount of aggregate borrowing under this constitutional authorization currently is statutorily restricted to "1 percent of the total revenue receipts, less refunds, of the state treasury in the fiscal year immediately preceding the year in which such debt is incurred." No such debt has been incurred under this provision since its inception.

See "SECURITY FOR THE BONDS" and "APPENDIX B – STATE OF GEORGIA BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2013" herein.

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Authorized Indebtedness

The following table sets forth by purpose the aggregate net principal amount of general obligation debt and guaranteed revenue debt authorized by the General Assembly of the State to be issued during the fiscal years ended June 30, 1975, through June 30, 2015. The amounts of such general obligation debt and guaranteed revenue debt actually issued (including the Bonds) and the remaining amounts authorized but unissued as of the date of issuance of the Bonds have been aggregated for presentation in the third and fourth columns of this table and labeled "Total State Obligations Issued" and "Unissued Authorized Indebtedness."

	Debt Authorized			
Purpose	General Obligation	Guaranteed Revenue	Total State Obligations Issued (Including the Bonds[a])	Unissued Authorized Indebtedness[a]
Transportation	$ 4,384,390,000	$ 755,245,000	$ 5,122,415,000	$ 2,000,000
School Construction	5,970,985,000		5,680,635,000	229,790,000
University Facilities	5,225,743,000		5,164,183,000	61,560,000
World Congress Center	684,500,000		684,500,000	
Human Resources Facilities	356,450,000		352,270,000	4,180,000
Port Facilities	863,815,000		828,815,000	35,000,000
Correctional Facilities	970,970,000		967,750,000	3,220,000
Public Safety Facilities	123,505,000		123,505,000	
Bureau of Investigation	97,035,000		97,035,000	
Department of Revenue	69,375,000		64,375,000	5,000,000
Department of Labor	53,810,000		53,810,000	
Department of Natural Resources	696,150,000		696,150,000	
Technical College System	1,609,497,000		1,571,157,000	38,340,000
Environmental Facilities Authority	770,100,000	97,470,000	867,570,000	
Dept. of Administrative Services	59,605,000		59,605,000	
Department of Agriculture	85,980,000		84,630,000	1,350,000
Building Authority	565,490,000		565,490,000	
Stone Mountain Memorial Association	48,400,000		48,400,000	
Department of Veterans Services	16,055,000		16,055,000	
Jekyll Island State Park Authority	90,190,000		90,190,000	
Secretary of State	58,050,000		55,050,000	3,000,000
Department of Defense	37,800,000		37,300,000	500,000
Department of Community Affairs	81,740,000		81,740,000	
Economic Development	165,065,000		165,065,000	
Soil and Water Conservation Comm.	20,840,000		18,440,000	2,400,000
Department of Juvenile Justice	349,610,000		324,825,000	24,785,000
Forestry Commission	56,305,000		55,180,000	1,125,000
Agricultural Exposition Authority	26,480,000		26,480,000	
All Other	122,795,000		118,705,000	4,090,000
Subtotal	23,660,730,000	852,715,000	24,021,325,000	416,340,000
Net Effect of Refunding Bonds				
General Obligation Bonds	43,590,000		30,950,000	
Guaranteed Revenue Bonds		-20,310,000	-20,310,000	
Total	$23,704,320,000	$832,405,000	$24,031,965,000	$416,340,000

[a] These amounts reflect a reduction in the authorized unissued general obligation debt equal to the issue price (par plus net original issue premium) of the 2014A Bonds, the 2014B Bonds, and the 2014C Bonds in the expectation that previously authorized general obligation debt will be repealed to the extent authorized projects and facilities are financed with net original issue premium.

Source: Georgia State Financing and Investment Commission

Outstanding Debt

The following table sets forth the projected outstanding principal amount of indebtedness of the State. Subsequent to the issuance of the Bonds, there will be $416,340,000 of unissued authorized general obligation debt remaining to be issued. This amount reflects a reduction in the authorized unissued general obligation debt equal to the issue price (par plus net original issue premium) of the 2014A Bonds, the 2014B Bonds, and the 2014C Bonds in the expectation that previously authorized general obligation debt will be repealed to the extent authorized projects and facilities are financed with net original issue premium. There is no unissued authorized guaranteed revenue debt to be issued.

	General Obligation	**Guaranteed Revenue**	**Total Outstanding**
Total bonds outstanding as of June 30, 2014	$8,763,845,000	$348,635,000	$9,112,480,000
	-		
Less bonds scheduled to be retired on July 1, 2014	271,665,000	0	-271,665,000
Plus the 2014A Bonds, 2014B Bonds, and 2014C Bonds	823,555,000	0	823,555,000
Subtotal	9,315,735,000	348,635,000	9,664,370,000
Less bonds refunded by 2014D Bonds	-171,990,000	0	-171,990,000
Plus the 2014D Bonds	159,350,000	0	159,350,000
Projected total bonds outstanding upon issuance of the Bonds	$9,303,095,000	$348,635,000	$9,651,730,000

Source: Georgia State Financing and Investment Commission

In November 2010, Georgia voters approved an amendment to the State Constitution which provided that "The General Assembly may by general law authorize state governmental entities to incur debt for the purpose of entering into multiyear contracts for governmental energy efficiency or conservation improvement projects in which payments are guaranteed over the term of the contract by vendors based on the realization of specified savings or revenue gains attributable solely to the improvements…." (Ga. L. 2010, Volume One, Book One, p. 1264, 2010 Regular Session, S.R. 1231) Consequent to the ratification of said amendment to the State Constitution, S.B. 194, passed by the General Assembly during its 2010 session, and signed by the Governor on June 4, 2010, became effective January 1, 2011 (Ga. L. 2010, Volume One, Book One, commencing at p. 1091, Act No. 669, 2010 Regular Session, S.B. 194). S.B. 194 amended Title 50 of the Official Code of Georgia Annotated by adding Chapter 37, which is codified as O.C.G.A. § 50-37-1 through O.C.G.A. § 50-37-8 (the "Guaranteed Energy Savings Performance Act ("GESP Act")). The GESP Act, among other things, authorizes State governmental units to enter into such guaranteed energy savings performance contracts ("EPC" or "EPCs") for terms not to exceed twenty years. O.C.G.A. § 50-37-7(3) authorizes the Commission to establish a total multiyear guaranteed energy savings performance contract value and provided that any EPC entered into by a state entity that was not in compliance with the total contract value set by the Commission shall be void and of no effect. At its December 12, 2012 meeting, the Commission adopted a fiscal guidelines policy for EPCs, and approved total EPC contract value authority for the remainder of FY 2013 through FY 2014 in the amount of $4,500,000. The currently authorized total EPC contract value authority was utilized by the Georgia Department of Corrections for various energy conservation measures at the Phillips State Prison. The Commission may, at its discretion, expand the total EPC contract authority pursuant to the GESP Act upon the request of the Georgia Environmental Finance Authority at any future meeting of the Commission. The Georgia Environmental Finance Authority has requested the Commission to approve $87,395,000 of EPC contract value authority for FY 2015; this request was approved by the Commission at its June 18, 2014 meeting. EPCs are not subject to the 10% debt limit described under "DEBT INFORMATION - Appropriations and Debt Limitations" herein.

The State periodically acquires certain property and equipment through multiyear lease, purchase, or lease purchase contracts that are considered for accounting purposes to be capital lease or installment purchase obligations. The State also periodically leases land, office facilities, office and computer equipment, and other assets pursuant to leases that are considered for accounting purposes to be operating leases. For information regarding outstanding capital and operating leases entered into by the State, reference is made to Note 9 to the State's basic financial statements as of and for the Fiscal Year ended June 30, 2013, included herein as APPENDIX B.

In November 2012, Georgia voters approved an amendment to the State Constitution to authorize the General Assembly to allow certain State agencies to enter into multiyear rental agreements, without obligating present funds for the full amount of obligation the State may bear under the full term of such agreements. Consequent to the ratification of said amendment to the State Constitution, S.B. 37, passed by the General Assembly during its 2012 session, became effective January 1, 2013 (Ga. L. 2012, Volume One, Book Two, commencing at p. 989, Act No. 717, 2012 Regular Session, S.B. 37). As amended by S.B. 37, O.C.G.A. § 50-16-41(c) authorizes the State Properties Commission (the "SPC") to enter into multiyear lease agreements for administrative space on behalf of state agencies for terms not to exceed twenty years. O.C.G.A. § 50-16-41(l) authorizes the Commission to establish fiscal policies regarding multiyear lease and rental agreements and, each year, the Commission may establish a total multiyear contract value authority. The Commission adopted such fiscal policies at its December 12, 2012 meeting. O.C.G.A. § 50-16-41(l)(2) provides that no multiyear lease or rental agreement shall be entered into until the Commission has established the fiscal policies and total multiyear contract value authority for the current and future fiscal years. The SPC requested, and the Commission approved, total contract value authority of $55 million for the fiscal year ended June 30, 2013 ("FY 2013") and $125 million for FY 2014. In addition, the Commission has approved $20 million of total contract value authority for the Board of Regents of the University System of Georgia (the "Board of Regents") for FY 2014. No multiyear leases were entered into during FY 2013 and the authority for FY 2013 lapsed. To date, the SPC has entered into three leases for a total of approximately $13.5 million in FY 2014; any unused total contract authority for FY 2014 will lapse as of June 30, 2014. The Board of Regents does not expect to utilize any of its authorized total contract authority during FY 2014. The SPC and the Board of Regents have requested the Commission to approve $80 million and $15 million, respectively, of total contact authority for FY 2015; these requests were approved by the Commission at its June 18, 2014 meeting. Such multiyear lease agreements are not subject to the 10% debt limit described under "DEBT INFORMATION - Appropriations and Debt Limitations" herein.

Effective with the fiscal year ended June 30, 2013, the financial statements of the State reflect the implementation of GASB Statement 61 ("GASB 61"). GASB 61 modified certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. GASB 61 also amended the criteria for blending components units within the primary government. GASB 61 added additional criteria beyond "substantively the same governing body" criteria. Management and the component unit now need to have a financial benefit or burden relationship or management has operational responsibility for the activities of the component unit. Implementation of GASB 61 eliminated two organizations (Oconee River Greenway Authority and Southwest Georgia Railroad Excursion Authority), formerly reported as component units, from the State reporting entity. Finally, new criteria also were added to require blending if debt outstanding of the component unit is expected to be repaid entirely or almost entirely with resources of the primary government. Implementing this portion of GASB 61 required six organizations (Armstrong Atlantic State University Educational Properties Foundation, Inc.; Georgia State University Foundation, Inc.; Georgia State University Research Foundation, Inc.; Georgia Tech Facilities, Inc.; University System of Georgia Foundation, Inc.; and, VSU Auxiliary Services Real Estate Foundation, Inc.) that previously were reported as discretely presented component units to be blended with the enterprise funds of the State reporting entity. The debt associated with these newly blended organizations is not subject to the 10% debt limit described under "DEBT INFORMATION – Appropriations and Debt Limitations" herein, nor could it be construed as general obligation debt or guaranteed revenue debt of the State.

Outstanding Debt Service

Principal and interest debt service payments are made in various months throughout the year; amounts shown in the following Outstanding Debt Service Schedule are the maximum aggregate scheduled sinking fund payments by fiscal year for all issued and outstanding debt, excluding the Bonds.

Outstanding Debt Service Schedule

	General Obligation Bonds		Guaranteed Revenue Bonds		Total Bonds		
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total Debt Service
2015	$ 759,250,000	$ 391,437,860	$ 21,525,000	$ 17,283,430	$780,775,000	$408,721,290	$1,189,496,290
2016	699,855,000	354,877,785	38,045,000	15,956,135	737,900,000	370,833,920	1,108,733,920
2017	675,745,000	322,519,101	39,965,000	14,033,755	715,710,000	336,552,856	1,052,262,856
2018	665,910,000	290,105,100	41,980,000	12,014,125	707,890,000	302,119,225	1,010,009,225
2019	620,195,000	259,844,544	44,105,000	9,892,500	664,300,000	269,737,044	934,037,044
2020	595,335,000	231,759,063	46,335,000	7,663,500	641,670,000	239,422,563	881,092,563
2021	583,540,000	203,996,454	48,675,000	5,321,750	632,215,000	209,318,204	841,533,204
2022	529,240,000	177,470,470	21,545,000	2,861,625	550,785,000	180,332,095	731,117,095
2023	508,810,000	153,685,235	22,650,000	1,756,750	531,460,000	155,441,985	686,901,985
2024	476,385,000	131,446,664	23,810,000	595,250	500,195,000	132,041,914	632,236,914
2025	443,010,000	110,600,323			443,010,000	110,600,323	553,610,323
2026	424,930,000	89,380,558			424,930,000	89,380,558	514,310,558
2027	434,790,000	70,047,746			434,790,000	70,047,746	504,837,746
2028	351,820,000	52,702,000			351,820,000	52,702,000	404,522,000
2029	313,605,000	37,984,791			313,605,000	37,984,791	351,589,791
2030	225,995,000	24,623,484			225,995,000	24,623,484	250,618,484
2031	181,690,000	15,825,483			181,690,000	15,825,483	197,515,483
2032	154,285,000	8,848,597			154,285,000	8,848,597	163,133,597
2033	108,555,000	3,741,670			108,555,000	3,741,670	112,296,670
2034	10,900,000	218,000			10,900,000	218,000	11,118,000
Total	$8,763,845,000	$2,931,114,926	$348,635,000	$87,378,820	$9,112,480,000	$3,018,493,746	$12,130,973,746

Note: Total Interest and Total Debt Service amounts may not add precisely due to rounding.
Source: Georgia State Financing and Investment Commission

Rate of Debt Retirement

The following table sets forth the rate of scheduled debt retirement on all currently outstanding general obligation bonds and guaranteed revenue bonds, but not including the Bonds, of the State of Georgia.

Principal Amount Due	Amount	% of Total
In 5 Years (60 Months)	$3,606,575,000	39.6%
In 10 Years (120 Months)	6,462,900,000	70.9

Source: Georgia State Financing and Investment Commission

Market Transactions to Retire Debt

From time to time the State uses earnings on invested general obligation bond proceeds to purchase outstanding general obligation bonds in secondary market transactions with dealers; bonds so purchased are then cancelled and are no longer outstanding. Beginning with the fiscal year ended June 30, 2010 ("FY 2010"), the very low interest rates available on the invested general obligation bond proceeds has resulted in significantly fewer funds available for this program than in preceding years; this condition is expected to continue for an indeterminate period of time into the future. The schedule below summarizes these transactions for the years indicated.

Fiscal Year Ended June 30	Par Value	Purchase Price (a)	Purchase Price as % of Par Value
2009	$87,855,000	$90,761,688	103.31%
2010	39,335,000	35,033,668	89.06
2011	0	0	--
2012	0	0	--
2013	1,740,000	1,953,419	112.27
2014 (b)	880,000	1,043,224	118.55

(a) Excluding Accrued Interest
(b) Through June 9, 2014
Source: Georgia State Financing and Investment Commission

Debt Statistics

Certain information and statistics regarding the debt of the State are set forth in the following tables.

State Treasury Receipts

The State's compliance with its constitutional debt limitation is calculated on the basis of the State Treasury Receipts (revenue receipts less refunds) set forth in the table below. The annual percentage increase or decrease in such State Treasury Receipts is set forth in the third column of the table below.

Fiscal Year Ended June 30	State Treasury Receipts	% Change From Prior Year
2009	$17,832,365,614	(9.9)%
2010	16,251,244,423	(8.9)
2011	17,546,376,094	8.0
2012	18,316,797,048	4.4
2013	19,539,691,058	6.7

Source: State Accounting Office

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Legal Debt Margin

The amounts permissible under the State's constitutional debt limitation are set forth below:

• Highest annual commitments permitted under constitutional limitation – 10% of State Treasury Receipts for FY 2013	$1,953,969,106
• Highest debt service for currently outstanding debt in any year (fiscal year to end June 30, 2015 ("FY 2015"))	$1,189,496,290
• Appropriated Debt Service for the Bonds	$90,129,214
• Total highest current outstanding debt service plus appropriated debt service for the Bonds	$1,279,625,504
• As a percent of FY 2013 State Treasury Receipts	6.55%
• Total additional debt service appropriations for all remaining currently authorized but unissued bonds, after issuance of the Bonds	$41,304,236 [a]
• Total highest annual commitments in any fiscal year, current outstanding debt service plus debt service appropriations for all currently authorized but unissued bonds	$1,320,929,740
• As a percent of FY 2013 State Treasury Receipts	6.76%
• Projected State Treasury Receipts for FY 2014	$20,032,642,120
• As a percent of FY 2014 Projected State Treasury Receipts	6.59%

[a] This amount reflects a reduction in the total additional debt service appropriations for all remaining currently authorized but unissued bonds, after issuance of the Bonds, in the expectation that previously authorized general obligation debt will be repealed to the extent authorized projects and facilities are financed with net original issue premium on the 2014A Bonds, 2014B Bonds and 2014C Bonds.

Sources: Georgia State Financing and Investment Commission; State Accounting Office

Assessed Valuation
(Real Estate and Personal Property)

The assessed valuation of real and personal property located in the State, its estimated actual value ("EAV"), and the assessed value as a percentage of the EAV are set forth in the table below.

Year	Assessed Valuation	Estimated Actual Value	Assessed as a % of EAV
2008	$388,987,844,387	$1,029,613,140,252	37.8%
2009	386,203,598,988	1,005,738,539,030	38.4
2010	365,054,957,708	935,558,579,466	39.0
2011	350,260,546,889	875,651,367,224	40.0
2012	341,928,704,669	864,329,384,907	39.6

Source: State of Georgia Department of Audits and Accounts, Sales Ratio Division

Article VII, Section I, Paragraph II (a) of the State Constitution provides:

"The annual levy of state ad valorem taxes on tangible property for all purposes, except for defending the state in an emergency, shall not exceed one-fourth mill on each dollar of the assessed value of the property."

Debt Ratios

The debt ratios set forth below in this table are based on the Assessed Valuation set forth in the table above and the following key statistics:

Project Total State Debt Outstanding Upon Issuance of the Bonds (see "Outstanding Debt" herein)	$9,651,730,000
2013 Population Estimate (a)	9,992,167
2013 Total Personal Income Estimate ($000) (b)	$381,486,538
Debt per Capita	$965.93
Debt to Personal Income	2.5%
Debt to Estimated Actual Value	1.12%
Debt to Assessed Valuation	2.82%

(a) U.S. Department of Commerce, Bureau of the Census
(b) U.S. Department of Commerce, Bureau of Economic Analysis – Calendar Year
Source: Georgia State Financing and Investment Commission

REVENUE INFORMATION

Fiscal Policy

Under Georgia law, the Governor is the State's Chief Executive and also is the ex officio Director of the Budget. He is assisted in financial management by his Chief Financial Officer, who concurrently is serving as the Director, Office of Planning and Budget. The State Constitution assigns responsibility for revenue estimates to the Governor. The Governor is aided in this determination by revenue projections developed by the State Economist. The State Economist utilizes various sources of information and other forecasts of key U.S. and Georgia economic data when developing his forecasts. The State Economist's forecasts then are compared to publicly available forecasts such as those produced by the Georgia State University Economic Forecasting Center, and to consensus forecasts of the U.S. economy.

Budgetary Controls and Cash Flow Management

The State Constitution requires the State to adopt a balanced budget. The State Constitution assigns responsibility for revenue estimates to the Governor, provides that no money may be drawn from the State Treasury except for appropriations made by law, and requires that the General Assembly annually appropriate state and federal funds necessary to operate all of the various departments and agencies of State government. It further provides that the general appropriations bill embrace only appropriations that were fixed by previous laws; the ordinary expenses of the executive, legislative, and judicial departments of State government; payment of the public debt and the interest thereon; and support of the public institutions and educational interest of the State.

Before money can be disbursed pursuant to an appropriation, it must be allotted (administratively allocated and approved for expenditure). Allotments are provided to State agencies and other budget units by issuance of warrants by the Governor's Office of Planning and Budget ("OPB"). A warrant is the approval of funding of the appropriated amount to a budget unit such that the budget unit has the funding available to expend in accordance with an appropriation. The Office of the State Treasury ("OST") funds warrants against the allotments as allotment draw requests are presented to it by the various State budget units and monitors approved, but undrawn allotment balances. Undrawn allotment balances include funding for expenditures associated with contracts resulting in some carry-forwards from the previous fiscal year. Allotments tend to be paid out gradually; however, there is a risk that a sudden increase in requests by budget units for previously allotted funds could strain the State's cash resources. OPB has the authority to withhold undrawn allotments prior to such allotments being funded by the OST, if necessary, to manage state expenditures to available revenues or to maintain liquidity as was the case in the fiscal year ended June 30, 2009 ("FY 2009") and FY 2010. During the course of a fiscal year, if it appears that revenues have fallen below the amounts originally anticipated, OPB can take steps to reduce State expenditures by requiring budget units to reserve appropriations or, through coordination with State agencies and other budget units, can delay approval of allotments and rescind prior allotments. OPB also may rescind previously approved but undrawn allotments should the funds no longer be needed for the purpose as originally budgeted as was the case in the fiscal year ended June 30, 2011 ("FY 2011") through FY 2013. In addition, the Governor can reduce the revenue estimate for the fiscal year and recommend that the legislature amend the FY 2015 budget to reflect lowered revenue estimates. The next regular session of the legislature is scheduled to begin in January 2015.

Treasury monitors cash balances available to fund appropriation allotments as they are presented for payment. If necessary, the State may take steps to ensure liquidity which could include managing the timing of allotments for appropriations and tax refunds as permitted by state law, withholding appropriation allotments, or rescinding appropriation allotments. Although it has not used other measures to maintain sufficient liquidity, the State has other legally authorized options available to enable it to access liquidity in more extraordinary circumstances, including securing a bank line of credit, issuing short-term debt, transacting reverse repurchase agreements, or internal borrowing. Under current State law, the amount that could be drawn on an external line of credit is limited to one percent (1%) of the prior year's receipts and any such borrowing must be repaid within the same fiscal year it was incurred.

Senate Resolution 415

During its 2014 session, the General Assembly adopted Senate Resolution 415, which proposes an amendment to the State Constitution related to State income taxes. The proposed amendment, which will be voted upon in the November 2014 general election and will be effective as of January 1, 2015 if approved, will prohibit any increase in the maximum marginal rate of income tax in effect on January 1, 2015. The current maximum marginal rate of income tax is six percent (6%). During the most recent five fiscal years, income taxes have accounted for approximately 48% of total State Treasury receipts.

Revenue Shortfall Reserve

With respect to the revenue shortfall reserve and the mid-year adjustment reserve, O.C.G.A. § 45-12-93 provides in relevant part:

(a) There shall be a reserve of state funds known as the "Revenue Shortfall Reserve."

(b) The amount of all surplus in state funds existing as of the end of each fiscal year shall be reserved and added to the Revenue Shortfall Reserve. Funds in the Revenue Shortfall Reserve shall carry forward from fiscal year to fiscal year, without reverting to the general fund at the end of a fiscal year. The Revenue Shortfall Reserve shall be maintained, accumulated, appropriated, and otherwise disbursed only as provided in this Code section.

(c) For each existing fiscal year, the General Assembly may appropriate from the Revenue Shortfall Reserve an amount up to 1 percent of the net revenue collections of the preceding fiscal year for funding increased K-12 needs.

(d) The Governor may release for appropriation by the General Assembly a stated amount from funds in the Revenue Shortfall Reserve that are in excess of 4 percent of the net revenue of the preceding fiscal year.

(e) As of the end of each fiscal year, an amount shall be released from the Revenue Shortfall Reserve to the general fund to cover any deficit by which total expenditures and contractual obligations of state funds authorized by appropriation exceed net revenue and other amounts in state funds made available for appropriation.

(f) The Revenue Shortfall Reserve shall not exceed 15 percent of the previous fiscal year's net revenue for any given fiscal year.

The following tables set forth certain information regarding the State's Revenue Shortfall Reserve for the fiscal years shown.

Total Net Revenue Collections and Revenue Shortfall Reserve ($ in millions)

		Revenue Shortfall Reserve (a)		
Fiscal Year End June 30	Total Net Revenue Collections	Total Reserves	1% Education (K-12) (b)	Net
2009 (c)	$16,767	$530	$168	$362
2010	15,216	268	152	116
2011	16,559	494	166	328
2012	17,270	551	173	378
2013	18,296	900	183	717

(a) The amount by which the total Revenue Shortfall Reserve exceeds 4% of the net revenue of the preceding fiscal year may be released by the Governor for appropriation by the General Assembly. For the fiscal years shown above, the Revenue Shortfall Reserve did not exceed 4% of the net revenue of the preceding fiscal year.

(b) Up to 1% of the net revenue collections of the preceding fiscal year may be used for funding increased educational (K-12) needs. Such amounts for the fiscal years ending FY 2009, FY 2010, FY 2011 and FY 2012 were appropriated in FY 2010, FY 2011, FY 2012 and FY 2013, respectively, for this purpose (see the table entitled, "GEORGIA REVENUES" herein).

(c) The June 30, 2008 Revenue Shortfall Reserve was reduced $348,658,969 to provide for the shortfall of actual FY 2009 revenues as compared to FY 2009 appropriations; also, $258,597,684 of the June 30, 2008 Revenue Shortfall Reserve was released for the FY 2010 appropriation.

Source: State Accounting Office
Note: Amounts may not add precisely due to rounding.

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Reconciliation of Revenue Shortfall Reserve - FY 2013 and FY 2014 Uses

FY 2012 Revenue Shortfall Reserve Balance as of June 30, 2012 (a)	$380,123,094
Plus Excess of FY 2013 Total Budget-Based Revenues Available Over FY 2013 Appropriations	301,919,522
Plus Audited Agency Lapse of Surplus Funds	218,240,068
Less 1% Mid-year Adjustment for K-12 Education Appropriation in Amended FY 2014 Budget	(182,958,586)
Revenue Shortfall Reserve Balance as of June 30, 2013	$717,324,098

Source: State Accounting Office

(a) For purposes of this reconciliation, an adjustment of $2,151,654 for the reversal of FY 2012 surplus occurring subsequent to the preliminary Revenue Shortfall Reserve is reflected in FY 2013 activity. The Net Revenue Shortfall Reserve of $378 million for FY 2012 shown in the table entitled GEORGIA NET REVENUES AND REVENUE SHORTFALL RESERVE above reflects the net effect of such adjustment.

Fiscal Performance

FY 2013 Results. FY 2013 General Fund revenues grew by 5.9% over FY 2012 General Fund revenues. Revenues from total taxes grew by 5.7% compared to FY 2012 and revenue from interest, fees and sales grew by 9.4% compared to FY 2012. This was the third consecutive year of General Fund and tax revenue growth. The Amended FY 2013 budget estimated General Fund revenue growth of 4.1% compared to FY 2012 revenues. Total tax revenues were estimated to grow 4.0% compared to FY 2012. Thus, total General Fund collections exceeded budget by $316.0 million.

Individual income tax revenues grew by 7.7% in FY 2013 compared to FY 2012. Withholding revenues grew by 4.1%. Revenues from other individual payment types, including payments with returns, estimated payments and non-resident payments grew by 19.8% in FY 2013 compared to FY 2012. Some of this high growth likely is associated with individual taxpayers shifting income and capital gains into tax year 2012 from tax years 2013 and beyond in order to avoid higher federal income tax rates that were anticipated to take effect in tax year 2013. This likely shifted revenue from future fiscal years into FY 2013.

Corporate income tax revenues grew by 35.0% in FY 2013 compared to FY 2012. Total corporate payments grew by 7.9% and corporate refunds paid decreased by 42.0% in FY 2013 compared to FY 2012. Corporate refunds had increased sharply in the prior two fiscal years, but returned to levels more in line with prior historical trends in FY 2013.

Sales tax revenues declined by 0.5% in FY 2013 compared to FY 2012. Two significant changes to Georgia's sales tax base were implemented during FY 2013. First, a partial exemption from sales tax for energy used in manufacturing and an expansion of the existing exemption for energy used in agriculture became effective on January 1, 2013. Second, the sales tax on automobile sales was eliminated on March 1, 2013 and replaced with the title ad valorem tax.

Revenue Shortfall Reserve. Georgia's Revenue Shortfall Reserve increased to $717 million at the end of FY 2013 from $380 million at the end of FY 2012, an increase of $337 million. These balances are net of the appropriation of the 1% mid-year adjustment for K – 12 education needs. The mid-year adjustment equaled $183 million in the Amended FY 2014 budget. This increase in the RSR balance reflected excess funds over appropriations plus agency lapse.

Changes to Georgia's Tax Code. During its 2013 session, the General Assembly passed several bills that amended Georgia's tax code and that were signed into law by the Governor. These bills primarily affect the tax code in two areas. First, provisions of the recently implemented title ad valorem tax were modified to better align the tax with the business needs of the automobile sales and leasing industry. Second, Georgia's tax code was modified to reflect selected recent changes to the federal tax code. These modifications are designed to bring Georgia's tax code into a significant level of consistency with the federal code. In addition, several changes were made to existing tax credits and sales tax exemptions. In total, these legislative actions are expected to reduce revenues by $108.0 million in FY 2014 and by $72.3 million in FY 2015. The legislature took actions to extend the Hospital Provider Fee through FY 2017. The Hospital Provider Fee originally implemented in FY 2011 and scheduled to sunset at the end of FY 2013, provided revenues in excess of $215 million in each of FY 2011 and FY 2012.

During its 2014 session, the General Assembly passed several bills that amended Georgia's tax code and that were signed into law by the Governor. Overall, the enacted legislation is not expected to have a significant impact on revenue performance. The bills included provisions to continue certain tax policies which were scheduled to expire. These include extending the sales tax holidays, making permanent a sales tax exemption on parts and materials used in the repair of certain aircraft, and extending a sales tax exemption for construction materials used in projects of regional significance. Two provisions were enacted that will have an incremental impact on state revenue collections compared to historical trend and the existing revenue estimates. First, a new income tax credit was established for purchasers of heavy-duty and medium duty alternate fueled vehicles. The aggregate value of these credits is capped at $2.5 million per year beginning in FY 2016. In addition, an existing income tax credit for video game companies was restructured. The aggregate cap on the video game credits is $12.5 million per year for FY 2015 and FY 2016. Thus, the net revenue impact of this new legislation is anticipated to decrease revenues by $12.5 million in FY 2015 and $15.0 million in FY 2016.

Finally, for more information regarding Senate Resolution 415, which proposes an amendment to the State Constitution related to the maximum marginal income tax rate, see "REVENUE INFORMATION – Senate Resolution 415" herein.

FY 2014 Year to Date Results. The Department of Revenue reported tax revenues have grown by 4.5% for the FY 2014 to date through May 2014 as compared to the same period in FY 2013. Unless otherwise noted, all references to fiscal year over year comparisons refer to this same period.

Individual income tax revenues are up 1.5% for the eleven month period. Withholding revenues have grown 3.7% and have grown much more quickly in recent months. For the January through May 2014 timeframe, withholding revenues have increased by 5.1% compared to the same months in 2013. This period is relevant due to an adjustment in Georgia withholding tables in January 2013 to reflect income tax law changes enacted in 2012. Thus, this period captures withholding revenue performance after the effective date of this tax change. Individual payments other than withholding are down 5.2% for the fiscal year to date, primarily due to a 13.3% decline in April. Through March, these payments had grown 1.6% on a year over year basis. The large decline in April is due, in part, to an extraordinary increase in these payments in April of 2013 to shift income and capital gains to tax year 2012. Individual income tax refund payments also have increased and are up 4.6% for the fiscal year.

Corporate income tax revenues are up 16.1% for the fiscal year. Revenues from all corporate payments are up 10.6% and refunds paid have decreased by 9.2% for the fiscal year.

Sales tax revenues have decreased by 3.8% for the fiscal year. The drop in sales tax revenues reflects the impacts of the tax base changes implemented in FY 2013, with the most impactful being the elimination of the sales tax on automobile sales. Beginning in April 2013, sales tax collections no longer include sales tax for automobile sales. Thus, April 2014 was the first month in which year over year comparisons of sales tax revenues excluded purchases of automobiles for both months. For April 2014, gross sales tax collections were up 3.2% and net collections, after local distributions and refunds, were up 12.7% compared to last April. In May, gross collections were up 4.5% and net collections, after local distributions and refunds, were up 2.5%.

Motor Vehicle Tag, Title and Fees revenues are up 169.5% year to date. This category includes the title ad valorem tax that was implemented concurrent with the elimination of the sales tax on automobiles. The net revenue contribution from this category is expected to diminish going forward since the ramp up in collections of the title ad valorem tax was largely accomplished with May 2013 collections.

Current Economic Indicators. The economic recovery in the U.S. has been in place since mid-2009. Since the recovery began, the U.S. has experienced several cycles where gross domestic product ("GDP") growth accelerated followed by a slowdown in growth only to re-strengthen again. GDP growth exceeded 4.1% in 3rd quarter of 2013, slipped to 2.6% in the 4th quarter and then nearly ground to a halt in 1st quarter 2014 with growth hitting just 0.1% for the quarter. Some of this slowdown likely was due to extremely harsh winter weather through much of the U.S. More recent economic indicators, however, suggest that growth is strengthening again.

Employment continues to expand in the U.S. with growth trending higher. Net job additions were just 84,000 in December 2013, but have ramped up sharply since that low point. Net job additions reached 288,000 in April and have averaged 238,000 over the last 3 months, although total non-farm employment is still below its peak level prior to the start of the recession by about 113,000 jobs.

The Institute of Supply Management ("ISM") Indices for Manufacturing and for Services remain above 50, the dividing line between expansion and contraction and have strengthened in recent months. As of April 2014, the ISM index for manufacturing equals 54.9, while the ISM index for services is at 55.2. These indices are consistent with moderate economic growth and the uptick in these indices suggests a strengthening in growth.

Employment in Georgia is growing at a moderate pace which is in line with the U.S. growth rate in employment. As of April 2014, total non-farm employment increased by 76,400 jobs or 1.9% over April 2013. This compares to 1.7% for U.S. non-farm employment as of April 2014 over April 2013. Over the February through April 2014 time period, employment growth has averaged 1.7% over the prior year for both the U.S. and Georgia. Georgia's employment growth has been well-diversified across industry sectors. Construction, leisure and hospitality, and professional and business services have had the strongest growth over the last 3 months. Only two sectors are seeing net job losses on a year over year, three month moving average basis: the information sector and government.

Georgia's unemployment rate declined to 7.0% in April 2014 from 8.3% in April 2013. During much of 2013, the improvement in the unemployment rate was supported by decreases in the labor force along with growth in household employment. For the last four months, however, Georgia's labor force has expanded quickly with household employment expanding at a faster rate. The Purchasing Managers Index for manufacturing in Georgia in April 2014 is 62.7 which is well above the neutral level of 50. The Georgia PMI index exceeds the ISM index for the U.S. and indicates the Georgia manufacturing sector is expanding rapidly.

Personal income growth in Georgia is modest. For calendar year 2013, total personal income grew by 2.7% over 2012 and wage and salary income growth was slightly stronger at 3.6%. For the fourth quarter of 2013, total personal income growth had slowed to 0.4% over the prior 4th quarter, while wage and salary growth slowed to 1.1%.

The housing sector in Georgia and nationally is sending mixed signals. Prices are still rising - the S&P Case Shiller Home Price Index for the Atlanta metro area has risen month over month for the past 23 months and is 16.1% above year ago levels as of February 2014. The S&P Case Shiller Composite Index for 20 large metro areas has risen month over month for the past 25 months and is 12.9% above year ago levels as of February 2014.

Other housing indicators have suggested the housing recovery has stalled. Nationally, existing home sales have trended down since peaking in July 2013. New homes sales also are below their recent peak. This downward trend likely is related to a reduction in purchases of single family homes by investors as both prices and interest rates have risen. In addition, mortgage credit availability is just now beginning to loosen which heretofore has limited the ability of buyers to finance purchases. Housing starts for the US and for Georgia also have slipped from recent peaks.

Mortgage credit quality continues to improve. Foreclosure rates and mortgage delinquency rates in Georgia remain above the U.S. averages, but are trending down.

Amended FY 2014 Budget. The Amended FY 2014 budget anticipates General Fund revenue growth of 3.4% over the FY 2013 General Fund revenue collections and total tax revenue growth of 3.7% over the FY 2013 tax revenue collections. The Amended FY 2014 budget was increased over the FY 2014 budget by $121.4 million.

The Amended FY 2014 budget revenue estimate includes $31 million in revenue from fees collected by Department of Revenue which in prior years had been retained for Department of Revenue operations, but effective in FY 2014 will be transferred to the State Treasury. It also reflects the expected impact of legislative changes on revenue collections. In particular, sales tax revenues are expected to fall 4.2% as the elimination of the sales tax on automobile sales continues to have an impact in year over year sales tax performance and title ad valorem tax revenues are expected to increase substantially as that tax continues to phase-in.

An estimated 3% reduction to the budget from state agencies was incorporated in building the original FY 2014 budget, but no further across the board reductions were necessary in the Amended FY 2014 budget. Full funding to meet the annual required contributions ("ARC") for pension systems was also included in the original FY 2014 budget.

The Amended FY 2014 budget focused on meeting critical growth needs in core areas of state spending, primarily education and healthcare. The Amended FY 2014 budget included $130 million for mid-term growth in the Quality Basic Education funding formula for K-12 and $26 million for the Forestland Protection Grant program, of which $14.8 million will go directly to local school systems whose property tax digests have been impacted by dedicated forestland. The Amended FY 2014 budget also includes $25 million for the OneGeorgia Authority to provide grants to local school systems to expand digital learning opportunities. Finally, the Amended FY 2014 budget includes an additional $25 million for the Medicaid and PeachCare for Kids programs for projected expense growth due in part to additional costs associated with implementation of the Patient Protection and Affordable Care Act of 2010 (PPACA).

At this time, growth in revenue collections is running ahead of the pace built into the AFY 2014 revenue estimate. The State will continue to monitor revenue trends and is prepared to take steps should revenue performance deteriorate below expectations.

FY 2015 Budget. The FY 2015 budget revenue estimate assumes tax revenue growth of 4.4% and General Fund revenue growth in the range of 4.3% compared to AFY 2014 revenue estimate. As in the Amended FY 2014 budget, no additional reductions to agency budgets were necessary in FY 2015. Anticipated new growth in revenues primarily will be used to meet expected growth needs and to begin to restore funding reduced from the K-12 budget during the economic recession. The FY 2015 budget includes $514 million for K-12 education to allow local school systems to increase instructional days, eliminate teacher furloughs, or enhance teacher salaries. The budget also includes $87 million for expense growth in Medicaid and PeachCare for Kids, including additional projected costs associated with implementation of the PPACA, and fully funds the annual required contributions for the Teachers Retirement System and Employees' Retirement System through the appropriation of $71.8 million and $56.7 million respectively. Finally, the budget includes continued capital investments in the Savannah port's harbor deepening project and water supply needs.

Budget instructions for the Amended FY 2015 and the FY 2016 budgets are expected to be issued in July 2014. At that time, initial planning estimates for the Amended FY 2015 budget and the FY 2016 budget will be developed for the Governor's consideration. Those estimates will incorporate a revised outlook based on then current federal economic policy and the most recent economic data. In addition, these estimates will factor in actual FY 2014 revenue collections as a new baseline for estimating future growth. Finally, these estimates will factor in the impact of legislative changes discussed above as well as the Governor's suspension of the July 1, 2014 scheduled prepaid motor fuel tax rate adjustment on future revenue collections. The May 30, 2014 Executive Order suspending the prepaid motor fuel tax rate adjustment is effective through December 31, 2014 and will have to be ratified by the General Assembly during the next regular legislative session scheduled to begin in January of 2015. Relative to the FY 2015 budget estimate, it is anticipated that such suspension will reduce motor fuel tax collections by approximately $17.2 million and sales tax collections by approximately $5.5 million.

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Georgia Revenues
Actual FY 2009 – FY 2013

The following table sets forth actual budget-based State revenues available for appropriation.

General Funds	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Net Taxes: Department of Revenue					
Income Tax – Individual	$7,814,552,113	$7,016,412,171	$7,658,782,326	$8,142,370,500	$8,772,227,404
Income Tax – Corporate	694,718,310	684,700,740	670,409,796	590,676,110	797,255,429
Sales and Use Tax – General	5,306,490,689	4,864,691,463	5,080,776,730	5,303,524,233	5,277,211,183
Motor Fuel	884,091,188	854,359,788	932,702,991	1,019,300,802	1,000,625,732
Tobacco Taxes	230,271,910	227,180,405	228,858,070	227,146,091	211,618,073
Alcoholic Beverages Tax	169,668,539	169,019,330	161,803,418	175,050,571	180,785,957
Estate Tax	82,990	0	0	27,923	(15,351,947)
Property Tax	83,106,994	86,228,331	76,704,325	68,951,095	53,491,655
Net Taxes: Other Organizations					
Insurance Premium Tax	314,338,992	274,367,273	360,669,593	309,192,735	329,236,920
Motor Vehicle License Tax	283,405,915	282,515,540	298,868,209	308,342,308	457,490,366
Total Net Taxes	15,780,727,640	14,459,475,041	15,469,575,458	16,144,582,369	17,064,590,773
Interest, Fees and Sales -					
Department of Revenue	158,916,288	132,282,145	224,083,020	244,372,037	288,781,506
Office of State Treasurer - Interest on Deposits	89,157,960	8,157,741	-70,422	6,913,651	3,644,434
Behavioral Health		5,856,093	5,634,937	4,571,175	3,616,363
Driver Services	64,176,624	40,600,978	57,487,315	58,417,440	57,757,270
Natural Resources	47,001,999	49,221,174	44,969,509	45,053,302	42,518,506
Secretary of State	66,794,531	68,244,049	81,479,049	85,174,697	79,616,756
Labor	30,332,589	28,354,875	29,077,607	29,896,747	25,518,209
Public Health					11,196,064
Human Services	33,609,407	8,955,806	7,942.374	7,850,965	5,569,741
Banking and Finance	20,728,179	21,428,925	20,158,138	21,362,614	21,500,505
Corrections	15,689,864	13,435,899	15,013,036	15,289,299	14,440,421
Workers' Compensation	18,904,664	18,930,132	21,078,738	20,314,485	20,967,938
Public Service Commission	3,031,268	1,499,311	1,123,038	1,219,515	1,185,784
Nursing Home Provider Fees	122,623,032	126,449,238	128,771,295	132,393,274	176,864,128
Care Management Organization Fees	143,957,013	42,232,458	297,276	718,946	
Hospital Provider Payments			215,079,822	225,259,561	232,080,023
Driver Services Super Speeder Fine		2,046,905	14,161,809	18,391,393	18,593,040
Indigent Defense Fees	43,987,641	44,598,499	42,426,463	41,720,648	41,221,700
Peace Officers' and Prosecutors' Training Funds	25,604,603	26,555,179	25,547,136	25,276,638	22,542,417
All Other	101,418,502	117,466,338	154,811,930	141,196,718	163,653,012
Total Interest, Fees & Sales	985,934,164	756,315,745	1,089,072,069	1,125,393,105	1,231,267,815
Total State General Funds (Net Revenue Collections)	16,766,661,804	15,215,790,786	16,558,647,527	17,269,975,474	18,295,858,588
Lottery Funds	884,642,058	886,375,726	847,049,832	903,224,565	929,142,038
Tobacco Settlement Funds	177,370,078	146,673,654	138,450,703	141,139,300	212,792,063
Guaranteed Revenue Debt Common Reserve Fund					
Interest Earnings	1,719,873	333,632	265,380	119,758	133,736
National Mortgage Settlement					99,365,105
Brain and Spinal Injury Trust Fund	1,968,993	2,066,389	1,960,848	2,333,708	2,396,580
Other	2,808	4,236	1,803	4,243	2,948
Total State Treasury Receipts	**17,832,365,614**	**16,251,244,423**	**17,546,376,094**	**18,316,797,048**	**19,539,691,058**
Funds Transferred from State Organizations	25,911,999	98,959,391	93,273,955	65,134,019	45,305,655
GEFA Loan Sale			288,000,000		
Mid-Year Adjustment–Education Reserve	187,278,126	167,666,618	152,157,908	165,586,475	172,699,755
Appropriation of Revenue Shortfall Reserve (a)	548,658,969	258,597,684	-	-	-
TOTAL FUNDS AVAILABLE	$18,594,214,708	$16,776,468,116	$18,079,807,957	$18,547,517,542	$19,757,696,468

(a) FY 2009, $200,000,000 was the budgeted amount, with the balance being due to the shortfall of Receipts to Appropriations; FY 2010 was the budgeted amount.
Note: Amounts may not add precisely due to rounding.
Source: State Accounting Office

Georgia Revenues
Amended FY 2014 Budget and Adopted FY 2015 Budget

The following table sets forth projected budget-based State revenues available for appropriation for the adopted Amended FY 2014 Budget and the adopted FY 2015 Budget.

General Funds	**Amended FY 2014**	**Adopted FY 2015**
Net Taxes: Department of Revenue		
Income Tax - Individual	$9,004,728,000	$9,536,657,000
Income Tax - Corporate	816,831,000	846,667,000
Sales and Use Tax-General	5,053,333,000	5,258,817,000
Motor Fuel	993,446,900	1,001,444,100
Tobacco Taxes	217,615,700	213,874,800
Alcoholic Beverages Tax	182,413,000	183,054,700
Property Tax	34,235,000	17,117,500
Net Taxes: Other Organizations		
Insurance Premium Tax	333,775,422	342,098,275
Motor Vehicle License Tax	325,214,799	333,125,000
Title Ad Valorem Tax	733,000,000	744,646,000
Total Net Taxes	$17,694,592,821	$18,477,501,375
Interest, Fees and Sales - Dept. of Revenue	308,781,506	310,325,400
Office of State Treasurer - Interest on Deposits (Net of Bank Charges/Other)	3,081,572	3,081,572
Other Fees and Sales:		
Banking and Finance	19,375,000	19,800,000
Behavioral Health	2,898,167	2,432,484
Corrections	14,930,000	14,930,000
Human Services	5,500,000	5,500,000
Labor	25,550,000	25,550,000
Natural Resources	42,500,000	42,500,000
Public Health	14,168,419	14,803,698
Public Service Commission	1,100,000	1,200,000
Secretary of State	68,646,000	69,313,000
Workers' Compensation	22,300,000	21,700,000
Driver Services	58,000,000	45,000,000
Driver Services Super Speeder Fine	18,600,000	18,600,000
Nursing Home Provider Fees	167,756,401	167,756,401
Hospital Provider Payment	254,370,693	264,217,234
Indigent Defense Fees	40,000,000	40,000,000
Peace Officers' & Prosecutors' Training Funds	24,000,000	24,000,000
All Other Departments	133,565,264	158,620,328
Total Interest Fees and Sales	$1,225,123,022	$1,249,330,117
Total State General Funds (Net Revenue Collections)	$18,919,715,843	$19,726,831,492
Lottery Funds	$910,819,213	$947,948,052
Tobacco Settlement Funds	200,118,562	142,461,830
Brain and Spinal Injury Trust Fund	1,988,502	1,784,064
Total State Treasury Receipts	**20,032,642,120**	**20,819,025,438**
Other Funds Available for Expenditure:		
Funds Transferred from State Organizations	18,637,869	17,719,182
Mid-year Adjustment Reserve	182,958,586	0
TOTAL FUNDS AVAILABLE	$20,234,238,575	$20,836,744,620

Source: Governor’s Office of Planning and Budget

Five Year History

The following table sets forth, by category, the State Treasury Receipts available for appropriation for the period FY 2009 through FY 2013.

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Alcoholic Beverages Tax	$169,668,539	$169,019,330	$161,803,418	$175,050,571	$180,785,957
Estate Tax	82,990	0	0	27,923	(15,351,947)
Income Tax – Corporate	694,718,310	684,700,740	670,409,796	590,676,110	797,255,429
Income Tax – Individual	7,814,552,113	7,016,412,171	7,658,782,326	8,142,370,500	8,772,227,404
Insurance Premium Tax and Fees	314,338,992	274,367,273	360,669,593	309,192,735	329,236,920
Excise and Motor Carrier Mileage Tax	461,265,508	469,117,616	452,197,063	446,655,687	453,438,505
Prepaid Motor Fuel Sales Tax	422,825,680	385,242,172	480,505,928	572,645,116	547,187,226
Motor Vehicle License Tax	283,405,915	282,515,540	298,868,209	308,342,308	457,490,366
Property Tax – General and Intangible	83,106,994	86,228,331	76,704,325	68,951,095	53,491,655
Sales and Use Tax – General	5,306,490,689	4,864,691,463	5,080,776,730	5,303,524,233	5,277,211,183
Tobacco Products Tax	230,271,910	227,180,405	228,858,070	227,146,091	211,618,073
Total Taxes	15,780,727,640	14,459,475,041	15,469,575,458	16,144,582,369	17,064,590,773
Total Interest, Reg. Fees, and Sales	985,934,164	756,315,745	1,089,072,069	1,125,393,105	1,231,267,815
Total State General Funds (Net Revenue Collections)	16,766,661,804	15,215,790,786	16,558,647,527	17,269,975,474	18,295,858,588
Total Other Revenues Retained (a)	1,065,703,810	1,035,453,637	987,728,567	1,046,821,574	1,243,832,470
Total State Treasury Receipts	$17,832,365,614	$16,251,244,423	$17,546,376,094	$18,316,797,048	$19,539,691,058

(a) Other Revenues Retained includes Lottery Funds, Tobacco Settlement Funds, Guaranteed Revenue Debt Common Reserve Fund Interest Earnings, Brain and Spinal Injury Trust Fund, National Mortgage Settlement (FY 2013 only) and Other amounts.
Note: Amounts may not add precisely due to rounding.
Source: FY 2009 – 2013 Budgetary Compliance Report

Changes in Georgia Revenues – FY 2012 to FY 2013

The following table sets forth, by category, the changes in budget-based revenue available for appropriation for FY 2013 as compared to FY 2012.

	FY 2012	FY 2013	$ Change	% Change
Alcoholic Beverages Tax	$ 175,050,571	$ 180,785,957	$ 5,735,385	3.3%
Estate Tax	27,923	(15,351,947)	(15,379,870)	(55,709.1)
Income Tax – Corporate	590,676,110	797,255,429	206,579,319	35.0
Income Tax – Individual	8,142,370,500	8,772,227,404	629,856,904	7.7
Insurance Premium Tax and Fees	309,192,735	329,236,920	20,044,185	6.5
Excise and Motor Carrier Mileage Tax	446,655,687	453,438,505	6,782,818	1.5
Prepaid Motor Fuel Sales Tax	572,645,116	547,187,226	(25,457,889)	(4.4)
Motor Vehicle License Tax	308,342,308	457,490,366	149,148,059	48.4
Property Tax – General and Intangible	68,951,095	53,491,655	(15,459,439)	(22.4)
Sales and Use Tax – General	5,303,524,233	5,277,211,183	(26,313,050)	(0.5)
Tobacco Products Tax	227,146,091	211,618,073	(15,528,017)	(6.8)
Total Taxes	16,144,582,369	17,064,590,773	920,008,404	5.7
Total Interest, Regulatory Fees, and Sales	1,125,393,105	1,231,267,815	105,874,710	9.4
Total State General Funds (Net Rev. Colls.)	17,269,975,474	18,295,858,588	989,883,114	5.7
Total Other Revenues Retained	1,046,821,574	1,243,832,470	197,010,896	18.8
Total State Treasury Receipts	$18,316,797,048	$19,539,691,058	$1,222,894,011	6.7

Note: Amounts may not add precisely due to rounding.
Source: State Accounting Office

Summary of Appropriation Allotments

The following table summarizes the appropriation allotment amounts to various areas of State government for the five fiscal years FY 2009 through FY 2013.

	FY 2009	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Education	$10,605,610,728	$9,635,314,679	$10,372,130,365	$9,985,262,716	$10,337,921,348
Public Health and Welfare	3,282,068,892	3,331,751,012	3,506,185,744	4,132,143,031	4,561,952,241
Transportation	868,068,713	696,481,476	682,500,519	755,702,058	866,764,685
Judicial, Penal and Corrections	1,515,701,609	1,416,224,093	1,440,130,535	1,583,762,746	1,630,095,700
Natural Resources	180,749,634	159,829,852	146,441,378	149,564,635	162,022,641
General Obligation Debt Sinking Fund	935,990,354	1,040,947,805	1,182,283,016	931,171,587	950,274,605
General Government	1,183,624,303	726,324,308	721,991,027	806,046,413	814,804,214
Total Allotments	$18,571,814,233	$17,006,873,225	$18,051,662,584	$18,343,653,186	$19,323,835,434

Source: Governor's Office of Planning and Budget

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Georgia Department of Revenue – Unaudited State Revenues

The following table ($ in thousands) sets forth unaudited net revenue collections of the State in certain categories for the first eleven months (July 1 through May 31) of FY 2013 and FY 2014.

General Fund	FY 2013	FY 2014	Change	% Change
Tax Revenues:				
Income Tax – Individual	$7,962,335	$8,080,876	$118,540	1.5%
Sales and Use Tax – General:				
Sales and Use Tax – Gross[b]	9,253,765	9,006,692	(247,073)	-2.7
Local Sales Tax Distribution[a]	(4,262,194)	(4,208,103)	54,091	1.3
Sales Tax Refunds/Adjustments	(82,026)	(76,944)	5,082	6.2
Net Sales and Use Tax – General	4,909,546	4,721,645	(187,901)	-3.8
Motor Fuel Taxes:				
Prepaid Motor Fuel Sales Tax	501,817	520,380	18,563	3.7
Motor Fuel Excise Tax	393,261	409,228	15,968	4.1
Total Motor Fuel Taxes	895,077	929,608	34,531	3.9
Income Tax – Corporate	640,454	743,254	102,800	16.1
Tobacco Taxes	192,478	196,968	4,489	2.3
Alcohol Beverages Tax	158,497	161,852	3,355	2.1
Estate Tax	(15,352)	-	15,352	-100.0
Property Tax	52,408	38,015	(14,393)	-27.5
Motor Vehicle – Tag, Title & Fees[b]	366,336	987,264	620,928	169.5
Total Tax Revenues	$15,161,779	$15,859,480	$697,701	4.6%
Other Revenues:				
Other Fees and Taxes[c]	262,808	262,096	(712)	-0.3
Total Taxes and Other Revenues	$15,424,587	$16,121,576	$696,989	4.5%

(a) The Local Distribution has been adjusted with an end-of-month accrual to reflect Sales Tax payment activity after the actual distribution 3 days before month-end.

(b) Effective March 1, 2013, legislation (H.B. 266) went into effect to establish a new Title and Valorem Tax in lieu of Automobile Sales Tax collected at the point of sale and replacing the annual ad valorem tax paid on the assessed value of vehicles purchased before January 1, 2012. Due to the corresponding shifting of tax revenues from Sales Tax to Motor Vehicle Tax (**TAVT**), gross Sales Tax collections are lower and Motor Vehicle fees much higher relative to collections in FY 2013.

(c) "Other Fees and Taxes" includes payments that have been deposited in the bank, but for which returns may not yet have been processed. The undistributed amounts are then re-classified (as returns are processed) to the proper and respective revenue account. "Other Fees" also includes Unclaimed Property collections.

Note: Amounts may not add precisely due to rounding.
Source: State of Georgia Department of Revenue

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Monthly Cash Investments

The following table ($ in millions) sets forth the month ending cash investments of State fund balances in the State Treasury for FY 2009 through the first eleven months of FY 2014.

Month	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
July	$2,453	$1,779	$1,661	$2,050	$2,370	$2,766
August	2,387	1,753	2,037	2,218	2,505	2,771
September	2,526	2,006	2,188	2,437	2,748	3,200
October	1,883	1,613	1,676	2,046	2,300	2,823
November	1,591	1,809	1,686	1,912	2,217	2,802
December	1,757	1,902	1,876	2,092	2,451	2,993
January	2,064	2,165	2,255	2,413	2,817	3,414
February	1,473	1,482	1,800	1,979	2,243	2,835
March	1,239	1,201	1,630	1,866	2,206	2,799
April	1,480	1,329	1,945	2,234	2,722	3,115
May	1,429	1,367	1,917	2,175	2,669	3,025
June	1,766	1,786	2,412	2,594	2,909	

Note: Balances (i) exclude investments in the Lottery for Education Account, Brain and Spinal Injury Trust Fund, Guaranteed Revenue Debt Common Reserve Fund, unspent bond funds including any unspent general obligation bond funds, and previously drawn allotment balances held in state agency accounts, and (ii) include certain state agency funds invested by the Treasury for and on behalf of the state agencies, such as Georgia Department of Transportation funds, which state agency funds may not be readily available for use by Treasury. In any given month, the amount available for use by Treasury may be significantly less than the amount reflected.
Source: Office of State Treasurer

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RETIREMENT SYSTEMS, OTHER POST-EMPLOYMENT BENEFIT PLANS AND EMPLOYEE HEALTH BENEFIT PLANS

Retirement Systems

Introduction. The State administers various retirement plans under two major retirement systems: the Employees' Retirement System of Georgia ("ERS"), which administers multiple retirement plans for various employer entities of the State, and the Teachers Retirement System of Georgia ("TRS"), which administers a retirement plan for teachers in State public schools, the University System of Georgia and certain other employees in legislatively designated educational agencies. The ERS and TRS are referred to herein, collectively, as the "Systems." The ERS retirement plan for State employees in the executive branch is the most significant of the defined benefit pension plans operated by ERS. Statistical information included herein regarding ERS is limited to the plan for State employees in the executive branch. As of June 30, 2013, TRS and the ERS retirement plan for State employees in the executive branch comprise approximately 96.4% of the net assets of the State's 14 defined benefit pension plans. For additional information on these two retirement plans, including details regarding benefit eligibility, benefit formula and employee contributions rates, see Note 10, "Retirement Systems," on pages 101-106 in APPENDIX B hereto. The retirement plans are subject to the provisions of Title 47 of Official Code of Georgia in general and Chapter 2 (ERS) and Chapter 3 (TRS) thereof, in particular. The retirement plans administered by the Systems are the subject of annual actuarial valuations. In the opinion of the actuary for the Systems, as of June 30, 2013, each of ERS and TRS are operating on an actuarially sound basis and in conformity with minimum funding standards of Georgia law.

According to the most recent actuarial valuation of ERS, as of June 30, 2013, the funded ratio (actuarial value of assets / actuarial accrued liability) was equal to 71.4% (as compared to 73.1% as of June 30, 2012) and the unfunded actuarial accrued liability ("UAAL") as a percentage of covered payroll was equal to 207.8% (as compared to 187.1% as of June 30, 2012). According to the most recent actuarial valuation of TRS, as of June 30, 2013, the funded ratio was equal to 81.1% (as compared to 82.3% as of June 30, 2012) and the UAAL as a percentage of covered payroll was equal to 137.3% (as compared to 120.4% as of June 30, 2012). The year-over-year reduction in funded ratio for ERS and TRS is principally attributable to actual investment earnings being less than the assumed investment earnings over the asset smoothing period. Each of ERS and TRS received 100% of its respective Annual Required Contribution ("ARC") for FY 2012 and FY 2013. For both FY 2014 and FY 2015, both the ERS and the TRS ARC payments are budgeted at 100%. ARC payments are funded from a variety of sources, including State general fund appropriations, as well as federal, local and other sources.

The pension disclosures rely on information produced by the pension plans and their independent accountants and actuaries. Actuarial assessments are "forward-looking" valuation estimates that reflect the judgment of the fiduciaries of the retirement plans. Actuarial assessments are based upon a variety of assumptions, one or more of which may prove to be inconsistent with subsequent events or be changed in the future, and will change with the future experience of the retirement plans.

Statutory Requirements Regarding Benefit Changes with Fiscal Impacts. Pursuant to O.C.G.A § 47-20-34, any retirement bill having a fiscal impact may only be introduced in the first term of the regular biennial session of the General Assembly. If a majority of the standing retirement committee in the House or the Senate wishes to consider the bill further and votes in favor of an actuarial investigation of the bill, an actuarial investigation shall be required. O.C.G.A. § 47-20-34 also requires that any such retirement bill may be passed during the second year of the regular biennial session. Pursuant to O.C.G.A. § 47-20-50, any retirement bill having a fiscal impact which is enacted by the General Assembly and which is approved by the Governor or which otherwise becomes law shall become effective on the first day of July immediately following the regular session during which it was enacted, but only if the enacted bill is concurrently funded. If an enacted bill, including one approved by the Governor, is not certified by the State Auditor to be concurrently funded, then such bill may not become effective as law and shall be null, void, and of no force and effect and shall stand repealed in its entirety on the first day of July immediately following its enactment.

System Membership and Beneficiary Information. ERS was created in 1949 by an act of the General Assembly to provide benefits for employees of the State and is managed by a seven-member Board of Trustees (the "ERS Board") comprised of the State Auditor (ex-officio), the State Treasurer (ex-officio), the Commissioner of the Department of Administrative Services (ex-officio), one appointee of the Governor and three appointees of the ERS Board. TRS was created in 1943 by an act of the General Assembly to provide benefits for qualifying teachers and is managed by a ten-member Board of Trustees (the "TRS Board") comprised of the State Auditor (ex-officio), the State Treasurer (ex-officio), five appointees of the Governor, two appointees of the TRS Board and one appointee of the Board of Regents. The ERS and TRS plans are cost-sharing multiple employer defined benefit plans. The ERS plan for State employees consists of 716 employers. TRS consists of 401 employers. Membership in the plans as of June 30, 2013 is shown below.

	ERS	TRS
Retirees and beneficiaries currently receiving benefits	44,546	101,139
Terminated employees entitled to benefits, but not yet receiving benefits, vested	5,366	9,085
Terminated employees, non-vested	73,600	84,396
Active plan members	61,554	208,616
Total	185,066	403,236

Sources: ERS and TRS Audited Financial Statements

According to the ERS audited financial statements as of June 30, 2013, ERS receipts (consisting of member and employer contributions and net investment earnings for the year) totaled $1,893,796,000 (compared to $542,377,000 for the year ended June 30, 2012) and ERS disbursements (consisting of benefit payments, member refunds and administrative expenses for the year) totaled $1,289,480,000 (compared to $1,236,556,000 for the year ended June 30, 2012). According to the TRS audited financial statements as of June 30, 2013, TRS receipts (consisting of member and employer contributions, net investment earnings and unrealized appreciation for the year) totaled $8,759,563,000 (compared to $2,774,636,000 for the year ended June 30, 2012) and TRS disbursements (consisting of benefit payments, member refunds and administrative expenses for the year) totaled $3,651,875,000 (compared to $3,371,663,000 for the year ended June 30, 2012).

Not all of the employers that comprise TRS participate in the Federal Social Security System (SSA) as certain of such employers have decided in the past not to join SSA. Most of these employers created 403(b)-type retirement plans for their employees in lieu of joining SSA. Since this decision not to join SSA was made at the local employer level, it has no bearing on the State or TRS.

Obligations and Funded Status. For financial reporting purposes, the State presents the funded status for each of the retirement plans "as a whole" using a smoothing method to calculate each retirement plan's actuarial value of assets ("AVA"). Under this method, changes in the market value of assets ("MVA") are recognized over a period of years. Prior to the State fiscal year ended June 30, 2006 ("FY 2006") actuarial valuation report, the State used a 5-year smoothing period. Commencing with the FY 2006 actuarial valuation report, the State has used a 7-year smoothing period. The funded status of ERS and TRS for the ten most recent actuarial valuation dates is presented in the following table. The actuarial valuations for TRS shown below for valuation years 2009 through 2012 reflect the TRS Board action on July 27, 2011 to use a 7-year smoothing method within a corridor of between 75% and 125% of the MVA around the AVA. The June 30, 2013 actuarial valuations for ERS and TRS shown below reflect the funding policies adopted by the ERS Board and TRS Board to set the actuarial value of assets equal to the market value of assets as of June 30, 2013 and to use a 5-year smoothing method in subsequent years. TRS uses a corridor of between 75% and 125% of the MVA around the AVA. For a more detailed explanation, see "Actuarial Methods and Assumptions" below. The retirement plans are the subject of five-year experience studies by actuarial firms and various assumptions and methods have been revised to reflect the results of such studies. The most recent experience study was completed for the five-year period ending June 30, 2009.

Historical Funding Progress
(Actuarial Value (Smoothed)
($ in thousands)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio (AVA/AAL)	Annual Covered Payroll	UAAL as % of Annual Covered Payroll
ERS						
6/30/2013	$12,129,804[a]	$16,982,449	$4,852,645	71.4%	$2,335,773	207.8%
6/30/2012	12,260,595	16,777,922	4,517,327	73.1	2,414,884	187.1
6/30/2011	12,667,557	16,656,905	3,989,348	76.0	2,486,780	160.4
6/30/2010	13,046,193	16,295,352	3,249,159	80.1	2,571,042	126.4
6/30/2009	13,613,606	15,878,022	2,264,416	85.7	2,674,155	84.7
6/30/2008	14,017,346	15,680,857	1,663,511	89.4	2,809,199	59.2
6/30/2007	13,843,689	14,885,179	1,041,490	93.0	2,680,972	38.8
6/30/2006	13,461,132	14,242,845	781,713	94.5	2,630,167	29.7
6/30/2005	13,134,472	13,512,773	378,301	97.2	2,514,430	15.0
6/30/2004	12,797,389	13,106,648	309,259	97.6	2,445,619	12.6
TRS						
6/30/2013	$58,594,837[b]	$72,220,865	$13,626,028	81.1%	$ 9,924,682	137.3%
6/30/2012	56,262,332	68,348,678	12,086,346	82.3	10,036,023	120.4
6/30/2011	55,427,716	65,978,640	10,550,924	84.0	10,099,278	104.5
6/30/2010	54,529,416	63,592,037	9,062,621	85.7	10,437,703	86.8
6/30/2009	53,438,604	59,450,116	6,011,512	89.9	10,641,543	56.5
6/30/2008	54,354,284	59,133,777	4,779,493	91.9	10,197,584	46.9
6/30/2007	52,099,171	54,996,570	2,897,399	94.7	9,482,003	30.5
6/30/2006	49,263,027	51,059,681	1,796,654	96.5	8,785,985	20.4
6/30/2005	46,836,895	47,811,214	974,319	98.0	8,252,598	11.8
6/30/2004	44,617,956	44,230,031	(387,925)	100.9	8,083,118	(4.8)

[a] Setting the AVA to equal the MVA as of June 30, 2013 as described under the heading "Actuarial Methods and Assumptions" below, resulted in a net increase of the AVA of approximately $128.3 million as of June 30, 2013. Absent such action, the AVA as of June 30, 2013 would have been approximately $12.002 billion and the funded ratio as of June 30, 2013 would have been 70.67%.

[b] Setting the AVA to equal the MVA as of June 30, 2013 as described under the heading "Actuarial Methods and Assumptions" below, resulted in a net increase of the AVA of approximately $926.7 million as of June 30, 2013. Absent such action, the AVA as of June 30, 2013 would have been approximately $57.668 billion and the funded ratio as of June 30, 2013 would have been 79.85%.

Sources: ERS and TRS actuarial reports.

For comparative purposes, the funded status of the ERS and TRS plans for the ten most recent actuarial valuation dates, using the MVA instead of the AVA, is presented in the following table.

Historical Funding Progress
Market Value
($ in thousands)

Valuation Date	Market Value of Assets (MVA)	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL) (MVA – AAL)	Funded Ratio (MVA / AAL)	Annual Covered Payroll	UAAL as % of Annual Covered Payroll
ERS						
6/30/2013	$12,129,804	$16,982,449	$4,852,645	71.4%	$2,335,773	207.8%
6/30/2012	11,537,408	16,777,922	5,240,514	68.8	2,414,884	217.0
6/30/2011	12,233,380	16,656,905	4,423,525	73.4	2,486,780	177.9
6/30/2010	10,872,348	16,295,352	5,423,004	66.7	2,571,042	210.9
6/30/2009	10,550,357	15,878,022	5,327,665	66.4	2,674,155	199.2
6/30/2008	13,080,653	15,680,857	2,600,204	83.4	2,809,199	92.6
6/30/2007	14,272,114	14,885,179	613,065	95.9	2,680,972	22.9
6/30/2006	13,033,861	14,242,845	1,208,984	91.5	2,630,167	46.0
6/30/2005	12,825,126	13,512,773	687,647	94.9	2,514,430	27.3
6/30/2004	12,396,352	13,106,648	710,296	94.6	2,445,619	29.0
TRS						
6/30/2013	$58,594,837	$72,220,865	$13,626,028	81.1%	$ 9,924,682	137.3%
6/30/2012	53,487,149	68,348,678	14,861,529	78.3	10,036,023	148.1
6/30/2011	54,084,176	65,978,640	11,894,464	82.0	10,099,278	117.8
6/30/2010	45,925,549	63,592,037	17,666,488	72.2	10,437,703	169.3
6/30/2009	42,478,583	59,450,116	16,971,533	71.5	10,641,543	159.5
6/30/2008	50,063,600	59,133,777	9,070,177	84.7	10,197,584	88.9
6/30/2007	53,133,101	54,996,570	1,863,469	96.6	9,482,003	19.7
6/30/2006	47,246,347	51,059,681	3,813,334	92.5	8,785,985	43.4
6/30/2005	45,278,680	47,811,214	2,532,534	94.7	8,252,598	30.7
6/30/2004	42,588,078	44,230,031	1,641,953	96.3	8,083,118	20.3

Sources: ERS and TRS actuarial reports. Underlying actuarial data was used for purposes of percentage calculations.

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The following table presents a comparison of the AVA to the MVA, the ratio of the AVA to the MVA and the funded ratio based on AVA compared to funded ratio based on MVA.

Funding Progress Comparison
($ in thousands)

Valuation Date	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	% of AVA to MVA	Funded Ratio (AVA)	Funded Ratio (MVA)
ERS					
6/30/2013	$12,129,804[a]	$12,129,804[a]	100.0%	71.4%	71.4%
6/30/2012	12,260,595	11,537,408	106.3	73.1	68.8
6/30/2011	12,667,557	12,233,380	103.5	76.0	73.4
6/30/2010	13,046,193	10,872,348	120.0	80.1	66.7
6/30/2009	13,613,606	10,550,357	129.0	85.7	66.4
6/30/2008	14,017,346	13,080,653	107.2	89.4	83.4
6/30/2007	13,843,689	14,272,114	97.0	93.0	95.9
6/30/2006	13,461,132	13,033,861	103.3	94.5	91.5
6/30/2005	13,134,472	12,825,126	102.4	97.2	94.9
6/30/2004	12,797,389	12,396,352	103.2	97.6	94.6
TRS					
6/30/2013	$58,594,837[b]	$58,594,837[b]	100.0%	81.1%	81.1%
6/30/2012	56,262,332	53,487,149	105.2	82.3	78.3
6/30/2011	55,427,716	54,084,176	102.5	84.0	82.0
6/30/2010	54,529,416	45,925,549	118.7	85.7	72.2
6/30/2009	53,438,604	42,478,583	125.8	89.9	71.5
6/30/2008	54,354,284	50,063,600	108.6	91.9	84.7
6/30/2007	52,099,171	53,133,101	98.1	94.7	96.6
6/30/2006	49,263,027	47,246,347	104.3	96.5	92.5
6/30/2005	46,836,895	45,278,680	103.4	98.0	94.7
6/30/2004	44,617,956	42,588,078	104.8	100.9	96.3

[a] Setting the AVA to equal the MVA as of June 30, 2013 as described under the heading "Actuarial Methods and Assumptions" below, resulted in a net increase of the AVA of approximately $128.3 million as of June 30, 2013. Absent such action, the AVA as of June 30, 2013 would have been approximately $12.002 billion and the funded ratio as of June 30, 2013 would have been 70.67%.

[b] Setting the AVA to equal the MVA as of June 30, 2013 as described under the heading "Actuarial Methods and Assumptions" below, resulted in a net increase of the AVA of approximately $926.7 million as of June 30, 2013. Absent such action, the AVA as of June 30, 2013 would have been approximately $57.668 billion and the funded ratio as of June 30, 2013 would have been 79.85%.

Sources: ERS and TRS actuarial reports. Underlying actuarial data was used for purposes of percentage calculations.

Investment Fund Management. ERS and TRS are governed by Boards of Trustees with broad statutory powers including the power to invest and reinvest the assets of ERS and TRS, respectively. The investment functions of the Systems are vested in these Boards as set forth in Georgia law (O.C.G.A. § 47-2-31 and § 47-3-27). Each Board of Trustees elects an Investment Committee as set forth in the By-Laws of the said Board of Trustees. Investments for ERS and TRS are under the day-to-day management of the Division of Investment Services ("DIS"). In the domestic equity portion of the fund, the DIS utilizes different styles of management. Passive (index based) management is utilized as a low cost, low benchmark risk strategy for a core portion of the equity assets. Active management of the common stock portfolio is based on the belief that active management can enhance returns to the fund while maintaining the same conservative investment policy which is the guiding principle behind the investment of all of the System's assets. The DIS also employs investment advisory firms to assist in common stock management. Each such advisory firm is evaluated on both qualitative and quantitative criteria. As a minimum, an advisory firm must meet the following criteria:

1. Advisory firms shall have a five-year composite performance record that complies with AIMR-PPS or its successor organization and standards.

2. Assets under management of at least three billion dollars except assets under management shall be at least $750 million for small or mid-capitalization advisory firms.

3. In all cases, the portfolio of either ERS or TRS allocated to the advisory firm shall not exceed 25% of the advisory firm's total assets under management. Additionally, the combined assets of ERS and TRS allocated to the advisory firm shall not exceed 35% of the advisory firm's total assets under management.

4. In choosing advisory firms, the credentials of the advisory firm shall be considered including consideration of the number of CFAs, the performance record of the firm, and the stability of the advisory firm's personnel.

5. Advisory firms shall respond promptly to queries offered by the DIS. Advisory firms are subject to the related procedures and reporting promulgated by the DIS.

6. In the event that two advisory firms are equally capable, an advisory firm with an office located in the State will be given preference.

The DIS maintains a "Master Approved List of Common Stocks" eligible for investment of pension funds. The Master Approved List contains a current list of companies which are considered to meet a level of risk and potential return suitable for the Systems. DIS undertakes an ongoing analysis of issuers of common stock and adds or removes companies from the Master Approved list based upon a variety of screening criteria. The Master Approved List assists the Investment Committee in its approval process by providing a population of eligible companies which have been thoroughly screened by DIS research analysts.

The Investment Committee reviews asset allocation decisions and the equity portfolio mix on a yearly basis. There may, however, be interim allocation decisions due to market or other conditions when rebalancing is necessary. The Investment Committee has authorized the Chief Investment Officer and the Co-Chief Investment Officer to move up to 2% of the market value of the respective portfolios among asset classes between Investment Committee meetings.

Asset Allocation. Permissible investments of the Systems are set forth in the Public Retirement Systems Investment Authority Law (O.C.G.A. § 47-20-80 through O.C.G.A. § 47-20-86). In accordance with O.C.G.A. § 47-20-84, the investment assets of the Systems are prohibited from being allocated more than 75% to equity securities (effective July 1, 2011). The cost of investments is computed using the original cost of equity securities and the amortized cost of bonds, which means that premiums and discounts are recognized totally over the life of the bonds.

The ERS and TRS Boards maintain investment policies which incorporate statutory requirements. A "General Statement of Investment Policy" was amended by the ERS and TRS Boards with an effective date of July 1, 2011. Amendments to the policy were based on the need to align the policy with statutory requirements. Accordingly, current policy is to maintain equity exposure on a cost basis between 55% and 75% and fixed income between 25% and 45%.

Fixed-income investments include both bonds and mortgages of various types selected on the basis of return, quality, marketability, and overall suitability to the System's portfolio. Equity investments include both domestic and international equities and allow for maximization of total return. Real estate assets of the Systems are limited and restricted by law solely to any structure occupied by the System and to real property acquired through judicial foreclosure of mortgage loans owned and held by such System at time of foreclosure, or by any other judicial or court action that assigns ownership of real property to the System. It is the policy of each System to make every effort to sell or otherwise dispose of all such property except that of any structure occupied by such System within five years of date of acquisition. Effective July 1, 2012, ERS is permitted to invest in alternative investment instruments, such as private placements and private placement investment pools, as described in and permitted by O.C.G.A. § 47-20-87; provided, however, that such alternative investments shall not in the aggregate exceed 5% of the assets of ERS at any time. Investment in alternative investment instruments is not authorized for TRS.

The following table presents the annualized rates of return (net of fees) of ERS and TRS through FY 2013.

Historical Rates of Return

	ERS	TRS
1 year	13.33%	13.28%
3 years	12.00	11.96
5 years	6.30	6.27
10 years	6.56	6.55
20 years	7.80	7.86

Source: Division of Investment Services, ERS and TRS.

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The following table presents a comparison of the assumed investment rate of return for each of ERS and TRS and the actual investment rate of return for each of ERS and TRS for the last ten years.

Historical Rates of Return

	ERS		**TRS**	
	Assumed	Actual	Assumed	Actual
FY 2013	7.50%	13.33%	7.50%	13.28%
FY 2012	7.50	2.19	7.50	2.16
FY 2011	7.50	21.29	7.50	21.27
FY 2010	7.50	10.99	7.50	11.09
FY 2009	7.50	-12.97	7.50	-13.06
FY 2008	7.50	-3.50	7.50	-3.38
FY 2007	7.50	14.72	7.50	14.61
FY 2006	7.50	6.17	7.50	6.05
FY 2005	7.50	7.77	7.50	7.87
FY 2004	7.50	9.80	7.50	9.86

Source: Division of Investment Services, ERS and TRS.

Status of Annual Required Contributions. ERS is a multi-employer plan; however, State general fund appropriations are the source for the majority of the ARC payments. According to O.C.G.A. § 47-2-55, ARC payments for ERS are borne by appropriations from State and federal funds. O.C.G.A. § 47-2-57 specifies that, on or before June 1 of each year, the normal cost and unfunded accrued liability contribution rates, determined based on the last annual actuarial valuation, are to be certified by the ERS Board to each employer. Each employer is required to make provision in its annual budget for funds with which to pay to the ERS an amount equal to the normal cost and unfunded accrued liability contributions on the earnable compensation of all such employer's eligible members.

TRS is a multi-employer plan; however, the employer contributions for TRS are comprised of funds from State general fund appropriations, local school districts, colleges and universities, and federal and other funds. O.C.G.A. § 47-3-48 specifies that, 30 days prior to the time when the State Board of Education fixes the minimum schedule of teacher salaries for the ensuing year, the normal cost and unfunded accrued liability contribution rates, determined based on the last annual actuarial valuation, are to be certified by the TRS Board to each employer. Each employer (other than the Board of Regents) is required to make provision in its annual budget submitted to the State School Superintendent for funds with which to pay to the TRS an amount equal to the normal cost and unfunded accrued liability contributions on the earnable compensation of all such employer's eligible members. The Board of Regents in its estimates of funds necessary for the operation of its units submitted to the General Assembly is to include a request for an appropriation payable to the TRS Board in an amount equal to its portion of the normal cost and unfunded accrued liability contributions and the General Assembly is to make an appropriation to the TRS Board sufficient to provide for such contributions as a part of the earnable compensation of such employer's eligible members.

For purposes of estimating the budgetary impact of any legislatively proposed benefit changes and other TRS costs, the State Auditor estimates the percentage of State general fund appropriations to be applied to the ARC. For FY 2013, State general fund appropriations were estimated to comprise approximately 56.0% of the ARC payments for TRS and 73.3% for ERS. State general fund appropriations in FY 2013 for the ARC payments for ERS and TRS were approximately $263 million and $661 million, respectively, and comprised, together, approximately 5.0% of total State general fund appropriations.

For FY 2014, State general fund appropriations also are estimated to comprise approximately 56.0% of the ARC payments for TRS and 73.3% for ERS. State general fund appropriations in FY 2014 for the ARC payments for ERS and TRS are estimated to be approximately $310 million and $700 million, respectively, and are estimated to comprise, together, approximately 5.3% of total State general fund appropriations.

The following table indicates, on a fiscal year basis, the ARC for ERS and TRS, the portion of the ARC funded by organizations in the State reporting entity, any amount unfunded, and the portion of the ARC funded by organizations in the State reporting entity as a percentage of total State general fund appropriations. Employer offsets are not included in the amounts provided below and are not available. An employer offset exists under the ERS plan for employees who maintain membership with ERS based upon employment that started prior to July 1, 1982 (old plan members). The old plan offset as of June 30, 2013 is 4.75% of covered compensation paid by the employer on behalf of employees.

ERS Annual Employer Contribution Status
($ in thousands)

Fiscal Year	ARC	Amount Unfunded	State Portion of ARC[b]	State Portion Amount Unfunded	State Portion as a % of State General Fund Appropriations
2013	$358,992		$306,738		1.68%
2012	274,034	-	238,738	-	1.37
2011	261,132	-	222,401	-	1.33
2010	263,064	-	236,656	-	1.51
2009[a]	282,103	897	258,307	897	1.45
2008	286,256	-	263,293	-	1.35
2007	270,141	-	246,649	-	1.36
2006	258,482	-	NA	-	NA
2005	243,074	-	NA	-	NA
2004	245,388	-	NA	-	NA

[a] 2009 was restated to reflect a contribution shortfall of $897,000 by one employer group–Locally Elected Tax Commissioners. Combined with an additional shortfall of $5,262,000 for the same employer group in years prior to the fiscal year ended June 30, 2001 ("FY 2001"), the total deficit of $6,159,000 is expected to be repaid over ten years. Repayment of the deficit commenced in October 2011 and ERS is receiving a payment of $51,329 per month from the Department of Revenue.

[b] Amounts reflect the portion of the ARC funded by organizations within the State reporting entity and consist of State, federal and other monies.

NA: Not Available

Sources: ERS and TRS audited financial statements, ERS and TRS actuarial reports, the State of Georgia CAFR and the Governor's Budget in Brief.

TRS Annual Employer Contribution Status
($ in thousands)

Fiscal Year	ARC	Amount Unfunded	State Portion of ARC[a]	State Portion Amount Unfunded	State Portion as a % of State General Fund Appropriations
2013	$1,180,469	-	$194,804	-	1.06%
2012	1,082,224	-	175,588	-	1.01
2011	1,089,912	-	170,893	-	1.02
2010	1,057,416	-	161,184	-	1.03
2009	1,026,287	-	147,863	-	0.83
2008	986,759	-	142,523	-	0.73
2007	927,371	-	134,510	-	0.74
2006	855,626	-	128,265	-	0.76
2005	815,693	-	123,865	-	0.79
2004	782,301	-	123,832	-	0.81
				-	

[a] Amounts reflect the portion of the ARC funded by organizations within the State reporting entity and consist of State, federal and other monies. Certain amounts funded by other entities, however, are derived from State appropriations.
Sources: ERS and TRS audited financial statements, ERS and TRS actuarial reports, the State of Georgia CAFR and the Governor's Budget in Brief.

Contribution Rate Structure. Employer contribution rates for ERS and TRS for FY 2014, FY 2015, and FY 2016 are as shown in the following table. The employer contribution rate structures of ERS and TRS are established by their respective Boards of Trustees under statutory guidelines, including requirements for the minimum annual contributions necessary to ensure the actuarial soundness of ERS and TRS (see O.C.G.A. § 47-20-10). Unless the employee elects otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. Members hired on or after July 1, 1982 but prior to January 1, 2009 are "new plan" members subject to the modified plan provisions. Effective January 1, 2009, newly hired State employees, as well as rehired State employees who did not maintain eligibility for the "old" or "new" plan, are members of the Georgia State Employees' Pension and Savings Plan "GSEPS". ERS members hired prior to January 1, 2009 also have the option to irrevocably change their membership to the GSEPS plan. Employer offsets are the portion of the employees' required contribution to the pension system that the employer makes on the employees' behalf. An employer offset exists under the ERS plan for old plan members.

Expressed as a % of Covered Compensation	ERS Old Plan	ERS New Plan	ERS GSEPS	TRS
For FY 2014				
Normal Cost	6.26%			
Less Employer Offset	-4.75			
Employer Normal Cost	1.51	6.26%	2.98%	6.24%
UAAL	12.20	12.20	12.20	6.04
Total Rate	13.71%	18.46%	15.18%	12.28%
For FY 2015				
Normal Cost	6.14%			
Less Employer Offset	-4.75			
Employer Normal Cost	1.39	6.14%	3.05%	6.14%
UAAL	15.82	15.82	15.82	7.01
Total Rate	17.21%	21.96%	18.87%	13.15%
For FY 2016				
Normal Cost	6.10%			
Less Employer Offset	-4.75			
Employer Normal Cost	1.35	6.10%	3.07%	6.38%
UAAL	18.62	18.62	18.62	7.89
Total Rate	19.97%	24.72%	21.69%	14.27%

Sources: ERS and TRS actuarial reports.

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Employee contribution rates for ERS and TRS for FY 2014, FY 2015, and FY 2016 are as shown in the following table. Employee contribution rates for ERS are fixed by statute. The TRS Board may establish employee rates between 5.00% and 6.00%.

Employee Contributions Expressed as a % of Salary	ERS Old Plan	ERS New Plan	ERS GSEPS	TRS
For FY 2014				
Pension contribution	6.00%	1.25%	1.25%	6.00%
Group Term Life Insurance contribution	0.50%	0.25%	Not Covered	Not Covered
Employer Off-set	5.00%			
Total percent of pay contributed	1.50%	1.50%	1.25%	6.00%
For FY 2015				
Pension contribution	6.00%	1.25%	1.25%	6.00%
Group Term Life Insurance contribution	0.50%	0.25%	Not Covered	Not Covered
Employer Off-set	5.00%			
Total percent of pay contributed	1.50%	1.50%	1.25%	6.00%
For FY 2016				
Pension contribution	6.00%	1.25%	1.25%	6.00%
Group Term Life Insurance contribution	0.50%	0.25%	Not Covered	Not Covered
Employer Off-set	5.00%			
Total percent of pay contributed	1.50%	1.50%	1.25%	6.00%

Sources: ERS and TRS actuarial reports.

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The following tables indicate, for the applicable fiscal and valuation years, commencing with FY 2014 and the valuation year ending June 30, 2011, the projected ARC for ERS and TRS based on the estimated normal costs of benefits and the payments made to amortize the estimated UAAL. Also shown are the actual funded ratios for valuation years 2011, 2012 and 2013, the estimated prospective funded ratios for valuation years 2014 through 2017, the portion of the projected ARC funded by State general fund appropriations, and the portion of the projected ARC funded by State general fund appropriations as a percentage of total State general fund appropriations. Other than the last two columns, the information in the following tables regarding ERS and TRS was prepared by their enrolled actuary. The information in the last two columns of the following tables was derived by the Governor's Office of Planning and Budget from revenue estimates of the State Economist and using the assumptions noted. The following tables are based on the ERS and TRS actuarial valuations as of June 30, 2013 and utilize the same assumptions as the June 30, 2013 actuarial valuations other than the projected investment returns for FY 2014 were used (9.00% rate of return for both ERS and TRS).

ERS Projected Annual Employer Contribution Status
($ in thousands)

Valuation Year	Fiscal Year	Employer Rate	Annual Payroll	ARC Payment	AVA	AAL	UAAL	Funded Ratio	State Portion of ARC[c]	State Portion of ARC as % of General Fund Appropriations[d]
2011	2014	18.46% [a] / 15.18% [b]	$2,433,995	$423,486	$12,667,557	$16,656,905	$3,989,348	76.0%	$310,331	1.62%
2012	2015	21.96 [a] / 18.87 [b]	2,462,066	512,079	12,260,595	16,777,922	4,517,327	73.1	375,251	1.90
2013	2016	24.72 [a] / 21.69 [b]	2,437,144	572,281	12,129,804	16,982,449	4,852,645	71.4	419,368	2.06
2014	2017	24.74 [a] / 21.77 [b]	2,463,117	576,500	12,171,541	17,041,766	4,870,225	71.4	422,459	2.00
2015	2018	24.47 [a] / 21.54 [b]	2,483,762	572,248	12,291,611	17,079,920	4,788,309	72.0	419,343	1.91
2016	2019	23.95 [a] / 21.05 [b]	2,496,958	560,328	12,469,522	17,099,716	4,630,194	72.9	410,608	1.80
2017	2020	23.45 [a] / 20.58 [b]	2,508,219	548,262	12,645,588	17,104,726	4,459,138	73.9	401,766	1.69

[a] Old Plan and New Plan.

[b] GSEPS.

[c] Amounts reflect the portion of the projected ARC, 73.3%, estimated to be comprised of State general fund appropriations. This portion of the projected ARC for FY 2014 – 2020 is based upon the percent of payroll paid through general fund appropriations during FY 2013 for entities included in the State enterprise accounting system and the historical ratios at which entities outside the State enterprise accounting system have been funded payroll adjustments.

[d] State general fund appropriations for FY 2014 – 2020 are based on the most recent revenue estimates of the State Economist.

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TRS Projected Annual Employer Contribution Status
($ in thousands)

Valua-tion Year	Fiscal Year	Employer Rate	Annual Payroll	ARC Payment	AVA	AAL	UAAL	Funded Ratio	State Portion of ARC[a]	State Portion of ARC as % of General Fund Appropriations[b]
2011	2014	12.28%	$10,182,599	$1,250,423	$55,427,716	$65,978,640	$10,550,924	84.0%	$700,237	3.66%
2012	2015	13.15	10,462,175	1,375,776	56,262,332	68,348,678	12,086,346	82.3	770,435	3.90
2013	2016	14.27	10,760,814	1,535,568	58,594,837	72,220,865	13,626,028	81.1	859,918	4.22
2014	2017	14.27	11,075,933	1,580,535	61,094,146	74,172,2107	13,078,064	82.4	885,100	4.18
2015	2018	16.20	11,406,644	1,847,876	63,823,591	80,799,903	16,976,312	79.0	1,034,811	4.71
2016	2019	19.72	11,750,483	2,317,195	66,734,747	89,825,046	23,090,299	74.3	1,297,629	5.68
2017	2020	19.93	12,111,516	2,413,825	69,563,778	93,140,932	23,577,154	74.7	1,351,742	5.70

[a] Amounts reflect the portion of the projected ARC estimated to be comprised of State general fund appropriations using the State Auditor's May 2014 estimate of 56.0%.

[b] State general fund appropriations for FY 2014 – 2020 are based on the most recent revenue estimates of the State Economist.

Actuarial Methods and Assumptions. A number of significant assumptions are used to determine projected pension obligations and related costs. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees/survivors and average years of service rendered and is measured based on assumptions concerning future interest rates and future employee compensation levels. In addition, actuarial valuations include assumptions regarding the long-term rate of return on plan assets. Should actual experience differ from actuarial assumptions, the projected pension obligations and related pension costs would be affected in future years. Refer to Note 10, "Retirement Systems," on pages 101-106 in APPENDIX B hereto for additional detail regarding significant actuarial assumptions.

Georgia law requires that at least once every five years an experience study be performed on TRS and ERS. An experience study is the investigation into the mortality, service and compensation experience of the members and beneficiaries by comparing the actual experience with the assumed experience during the five year period. The actuarial firm preparing the experience study will recommend changes to the assumptions and methods if there are any significant differences. The purpose of the experience study is to assess the reasonableness of the actuarial assumptions and methods used by the Systems. TRS' most recent experience study is for the five year period ended June 30, 2009. ERS' most recent experience study is for the five year period ended June 30, 2009.

On July 21, 2010, the TRS Board adopted a smoothed valuation interest rate methodology which has been used since the June 30, 2009 actuarial valuation to calculate the ARC. The method utilizes a 30-year time horizon and determines the interest rate needed over a defined 23-year look-forward period, so that the ultimate investment rate of return (discount rate assumed to be 7.5%) is earned over such 30-year period, based on the actual rates of return for a 7-year look-back period.

TRS adopted the smoothed valuation interest rate methodology based on its view that it allows for better alignment of employee and employer contribution rates with changes in the economy. With this method, TRS increases contribution rates during periods of rising revenues and investment returns, while maintaining current contribution rates during periods of declining revenues and investment returns. With the smoothed valuation interest rate method, the required contributions are counter-cyclical, allowing employees and employers to contribute at lower rates during bad economic times and at higher rates when funding is more readily available.

On July 27, 2011, the TRS Board of Trustees adopted a refinement of its smoothed valuation interest rate methodology to include a corridor around the long-term investment rate of return, effectively reducing the potential volatility of the actuarial valuation results reflected in the financial statements. This approach has been used since the June 30, 2010 actuarial valuation and was retroactively applied to the June 30, 2009 actuarial valuation. The corridor around the long-term investment rate of return (i.e., the average investment rate of return over the 40-year period beginning on the valuation date) is determined such that the long-term investment rate of return is between the 40th and 50th percentile of expected returns over a 40-year period based on TRS market assumptions and asset allocations, which as of the June 30, 2013 actuarial valuation is between 7.25% and 7.84%. The methodology to determine the AVA also includes a corridor between 75% and 125% of the MVA around the AVA.

On November 20, 2013, the TRS Board adopted a formal funding policy to define TRS funding objectives, the benchmarks used to measure progress, and the primary methods and assumptions that will be used to develop the benchmarks. Two significant changes in actuarial methods and assumptions were adopted by the TRS Board.

First, the method used to amortize the unfunded actuarial accrued liability (UAAL) was changed from an open 30-year period to a closed 30-year period. The previous 30-year open period meant that with each actuarial valuation, the total UAAL is amortized over a new 30-year period. This method in effect "refinanced" the UAAL each year, resulting in the UAAL never being paid off. The new 30-year closed period means that the initial UAAL (FY 2013) would be amortized over a closed 30-year period. Each year thereafter, the change in the UAAL would be amortized over a separate closed 30-year period. This method will lead to an eventual reduction in the UAAL with the intention of it being paid off.

Second, the method used in smoothing assets was changed from 7-year smoothing to 5-year smoothing. A shorter period results in a closer fit to market value. The actuarial value of assets was also set to equal the market value of the assets which fully recognized the remaining unrealized gains and losses from the past 7 years and facilitates the transition from 7-year smoothing to 5-year smoothing.

The TRS actuarial report prepared by the TRS enrolled actuary dated May 1, 2014 indicates that, as of June 30, 2013, TRS has an UAAL in the amount of $13.626 billion and was used to set the ARC for FY 2016. Significant actuarial assumptions used in the TRS actuarial report as of June 30, 2013 include: (a) an ultimate investment rate of return of 7.50%, (b) projected salary increases of 3.75% - 7.00%, (c) an annual inflation rate of 3.00%, (d) anticipated annual cost-of-living adjustments of 3.00%, (e) amortization of the UAAL over a closed period of 30 years, and (f) setting the actuarial value of assets to equal the market value of assets to transition from 7-year to 5-year smoothing of assets. The smoothed interest rate during the 23-year look forward period was determined to be equal to 7.96%. The combination of the 7.96% smoothed interest rate for the first 23 years and the ultimate investment rate of return of 7.50% for the remaining 17 years of the 40-year calculation period resulted in a calculated long-term investment rate that would be within the corridor limits described above. The TRS actuarial report indicates that, in the opinion of the actuary, TRS is operating on an actuarially sound basis, and in conformity with the minimum funding standards of Georgia law.

The TRS audited financial statements shows a net position restricted for pensions as of June 30, 2013 of approximately $58.6 billion, an increase of 9.5% from the June 30, 2012 net position restricted for pensions of approximately $53.5 billion. As of April 30, 2014, TRS had a net position restricted for pensions of approximately $64.7 billion (unaudited).

On December 19, 2013, the ERS Board adopted a formal funding policy to define ERS funding objectives, the benchmarks used to measure progress, and the primary methods and assumptions that will be used to develop the benchmarks. Two significant changes in actuarial methods and assumptions were adopted by the ERS Board.

First, the method used to amortize the unfunded actuarial accrued liability (UAAL) was changed from an open 30-year period to a closed 25-year period. The previous 30-year open period meant that with each actuarial valuation, the total UAAL is amortized over a new 30-year period. This method in effect "refinanced" the UAAL each year. The new 25-year closed period means that the initial UAAL (FY 2013) would be amortized over a closed 25-year period. Each year thereafter, any incremental change in the UAAL would be amortized over a separate closed 25-year period. This method will lead to an eventual reduction in the UAAL with the intention of it being paid off, and in a shorter (25-year) timeframe than previously utilized.

Second, the method used in smoothing assets was changed from 7-year smoothing to 5-year smoothing. A shorter period results in a closer fit to market value. The actuarial value of assets was also set to equal the market value of the assets which fully recognized the remaining unrealized gains and losses from the past 7 years and facilitates the transition from 7-year smoothing to 5-year smoothing.

Following the actuarial valuation as of June 30, 2009, ERS determined that an employer group within ERS had not contributed the full ARC. Pursuant to O.C.G.A. § 47-2-292, "[t]he offices of the tax commissioners, tax collectors, and tax receivers of the counties of this State are declared to be adjuncts of the Department of Revenue" and these officials and their employees are eligible for membership in the ERS. Currently there are approximately 1,500 active and retired members who are so eligible. Related to the required employer contributions for such members of ERS, O.C.G.A. § 47-2-292 provides that "[t]he state revenue commissioner is authorized and directed to pay from the funds appropriated for the operation of the Department of Revenue, the employer contributions required by this chapter, upon receipt of an invoice from the retirement system." Pursuant to a review by ERS, it was determined that the Department of Revenue owed ERS employer contributions of approximately $6.2 million for FY 1997 – FY 2009. On March 31, 2011, ERS received $11,022,124 from the Department of Revenue to fully fund the pension liability related to local tax officials' retirement benefits for FY 2010 and FY 2011. ERS's FY 2010 actuarial report reflects a contribution shortfall of approximately $6.2 million for past due amounts from FY1997 through FY2009 for local tax commissioners. The State expects to fund this obligation over a ten year period through higher contribution rate assessments to the Department of Revenue in the amount of $615,943 each year. The higher contribution rate assessments began to be paid effective October 1, 2011 in monthly installments of $51,329.

The ERS actuarial report prepared by the enrolled actuary dated April 17, 2014 indicates that, as of June 30, 2013, ERS has an UAAL in the amount of $4.853 billion and was used to set the ARC for FY 2016. Significant actuarial assumptions used in the ERS actuarial report as of June 30, 2013 include: (a) an investment rate of return of 7.50%, (b) projected salary increases of 5.45% - 9.25%, (c) an annual inflation rate of 3.00%, (d) no cost-of-living adjustments, (e) amortization of the UAAL over a closed period of 25 years, and (f) setting the actuarial value of assets to equal the market value of assets to transition from 7-year to 5-year smoothing of assets. The ERS actuarial report indicates that, in the opinion of the actuary, ERS is operating on an actuarially sound basis and in conformity with the minimum funding standards of Georgia law.

The ERS audited financial statements shows a net position restricted for pensions as of June 30, 2013 of approximately $12.2 billion, an increase of 5.2% from the June 30, 2012 net position restricted for pensions of approximately $11.6 billion. As of April 30, 2014, ERS had a net position restricted for pensions of approximately $13.0 billion (unaudited).

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved GASB Statement Nos. 67 and 68, which will impact the accounting and financial reporting for defined benefit pension plans and for state and local governments that participate in such plans. Statement No. 67 supersedes existing guidance for the financial reports of pension plans by, among other things, requiring additional disclosure in the notes to financial statements and in required supplementary information; it also provides guidance regarding the calculation of the net pension liability (NPL) as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service, using new parameters) and the net plan position (consisting mostly of investments reflected at fair value). Statement No. 68 revises and establishes new financial reporting requirements for most state and local governments that provide their employees with pension benefits by, among other things, requiring governments to recognize long-term obligations for pension benefits as a liability. Major changes include: (1) the inclusion of the NPL on the government employer's balance sheet (unfunded liabilities are currently typically included as notes to the government's financial statements) rather than the portion of the annual required contribution that has not been funded; (2) separation of expenses from funding: reported annual pension expense will no longer be connected to the funding of the plan and could be significantly different from the actuarially determined contributions, and could be more volatile; (3) use of a single blended discount rate reflecting a long-term expected rate of return on plan assets to the extent that assets are projected to be available to pay benefits and a municipal borrowing rate to the extent a funding shortfall is projected; and (4) immediate recognition of certain benefit plan changes, which generally would increase pension expense; and shorter amortization periods than currently used to recognize the effects on the total pension liability for changes in assumptions and differences in assumptions and actual experience. In addition, the new standard requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective NPL and expense for the cost-sharing plan while under the prior standard, an employer in a cost-sharing plan would report a liability only if it failed to make its full contractually required contribution to the plan. GASB Statement No. 67 will be effective for fiscal years beginning after June 15, 2013 and GASB Statement No. 68 will be effective for fiscal years beginning after June 15, 2014. While the State is still in the process of the determining the impact of these GASB statements, it is expected that the implementation of such Statements will have a material effect on the financial position of the State as reflected in its entity-wide financial statements.

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Other Post-Employment Benefit Plans

Retirees of State government and local school districts who are eligible to receive monthly retirement benefits from a State-sponsored retirement system and are enrolled in the State Health Benefit Plan ("SHBP") at the time they retire have the option to continue health-care coverage under SHBP. Retirees age 65 and older are required to enroll in a Medicare Advantage option in order to receive state contributions toward their health insurance policy premiums. Retirees and State employees hired prior to July 1, 2009 are also eligible to participate in group term life insurance.

GASB has issued two pronouncements which have impacted the State's accounting and financial reporting for post-employment benefits such as retiree health care benefits, commonly known as Other Post-Employment Benefits ("OPEB"): GASB Statement 43 and GASB Statement 45 (collectively the "GASB Statements").

Briefly, under the GASB Statements, the State must report in its financial statements "costs" associated with future participation of retirees in OPEB. Beginning with the fiscal year ended June 30, 2007 ("FY 2007"), the State implemented financial reporting requirements for OPEB plans under GASB Statement 43. Beginning with the fiscal year ended June 30, 2008 ("FY 2008"), the State implemented accounting and financial reporting requirements for employers under GASB Statement 45. In fiscal year 2012, GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, became effective. As Georgia does not have agent multiple-employer plans, this Statement is not applicable.

The State provides the following significant OPEB plans:

Administered by the Department of Community Health (DCH):
Georgia State Employees Post-employment Health Benefit Fund (State OPEB Fund)
Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund)
Administered by ERS:
State Employees' Assurance Department – OPEB (SEAD-OPEB)
State Employees' Assurance Department – Active (SEAD-Active)
Administered by the University System Office (Board of Regents):
Board of Regents Retiree Health Benefit Fund (BOR Retiree Plan)

Financial statements (including the notes thereto and other supplementary information as presented in the "State of Georgia Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013" attached hereto as APPENDIX B) report accrued OPEB costs and funding progress and other information required by the GASB Statements. The OPEB disclosures rely on information produced by the plans and their independent accountants and actuaries. Actuarial assessments are "forward-looking" valuation estimates that reflect the judgment of the fiduciaries of the plans. Actuarial assessments are based upon a variety of assumptions. Should actual experience differ from actuarial assumptions, the projected OPEB obligations and related OPEB costs would be affected in future years.

The State OPEB Fund and School OPEB Fund are cost-sharing multiple employer defined benefit post-employment healthcare plans. The State Employees' Assurance Department ("SEAD") plans, SEAD-OPEB and SEAD-Active, are cost-sharing multiple employer defined benefit post-employment plans for the provision of life insurance benefits. The BOR Retiree Plan is a single-employer, defined-benefit, post-employment healthcare plan. Membership in the plans as of June 30, 2013 follows:

	State OPEB Fund	School OPEB Fund	SEAD-OPEB	SEAD-Active	BOR Retiree Plan
Retirees and beneficiaries	33,701	71,953	39,636	-	21,601
Terminated employees entitled to benefits			922		-
Active plan members	49,693	175,115	43,127	43,127	37,798
Total	83,394	247,068	83,685	43,127	59,369

Sources: Audited financial statements of the plans as of June 30, 2013 for the BOR Retiree Plan and the SEAD term life insurance plans, and actuarial valuations as of June 30, 2012 for the Georgia State Employees Post-Employment Health Benefit Fund and Georgia School Personnel Post-Employment Health Benefit Fund.

In accounting terms, SHBP, which is described below, primarily operates on a "pay-as-you-go" basis. This is also true for the separate group health plan administered for active employees and retirees by the Board of Regents, under its general power to govern, control and manage the University System of Georgia. Each fiscal year the General Assembly in the general appropriations act determines the maximum amount of the State's contributions, and the Board of Community Health and the Board of Regents, respectively, reacting to input from various entities, determine plan benefits, terms and conditions, contributions required from all employers offering coverage under the respective plans, and the subscription (premium) rate for participants.

Under the pay-as-you-go funding approach, funds had not previously been set aside to pay future health care costs of retirees. However, in 2005, the General Assembly in response to the GASB Statements provided by law for a trust fund for retiree health benefits for the SHBP, in which employer contributions for current and future retiree health costs may be accumulated and invested when available and which has facilitated the separate financial reporting of OPEB. The trust fund was known as the Georgia Retiree Health Benefit Fund. In 2007 the General Assembly enacted similar legislation for the Board of Regents, authorized pursuant OCGA § 47-21-21.

In 2009, the General Assembly revisited the Georgia Retiree Health Benefit Fund and enacted legislation that, effective August 31, 2009, bifurcated the Georgia Retiree Health Benefit Fund into two new and distinct funds: the Georgia School Personnel Post-employment Health Benefit Fund (the "School OPEB Fund") and the Georgia State Employees Post-employment Health Benefit Fund (the "State OPEB Fund"). The purpose of this change was to assure employers responsible for planning and funding future retiree health costs that their contributions will be dedicated to their respective retiree populations. Funds in the Georgia Retiree Health Benefit Fund were segregated by contributions and related earnings attributed to State employees or school personnel (public school teachers and public school employees) and then transferred to the State OPEB Fund or the School OPEB Fund, respectively, as described below. The statute that created the Georgia Retiree Health Benefit Fund was repealed effective September 1, 2010.

Total contributions above pay-as-you-go, including a FY 2008 appropriation of $100 million in State funds, and earmarked for long-term investment in the Georgia Retiree Health Benefit Fund between July 1, 2007 and June 30, 2009 equaled $194,624,418. Employer contributions to the SHBP were reduced from September 2009 through November 2009 in response to the State's budget constraints. In order to ensure adequate funding for pay-as-you-go or "current" retiree expenditures in FY 2010, the Board of Community Health directed on August 13, 2009 that the assets deposited in long-term investments in these funds be liquidated and made available to help pay retiree pay-as-you-go expenditures in FY 2010. The investments were liquidated on August 31, 2009 and resulted in

$136,932,084 being made available in the State OPEB Fund for FY 2010 State and contract group retiree expenses and $33,806,175 in the School OPEB Fund for FY 2010 retired school personnel expenses. The State currently does not anticipate an appropriation of State funds beyond estimated pay-as-you-go costs for OPEB in FY 2014 and FY 2015.

Employer contributions to the State OPEB Fund currently are funded as a percent of state agency payroll. Employer contributions are funded through a mix of State appropriations, federal revenue, fee income and other income streams available to State agencies. For FY 2014, the budgeted employer share of pay-as-you-go contributions to the State OPEB Fund is approximately $201 million. Approximately $141 million, or 70.4% of the employer contributions, is budgeted from State appropriations.

Employer contributions to the School OPEB Fund currently are funded from State appropriations to local school districts (also known as Local Education Agencies or LEAs), State appropriations to other educational entities, and from local school district direct contributions. For FY 2014, the budgeted employer share of pay-as-you-go contributions to the School OPEB Fund is approximately $438 million. Approximately $261 million, or 60% of the employer contributions, is budgeted from State appropriations.

The Group Term Life Insurance ("GTLI") benefit is administered by the SEAD Board. The GTLI benefit provides coverage to both active and retired members of ERS, the Legislative Retirement System and certain Judicial Retirement System members. As of today, no new members can be added to the GTLI plan per legislation passed in 2008 and 2009.

For active members in GTLI, 0.25% contribution is deducted from each paycheck entitling them to life insurance coverage for that month. Coverage is equal to 18 times their monthly salary should they pass away while in active status. The SEAD Board may at any time cancel this coverage, change the benefit structure or reduce coverage.

For retirees, coverage continues under GTLI at a reduced level (70% of their age 60 level). Retirees are no longer required to contribute for this benefit and the benefit continues until payout at time of death.

A valuation analysis is conducted each year to determine if employer contributions will be necessary. For fiscal year 2013, the SEAD-OPEB annual required contribution was 0.27% of payroll based on the actuarial valuation as of June 30, 2010. The ERS Board voted and approved that the contribution in the amount of $5.0 million would be paid from existing assets of the Survivors Benefit Fund (described further below) instead of requiring payment by the employers. There were no required contributions for the SEAD-Active for FY 2013. There are no required contributions for either GTLI plan for FY 2014 or FY 2015.

The Board of Community Health has received the enrolled actuary's Retiree Medical Actuarial Valuation Report for June 30, 2012. The June 30, 2012 actuarial valuation considers changes in plan options and premium pricing made by the SHBP for the 2013 calendar plan year, including: movement from assessing a spousal surcharge for members covering a spouse with access to other coverage to an increase in premiums for all members covering spouses that reduces the employer subsidy of spousal coverage; increases in deductibles and out of pocket maximums; increases in HMO Standard plan co-payments for primary care, specialty care, and urgent care visits; elimination of the Humana Medicare Advantage PPO Premium Plan; an increase in the co-insurance for the United Healthcare Medicare Advantage PPO Premium Plan; and Health Reimbursement Account (HRA) incentive fund contributions of $240 for members and spouses enrolled in Wellness Plans who complete the 2013 Wellness Promise requirements.

For the State OPEB Fund, the June 30, 2012 UAAL is valued actuarially at $3,867,926,833. The ARC for FY 2015 is $275,680,773. The UAAL on the June 30, 2011 actuarial valuation was $4,311,635,522. It was expected to increase $14,200,000 due to interest and normal cost accruals, offset by employer contributions. Plan changes together with favorable claims experience reduced the UAAL by $362,400,000; however, this reduction was offset by a loss due to the deficiency in the contribution toward the ARC of $142,700,000. In addition, a data audit was performed which analyzed participation in and eligibility for post-employment benefits under the SHBP. For the June 30, 2012 valuation and data audit, both active and retiree census data from the Department of Community Health was used in conjunction with pension data provided by the retirement systems to determine eligibilities and participation election patterns. The data audit resulted in a gain of $116,100,000. A gain of $122,100,000 due to actual experience differing from experience assumptions further reduced the UAAL. With all factors considered the net decrease to the UAAL is $443,708,689.

For the School OPEB Fund, the June 30, 2012 UAAL is valued actuarially at $10,869,939,923. The ARC for FY 2015 is $873,277,873. The UAAL on the June 30, 2011 actuarial valuation was $11,143,125,071. It was expected to increase $80,700,000 due to interest and normal cost accruals, offset by employer contributions. Plan changes together with favorable claims experience reduced the UAAL by $978,100,000. This reduction was offset by a loss due to the deficiency in the contribution toward the ARC of $575,000,000. The data audit resulted in an increase in the UAAL of $310,300,000. A gain of $261,100,000 due to actual experience differing from experience assumptions also reduced the UAAL. With all factors considered, the net reduction to the UAAL is $273,185,148.

Also, to facilitate OPEB reporting in accordance with the GASB Statements, separate trust funds have been created by statute for administration of the GTLI program for members and retirees of the State employee, legislative and judicial retirement systems. The Board of Trustees of ERS administers the program. Statutory contributions of retirees and members are allocated between the new trusts. The initial allocation of assets was based by extrapolation on the actuarial valuation for FY 2006. Under that valuation method, utilized for the FY 2007 valuation and the FY 2008 valuation, there was excess funding (negative unfunded liability) in both of the new trust accounts and no perceived need of further employer contributions under assumptions and amortization periods of the reports.

Pursuant to 2012 and 2013 valuations, the FY 2015 ARC and the FY 2016 ARC for the GTLI programs is $0. The employer also pays 0.22% of the 0.45% and 0.03% of the 0.05% of member contributions for ERS old plan members for the SEAD – OPEB and SEAD – Active, respectively. The SEAD – OPEB UAAL was actuarially valued at ($113,666,744) and ($153,044,912) as of the FY 2012 and FY 2013 valuations, respectively. The SEAD – Active UAAL was actuarially valued at ($144,073,334) and ($167,266,267) as of the FY 2012 and FY 2013 valuations, respectively.

A third trust account also is committed to the survivors benefit program, though unallocated between the new trusts. Since the FY 2007 valuation, under statutory changes, members who enter or re-enter ERS on or after January 1, 2009 are no longer eligible for GTLI. As of July 1, 2009, persons who enter or again enter into the judicial and legislative retirement systems also will not be eligible for coverage under GTLI. In FY 2009, the method of amortizing the unfunded excess or liability was changed from level percentage of payroll to level dollar because the plan is now closed to new entrants.

The BOR Retiree Plan is a single-employer, defined benefit, healthcare plan administered by the Board of Regents for the purpose of accumulating funds necessary to meet employer costs of retiree post-employment health insurance benefits. The Board of Regents actuarial report prepared by its enrolled actuary dated August 29, 2013, indicates that as of July 1, 2012, the BOR Retiree Plan has an UAAL in the amount of $3,758,804,252. The ARC for FY 2013 was $362,426,199. For FY 2013, the

Board of Regents contributed $83,414,616 to the BOR Retiree Plan for current premiums or claims. Plan members receiving benefits contributed $30,135,574 for current premiums or claims.

The July 1, 2012 valuation utilized certain changes in actuarial assumptions and methods and expected claims costs were updated to reflect actual claims experience. Also, all active employees were included in the valuation; in the previous year, only active employees who were currently in the medical plan were included; accordingly, the participation assumption was lowered from 90% to 80%, based on change in the data collection method.

The following table shows the components of the Board of Regents' annual OPEB cost for FY 2013, the amount actually contributed to the BOR Retiree Plan, and changes in the Board of Regents' net OPEB obligation to the BOR Retiree Plan ($ in millions).

	June 30, 2013
Annual required contribution	$362.4
Interest on net OPEB obligation	57.5
Adjustment to annual required contribution	(52.1)
Annual OPEB cost (expense)	367.8
Less: Contributions made	(83.4)
Increase in net OPEB obligation	284.4
Net OPEB obligation – beginning of year (restated)	1,278.2
Net OPEB obligation – end of year	$1,562.6

The State's participation in the costs of the health benefit plans remains subject to the annual appropriations process, and the plan terms, benefits and cost to participants remain within the discretion of the Board of Community Health and the Board of Regents. This is not changed by the GASB Statements, which are financial reporting standards and do not govern fiscal management or establish legal requirements.

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The funded status of the OPEB plans for each of the past five actuarial valuation dates is presented in the following table ($ in thousands).

OPEB Plans
Historical Funding Progress
Market Value
($ in thousands)

OPEB Plan / Valuation Date	Actuarial Value of Assets equals Market Value (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
State Plan						
6/30/2012[a]	$0	$3,867,927	$3,867,927	0.0%	$2,408,000	160.6%
6/30/2011	0	4,311,636	4,311,636	0.0	2,542,891	169.6
6/30/2010[b]	186	4,478,594	4,478,408	0.0	2,626,081	170.5
6/30/2009	136,932	4,520,953	4,384,021	3.0	2,730,018	160.6
6/30/2008	141,362	4,672,799	4,531,437	3.0	2,864,040	158.2
School Plan[c]						
6/30/2012[a]	0	10,869,930	10,869,930	0.0	9,678,000	112.3
6/30/2011	0	11,143,125	11,143,125	0.0	11,127,288	100.1
6/30/2010[b]	58	11,250,400	11,250,342	0.0	11,446,504	98.3
6/30/2009	33,806	11,900,505	11,866,699	0.3	11,628,960	102.0
6/30/2008	34,900	11,952,050	11,917,150	0.3	11,172,154	106.7
SEAD-OPEB						
6/30/2013	907,831	754,786	(153,045)	120.3	1,767,052	(8.7)
6/30/2012	818,284	704,617	(113,667)	116.1	1,962,800	(5.8)
6/30/2011	807,893	678,420	(129,472)	119.1	2,166,982	(6.0)
6/30/2010	680,449	691,001	10,552	98.5	2,401,974	0.4
6/30/2009	628,199	733,671	105,472	85.6	2,653,527	4.0
SEAD-Active						
6/30/2013	204,779	37,513	(167,266)	545.9	1,767,052	(9.5)
6/30/2012	183,390	39,317	(144,073)	466.4	1,962,800	(7.3)
6/30/2011	184,783	40,145	(144,638)	460.3	2,166,982	(6.7)
6/30/2010	156,132	40,523	(115,609)	385.3	2,401,974	(4.8)
6/30/2009	144,161	61,351	(82,810)	235.0	2,653,527	(3.1)
BOR Retiree Plan						
7/1/2012	166	3,758,970	3,758,804	0.0	2,466,314	152.4
7/1/2011	123	3,494,501	3,494,378	0.0	2,526,212	138.3
7/1/2010	123	3,384,100	3,383,977	0.0	2,432,367	139.1
7/1/2009	10,566	3,129,508	3,118,942	0.3	2,399,532	130.0
7/1/2008	290	3,258,200	3,257,910	0.0	2,372,385	137.3

[a] Reflects changes based on data audit.
[b] Reflects assumption changes based on experience study of 5-year period ending June 30, 2009.
[c] The salary amount shown is total salaries and is not the salary amount upon which regular employer contributions to the SHBP are based. Since individual PSERS salary is not available, it assumes annual salary for PSERS members of $27,000 for 2012, $26,192 for 2011, $25,244 for 2010, $24,332 for 2009, and $24,332 for 2008.

Source: Plan actuarial reports and underlying actuarial data

The following table indicates, on a fiscal year basis, the ARC, the contractually required contribution ("CRC"), the percentage of ARC contributed and any unfunded CRC. Total CRC from all employers participating in the OPEB plans are provided below, with the portion of the CRC contributed by organizations in the State reporting entity provided separately. The BOR Retiree Plan is a single-employer plan. Therefore, all employer contributions to the Regents Plan are the responsibility of the State. Employer contributions to the SEAD-OPEB plan are not required in FY 2014 and FY 2015.

The State currently covers its share of retiree healthcare costs on a pay-as-you-go basis using employer contributions. These contribution rates are set annually by the Board of Community Health in accordance with the annual Appropriations Act.

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Annual Employer Contribution Status
($ in thousands)

OPEB Plan / Fiscal Year	ARC	CRC	Percentage of ARC Contributed	CRC Amount Unfunded	State Portion CRC[d]	State Portion Amount Unfunded
State Plan						
2013	$338,819	$181,504	53.6%	-	$169,992	-
2012	317,100	181,899	57.4	-	159,827	-
2011	327,053	168,384	51.5	-	147,749	-
2010[a]	347,772	22,209	6.4	-	19,516	-
2009	387,790	170,790	44.0	-	150,756	-
School Plan						
2013	$982,120	$362,527	36.9%	-	$1,947	
2012	1,054,708	380,859	36.1	-	1,949	-
2011	1,050,851	339,221	32.3	-	1,682	-
2010	1,080,042	308,539	28.6	-	1,535	-
2009	1,290,050	303,348	23.5	-	1,571	-
SEAD-OPEB and SEAD-Active						
2013[e]	-	-	-	-	-	-
2012[b]	-	-	-	-	-	-
2011	-	-	-	-	-	-
2010	-	-	-	-	-	-
2009	-	-	-	-	-	-
BOR Retiree Plan						
2013	$362,426	$83,414	23.0%	-	$83,414	-
2012	345,298	88,836	25.7	-	88,836	-
2011	411,516	80,262	19.5	-	80,262	-
2010	381,700	69,900	18.3	-	69,900	-
2009[c]	349,500	89,200	25.5	-	89,200	-

[a] FY 2010 employer contributions to the State Plan are significantly reduced from prior years because current year claims were paid from existing plan assets.
[b] The SEAD-OPEB had FY 2012 ARC of $12.7 million paid on behalf of employers from existing assets of the Survivors Benefit Fund. Of that amount, $11.1 million was paid on behalf of organizations in the State reporting entity for FY 2012. There were no required employer contributions for FY 2012 for SEAD-Active.
[c] FY 2009 for the BOR Retiree Plan was restated to correct the methodology for determining the split between retiree and active employee claims expense.
[d.] Unaudited estimate
[e] The SEAD-OPEB had FY 2013 ARC of $5.0 million paid on behalf of employers from existing assets of the Survivors Benefit Fund. Of that amount, $4.5 million was paid on behalf of organizations in the State reporting entity for FY 2013 (unaudited). There were no required employer contributions for FY 2013 for SEAD-Active.
Sources: Plan annual reports and actuarial reports and the State of Georgia CAFR

For additional information on the health benefit plans and OPEB, see “Combining Statement of Fiduciary Net Position Fiduciary Funds June 30, 2013” on pages 186-187 and Note 11, “Postemployment Benefits,” on pages 107-112 in APPENDIX B hereto.

Employee Health Benefit Plans

State Health Benefit Plan. The SHBP is comprised of three health insurance plans: (1) a plan primarily for State employees (O.C.G.A. § 45-18-2), (the "State Employees' Plan"), (2) a plan for teachers (O.C.G.A. § 20-2-881) (the "Teachers' Plan"), and (3) a plan for non-certificated public school employees (O.C.G.A. § 20-2-911) (the "Public School Employees' Plan"). All three plans operate on a plan year that is coincident with the calendar year. The State Employees' Plan is supported by the fund described in O.C.G.A. § 45-18-12, which holds contributions from State departments and agencies and other entities authorized by law to contract with DCH for inclusion, as well as contributions from their employees and retirees. Starting September 1, 2009, retirees' contributions and the portion of employer contributions to the State Employees' Plan allocated by DCH for the payment of retiree benefits are deposited in the Georgia State Employees' Post-employment Health Benefit Fund. For FY 2014, the budgeted share of the employer contributions to the State Employee's Plan from State appropriations is estimated to be approximately 70.4%.

The Teachers' Plan is supported by the fund described in O.C.G.A. § 20-2-891, which holds contributions from the Department of Education, local school systems, libraries and regional educational service agencies ("RESAs"), as well as contributions from their employees and retirees. The Public School Employees' Plan is supported by the fund described in O.C.G.A. § 20-2-918, which holds contributions from the Department of Education, local school systems, libraries and RESAs, as well as contributions from their employees and retirees. Starting September 1, 2009, retirees' contributions and the portion of employer contributions to the Teachers' Plan and the Public School Employees' Plan allocated by DCH for the payment of retiree benefits under those plans are deposited in the Georgia School Personnel Post-employment Health Benefit Fund. For FY 2014, the budgeted share of the employer contributions to the Teacher's Plan and the Public School Employees' Plan from State appropriations is approximately 60%.

The DCH conducted a procurement of vendor services for Plan Year 2014 that included a statewide Third Party Administrator who will also provide medical management services (Blue Cross Blue Shield), a Pharmacy Benefit Manager (Express Scripts, Inc.) and Wellness services (Healthways). Savings as a result of this procurement are projected at $212.5 million in FY 2015. The SHBP also redesigned its plan offerings in Plan Year 2014. Members have three Health Reimbursement Account (HRA) plans to choose from that are actuarially equivalent to plans offered on the Health Insurance Marketplace. This simplifies comparisons members may make between the Marketplace and SHBP as well as assures that SHBP meets the requirements of the Affordable Health Care Act. There is a "base plan", known as the Silver Plan, and two other plans that are both buy-up (the Gold Plan) and buy-down (the Bronze Plan). All three plan options are consumer driven plans with high deductibles that are offset by HRA contributions.

The DCH is currently conducting a separate procurement in order to provide additional plan offerings in Plan Year 2015, including a statewide HMO, a High-Deductible Health Plan, and additional Medicare Advantage Plans. The SHBP continues to prioritize wellness. Members may earn additional HRA dollars by completing various wellness activities. No employer contribution increases were implemented for FY 2015. The DCH board approved continuing the Non Certificated Public School Employee Per Member Per Month (PMPM) Employer Contribution Rate (ECR) at $596.20 in FY 2015. The Teachers Plan ECR will remain at $945.00 PMPM for each non library employee enrolled in the Teachers Plan, and $843.00 PMPM for each library employee enrolled in the Teachers Plan. The State Employee ECR was reduced from an annual rate of 30.781% to 30.454% effective July 1, 2014.

Requirements of the Affordable Care Act and associated fees are projected to cost SHBP $222 million in FY 2015. Included in these costs is the requirement to cover 100% of coverage for certain women's health services. Also included is the Comparative Effectiveness Research ("CER") fee, which finances the Patient-Centered Outcomes Research Institute ("PCORI") Trust Fund. The FY 2015 Appropriations Act included $50.2 million for members projected to join the plan as the result of the individual mandate. Additionally, the FY 2015 Appropriations Act includes $25.8 million for the new requirement that all medical and pharmacy co-pays count toward the out-of-pocket maximum. Finally, the Transitional Reinsurance Fee of $63 per covered life per year is included at a cost of over $23 million.

Board of Regents Health Benefit Plan. The University System of Georgia offers its employees and retirees access to three different self-insured healthcare plan options. For the University System of Georgia's Plan Year 2013, the following health care options were available: Blue Choice HMO plan, (Blue Cross Blue Shield) HAS Open Access POS plan, and the (Blue Cross Blue Shield) Open Access POS plan. The University System of Georgia institutions and participating employees pay premiums to either of the self-insured healthcare plan options to access benefits coverage. All units of the University System of Georgia share the risk of loss for claims associated with these plans. The reserves for these plans are considered to be a self-sustaining risk fund. The Board of Regents has contracted with Blue Cross Blue Shield of Georgia, a wholly owned subsidiary of WellPoint, to serve as the claims administrator for the self-insured healthcare plan products. In addition to the self-insured healthcare plan products offered to the employees of the University System of Georgia, a fully insured HMO healthcare plan option also is offered to System employees through Kaiser. The prescription drug plan is administered through Medco Health Solutions. Pharmacy drug claims are processed in accordance with guidelines established for the Board of Regents' Prescription Drug Benefit Program. Generally, claims are submitted by participating pharmacies directly to Medco Health Solutions for verification, processing and payment. Medco Health Solutions maintains an eligibility file based on information furnished by Blue Cross – Blue Shield on behalf of the various organizational units of the University System of Georgia.

The self-funded plan reserve fund had the following cash basis activity for FY 2013: premiums collected of $471,913,502; claims and expenses paid of $450,723,271; Medicare Part D subsidies collected of $6,591,173; prescription rebates of $15,092,129; and other income of $1,162,706 resulting in a fund surplus for FY 2013 of $44,036,239. As of June 30, 2012, the self-funded plans had IBNR claims of $26,269,302 for active employees and $9,714,307 for retirees. As of June 30, 2013, the self-funded plans had IBNR claims of $32,737,154 for active employees and $9,326,592 for retirees, and held investment assets of $9.8 million in the self-funded reserve fund.

The Board of Regents has made benefit plan changes since 2009 to reduce healthcare cost increases that include the following: moved from a 75% employer/25% employee contribution for health insurance premiums to a 70-75% employer/25-30% employee contribution; self-funded HMO and High-Deductible Healthcare Plans; added a monthly surcharge for tobacco users; added a surcharge for non-Medicare B enrollment; increased the number of hours per week that must be worked to qualify for benefits eligibility from 20 hours/week to 30 hours/week; increased employee and retiree co-pays for HMO plans; moved Medicare-eligible retirees to the Medicare D pharmacy plan; and changed benefits for employees hired on or after January 1, 2013 to based employer subsidy for retiree health contributions on years of service with the USG; for example, retirees with only 10 years of service will pay 85% of healthcare premium rates and the USG will pay 15%. This is applied on a sliding scale so that 30 years of service will be required in order to receive a 70% employer contribution for healthcare premiums.

SIGNIFICANT CONTINGENT LIABILITIES

The State is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. The ultimate outcome of these proceedings is not presently determinable; however, it is not believed that any such outcome would have a material adverse effect on the financial condition of the State. The following are significant active litigation, claims and assessments involving the State:

Phoenix Development v. Board of Regents

Phoenix Development and Land Investment, LLC v. Board of Regents, Athens-Clarke County Superior Court, Civil Case No. SU11CV0977, filed on June 30, 2011. The plaintiff, Phoenix Development and Land Investment ("Phoenix") purchased a tract of land which included property upon which the Board of Regents inadvertently had placed part of an inert landfill prior to Phoenix's purchase. Phoenix filed an action against the Board of Regents claiming trespass, nuisance and inverse condemnation, seeking damages in the amount of $16,000,000. The Board of Regents filed a counterclaim for quiet title to the disputed property. The property in question has been foreclosed upon and purchased by SCBT Bank, which has intervened in the litigation. The Special Master appointed to hear the quiet title proceedings issued a report finding that title to the disputed property lies with Phoenix. The Board of Regents filed a motion to reject and/or modify such finding and a motion for summary judgment as to Phoenix's claims and as to Board of Regent's claims for quiet title. The trial court has denied the Board of Regents' motion for summary judgment on its quiet title claim and motion to reject the Special Master Report, but has not yet heard the Board of Regents' motion as to Phoenix's claims. The Court has ordered all parties to the litigation to mediate as soon as possible. No trial date is set. At this stage of litigation, it is impracticable to render an opinion about whether the likelihood of an unfavorable outcome is either "probable" or "remote"; however, the State believes it has meritorious defenses and is vigorously defending this action.

Tibbles v. Teachers Retirement System of Georgia

Tibbles v. Teachers Retirement System of Georgia, et al., Fulton County Superior Court Civil Case No. 2012-CV-223341, October 31, 2012. This is a proposed class action filed by a retired teacher ("Tibbles") who alleges that TRS has underpaid her monthly retirement benefit as well as those of the members of the purported class. The Court has approved the parties' joint request to litigate first the question of whether there is any liability to Tibbles. If the Court rules that there is liability, then the parties will litigate the issue of whether a class should be certified. The parties filed cross-motions for summary judgment on the initial issue of liability in December 2013, and the Court heard oral arguments on April 9, 2014. The motions are pending the Court's decision. At this stage of litigation, it is impracticable to render an opinion about whether the likelihood of an unfavorable outcome is either "probable" or "remote"; however, the State believes it has meritorious defenses and is vigorously defending this action.

Georgia Power Co. v. Douglas J. MacGinnitie

Georgia Power Company, et al. v. Douglas J. MacGinnitie, Commissioner, Georgia Department of Revenue, Ga. Tax Tribunal Docket No. 1403540, July 26, 2013. Georgia Power seeks a refund of sales and use taxes allegedly paid on purchases of certain tangible personal property, which Georgia Power asserts to be subject to certain manufacturing-related sales and use tax exemptions. The total sales and use tax refund claimed by Georgia Power is in excess of $18,000,000. The Commissioner's position is that the machinery and equipment in question do not qualify for the sales tax exemption. At this stage of litigation, it is impracticable to render an opinion about whether the likelihood of an unfavorable outcome is either "probable" or "remote"; however, the State believes it has meritorious defenses and is vigorously defending this action.

SIGNIFICANT MATTERS

Interstate Water Disputes Among Georgia, Alabama and Florida

Background.

The State has been involved in a number of disputes concerning the operation of U.S. Army Corps of Engineers ("Corps") dams and reservoirs in the Apalachicola-Chattahoochee-Flint ("ACF") River Basin and the Alabama-Coosa-Tallapoosa ("ACT") River Basin for water supply and other purposes. Buford Dam impounds the Chattahoochee River to form Lake Lanier and is part of the ACF River Basin. Lake Lanier is the primary source of water supply to more than three million people in north Georgia, including a substantial portion of the metropolitan Atlanta region's population. The additional federal reservoirs are downstream of Lake Lanier in the ACF River Basin. The ACF River Basin is shared by Alabama, Florida, and Georgia. Lake Allatoona is in the ACT River Basin, which is shared by Alabama and Georgia. Lake Allatoona also is a major source of water supply to north Georgia.

ACF River Basin Litigation.

Several cases involving the federal reservoirs in the ACF River Basin were consolidated by the Judicial Panel on Multidistrict Litigation and assigned to U.S. District Judge Paul Magnuson in the M.D. Fla. District Court. The consolidated litigation was divided into two phases: Phase 1, dealing with the authority of the Corps to supply water from Lake Lanier to communities in North Georgia, and Phase 2, dealing with issues under the Endangered Species Act. After a series of procedural and substantive rulings, appeals in Phase 1 and Phase 2 reached the United States Court of Appeals for the Eleventh Circuit (the "Eleventh Circuit"). The Phase 2 appeal was dismissed for mootness, leaving only the Phase 1 issues for decision by the Eleventh Circuit.

In an order issued on June 28, 2011, the Eleventh Circuit held, among other things, that (1) water supply is an authorized purpose of Lake Lanier under the River and Harbor Act of 1946 (the "1946 RHA"); (2) water supply is not subordinate to hydropower or other purposes under the 1946 RHA; (3) Congress contemplated in the 1946 RHA that water supply may have to be increased over time, at the expense of hydropower, as the metropolitan Atlanta area grows; (4) the 1946 RHA authorizes the Corps to reallocate storage from hydropower to water supply; and (5) the Water Supply Act of 1958 (the "WSA") supplies supplemental authority, in addition to the authority under the 1946 RHA, for the Corps to reallocate storage to water supply. *In Re: MDL 1824 Tri-State Water Rights Litigation*, 644 F.3d 1160 (11th Cir. 2011). The Eleventh Circuit directed the Corps to decide the extent to which it can reallocate storage to meet Georgia's present and future water supply needs in light of the Eleventh Circuit's holdings regarding interpretation of the 1946 RHA and the WSA. On June 26, 2012, the Corps determined that it possesses the legal authority to grant Georgia's water supply request in its entirety. The Corps is in the process of determining whether and to what extent it will grant Georgia's water supply request and of establishing revised operating procedures for the federal projects in the ACF River Basin. Although the Corps determined that there is no legal impediment to granting the State's water supply request, the Corps' operational decisions could be affected by a number of other considerations, including environmental factors. It is not possible at this time to predict the Corps's final decision or, in the event the decision is challenged, the outcome of any such challenge.

On October 1, 2013, the State of Florida filed a motion for leave to file a complaint in the U.S. Supreme Court against the State of Georgia, seeking an apportionment of the waters of the ACF River Basin. The Supreme Court has original and exclusive jurisdiction over suits directly between states. The suit challenges Georgia's use of the waters of the ACF Basin for municipal and industrial use and for agriculture. Among other things, the suit alleges that municipal and agricultural water consumption in the State has reduced flows in the ACF River Basin to a sufficient degree to harm Florida's oyster industry, among other harms. On January 31, 2014, the State of Georgia filed an opposition to Florida's motion for leave to file a complaint. Georgia denies that its actions are responsible for harms suffered by Florida, if any, and asserted that Florida's suit is premature until such time as the Corps of Engineers determines how it will operate its facilities in the ACF basin. On March 3, 2014, the Supreme Court requested the views of the U.S. Solicitor General. It is not possible at this time to predict whether the Supreme Court will grant Florida's motion and allow the suit to proceed. If the Supreme Court grants Florida's motion, further litigation will ensue and will likely last for an extended period of time. It is not possible at this time to predict of outcome of such litigation, should it occur.

ACT River Basin Litigation.

The State of Georgia has submitted a request to the Corps for it to accommodate water supply needs from Lake Allatoona beyond those that can be met under existing storage contracts. Georgia has determined that, depending on how the Corps accounts for storage usage, local governments that now withdraw water from Lake Allatoona may need additional storage to accommodate current levels of withdrawal, as well as future demands. The Corps has stated that it is reviewing that request and has yet to make a determination whether it will grant the request. The Corps is also in the process of establishing revised operating procedures for the federal projects in the ACT River Basin. As with the ACF River Basin, the Corps' operational decisions could be affected by a number of other considerations, including environmental factors. It is not possible at this time to predict the Corps's final decision or, in the event the decision is challenged, the outcome of any such challenge.

Borrowing for Funding of State Unemployment Benefits

The Federal Unemployment Trust Fund ("UTF") was established by the Federal Unemployment Tax Act ("FUTA") and is managed by the United States Treasury (the "U.S. Treasury"). One purpose of the UTF is to provide federal financing to states under Title XII of the Social Security Act through the Federal Unemployment Account ("FUA"). FUA provides loans to state unemployment programs to ensure a continued flow of unemployment benefits during times of economic downturn. Under O.C.G.A. § 34-8-87, the Commissioner of Labor is authorized to borrow such funds from the U.S. Treasury if and when the State Unemployment Compensation Fund is depleted, and all borrowed funds must be used only for the purpose of paying unemployment benefits to eligible persons. Title XII provides that the FUA loans may be repaid at any time and may be paid from unemployment taxes or other state funds. Many states, including Georgia, utilized this program during the last several years with approximately twenty states currently having outstanding loans, unpaid interest, or both.

Loans from FUA that are not repaid by the end of the federal fiscal year (September 30) in which they were obtained are subject to interest; however, Title XII provides that any interest payable on the loans cannot be paid with unemployment insurance taxes or administrative grant funding, thus other state funds must be used to pay interest costs. The applicable FUA interest rate is determined on an annual basis. The current FUA loans have an interest rate of 2.3873993%. Georgia has paid all FUA interest payments which have become due.

All new FUA borrowings must be repaid by November 10 of the second year of the loan; if the total borrowed amount is not repaid by that date, the federal unemployment tax on the state's employers is effectively increased (by credit reduction) and the additional taxes are applied as payments against the loans. In the first year of any such increase, each employer must pay an additional $21.00 per year per employee in federal unemployment taxes and such additional amount will increase each year (by additional credit reductions) until the borrowing is repaid. During the recent recession, the State borrowed an aggregate amount of approximately $956 million from the FUA. As of May 15, 2014, the principal amount of all FUA loans had been fully paid through voluntary principal payments from the State's unemployment trust fund and FUA credit reductions. The State made payment in full on May 28, 2014 of the remaining interest owed, resulting in a zero balance owed as of May 28, 2014.

During its 2012 legislative session, the Georgia General Assembly passed legislation (Ga. L. 2012, Volume One, Book Two, p. 950, *et seq.*, Act No. 710, H.B. 347, referred to herein as "H.B. 347") making changes to the State employment security system to enable the FUA borrowings to be repaid more quickly and to begin rebuilding the State Unemployment Compensation Fund. H.B. 347 increased the taxable wage base (from $8,500) to $9,500 commencing January 1, 2013 and for future years. O.C.G.A. § 34-8-49(b)(1)(E). H.B. 347 provides that in the event the state-wide reserve ratio (computed as of June 30 of each year by dividing the balance in the State Unemployment Compensation Fund, including accrued interest, by the total covered wages paid in the State during the previous calendar year) is less than 1.25% and either there is an outstanding FUA loan balance or the State Unemployment Compensation Fund balance is less than $1 billion, a mandatory surcharge shall be imposed upon employers. O.C.G.A. § 34-8-156(d)(4)(B). H B 347 also reduced the maximum number of weeks that benefits can be paid from 26 to a range of 14 – 20 weeks based upon a designated unemployment rate, which will reduce future benefit costs. (O.C.G.A. § 34-8-193(d).)

INSURANCE

The type and amounts of insurance that are carried by the various departments of the State and the State's agencies and authorities are specified through contracts between the Department of Administrative Services and each such department, agency or authority entered into pursuant to the provisions of O.C.G.A. Title 50, Chapter 5 and other sections of the Official Code of Georgia Annotated. See "APPENDIX B – STATE OF GEORGIA – Basic Financial Statements For Fiscal Year Ended June 30, 2013" "Notes to the Financial Statements – Note 12: Risk Management" herein.

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APPENDIX B

BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2013

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State of Georgia
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2013

"Heron's Rapids", Photograph by John E. Ramspott, Oxford, Georgia

The artwork on the cover and within this document was created by Georgia artists and has been selected to hang in the Office of the Governor as part of a the rotating exhibit "The Art of Georgia". For more information about the exhibit, the artists and their work visit www.gaarts.org.

State of Georgia

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2013

Prepared by:
State Accounting Office

STATE OF GEORGIA

CONSTITUTION

WISDOM JUSTICE MODERATION

1776

State of Georgia

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For the Fiscal Year Ended June 30, 2013

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For the Fiscal Year Ended June 30, 2013

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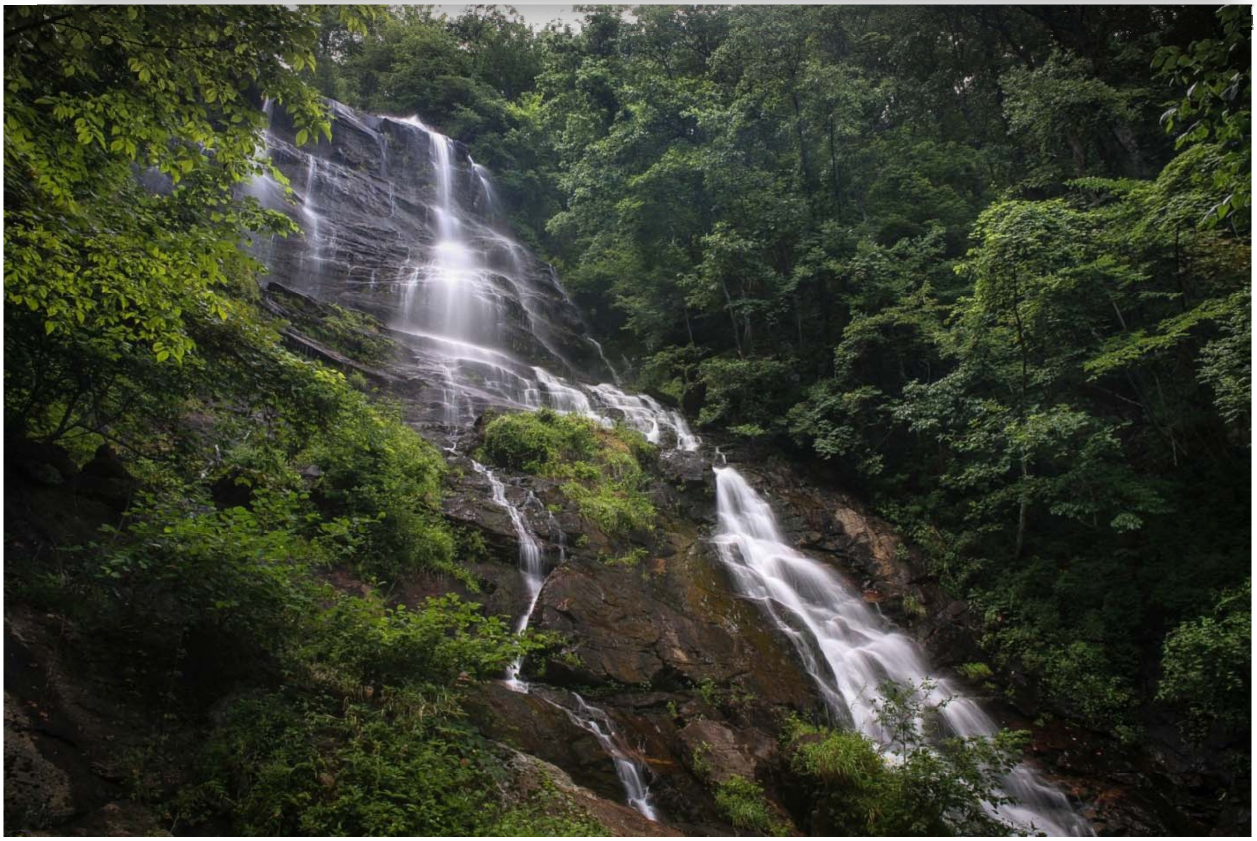
INTRODUCTORY SECTION



"Amicalola Falls"
Artist: Tres Indermark, Avondale Estates, GA

Nathan Deal
Governor

Thomas Alan Skelton, CPA
State Accounting Officer

December 31, 2013

The Honorable Nathan Deal, Governor of Georgia

The Honorable Members of the General Assembly

Citizens of the State of Georgia

It is my privilege to present the *Comprehensive Annual Financial Report* (CAFR) on the operations of the State of Georgia (the State) for the fiscal year ended June 30, 2013, in accordance with the Official Code of Georgia Annotated (OCGA), Section 50-5B-3(a)(7). The objective of this report is to provide a clear picture of our government as a single comprehensive reporting entity.

This report consists of management's representations concerning the State's finances and management assumes full responsibility for the completeness and reliability of the information presented. This report reflects my commitment to you, the citizens of the State, and to the financial community to maintain our financial statements in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB). Information presented in this report is believed to be accurate in all material respects, and all disclosures have been included that are necessary to enable the reader to obtain a thorough understanding of the State's financial activities.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory section includes this transmittal letter and organization charts for state government. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), audited government-wide and fund financial statements and related notes thereto, required supplementary information, and the underlying combining and individual fund financial statements and supporting schedules. The Statistical section contains selected unaudited financial, economic and demographic data on a multi-year basis that is useful in evaluating the economic condition of the government.

Internal Control

The State's management is responsible for the establishment and maintenance of internal accounting controls which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and financial transactions are properly recorded and adequately documented, and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from such control and that the evaluation of those costs and benefits requires estimates and judgments by the State's management.

Independent Audit

The financial statements of the organizations comprising the State reporting entity have been separately examined and reported on by either the State Auditor or independent certified public accountants. The State Auditor and other independent auditors have performed an examination of the accompanying financial statements for the State and have issued unmodified opinions on the State's basic financial statements included in this report.

Federal regulations also require the State to undergo an annual Single Audit in conformance with the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Information related to the Single Audit, including the schedule of expenditures of federal awards, audit findings and recommendations, summary of prior audit findings, and the Independent Auditor's reports, is issued in a separate report and will be available at a later date.

Management's Discussion and Analysis

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the independent auditor's report.

PROFILE OF THE STATE OF GEORGIA

The State, founded on February 12, 1733, was the last of the original 13 colonies and became the fourth state by ratifying the U.S. Constitution on January 2, 1788. The State is an economic hub of the southeast. Atlanta, the state capital, is the major economic and population center of the State with major regional economic and population centers in Augusta, Savannah, and Macon. The State's economic base is diverse with major port facilities on the coast, agricultural resources throughout the State, manufacturing and service industries, and is a major transportation hub with one of the busiest airports in the nation. The State is the eigth largest state with an estimated population of 9.9 million people.

Reporting Entity

The Constitution of the State of Georgia (the Constitution) provides the basic framework for the State's government, which is divided into three separate branches: legislative, executive, and judicial, as shown on the organizational chart on page v. The duties of each branch are outlined in the Constitution and in the OCGA.

For financial reporting purposes, the State's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable, and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Further information about the State's reporting entity can be found in Note 1.B. to the financial statements.

The State and its component units provide a full range of services to its citizens, including education, health and welfare, transportation, public safety, economic development, culture and recreation, conservation, and general government services. The financial statements present information on the financial position and operations of state government associated with these services as a single comprehensive reporting entity. Accordingly, the various agencies, departments, boards, commissions, authorities, and funds and accounts of the State that have been identified as part of the primary government or a component unit have been included in this report.

Budgetary Control

The Constitution requires that budgeted expenditures not exceed the estimated revenues and other funding sources, including beginning fund balances. The State's legal level of budgetary control is funding source within program. Annually, the Governor submits a balanced budget by program to the Legislature. In addition to the internal controls previously discussed, the State maintains budgetary controls to ensure compliance with the legal provisions of the State's Appropriation Act, which reflects the Georgia General Assembly's approval of the annual budget. Budgetary control is maintained through a formal appropriation and allotment process.

The State's annual budget is prepared on a statutory basis which is principally the modified accrual basis utilizing encumbrance accounting. The State monitors spending activity to ensure that expenditures do not exceed appropriated amounts by agency at the legal level of control as provided for by the Constitution. Information regarding the State's budgetary process can be found in the Notes to Required Supplementary Information within this report.

The statutory basis of accounting required by state law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Detailed information on the statutory basis of accounting and the results of operations on that basis for fiscal year 2013 can be found in the separately issued Budgetary Compliance Report (BCR) dated November 27, 2013.

Budget Stabilization

The State maintains the Revenue Shortfall Reserve (RSR) which provides for the sound management of excess revenue collections in any given fiscal year. By statute, all surplus state funds existing at the end of each fiscal year shall be reserved and added to the RSR. Funds in the RSR carry forward from fiscal year to fiscal year without reverting to the revenue collections fund within the General Fund at the end of a fiscal year. Additional information about the State's RSR balances can be found in MD&A.

Fiscal Year Budget Overview

The State's fiscal year 2013 tax revenue collections were 5.7% over fiscal year 2012 tax revenues. Of the major tax sources, personal income tax collections were the largest component of overall tax growth at 7.7%. The RSR increased by $161.4 million and has a current balance of $682.0 million prior to audited agency lapse of $218.2 million and prior to the appropriation of the 1% mid-year adjustment for K-12 in the amended fiscal year 2014 budget.

ECONOMIC FACTORS AND OUTLOOK

Introduction

Georgia's economy also is experiencing a moderate recovery with growth in employment, home prices, and residential construction permits. It appears that the Great Recession may finally be in the rear view mirror. While a moderate economic recovery is expected to continue, there are significant risks to continued growth, with federal fiscal policy the biggest threat.

Georgia Ecomony

Many factors indicate that the State’s economy is recovering from the Great Recession. Some of these include:

- As of August 2013, the State’s net new job growth rate exceeds the comparable rate through August for the U.S. employment growth of 1.7%.
- Initial unemployment compensation claims reflect a gradually improving labor market in the U.S. and in Georgia. Initial claims are well below year ago levels.
- Personal income growth has generally been positive on a quarter over quarter basis but personal income growth has been relatively weak when compared to prior recoveries.
- Home prices are recovering and trending positively. Home prices for metro Atlanta had risen 18.2% which exceeds the 12.2% increase for the composite index for 20 metro areas across the country.

Additional information on the economic outlook for the State including detailed information on employment, personal income, and housing markets can be found in the State’s MD&A which can be found immediately following the independent auditor’s report.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Georgia for its comprehensive annual financial report for the fiscal year ended June 30, 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements, and we are submitting it to GFOA to determine its eligibility for another certificate. We are committed to this effort , and we intend to maintain a highly qualified and professional staff to make this certification possible.

The preparation of this report would not have been possible without the dedicated and efficient service of the entire staff of the State Accounting Office. We also express our appreciation to the fiscal officers throughout state government for their dedicated efforts in assisting us in the preparation of this report.

Respectfully submitted,

Thomas Alan Skelton
State Accounting Officer

State of Georgia

Organizational Chart
June 30, 2013

JUDICIAL

Supreme Court
Court of Appeals
Superior Courts
District Attorneys
Judicial Agencies

EXECUTIVE

Constitutional Officers

Lieutenant Governor
Public Service Commission
State School Superintendent
Secretary of State
Commissioner of Insurance
Attorney General
Commissioner of Agriculture
Commissioner of Labor

Governor

Office of Planning and Budget
Governor's Office

Department of Administrative Services
Department of Banking and Finance
Department of Behavioral Health & Developmental Disabilities
Department of Community Affairs
Department of Community Health
Department of Corrections
Department of Defense
Department of Driver Services
Department of Early Care and Learning
Department of Economic Development
Department of Education
Department of Human Services
Department of Juvenile Justice
Department of Natural Resources
Department of Public Health
Department of Public Safety
Department of Revenue
Department of Transportation
Department of Veterans Service
Employees' Retirement System of Georgia
Georgia Bureau of Investigation
Georgia Forestry Commission
Georgia Lottery Corporation
Georgia State Financing and Investment Commission
Georgia Student Finance Commission
Georgia Technology Authority
Office of the State Treasurer
State Accounting Office
State Board of Pardons and Paroles
State Board of Workers' Compensation
Technical College System of Georgia
University System of Georgia
Examining and Licensing Boards
Advisory Boards
Other Executive Agencies
Interstate Agencies
Authorities

LEGISLATIVE

General Assembly
Senate
House of Representatives

Legislative Agencies

Department of Audits and Accounts

STATE OF GEORGIA

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Principal State Officials
June 30, 2013

Executive:

Nathan Deal .... *Governor*

Brian P. Kemp .... *Secretary of State*

Sam Olens .... *Attorney General*

Mark Butler .... *Commissioner of Labor*

Dr. John D. Barge .... *State Superintendent of Schools*

Ralph T. Hudgens .... *Commissioner of Insurance*

Gary W. Black .... *Commissioner of Agriculture*

Chuck Eaton (Chairman) .... *Public Service Commissioner*
Tim Echols .... *Public Service Commissioner*
H. Doug Everett .... *Public Service Commissioner*
Lauren "Bubba" McDonald, Jr. .... *Public Service Commissioner*
Stan Wise .... *Public Service Commissioner*

Legislative:

Casey Cagle .... *Lieutenant Governor/President of the Senate*

David Ralston .... *Speaker of the House of Representatives*

Judicial:

Carol W. Hunstein .... *Chief Justice of the Supreme Court*
(Hugh P. Thompson effective August 15, 2013)


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For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO


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ACKNOWLEDGEMENTS

The Georgia Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2013 was prepared by:

STATE ACCOUNTING OFFICE

Kris Martins, Director, Financial Reporting

STATEWIDE ACCOUNTING AND REPORTING

Janet M. Arsenault	Lori Ramsey
Renita Coleman	Andrea Randall
Bobbie R. Davis	Jennifer Sanders
Zeina Diallo	Troy Senter
Eddy A. Hicks	Melesse Siratu
Sharon Hill	Ellen K. Tate
Dan Lawson	Sandra Warr
Jorge Pinto	Dina Williams

SPECIAL APPRECIATION

The State Accounting Office would like to extend special appreciation to all fiscal and accounting personnel throughout the State who contributed the financial information for their agencies. Additionally, the Division of Statewide Accounting and Reporting would like to acknowledge the efforts given by all of the functional and support personnel of the State Accounting Office.


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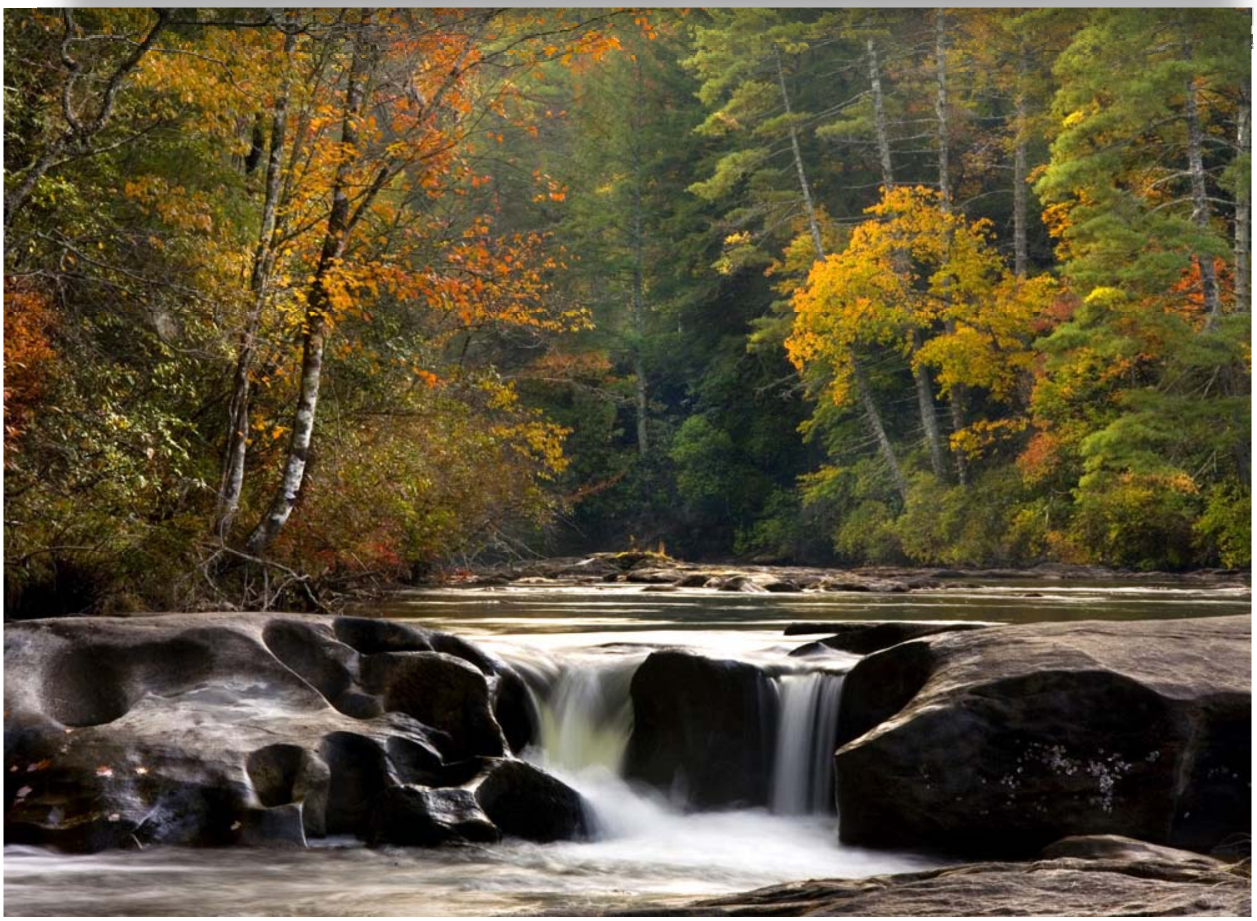
FINANCIAL SECTION



"Dick's Creek Ledge - Chattooga River"
Artist: Peter McIntosh, Clayton, GA

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2180

Independent Auditor's Report

The Honorable Nathan Deal, Governor of Georgia
and
Members of the General Assembly of the State of Georgia

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Georgia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Georgia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Department of Community Health, Employees' Retirement System of Georgia, Georgia Environmental Finance Authority, Georgia Housing and Finance Authority, Georgia Lottery Corporation, Georgia Ports Authority, Georgia Southern University Housing Foundation, Inc., Georgia State Financing and Investment Commission, Georgia Tech Facilities, Inc., Georgia Tech Foundation, Inc., Kennesaw State University Foundation, Inc., Teachers Retirement System of Georgia, University of Georgia Research Foundation, Inc. and University System of Georgia Foundation, Inc. Those financial statements represent part or all of the total assets and revenues or additions of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major funds: governmental fund-general fund, governmental fund-general obligation bond projects fund, proprietary/enterprise fund-state health benefit plan and the aggregate remaining fund information as reported in the following table:

Opinion Unit	Percent of Total Assets	Percent of Total Revenues/ Additions
Governmental Activities	6%	23%
Business-type Activities	6%	18%
Aggregate Discretely Presented Component Units	68%	69%
Governmental Fund – General Fund	17%	20%
Governmental Fund – General Obligation Bond Projects Fund	98%	100%
Proprietary Fund/Enterprise Fund – State Health Benefit Plan	100%	100%
Aggregate Remaining Fund Information	87%	56%

Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the above mentioned organizations and component units, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Georgia Lottery Corporation, Georgia Southern University Housing Foundation, Inc., Georgia Tech Foundation, Inc., Kennesaw State University Foundation, Inc. and University System of Georgia Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Georgia statutes, in addition to audit responsibilities, entrust other responsibilities to the Department of Audits and Accounts. Those responsibilities include service by the State Auditor on the governing boards of various agencies, authorities, commissions, and component units of the State of Georgia. The Department of Audits and Accounts elected to not provide audit services for the organizational units of the State of Georgia associated with these boards. The Department of Audits and Accounts also has a contractual obligation with the Department of Community Health to conduct certain non-audit services.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Georgia, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2-B to the financial statements, in 2013, the State of Georgia, implemented new accounting principles GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 20, information on other postemployment benefits on page 135 and budgetary comparison information on pages 136 through 141 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of Georgia's basic financial statements**.** The combining and individual fund statements and the introductory and statistical sections are presented for purposes of additional analysis and not a required part of the basic financial statements.

The combining and individual fund statements 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. Such 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 or 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, the combining and individual fund statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013 on our consideration of State of Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State of Georgia's internal control over financial reporting and compliance.

Respectfully submitted,

Greg S. Griffin
State Auditor

December 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

This narrative overview and analysis of the financial activities of the State is for the fiscal year ended June 30, 2013. It should be read in conjunction with the letter of transmittal, located in the Introductory section of this report, and the State's financial statements, including the notes to the financial statements, which are an integral part of the statements that follow this narrative.

FINANCIAL HIGHLIGHTS

Government-wide

- Total assets of the State exceeded liabilities by $21.5 billion (reported as "net position") and total net position increased $1.2 billion or 6.0% over the prior year. Net position of governmental activities increased by $390.2 million or 2.6%, while the net position of business-type activities increased by $833.5 million or 15.4%.

- During the fiscal year, the State's total revenues for governmental activities of $36.7 billion were $3.2 billion more than total expenses (excluding transfers) of $33.5 billion. General revenues, primarily attributable to various taxes, totaled $16.9 billion and program revenues, primarily attributable to operating grants and contributions, totaled $15.3 billion.

Fund Level

- The governmental funds reported combined ending fund balances of $5.5 billion, an increase of $813.5 million or 17.3% in comparison with the prior year. Of this total fund balance, $57.0 million or 1.0% represents nonspendable fund balance, $4.2 billion or 76.8% represents restricted fund balance, $5.0 million or 0.1% represents committed fund balance, $421.0 million or 7.6% represents assigned fund balance and $798.6 million or 14.5% represents unassigned fund balance.

- The General Fund ended the fiscal year with a total fund balance of $4.4 billion, of which $798.6 million was classified as unassigned fund balance. Total tax revenues in the General Fund increased by $670.6 million or 4.2% over the prior year, as the economy continued to show signs of improving.

- The enterprise funds reported a net position of $6.3 billion, an increase of $833.5 million or 15.4% compared to the prior year.

Long-term Debt

The State's long-term bond debt increased $900.1 million or 8.3% during the fiscal year which represents the net difference between new issuances, payments, refunding of outstanding debt and prior period adjustments. General obligation bonds for the primary government increased by $182.9 million or 2.1% while revenue bonds for the primary government increased $717.2 million or 35.9%. The State issued new bonded debt during the year in the amount of $1.3 billion for the primary government and $364.7 million for component units.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes the State's Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements consist of three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements – Reporting the State as a Whole

The Statement of Net Position and Statement of Activities together comprise the government-wide financial statements. These statements are located in the Basic Financial Statements – Government-wide Financial Statements section and provide a broad overview of the State's financial activities as a whole. These statements are prepared with a long-term focus using the full-accrual basis of accounting, similar to private-sector businesses. This means all revenues and expenses associated with the fiscal year are recognized regardless of when cash is spent or received, and all assets, deferred outflows of resources, liabilities and deferred inflows of resources, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's net position, the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, and how they have changed from the prior year. Over time, increases and decreases in net position measure whether the State's overall financial condition is improving or deteriorating. In evaluating the State's overall condition, however, additional non-financial information should be considered such as the State's economic outlook, changes in demographics, and the condition of its capital assets and infrastructure. The government-wide statements report three activities:

Governmental Activities – The majority of the State's basic services fall under this activity including general government, education, health and welfare, transportation, public safety, economic development and assistance, culture and recreation, and conservation. Taxes and intergovernmental revenues are the major funding sources for these programs.

Business-Type Activities – The State operates certain activities much like private-sector businesses by charging fees to customers that are intended to recover all or a significant portion of their costs of providing goods and services. Unemployment Compensation Fund, the self-insured State Health Benefit Plan (SHBP), and the Higher Education Fund are some examples of business-type activities.

Component Units – Certain entities are legally separate from the State; however, the State remains financially accountable for them. Georgia Environmental Finance Authority, Georgia Housing and Finance Authority, and Georgia Lottery Corporation are examples of component units.

Fund Financial Statements – Reporting the State's Most Significant Funds

The fund financial statements provide detailed information about individual major funds, not the State as whole, and are located in the Basic Financial Statements – Fund Financial Statements section. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses funds to ensure and demonstrate compliance with finance-related and legal requirements. All of the State funds are divided into three types, each of which use a different accounting approach and should be interpreted differently.

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds and are essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds use the modified accrual basis of accounting, and focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. These statements provide a detailed short-term view of the State's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the State.

Proprietary Funds – The Proprietary funds, which include enterprise funds and internal service funds, account for state activities that are similar to private-sector businesses. Similar to government-wide statements, proprietary fund statements are presented using the full-accrual basis of accounting. Activities whose customers are mostly outside of state government are accounted for in enterprise funds and are the same functions reported as business-type activities. The enterprise fund financial statements provide more detail and additional information than in the government-wide statements, such as cash flows. Activities whose customers are mostly other state entities are accounted for in internal service funds. The internal service fund activities are allocated proportionately between the governmental activities (predominately) and the business-type activities in the government-wide statements based on the benefit of the services provided to those activities.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the state government. The State is responsible for ensuring these assets are used for their intended purposes. Fiduciary funds use full-accrual accounting, but are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs.

Reconciliation between Government-wide and Fund Statements

This report also includes two schedules that reconcile and explain the differences between the amounts reported for the governmental activities on the government–wide statements (full-accrual accounting, long-term focus) with amounts reported on the governmental fund statements (modified accrual accounting, short-term focus). The schedules are located in the Basic Financial Statements – Fund Financial Statements – Governmental Funds section. The following represent some of the reporting differences between the two statements:

- Capital outlays result in capital assets on the government-wide statements, but are reported as expenditures in the governmental fund financial statements.
- Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements.
- Bond proceeds are recorded as long-term debt on the government-wide statements, but provide current financial resources on the fund governmental fund statements.

Notes to the Financial Statements

The Notes to the Financial Statements located at the end of the Basic Financial Statements section provide additional information that is essential to a complete understanding of the financial statements. The notes are applicable to both the government-wide financial statements and the fund financial statements.

Other Required Information

In addition to this MD&A, which is required supplementary information, the Basic Financial Statements are followed by a section of other required supplementary information that further explains and supports the information in the financial statements. This section of the report includes: (1) the State's funding progress for other postemployment benefits and (2) a budgetary comparison schedule of the General Fund (Budget Fund), including reconciliations of revenues and expenditures on the statutory and GAAP basis for the fiscal year. Supplementary information includes combining financial statements for the State's nonmajor governmental funds, nonmajor enterprise funds, internal service funds, fiduciary funds and nonmajor component units. The total columns of these combining financial statements carry forward to the applicable fund financial statements.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Position

Governmental entities are required by Generally Accepted Accounting Principles (GAAP) to report on their net position. The Statement of Net Position presents the value of all of the State's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. The State reported net position of $21.5 billion, comprised of $20.2 billion invested in capital assets net of related debt, and $4.1 billion in restricted net position, offset by an unrestricted net position deficit of $2.8 billion.

The following table was derived from the current and prior year government-wide Statements of Net Position:

Table 1 - Net Position

As of June 30, 2013 and 2012 (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Assets						
Non-capital Assets	$ 10,205,165	$ 9,159,740	$ 3,224,425	$ 2,781,320	$ 13,429,590	$ 11,941,060
Net Capital Assets	20,765,907	21,190,989	10,083,503	9,706,909	30,849,410	30,897,898
Total Assets	30,971,072	30,350,729	13,307,928	12,488,229	44,279,000	42,838,958
Deferred Outflows of Resources	-	-	7,610	-	7,610	-
Liabilities						
Noncurrent Liabilities	11,151,174	11,177,932	5,772,232	6,004,034	16,923,406	17,181,966
Current Liabilities	4,562,402	4,305,506	1,210,371	1,062,624	5,772,773	5,368,130
Total Liabilities	15,713,576	15,483,438	6,982,603	7,066,658	22,696,179	22,550,096
Deferred Inflows of Resources	-	-	77,884	-	77,884	-
Net Position						
Net Investment in Capital Assets	13,737,276	13,355,209	6,502,029	6,257,436	20,239,305	19,612,645
Restricted	3,301,316	3,968,493	816,428	457,265	4,117,744	4,425,758
Unrestricted	(1,781,096)	(2,456,411)	(1,063,406)	(1,293,130)	(2,844,502)	(3,749,541)
Total Net Position	$ 15,257,496	$ 14,867,291	$ 6,255,051	$ 5,421,571	$ 21,512,547	$ 20,288,862

Net position reported for governmental activities increased by $390.2 million or 2.6% in fiscal year 2013. Unrestricted net position for governmental activities, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, had a deficit of $1.8 billion at June 30, 2013, down from $2.5 billion in 2012. The deficit in unrestricted governmental net position exists primarily because the State has issued debt for purposes not resulting in a capital asset related to State governmental activities. The unrestricted net position deficit decreased by $675.3 million in 2013 primarily due to increased tax revenues and relatively stable expenditures.

The net position for business-type activities increased by $833.5 million or 15.4% in fiscal year 2013. Restricted net position increased by $359.2 million or 78.5% primarily due to an increase in permanent trusts of $238.1 million. The deficit in unrestricted net position decreased by $229.7 million with a corresponding increase in investment in capital assets of $244.6 million.

Changes in Net Position

The State received a majority (47.9%) of its revenues from operating grants and contributions, primarily from federal sources and 35.3% from taxes. In the prior year, grants and contributions were 48.9% and taxes accounted for 35.5% of total revenues. Charges for goods and services such as licenses, permits, liquor sales, park and court fees was 13.3% as compared to 12.9% in the prior fiscal year. Expenses for the State during fiscal year 2013 were $45.7 billion. As a result of the excess revenues over expenses, the total net position of the State increased $1.5 billion, net of transfers.

The following schedule was derived from the Government-wide Statement of Activities and summarizes the State's total revenues, expenses and changes in net position for fiscal year 2013.

Table 2 - Changes in Net Position

For the Years Ended June 30, 2013 and 2012 (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2013	2012	2013	2012	2013	2012	2012 to 2013
Revenues:							
Program Revenues:							
Charges for Services	$ 3,178,227	$ 2,828,751	$ 3,106,189	$ 2,961,426	$ 6,284,416	$ 5,790,177	8.5%
Operating Grants/Contributions	15,317,258	14,764,360	7,251,162	7,245,740	22,568,420	22,010,100	2.5%
Capital Grants/Contributions	1,310,696	1,142,924	90,665	36,157	1,401,361	1,179,081	18.9%
General Revenues:							
Taxes	16,645,352	15,974,706	-	-	16,645,352	15,974,706	4.2%
Unrestricted Investment Income	323	6,183	-	-	323	6,183	-94.8%
Unclaimed Property	138,832	83,215	-	-	138,832	83,215	66.8%
Other	126,862	12,909	-	-	126,862	12,909	882.7%
Total Revenues	36,717,550	34,813,048	10,448,016	10,243,323	47,165,566	45,056,371	4.7%
Expenses:							
General Government	1,606,626	1,326,657	-	-	1,606,626	1,326,657	21.1%
Education	10,770,532	10,100,155	-	-	10,770,532	10,100,155	6.6%
Health and Welfare	16,033,221	15,657,704	-	-	16,033,221	15,657,704	2.4%
Transportation	1,656,662	1,519,707	-	-	1,656,662	1,519,707	9.0%
Public Safety	2,012,501	1,912,814	-	-	2,012,501	1,912,814	5.2%
Economic Development and Assistance	515,874	783,308	-	-	515,874	783,308	-34.1%
Culture and Recreation	240,018	233,043	-	-	240,018	233,043	3.0%
Conservation	51,038	50,334	-	-	51,038	50,334	1.4%
Interest and Other Charges on Long-term Debt	616,328	638,775	-	-	616,328	638,775	-3.5%
Higher Education Fund	-	-	7,931,918	7,916,281	7,931,918	7,916,281	0.2%
State Health Benefit Plan	-	-	2,193,829	2,362,677	2,193,829	2,362,677	-7.1%
Unemployment Compensation Fund	-	-	1,858,989	2,240,295	1,858,989	2,240,295	-17.0%
Nonmajor Enterprise Funds	-	-	191,949	35,735	191,949	35,735	437.1%
Total Expenses	33,502,800	32,222,497	12,176,685	12,554,988	45,679,485	44,777,485	2.0%
Increase (Decrease) in Net Position Before Contributions and Transfers	3,214,750	2,590,551	(1,728,669)	(2,311,665)	1,486,081	278,886	
Contributions to Permanent Endowments	-	-	1,231	-	1,231	-	
Transfers	(2,377,595)	(2,346,986)	2,377,595	2,346,986	-	-	
Change in Net Position	837,155	243,565	650,157	35,321	1,487,312	278,886	
Net Position July 1 - Restated	14,420,341	14,623,726	5,604,894	5,386,250	20,025,235	20,009,976	
Net Position June 30	$ 15,257,496	$ 14,867,291	$ 6,255,051	$ 5,421,571	$ 21,512,547	$ 20,288,862	6.0%

Governmental Activities

The State's total governmental revenues from all sources increased $1.9 billion or 5.5%. Charges for Services increased $349.5 million or 12.4%. Operating and capital grants and contributions increased a total of $720.7 million or 4.5%. Tax revenues increased $670.7 million or 4.2%.

The following table shows to what extent program revenues (charges for services and grants) covered program expenses. For fiscal year 2013, program revenues covered $19.8 billion or 59.1% of $33.5 billion in total program expenses. The remaining $13.7 billion or 40.9% of the total program expenses, the State relied on state taxes and other general revenues.

Table 3 – Net Program Revenue

For the Years Ended June 30, 2013 and 2012 (in thousands)

	Program Expenses	Less Program Revenues	Net Program (Expense) / Revenue		Program Revenues as a Percentage of Program Expenses	
	2013	2013	2013	2012	2013	2012
Functions/Programs						
Primary Government						
Governmental Activities:						
General Government	$ 1,606,626	$ 2,720,439	$ 1,113,813	$ 951,971	169.3%	171.8%
Education	10,770,532	2,441,117	(8,329,415)	(7,984,398)	22.7%	20.9%
Health and Welfare	16,033,221	12,263,583	(3,769,638)	(3,830,004)	76.5%	75.5%
Transportation	1,656,662	1,322,162	(334,500)	(301,612)	79.8%	80.2%
Public Safety	2,012,501	345,385	(1,667,116)	(1,558,578)	17.2%	18.5%
Economic Development and Assistance	515,874	488,405	(27,469)	(78,523)	94.7%	90.0%
Culture and Recreation	240,018	206,808	(33,210)	(19,642)	86.2%	91.6%
Conservation	51,038	18,282	(32,756)	(26,901)	35.8%	46.6%
Interest and Other Charges on Long-Term Debt	616,328	-	(616,328)	(638,775)	0.0%	0.0%
Total Governmental Activities	$ 33,502,800	$ 19,806,181	$(13,696,619)	$(13,486,462)	59.1%	58.1%

Business-Type Activities

Net position of business-type activities increased by $833.5 million or 15.4% during the fiscal year. Operating revenues from the State's business-type activities increased $204.7 million or 2.0% from the prior year. This was primarily due to an increase in revenue from Charges for Services. Total operating expenses for the State's business-type activities decreased $378.3 million or 3.0%. This decrease is attributable to lower expenses in the Unemployment Compensation Fund and the State Health Benefit Plan.

In fiscal year 2013, business-type activities expenses were funded 85.8% or $10.4 billion from program revenues compared to 81.6% or $10.2 billion in the prior year. The remaining expenses were funded by $2.4 billion in transfers from governmental activities to the Higher Education Fund.

FINANCIAL ANALYSIS OF THE STATE'S GOVERNMENTAL FUNDS

Fund Balances

At June 30, 2013, the State's governmental funds reported combined ending fund balance of $5.5 billion. Of this amount, $57.0 million or 1.0% is nonspendable, either due to its form or legal constraints, and $4.2 billion or 76.8% is restricted for specific programs by constitutional provisions, external constraints, or contractual obligations. Net position that is restricted by the Constitution principally includes motor fuel taxes that can be used only to build roads and bridges and lottery funds held for education purposes. Restrictions by external parties include general obligation bonds that can only be used for authorized capital projects. Additionally, $5.0 million or 0.1% of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the General Assembly and Governor. An additional $421.0 million or 7.6% of total fund balance has been assigned to specific purposes, as expressed by the intent of State management. The remaining $798.6 million or 14.5% of fund balance is unassigned.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the General Fund reflected a total fund balance of $4.4 billion. The net change in fund balance during the fiscal year was $693.9 million or 15.8% compared to $5.8 million or 0.2% net change in the prior year. The General Fund ended the year with an unrestricted, unassigned fund balance of $798.6 million.

Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $36.5 billion in the fiscal year, an increase of $1.9 billion or 5.4% from the prior year. Factors contributing to this change included the following:

- Taxes increased $670.7 million or 4.2% from the prior year.
- Federal Revenues increased by $640.8 million or 4.2% from the prior year.
- Licenses and Permits increased by $160.0 million or 27.0% from the prior year
- Fines and Forfeits increased by $157.4 million or 34.9% from the prior year

Expenditures

Expenditures of the General Fund totaled $32.6 billion in the fiscal year, an increase of $1.2 billion or 3.8% from the prior year. Factors contributing to this change included the following:

- Education expenditures increased $669.6 million or 6.6% from the prior year.
- Health and Welfare expenditures increased $362.3 million or 2.3% from the prior year.

Capital Project Fund - General Obligation Bond Projects Fund

Fund balance in the General Obligation Bond Projects Fund increased by $94.9 million or 10.4% from the prior year. This was primarily the result of general revenues, debt issuances, and transfers in exceeding capital expenditures and transfers out. The State issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and equipment.

FINANCIAL ANALYSIS OF THE STATE'S PROPRIETARY FUNDS

Higher Education

The net position of the Higher Education Fund increased $107.7 million or 1.8% compared to the prior year, before restatements. Net Investment in Capital Assets increased by $220.8 million or 3.5%. Restricted fund balance increased $122.8 million due to an increase in Capital Projects and Permanent Trusts. Operating revenues of the Fund increased $109.0 million or 2.5% due to increases in net student tuition and fees revenue of $45.7 million and sales and services of $40.3 million. These increases are attributable to increased enrollments. In addition, the Higher Education Fund received $2.1 billion in transfers in from the General Fund, an increase of $45.3 million or 2.2% compared to the prior year. Fiscal year 2013 operating expenses increased $59.1 million or 0.8% compared to the prior year.

State Health Benefit Plan

The Operating Revenues for the State Health Benefit Plan (SHBP) increased by $63.0 million and Operating Expenses decreased by $168.8 million. SHBP net position improved from a deficit of $272.5 million to a deficit of $129.7 million.

Unemployment Compensation

The State's average unemployment rate for the fiscal year 2013 improved from 9.1% to 8.5%. As a result, fewer claims were submitted and benefit payments decreased $381.3 million or 17.0% this year compared to last fiscal year. Due to this small improvement in the economy, employer unemployment rates were reduced and the corresponding unemployment tax revenue decreased by $119.2 million or 5.2%. Employer taxes and other revenues exceeded benefit payments by $310.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's capital assets decreased a net $48.5 million or 0.2% during the year. The change consisted of a net increase in infrastructure of $894.4 million and net increases in land of $228.3 million, buildings and improvements of $239.0 million; machinery and equipment of $45.2 million; with a corresponding decrease of construction in progress of $1.5 billion.

Additional information on the State's capital assets can be found in Note 7 of the Notes to the Financial Statements section of this report.

(Table on next page)

Table 4 - Capital Assets, Net of Accumulated Depreciation

As of June 30, 2013 and 2012 (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Buildings/Building Improvements	$ 2,040,280	$ 2,073,789	$ 6,243,780	$ 5,971,263	$ 8,284,060	$ 8,045,052
Improvements Other Than Buildings	55,146	52,220	255,079	231,221	310,225	283,441
Infrastructure	11,853,096	10,971,630	210,149	197,199	12,063,245	11,168,829
Intangibles - Other Than Software	94,492	92,501	-	-	94,492	92,501
Land	3,410,333	3,219,473	411,910	374,472	3,822,243	3,593,945
Library Collections	-	-	172,064	175,462	172,064	175,462
Machinery and Equipment	212,978	192,793	2,505,760	2,480,774	2,718,738	2,673,567
Software	67,804	75,523	10,558	6,287	78,362	81,810
Works of Art and Collections	1,326	1,326	51,004	47,636	52,330	48,962
Construction in Progress	3,030,452	4,511,734	223,199	222,595	3,253,651	4,734,329
Total	**$ 20,765,907**	**$ 21,190,989**	**$ 10,083,503**	**$ 9,706,909**	**$ 30,849,410**	**$ 30,897,898**

Debt Administration

The Constitution authorizes issuing general obligation debt only as approved by the Legislature and prohibits the issuance of general obligation bonds for operating purposes. The Constitution requires the State to maintain a reserve sufficient to pay annual debt service requirements on all general obligation debt. If for any reason the reserve balance is insufficient to make, when due, all debt service payments, the first revenues received thereafter in the General Fund will be set aside for such use. The Constitution also stipulates that no debt may be incurred when the highest aggregate annual debt service requirements for any year for outstanding general obligation debt and guaranteed revenue debt, including proposed debt, exceed 10% of the total revenue receipts, less refunds in the state treasury, in the fiscal year immediately preceding the year in which any such debt is to be incurred. At June 30, 2013, the State was $542.3 million below the annual debt service limit established by the Constitution.

Table 5 - Net Outstanding Bond Debt

As of June 30, 2013 and 2012 (in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	$ 9,072,784	$ 8,889,868	$ -	$ -	$ 9,072,784	$ 8,889,868
GARVEE Revenue Bonds	1,095,153	1,236,119	-	-	1,095,153	1,236,119
Revenue Bonds	408,772	442,626	1,211,200	319,248	1,619,972	761,874
	$ 10,576,709	$ 10,568,613	$ 1,211,200	$ 319,248	$ 11,787,909	$ 10,887,861

At the end of the fiscal year, the State had total bonded debt outstanding of $11.8 billion. Of this amount $9.5 billion (not including deferred charges, premiums, and discounts) or 80.4% is secured by the full faith and credit of the government (general obligation bonds and guaranteed revenue bonds), and $1.1 billion or 10.3% in State Road and Tollway Authority GARVEE debt secured by Federal Highway funds and state motor fuel funds.

Total general obligation bonds and revenue bonds payable net of premiums, discounts and deferred amounts on refunding increased $182.9 million or 2.1% and increased $717.1 million or 35.9% respectively. During the fiscal year, the State issued $1.3 billion of general obligation bonds. Of the general obligation bonds issued, $412.7

million was issued for higher education facilities, $62.2 million was used for K-12 school facilities, $70.9 million for water and sewer loans to local governments, $150.0 million for projects and facilities of the Georgia Ports Authority, $486.8 million to refund existing general obligation bonds, and $139.1 million for various state agency facilities.

The State maintains a triple-A bond rating on its general obligation debt from all three national rating agencies. These ratings, the highest available, help the State achieve the lowest possible interest rates. Additional information regarding the State's outstanding debt can be found in Note 8 of the Notes to the Financial Statements section.

BUDGETARY HIGHLIGHTS

Fiscal Performance

Fiscal conditions improved for the State during fiscal year 2013 as net revenue collections were $18.3 billion or 5.9% greater than fiscal year 2012. Net Revenue Collections deposited with the Office of the State Treasurer during fiscal year 2013 were $135.2 million more than the initial revenue estimate per budget. Of the major tax sources, corporate and personal income tax collections were the largest components of overall tax growth at $206.6 million or 35.0% and $629.9 million or 7.7%, respectively. See table below for more details:

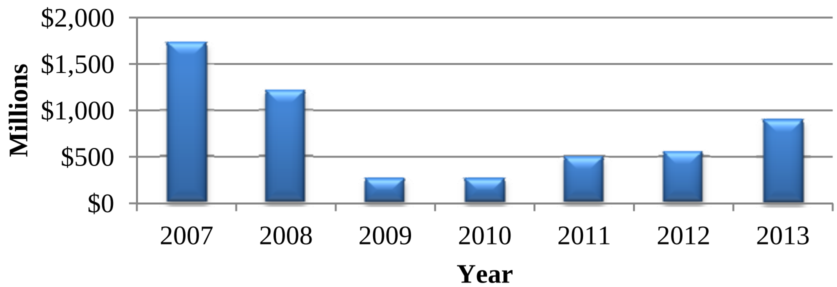
	FY 2012 Actual	FY 2013 Budget	FY 2013 Actual	% Change to FY 2012 Actual	FY 2014 Budget	% Change to FY 2013 Actual
Tax Revenues						
Personal Income Tax	$ 8,142,370,500	$ 8,485,664,017	$ 8,772,227,404	7.74%	$ 8,895,846,000	1.41%
Corporate Income Tax	590,676,110	706,325,000	797,255,429	34.97%	775,314,000	-2.75%
Sales and Use Tax	5,303,524,233	5,225,951,123	5,277,211,183	-0.50%	5,094,297,000	-3.47%
Motor Fuel Tax	1,019,300,803	979,423,000	1,000,625,732	-1.83%	972,027,000	-2.86%
Tobacco Tax	227,146,091	228,054,675	211,618,073	-6.84%	232,268,000	9.76%
Alcoholic Beverages Tax	175,050,571	179,251,785	180,785,957	3.28%	181,044,303	0.14%
Property Tax	68,951,095	50,540,240	53,491,655	-22.42%	31,395,827	-41.31%
Insurance Premium Tax	309,192,735	348,919,500	329,236,920	6.48%	356,919,500	8.41%
Motor Vehicle Tax	308,342,308	315,742,523	457,490,366	48.37%	325,214,799	-28.91%
Title Fee	-	264,000,000	-	0.00%	733,000,000	100.00%
Estate Tax	27,923	-	(15,351,947)	100.00%	-	-100.00%
Total Tax Revenues	16,144,582,369	16,783,871,863	17,064,590,773	5.70%	17,597,326,429	3.12%
Fees and Sales	1,125,393,105	1,196,011,768	1,231,267,815	9.41%	1,201,022,161	-2.46%
Total General Fund Revenues	$ 17,269,975,474	$ 17,979,883,631	$ 18,295,858,588	5.94%	$ 18,798,348,590	2.75%

Revenue Shortfall Reserve (RSR)

The State maintains the RSR which provides for the sound management of excess revenue collections in any given fiscal year. By statute, all surplus state funds existing at the end of each fiscal year shall be reserved and added to the RSR. Funds in the RSR carry forward from fiscal year to fiscal year without reverting to the revenue collections fund within the General Fund at the end of a fiscal year. Each fiscal year, the General Assembly may appropriate from the RSR an amount up to 1% of the net revenue collections of the preceding fiscal year for funding increased K-12 education needs. Also, the Governor may release for appropriation by the General Assembly a stated amount of reserve funds in the RSR that are in excess of 4% of the net revenue collections of the preceding fiscal year. The RSR cannot exceed 15% of the previous fiscal year's net revenue collections.

As the State continues to address the effects of one of the worst economic downturns in recent history, the ending balance in the RSR is a critical tool in helping to address budget shortfalls. After reaching a peak in fiscal year 2007 at $1.7 billion (9.2% of net revenue collections), the State's RSR balance declined to a low of $268.2 million (1.8% of net revenue collections) in fiscal year 2010. The RSR increased to $494.0 in 2011 and $550.7 million in 2012. In 2013, the RSR increased by $349.6 million and has a current balance of $900.3 million including audited agency lapse (approximately $218.2 million). The increase to the RSR was accomplished due to revenue collections exceeding revenue estimates ($316.0 million), reduction of agency allotment balances, and return of unexpended and unobligated funds by agencies. By statute, 1% of fiscal year 2013 net revenue collections ($183.0 million) is available from the RSR for the mid-year K-12 education appropriation adjustment in the Amended fiscal year 2013 budget. However, this amount had not been appropriated as of the date of this report.

Revenue Shortfall Reserve



ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

<u>2013 Budget Highlights</u>

Georgia had a strong finish to fiscal year 2013

Tax revenue collections were up 5.7% and total budgetary revenue collections were up 5.9% over fiscal year 2012, exceeding the revenue estimate for the General Fund by 1.8% and enabling the state to add substantially to the RSR. As a result, the RSR has a balance of $900.3 million prior to the allowance for the 1% mid-year adjustment for K-12 in the amended fiscal year 2014 budget and after the lapse of additional fiscal year 2013 agency surplus.

Year-to-date revenue performance continues to exceed projections

Georgia's fiscal year 2014 YTD tax revenue collections reported by the Department of Revenue are, through September, up 5.8% over the same period for fiscal year 2013 tax revenue and total State general funds collections are running ahead of budgeted growth (5.5% actual vs. 2.7% budget). Individual income tax, which is the largest component of General Fund revenues, is up 4.9%.

Economic Highlights

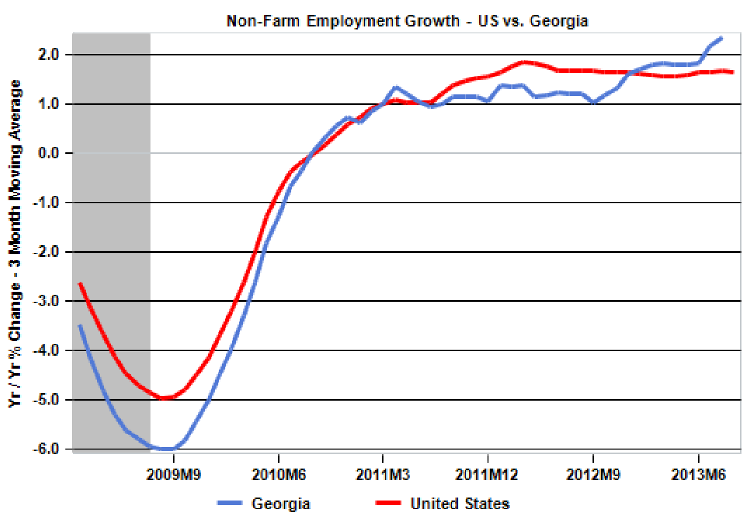
The Moderate Economic Recovery Continues, but Risks Are Significant

The U.S. economy has been in recovery for nearly four years and GDP growth has picked up several times only to slow again. The slow pace of recovery has left unemployment high and the economy growing below its long-term potential. The national economy has sustained its recovery through the end of the payroll tax holiday, the imposition of higher marginal tax rates on high income taxpayers, and the initial stages of sequestration. The government shutdown and debt limit fight added another drag from federal policy actions/uncertainty to economic growth.

Georgia's economy also is experiencing a moderate recovery with growth in employment, home prices, and residential construction permits. While a moderate economic recovery is expected to continue, there are significant risks to continued growth, with federal fiscal policy the biggest threat.

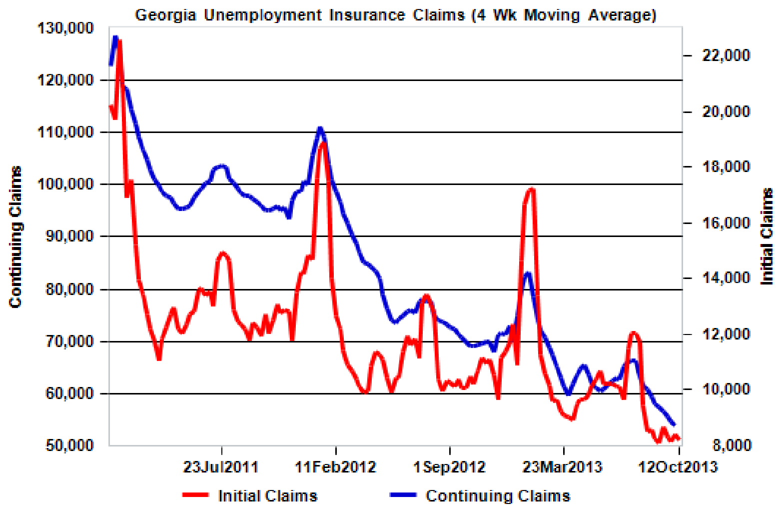
Employment Situation

- As of September 2013, the U.S. labor market growth is running at 143,000 new jobs per month and the U.S. unemployment rate is 7.2% as of September.
- By comparison, Georgia added 91,600 net new jobs over the last twelve months. Year over year growth in employment in Georgia equals 2.3% on a three month moving average basis as of August. Georgia's growth rate exceeds the comparable rate through August for the U.S. employment growth of 1.7%. Georgia's unemployment rate of 8.7% as of August is higher than the national rate.



Unemployment Insurance Claims

- Initial unemployment insurance claims reflect a gradually improving labor market in the U.S. and in Georgia and are well below year ago levels.



Employment Data

- Seven sectors are showing positive year over year growth on a three month moving average basis. These include professional and business services; leisure and hospitality; education and health; information; and trade, transportation, and utilities.
- Georgia's construction and finance sectors were hit very hard by the downturn in housing. Both sectors have finally begun to show year over year growth in employment. Manufacturing employment is near flat while other services and government are showing small declines in employment.
- Employment growth is well diversified across metro areas in the state. The Atlanta metro area leads all Georgia metro areas with year over year growth averaging 2.7%. Eight of the fourteen metro areas tracked are seeing positive growth and three metro areas are seeing small year over year declines.

State Economic Development Programs

Georgia has several key economic development programs designed to attract and retain new or expanding businesses to the state through the availability of grants or low-interest loans for capital needs and free-of-charge customized training for their workforce.

OneGeorgia Authority Grants and Loans

- The EDGE, Equity, and ESB programs provide grants or low interest loans for capital assets to rural Georgia communities to enable Georgia's communities to compete nationally in attracting businesses.
- Since 2011, OneGeorgia has awarded nearly $98 million in grants and loans, which has resulted in over $4.3 billion in private investment and the creation of over 13,500 new jobs.

Regional Economic Business Assistance (REBA) Grants

- REBA provides grant awards to both metropolitan and rural Georgia communities for capital assets necessary to recruit or retain businesses in the state.
- Since 2011, the REBA program has awarded nearly $9.5 million in grants, which has resulted in over $964 million in private investment and the creation of 5,500 new jobs.

Quick Start

- Quick Start provides comprehensive, customized, and free-of-charge training through Georgia's technical college system to qualified new, expanding, or existing businesses.
- During fiscal year13, delivered 133 projects across the entire state, helping create or retain 12,438 jobs. 70% of trainees located outside Metro Atlanta, 38% of projects were with international companies from 15 different countries.

Georgia will maintain a cautious approach to the Amended fiscal year 2014 and fiscal year 2015 budgets

Due to uncertainty in federal fiscal policy, Georgia continues to take a conservative approach to the current and upcoming fiscal years. The current enacted fiscal year 2014 budget assumes tax revenue growth of 4.8% over the Amended fiscal year 2013 budget estimate. Compared to actual revenues for fiscal year 2013, the budget is balanced to 3.1% total tax revenue growth.

While revenue performance has been strong to date, budget instructions issued in July for Amended fiscal year 2014 and fiscal year 2015 required flat budget requests from state agencies. As in previous years, both the Amended fiscal year 2014 and fiscal year 2015 budget cost drivers will be in the areas of education and health care. Both budgets will accommodate funding needs for enrollment growth in K-12 education and additional costs to Medicaid associated with the Affordable Care Act.

Georgia has not yet seen a significant impact on state agency operations as a result of federal fiscal year 2013 sequestration reductions. The administration continues to work closely with state agencies in monitoring the federal budget and preparing contingency plans, but does not anticipate replacing any federal dollars except in life/safety emergency situations.

The State must submit its budget recommendations to the General Assembly in early January 2014 and will continue to monitor revenue trends and economic and political events to factor into potential adjustments to the revenue estimates.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State's finances for all of the State's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State Accounting Office, 200 Piedmont Avenue, Suite 1604 West Tower, and Atlanta, Georgia 30334-9010.

BASIC FINANCIAL STATEMENTS

STATE OF GEORGIA

CONSTITUTION

WISDOM JUSTICE MODERATION

1776

State of Georgia

Statement of Net Position
June 30, 2013
(dollars in thousands)

	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents	$ 2,373,455	$ 1,742,607	$ 4,116,062	$ 1,187,053
Investments	3,355,111	461,751	3,816,862	1,978,011
Receivables (Net)	3,977,931	674,609	4,652,540	4,024,017
Due from Primary Government	-	-	-	4,558
Due from Component Units	58,999	141,637	200,636	-
Internal Balances	260,268	(260,268)	-	-
Inventories	44,756	31,766	76,522	27,523
Prepaid Items	23,740	79,733	103,473	19,593
Other Assets	43,184	36,409	79,593	316,649
Restricted Assets				
Cash and Cash Equivalents	45,357	92,557	137,914	344,469
Investments	22,364	223,624	245,988	1,552,963
Receivables (Net)	-	-	-	854,558
Capital Assets				
Nondepreciable	6,536,198	679,501	7,215,699	499,669
Depreciable (Net of Accumulated Depreciation)	14,229,709	9,404,002	23,633,711	1,773,598
Total Assets	30,971,072	13,307,928	44,279,000	12,582,661
Deferred Outflows of Resources				
Accumulated Decrease in Fair Value of Hedging Derivatives	-	7,610	7,610	7,722
Liabilities				
Accounts Payable and Accrued Liabilities	2,397,067	292,354	2,689,421	268,011
Due to Primary Government	-	-	-	200,636
Due to Component Units	221	4,337	4,558	-
Benefits Payable	907,018	275,379	1,182,397	-
Accrued Interest Payable	189,601	674	190,275	5,547
Contracts Payable	133,797	17,063	150,860	16,972
Funds Held for Others	117,539	47,357	164,896	689
Unearned Revenue	145,801	526,651	672,452	812,643
Claims and Judgments Payable	574,861	-	574,861	4,412
Other Liabilities	96,497	46,556	143,053	326,048
Noncurrent Liabilities:				
Due within one year	1,050,087	193,829	1,243,916	197,575
Due in more than one year	10,101,087	5,578,403	15,679,490	3,818,818
Total Liabilities	15,713,576	6,982,603	22,696,179	5,651,351
Deferred Inflows of Resources				
Deferred Service Concession Arrangement Receipts	-	77,884	77,884	-
Net Position				
Net Investment in Capital Assets	13,737,276	6,502,029	20,239,305	1,410,007
Restricted for:				
Bond Covenants/Debt Service	-	-	-	105,930
Capital Projects	-	75,188	75,188	82,609
Guaranteed Revenue Debt Common Reserve Fund	54,003	-	54,003	-
Loan and Grant Programs	-	-	-	1,420,138
Lottery for Education	774,143	-	774,143	-
Motor Fuel Tax Funds	1,765,378	-	1,765,378	-
Permanent Trusts:				
Nonexpendable	14	257,823	257,837	1,087,079
Expendable	-	399,070	399,070	1,024,571
Unemployment Compensation Benefits	-	61,133	61,133	-
Other Purposes	707,778	23,214	730,992	44,335
Unrestricted	(1,781,096)	(1,063,406)	(2,844,502)	1,764,363
Total Net Position	$ 15,257,496	$ 6,255,051	$ 21,512,547	$ 6,939,032

The notes to the financial statements are an integral part of this statement.

Statement of Activities
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

		Program Revenues		
	Expenses	Sales and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
General Government	$ 1,606,626	$ 2,205,860	$ 501,157	$ 13,422
Education	10,770,532	8,951	2,432,166	-
Health and Welfare	16,033,221	576,110	11,686,863	610
Transportation	1,656,662	23,393	17,859	1,280,910
Public Safety	2,012,501	161,190	169,265	14,930
Economic Development and Assistance	515,874	70,459	417,946	-
Culture and Recreation	240,018	124,810	81,998	-
Conservation	51,038	7,454	10,004	824
Interest and Other Charges on Long-Term Debt	616,328	-	-	-
Total Governmental Activities	33,502,800	3,178,227	15,317,258	1,310,696
Business-type Activities:				
Higher Education Fund	7,931,918	2,992,037	2,652,244	88,169
State Health Benefit Plan	2,193,829	-	2,336,582	-
Unemployment Compensation Fund	1,858,989	-	2,169,765	-
Nonmajor Enterprise Fund	191,949	114,152	92,571	2,496
Total Business-type Activities	12,176,685	3,106,189	7,251,162	90,665
Total Primary Government	$ 45,679,485	$ 6,284,416	$ 22,568,420	$ 1,401,361
Component Units				
Georgia Environmental Finance Authority	$ 53,624	$ 78,830	$ 164,401	$ -
Georgia Housing and Finance Authority	156,958	22,079	131,254	-
Georgia Lottery Corporation	3,657,983	3,640,269	1	-
Georgia Ports Authority	287,219	292,583	16,407	11,882
Georgia Tech Foundation, Incorporated	130,763	15,012	119,901	31,740
Nonmajor Component Units	2,287,930	1,127,303	1,109,973	36,272
Total Component Units	$ 6,574,477	$ 5,176,076	$ 1,541,937	$ 79,894

General Revenues:
Taxes
Personal Income Taxes
General Sales Taxes
Other Taxes
Unrestricted Investment Income
Unclaimed Property
Other
Payments from the State of Georgia
Contributions to Permanent Endowments
Transfers
Total General Revenues, Contributions to Permanent Endowments and Transfers
Change in Net Position
Net Position - Beginning - Restated (Note 3)
Net Position - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ 1,113,813		$ 1,113,813	
(8,329,415)		(8,329,415)	
(3,769,638)		(3,769,638)	
(334,500)		(334,500)	
(1,667,116)		(1,667,116)	
(27,469)		(27,469)	
(33,210)		(33,210)	
(32,756)		(32,756)	
(616,328)		(616,328)	
(13,696,619)		(13,696,619)	
	$ (2,199,468)	(2,199,468)	
	142,753	142,753	
	310,776	310,776	
	17,270	17,270	
	(1,728,669)	(1,728,669)	
(13,696,619)	(1,728,669)	(15,425,288)	
			$ 189,607
			(3,625)
			(17,713)
			33,653
			35,890
			(14,382)
			223,430
8,854,916	-	8,854,916	-
5,082,342	-	5,082,342	-
2,708,094	-	2,708,094	29,164
323	-	323	-
138,832	-	138,832	-
126,862	-	126,862	-
-	-	-	64,886
-	1,231	1,231	50,287
(2,377,595)	2,377,595	-	-
14,533,774	2,378,826	16,912,600	144,337
837,155	650,157	1,487,312	367,767
14,420,341	5,604,894	20,025,235	6,571,265
$ 15,257,496	$ 6,255,051	$ 21,512,547	$ 6,939,032

Balance Sheet
Governmental Funds
June 30, 2013
(dollars in thousands)

	General Fund	General Obligation Bond Projects Fund	Nonmajor Funds	Total
Assets				
Cash and Cash Equivalents	$ 2,312,746	$ -	$ 41,126	$ 2,353,872
Investments	2,078,565	1,155,243	13,511	3,247,319
Receivables (Net)	3,905,386	2,256	11,287	3,918,929
Due from Other Funds	1,087	-	1,306	2,393
Due from Component Units	58,944	-	-	58,944
Inventories	31,639	-	-	31,639
Restricted Assets				
Cash and Cash Equivalents	16,508	-	28,849	45,357
Investments	8,149	-	14,215	22,364
Advances to Primary Government	-	-	7,725	7,725
Other Assets	37,394	-	-	37,394
Total Assets	$ 8,450,418	$ 1,157,499	$ 118,019	$ 9,725,936
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Other Accruals	$ 2,313,432	$ 49,720	$ 539	$ 2,363,691
Due to Other Funds	401,755	-	625	402,380
Due to Component Units	221	-	-	221
Benefits Payable	907,018	-	-	907,018
Contracts Payable	121,150	11,895	750	133,795
Undistributed Local Government Sales Tax	4,300	-	-	4,300
Funds Held for Others	116,984	-	-	116,984
Deferred Revenue	145,466	16	-	145,482
Other Liabilities	36,576	91,745	-	128,321
Total Liabilities	4,046,902	153,376	1,914	4,202,192
Fund Balances:				
Nonspendable	56,937	-	14	56,951
Restricted	3,177,010	982,151	83,002	4,242,163
Unrestricted				
Committed	4,954	-	-	4,954
Assigned	365,985	21,972	33,089	421,046
Unassigned	798,630	-	-	798,630
Total Fund Balances	4,403,516	1,004,123	116,105	5,523,744
Total Liabilities and Fund Balances	$ 8,450,418	$ 1,157,499	$ 118,019	$ 9,725,936

The notes to the financial statements are an integral part of this statement.

Reconciliation of Fund Balances
To the Statement of Net Position
June 30, 2013
(dollars in thousands)

Total Fund Balances - Governmental Funds (from previous page)		$ 5,523,744
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	$ 3,390,010	
Buildings and Building Improvements	3,212,665	
Improvements Other Than Buildings	97,071	
Machinery and Equipment	864,024	
Infrastructure	26,122,027	
Construction in Progress	3,030,451	
Works of Art and Collections	86	
Intangibles - Other Than Software	94,571	
Software	199,465	
Accumulated Depreciation	(16,560,837)	20,449,533
Bond issuance costs are reported as expenditures in the funds. However, issuance costs are deferred and amortized over the life of the bonds and are included in governmental activities in the Statement of Net Position.		28,773
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		511,074
Certain long-term liabilities, assets and related accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.		
General Obligation Bonds	(8,653,160)	
Premiums	(681,547)	
Deferred Amount on Refunding	261,923	
Accrued Interest Payable	(179,948)	
Revenue Bonds	(1,422,275)	
Premiums	(90,810)	
Deferred Amount on Refunding	9,160	
Accrued Interest Payable	(9,653)	
Capital Leases	(173,120)	
Compensated Absences	(305,200)	
Long-Term Notes	(4,000)	
Arbitrage Rebate	(4,877)	
Other	(2,121)	(11,255,628)
Total Net Position - Governmental Activities		$ 15,257,496

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	General Fund	General Obligation Bond Projects Fund	Nonmajor Funds	Total
Revenues:				
Taxes	$ 16,645,352	$ -	$ -	$ 16,645,352
Licenses and Permits	753,517	-	-	753,517
Intergovernmental - Federal	15,916,284	19,555	-	15,935,839
Intergovernmental - Other	563,329	11,654	51,740	626,723
Sales and Services	483,297	-	309	483,606
Fines and Forfeits	607,862	-	-	607,862
Interest and Other Investment Income	4,394	2,668	182	7,244
Unclaimed Property	138,832	-	-	138,832
Lottery Proceeds	927,479	-	-	927,479
Nursing Home Provider Fees	176,864	-	-	176,864
Hospital Provider Payments	232,080	-	-	232,080
Other	71,570	1,971	1,607	75,148
Total Revenues	36,520,860	35,848	53,838	36,610,546
Expenditures:				
Current:				
General Government	1,042,249	2,871	-	1,045,120
Education	10,768,786	-	-	10,768,786
Health and Welfare	16,031,121	-	-	16,031,121
Transportation	1,871,685	-	8,192	1,879,877
Public Safety	2,033,814	-	-	2,033,814
Economic Development and Assistance	490,747	-	3,269	494,016
Culture and Recreation	263,636	-	-	263,636
Conservation	51,053	-	261	51,314
Capital Outlay	-	600,128	-	600,128
Debt Service				
Principal	-	-	774,855	774,855
Interest	2	-	461,430	461,432
Accrued Interest on Bonds Retired in Advance	-	-	19	19
Discount on Bonds Retired in Advance	-	-	214	214
Other Debt Service Expenditures	-	24,965	130,092	155,057
Intergovernmental	-	138,161	-	138,161
Total Expenditures	32,553,093	766,125	1,378,332	34,697,550
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,967,767	(730,277)	(1,324,494)	1,912,996
Other Financing Sources (Uses):				
Debt Issuance - General Obligation Bonds	-	834,870	-	834,870
Debt Issuance - Refunding Bonds	-	-	486,825	486,825
Debt Issuance - General Obligation Bonds - Premium	-	124,742	-	124,742
Debt Issuance - Refunding Bonds - Premium	-	-	102,681	102,681
Payment to Refunded Bond Escrow Agent	-	-	(587,396)	(587,396)
Capital Leases	5,847	-	-	5,847
Transfers In	37,401	13,932	1,373,087	1,424,420
Transfers Out	(3,317,114)	(148,390)	(15,759)	(3,481,263)
Net Other Financing Sources (Uses)	(3,273,866)	825,154	1,359,438	(1,089,274)
Net Change in Fund Balances	693,901	94,877	34,944	823,722
Fund Balances, July 1	3,709,615	909,246	81,161	4,700,022
Fund Balances, June 30	$ 4,403,516	$ 1,004,123	$ 116,105	$ 5,523,744

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

Net Change in Fund Balances - Governmental Funds (from previous page)		$ 823,722
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay (net of losses), net of transfers to Business-Type Activities, Component Units and outside organizations.	$ 1,024,734	
Depreciation expense	(1,016,057)	8,677
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		7,689
Bond proceeds (net of issuance costs and payments to refunding escrow) provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position.		(803,800)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability.		(5,847)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces the long-term liabilities in the Statement of Net Position. Payments were made on the following long-term liabilities:		
General Obligation Bonds	735,585	
Revenue Bonds	157,965	
Notes	10,600	
Capital Leases	34,048	938,198
Internal service funds are used by management to charge the costs of certain activities to individual funds. The incorporation of the external activities of these funds, and the elimination of profit/loss generated by primary government customers results in net revenue (expense) for Governmental Activities.		(13,896)
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This adjustment combines the net changes in the following balances:		
Compensated Absences	13,774	
Accrued Interest on Bonds Payable	(34,148)	
Arbitrage Rebate	3,976	
Amortization of Deferred Amount on Refunding	42,142	
Amortization of Bond Premiums	(139,988)	
Allocation of Deferred Bond Issuance Costs	1,300	
Other	(4,644)	(117,588)
Change in Net Position - Governmental Activities		$ 837,155

The notes to the financial statements are an integral part of this statement.

Statement of Net Position
Proprietary Funds
June 30, 2013
(dollars in thousands)

	Business-type Activities - Enterprise Funds					Governmental Activities -
	Higher Education Fund	State Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Funds	Total	Internal Service Funds
Assets						
Current Assets:						
Cash and Cash Equivalents	$ 1,237,459	$ 154,622	$ 307,095	$ 41,807	$ 1,740,983	$ 57,842
Investments	228,083	76,041	-	259	304,383	33,768
Accounts Receivable (Net)	275,054	120,467	195,532	28,408	619,461	56,392
Due from Other Funds	9,619	-	-	1,417,756	1,427,375	516,087
Due from Component Units	136,728	-	-	-	136,728	54
Notes Receivable	-	-	-	2,367	2,367	-
Other Assets	102,910	-	-	29,438	132,348	14,306
Restricted Assets						
Cash and Cash Equivalents	-	-	-	50,960	50,960	5,226
Investments	-	-	-	21,911	21,911	1,260
Noncurrent Assets:						
Other Receivables	-	-	-	3,762	3,762	-
Investments	79,193	-	-	78,175	157,368	74,024
Notes Receivable	45,313	-	-	3,696	49,009	-
Due from Component Units	4,909	-	-	-	4,909	-
Other Noncurrent Assets	-	-	-	15,129	15,129	-
Restricted Assets						
Cash and Cash Equivalents	7,081	-	-	29,289	36,370	-
Investments	60,711	-	-	139,742	200,453	-
Non-Depreciable Capital Assets	661,812	-	-	17,689	679,501	21,562
Depreciable Capital Assets, net	9,373,865	-	-	24,528	9,398,393	300,419
Total Assets	12,222,737	351,130	502,627	1,904,916	14,981,410	1,080,940
Deferred Outflows of Resources						
Accumulated Decrease in Fair Value of Hedging Derivatives	-	-	-	7,610	7,610	-

(continued)

The notes to the financial statements are an integral part of this statement.

	Business-type Activities - Enterprise Funds					Governmental Activities -
	Higher Education Fund	State Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Funds	Total	Internal Service Funds
Liabilities						
Current Liabilities:						
Accounts Payable and Other Accruals	203,331	20,228	3,334	18,929	245,822	29,078
Due to Other Funds	1,248,771	41,763	-	292,627	1,583,161	1,669
Due to Component Units	4,337	-	-	-	4,337	-
Benefits Payable	33,166	224,461	17,752	-	275,379	-
Grants Payable	5,048	-	-	-	5,048	-
Unearned Revenue	263,000	194,097	23,642	4,922	485,661	319
Claims and Judgments Payable	-	-	-	-	-	574,861
Compensated Absences Payable - Current	134,864	120	-	102	135,086	2,230
Capital Leases/Installment Purchases Payable						
Component Units	24,063	-	-	-	24,063	-
Others	2,192	-	-	712	2,904	6,719
Revenue Bonds Payable	-	-	-	31,480	31,480	-
Other Current Liabilities	108,180	-	-	2,408	110,588	833
Current Liabilities Payable from Restricted Assets	-	-	-	54	54	5,014
Noncurrent Liabilities:						
Compensated Absences Payable	87,733	199	-	102	88,034	2,437
Advances from Primary Government	-	-	-	7,725	7,725	-
Capital Leases/Installment Purchases Payable						
Component Units	1,068,069	-	-	-	1,068,069	-
Others	1,272,390	-	-	2,602	1,274,992	75,925
Revenue Bonds Payable	-	-	-	1,179,720	1,179,720	-
Other Postemployment Benefit Obligation	1,562,542	-	-	-	1,562,542	-
Other Non Current Liabilities	14,115	-	396,766	23,530	434,411	180
Derivative Instrument Payable	-	-	-	7,610	7,610	-
Total Liabilities	6,031,801	480,868	441,494	1,572,523	8,526,686	699,265
Deferred Inflows of Resources						
Deferred Service Concession Arrangement Receipts	77,884	-	-	-	77,884	-
Net Position						
Net Investment in Capital Assets	6,450,748	-	-	45,673	6,496,421	239,337
Restricted for:						
Capital Projects	75,188	-	-	-	75,188	-
Other	-	-	-	23,214	23,214	-
Permanent Trusts:						
Nonexpendable	160,122	-	-	97,701	257,823	-
Expendable	318,452	-	-	80,618	399,070	-
Unemployment Compensation Benefits	-	-	61,133	-	61,133	-
Unrestricted	(891,458)	(129,738)	-	92,797	(928,399)	142,338
Total Net Position	$ 6,113,052	$ (129,738)	$ 61,133	$ 340,003	6,384,450	$ 381,675

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.	(129,399)
Net Position of Business-type Activities	$ 6,255,051

The notes to the financial statements are an integral part of this statement.


STATE OF GEORGIA
CONSTITUTION
WISDOM
JUSTICE
MODERATION
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Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	Business-type Activities - Enterprise Funds					Governmental Activities -
	Higher Education Fund	State Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Funds	Total	Internal Service Funds
Operating Revenues:						
Operating Grants and Contributions/Premiums	$ 1,544,319	$ 2,336,395	$ 2,169,765	$ 68,115	$ 6,118,594	$ 217,516
Rents and Royalties	5,247	-	-	61,835	67,082	53,087
Sales and Services	1,025,193	-	-	41,789	1,066,982	269,423
Tuition and Fees	2,436,258	-	-	-	2,436,258	-
Less: Scholarship Allowances	(607,570)	-	-	-	(607,570)	-
Other	132,909	-	-	15,045	147,954	72,654
Total Operating Revenues	4,536,356	2,336,395	2,169,765	186,784	9,229,300	612,680
Operating Expenses:						
Personal Services	4,773,736	6,080	-	3,568	4,783,384	52,104
Services and Supplies	2,028,043	113,359	-	23,120	2,164,522	350,567
Scholarships and Fellowships	448,603	-	-	350	448,953	-
Benefits	-	2,074,390	1,858,989	-	3,933,379	-
Claims and Judgments	-	-	-	-	-	192,339
Interest Expense	-	-	-	15,012	15,012	-
Depreciation	491,131	-	-	3,554	494,685	30,503
Amortization	-	-	-	6,823	6,823	-
Other	-	-	-	76,157	76,157	-
Total Operating Expenses	7,741,513	2,193,829	1,858,989	128,584	11,922,915	625,513
Operating Income (Loss)	(3,205,157)	142,566	310,776	58,200	(2,693,615)	(12,833)
Nonoperating Revenues (Expenses):						
Grants and Contributions	1,082,155	-	-	-	1,082,155	-
Interest and Other Investment Income	25,770	187	-	19,934	45,891	1,760
Interest Expense	(189,227)	-	-	(58,132)	(247,359)	-
Other	2,817	-	-	(5,212)	(2,395)	8,933
Total Nonoperating Revenues (Expenses)	921,515	187	-	(43,410)	878,292	10,693
Income (Loss) Before Contributions and Transfers	(2,283,642)	142,753	310,776	14,790	(1,815,323)	(2,140)
Contributions to Permanent Endowments	-	-	-	1,231	1,231	-
Capital Contributions	393,499	-	-	2,496	395,995	1,895
Total Contributions	393,499	-	-	3,727	397,226	1,895
Transfers:						
Transfers In	2,065,080	-	-	14,164	2,079,244	12,178
Transfers Out	(4,413)	-	(58)	(7,819)	(12,290)	(24,529)
Net Transfers	2,060,667	-	(58)	6,345	2,066,954	(12,351)
Change in Net Position	170,524	142,753	310,718	24,862	648,857	(12,596)
Net Position, July 1 (Restated - Note 3)	5,942,528	(272,491)	(249,585)	315,141		394,271
Net Position, June 30	$ 6,113,052	$ (129,738)	$ 61,133	$ 340,003		$ 381,675
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.					1,300	
Change in Net Position of business-type activities					$ 650,157	

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Higher Education Fund	State Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Funds	Total	
Cash Flows from Operating Activities:						
Cash Received from Customers	$ 1,042,068	$ -	$ -	$ 101,799	$ 1,143,867	$ 397,619
Cash Received from Grants and Required Contributions/Premiums	1,563,509	2,368,711	2,151,936	83,131	6,167,287	154,616
Cash Received from Tuition and Fees	1,827,640	-	-	-	1,827,640	-
Cash Paid to Vendors	(3,017,725)	(96,601)	-	(42,781)	(3,157,107)	(358,226)
Cash Paid to Employees	(3,455,634)	(6,084)	-	(3,572)	(3,465,290)	(52,118)
Cash Paid for Benefits	-	(2,053,332)	(1,860,263)	-	(3,913,595)	-
Cash Paid for Claims and Judgments	-	-	-	(70,077)	(70,077)	(137,452)
Cash Paid for Scholarships, Fellowships and Loans	(458,723)	-	-	(350)	(459,073)	-
Other Operating Receipts (Payments)	182,175	-	-	(1,564)	180,611	(793)
Net Cash Provided by (Used in) Operating Activities	(2,316,690)	212,694	291,673	66,586	(1,745,737)	3,646
Cash Flows from Noncapital Financing Activities:						
Transfers from Other Funds	2,065,080	-	-	3,679	2,068,759	5,361
Transfers to Other Funds	(4,413)	-	(58)	-	(4,471)	(22,319)
Payments on Noncapital Financing Debt	-	-	(348,536)	(18,947)	(367,483)	-
Other Noncapital Receipts (Payments)	1,004,200	-	-	50,729	1,054,929	13,195
Net Cash Provided by (Used in) Noncapital Financing Activities	3,064,867	-	(348,594)	35,461	2,751,734	(3,763)
Cash Flows from Capital and Related Financing Activities:						
Capital Contributions	-	-	-	(2,664)	(2,664)	1,835
Capital Grants and Gifts Received	92,158	-	-	-	92,158	-
Proceeds from Sale of Capital Assets	5,626	-	-	-	5,626	2,200
Acquisition and Construction of Capital Assets	(442,809)	-	-	(2,709)	(445,518)	(6,630)
Principal Paid on Capital Debt	(53,234)	-	-	(26,982)	(80,216)	(6,643)
Interest Paid on Capital Debt	(188,443)	-	-	(39,519)	(227,962)	-
Net Cash Used in Capital and Related Financing Activities	(586,702)	-	-	(71,874)	(658,576)	(9,238)
Cash Flows from Investing Activities:						
Sale (Purchase) of Investments (Net)	(8,903)	(71,066)	-	25,759	(54,210)	(3,317)
Interest and Dividends Received	46,471	187	-	19,934	66,592	1,793
Other Investing Activities	-	-	-	(4,549)	(4,549)	-
Net Cash Provided by (Used in) Investing Activities	37,568	(70,879)	0	41,144	7,833	(1,524)
Net Increase (Decrease) in Cash and Cash Equivalents	199,043	141,815	(56,921)	71,317	355,254	(10,879)
Cash and Cash Equivalents, July 1	1,045,497	12,807	364,016	50,739	1,473,059	73,947
Cash and Cash Equivalents, June 30	$ 1,244,540	$ 154,622	$ 307,095	$ 122,056	$ 1,828,313	$ 63,068

(continued)

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	Business-type Activities - Enterprise Funds					Governmental Activities -
	Higher Education Fund	State Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Funds	Total	Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities						
Operating Income (Loss)	$ (3,205,157)	$ 142,566	$ 310,776	$ 58,200	$ (2,693,615)	$ (12,833)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:						
Depreciation/Amortization Expense	491,131	-	-	10,377	501,508	30,503
Other Reconciling Items	-	-	-	-	-	437
Changes in Assets and Liabilities:						
Accounts Receivable	69,147	(50,539)	(17,721)	(4,907)	(4,020)	2,849
Due from Other Funds	-	-	-	-	-	(63,950)
Due from Component Units	-	-	-	9,769	9,769	(11)
Other Assets	8,039	-	-	1,311	9,350	1,333
Notes Receivable	5,416	-	-	-	5,416	-
Accounts Payable and Other Accruals	(423)	16,763	(867)	(398)	15,075	(9,255)
Due to Other Funds	-	537	-	(1,683)	(1,146)	87
Benefits Payable	-	21,058	(1,275)	-	19,783	-
Unearned Revenue	(4,228)	82,318	760	(2,246)	76,604	665
Claims and Judgments Payable	-	-	-	-	-	54,887
Compensated Absences Payable	4,449	(9)	-	(3)	4,437	(593)
Other Postemployment Benefit Obligation	284,395	-	-	-	284,395	-
Other Liabilities	30,541	-	-	(3,834)	26,707	(473)
Net Cash Provided by (Used in) Operating Activities	$ (2,316,690)	$ 212,694	$ 291,673	$ 66,586	$ (1,745,737)	$ 3,646
Noncash Investing, Capital, and Financing Activities:						
Gift of Capital Assets Reducing Proceeds of Capital Grants and Gifts	$ 300,684	$ -	$ -	$ -	$ 300,684	$ -
Gifts other than Capital Assets Reducing Proceeds of Grants and Gifts for Other than Capital Assets	30,839	-	-	-	30,839	-
Change in Accrued Interest Payable Affecting Interest Paid	798	-	-	-	798	-
Capital Assets Acquired by Incurring Capital Lease Obligations	187,130	-	-	-	187,130	-
Change in Fair Value of Investments	10,265	-	-	-	10,265	(31)
Special Item - Equipment-Capital Asset Transfer	25,823	-	-	-	25,823	-
Capital Lease Obligation	9,617	-	-	-	9,617	4,553
Other	2,781	-	-	-	2,781	-
Total Noncash Investing, Capital and Financing Activities	$ 567,937	$ -	$ -	$ -	$ 567,937	$ 4,522

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013
(dollars in thousands)

	Pension and Other Employee Benefits Trust	Investment Trust	Private Purpose Trust	Agency	Total
Assets					
Cash and Cash Equivalents	$ 582,856	$ 3,976,440	$ 5,352	$ 121,846	$ 4,686,494
Receivables					
Interest and Dividends	216,079	34	-	-	216,113
Due from Brokers for Securities Sold	76,857	-	-	-	76,857
Other	200,202	-	-	7,722	207,924
Due from Other Funds	43,962	-	-	-	43,962
Investments, at Fair Value					
Certificates of Deposit	-	-	-	1,791	1,791
Pooled Investments	14,483,873	2,058,805	2,323	20,951	16,565,952
Mutual Funds	1,583,295	-	-	4,489	1,587,784
Repurchase Agreements	1,525,000	-	-	-	1,525,000
Municipal, U. S. and Foreign Government Obligations	8,590,086	-	-	51,692	8,641,778
Corporate Bonds/Notes/Debentures	6,684,921	-	-	-	6,684,921
Stocks	41,847,258	-	-	-	41,847,258
Asset-Backed Securities	12,024	-	-	-	12,024
Mortgage Investments	92,213	-	-	-	92,213
Real Estate Investment Trusts	29,332	-	-	-	29,332
Capital Assets					
Land	2,071	-	-	-	2,071
Buildings	7,693	-	826	-	8,519
Software	29,325	-	-	-	29,325
Machinery and Equipment	5,595	-	103	-	5,698
Works of Art	114				114
Accumulated Depreciation	(34,985)	-	(615)	-	(35,600)
Other Assets	625	-	-	58,871	59,496
Total Assets	75,978,396	6,035,279	7,989	267,362	82,289,026
Liabilities					
Accounts Payable and Other Accruals	45,373	-	11	9,253	54,637
Due to Other Funds	2,604	-	3	-	2,607
Due to Brokers for Securities Purchased	132,779	-	-	-	132,779
Salaries/Withholdings Payable	2	-	-	-	2
Benefits Payable	54,815	-	-	-	54,815
Funds Held for Others	-	-	-	258,106	258,106
Unearned Revenue	12,860	-	-	-	12,860
Compensated Absences Payable	58	-	198	-	256
Other Liabilities	-	-	496	3	499
Total Liabilities	248,491	-	708	267,362	516,561
Net Position					
Held in Trust for:					
Pension Benefits	74,617,077	-	-	-	74,617,077
Other Postemployment Benefits	908,049	-	-	-	908,049
Other Employee Benefits	204,779	-	-	-	204,779
Pool Participants	-	6,035,279	-	-	6,035,279
Other Purposes	-	-	7,281	-	7,281
Total Net Position	$ 75,729,905	$ 6,035,279	$ 7,281	$ -	$ 81,772,465

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	Pension and Other Employee Benefits Trust	Investment Trust	Private Purpose Trust	Total
Additions:				
Contributions/Assessments				
Employer	$ 2,213,625	$ -	$ -	$ 2,213,625
Plan Members/Participants	948,581	-	100,061	1,048,642
Other Contributions				
Fines and Bond Forfeitures	19,174	-	-	19,174
Insurance Company Premium Taxes	28,443	-	-	28,443
Insurance Premiums	14,173	-	-	14,173
Other Fees	4,901	-	-	4,901
Rebates	6,600	-	-	6,600
Interest and Other Investment Income				
Dividends and Interest	1,731,054	13,884	76	1,745,014
Net Appreciation (Depreciation) in				
Investments Reported at Fair Value	7,320,399	429	-	7,320,828
Less: Investment Expense	(47,759)	(3,607)	-	(51,366)
Pool Participant Deposits	-	7,484,274	-	7,484,274
Other				
Transfers from Other Funds	2,240	-	-	2,240
Miscellaneous	1,451	-	-	1,451
Total Additions	12,242,882	7,494,980	100,137	19,837,999
Deductions:				
General and Administrative Expenses	84,512	-	2,601	87,113
Benefits	5,899,332	-	99,262	5,998,594
Pool Participant Withdrawals	-	7,496,281	-	7,496,281
Refunds	104,775	-	-	104,775
Total Deductions	6,088,619	7,496,281	101,863	13,686,763
Change in Net Position Held in Trust for:				
Pension and Other Employee Benefits	6,154,263	-	-	6,154,263
Pool Participants	-	(1,301)	-	(1,301)
Other Purposes	-	-	(1,726)	(1,726)
Net Position, July 1	69,575,642	6,036,580	9,007	75,621,229
Net Position, June 30	$ 75,729,905	$ 6,035,279	$ 7,281	$ 81,772,465

The notes to the financial statements are an integral part of this statement.

Statement of Net Position
Component Units
June 30, 2013
(dollars in thousands)

	Georgia Environmental Finance Authority	Georgia Housing and Finance Authority	Georgia Lottery Corporation	Georgia Ports Authority	Georgia Tech Foundation, Incorporated	Nonmajor Component Units	Total
Assets							
Current Assets:							
Cash and Cash Equivalents	$ 532,286	$ 92,341	$ 3,882	$ 96,054	$ 5,563	$ 456,927	$ 1,187,053
Investments	235,361	5,129	-	27,639	-	190,149	458,278
Receivables							
Accounts (Net)	1,752	-	153,055	40,592	27,514	211,983	434,896
Capital Leases from Primary Government	-	-	-	-	5,279	18,784	24,063
Interest and Dividends	4,029	764	-	-	-	2,042	6,835
Notes and Loans (Net)	-	-	-	438	1,136	339,345	340,919
Taxes	-	-	-	-	-	679	679
Due from Primary Government	-	-	-	-	-	4,558	4,558
Due from Component Units	-	-	-	-	-	8,896	8,896
Intergovernmental Receivables	8,416	-	-	-	-	13,075	21,491
Other Current Assets	3,390	58,284	1,768	6,251	-	107,282	176,975
Noncurrent Assets:							
Investments	-	131,267	-	8,203	863,697	516,566	1,519,733
Receivables (Net)							
Capital Leases from Primary Government	-	-	-	-	141,563	926,506	1,068,069
Notes and Loans	1,358,814	614,440	-	1,903	-	61,899	2,037,056
Other	-	-	-	-	45,366	44,643	90,009
Due from Component Units	-	-	-	-	-	91,806	91,806
Restricted Assets							
Cash and Cash Equivalents	-	119,456	8,676	-	8,205	208,132	344,469
Investments	-	101,492	247,964	-	533,294	670,213	1,552,963
Receivables (Net)							
Notes and Loans	-	843,702	-	-	-	-	843,702
Interest and Dividends	-	10,856	-	-	-	-	10,856
Deferred Charges	-	13,038	-	-	-	-	13,038
Non-depreciable Capital Assets	-	800	-	289,085	3,395	206,389	499,669
Depreciable Capital Assets (Net)	25	2,479	3,916	619,524	33,407	1,114,247	1,773,598
Other Noncurrent Assets	-	-	-	35,383	61,069	77,300	173,752
Total Assets	2,144,073	1,994,048	419,261	1,125,072	1,729,488	5,271,421	12,683,363
Deferred Outflows							
Accumulated Decrease in Fair Value of Hedging Derivatives	-	-	-	-	-	7,722	7,722

(continued)

The notes to the financial statements are an integral part of this statement.

Statement of Net Position
Component Units
June 30, 2013
(dollars in thousands)

.	Georgia Environmental Finance Authority	Georgia Housing and Finance Authority	Georgia Lottery Corporation	Georgia Ports Authority	Georgia Tech Foundation, Incorporated	Nonmajor Component Units	Total
Liabilities							
Current Liabilities:							
Accounts Payable and Other Accruals	3,005	10,136	99,555	18,794	17,184	124,830	273,504
Due to Primary Government	1,680	2	57,264	22	-	136,759	195,727
Due to Component Units	-	-	-	-	8,716	180	8,896
Funds Held for Others	-	-	-	-	-	689	689
Unearned Revenue	-	1,820	-	622	37,795	110,628	150,865
Notes and Loans Payable	-	-	-	2,000	58,188	7,693	67,881
Revenue/Mortgage Bonds Payable	7,875	26,560	-	-	9,345	40,083	83,863
Other Current Liabilities	90	148,857	10,868	2,188	2,475	58,226	222,704
Current Liabilities Payable from							
Restricted Assets:							
Accrued Interest Payable	-	-	-	-	-	1,585	1,585
Revenue Bonds Payable	-	-	-	-	-	11,175	11,175
Other	-	-	8,503	-	-	8,609	17,112
Noncurrent Liabilities:							
Unearned Revenue	-	621,252	-	-	37,445	1,410	660,107
Notes and Loans Payable	-	-	-	34,457	-	118,629	153,086
Revenue/Mortgage Bonds Payable	138,161	1,003,778	-	-	251,380	1,740,387	3,133,706
Grand Prizes Payable	-	-	216,176	-	-	-	216,176
Due to Component Units	-	-	-	-	91,806	-	91,806
Due to Primary Government	-	-	-	-	-	4,909	4,909
Derivative Instrument Payable	-	-	-	-	-	42,607	42,607
Other Noncurrent Liabilities	270	-	3,123	45,387	18,087	348,788	415,655
Total Liabilities	151,081	1,812,405	395,489	103,470	532,421	2,757,187	5,752,053
Net Position							
Net Investment in Capital Assets	25	3,279	3,916	872,152	(28,943)	559,578	1,410,007
Restricted for:							
Bond Covenants/Debt Service	80,668	-	-	-	-	25,262	105,930
Capital Projects	-	-	-	-	10,250	72,359	82,609
Permanent Trusts							
Expendable	-	-	-	-	596,704	427,867	1,024,571
Nonexpendable	-	-	-	-	533,294	553,785	1,087,079
Loan and Grant Programs	1,420,138	-	-	-	-	-	1,420,138
Other Purposes	-	-	-	-	-	44,335	44,335
Unrestricted	492,161	178,364	19,856	149,450	85,762	838,770	1,764,363
Total Net Position	$ 1,992,992	$ 181,643	$ 23,772	$ 1,021,602	$ 1,197,067	$ 2,521,956	$ 6,939,032

The notes to the financial statements are an integral part of this statement.


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Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	Georgia Environmental Finance Authority	Georgia Housing and Finance Authority	Georgia Lottery Corporation	Georgia Ports Authority	Georgia Tech Foundation, Incorporated	Nonmajor Component Units	Total
Expenses	$ 53,624	$ 156,958	$ 3,657,983	$ 287,219	$ 130,763	$ 2,287,930	$ 6,574,477
Program Revenues:							
Sales and Charges for Services	78,830	22,079	3,640,269	292,583	15,012	1,127,303	5,176,076
Operating Grants and Contributions	164,401	131,254	1	16,407	119,901	1,109,973	1,541,937
Capital Grants and Contributions	-	-	-	11,882	31,740	36,272	79,894
Total Program Revenues	243,231	153,333	3,640,270	320,872	166,653	2,273,548	6,797,907
Net (Expenses) Revenue	189,607	(3,625)	(17,713)	33,653	35,890	(14,382)	223,430
General Revenues:							
Taxes	-	-	-	-	-	29,164	29,164
Payments from the State of Georgia	-	-	-	-	-	64,886	64,886
Contributions to Permanent Endowments	-	-	-	-	31,704	18,583	50,287
Total General Revenues	-	-	-	-	31,704	112,633	144,337
Change in Net Position	189,607	(3,625)	(17,713)	33,653	67,594	98,251	367,767
Net Position, July 1 - Restated (Note 3)	1,803,385	185,268	41,485	987,949	1,129,473	2,423,705	6,571,265
Net Position, June 30	$ 1,992,992	$ 181,643	$ 23,772	$ 1,021,602	$ 1,197,067	$ 2,521,956	$ 6,939,032

The notes to the financial statements are an integral part of this statement.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the State have been prepared in conformity with GAAP as prescribed by the GASB. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

The fiscal year end for the primary government and component units is June 30, except for the Stone Mountain Memorial Association, VSU Auxiliary Service Real Estate Foundation, Inc., Armstrong Atlantic State University Educational Properties Foundation, Inc. (all nonmajor enterprise funds) and Governor's Defense Initiative (special revenue fund), which have a fiscal year end of December 31.

B. Financial Reporting Entity

For financial reporting purposes, the State reporting entity includes the primary government and its component units. The primary government consists of all the organizations that compose the legal entity of the State. All agencies, departments, authorities, commissions, courts, councils, boards, universities, colleges, foundations, retirement funds, associations and other organizations that are not legally separate are, for financial reporting purposes, considered part of the primary government. Component units are legally separate organizations for which the State's elected officials are financially accountable.

Financial accountability is the ability of the State to appoint a voting majority of an organization's governing board and to impose its will upon the organization or when there exists the potential for the organization to provide specific financial benefits or impose specific financial burdens on the primary government. When the State does not appoint a voting majority of an organization's governing body, GASB standards require inclusion in the financial reporting entity if: (1) an organization is fiscally dependent upon the State because its resources are held for the direct benefit of the State or can be accessed by the State *and* (2) the potential exists for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading.

Where noted below, the State's component units issue their own separate audited financial statements which may be obtained from their respective administrative offices. Financial statements for component unit organizations with "AUD" at the end of their descriptions below may be obtained from the Georgia Department of Audits and Accounts (DOAA) online at www.audits.ga.gov. Certain component units (with "MGMT" at the end of their descriptions below) are not required to prepare or issue separate financial statements beyond the financial information included in this report. Management reports including information pertinent to the financial and compliance activities of these organizations can also be obtained from DOAA, as indicated above. The financial statements for discretely presented higher education foundations and similar organizations can be obtained from their respective administrative offices or from the Board of Regents.

Blended Component Units

Blended component units have governing bodies substantively the same as the State, provide services entirely or almost entirely to the primary government or have total debt outstanding, including leases, that is expected to be paid entirely, or almost entirely, with resources of the State. As such, although they are legally separate entities, they are, in substance, part of the government's operations. GASB standards require this type of component unit to be reported as part of the primary government and blended into the appropriate funds.

The State's blended component units, as described in the Nonmajor Governmental Funds, Nonmajor Enterprise Funds and Internal Service Funds portions of the Supplementary Information – Combining and Individual Fund Statements category of the Financial Section, are as follows:

Special Revenue Funds

The following component units provide services entirely or almost entirely to the primary government and are therefore considered blended component units:

The **Georgia Economic Development Foundation, Inc.** is a legally separate nonprofit corporation organized to assist the Department of Economic Development in its activities promoting the economic development of the State of Georgia. (MGMT)

The **Georgia Natural Resources Foundation** is a legally separate nonprofit organization created to support the Georgia Department of Natural Resources by providing funding and assistance to enhance natural resource conservation, historic preservation, environmental education, and outdoor recreation. (MGMT)

The **Georgia Tourism Foundation** is a legally separate nonprofit corporation organized to lessen the government burden of promoting tourism by soliciting contributions for the State-wide Tourism Marketing Program. (MGMT)

The **Governor's Defense Initiative** is a legally separate nonprofit corporation organized to promote economic development and workforce training at Georgia's military base establishments and their surrounding communities. (MGMT)

The **State Road and Tollway Authority** is a legally separate public corporation created to construct, operate and manage a system of roads, bridges and tunnels and facilities related thereto. The Authority's total debt outstanding is expected to be paid with resources of the Primary Government and therefore is considered a blended component unit. (AUD)

Debt Service Funds

The **State Road and Tollway Authority Debt Service Fund** accounts for the payment of principal and interest on the debt of the Authority's governmental funds. The Authority issues bonded debt which finances State transportation infrastructure construction. (AUD)

Enterprise Funds

The **Georgia Higher Education Facilities Authority** is a legally separate public corporation created for the purpose of financing eligible construction, renovation, improvement, and rehabilitation or restoration projects for the Board of Regents of the University System of Georgia and the Technical College System of the State of Georgia through the issuance of revenue bonds. The Authority issues debt and enters into lease agreements principally with the University System of Georgia Foundation, Inc. (nonmajor enterprise fund). The costs of the Authority's debt are recovered through lease payments from the Foundation. The Authority provides services entirely or almost entirely to the Primary Government and is therefore considered a blended component unit. (AUD)

The **State Road and Tollway Authority** uses an enterprise fund to account for its operation of the Georgia 400 Extension toll and for the I-85 HOV to HOT project. (AUD)

The following foundations have debt that is expected to be paid entirely or almost entirely with resources of the Primary Government and therefore are considered blended component units:

The **Armstrong Atlantic State University Educational Properties Foundation, Inc.** is a nonprofit organization that was created to manage and improve various real estate assets for the benefit of Armstrong Atlantic State University. The Foundation has created a number of limited liability companies of which it is the sole member for purposes including the acquisition, financing, ownership, and operation of dormitory and other ancillary various facilities at the University. The individual financial statements may be obtained from the foundation at the following address: Attn: Controller, 11935 Abercorn Street, Savannah, GA 31419.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The **Georgia State University Foundation, Inc.** is a nonprofit corporation that serves as the official fund-raising and fund-management organization for Georgia State University and is committed to supporting and assisting the University in achieving its goals and objectives through soliciting and managing private gifts and collaborating and advising on activities of the benefit and advancement of the University. The individual financial statements may be obtained from the foundation at the following address: Attn: Controller, One Park Place SE, Atlanta, GA 30303.

The **Georgia State University Research Foundation, Inc.** is a nonprofit corporation created to support the research activities of the University through securing gifts, contributions and grants from individuals, private organizations and public agencies and in obtaining contracts with such individuals or entities for the performance of sponsored research, development, or other programs by the university. The individual financial statements may be obtained from the foundation at the following address: Attn: Comptroller/Assistant VP, Finance & Administration, 33 Gilmer Street, Suite 400B, Atlanta, GA 30303.

The **Georgia Tech Facilities, Inc.** is a nonprofit corporation that promotes and supports the Georgia Institute of Technology, principally by financing and constructing buildings and facilities for use by the Institute. The individual financial statements may be obtained from the foundation at the following address: Attn: Affiliate Organizations & Capital Assets Accounting Director, Georgia Tech, 221 Uncle Heinie Way, 325 Lyman Hall, Atlanta, GA 30332

The **University System of Georgia Foundation, Inc.** is a nonprofit corporation created to support and advance the work of the University System of Georgia. The foundation’s support comes primarily from contributions and grants from individuals and corporations, and from leasing activities within the University System of Georgia. The individual financial statements may be obtained from the foundation at the following address: Attn: Director of Business Services, 270 Washington Street, SW, Atlanta, GA 30334.

The **VSU Auxiliary Services Real Estate Foundation, Inc.** is a nonprofit corporation created to provide accommodations, food services and store facilities to students, faculty, and staff of Valdosta State University. The Foundation is the sole owner of various limited liability companies, which their collective purpose is to construct facilities to be used as student housing, parking decks, a health center, and a student union. Upon completion, the facilities are leased to the Board of Regents of the University System of Georgia. The individual financial statements may be obtained from the foundation at the following address: Attn: Assistant Director of Auxiliary Services, 1500 N. Patterson Street, Valdosta, GA 31698.

Internal Service Funds

The following component units all provide services entirely or almost entirely to the Primary Government and are therefore considered blended component units:

The **Georgia Aviation Authority** was created to acquire, operate, maintain, house, and dispose of all state aviation assets, and to provide aviation services and oversight of state aircraft and aviation operations programs, associated with aircraft of the Department of Transportation, Department of Natural Resources, Department of Public Safety, and the State Forestry Commission. (MGMT)

The **Georgia Building Authority** is responsible for all services associated with the management of State office buildings, maintaining the grounds within the State Capitol complex, maintaining the Governor's Mansion and operating parking facilities. (AUD)

The **Georgia Correctional Industries Administration** utilizes the inmate work force to manufacture products and provide services for the penal system, other units of state government and local governments. (MGMT)

The **Georgia Technology Authority** was created to provide technology enterprise management and technology portfolio management to state and local governments. (MGMT)

The **State Road and Tollway Authority Customer Service Center Fund** is used to report activities related to managing toll paying customer accounts and non-customer violations relating to the Authority's Georgia 400 Extension and the I-85 Express Lanes Project proprietary funds. (AUD)

Discretely Presented Component Units

Discrete presentation entails reporting component unit financial data in a separate column and/or rows in each of the government-wide statements to emphasize that these component units are legally separate from the State. Except for Georgia Military College, the other component units are included in the reporting entity because, under the criteria established by GASB, the State has the ability to impose its will on these organizations.

The determination of major component units is based on any of the following factors: (a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered essential to financial statement users, (b) there are significant transactions with the primary government, or (c) there is a significant financial benefit or burden relationship with the primary government.

The State's major discretely presented component units are described below:

The **Georgia Environmental Finance Authority (GEFA)** is a body corporate and politic. GEFA provides funding to eligible municipalities, counties, water and sewer authorities in the State for construction and expansion of public water, sewer, and solid waste facilities. GEFA is governed by a board of directors consisting of three officials designated by statute and eight members appointed by the Governor. (AUD)

The **Georgia Housing and Finance Authority (GHFA)** is a body corporate and politic. GHFA is responsible for facilitating housing, housing finance and financing for health facilities and health care services throughout the State. The powers of GHFA are vested in eighteen members who also comprise the board of the Department of Community Affairs (DCA). Board members are appointed by the Governor and are composed of one member from each U.S. Congressional District in the State, plus five additional members from the State at large, and include elected officials of counties or municipalities, individuals with an interest or expertise in community or economic development, environmental issues, housing development or finance or citizens who in the judgment and discretion of the Governor would enhance the DCA board. (AUD)

The **Georgia Ports Authority (GPA)** is a body corporate and politic. The purpose of the Authority is to develop and improve the harbors or seaports of the State for the handling of waterborne commerce and to acquire, construct, equip, maintain, develop and improve said harbors, seaports and their facilities. The Board consists of twelve members, all of which are appointed by the Governor. (AUD)

The **Georgia Lottery Corporation (GLC)** is a public body, corporate and politic. GLC operates lottery games to provide continuing entertainment to the public and maximize revenues, the net proceeds of which are utilized to support improvements and enhancements for educational purposes. GLC is governed by a board of directors composed of seven members, all of which are appointed by the Governor. The State is legally entitled to residual resources of GLC. (AUD)

The **Georgia Tech Foundation, Incorporated** is a nonprofit organization established to promote, in various ways, the cause of higher education in the State, to raise and receive funds for the support and enhancement of the Georgia Institute of Technology, and to aid the Georgia Institute of Technology in its development as a leading educational institution. The individual financial statements may be obtained from the foundation at the following address: 760 Spring St. NW, Atlanta, GA 30308

The State's nonmajor discretely presented component units are as follows:

The **Geo. L. Smith II Georgia World Congress Center Authority** is a body corporate and politic and an instrumentality and public corporation of the

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

State. The Authority is responsible for operating and maintaining a comprehensive international trade and convention center consisting of a complex of facilities suitable for multipurpose use. (AUD)

The **Georgia Agricultural Exposition Authority** is a body corporate and politic. This Authority is responsible for provision of a facility for the agricultural community, for public events, exhibits and other activities and for promotion and staging of a statewide fair. (MGMT)

The **Georgia Development Authority** is a body corporate and politic. The Authority was created to assist agricultural and industrial interests by providing credit and servicing functions to better enable farmers and businessmen to obtain needed capital funds. (AUD)

The **Georgia Foundation for Public Education** is a nonprofit organization established to solicit and accept contributions of money and in-kind contributions of services and property for the purpose of supporting educational excellence in Georgia. (MGMT)

The **Georgia Higher Education Assistance Corporation** is a public authority, body corporate and politic. The Corporation was created to improve the higher educational opportunities of eligible students by guaranteeing educational loan credit to students and to parents of students. The Corporation is governed by the Board of Commissioners of the Georgia Student Finance Commission. (AUD)

The **Georgia Highway Authority** is a body corporate and politic. This Authority was created to build, rebuild, relocate, construct, reconstruct, surface, resurface, layout, grade, repair, improve, widen, straighten, operate, own, maintain, lease and manage roads, bridges and approaches. The three members of the Authority are State officials designated by statute. The Authority has a separate management report, but separate audited financial statements are not required or issued for it. (MGMT)

The **Georgia International and Maritime Trade Center Authority** is a body corporate and politic. The Authority was created to develop and promote the growth of the State's import and export markets through its ports and other transportation modes, and to construct, operate and maintain the Savannah International Trade and Convention Center. (AUD)

The **Georgia Medical Center Authority** is a body corporate and politic. The general nature of the business of the Authority is the provision of life sciences industry research and development and manufacturing facilities and programs based in the State of Georgia, the commercialization of biomedical and biotechnical research results, the promotion of closer ties between academic institutions of the state and the biomedical industry, the facilitation of the development of a life sciences industrial cluster in the State, and the advancement of local and state economic growth. (AUD)

The **Georgia Military College (GMC)** is a body corporate and politic, and is an instrumentality and a public corporation of the State. GMC is dedicated to providing a high-quality military education to the youth of the State. The Board of Trustees consists of the mayor of the City of Milledgeville and six additional members, one of which is elected from each of the six municipal voting districts of the City, as required by statute. The government, control, and management of GMC are vested in the Board of Trustees. GMC receives any designated funds appropriated by the General Assembly through the Board of Regents of the University System of Georgia. Although GMC does not meet the fiscal dependency or financial benefit/burden criteria, due to the nature and significance to the State and the potential assumption that GMC is the same as other colleges reported within the state reporting entity, management has determined that it would be misleading to exclude GMC from the state reporting entity. (AUD)

The **Georgia Public Telecommunications Commission** is a body corporate and politic. This Commission is a public charitable organization created for the purpose of providing educational, instructional and public broadcasting services to citizens of Georgia. The budget of the Commission must be approved by the State. (AUD)

The **Georgia Rail Passenger Authority** is a body corporate and politic. This Authority is responsible for construction, financing, operation and development of rail passenger service and other public transportation projects. (MGMT)

The **Georgia Regional Transportation Authority** is a body corporate and politic. The purpose of the Authority is to manage land transportation and air quality within certain areas of the State. (MGMT)

The **Georgia Seed Development Commission** is a body corporate and politic and an instrumentality and public corporation of the State whose purpose is to purchase, process, and resell breeders' and foundation seeds. (MGMT)

The **Georgia Sports Hall of Fame Authority** is a body corporate and politic. This Authority was created to construct and maintain a facility to house the Georgia Sports Hall of Fame to honor those who have made outstanding and lasting contributions to sports and athletics, and to operate, advertise and promote the Sports Hall of Fame. (MGMT)

The **Georgia Student Finance Authority** is a body corporate and politic. This Authority was created for the purpose of improving higher educational opportunities by providing educational scholarship, grant and loan assistance. A substantial amount of funding is provided to the Authority by the State. (AUD)

The **Jekyll Island State Park Authority** is a body corporate and politic and an instrumentality and public corporation of the State. The Authority was created to operate and manage resort recreational facilities on Jekyll Island. (MGMT)

The **Lake Lanier Islands Development Authority** is a body corporate and politic and an instrumentality and public corporation of the State. The purpose of the Authority is to manage, preserve and protect projects on Lake Lanier Islands. (MGMT)

The **North Georgia Mountains Authority** is a body corporate and politic and an instrumentality and public corporation of the State responsible for the construction and management of recreation, accommodation and tourist facilities and services. (MGMT)

The **OneGeorgia Authority** is a body corporate and politic and an instrumentality and public corporation of the State. The purpose of the Authority is to promote the health, welfare, safety and economic society of the rural citizens of the State through the development and retention of employment opportunities in rural areas and the enhancement of the infrastructures that accomplish that goal. The six members of the Authority are State officials designated by statute. (MGMT)

The **Regional Educational Service Agencies** was established to provide shared services to improve the effectiveness of educational programs and services of local school systems and to provide direct instructional programs to selected public school students. The State has sixteen of these agencies. (MGMT)

The **Sapelo Island Heritage Authority** is a body corporate and politic. The purpose of the authority is the preservation of the cultural and historic values of Hog Hammock Community located on Greater Sapelo Island. (MGMT)

The **Stone Mountain Memorial Association** is a body corporate and politic and an instrumentality and public corporation of the State. The Authority is responsible for the preservation and protection of Stone Mountain as a Confederate memorial and public recreational area. (AUD)

The **Superior Court Clerks' Cooperative Authority** is a body corporate and politic and an instrumentality and public corporation of the State created to provide a cooperative for the development, acquisition and distribution of record management systems, information, services, supplies

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and materials for superior court clerks of the State. (AUD)

The **Higher Education Foundations and Similar Organizations** are nonprofit organizations established to secure and manage support for various projects including acquisitions and improvements of properties and facilities for units of the University System of Georgia. The following are the organizations included in the Higher Education Foundations:

Georgia College & State University Foundation, Inc.
Georgia Southern University Housing Foundation, Inc.
Georgia Tech Athletic Association
Georgia Tech Research Corporation
Kennesaw State University Foundation, Inc.
MCG Health System, Inc.
Medical College of Georgia Foundation, Inc.
Medical College of Georgia Physicians Practice Group Foundation
University of Georgia Athletic Association, Inc.
University of Georgia Foundation
University of Georgia Research Foundation, Inc.
University of North Georgia Real Estate Foundation, Inc.

Fiduciary Component Units

GAAP requires fiduciary component units to be reported as fiduciary funds of the primary government rather than as discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements. The State's two most significant fiduciary component units are the Employees' Retirement System of Georgia (System) and the Teachers Retirement System of Georgia (TRS). Fiduciary component units are detailed in the Fiduciary Funds portion of the Supplementary Information – Combining and Individual Fund Statements category of the Financial Section.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are financed through taxes, intergovernmental revenues, and other non-exchange revenues, are reported separately from business-type activities, which are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from its discretely presented component units.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position.

The Statement of Activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenues in the fiscal year in which eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when cash or other assets are received prior to being earned. Additionally, long-term assets and Liabilities, such as capital assets and long-term debt, are included on the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 30 days after fiscal year-end. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after year-end. All deferred revenue reported represents revenue that is unearned, rather than unavailable. Capital purchases are recorded as expenditures and neither capital assets nor long-term liabilities, such as long-term debt, are reflected on the balance sheet.

Expenditures generally are recorded when the related fund liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, and other long-term liabilities, are recorded only when payment is due or (for debt service expenditures), when amounts have been accumulated in the debt service fund for payments to be made early in the subsequent fiscal year.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as nonoperating.

The State’s proprietary funds and discretely presented component units, other than certain higher education foundations and similar organizations, follow all GASB pronouncements, (including all NCGA Statements and Interpretations currently in effect). Certain higher education foundations and similar organizations report under FASB standards; including FASB Codification Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports were reclassified to GASB presentation in these financial statements.

GAAP requires that revenues and expenses relating to summer school activities, the dates of which cross the State’s fiscal year, are allocated between fiscal years rather than reported in a single fiscal year with the exception of teachers’ salaries which are recorded in the fiscal year earned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The State reports the following major funds:

Major Governmental Funds

General Fund - The principal operating fund of the State which accounts for all financial resources of the general government, except those required to be accounted for in another fund.

General Obligation Bond Projects Fund - Accounts for the financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds) financed with general obligation bond proceeds, including educational facilities for county and independent school systems.

Major Enterprise Funds

Higher Education Fund - Accounts for the operations of State colleges and universities and State technical colleges.

State Health Benefit Plan (SHBP) – Administers self-insured program of health benefits for the employees of units of government of the State, units of county government and local education agencies located within the State.

Unemployment Compensation Fund - Accounts for the collection of employers' unemployment insurance tax and the payment of unemployment insurance benefits.
Additionally, the State reports the following fund types:

Governmental Funds

Special Revenue Funds - Account for specific revenue sources that are legally restricted to expenditures for specific purposes. The State's special revenue funds represent the blended component units that conduct general governmental functions and activities related to the Transportation Investment Act

Debt Service Funds - Account for the payment of principal and interest on general long-term debt. The General Obligation Debt Sinking Fund, which is a legally mandated fund responsible for fulfilling annual debt service requirements on all general obligation debt, is included in this fund type, as is the SRTA Debt Service Fund.

Permanent Funds - Account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the State's programs. The only permanent fund the State has is the Pupils Trust Fund at Georgia Academy for the Blind.

Proprietary Funds

Enterprise Funds - Account for those activities for which fees are charged to external users for goods or services. These funds are also used when the activity is financed with debt that is secured by a pledge of the net revenues from fees and charges. SRTA's Proprietary Funds, Georgia Higher Education Facilities Authority, Armstrong Atlantic State University Educational Properties Foundation, Inc., Georgia State University Foundation, Inc., Georgia State University Research Foundation, Inc., Georgia Tech Facilities, Inc., University System of Georgia Foundation, Inc., Valdosta State University Auxiliary Services Real Estate Foundation, Inc. are the State's nonmajor enterprise funds.

Internal Service Funds - Account for the financing of goods or services provided by one department or agency to other State departments or agencies, or to other governmental entities, on a cost-reimbursement basis. The predominant participant in internal service fund activity is the primary government. The activities accounted for in the State's internal service funds include risk management, prison industries, property management, technology, and personnel administration.

Fiduciary Funds

Pension and Other Employee Benefit Trust Funds - Account for the retirement systems and plans administered by the System, TRS, and for pension plans administered on behalf of a variety of local government officials and employees. These funds also include those used to report the accumulation of resources for, and payment of other postemployment benefits.

Investment Trust Funds - Account for the external portions of government-sponsored investment pools, including Georgia Fund 1, Georgia Extended Asset Pool, and the Regents Investment Pool.

Private Purpose Trust Funds - Report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Auctioneers Education Research and Recovery Fund, Real Estate Education, Research, and Recovery Fund and the Subsequent Injury Trust Fund are reported in this category.

Agency Funds - Account for the assets and liabilities for deposits and investments entrusted to the State as an agent for other governmental units, other organizations, or individuals. These funds include tax collections, child support recoveries, and correctional detainees' accounts.

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand and demand deposits with banks and other financial institutions and short-term, highly liquid investments with maturity dates within three months of the date acquired, such as certificates of deposits, money market certificates and repurchase agreements.

Investments

Investments include financial instruments with terms in excess of three months from the date of purchase, certain other securities held for the production of revenue, and land and other real estate held as investments by endowments. Investments are presented at fair value. Changes in the fair value of land and other real estate held as investments by endowments are reported as investment income.

The State Depository Board may permit any department, board, bureau or other agency to invest funds collected directly by such organization in short-term time deposit agreements, provided that the interest income of those funds is remitted to the State Treasurer as revenues of the State. As a matter of general practice, however, demand funds of any department, board, bureau or other agency in excess of current operating expenses are required to be deposited with the State Treasurer for the purpose of pooled investment per Official Code of Georgia 50-17-63. Such cash is managed primarily in pooled investment funds to maximize interest earnings. The pooled investment funds "Georgia Fund 1" and "Georgia Extended Asset Pool" are also available on a voluntary basis to organizations outside of the State reporting entity. The funds in the local government investment pool may be consolidated with State funds under control of the State Treasurer for investment purposes, per OCGA 36-83-8.

The Georgia Fund 1 or Primary Liquidity Portfolio's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal. Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and values participants' shares sold and redeemed at the pool's share price, $1.00 per share. Investments are directed toward short-term instruments.

The Georgia Extended Asset Pool is part of the Extended Term Portfolio. The pool's primary objective is the prudent management of public funds on behalf of the State and local governments seeking income higher than money market rates. Net Asset Value (NAV) is calculated daily to determine current share price. NAV is calculated by taking the closing fair value of securities owned plus other assets and subtracting liabilities. The remainder is then divided by the total number of shares outstanding to compute NAV per share (current share price). The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on the current share price. Investments consist generally of securities issued or guaranteed as to principal and interest by the U.S. Government or any of its agencies or instrumentalities, bankers' acceptances and repurchase agreements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Units of the University System of Georgia and their affiliated organizations may participate in the Regents Investment Pool. A significant portion of the holdings in the Regents Investment Pool are reported as cash and cash equivalents on the face of the financial statements even though they may have maturity periods in excess of three months. The fair value of the investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest it earns. The Regents Investment Pool maintains an assortment of funds which invest in diverse holdings with varying investment objectives.

The State's Unemployment Compensation Fund monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the Securities and Exchange Commission. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

Receivables

Receivables in the State's governmental funds pertain primarily to federal grants and to revenues related to charges for services. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded, net of an allowance for uncollectible accounts, when either the asset or revenue recognition criteria (See Note 1-D) have been met. Receivables from the federal government are reasonably assured; an allowance for uncollectible accounts is not typically established for federal receivables.

Inventories and Prepaid Items

Inventories of supplies and materials are determined by physical count and/or perpetual inventory records and are valued at cost, weighted average cost, moving average cost, or lower of weighted average cost or market, using the first-in/first-out (FIFO) method, depending on the individual organization's preference. The costs of governmental fund inventories are recorded as expenditures when consumed rather than when purchased for larger agencies and agencies with material inventories. Other agencies may use either the purchase or consumption method.

Prepaid items include payments made to vendors and local government organizations for services that will benefit periods beyond the fiscal year-end. Also, the employer's portion of health insurance benefits applicable to coverage effective after the fiscal year-end is recorded as a prepaid item.

The fund balance of governmental funds is reported as nonspendable for inventories and prepaid items to indicate that these amounts do not represent expendable available financial resources.

Restricted Assets

Certain cash, investments, and other assets are classified as restricted assets on the Balance Sheet and/or Statement of Net Position because their use is limited by applicable bond covenants, escrow arrangements or other regulations.

Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide Statement of Net Position. Capital assets of the State's proprietary funds and component units are capitalized in the fund in which they are utilized. Capital assets are stated at historical cost or, in some instances, estimated historical cost. Estimation methods include using historical sources to determine the cost of similar assets at the time of acquisition and indexing where the historical cost of an asset is estimated by taking the current cost of a similar asset and dividing it by an index figure which adjusts for inflation. Donated capital assets are stated at fair market value at the time of donation. Infrastructure acquired prior to fiscal years ended after June 30, 1980 is reported.

All acquisitions in the following asset categories are capitalized regardless of cost:

Land and non-depreciable land improvements

Bridges and roadways included in the State highway system

Works of art and collections, acquired or donated, unless held for financial gain.

Amounts for other asset categories are capitalized when the cost or value equals or exceeds the following thresholds. Items acquired through capital leases or donations are subject to these capitalization thresholds, using the classifications most closely related to the leased or donated assets.

Asset Category	**Threshold**
Infrastructure other than bridges and roadways in State highway system	$1,000,000
Software	$1,000,000
Intangible assets, other than software	$ 100,000
Buildings and building improvements	$ 100,000
Improvements other than buildings	$ 100,000
Library collections – capitalize all if collection equals or exceeds	$ 100,000
Machinery and equipment	$ 5,000

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized. The State holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because either they are held for financial gain or they are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives. Major outlays for construction of bridges and roadways in the State highway system are capitalized as projects are constructed. All other major construction projects are capitalized when projects are completed. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset.

Capital assets without indefinite or inexhaustible useful lives are amortized or depreciated on the straight-line basis over the following useful lives:

Infrastructure	10-100 years
Buildings and building improvements	5-60 years
Improvements other than buildings	15-50 years
Machinery and equipment	3-20 years
Software	3-10 years
Intangible assets, other than software	20 years
Library collections	10 years
Works of art and collections	5-40 years

<u>Deferred Outflows of Resources</u>

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

<u>Compensated Absences</u>

Employees earn annual leave ranging from ten to fourteen hours each month depending upon the employee’s length of continuous State service with a maximum accumulation of 45 days. Employees are paid for unused accumulated annual leave upon retirement or termination of employment. Funds are provided in the appropriation of funds each fiscal year to cover the cost of annual leave of terminated employees. The State’s obligation for accumulated unpaid annual leave is reported as a liability in the government-wide and proprietary fund financial statements.

Employees earn 10 hours of sick leave each month with a maximum accumulation of 90 days. Sick leave does not vest with the employee. Unused accumulated sick leave is forfeited upon retirement or termination of employment. However, certain employees who retire with 120 days or more of forfeited annual and sick leave are entitled to

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

additional service credit in the System. No liability is recorded for rights to receive sick pay benefits.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column or business-type activities column on the government-wide Statement of Net Position and on the proprietary fund Statement of Net Position in the fund financial statements. Bond discounts, premiums and issuance costs are deferred and amortized over the life of the bonds using a method that approximates the effective interest method or the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges (assets) and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental organizations issuing tax-exempt bonds to refund to the U.S. Treasury, interest earnings on bond proceeds in excess of the yield on those bonds. Governmental organizations must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Organizations are required to remit arbitrage rebate payments for non-purpose interest to the federal government at least once every five years over the life of the bonds. Arbitrage liability is treated as an expense in the government-wide statements when the liability is recognized. In the fund financial statements, governmental funds report arbitrage (other debt service) expenditures when the liability is due.

Pollution remediation obligations are recorded when the State knows that a site is polluted and one or more obligating events have occurred. The amount recorded is an estimate of the current value of potential outlays for the cleanup, calculated using the “expected cash flows” measurement technique.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position

Net position is reported as net investment in capital assets, restricted or unrestricted. “Net Investment in Capital Assets” consists of capital assets, net of accumulated amortization/depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, indicating it is not available for general operations. Such designations have internally imposed constraints on resources, but can be removed or modified.

When both restricted and unrestricted net position are available for use, it is the State’s policy to allow each organization to determine spending order in a manner consistent with the Georgia Constitution and applicable State law which maximizes the benefit to the customer and/or the efficiency of the program.

Fund Balances

Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted into cash) or (b) legally or contractually required to be maintained intact.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the State or through the external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal actions of both the Governor and the General Assembly. Only the Governor and the General Assembly may establish, modify or rescind the commitment by taking the same type of action it employed to previously commit the amounts (e.g., legislation).

Assigned – Fund balances are reported as assigned when amounts are constrained by the State's intent that they be used for specific purposes, but they are neither restricted nor committed. Assignments may be made under statutory authority of management of the reporting organizations in the State.

Unassigned – The residual amount of fund balance is reported as unassigned for balances that do not meet the above constraints. The government reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

As with net position, when both restricted and unrestricted fund balances are available for use, it is the State's policy to allow each organization to determine spending order in a manner consistent with the Georgia Constitution and applicable State law which maximizes the benefit to the customer and/or the efficiency of the program. Within unrestricted fund balance, the State's policy is that committed amounts generally should be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Interfund Activity and Balances

Equally offsetting asset and liability accounts (due from/to other funds) are used to account for amounts owed to a particular fund by another fund for obligations on goods sold or services rendered.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or requirements for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources. Transfers of balances between funds are made to accomplish various provisions of law.

Interfund payables and receivables have been eliminated from the Statement of Net Position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the Statement of Net Position.

NOTE 2 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

A. Financial Reporting Entity

As discussed below, the State implemented GASB Statement No. 61 in fiscal year 2013. This statement modified criteria for inclusion of component units within the State's financial reporting entity and changed provisions regarding the blending of component units.

Primary Government

As a result of the changes in provisions for blending component units included in GASB Statement No. 61, six organizations previously reported as Higher Education Foundations (discretely presented component units) are now reported as nonmajor enterprise funds. This change resulted in an increase in the beginning net position of the nonmajor enterprise funds of $246.4 million. Also, Georgia Military College, previously reported within the higher education fund is now reported as a discretely presented component unit. This change resulted in a decrease in the beginning net position of the higher education fund of $66.3 million.

In addition to the changes resulting from implementation of GASB Statement No. 61, the following other changes were made to the Primary Government:

The Governor's Defense Initiative was created effective July 1, 2012 to promote economic development and workforce training at Georgia's military base establishments and their surrounding communities. This organization is included in the nonmajor governmental funds.

The Transportation Investment Act Fund accounts for funds collected by the State under the Transportation Investment Act which took effect on January 1, 2013, and utilized by the Department of Transportation for projects in the relevant special tax districts. This fund is included in the nonmajor governmental funds.

The activities of the State Personnel Administration internal service fund are now reported under the Department of Administrative Services internal service fund. This change did not impact the beginning net position of the internal service fund.

Component Units

As mentioned above, the changes in provisions for blending of component units required movement of six organizations previously reported as Higher Education Foundations (discretely presented component units) to nonmajor enterprise funds and the activity of the Georgia Military College (previously in the higher education fund) is now reported as a discretely presented component unit. These changes resulted in a decrease in the beginning net position of the nonmajor component units of $180.1 million.

The provisions of GASB Statement No. 61 which modified criteria for inclusion of component units within the State's financial reporting entity resulted in the removal of the Oconee River Greenway Authority and the Southwest Georgia Railroad Excursion Authority. This change resulted in a decrease in the beginning net position of the nonmajor component units of $2.2 million.

In addition, Georgia Music Hall of Fame Authority has essentially ceased operations. Previously reported assets for the Authority belong to Georgia Music Hall of Fame, Inc., a component unit of the Authority. Under the provisions of GASB Statement No. 61, Georgia Music Hall of Fame, Inc. does not meet the criteria for inclusion of component units within the State's financial reporting entity. This change resulted in a decrease in the beginning net position of the nonmajor component units of $0.4 million.

B. Adoption of New Accounting Principles

In fiscal year 2013, the State implemented the following new GASB Statements:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* addressed issues related to service concession arrangement (SCA's), which are a type of public-private or public-public partnership. As a result of implementing this Statement, presentation and terminology changes were made to the government-wide and fund financial statements as necessary.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* modified certain requirement for inclusion of component units in the State's financial reporting entity, amended certain blending provisions for reporting component units as if they were part of the primary government and clarified the reporting of equity interest in legally separate organizations. The effects of implementing this Statement on the State's reporting entity have been included in the paragraphs above.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporated, into GASB's authoritative literature, certain accounting and financial reporting guidance issued by FASB and the AICPA. Slight revisions have been made to note disclosures to accommodate the provisions of this Statement.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* standardized the presentation of deferred outflows of resources and deferred inflows of resources and their effect on net position. As a result of implementing this Statement, presentation and terminology changes were made to the government-wide and fund financial statements as necessary. The reporting of all deferred outflows of resources and deferred inflows of resources will be implemented in fiscal year 2014 with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

In fiscal year 2014, the State will implement the following GASB Statements:

No. 65 *Items Previously Reported as Assets and Liabilities*

No. 66 *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*

No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*

No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The objective of Statement No. 65 is to specify the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflow of resources or inflows of resources.

The objective of Statement No. 66 is to amend Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The objective of Statement No. 67 is to improve the usefulness of pension information included in the general purpose external financial reports of state governmental pension plans for making decisions and assessing accountability.

The objective of Statement No. 70 is to improve the recognition, measurement, and disclosure guidance for state governments that have extended or received financial guarantees that are nonexchange transactions.

As of the date of this report, the State has not determined the financial impact of implementing Statements No. 65 through No. 67 and No. 70.

C. Correction of Prior Year Errors

During the fiscal year, it was determined that prior year interest accruals were overstated by $10.2 million in the General Fund and were understated by $3.4 million in the governmental activities. The beginning fund balance of the General Fund and the beginning net position of the governmental activities have been restated to reflect correction of these errors.

NOTE 2 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING (continued)

During the fiscal year, it was determined that capital assets, net of accumulated depreciation, were overstated within the governmental activities in fiscal year 2012 by $441.3 million resulting in an overstatement of net position, as reported. The beginning net position of the governmental activities was decreased to reflect correction of accumulated depreciation and net capital assets. The majority of this change was due to implementation of new technology to improve capital asset tracking and maintain proper asset classification by the Department of Transportation.

During the fiscal year it was determined that the compensated absence liability was understated within governmental activities in fiscal year 2012 by $2.2 million resulting in an overstatement of net position, as reported. The beginning net position of governmental activities was decreased to reflect correction of this liability.

During the fiscal year, it was determined that certain capital lease liabilities within governmental activities in the fiscal year 2012 were understated by $0.3 million, resulting in an overstatement of net position, as reported. The beginning net position of governmental activities was decreased to reflect correction of these liabilities.

During the fiscal year, it was determined that liabilities related to compensated absences, capital leases and claims payable (internal service funds) were overstated by $3.7 million, resulting in an understatement of net position, as reported. The beginning net position of governmental activities was increased to reflect correction of these liabilities.

During the fiscal year, it was determined that net position were understated within various institutions of the Board of Regents (Higher Education Fund) in fiscal year 2012 by $3.5 million resulting in an understatement of net position, as reported. The beginning net position of the Higher Education Fund was increased primarily to reflect an increase in capital assets and deferred inflows of resources.

During the fiscal year, it was determined that nonmajor enterprise fund net position should be restated by $0.2 million to reflect an adjustment for bond payment issuance costs.

During the fiscal year, it was determined that discretely presented component units' net position was overstated by $1.4 million. An adjustment was made to decrease net position to reflect corrections to capital assets and capital lease liabilities.

NOTE 3 - FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

Reclassifications and Restatements consisted of the following (in thousands):

	6/30/2012 As Previously Reported	Change in Financial Reporting Entity	Correction of Prior Year Errors	6/30/2012 (Restated)
Governmental Funds and Activities				
Major Funds:				
General Fund	$ 3,719,810	$ -	$ (10,195)	$ 3,709,615
General Obligation Bond Projects Fund	909,246	-	-	909,246
Nonmajor Funds:				
Special Revenue Funds	60,109	-	-	60,109
Debt Service Fund	21,038	-	-	21,038
Permanent Fund	14	-	-	14
Total Governmental Funds	4,710,217	-	(10,195)	4,700,022
Government-wide Adjustments				
Capital Assets, net of depreciation	20,872,383	-	(441,285)	20,431,098
Other Noncurrent Assets and Liabilities	(109,035)	-	1,153	(107,882)
Long-Term Liabilities				
Adjustment to Capital Lease Liability	(11,127,590)	-	(277)	(11,127,867)
Inclusion of Internal Service Funds in Governmental Activities	521,316	-	3,654	524,970
Total Governmental Funds and Activities	**$ 14,867,291**	**$ -**	**$ (446,950)**	**$ 14,420,341**
Proprietary Funds and Business-type Activities				
Major Funds:				
Higher Education Fund	$ 6,005,363	$ (66,339)	$ 3,504	$ 5,942,528
State Health Benefit Plan	(272,491)	-	-	(272,491)
Unemployment Compensation Fund	(249,585)	-	-	(249,585)
Nonmajor Funds:				
Enterprise Funds	68,983	246,358	(200)	315,141
Internal Service Funds	390,617	-	3,654	394,271
Internal Service Funds Look-Back Adjustments				
Removal of Internal Service Funds Relating to Governmental Activities	(521,316)	-	(3,654)	(524,970)
Total Proprietary Funds and Business-type Activities	**$ 5,421,571**	**$ 180,019**	**$ 3,304**	**$ 5,604,894**
Fiduciary Funds				
Pension and Other Employee Benefit Trust Funds	$ 69,575,642	$ -	$ -	$ 69,575,642
Investment Trust Funds	6,036,580	-	-	6,036,580
Private Purpose Trust Funds	9,007	-	-	9,007
Total Fiduciary Funds	**$ 75,621,229**	**$ -**	**$ -**	**$ 75,621,229**
Discretely Presented Component Units	**$ 6,755,299**	**$ (182,671)**	**$ (1,363)**	**$ 6,571,265**
Total Reporting Entity	**$ 102,665,390**	**$ (2,652)**	**$ (445,009)**	**$ 102,217,729**

NOTE 4 - NET POSITION/FUND BALANCES

A. Restricted Net Position

Restricted net position at June 30, 2013 is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Total Primary Government
Capital Projects	$ -	$ 75,188	$ 75,188
Guaranteed Revenue Debt Common Reserve Fund	54,003	-	54,003
Lottery for Education	774,143	-	774,143
Motor Fuel Tax Funds	1,765,378	-	1,765,378
Permanent Trusts	14	656,893	656,907
Unemployment Compensation Benefits	-	61,133	61,133
Other Purposes	707,778	23,214	730,992
Total Restricted Net Position	**$ 3,301,316**	**$ 816,428**	**$ 4,117,744**

The restricted net position of the governmental activities includes $84.0 million of net position restricted by enabling legislation.

B. Fund Balances

The specific purposes of the governmental funds fund balances, classified as other than unassigned, at June 30, 2013 are as follows (in thousands):

	General Fund	General Obligation Bond Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable Fund Balance				
Not in Spendable Form	$ 56,937	$ -	$ -	$ 56,937
Legally Required to be Maintained Intact	-	-	14	14
Total Nonspendable Fund Balance	$ 56,937	$ -	$ 14	$ 56,951
Restricted Fund Balance				
Capital Projects	$ -	$ 936,242	$ -	$ 936,242
Guaranteed Revenue Debt Common Reserve Fund	54,003	-	-	54,003
Lottery For Education	774,143	-	-	774,143
Roads and Bridges (Motor Fuel Tax Funds)	1,727,747	-	37,631	1,765,378
Unissued Debt/Debt Service	75,066	-	45,371	120,437
Other				
General Government	82,102	45,909	-	128,011
Education	4,763	-	-	4,763
Health and Welfare	181,562	-	-	181,562
Transportation	153,664	-	-	153,664
Public Safety	65,975	-	-	65,975
Economic Development and Assistance	13,039	-	-	13,039
Culture and Recreation	44,946	-	-	44,946
Total Restricted Fund Balance	$ 3,177,010	$ 982,151	$ 83,002	$ 4,242,163
Committed Fund Balance				
General Government	$ 2,948	$ -	$ -	$ 2,948
Health and Welfare	799	-	-	799
Public Safety	1,207	-	-	1,207
Total Committed Fund Balance	$ 4,954	$ -	$ -	$ 4,954
Assigned Fund Balance				
General Government	$ 71,112	$ 21,972	$ -	$ 93,084
Education	28,631	-	-	28,631
Health and Welfare	115,069	-	-	115,069
Transportation	-	-	31,975	31,975
Public Safety	61,432	-	-	61,432
Economic Development and Assistance	84,010	-	883	84,893
Culture and Recreation	4,861	-	231	5,092
Conservation	870	-	-	870
Total Assigned Fund Balance	$ 365,985	$ 21,972	$ 33,089	$ 421,046

C. Deficit Net Position

The following funds reported total net position deficits at June 30, 2013:

The SHBP (enterprise fund) ended the year with a deficit net position balance of $129.7 million. The deficit was created in the prior fiscal years, but was reduced this year by the excess of employee and employer contributions over benefits paid to plan participants.

The Georgia Tech Facilities, Inc. (nonmajor enterprise fund) ended the year with a deficit net position balance of $26.5 million. The deficit was the result of non operating losses exceeding operating net profit.

In addition to the net position deficits disclosed above, the governmental activities of the State ended the year with an Unrestricted Net Position deficit of $1.8 billion. The deficit is a result of the State incurring debt for the purposes of capital acquisition and construction on behalf of county and independent school systems and State schools. As of June 30, 2013 outstanding general obligation bonds applicable to these projects was $2.1 billion. Since the incurrence of this debt does not result in capital assets acquisitions for the State, the debt is not reflected in the net position category, net investment in capital assets, but rather in the unrestricted net position category.

NOTE 5 - DEPOSITS AND INVESTMENTS

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows (in thousands):

	Primary Government and Fiduciary Funds	Component Units	Total
Cash and Cash Equivalents	$ 4,116,062	$ 1,187,053	$ 5,303,115
Investments	3,816,862	1,978,011	5,794,873
Restricted Assets			
Cash and Cash Equivalents	137,914	344,469	482,383
Investments	245,988	1,552,963	1,798,951
Fiduciary Funds			
Cash and Cash Equivalents	4,686,494	-	4,686,494
Investments	76,988,053	-	76,988,053
Total Cash and Investments	**$89,991,373**	**$5,062,496**	**$95,053,869**

Cash and investments as of June 30, 2013 consist of the following (in thousands):

	Primary Government and Fiduciary Funds	Component Units	Total
Cash on Hand	$ 2,355	$ 58	$ 2,413
Deposits with Financial Institutions (Note 5A)	5,686,784	964,118	6,650,902
Investments (Note 5B)	85,192,754	3,207,800	88,400,554
Assets Held at the Board of Regents on Behalf of Other Organizations	(21,963)	21,963	-
Assets Held at the Office of the State Treasurer on Behalf of Other Organizations	(868,557)	868,557	-
Total Cash and Investments	**$89,991,373**	**$5,062,496**	**$95,053,869**

A. Deposits

Deposits include bank accounts and short-term investments, especially certificates of deposit. State demand deposits, time deposits, and certificates of deposit must be secured by eligible collateral or by a surety bond approved by the State Depository Board (Board). Eligible collateral includes any one or more of the following securities as enumerated in OCGA 50-17-59:

1) Bonds, bills, notes, certificates of indebtedness, or other direct obligations of the U.S. Government or of the State.
2) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State.

3) Bonds of any public authority created by the laws of the State, providing that the statute that created the authority authorized the use of the bonds for this purpose.
4) Industrial revenue bonds and bonds of development authorities created by the laws of the State.
5) Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary corporation of the U.S. government, which are fully guaranteed, both as to principal and interest and debt obligations, issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Home Loan Mortgage Corporation and the Federal National Mortgage Association.

The State Treasurer may also accept letters of credit issued by a Federal Home Loan Bank or the guarantee or insurance of accounts of the Federal Deposit Insurance Corporation (FDIC) (to the extent authorized by federal law governing the FDIC) to secure state funds on deposit in state depositories. In addition, upon approval of the State Treasurer, a combination of the methods above may be utilized by a depository to secure deposits.

The Board is authorized in OCGA 50-17-58 to allow agencies of the State the option of exempting demand deposits from the collateral requirements. Currently, the Board has only authorized the Office of the State Treasurer (OST) to waive collateral on special accounts approved by the Board in accordance with its investment policy. The Board requires all other state demand time deposits and certificates of deposits to be collateralized in an amount equal to and not less than 110% of any deposit not insured by the FDIC. In addition, the Board instituted a requirement to limit total State deposits at any State depository to not exceed 100% of the depository's equity capital. The Board may temporarily increase the total state deposit limit at any state depository to 125% of equity capital to allow for fluctuation in demand deposit balances.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State's deposits may not be recovered. At June 30, 2013, bank balances of the primary government and its component units' deposits totaled $6.6 billion. Of these deposits, $370.4 million were exposed to custodial credit risk as follows (in thousands):

	Primary Government	Component Units	Total
Uninsured and uncollaterized	$ 10,446	$ 5,286	$ 15,732
Uninsured and collateralized with securities held by the pledging financial institutions	25,494	22,960	48,454
Uninsured and collateralized with securities held by the pledging institutions' trust departments or agents, but not in the State's name	153,932	152,305	306,237
Total deposits exposed to custodial credit risk	**$ 189,872**	**$ 180,551**	**$ 370,423**

The carrying amounts of deposits of certain higher education foundations which utilize FASB standards were $187.7 million. These deposits are not included in the balances reflected above.

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

B. Investments

Primary Government

As the predominant portion of the primary government's investments are managed by OST, OST's investment policies are considered to be the defacto investment policies of the primary government. Pursuant to OST's investment policies which are governed by the Board, the State Treasurer shall invest all funds with the degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering first the probable safety of their capital and then the probable income to be derived (OCGA 50-5A-7).

The Board may permit the State Treasurer to invest in any one or more of the following (OCGA 50-17-63 and OCGA 50-17-2):

1) Bankers' Acceptances
2) Commercial Paper (CP)
3) Obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States
4) Obligations of corporations organized under the laws of this state or any other state
5) Direct obligations of the government of any foreign country which the International Monetary Fund lists as an industrialized country and for which the full faith and credit of such government has been pledged for the payment of principal and interest, provided that such securities are listed as investment grade by a nationally recognized rating agency
6) Repurchase Agreements

Authorized investments are subject to certain restrictions pursuant to the Board's investment policy.

Pension and Other Employee Benefit Trust Funds

In accordance with OCGA, Public Retirement Systems may invest in the following:

1) U.S. or Canadian corporations or their obligations with limits as to the corporations' size and credit rating.
2) Repurchase and reverse repurchase agreements for direct obligations of the U.S. government and for obligations unconditionally guaranteed by agencies.
3) FDIC insured cash assets or deposits.
4) Bonds, notes, warrants, loans or other debt issued or guaranteed by the U.S. government.
5) Taxable bonds, notes, warrants or other securities issued and guaranteed by any state, the District of Columbia, Canada or any province in Canada.
6) Bonds, debentures or other securities issued or insured or guaranteed by an agency, authority, unit, or corporate body created by the U.S. government.
7) Investment grade collateralized mortgage obligations.
8) Obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation.
9) Bonds, debentures, notes and other evidence of indebtedness issued, assumed, or guaranteed by any solvent institution existing under the laws of the U.S. or of Canada, or any state or province thereof, which are not in default and are secured to a certain level.
10) Secured and unsecured obligations issued by any solvent institution existing under the laws of the U.S. or of Canada, or any state or province thereof, bearing interest at a fixed rate, with mandatory principal and interest due at a specified time with additional limits.

11) Equipment trust obligations or interests in transportation equipment, wholly or in part within the U.S., and the right to receive determinate portions or related income.
12) Loans that are secured by pledge or securities eligible for investment.
13) Purchase money mortgages or like securities received upon the sale or exchange of real property acquired.
14) Secured mortgages or mortgage participation, pass-through, conventional pass-through, trust certificate, or other similar securities with restrictions.
15) Land and buildings on such land used or acquired for use as a fund's office for the convenient transaction of its own business with restrictions.
16) Real property and equipment acquired under various circumstances.

In addition, large retirement systems have restrictions as to the concentration of investments in corporations and equities and additional stipulations exist related to decreases in a fund's asset value. The retirement systems have additional restrictions on the acquisition of securities of companies with activities in the Iran petroleum energy sector. A list of scrutinized companies with activities in the Iran petroleum energy sector has been compiled and is annually updated. This list is utilized to identify and potentially divest the retirement systems of such holdings.

In accordance with OCGA, certain eligible large retirement systems (excluding the Teachers Retirement System) are authorized to invest in alternative investments such as privately placed investment pools that include investments such as Leveraged Buyout funds, Mezzanine funds, Workout funds, Debt funds, Venture Capital funds Merchant Banking funds, Funds of funds. In addition, these retirement systems are authorized to invest in private placements and other private investments such as Leveraged Buyouts, Venture Capital Investment, Equity Investments such as preferred and common stock, Warrants, Options, private investments in public securities, Recapitalizations, Privatizations, Mezzanine debt investments, Distressed Debt and Equity investments, Convertible Securities, Receivables, Debt and Equity Derivative Instruments, etc. The amount invested by an eligible large retirement system in alternative investments may not in the aggregate exceed five percent of the eligible large retirement system's assets at any time.

Component Units

Component units follow applicable investing criteria as specifically authorized by statute or by the component unit's governing authority. Certain higher education foundations utilize FASB standards. Balances for those component units as of June 30, 2013, are available as follows (in thousands):

	Fair Value
Cash Held by Investment Organization	$ 67,293
Certificates of Deposit	3,959
Commodity Fund	25,314
Corporate Bonds	184,418
Diversifying Strategies	34,120
Equity Securities	807,507
Government and Agency Securities	25,208
Hedge Funds	328,179
Investment Pools	679,448
Joint Ventures/Partnerships	2,829
Money Market Accounts	18,140
Mutual Funds	62,637
Natural Resources	85,618
Real Estate	114,463
Total Investments	**$ 2,439,133**

The component unit disclosures that follow do not include these balances.

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Primary Government

OST's policy for the management of interest rate risk attempts to match investments with expected cash requirements. However, certificates of deposit may not have a term exceeding five years. The State Treasurer may establish duration or maturity limitations for other investments.

The table below provides information about the primary government's exposure to interest rate risk (in thousands):

		Maturity Period				
	Total Fair Value	Less than 3 Months	4 - 12 Months	1 - 5 Years	6 - 10 Years	More than 10 Years
Asset-Backed Securities	$ 7,135	$ -	$ 1,966	$ 5,169	$ -	$ -
Commercial Paper	100,141	100,141	-	-	-	-
Corporate Debt						
Domestic	80,970	12	1,636	41,894	30,836	6,592
International Government						
Obligations	5,008	-	5,008	-	-	-
Money Market Mutual Funds	69,729	53,897	14,993	839	-	-
Mortgage-Backed Securities						
Commercial	8,018	-	1,350	2,670	-	3,998
Municipal Bonds	1,111	5	-	208	802	96
Mutual Funds - Debt*	49,861	-	204	41,637	7,636	384
Repurchase Agreements	5,232,662	4,151,455	1,081,207	-	-	-
U.S. Agency Obligations	4,055,522	798,340	2,075,996	864,137	86,889	230,160
U.S. Treasury Obligations	94,597	55,934	8,007	23,383	7,273	-
Total Debt Securities	**9,704,754**	**$ 5,159,784**	**$ 3,190,367**	**$ 979,937**	**$ 133,436**	**$ 241,230**
Equity Securities - Domestic	181,515					
Equity Securities - International	34,758					
Funds on Deposit with U. S.						
Treasury for Unemployment						
Compensation	308,535					
Mutual Funds - Equity	65,016					
Real Estate	39,759					
Real Estate Investment Trust	13,819					
Total Investments	**$ 10,348,156**					

*Maturity Period is weighted average maturity.

Pension and Other Employee Benefit Trust Funds Administered by the Employees' and Teachers Retirement Systems

The Boards of the Employees' and Teachers Retirement systems have elected to manage interest rate risk of these pension and other employee benefit trust funds using the effective duration method. This method is widely used in the management of fixed income portfolios and quantifies to a much greater degree the sensitivity to interest rate changes when analyzing a bond portfolio with call options, prepayment provisions, and any other cash flows. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows and is best utilized to gauge the effect of a change in interest rates on the fair value of a portfolio. It is believed that the reporting of effective duration found in the table below quantifies to the fullest extent possible the interest rate risk of the funds' fixed income assets (in thousands):

	Total Fair Value	Effective Duration (Years)
Corporate and Other Bonds	$ 7,790,336	5.1
International Obligations:		
Government	395,291	4.0
Corporate	408,432	2.0
Repurchase Agreements	1,775,000	0.0
U.S. Agency Obligations	18,074	1.6
U.S. Treasury Obligations	10,081,325	5.2
Total Debt Securities	20,468,458	
Common Stock		
Domestic	39,367,881	
International	12,401,284	
Mutual Funds - Equity	1,057,421	
Total Investments	**$ 73,295,044**	

Pension and Other Employee Benefit Trust Funds Administered by Other than the Employees' and Teachers Retirement Systems

The Public Retirement System Investment Authority Law does not address specific policies for managing interest rate risk. The following table provides information about interest rate risks associated with these pension and other employee benefit trust funds' investments (in thousands):

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

	Total Fair Value	Maturity Period: Less than 3 Months	4 - 12 Months	1 - 5 Years	6 - 10 Years	More than 10 Years
Asset-Backed Securities						
Domestic	$ 17,836	$ -	$ 39	$ 5,605	$ 3,704	$ 8,488
International	819	-	-	-	819	-
Corporate Debt						
Domestic	148,954	1,607	9,967	50,896	50,756	35,728
International	5,834	15	391	2,344	974	2,110
Mortgage-Backed Securities						
Commercial	92,213	2	-	1,347	3,339	87,525
Municipal Bonds	3,195	-	421	190	935	1,649
Mutual Funds - Debt*	34,147	-	-	34,147	-	-
U.S. Agency Obligations	95,406	-	480	7,548	4,234	83,144
U.S. Treasury Obligations	63,011	-	-	37,806	17,039	8,166
Total Debt Securities	**$ 461,415**	**$ 1,624**	**$ 11,298**	**$139,883**	**$ 81,800**	**$226,810**
Equity Securities						
Domestic	434,414					
International	26,000					
Mutual Funds - Equity	598,393					
Real Estate Investment Trust	29,332					
Total Investments	**$ 1,549,554**					

*Maturity period is weighted average maturity.

Component Units

The component units follow the applicable investing criteria specifically authorized by statute or by the component unit's governing authority.

The component units' exposure to interest rate risk is presented below (in thousands):

	Total Fair Value	Maturity Period: Less than 3 Months	4 - 12 Months	1 - 5 Years	6 - 10 Years	More than 10 Years
Asset-Backed Securities	$ 15,257	$ -	$ -	$ 6,067	$ 2,260	$ 6,930
Corporate Debt						
Domestic	66,790	553	4,762	52,041	8,547	887
International	8,679	-	319	6,832	1,398	130
Investment Agreements	28,330	-	-	-	2,808	25,522
Money Market Mutual Funds	34,024	902	238	32,884	-	-
Mortgage-Backed Securities						
Commercial	140,921	-	25	938	1,425	138,533
Municipal Bonds	19,755	300	-	14,014	1,853	3,588
Mutual Funds - Debt*	494	-	-	494	-	-
Repurchase Agreements	24,581	18,816	-	-	-	5,765
U.S. Agency Obligations	79,616	948	249	51,792	9,158	17,469
U.S. Treasury Obligations	279,725	8,459	35,558	104,133	66,431	65,144
Total Debt Securities	**698,172**	**$ 29,978**	**$ 41,151**	**$ 269,195**	**$ 93,880**	**$ 263,968**
Equity Securities						
Domestic	34,387					
International	13,111					
Mutual Funds - Equity	22,997					
Total Investments	**$ 768,667**					

* Maturity Period is weighted average maturity.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment.

Primary Government

OST utilizes its counterparty risk assessment model to assess the credit risk of financial institutions that have been approved to serve as counterparties for the State. OST has assigned credit limits to each counterparty based upon its counterparty risk assessment.

The exposure of the primary government's debt securities to credit risk is indicated below (in thousands):

	Total Fair Value	AAA	AA	A	BAAA	BAA	BA	BBB	B	Not Rated
Asset-Backed Securities	$ 7,135	$ 7,135	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Paper	100,141	-	-	100,141	-	-	-	-	-	-
Corporate Debt										
Domestic	80,970	107	11,850	55,317	-	-	-	7,029	6,655	12
International Government										
Obligations	5,008	-	-	5,008	-	-	-	-	-	-
Money Market Mutual Funds	69,729	64,272	4,508	48	-	-	453	-	-	448
Mortgage-Backed Securities										
Commercial	8,018	8,018	-	-	-	-	-	-	-	-
Municipal Bonds	1,111	1,105	-	6	-	-	-	-	-	-
Mutual Funds - Debt	49,861	15,399	6,734	1,581	12,147	-	-	59	1,735	12,206
Repurchase Agreements	5,186,270	-	-	4,922,104	-	6,142	-	-	-	258,024
U. S. Agency Obligations	4,020,310	857	3,674,180	159	-	-	-	-	-	345,114
Total Credit Risk - Investments	**9,528,553**	**$ 96,893**	**$ 3,697,272**	**$ 5,084,364**	**$ 12,147**	**$ 6,142**	**$ 453**	**$ 7,088**	**$ 8,390**	**$ 615,804**
U.S. Treasury Obligations	94,597									
U.S. Agency Obligations										
Explicitly Guaranteed	35,212									
Repurchase Agreements Backed										
by U. S. Treasury Obligations	46,392									
Total Debt Securities	**$ 9,704,754**									

Pension and Other Employee Benefit Trust Funds

The credit risk of pension and other employee benefit trust funds is managed by restricting investments to those authorized by the Public Retirement System Investment Authority Law as previously described. The Boards of individual funds may elect to implement more restrictive policies. The pension and other employee benefit trust funds' debt securities exposure to credit risk is indicated below (in thousands):

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

	Total Fair Value	Asset-Backed Securities Domestic	Asset-Backed Securities International	Corporate Debt Domestic	Corporate Debt International	International Government Obligations	Mortgage-Backed Securities	Municipal Bonds	Mutual Funds - Debt	Repurchase Agreements	U.S. Agency Obligations
AAA	$ 842,127	$ 14,894	$ 819	$ 785,231	$ -	$ 5,051	$ 14,912	$ -	$ -	$ -	$ 21,220
AA	2,226,812	914	-	1,338,361	409,364	390,240	4,649	751	-	-	82,533
A	7,528,740	997	-	5,737,377	1,410	-	10,059	2,444	1,453	1,775,000	-
BAA	13,829	-	-	5,318	629	-	7,882	-	-	-	-
BA	11,278	-	-	6,143	-	-	5,135	-	-	-	-
BBB	83,595	1,031	-	64,690	2,787	-	14,717	-	370	-	-
BB	10,955	-	-	1,334	-	-	9,621	-	-	-	-
B	8,282	-	-	-	-	-	8,282	-	-	-	-
CAA	3,098	-	-	-	-	-	3,098	-	-	-	-
CA	2,077	-	-	-	-	-	2,077	-	-	-	-
CCC	5,190	-	-	-	-	-	5,190	-	-	-	-
CC	672	-	-	-	-	-	672	-	-	-	-
C	427	-	-	-	-	-	427	-	-	-	-
D	823	-	-	-	-	-	823	-	-	-	-
Unrated	47,632	-	-	836	76	-	4,669	-	32,324	-	9,727
Total Credit Risk - Investments	**10,785,537**	**$ 17,836**	**$ 819**	**$ 7,939,290**	**$ 414,266**	**$ 395,291**	**$ 92,213**	**$ 3,195**	**$ 34,147**	**$ 1,775,000**	**$ 113,480**
U.S. Treasury Obligations	10,144,336										
Total Debt Securities	**$20,929,873**										

Component Units

The component units follow the applicable investing criteria specifically authorized by statute or by the component unit's governing authority. The exposure of the component units' debt securities to credit risk is indicated below (in thousands):

	Total Fair Value	Asset-Backed Securities Domestic	Corporate Debt Domestic	Corporate Debt International	Investment Agreements	Money Market Mutual Funds	Mortgage-Backed Securities - Commercial	Municipal Bonds	Mutual Funds - Debt	Repurchase Agreements	U.S. Agency Obligations
AAA	$ 91,115	$ 10,229	$ 2,795	$ 4,868	$ 19,640	$ 902	$ 15,831	$ 4,913	$ -	$ -	$ 31,937
AA	221,567	3,112	11,738	467	7,830	-	124,789	13,511	-	24,581	35,539
A	45,526	1,486	39,786	1,825	860	-	238	1,331	-	-	-
BAA	6,307	-	6,307	-	-	-	-	-	-	-	-
BBB	6,744	60	5,446	1,238	-	-	-	-	-	-	-
BB	786	-	505	281	-	-	-	-	-	-	-
B	62	-	-	-	-	-	62	-	-	-	-
CCC	370	370	-	-	-	-	-	-	-	-	-
Unrated	33,830	-	213	-	-	33,122	1	-	494	-	-
Total Credit Risk - Investments	**406,307**	**$ 15,257**	**$ 66,790**	**$ 8,679**	**$ 28,330**	**$ 34,024**	**$ 140,921**	**$ 19,755**	**$ 494**	**$ 24,581**	**$ 67,476**
U.S. Treasury Obligations	279,725										
U.S. Agency Obligations Explicitly Guaranteed	12,140										
Total Debt Securities	**$ 698,172**										

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a bank failure, the State's investments that are in the possession of a bank may not be recovered.

Primary Government

The OST's investment policies include the following restrictions to manage custodial credit risk for investments:

1) Repurchase agreements may be transacted with authorized dealers and banks that carry a rating of A1/P1 or higher, with maximum exposure per institution determined by the State Treasurer and adjusted as needed due to the financial condition of such institutions and the size of the State's investment portfolios.

Repurchase agreements must be collateralized by obligations of the U.S. and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the U.S. government or other securities authorized for investment by the State Treasurer. Collateral comprised of obligations of the U.S. and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the U.S. government must have a market value of at least 102% of the investment and other eligible collateral must have a market value of 105% of the investment. Collateral must be held by a third party custodian approved by the State Treasurer and marked-to-market daily. Exceptions to the requirements for third party custody of collateral may be approved by the State Treasurer for dealer banks if necessary on occasion and such exceptions reported to the Board.

2) All certificates of deposit (CD's) must be secured by collateral permitted by statute. Surety bonds acceptable as security for CD's shall require approval by the State Depository Board with such credit constraints or limitations it determines. Pledged securities shall be held by a third party custodian approved by the State Treasurer and marked-to-market at least monthly with depositories required to initially pledge to the Office of the State Treasurer, and thereafter maintain upon notification of any shortfall, collateral having a market value equal to 110% of CD's.
3) Negotiated investment deposit agreements: Deposit agreements with banks that are (1) secured by collateral permitted by statute, held by a third-party custodian, marked-to-market daily, and having a market value equal to or exceeding 110% of the deposit; (2) fully secured by a letter-of-credit issued by the Federal Home Loan Bank; (3) fully secured by a surety bond issued by a financial institution approved by the State Depository Board; or, (4) subject to funds being available upon demand, with U.S. banks carrying ratings no lower than P-1 by Moody's Investors Service and A-1 by Standard & Poor's Corporation in an amount, including any CP issued by the respective financial institution held for investment by OST, that does not exceed 5% of portfolio assets for any single institution.

At June 30, 2013, $66.2 million of the primary government's investments were uninsured, unregistered and held by the counterparty or the counterparty's trust department, but not in the State's name.

<u>Pension and Other Employee Benefit Trust Funds</u>

The custodial credit risk of pension and other employee benefit trust funds is managed by restricting investments to those authorized by the Public Retirement System Investment Authority Law described above. At June 30, 2013, $523.8 million of the pension and other employee benefit trust funds' investments were uninsured, unregistered and held by the counterparty or the counterparty's trust department, but not in the State's name.

<u>Component Units</u>

The component units follow the applicable investing criteria specifically authorized by statute or by the component unit's governing authority. At June 30, 2013, $33.3 million of the component units' investments were uninsured, unregistered and held by the counterparty or the counterparty's trust department, but not in the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investment in a single issuer.

<u>Primary Government</u>

The OST's investment policies for managing concentration of credit risk require diversification of investments to reduce overall portfolio risks while maintaining market rates of return. Investments in each portfolio shall be diversified to eliminate risk of loss from an over concentration in a specific maturity, issuer (including repurchase agreement dealers), and security or class of securities. The

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

State Treasurer establishes Investment Guidelines for each investment portfolio to assure that prudent diversification and adequate liquidity is maintained. The State Treasurer utilizes a counterparty risk assessment model to determine maximum exposure to each approved financial institution. At June 30, 2013, approximately 88.9% of the primary government's total investments were investments in securities of U.S. agencies not explicitly guaranteed by the U.S. government.

Pension and Other Employee Benefit Trust Funds

The concentration of credit risk policy of pension and other employee benefit trust funds limits investments to no more than 5% of total net assets in any one corporation. At June 30, 2013, no more than 5% of the pension and other employee benefit trust fund's total investments were investments in any single issuer.

Component Units

The component units follow the applicable investing criteria specifically authorized by statute or by the component unit's governing authority. At June 30, 2013, 8.8% of the component units' total investments were investments in securities of U.S. Agencies not explicitly guaranteed by the U.S. government.

C. Investments Lending Program

The State is presently involved in securities lending programs with major brokerage firms. The State lends equity and fixed income securities for varying terms and receives a fee based on the loaned securities' value. During a loan, the State continues to receive dividends and interest as the owner of the loaned securities.

Primary Government

In the primary government's securities lending agreement, securities are transferred to an independent broker in exchange for collateral in the form of cash and/or securities issued by the U.S. Treasury or its agencies. The collateral value must be equal to at least 100% to 102% of the loaned securities value, depending on the type of collateral security.

Securities loaned totaled $2.0 million at June 30, 2013, and the collateral value was equal to 102%. The loaned securities are in the accompanying note disclosures based on the custodial arrangements for the collateral securities. Loaned securities are included in the accompanying Statement of Net Position because the State maintains ownership. The related collateral securities are not recorded as assets on the Statement of Net Position, and a corresponding liability is not recorded, since the State does not pledge or trade the collateral securities.

Pension and Other Employee Benefit Trust Funds

In the pension and other employee benefit trust funds securities lending agreements, the brokerage firms pledge collateral securities consisting of U.S. government and agency securities, mortgage-backed securities issued by a U.S. government agency, and U.S. corporate bonds. The collateral value must be equal to at least 102% to 109% of the loaned securities value, depending on the type of collateral security.

Securities loaned totaled $14.8 billion at June 30, 2013, and the collateral value was equal to 104.2%. The loaned securities are in the accompanying note disclosures based on the custodial arrangements for the collateral securities. Loaned securities are included in the accompanying Statement of Net Position because the State maintains ownership. The related collateral securities are not recorded as assets on the Statement of Fiduciary Net Position, and a corresponding liability is not recorded, since the State does not pledge or trade the collateral securities.

D. Other Investments

The State's Unemployment Compensation Fund monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

The Commissioner of the Department of Agriculture is directed by statute to require dealers in certain agricultural products and livestock to make and deliver to the Department a surety or cash bond to secure the faithful accounting for and payment to producers of the proceeds of agricultural products or livestock handled or sold by the dealer. Cash bonds are required to designate the Department as trustee of the funds and may take the form of certificates of deposit, letters of credit, money orders or cashiers' checks. At June 30, 2013, the Department held surety bonds in the amount of $38.8 million, and cash bonds in the amount of $15.6 million. These bonds are not recorded on the Balance Sheet.

Securities are held by the Commissioner of Insurance pursuant to statutes that require licensed insurance companies to deposit securities prior to issuance of a certificate of authority to transact insurance. These securities remain in the name of the licensed insurance company as long as the company has a pending claim in the State or until a proper order of a court of competent jurisdiction has been issued to the receiver, conservator, rehabilitator, or liquidator of the insurer or to any other properly designated official or officials who succeed to the management and control of the insurer's assets. The purchase and redemption of such securities are allowed as long as the required levels of deposits are maintained. At June 30, 2013, securities valued at $224.7 million were held by the Department of Insurance. These securities are not recorded on the Balance Sheet.

Statutes require that surety bonds be provided for State public works contracts. The Department of Transportation holds surety bonds in the amount of $8.2 billion for construction performance to ensure proper completion and complete performance of construction contracts, and $8.7 billion for construction payment to ensure that payments are made by the general contractor to all subcontractors. These bonds are not recorded on the Balance Sheet.

The GSFIC State Construction Manual policies require that surety bonds be provided for payment and performance of all State projects of $100,000 or more. The Department of Corrections holds surety bonds in the amount of $5.1 million for construction performance to ensure proper completion and complete performance of construction contracts. These bonds are not recorded on the Balance Sheet.

For any organization that elects to assume the liability for unemployment compensation payments in lieu of making contributions to the Unemployment Compensation Fund, the Commissioner of the Department of Labor is authorized by statute to require such organization to execute and file with the Commissioner a cash deposit or surety bond. Cash deposits are held on behalf of such organizations in the Department's name, and are reported as agency funds. At June 30, 2013, the Department held surety bonds in the amount of $54.7 million. These bonds are not recorded on the Statement of Net Position.

E. Investment Pools

Separate reports on the State's external investment pools are not issued. Condensed financial statements, inclusive of external and internal participants for the fiscal year ended June 30, 2013, and related risk disclosures for investments are as follows:

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Georgia Fund 1

The Primary Liquidity portfolio is a Standard & Poor's AAAf rated stable net asset value investment pool. The pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 and is managed to maintain principal stability.

Georgia Fund 1
Statement of Net Position
June 30, 2013
(in thousands)

Assets	
Cash and Cash Equivalents	$6,612,153
Investments	3,263,982
Net Position	**$9,876,135**
Distribution of Net Position	
External Participant Account Balances	$5,835,977
Internal Participant Account Balances	4,040,158
Total Net Position	**$9,876,135**

Georgia Fund 1
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(in thousands)

Additions		
Pool Participant Deposits	$	33,053,513
Investment Income		
Interest		19,905
Less: Investment Expense		(5,457)
Total Additions		**33,067,961**
Deductions		
Pool Participant Withdrawals		31,715,577
Net Increase		**1,352,384**
Net Position		
July 1, 2012		8,523,751
June 30, 2013	**$**	**9,876,135**

Deposits

Because the State does not maintain separate bank accounts for Georgia Fund 1, separate custodial credit risk disclosures for the Fund's deposits cannot be presented. The carrying amount of the Fund's deposits as of June 30, 2013, was $3.8 billion. This amount is included in the deposit disclosures of the Primary Government.

Investments

Georgia Fund 1 follows applicable investing criteria and investment risk management policies as previously described for the primary government. In addition, fund managers restrict investments of the Fund in order to maintain the Standard and Poor's AAAf rating.

Interest Rate Risk

The Fund's investments and exposure to interest rate risk are presented below (in thousands):

		Maturity Period		Range of Yields
	Total Fair Value	Less than 3 Months	4 - 12 Months	
Commercial Paper	$ 100,141	$ 100,141	$ -	.200% - .200%
Repurchase Agreements	3,230,000	3,230,000		.030% - .300%
U.S. Agency Obligations	2,713,983	749,181	1,964,802	.100% - .238%
Total Investments	**$ 6,044,124**	**$ 4,079,322**	**$ 1,964,802**	

Credit Risk

The exposure of the Fund's debt securities to credit risk is indicated below (in thousands):

	Total	Credit Rating	
	Fair Value	AA	A
Commercial Paper	$ 100,141	$ -	$ 100,141
Repurchase Agreements	3,230,000	-	3,230,000
U.S. Agency Obligations	2,713,983	2,713,983	-
	$ 6,044,124	**$ 2,713,983**	**$ 3,330,141**

Concentration of Credit Risk

At June 30, 2013, more than 5% of the Fund's total investments were investments in securities of U.S. agencies not explicitly guaranteed by the U.S. government. These investments represented 98.3% of total investments.

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Georgia Extended Asset Pool

The Georgia Extended Asset Pool (GEAP) is a variable net asset value investment pool that follows Standard and Poor's credit quality criteria for AA+f rated funds. The pool is not registered with the SEC as an investment company.

Georgia Extended Asset Pool
Statement of Net Position
June 30, 2013
(in thousands)

Assets		
Cash and Cash Equivalents	$	94,650
Investments		145,935
Net Position	**$**	**240,585**
Distribution of Net Position		
External Participant Account Balances	$	175,911
Internal Participant Account Balances		64,674
Total Net Position	**$**	**240,585**

Georgia Extended Asset Pool
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(in thousands)

Additions		
Pool Participant Deposits	$	61,000
Investment Income		
Interest		860
Fair Value Decrease		(358)
Less: Investment Expense		(99)
Total Additions		**61,403**
Deductions		
Pool Participant Withdrawals		10,600
Net Increase		**50,803**
Net Position		
July 1, 2012		189,782
June 30, 2013		**$240,585**

Deposits

Because the State does not maintain separate bank accounts for GEAP, separate custodial credit risk disclosures for GEAP's deposits cannot be presented. The carrying amount of GEAP's deposits as of June 30, 2013, was $19.7 million. This amount is included in the deposit disclosures of the Primary Government.

Investments

GEAP follows applicable investing criteria and investment risk management policies as previously described for the primary government. In addition, the fund managers restrict investments of GEAP in order to maintain the Standard and Poor's AA+f rating.

Interest Rate Risk

GEAP's investments and exposure to interest rate risk are presented below (in thousands):

		Maturity Period		Range of Yields
	Total Fair Value	Less than 3 Months	1 - 5 Years	
Repurchase Agreements	$ 175,000	$ 175,000	$ -	.130% - .300%
U.S. Agency Obligations	45,935	-	45,935	.375% - 3.032%
Total Investments	$ 220,935	$ 175,000	$ 45,935	

Credit Risk

The exposure of GEAP's debt securities to credit risk is indicated below (in thousands):

	Total	Credit Rating	
	Fair Value	AA	A
Repurchase Agreements	$ 175,000	$ -	$ 175,000
U.S. Agency Obligations	45,935	45,935	-
	$ 220,935	$ 45,935	$ 175,000

Concentration of Credit Risk

At June 30, 2013, all of GEAP's investments were investments in securities of U.S. agencies not explicitly guaranteed by the U.S. government.

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Regents Investment Pool

The Regents Investment Pool is not registered with the SEC as an investment company.

Regents Investment Pool
Statement of Net Position
June 30, 2013
(in thousands)

Assets		
Investments	$	461,273
Interest Receivable		681
Net Position	**$**	**461,954**
Distribution of Net Position		
External Participant Account Balances	$	23,391
Internal Participant Account Balances		438,563
Total Net Position	**$**	**461,954**

Regents Investment Pool
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(in thousands)

Additions		
Pool Participant Deposits	$	44,337
Investment Income		12,620
Interest		
Fair Value Increase		5,556
Less: Investment Expense		(801)
Total Additions		**61,712**
Deductions		
Pool Participant Withdrawals		(56,774)
Net Increase		4,937
Net Position		
July 1, 2012		457,017
June 30, 2013	**$**	**461,954**

Deposits

The Regents Investment Pool does not have any deposits as of June 30, 2013.

Investments

The Regents Investment Pool policy guidelines indicate that all investments must be consistent with donor intent, Board of Regents policy and applicable federal and state law. The individual funds of the Pool provide various restrictions on the types of investments allowed.

Interest Rate Risk

The Regents Investment Pool's funds policy guidelines restrict average maturities of their holdings. The Regents Investment Pool's investments and exposure to interest rate risk are presented in the following table (in thousands):

	Total Fair Value	Maturity Period: Less than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Corporate Debt					
Domestic	$ 44,503	$ -	$ 9,924	$ 27,987	$ 6,592
Money Market Mutual Funds	3,141	3,141	-	-	-
Mutual Funds - Debt	3,614	-	-	3,614	-
Repurchase Agreements	36,696	36,696	-	-	-
U.S. Agency Obligations	268,557	8,195	43,591	61,725	155,046
U.S. Treasury Obligations	7,603	-	3,017	4,586	-
Total Debt Securities	**364,114**	**$ 48,032**	**$ 56,532**	**$ 97,912**	**$161,638**
Equity Securities					
Domestic	71,369				
Mutual Funds - Equity	20,426				
Real Estate Investment Fund	5,364				
Total Investments	**$461,273**				

Credit Risk

The Regents Investment Pool's funds policy guidelines require that holdings, except for those of the Diversified Fund must be eligible investments under OCGA 50-17-63. Portfolios of debt security funds also must meet the eligible investment criteria under the same code section. The Diversified Fund is permitted to invest in noninvestment grade debt issues up to a limit of 15% of the entire fund. The exposure of the Fund's debt securities to credit risk is indicated below (in thousands):

	Total Fair Value	AAA	AA	A	BBB	Not Rated
Corporate Debt - Domestic	$ 44,503	$ -	$ 4,835	$ 32,450	$ 6,592	$ 626
Money Market Mutual Funds	3,141	203	-	-	-	2,938
Mutual Funds - Debt	3,614	-	-	-	-	3,614
U.S. Agency Obligations	247,334	-	-	-	-	247,334
Total Credit Risk - Investments	**298,592**	**$ 203**	**$ 4,835**	**$ 32,450**	**$ 6,592**	**$254,512**
U.S. Treasury Obligations	7,603					
U.S. Agency Obligations						
Explicitly Guaranteed	21,223					
Repurchase Agreements Backed						
by U.S. Treasury Obligations	36,696					
Total Debt Securities	**$ 364,114**					

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Investments

The Regents Investment Pool's policy for managing custodial credit risk is to 1) appoint a federally regulated banking institution as custodian, 2) require that all securities transactions be settled on a delivery vs. payment basis through an approved depository institution such as the Depository Trust Company or the Federal Reserve, and 3) require that repurchase agreements be collateralized by U.S. Treasury securities at 102% of the market value of the investment at all times. At June 30, 2013, $465.7 million of the Regents Investment Pool's holdings were uninsured and held by the custodian bank or a depository institution in the State's name.

Concentration of Credit Risk

The Regents Investment Pool's policy for managing concentration of credit risk is to diversify to the extent that any single issuer (other than U.S. government obligations) shall be limited to 5 percent of the market value in a particular Pool Fund. At June 30, 2013 more than 5% of the Regents Investment Pool's total investments were investments in securities of U.S. agencies not explicitly guaranteed by the U.S. government. These investments represented 61.6% of total investments.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013, consisted of the following (in thousands):

	Taxes	Notes and Loans	Other	Inter-governmental Receivables	Gross Receivables	Allowance for Uncollectibles	Total Receivables (Net)
Governmental Activities							
General Fund	$ 1,638,720	$ -	$ 567,682	$ 1,829,542	$ 4,035,944	$ (130,558)	$ 3,905,386
General Obigation Bond Projects	-	-	2,023	233	2,256	-	2,256
Nonmajor Governmental Funds	-	20	11,267	-	11,287	-	11,287
Total - Governmental Funds	1,638,720	20	580,972	1,829,775	4,049,487	(130,558)	3,918,929
Government-wide adjustments:							
General Fund	-	-	2,494	-	2,494	-	2,494
Internal Service Funds	-	-	56,395	867	57,262	(754)	56,508
Total - Governmental Activities	**$ 1,638,720**	**$ 20**	**$ 639,861**	**$ 1,830,642**	**$ 4,109,243**	**$ (131,312)**	**$ 3,977,931**
Business-type Activities							
Higher Education Fund	$ -	$ 45,313	$ 202,129	$ 97,242	$ 344,684	$ (24,317)	$ 320,367
State Health Benefit Plan	-	-	124,324	-	124,324	(3,857)	120,467
Unemployment Compensation Fund	-	-	211,678	557	212,235	(16,703)	195,532
Board of Regents Foundations	-	3,696	53,325	-	57,021	(23,231)	33,790
State Road and Tollway Authority	-	-	1,456	-	1,456	-	1,456
Georgia Higher Education Facilities Authority	-	2,367	620	-	2,987	-	2,987
Internal Service Funds	-	-	20	-	20	(10)	10
Total - Business-type Activities	**$ -**	**$ 51,376**	**$ 593,552**	**$ 97,799**	**$ 742,727**	**$ (68,118)**	**$ 674,609**
Component Units							
Unrestricted:							
Georgia Environmental Finance Authority	$ -	$ 1,358,814	$ 5,781	$ 8,416	$ 1,373,011	$ -	$ 1,373,011
Georgia Housing and Finance Authority	-	618,455	764	-	619,219	(4,015)	615,204
Georgia Lottery Corporation	-	-	156,128	-	156,128	(3,073)	153,055
Georgia Ports Authority	-	2,341	42,560	-	44,901	(1,968)	42,933
Georgia Tech Foundation, Incorporated	-	1,136	224,988	-	226,124	(5,266)	220,858
Nonmajor Component Units	679	423,523	1,257,602	13,075	1,694,879	(75,923)	1,618,956
Total - Unrestricted	679	2,404,269	1,687,823	21,491	4,114,262	(90,245)	4,024,017
Restricted:							
Georgia Housing and Finance Authority	-	850,202	10,856	-	861,058	(6,500)	854,558
Nonmajor Component Units	-	-	-		-		-
Total - Restricted	-	850,202	10,856	-	861,058	(6,500)	854,558
Total - Component Units	**$ 679**	**$ 3,254,471**	**$ 1,698,679**	**$ 21,491**	**$ 4,975,320**	**$ (96,745)**	**$ 4,878,575**

NOTE 7 - CAPITAL ASSETS

Primary Government

Capital Asset activity for the fiscal year-ended June 30, 2013, was as follows (in thousands):

	Balance 7/1/2012 (Restated - Note 3)	Increases	Decreases	Balance 6/30/2013
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 3,265,282	$ 152,572	$ (7,521)	$ 3,410,333
Works of Art and Collections	1,326	-	-	1,326
Intangibles - Other Than Software	92,265	1,822	-	94,087
Construction in Progress	3,063,970	1,646,256	(1,679,774)	3,030,452
Total Capital Assets, Not Being Depreciated	6,422,843	1,800,650	(1,687,295)	6,536,198
Capital Assets Being Depreciated:				
Infrastructure	25,346,693	775,335	-	26,122,028
Buildings and Building Improvements	3,759,065	80,451	(91,094)	3,748,422
Improvements Other Than Buildings	99,116	8,084	(3,121)	104,079
Intangibles - Other than Software	236	248	-	484
Machinery and Equipment	923,968	76,864	(52,381)	948,451
Software	249,779	4,765	-	254,544
Total Capital Assets Being Depreciated	30,378,857	945,747	(146,596)	31,178,008
Less Accumulated Depreciation For:				
Infrastructure	13,420,076	858,602	(9,746)	14,268,932
Buildings and Building Improvements	1,661,030	116,676	(69,564)	1,708,142
Improvements Other Than Buildings	46,870	2,108	(45)	48,933
Intangibles - Other than Software	-	79	-	79
Machinery and Equipment	728,196	52,942	(45,665)	735,473
Software	172,798	13,942	-	186,740
Total Accumulated Depreciation	16,028,970	1,044,349	(125,020)	16,948,299
Total Capital Assets, Being Depreciated, Net	14,349,887	(98,602)	(21,576)	14,229,709
Governmental Activities Capital Assets, Net	**$ 20,772,730**	**$ 1,702,048**	**$ (1,708,871)**	**$ 20,765,907**

	Balance 7/1/2012 (Restated - Note 3)	Increases	Decreases	Balance 6/30/2013
Business-type Activities				
Capital Assets Not Being Depreciated:				
Land	$ 386,032	$ 25,878	$ -	$ 411,910
Works of Art and Collections	41,120	3,278	(6)	44,392
Construction in Progress	226,871	164,612	(168,284)	223,199
Total Capital Assets, Not Being Depreciated	654,023	193,768	(168,290)	679,501
Capital Assets Being Depreciated:				
Infrastructure	288,102	23,576	(2,627)	309,051
Buildings and Building Improvements	8,398,792	462,951	(16,397)	8,845,346
Improvements Other Than Buildings	391,620	39,810	(3,347)	428,083
Machinery and Equipment	3,859,757	311,048	(127,003)	4,043,802
Software	21,523	8,855	(913)	29,465
Library Collections	797,689	34,276	(3,169)	828,796
Works of Art and Collections	7,321	330	(35)	7,616
Total Capital Assets Being Depreciated	13,764,804	880,846	(153,491)	14,492,159
Less Accumulated Depreciation For:				
Infrastructure	91,225	9,795	(2,118)	98,902
Buildings and Building Improvements	2,389,438	216,059	(3,931)	2,601,566
Improvements Other Than Buildings	161,796	13,680	(2,472)	173,004
Machinery and Equipment	1,397,172	217,566	(76,696)	1,538,042
Software	15,236	3,204	467	18,907
Library Collections	623,454	36,451	(3,173)	656,732
Works of Art and Collections	863	141	-	1,004
Total Accumulated Depreciation	4,679,184	496,896	(87,923)	5,088,157
Total Capital Assets, Being Depreciated, Net	9,085,620	383,950	(65,568)	9,404,002
Business-type Activities, Capital Assets, Net	**$ 9,739,643**	**$ 577,718**	**$ (233,858)**	**$ 10,083,503**

Current period depreciation expense was charged to functions of the primary government as follow (in thousands):

Governmental Activities	
General Government	$ 23,260
Education	2,016
Health and Welfare	31,117
Transportation	867,105
Public Safety	56,524
Economic Development	21,881
Culture and Recreation	9,122
Conservation	5,032
Internal Service Funds (Depreciation on capital assets held by the State's internal service funds are charged to the various functions based on their usage of assets)	28,292
Depreciation Expense - Governmental Activities	**$ 1,044,349**

Business-type Activities	
Higher Education Fund	$ 491,131
State Road and Tollway Authority	3,554
Internal Service Funds	2,211
Depreciation Expense - Business-type Activities	**$ 496,896**

NOTE 7 - CAPITAL ASSETS (continued)

Component Units

Capital Asset activity for the fiscal year-ended June 30, 2013, was as follows (in thousands):

	Balance 7/1/2012 (Restated - Note 3)	Increases	Decreases	Balance 6/30/2013
Component Units				
Capital Assets Not Being Depreciated:				
Land	$ 323,868	$ 6,012	$ (97)	$ 329,783
Works of Art and Collections	1,670	-	-	1,670
Intangibles - Other Than Software	908	-	-	908
Construction in Progress	192,001	91,152	(169,666)	113,487
Total Capital Assets, Not Being Depreciated	518,447	97,164	(169,763)	445,848
Capital Assets Being Depreciated:				
Infrastructure	288,805	24,426	-	313,231
Buildings and Building Improvements	1,144,343	107,215	(39,363)	1,212,195
Improvements Other Than Buildings	491,527	29,646	(980)	520,193
Machinery and Equipment	879,675	80,912	(29,412)	931,175
Software	7,933	2,891	(13)	10,811
Library Collections	3,263	256	(19)	3,500
Works of Art and Collections	71	-	-	71
Total Capital Assets Being Depreciated	2,815,617	245,346	(69,787)	2,991,176
Less Accumulated Depreciation For:				
Infrastructure	115,940	9,530	-	125,470
Buildings and Building Improvements	470,925	34,212	(21,649)	483,488
Improvements Other Than Buildings	199,512	22,363	(980)	220,895
Machinery and Equipment	493,859	67,521	(28,446)	532,934
Software	3,155	1,008	(13)	4,150
Library Collections	2,035	227	(19)	2,243
Works of Art and Collections	11	2	-	13
Total Accumulated Depreciation	1,285,437	134,863	(51,107)	1,369,193
Component Units Capital Assets, Net*	**$ 2,048,627**	**$ 207,647**	**$ (188,443)**	**$ 2,067,831**

*Certain higher education foundations and other similar organizations utilize FASB standards.

As of June 30, 2013, balances are available as follows:

Capital Assets Not Being Depreciated:		
Land	$	24,215
Works of Art and Collections		29,606
Total Capital Assets, Not Being Depreciated		53,821
Capital Assets Being Depreciated		
Buildings and Building Improvements		192,936
Machinery and Equipment		28,204
Software		30
Total Capital Assets Being Depreciated		221,170
Less: Accumulated Depreciation		(69,555)
Capital Assets, Net (FASB presentation)		205,436
Total Capital Assets, Net - All Component Units	**$**	**2,273,267**

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-term Liabilities

Primary Government

Changes in long-term liabilities for the fiscal year-ended June 30, 2013, are as follows (in thousands):

	Balance 7/1/2012 (Restated - Note 3)	Additions	Reductions	Balance 6/30/2013	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds Payable	$ 8,584,945	$ 1,321,695	$ (1,253,480)	$ 8,653,160	$ 723,305
Revenue Bonds Payable	403,450	-	(29,035)	374,415	25,780
GARVEE Bonds Payable	1,176,790	-	(128,930)	1,047,860	134,530
Less deferred amounts:					
On Refunding	(228,941)	(69,501)	27,359	(271,083)	-
Net Unamortized Premiums	632,369	227,423	(87,435)	772,357	-
Total Bonds Payable	10,568,613	1,479,617	(1,471,521)	10,576,709	883,615
Notes and Loans Payable	14,600	-	(10,600)	4,000	4,000
Capital Lease Obligations	286,055	10,400	(40,692)	255,763	29,719
Compensated Absences Payable	323,755	120,565	(134,495)	309,825	132,753
Arbitrage	8,853	-	(3,976)	4,877	-
Total Governmental Activities	**$ 11,201,876**	**$ 1,610,582**	**$ (1,661,284)**	**$ 11,151,174**	**$ 1,050,087**
Business-type Activities					
Revenue Bonds Payable	$ 1,228,067	$ 139,685	$ (173,670)	$ 1,194,082	$ 31,480
Less deferred amounts:					
Net Unamortized Premiums (Discounts)	8,474	14,158	(5,514)	17,118	-
Total Bonds Payable	1,236,541	153,843	(179,184)	1,211,200	31,480
Notes and Loans Payable	746,961	-	(349,269)	397,692	277
Capital Lease Obligations	2,234,949	188,211	(53,132)	2,370,028	26,967
Compensated Absences Payable	218,726	151,489	(147,055)	223,160	135,105
Other Postemployment Benefit Obligation	1,278,146	367,796	(83,400)	1,562,542	-
Derivative Instrument Payable	7,778	-	(168)	7,610	-
Total Business-type Activities	**$ 5,723,101**	**$ 861,339**	**$ (812,208)**	**$ 5,772,232**	**$ 193,829**

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above total for governmental activities. The following long-term liabilities of internal service funds were included in the above balance as of June 30, 2013: capital leases of $82.6 million and compensated absences of $4.7 million. Of these amounts, $6.7 million and $2.2 million, respectively, are due within one year. In general, the capital leases and compensated absences of the governmental activities are liquidated by the general fund.

Component Units

Changes in long-term liabilities for the fiscal year-ended June 30, 2013, are as follows (in thousands):

	Balance 7/1/2012 (Restated - Note 3)	Additions	Reductions	Balance 6/30/2013	Amounts Due Within One Year
Component Units					
Revenue Bonds Payable	$ 2,146,193	$ 215,344	$ (188,489)	$ 2,173,048	$ 68,478
Mortgage Bonds Payable	1,022,655	149,395	(144,065)	1,027,985	26,560
Net Unamortized Premiums	21,307	8,434	(2,030)	27,711	-
Total Bonds Payable	3,190,155	373,173	(334,584)	3,228,744	95,038
Notes and Loans Payable	201,456	49,587	(30,476)	220,567	67,881
Net Unamortized Premiums	413	-	(13)	400	-
Capital Lease Obligations	3,709	78	(828)	2,959	496
Compensated Absences Payable	26,878	9,659	(10,103)	26,434	21,109
Grand Prizes Payable	250,774	10,902	(36,099)	225,577	9,401
Other Liabilities	261,920	120,298	(70,506)	311,712	3,650
Total Component Units	**$ 3,935,305**	**$ 563,697**	**$ (482,609)**	**$ 4,016,393**	**$ 197,575**

B. Bonds and Notes Payable

At June 30, 2013, bonds and notes payable currently outstanding are as follows (in thousands):

	Interest Rates	Maturing Through Year	Original Issue Amount	Outstanding Amount
Governmental Activities				
General Obligation Bonds				
General Government	.35% - 7.40%	2033	$ 15,794,355	$ 5,792,210
General Government - Refunding	2.0% - 9.0%	2026		2,860,950
Revenue Bonds				
Transportation Projects	2.25% - 5.37%	2024	631,905	374,415
GARVEE Bonds	3.00% - 5.00%	2021	1,650,000	1,047,860
Notes and Loans Payable	0.0%	2014	32,614	4,000
Business-type Activities				
Revenue Bonds				
Georgia 400	2.55%	2017	$ 40,000	$ 25,345
Georgia Higher Education Facilities Authority	3.0% - 6.25%	2041	294,915	285,375
Higher Education Foundations	2.0% - 6.15%	2041	1,099,995	883,362
Notes and Loans Payable	5.0% - 8.5%	2016	920,112	397,692
Component Units				
Revenue Bonds				
Higher Education Foundations	.05% - 6.3%	2044	$ 1,786,280	$ 1,670,209
Georgia Tech Foundation	.75% - 6.66%	2032	269,845	244,145
Other Revenue Bonds	.54% - 5.28%	2036	355,145	258,694
Mortgage Bonds				
Georgia Housing and Financing Authority	.2% - 5.625%	2043	1,395,145	1,027,985
Notes and Loans Payable				
Higher Education Foundations	.52% - 4.50%	2035	158,288	106,109
Georgia Tech Foundation	.67% - .79%	2015	85,500	58,188
Other Notes and Loans Payable	.6% - 6.3%	2026	96,141	56,270

NOTE 8 - LONG-TERM LIABILITIES (continued)

C. General Obligation Bonds

Primary Government

The State issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds have been issued for both general State and proprietary activities, to provide loans to local governments for water and sewer systems, to construct educational facilities for local school systems, and to refund general obligation bonds.

General obligation bonds are direct obligations of the State to which the full faith and credit of the State are pledged.

Bonds Authorized but Unissued

Authorized but unissued general obligation bonds as of June 30, 2013, are as follows (in thousands):

Purpose	Authorized Unissued Debt
K-12 Education	$ 243,300
Higher Education	39,125
Transportation	138,405
Economic Development	15,000
Other	25,230
Total	**$ 461,060**

Defeasance and Refunding of General Obligation Bonds

On July 18, 2012, the State issued $137.1 million in General Obligation Refunding Bonds Series 2012C with interest rates ranging from 4.00% to 5.00%. The proceeds were used to advance refund $146.4 million of General Obligation Bonds Series 2004B through 2005A which had interest rates ranging from 4.00% to 5.00%. The reacquisition price exceeded the net carrying amount of the old debt by $17.6 billion. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The State advance refunded the Series 2004B through 2005A bonds to obtain an economic gain of $14.4 million. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds.

January 8, 2013, the State issued $349.7 million in General Obligation Refunding bonds Series 2013B and Series 2013C with interest rates ranging from 3.00% to 5.00%. The proceeds were used to advance refund a total of $371.5 million from General Obligations Bonds Series 2004C, 2006B, and 2006G, which had interest rates ranging from 4.00% to 5.50%. The reacquisition price exceeded the net carrying amount of the old debt by $51.9 million. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The State advance refunded the Series 2004B, 2006B, and 2006G bonds to obtain an economic gain of $35.8 million. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds.

As of June 30, 2013, the State had total outstanding refunded bonds held in escrow of $1.6 billion.

Early Retirement of Debt

From funds received from the sale of state property and from interest earnings available for the advance retirement of debt, the State made 15 purchases of various series of State of Georgia General Obligation Bonds in the secondary market with a par value of $1.7 million. These early retirements of bonds will save the State $2.8 million in future principal and interest appropriations and reduce debt service in fiscal year 2013 by $0.04 million. Since July 1, 2000, the early retirement program has saved the State over $1.1 billion in future principal and interest appropriations.

D. Revenue Bonds

Governmental Activities

State Road and Tollway Authority (SRTA) has issued Guaranteed Revenue Bonds for the purpose of financing certain road and bridge projects in the State. The guaranteed revenue bonds are secured by the amount of net proceeds of the motor fuel tax provided for in a joint resolution of the State Transportation Board and SRTA. Further, the State has guaranteed the full payment of the bonds and the interest.

SRTA has issued Federal Highway Grant Anticipation Revenue Bonds and Federal Highway Reimbursement Bonds (GARVEE's). These bond proceeds will be used for the purpose of providing funds for an approved land public transportation project.

Business-type Activities

Georgia Higher Education Facilities Authority (GHEFA) has issued revenue bonds for the purpose of acquiring, constructing and equipping several projects on college campuses throughout the State. The bonds are secured solely by the related security deed and related assignment of contract documents. As of June 30, 2013, the outstanding principal for these revenue bonds is $285.4 million.

Georgia Tech Facilities, Inc. has issued various revenue bonds to finance the costs of acquiring, renovating, constructing and equipping various facilities on the Georgia Institute of Technology campus. The bond issues have interest rates ranging from 2.0% to 5.3% and the maturities range from 2017 to 2041. As of June 30, 2013, the outstanding principal for these revenue bonds is $284.3 million.

Georgia State University Foundation, Inc. has issued various revenue bonds to finance the costs of acquiring, renovating, constructing and equipping various facilities on the Georgia State University campus. These bond issues have interest rates ranging from 3.0% to 6.15% and the maturities range from 2016 to 2037. As of June 30, 2013, the outstanding principal balance for these revenue bonds is $234.0 million.

VSU Auxiliary Services Real Estate Foundation, Inc. has issued various revenue bonds to finance the costs of construction of various facilities on the Valdosta State University campus. These bond issues have interest rates ranging from 3.25% to 5.5% and the maturities range from 2030 to 2039. As of December 31, 2012, the outstanding principal balance for these revenue bonds is $185.8 million.

Armstrong Atlantic State University Educational Properties Foundation, Inc. has issued various revenue bonds to finance the costs of acquiring, renovating, constructing, and equipping various facilities on the Armstrong Atlantic State University campus. These bonds bear interest payable semiannually at fixed rates ranging from 3.0% to 5.13% and the maturities range from 2024 to 2039. As of December 31, 2012, the outstanding principal balance for these revenue bonds is $92.1 million.

The Georgia State University Research Foundation, Inc. has issued revenue bonds dated December 1, 2007 to finance or refinance the cost of the acquisition, construction and equipping of a research facility located in a new Georgia State University Science Park on the campus of the University. Term bonds under the agreement bear interest payable semiannually at fixed rates ranging from 4.75% to 5.25%. Serial bonds under the loan agreement bear interest payable semi-annually at a rate of 4.5% until Ju1y 1, 2014 when the interest rate increases to 5.0%. The bonds mature in 2039. As of June 30, 2013, the outstanding principal balance for these revenue bonds is $87.2 million.

SRTA has issued toll revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing and maintaining the Georgia 400 Extension. The toll revenues to be generated from the usage of the Georgia 400 Extension secure these bonds. As of June 30, 2013, the outstanding principal balance for these toll revenue bonds was $25.3 million. See the Subsequent Events note for additional information regarding these bonds.

NOTE 8 - LONG-TERM LIABILITIES (continued)

Component Units

Revenue bonds issued by various Higher Education foundations, for the acquisition and improvement of properties and facilities, had an outstanding balance at June 30, 2013, of $1.7 billion.

Other component units had revenue bonds payable outstanding at June 30, 2013, of $502.8 million as detailed below (in thousands):

	Amount
Georgia Tech Foundation, Inc.	$ 244.1
Georgia Environmental Finance Authority	146.7
Georgia World Congress Center	100.0
Lake Lanier Islands Developmental Authority	8.4
Regional Educational Service Agencies	3.6
Total	**$ 502.8**

E. Mortgage Bonds

Component Units

Mortgage bonds outstanding of $1.0 billion June 30, 2013, were issued by the GHFA for financing the purchase of single-family mortgage loans for eligible persons and families of low and moderate income within the State.

F. Notes and Loans Payable

Governmental Activities

Notes and loans payable for governmental activities as of June 30, 2013, were $4.0 million, attributable to DOT's participation in the Federal Right of Way Revolving Fund program, for the purpose of aiding states with the problem of escalating property costs on future highway alignments. This fund was established to advance money to states without interest to acquire property needed for future projects along corridors with escalating property costs due to imminent development. The first payment for the revolving fund loan was paid January, 2009 and the last payment was made August 6, 2013.

Business-type Activities

Notes and loans payable for business-type activities as of June 30, 2013, were $397.7 million. Of this amount, $396.8 million is the outstanding balance of a loan obtained under the Federal Unemployment Account (FUA), which provides for a loan fund for State unemployment programs to ensure a continued flow of unemployment benefits during times of economic downturn. Georgia is one of 36 states that borrowed from the U.S. Treasury to pay State unemployment benefits. During fiscal year 2013, the State repaid $348.5 million to the U.S. Treasury that was applied to the loan balance from previous years. See the Subsequent Events note for additional information regarding this loan.

In addition, Armstrong Atlantic State University Educational Properties Foundation, Inc. had a note payable balance of $0.9 million as of December 31, 2012.

Component Units

Notes and loans payable for component units as of June 30, 2013, were as follows (in thousands):

	Amount
Higher Education Foundations	$ 106.1
Georgia Tech Foundation, Inc.	58.2
Georgia Ports Authority	36.5
Lake Lanier Islands Developmental Authority	13.7
Georgia Military College	3.9
North Georgia Mountains Authority	1.6
Jekyll Island State Park Authority	0.6
Total	**$ 220.6**

Higher Education Foundations Notes and Loans

During fiscal year 2012, MCG Health System, Inc. entered into a note in the amount of $50.0 million. Funds from the note are to be used to fund certain construction and renovation projects and to purchase new and replacement equipment. The note bears a fixed interest rate of 2.05% for a three year term, and the interest is due monthly. The balance on the note at June 30, 2013 was $50.0 million.

The Cancer Research Center of the Medical College of Georgia Physician's Practice Group Foundation (CRC) has a loan agreement with the Development Authority of Richmond County, whereby the Authority issued bonds and lent the proceeds thereof to CRC for the purpose of providing funds to finance the cost of the construction of a portion of a cancer research building on the campus of the Georgia Regents University (GRU). As of June 30, 2013, $27.9 million was outstanding on the loan payable. The loan agreement provides for semi-annual interest payments at interest rates ranging from 2.5% to 5%. Principal payments are due annually through December 2034.

Notes and loans payable include a revolving credit agreement for the University of Georgia Research Foundation, Inc. which provides for borrowings or letters of credit at the Research Foundation's option. At June 30, 2013, amounts outstanding or issued under this agreement included borrowings of $10.0 million, with no letters of credit or bank reserves, resulting in $40.0 million available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day LIBOR plus 0.8%. At June 30, 2013, the rate applicable to the borrowings was .99%.

During fiscal year 2007, the University of Georgia Foundation signed a $6.2 million promissory loan agreement which expires on November 1, 2017. Interest is charged at the bank's 30-day LIBOR plus 0.325%. The balance on this note at June 30, 2013, was $5.7 million.

In addition to the notes and loans discussed in the previous paragraphs, as of June 30, 2013, an additional $12.5 million in notes was held by various higher education foundations.

Other Component Units Notes and Loans

The Georgia Ports Authority maintains an uncollateralized revolving line of credit in the amount of $48.0 million. As of June 30, 2013, $36.5 million was outstanding on this line of credit. The interest rate (0.60% at June 30, 2013) is based on the one month LIBOR rate. This revolving line of credit expires on September 5, 2017.

The Georgia Tech Foundation, Inc. has five $10.0 million revolving lines of credit and one $35.5 million nonrevolving line of credit. As of June 30, 2013, $58.2 million was outstanding on these lines of credit. Interest is calculated using the 30-day LIBOR rate.

G. Interest Rate Swaps

As a means of interest rate management, various higher education foundations have entered into interest rate swap agreements. For further details on these agreements, please refer to Note 13 Derivative Instruments.

H. Pollution Remediation

Pollution remediation obligations reflect estimates that have the potential to change due to such items as price increases or reductions, new technology, or changes in applicable laws or regulations.

<u>Governmental Activities</u>

Department of Transportation

DOT has recorded liabilities totaling $0.5 million at June 30, 2013, for pollution remediation related to underground storage tanks at two locations and for pollution remediation at two laboratory sites. The liabilities were determined using the expected cash flow measurement technique which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. The estimated amount of recovery from insurance and other potentially responsible parties is $0.03 million.

NOTE 8 - LONG-TERM LIABILITIES (continued)

Pollution remediation liability activity in fiscal year 2013 was as follows (in thousands):

Balance 7/1/2012	Additions	Reductions	Balance 06/30/2013	Amounts Due Within One Year
$ 716	$ 16	$ (206)	$ 526	$ 185

Department of Juvenile Justice

The Department of Juvenile Justice cleared its $0.7 million 2012 liability for pollution remediation related to soil contamination at one site. The Georgia Environmental Protection Division determined that the site is now in compliance with applicable standards and has removed it from the hazardous site inventory. Pollution remediation liability activity in fiscal year 2013 was as follows (in thousands):

Balance 7/1/2012	Additions	Reductions	Balance 06/30/2013	Amounts Due Within One Year
$ 701	$ -	$ (701)	$ -	$ -

Department of Defense

The Department of Defense has recorded liabilities totaling $0.3 million at June 30, 2013, for pollution remediation primarily related to ground contamination at five sites. The liabilities were determined by previous experience. The estimated amount of recovery from insurance and other potentially responsible parties is $0.3 million. Pollution remediation liability activity in fiscal year 2013 was as follows (in thousands):

Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts Due Within One Year
$ 230	$ 84	$ (5)	$ 309	$ 109

Department of Agriculture

The Department of Agriculture has learned that it may have treated, stored, or disposed of a small amount of potentially hazardous material at a Marine Shale Processors site and therefore may have to participate in pollution remediation. No estimate of a potential liability is available.

<u>Business-type Activities</u>

University of Georgia

The University of Georgia is responsible for pollution remediation at the Milledge Avenue landfill site. The University of Georgia has recorded a liability and expense related to this pollution remediation in the amount of $1.0 million. The liability is reflected on the Statement of Net Position in Accounts Payable and on the Statement of Revenues, Expenses and Changes in Fund Net Position in Services and Supplies. The liability was determined using a five year budget estimate provided by Brown and Caldwell. The University of Georgia does not anticipate any significant changes to the expected remediation outlay. There are no expected recoveries that have reduced the liability. Pollution remediation liability activity in fiscal 2013 was as follows (in thousands):

Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts Due Within One Year
$ 918	$ 175	$ (137)	$ 956	$ 138

Georgia Institute of Technology

Georgia Institute of Technology is responsible for pollution monitoring and remediation in all Institute facilities, including asbestos abatement. Monitoring and remediation activities are performed during renovation/construction projects when deemed necessary by Institute management. As of June 30, 2013, the Institute recorded a liability and expense in the amount of $0.5 million for pollution monitoring and remediation projects in various Institute structures. The liability is reflected on the Statement of Net Position in Accounts Payable and on the Statement of Revenues, Expenses, and Changes in Fund Net Position in Services and Supplies. The liability was determined using the Expected Cash Flow Measurement Technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. The Institute does not anticipate any significant changes to the expected remediation outlay. There are no expected recoveries that have reduced the liability.

Pollution remediation liability activity in fiscal 2013 was as follows (in thousands):

Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts Due Within One Year
$ 145	$ 504	$ (145)	$ 504	$ 504

Georgia Regents University

Georgia Regents University (formerly Georgia Health Sciences University) is responsible for asbestos abatement as a small part of the project costs for various projects. The University has recorded a liability and expense related to this pollution remediation in the amount of $0.03 million. The liability is reflected on the Statement of Net Position in Accounts Payable and on the Statement of Revenues, Expenses, and Changes in Fund Net Position in Services and Supplies. The liability is the remaining amount of project abatement costs at June 30, 2013. The University does not anticipate any significant changes to the expected remediation outlay. Pollution remediation liability activity in fiscal year 2013 was a follows (in thousands):

Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts Due Within One Year
$ 3	$ 73	$ (50)	$ 26	$ 26

Component Units

Georgia Ports Authority

The Georgia Ports Authority is responsible for certain pollution remediation costs related to soil and groundwater contamination at its Bainbridge, Georgia terminal. The Georgia Ports Authority has recorded a liability of $1.5 million as of June 30, 2013. The liability was determined using a five year budget estimate provided by an engineering firm using a discounted cash flow rate of 3%. Pollution remediation liability activity in fiscal year 2013 was as follows (in thousands):

Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts Due Within One Year
$ 1,555	$ 225	$ (231)	$ 1,549	$ 782

Georgia Southern University (GSU) Housing Foundation, Inc.

The two housing facilities constructed with the proceeds from a Foundation bond issue required some unexpected repairs. For one of the housing facilities, a mold problem was discovered, and the costs to repair the damage to the facility were $1.9 million, recognized during the two fiscal years ending June 30, 2009 and 2008. Claims have been made against the developer. All claims are currently under review by the respective claims adjustors. Any amount expected to be recovered from these claims cannot be estimated at this time.

For the other housing facility, a mold problem was also discovered in May, 2009, and the costs to repair the damage to the facility were $4.9 million, which were paid by GSU. This amount, which was recognized in the fiscal year ended June 30, 2010, is to be repaid to GSU sometime after the next fiscal year and is considered long-term. Claims were filed by the Foundation's attorneys against the developer during the prior fiscal year. The court's initial ruling was to put the parties involved in arbitration. Any amount expected to be recovered cannot be estimated at this time.

NOTE 8 - LONG-TERM LIABILITIES (continued)

I. Debt Service Requirements

Annual debt service requirements to maturity for general obligation bonds, revenue bonds, GARVEE bonds, mortgage bonds and notes and loans payable are as follows (in thousands):

Primary Government

	Governmental Activities							
	General Obligation Bonds		Revenue Bonds		GARVEE Bonds		Notes and Loans Payable	
Year	**Principal ***	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2014	$ 723,305	$ 380,311	$ 25,780	$ 18,376	$ 134,530	$ 50,714	$ 4,000	$ -
2015	715,785	345,429	21,525	17,283	141,150	44,095	-	-
2016	654,220	310,680	38,045	15,956	147,640	37,607	-	-
2017	627,830	280,158	39,965	14,034	154,560	30,684	-	-
2018	615,600	249,743	41,980	12,014	162,085	23,161	-	-
2019-2023	2,654,750	853,798	183,310	27,496	307,895	27,555	-	-
2024-2028	1,928,000	357,937	23,810	595	-	-	-	-
2029-2033	733,670	57,541	-	-	-	-	-	-
Total	**$ 8,653,160**	**$ 2,835,597**	**$ 374,415**	**$ 105,754**	**$ 1,047,860**	**$ 213,816**	**$ 4,000**	**$ -**

	Business-type Activities			
	Revenue Bonds		Notes and Loans Payable	
Year	**Principal**	**Interest**	**Principal ****	**Interest**
2014	$ 31,480	$ 50,359	$ 277	$ 40
2015	33,405	49,305	291	26
2016	38,969	48,180	306	11
2017	43,677	46,951	52	(1)
2018	31,103	45,767	-	-
2019-2023	178,890	208,856	-	-
2024-2028	234,678	167,150	-	-
2029-2033	261,607	114,318	-	-
2034-2038	256,423	58,185	-	-
2039-2043	83,850	6,906	-	-
Total	**$ 1,194,082**	**$ 795,977**	**$ 926**	**$ 76**

* Includes $127.3 million of bonds with variable interest rates based on the weekly rate determination of the Remarketing Agent. The interest rate at June 30, 2013, for these variable rate bonds, was 0.46%.

** The note payable to the U.S. Treasury for $396.8 million for State unemployment benefits has not been included in this schedule. A repayment schedule has not yet been implemented.

Component Units

	Higher Education Foundations		Georgia Tech Foundation		Other Component Units	
	Revenue Bonds		Revenue Bonds		Revenue Bonds	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 39,310	$ 73,504	$ 9,345	$ 12,073	$ 19,823	$ 10,214
2015	40,945	73,374	9,605	11,806	13,108	9,805
2016	39,085	71,843	9,935	11,487	13,535	9,396
2017	41,970	70,262	10,295	11,119	13,968	8,972
2018	61,255	82,027	10,725	10,691	14,426	8,531
2019-2023	311,575	303,720	61,085	44,362	180,277	78,913
2024-2028	319,370	232,608	72,365	26,260	3,557	513
2029-2033	367,936	153,877	60,790	6,042	-	-
2034-2038	279,909	76,724	-	-	-	-
2039-2043	167,660	18,408	-	-	-	-
2044-2048	1,194	54	-	-	-	-
Total	**$ 1,670,209**	**$ 1,156,401**	**$ 244,145**	**$ 133,840**	**$ 258,694**	**$ 126,344**

	Higher Education Foundations		Georgia Tech Foundation		Other Component Units	
	Notes and Loans Payable		Notes and Loans Payable		Notes and Loans Payable	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 4,442	$ 2,894	$ 58,188	$ 460	$ 5,251	$ 509
2015	17,948	2,715	-	-	6,521	469
2016	48,796	2,590	-	-	2,885	436
2017	1,723	1,544	-	-	2,920	403
2018	2,035	1,589	-	-	29,411	368
2019-2023	8,261	6,532	-	-	5,343	1,263
2024-2028	7,638	4,844	-	-	3,939	245
2029-2033	11,382	2,939	-	-	-	-
2034-2038	3,884	190	-	-	-	-
Total	**$ 106,109**	**$ 25,837**	**$ 58,188**	**$ 460**	**$ 56,270**	**$ 3,693**

	Georgia Housing and Finance Authority	
	Mortgage Bonds	
Year	Principal	Interest
2014	$ 26,560	$ 38,915
2015	23,950	38,369
2016	27,465	37,798
2017	34,845	36,991
2018	28,400	35,889
2019-2023	165,775	162,699
2024-2028	188,860	125,760
2029-2033	211,090	83,293
2034-2038	199,840	40,165
2039-2043	121,200	9,787
Total	**$ 1,027,985**	**$ 609,666**

NOTE 9 - LEASES

A. Operating Leases

The State leases land, office facilities, office and computer equipment, and other assets. Some of these leases are considered for accounting purposes to be operating leases. Although lease terms vary, many leases are subject to appropriation from the General Assembly to continue the obligation. Other leases generally contain provisions that, at the expiration date of the original term of the lease, the State has the option of renewing the lease on a year-to-year basis. Total lease payments for the State's governmental activities, business-type activities, and component units were $41.6 million, $51.3 million, and $13.6 million, respectively, for the year ended June 30, 2013. Future minimum commitments for operating leases as of June 30, 2013, are listed below (in thousands).

	Primary Government		
Fiscal Year Ended June 30	**Governmental Activities**	**Business-type Activities**	**Component Units**
2014	$ 28,383	$ 44,655	$ 12,845
2015	18,732	21,545	10,727
2016	11,689	20,791	9,520
2017	6,436	18,431	8,249
2018	2,951	16,954	6,715
2019-2023	6,120	77,142	18,497
2024-2028	1,629	72,491	1,377
2029-2033	357	61,459	551
2034-2038	10	33,125	-
2039-2043	2	6,655	-
2044-2048	-	258	-
Total Minimum Commitments	**$ 76,309**	**$ 373,506**	**$ 68,481**

B. Capital Leases

The State acquires certain property and equipment through multi-year capital leases with varying terms and options. In accordance with OCGA 50-5-64, the majority of these agreements shall terminate absolutely and without further obligation at the close of the fiscal year in which it was executed and at the close of each succeeding fiscal year for which it may be renewed. These agreements may be renewed only by a positive action taken by the State. The agreements shall terminate immediately at such time as appropriated and otherwise unobligated funds are no longer available to satisfy the obligations of the State. At June 30, 2013, the historical cost of assets acquired through capital leases was as follows (in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units
Land	$ -	$ 48,435	$ -
Infrastructure	-	55,002	-
Buildings	401,336	3,394,461	4,424
Improvements Other Than Buildings	-	17,526	-
Machinery and Equipment	3,156	180,902	102
Less: Accumulated Depreciation	(216,027)	(576,574)	(2,280)
Total Assets Held Under Capital Lease	**$ 188,465**	**$ 3,119,752**	**$ 2,246**

At June 30, 2013, future commitments under capital leases were as follows (in thousands):

	Primary Government		
Fiscal Year Ended June 30	Governmental Activities	Business-type Activities	Component Units
2014	$ 55,076	$ 178,965	$ 749
2015	52,722	179,023	1,003
2016	44,999	179,393	438
2017	41,633	181,037	403
2018	39,467	182,766	453
2019-2023	119,636	927,454	805
2024-2028	55,316	946,127	90
2029-2033	18,515	854,315	90
2034-2038	2,438	548,704	90
2039-2043	1,475	140,617	90
2044-2048	30	112	90
2049-2053	30	-	72
Total Capital Lease Payments	431,337	4,318,513	4,373
Less: Interest	(170,075)	(159,341)	(585)
Executory Costs	(5,499)	(1,789,144)	(829)
Present Value of Capital Lease Payments	**$ 255,763**	**$ 2,370,028**	**$ 2,959**

NOTE 9 - LEASES (continued)

C. Leases Receivable

The State leases certain facilities and land for use by others for terms varying from 1 to 40 years. The leases are accounted for as operating leases; revenues for services provided and for use of facilities are recorded when earned. Total revenues from rental of land and facilities for the State's governmental activities, business-type activities, and component units were $9.6 million, $0.09 million, and $31.4 million, respectively, for the year ended June 30, 2013. Minimum future revenues and rentals to be received under operating leases as of June 30, 2013, are as follows (in thousands):

	Primary Government		
Fiscal Year Ended June 30	Governmental Activities	Business-type Activities	Component Units
2014	$ 8,630	$ 38	$ 28,911
2015	8,616	-	18,419
2016	8,654	-	18,047
2017	8,773	-	16,376
2018	8,891	-	16,002
2019-2023	17,061	-	72,066
2024-2028	3,623	-	63,209
2029-2033	3,806	-	53,590
2034-2038	4,007	-	18,515
2039-2043	4,227	-	1,765
2044-2048	1,349	-	1,909
2049-2053	11	-	1,016
Total Minimum Revenues	**$ 77,648**	**$ 38**	**$ 309,825**

NOTE 10 - RETIREMENT SYSTEMS

The State administers various retirement plans under two major retirement systems: The Employees' Retirement System (the System) and Teachers Retirement System (TRS). These two systems issue separate publicly available financial reports that include the applicable financial statements and required supplementary information. The reports may be obtained from the respective system offices. The State's significant retirement plans are described below. More detailed information can be found in the plan agreements and related legislation. Each plan, including benefit and contribution provisions, was established and can be amended by State law. The State also provides an optional retirement plan for certain university employees: the Regents Retirement Plan.

A. Summary of Significant Accounting Policies

Basis of Accounting

Retirement plan financial statements are prepared on the accrual basis of accounting. Contributions from the employers and members are recognized as additions when due, pursuant to formal commitments, as well as statutory or contractual requirements. Retirement benefits and refund payments are recognized as deductions when due and payable.

Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. No investment in any one organization, other than those issued or guaranteed by the U.S. Government or its agencies, represents 5% or more of the net position restricted for pension benefits.

B. Defined Benefit Plans

Plan Descriptions and Funding Policy

Employees' Retirement System of Georgia Plan

The System is comprised of individual retirement systems and plans covering substantially all employees of the State except for teachers and other employees covered by TRS. One of the plans within the System, also titled Employees' Retirement System (ERS), is a cost-sharing multiple-employer defined benefit pension plan that was established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State and its political subdivisions. ERS is directed by a Board of Trustees and has the powers and privileges of a corporation. ERS acts pursuant to statutory direction and guidelines, which may be amended prospectively for new hires but for existing members and beneficiaries may be amended in some aspects only subject to potential application of certain constitutional restraints against impairment of contract.

On November 20, 1997, the Board created the Supplemental Retirement Benefit Plan of ERS (SRBP-ERS). SRBP-ERS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of ERS. The purpose of the SRBP-ERS is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC Section 415. Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in the SRBP-ERS whenever their benefits under ERS exceed the limitation on benefits imposed by IRC Section 415.

NOTE 10 - RETIREMENT SYSTEMS (continued)

The benefit structure of ERS is established by the Board of Trustees under statutory guidelines. Unless the employee elects otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. Members hired on or after July 1, 1982, but prior to January 1, 2009, are "new plan" members subject to the modified plan provisions. Effective January 1, 2009, newly hired State employees, as well as rehired State employees who did not maintain eligibility for the "old" or "new" plan, are members of the Georgia State Employees' Pension and Savings Plan (GSEPS). Members of the GSEPS plan may also participate in the GSEPS 401(k) defined contribution component described below. ERS members hired prior to January 1, 2009, also have the option to irrevocably change their membership to the GSEPS plan.

Under the old plan, new plan, and GSEPS, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon a formula adopted by the Board of Trustees for such purpose. The formula considers the monthly average of the member's highest 24 consecutive calendar months of salary, the number of years of creditable service, the applicable benefit factor, and the member's age at retirement. Postretirement cost-of-living adjustments may be made to members' benefits provided the members were hired prior to July 1, 2009. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Member contribution rates are set by law. Member contributions under the old plan are 4% of annual compensation up to $4,200 plus 6% of annual compensation in excess of $4,200. Under the old plan, the State pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these State contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25% of annual compensation. The State is required to contribute at a specified percentage of active member payroll established by the Board of Trustees and determined annually in accordance with an actuarial valuation and minimum funding standards as provided by law. These State contributions are not at any time refundable to the member or his/her beneficiary.

Employer contributions required for fiscal year 2013 were based on the June 30, 2010, actuarial valuation as follows:

Plan Segment	Contribution Rate
Old Plan *	14.90%
New Plan	14.90%
GSEPS	11.54%

* 10.15% exclusive of contributions paid by the State on behalf of old plan members

Members become vested after 10 years of service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions the member forfeits all rights to retirement benefits.

Teachers Retirement System of Georgia

TRS is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of two appointees by the Board, two ex-officio State employees, five appointees by the Governor, and one appointee of the Board of Regents is ultimately responsible for the administration of TRS.

On October 25, 1996, the Board created the Supplemental Retirement Benefit Plan of the Georgia Teachers (SRBP-TRS). SRBP-TRS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the IRC as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, may be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Options are available for distribution of the member's monthly pension, at a reduced rate, to a designated beneficiary on the member's death. Death, disability, and spousal benefits are also available.

TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation.

Member contributions as adopted by the Board of Trustees for fiscal year 2013 were 6% of annual salary. Employer contributions required for fiscal year 2013 were 11.41% of annual salary as required by the June 30, 2010, actuarial valuation.

Employer Contributions

The following table summarizes the State's employer contributions by defined benefit plan for 2013, 2012, and 2011 (in thousands):

	ERS		TRS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2013	$ 306,738	100%	$ 194,804	100%
2012	238,738	100%	175,588	100%
2011	222,401	100%	170,893	100%

In addition to the above contributions for employees of organizations in the State reporting entity, the State also makes contributions directly to ERS and TRS on behalf of certain employers that are not in the reporting entity. The State made such contributions to TRS of $5.9 million in 2013, $5.5 million in 2012, and $5.9 million in 2011 for public school support personnel. The State also contributed $12.4 million, $6.2 million, and $11.7 million to ERS on behalf of local tax commissioners and county State courts in 2013, 2012, and 2011 respectively.

In certain prior years, the State did not contribute its full requirement for local tax officials because adequate funds were not appropriated. The cumulative contribution shortfall amounted to $6.2 million. The State is funding this obligation over a 10 year period that began October 1, 2011, through higher contribution rate assessments of $0.6 million each year. This assessment is in addition to the on-behalf amounts reported above. A liability has been

NOTE 10 - RETIREMENT SYSTEMS (continued)

reported in the governmental activities for the unpaid balance.

Participating Employers

The number of participating employers by plan as of June 30, 2013, was:

ERS	716
TRS	401

These counts treat each legal entity in the State reporting entity as a separate employer. Of the 716 employers in the ERS count, 441 are not in the State reporting entity. Of the 401 employers in the TRS count, 297 are not in the State reporting entity.

Funded Status, Funding Progress, and Actuarial Methods and Assumptions

The funded status of the ERS and TRS plans at June 30, 2012, the most recent actuarial valuation date, is as follows (in thousands):

Retirement System	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / (c)
ERS	$ 12,260,595	$ 16,777,922	$ 4,517,327	73.1%	$ 2,414,884	187.1%
TRS	56,262,332	68,348,678	12,086,346	82.3%	10,036,023	120.4%

These valuations reflect assumptions based on experience studies for the five year period ending June 30, 2009. Additionally, TRS uses a smoothed interest rate methodology for determining its investment rate of return. The method uses an initial rate of return for a 23 year look forward period that, when combined with actual returns for a seven year look back period, produces a 30 year average rate of return that equals the 7.5% ultimate long-term investment rate of return assumption that is based on TRS long term capital market assumptions and asset allocations. The interest rate used for years after the 23 year look forward period is the ultimate rate of return. The method includes a corridor around the long-term investment rate of return. A corridor also limits the actuarial value of assets to not less than 75% or more than 125% of market value. Multiyear trend information about the funding progress is presented in the standalone financial reports issued by the System and TRS. These schedules indicate whether the actuarial values of assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional information as of the latest actuarial valuations follows:

	ERS	TRS
Valuation date	6/30/2012	6/30/2012
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar	Level percent of pay
Remaining amortization period	30 years	30 years
Period Open/Closed	Open	Open
Asset valuation method	7 year smoothed market	7 year smoothed market
Actuarial assumptions:		
Investment rate of return, initial	N/A	8.09%*#
Investment rate of return, ultimate	7.50%*	7.50%*#
Projected salary increases	2.725% - 9.25%*	3.75% - 7.00%*
Postretirement cost of living adjustment	None	3.00% annually

* Includes an inflation assumption of 3.00%

\# Using the initial and ultimate rates above, the smoothed interest rate over a 40 year period is 7.84%.

C. Defined Contribution Plans

GSEPS 401(k) Component of ERS Plan

In addition to the ERS defined benefit pension described above, GSEPS members may also participate in the Peach State Reserves 401(k) defined contribution plan and receive an employer matching contribution. The 401(k) plan is administered by the System and was established by the Georgia Employee Benefit Plan Council in accordance with State law and Section 401(k) of the IRC. The GSEPS segment of the 401(k) plan was established by State law effective January 1, 2009. Plan provisions and contribution requirements specific to GSEPS can be amended by State law. Other general 401(k) plan provisions can be amended by the ERS Board of Trustees as required by changes in federal tax law or for administrative purposes. The State was not required to make significant contributions to the 401(k) plan prior to GSEPS because most members under other segments of the plan either were not State employees or were not eligible to receive an employer match on their contributions.

The GSEPS plan includes automatic enrollment in the 401(k) plan at a contribution rate of 1% of salary, along with a matching contribution from the State. The State will match 100% of the employee's initial 1% contribution and 50% of contribution percents two through five. Therefore, the State will match 3% of salary when an employee contributes at least 5% to the 401(k) plan. Employee contributions greater than 5% of salary do not receive any matching funds.

GSEPS employer contributions are subject to a vesting schedule, which determines eligibility to receive all or a portion of the employer contribution balance at the time of any distribution from the account after separation from all State service. Vesting is determined based on the following schedule:

Less than 1 year	0%
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 or more years	100%

Employee contributions and earnings thereon are 100% vested at all times. The 401(k) plan also allows participants to roll over amounts from other qualified plans to their respective account in the

NOTE 10 - RETIREMENT SYSTEMS (continued)

401(k) plan on approval of the 401(k) plan administrator. Such rollovers are 100% vested at the time of transfer. Participant contributions are invested according to the participant's investment election. If the participant does not make an election, investments are automatically defaulted to a Lifecycle fund based on the participant's date of birth.

The participants may receive the value of their vested accounts upon attaining age 59.5, qualifying financial hardship, or 30 days after retirement or other termination of service (employer contribution balances are only eligible for distribution upon separation from service). Upon the death of a participant, his or her beneficiary shall be entitled to the vested value of his or her accounts. Employees who die while actively employed and eligible for 401(k) employer matching contributions become fully vested in employer contributions upon death. Distributions are made in installments or in a lump sum.

In 2013, the State's employer and employee GSEPS contributions were $7.1 million and $12.0 million, respectively. Additionally, the State made contributions of about $0.1 million on behalf of employers that are not in the reporting entity. Employer contributions may be partially funded from nonvested contributions that were forfeited by employees.

Regents Retirement Plan

Plan Description

The Regents Retirement Plan, a single-employer defined contribution plan, is an optional retirement plan established by the Georgia General Assembly in Chapter 21 of Title 47 of the Official Code of Georgia Annotated. It is administered and may be amended by the Board of Regents (Proprietary Fund – Higher Education). A participant in the plan is an "eligible university system employee" defined as a faculty member or a principal administrator as designated by the regulations of the Board of Regents. Under the Plan, a plan participant may purchase annuity contracts from four approved vendors (AIG-VALIC, American Century, Fidelity, and TIAA-CREF) for the purpose of receiving retirement and death benefits. The approved vendors have separately issued financial reports that may be obtained through their respective corporate offices.

Benefits

Benefits depend solely on amounts contributed to the plan plus investment earnings. Benefits are payable to participating employees or their beneficiaries in accordance with the terms of the annuity contracts.

Funding Policy

The University System of Georgia makes monthly employer contributions for the Regents Retirement Plan at rates adopted by the TRS Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2013, the employer contribution was 9.24% of the participating employee's earned compensation. Employees contribute 6% of their earned compensation. Amounts attributable to all plan contributions are fully vested and non-forfeitable at all times. In 2013, employer and employee contributions were $105.2 million (9.24%) and $63.0 million (6%), respectively.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The State provides the following significant other postemployment benefit (OPEB) plans:

Administered by Department of Community Health (DCH):
- Georgia State Employees Post-employment Health Benefit Fund (State OPEB Fund)
- Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund)

Administered by the System:
- State Employees' Assurance Department (SEAD)
  - – For retired and vested inactive (SEAD-OPEB)
  - – For active employees (SEAD-Active)

Administered by the Board of Regents University System Office:
- Board of Regents Retiree Health Benefit Fund (Regents Plan)

The financial statements for these plans are presented in the Fiduciary Funds section of this report. Separate financial reports that include the required supplementary information for these plans are also publicly available and may be obtained from the offices that administer the plans.

A. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of these plans are prepared using the accrual basis of accounting. Contributions from employers and members are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price.

B. Multiple-employer Plans

Plan Descriptions and Contribution Information

State OPEB Fund and School OPEB Fund

The State OPEB Fund and School OPEB Fund are cost-sharing multiple-employer defined benefit postemployment healthcare plans and are reported as employee benefit trust funds.

The State OPEB Fund provides postemployment health benefits (including benefits to qualified beneficiaries of eligible former employees) due under the group health plan for employees of State organizations (including technical colleges) and other entities authorized by law to contract with DCH for inclusion in the plan. It also pays administrative expenses of the fund. By law, no other use of the assets of the State OPEB Fund is permitted.

The School OPEB Fund provides postemployment health benefits (including benefits for qualified beneficiaries of eligible former employees) due under the group health plan for public school teachers including librarians and other certified employees of public schools and regional educational service agencies or due under the group health plan for non-certified public school employees. It also pays administrative expenses of the fund. By law, no other use of the assets of the School OPEB Fund is permitted.

The Official Code of Georgia Annotated (OCGA) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees under both the State and School OPEB Funds, to the Board of Community Health (Board).

The plans are currently funded on a pay-as-you go basis. That is, annual costs of providing benefits will be financed in the same year as claims occur, with no significant assets accumulating as would occur in an advance funding strategy.

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. As of January 1, 2012, for members with fewer than five years of service, contributions also vary based on years of service. As of January 1, 2012, on average, members with five years or more of service pay approximately 25% of the cost of health insurance coverage. In accordance with the Board resolution dated December 8, 2011, for members with fewer than five years of service as of January 1, 2012, the State provides a premium subsidy in retirement that ranges from 0% for fewer than 10 years of service to 75% (but no greater than the subsidy percentage offered to active employees) for 30 or more years of service. The subsidy for eligible dependents ranges from 0% to 55% (but no greater than the subsidy percentage offered to dependents of active employees minus 20%). No subsidy is available to Medicare eligible members not enrolled in a Medicare Advantage Option. The Board sets all member premiums by resolution and in accordance with the law and applicable revenue and expense projections. Any subsidy policy adopted by the Board may be changed at any time by Board resolution and does not constitute a contract or promise of any amount of subsidy.

Participating employers, including but not limited to State organizations and school systems, are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected pay-as-you-go financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The combined required contribution rates established by the Board for the active and retiree plans for the fiscal year ended June 30, 2013, were as summarized in the following tables:

Combined Active and State OPEB Fund Contribution Rates as a Percentage of Covered Payroll

State organizations, including technical colleges, and certain other eligible participating employers:		
June 2012	27.523%	for July 2012 coverage
July – December 2012	35.000%	for August 2012 – January 2013 coverage
January – February 2013	24.454%	for February – March 2013 coverage
March – June 2013	25.366%	for April – July 2013 coverage

Combined Active and School OPEB Fund Dollar Contribution Rates per Member per Month

Certificated teachers, regional educational service agencies, certain other eligible participating employers:		
June 2012	3.958%	of covered payroll for July 2012 coverage
July 2012 – February 2013	$912.34	for August 2012 – March 2013 coverage
March – June 2013	$937.34	for April – July 2013 coverage
Library employees:		
June 2012	3.958%	of covered payroll for July 2012 coverage
July 2012 – June 2013	$743.00	for August 2012 – July 2013 coverage
Non-certificated school personnel:		
June 2012	$296.20	for July 2012 coverage
July 2012 – June 2013	$446.20	for August 2012 – July 2013 coverage

No additional contribution was required by the Board for fiscal year 2013 nor contributed to the State OPEB Fund or to the School OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the State plan for OPEB and are subject to appropriation.

The State's estimated required pay-as-you-go employer contributions made to the State OPEB Fund and the School OPEB Fund for the fiscal years ended June 30, 2013, 2012, and 2011 were (in thousands):

	State OPEB Fund		School OPEB Fund	
	State Employer Required Contribution	Percent Contributed	State Employer Required Contribution	Percent Contributed
2013	$ 169,992	100%	$ 1,947	100%
2012	159,827	100%	1,949	100%
2011	147,749	100%	1,682	100%

In addition to the above OPEB contributions for former employees of organizations in the State reporting entity, the State made on-behalf contributions during 2013 and 2012 to SHBP for combined active and OPEB coverage of certificated personnel employed by LEA's. A portion of those contributions was transferred to the School OPEB Fund as follows:

	On-behalf Contribution to SHBP	Estimated Transfer to School OPEB
2013	$0.9 billion	$224 million
2012	1.0 billion	279 million

The State did not make on-behalf contributions for certificated employees in 2011 but instead made contributions on behalf of the LEA's for certain non-certificated school personnel. The on-behalf amount transferred to the School OPEB Fund for the non-certificated personnel was $0.3 million in 2011.

State Employees' Assurance Department

SEAD-OPEB and SEAD-Active are cost-sharing multiple-employer defined benefit other postemployment plans that were created in fiscal year 2007 by the Georgia General Assembly to provide term life insurance to eligible members of the ERS, Georgia Judicial Retirement System (JRS), and Legislative Retirement System (LRS). SEAD-OPEB provides benefits for retired and vested inactive members, and SEAD-Active provides benefits for active members. Effective July 1, 2009, no newly hired members of any State public retirement system are eligible for term life insurance under SEAD. Pursuant to Title 47 of the OCGA, benefit provisions of the plans were established and can be amended by State statute.

Contributions by plan members are established by the ERS Board of Trustees, up to the maximum allowed by statute (not to exceed 0.5% of earnable compensation). The ERS Board of Trustees establishes employer contribution rates, such rates which, when added to members' contributions, shall not exceed 1% of earnable compensation. Contributions for fiscal year 2013 were based on June 30, 2010, actuarial valuations as follows:

	SEAD-OPEB	SEAD-Active	Total SEAD
Member Rates:			
ERS Old Plan	0.45%	0.05%	0.50%
Less: Offset Paid by Employer	(0.22%)	(0.03%)	(0.25%)
Net ERS Old Plan	0.23%	0.02%	0.25%
ERS New Plan, JRS, and LRS	0.23%	0.02%	0.25%
Employer Rates	0.27%	0.00%	0.27%

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

The ERS Board of Trustees voted and approved that the SEAD-OPEB employer contribution would be paid from existing assets of the Survivors Benefit Fund (SBF) instead of requiring payment by the employers. The SBF transferred $5.0 million and $12.7 million to the SEAD-OPEB Fund in 2013 and 2012, respectively. Of those amounts, $4.5 million and $11.1 million were paid on behalf of organizations in the State reporting entity for 2013 and 2012, respectively. There were no required employer contributions for SEAD in 2011.

According to the policy terms covering the lives of members, insurance coverage is provided on a monthly, renewable term basis, and no return premiums or cash value are earned. The net position represents the excess accumulation of investment income and premiums over benefit payments and expenses and is held as a reserve for payment of death benefits under existing policies.

For SEAD-Active the amount of insurance coverage is equal to 18 times monthly earnable compensation frozen at age 60. For members with no creditable service prior to April 1, 1964, the amount decreases from age 60 by a half of 1% per month until age 65 at which point the member will be covered for 70% of the age 60 coverage. Life insurance proceeds are paid in lump sum to the beneficiary upon death of the member.

For SEAD-OPEB the amount of insurance for a retiree with creditable service prior to April 1, 1964, is the full amount of insurance under SEAD-Active in effect on the date of retirement. The amount of insurance for a service retiree with no creditable service prior to April 1, 1964, is 70% of the amount of insurance under SEAD-Active at age 60 or at termination, if earlier. Life insurance proceeds are paid in lump sum to the beneficiary upon death of the retiree.

Participating Employers

The number of participating employers for the multiple-employer postretirement benefit plans as of June 30, 2013, was:

State OPEB	218
School OPEB	242
SEAD (OPEB and Active)	811

The SEAD count treats each legal entity in the State reporting entity as a separate employer. Of the 811 employers in the SEAD count, 533 are not in the State reporting entity.

C. Single-employer Plan: Board of Regents Retiree Health Benefit Fund

Plan Description and Funding Policy

The Regents Plan is a single-employer, defined benefit postemployment healthcare plan administered by the Board of Regents (BOR). The Regents Plan was authorized pursuant to OCGA Section 47-21-21 for the purpose of accumulating funds necessary to meet employer costs of retiree postemployment health insurance benefits.

Pursuant to the general powers conferred by OCGA Section 20-3-31, the BOR (higher education fund) has established group health and life insurance programs for regular employees of the university system. It is the policy of the BOR to permit employees of the university system eligible for retirement or who become permanently and totally disabled to continue as members of the group health and life insurance programs. The policies of the BOR define and delineate who is eligible for these postemployment health and life insurance benefits.

The contribution requirements of plan members and the employer are established and may be amended by the BOR. The Regents Plan is substantially funded on a pay-as-you-go basis; however, amounts above the pay-as-you-go basis may be contributed annually, either by specific appropriation or by BOR designation. Organizational units of the BOR pay the employer portion for group insurance for eligible retirees. The employer portion of health insurance for its eligible retirees is based on rates that are established annually by the BOR for the upcoming plan year. For the 2013 plan year, the employer rate was approximately 70% of the total health insurance cost for eligible retirees, and the retiree rate was approximately 30%. The employer covers the total cost for $25,000 of basic life insurance. If an individual elects to have supplemental, and/or dependent life insurance coverage, such costs are borne entirely by the retiree.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost (expense) for the Regents Plan is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table presents the components of the annual OPEB cost, the amount actually contributed, and the changes in the net OPEB obligation for the Regents Plan for 2013, 2012, and 2011 (in thousands):

	Fiscal Year Ended 6/30/2013	Fiscal Year Ended 6/30/2012	Fiscal Year Ended 6/30/2011
Annual required contribution	$ 362,400	$ 345,300	$ 411,500
Interest on net OPEB obligation	57,500	45,800	31,500
Adjustment to annual required contribution	(52,100)	(41,500)	(45,300)
Annual OPEB cost (expense)	367,800	349,600	397,700
Less: Contributions made	(83,400)	(88,800)	(80,200)
Increase in net OPEB obligation	284,400	260,800	317,500
Net OPEB obligation - beginning of year	1,278,200	1,017,400	699,900
Net OPEB obligation - end of year	**$ 1,562,600**	**$ 1,278,200**	**$ 1,017,400**
Percentage of annual OPEB cost contributed	**22.7%**	**25.4%**	**20.2%**

D. Funded Status, Funding Progress, and Actuarial Methods and Assumptions

The funded status of each plan as of the most recent actuarial valuation date is as follows (in thousands):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / (c)
State OPEB	6/30/2012	$ -	$ 3,867,927	$ 3,867,927	0.0%	$ 2,408,000	160.6%
School OPEB	6/30/2012	-	10,869,930	10,869,930	0.0%	9,678,000	112.3%
SEAD-OPEB	6/30/2012	818,284	704,617	(113,667)	116.1%	1,962,800	(5.8%)
SEAD-Active	6/30/2012	183,390	39,317	(144,073)	466.4%	1,962,800	(7.3%)
Regents Plan	7/1/2012	166	3,758,970	3,758,804	0.0%	2,466,314	152.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

estimates are made about the future. A data audit was performed and the June 30, 2012, data collection procedures and assumptions were changed. The data audit analyzed participation in and eligibility for postemployment benefits under the SHBP. It is appropriate from time to time to perform a data audit to ensure that the State and School OPEB liabilities are being calculated as accurately as possible. The data analysis resulted in the removal of non-eligible groups and adding of eligible groups that do not participate in ERS, LRS or JRS. Also, the post-retirement participation assumption was changed from 90% to 100% for future retirees. The impact of the data audit is a gain of $116 million for the plan as a whole, thus resulting in a lower unfunded accrued liability. The SEAD valuation as of June 30, 2012, reflects assumptions based on experience investigations for the five-year period ending June 30, 2009. The schedule of funding progress with multiyear trend information for the Regents Plan is presented as required supplementary information following the notes to the financial statements. The multiyear trend information about the funding progress for the multiple-employer plans is presented in the standalone reports issued by the administering systems. These multiyear schedules indicate whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

Additional information as of the latest actuarial valuation follows:

	State OPEB and School OPEB	SEAD-OPEB and SEAD-Active	Regents Plan
Valuation date	6/30/2012	6/30/2012	7/1/2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percentage of pay, open	Level dollar, open	Level percentage of pay, closed
Remaining amortization period	30 years	30 years	30 years
Asset valuation method	Market Value	Market Value	Market Value
Actuarial assumptions:			
Investment rate of return	4.50%*	7.50%*	4.50%**
Salary Growth	n/a	0.00% - 9.25%*	3.00%**
Salary Scale	n/a	n/a	4.00%**
Healthcare cost trend rate - initial			
Pre-Medicare eligible	8.00%*	n/a	7.80%**
Medicare eligible	7.00%*	n/a	7.30%**
Ultimate trend rate			
Pre-Medicare eligible	5.00%	n/a	4.50%**
Medicare eligible	5.00%	n/a	4.50%**
Year of ultimate trend rate	2018	n/a	2027

* Includes an inflation assumption of 3.00%
** Includes an inflation assumption of 2.50%

NOTE 12 - RISK MANAGEMENT

A. Public Entity Risk Pool

Department of Community Health (DCH) administers the State Health Benefit Plan (SHBP) for the State. Participants include State agencies, component units, participating county governments and local educational agencies. The SHBP is funded by participants covered in the pool, by employer and employee contributions, and appropriations from the General Assembly of Georgia. DCH has contracted with Cigna and UnitedHealthcare to process claims in accordance with the SHBP as established by the Board of Community Health.

B. Board of Regents Employee Health Benefits Plan

The BOR maintains a program of health benefits for its employees and retirees. This plan is funded jointly through premiums paid by participants covered under the plan and employer contributions paid by the BOR and its organizational units. All units of the University System of Georgia share the risk of loss for claims of the plan.

The BOR has contracted with Blue Cross Blue Shield of Georgia to process all claims in accordance with guidelines as established by the BOR.

C. Other Risk Management

Department of Administrative Services (DOAS) has the responsibility for the State of administering the risk management funds of the State and making and carrying out decisions that will minimize the adverse effects of accidental losses that involve State government assets. The State believes it is more economical to manage its risks internally and set aside assets for claim settlement. Accordingly, DOAS services claims for risk of loss to which the State is exposed, including general liability, property and casualty, workers' compensation, unemployment compensation, and law enforcement officers' and teachers' indemnification. Limited amounts of commercial insurance are purchased applicable to property, employee and automobile liability, fidelity and certain other risks. Premiums for the risk management program are charged to State organizations by DOAS to provide claims servicing and claims payment.

Charges by the workers' compensation risk management fund and the liability insurance risk management fund to other funds have failed to recover the full cost of claims over a reasonable period of time. Therefore, the unadjusted deficit at June 30, 2013, of $534.0 million both for workers' compensation and liability was charged back to the contributing funds. Expenditures of $370.0 million are reported in the General Fund, and expenses of $113.6 million are reported in the Higher Education Fund (enterprise fund) relating to this charge-back.

D. Claims Liabilities

A reconciliation of total claims liabilities for fiscal years ended June 30, 2013, and 2012, is shown below (in thousands):

	Public Entity Risk Pool		Board of Regents Employee Health Benefits Plan		Risk Management Fund	
	Fiscal Year Ended 6/30/2013	Fiscal Year Ended 6/30/2012	Fiscal Year Ended 6/30/2013	Fiscal Year Ended 6/30/2012	Fiscal Year Ended 6/30/2013	Fiscal Year Ended 6/30/2012
Unpaid Claims and Claim Adjustments July 1	$ 203,403	$ 200,136	$ 26,270	$ 23,289	$ 522,041	$ 471,192
Current Year Claims and Changes in Estimates	2,074,390	2,244,299	325,395	318,491	192,341	178,886
Claims Payments	(2,053,332)	(2,241,032)	(318,927)	(315,510)	(139,521)	(128,037)
Unpaid Claims and Claim Adjustments June 30	**$ 224,461**	**$ 203,403**	**$ 32,738**	**$ 26,270**	**$ 574,861**	**$ 522,041**

NOTE 13 - DERIVATIVE INSTRUMENTS

Derivative Instruments are utilized by some of the higher education foundations (reported as both nonmajor enterprise funds and as component units) and consist primarily of interest rate swap agreements. Certain foundations (component units) have elected to apply FASB provisions and therefore the disclosure information for these foundations is presented separately. Details of the long term liabilities associated with the interest rate swap derivatives are within the Note 8 - Long-Term Liabilities.

Primary Government

The fair value balance and notional amount of the interest rate swap hedging derivative investment outstanding as reported in the fiscal year 2013 financial statements are as follows:

	Change in Fair Value		Fair Value at 6/30/2013		
	Classification	Amount	Classification	Amount	Notional
Component unit activities - GASB					
Cash flow hedges:					
VSU Auxiliary Services Real Estate Foundation, Inc.[1]					
2008B - Interest Rate Swap	Deferred outflow of resources	167,584	Debt	$ (7,610,337)	28,545,000

[1]The VSU Auxiliary Services Real Estate Foundation, Inc. Interest Rate Swap Derivative was not previously reported.

VSU Auxiliary Services Real Estate Foundation, Inc. (VSU Foundation)

The VSU Foundation has an outstanding interest rate swap agreement effectively changing the interest rate exposure on the $28,545,000 bond payable from variable to a 4.05% fixed rate over the term of the bond payable. As of December 31, 2012, the total notional amount of the swap was $28,545,000. As of December 31, 2012, the fair value of this interest rate swap was a liability of $7,610,337. The VSU Foundation recorded a gain on the swap of $167,584 for the year ended December 31, 2012.

Revenue bonds in the amount of $28,655,000 ("Series 2008B Bonds"), were issued June 19, 2008 by the South Regional Joint Development Authority ("the Authority"), a public body corporate and politic created pursuant to the constitution and laws of the State of Georgia, including Development Authorities Law, as amended, and were loaned to Georgia & Reade LLC, (a limited liability corporation owned solely by the VSU Foundation) (Company) to finance the construction of the Georgia Hall Project and the Reade Hall Project. The bonds were issued pursuant to the Development Authorities Law of the State of Georgia and in accordance with the provisions of a Trust Indenture dated June 1, 2008 between the Authority and Wells Fargo Bank, National Association, as the trustee ("the Trustee"). The Series 2008B Bonds were issued in the form of fully registered bonds in the denominations of $100,000 and any integral multiple of $5,000 in excess thereof. Interest rates are variable and the bonds mature in 2039. Payment of the principal of and interest on the Series 2008B Bonds will be principally secured by an irrevocable, direct-pay letter of credit issued by Wells Fargo Bank, National Association ("the Bank", previously Wachovia Bank, National Association) on the date of issuance of the bonds pursuant to the terms of the Reimbursement Agreement. The original letter of credit dated June 19, 2008 was extended to December 14, 20I0. Additional security for the Series 2008B Bonds each consists of; 1) the trust estate (from which the bonds are payable; 2) the Debt Service Reserve Fund; 3) the loan agreement; 4) the project estate and personal property as set forth in the security deed, agreements and documents relating to the construction and management of the project; and 5) any and all rents and leases for use of the project property.

Interest Rate Swap - Rents to be received under the rental agreement are in fixed amounts and the interest rate on the Series 2008B Bonds, unless converted to a Fixed Rate, are variable, based on weekly market rate. The variable rate on the bonds may cause debt service on the bonds and other amounts payable from such rents to exceed the amounts scheduled to be received and available for such purpose. Accordingly, in connection with the issuance of the bonds, the Company entered into an interest rate swap (the "Rate Swap") with Wachovia Bank, National Association (the "Rate Swap Provider") under a Hedge Agreement in order to hedge against changes in the Company's interest expense associated with the bonds. The Rate Swap Provider subsequently became Wells Fargo Bank, N.A. Under the Rate Swap, the Company agreed to make monthly payments based upon a fixed rate of interest of 4.05% per annum to Wachovia Bank, and Wachovia Bank agreed to make monthly floating rate payments to the Company at the USD-SIFMA Municipal Swap Index per annum, in each case times a notional amount equal to the aggregate principal amount of the bonds scheduled to remain outstanding in each period, taking into account planned redemptions.

The payments made by the Rate Swap Provider based on the USD-SIFMA Municipal Swap Index may not match perfectly the interest accruing on the bonds, but the Company estimates that additional rentals paid or accumulated from the Rental Agreement will be sufficient to cover such differences. The Rate Swap terminates on the date of maturity of the Series 2008 B Bonds.

Component Unit

A. Component Unit – GASB Organizations

The fair value balances and notional amounts of hedging derivative investments outstanding as reported in the fiscal year 2013 financial statements for higher education foundations reported as component units reporting under GASB provisions are as follows:

	Change in Fair Value		Fair Value at 6/30/2013		
	Classification	Amount	Classification	Amount	Notional
Component unit activities - GASB					
Cash flow hedges:					
University of Georgia Athletic Association, Inc.					
2003 - Interest Rate Swap	Deferred outflow of resources	$ 1,154,631	Debt	$ (2,129,436)	$ 10,375,000
2005A - Interest Rate Swap	Deferred outflow of resources	624,341	Debt	(1,484,437)	15,219,444
2005B - Interest Rate Swap	Deferred outflow of resources	2,224,765	Debt	(4,107,828)	25,545,000
				$ (7,721,701)	

The fair value balances and notional amounts of hedging derivative instruments outstanding at June 30, 2012, and the changes in fair value of such derivative instruments for the year then ended as reported in the fiscal year 2012 financial statements for higher education foundations reported as component units under GASB are as follows:

	Change in Fair Value		Fair Value at 6/30/2012		
	Classification	Amount	Classification	Amount	Notional
Component unit activities - GASB					
Cash flow hedges:					
Georgia Tech Athletic Association[1]					
	Deferred outflow of resources	$ 12,090,795	Debt	$ -	$ -
University of Georgia Athletic Association, Inc.					
2003 - Interest Rate Swap	Deferred outflow of resources	(1,575,177)	Debt	(3,284,067)	15,833,333
2005A - Interest Rate Swap	Deferred outflow of resources	(476,027)	Debt	(2,108,777)	11,400,000
2005B - Interest Rate Swap	Deferred outflow of resources	(3,122,919)	Debt	(6,332,593)	26,260,000
				$ (11,725,437)	

[1]The Georgia Tech Athletic Association instigated the termination of the Swap associated with the 2001 Series Bonds.

NOTE 13 - DERIVATIVE INSTRUMENTS (continued)

Interest Rate Swap Derivatives – GASB Organizations

Georgia Tech Athletic Association (GTAA)

In 2004, GTAA received an up-front payment of $2,367,000 for a "swaption" related to its fixed-rate Series 2001 bonds. The swaption was an option that allowed the counterparty to force GTAA to enter into a pay-fixed, receive-variable interest rate swap on April 1, 2012. The transaction, which was effectively a synthetic refunding of the 2001 bonds, represented the risk-adjusted present value savings of a refunding as of March 16, 2004.

Terms - The swaption was entered into on March 16, 2004. The $2,367,000 payment was based on a notional amount of $94,285,000. The counterparty had the option to exercise the agreement on April 1, 2012, with an additional premium payment to the Association totaling $773,137. If the option was exercised, the swap would also commence on that date. The fixed swap rate of 5.125% was set at a rate that, when added to an assumption for remarketing and liquidity costs, would approximate the coupons on the "refunded" bonds. The swap's variable payment would be the Bond Market Municipal Swap Index plus 21 basis points (0.21%).

Fair Value - At June 30, 2011, the swap had a negative fair value of $12,090,795, estimated using the hybrid instrument method. This method is based on the fair value of the hybrid instrument, which had a negative fair value of $15,351,765 at June 30, 2011. After amortizing the borrowing and calculating the "time value" of the option, the remaining fair value is attributed to the at-the-market swap.

The February 2012 bond issuance that refinanced the existing $94,285,000 principal on the 2001 bonds which totaled $94,285,000 also financed the termination of the existing swaption at a cost of $28,010,000. With this termination, the GTAA eliminated market access risk, interest rate risk and credit risk associated with the swaption from its portfolio.

University of Georgia Athletic Association, Inc. (UGAA)

The fair value balances and notional amounts of hedging derivative investments outstanding as reported in the fiscal year 2013 financial statements are documented above. For derivative transactions, unless otherwise specified, Bank of America Merrill Lynch (BOAML) furnishes a single value for each transaction, even if comprised of multiple legs. Unless otherwise specified, valuations for derivative instruments represent, or are derived from, mid-market values. For some derivative instruments, mid-market prices and inputs may not be observable. Instead, valuations may be derived from proprietary or other pricing models based on certain assumptions regarding past, present and future market conditions. Some inputs may be theoretical, not empirical, and require BOAML to make subjective assumptions and judgments in light of their experience. For example, in valuing over-the-counter (OTC) equity options where there is no listed option with a corresponding expiration date, BOAML must estimate the future share price volatility based on realized volatility of the underlying shares over periods deemed relevant, implied volatilities of the longest dated listed options available on the underlying shares or major indices and other relevant factors. Valuations of securities with embedded derivatives may be based on assumptions as to the volatility of the underlying security, basket or index, interest rates, exchange rates, dividend yields, correlations between these or other factors, the impact of these factors upon the value of the security (including the embedded options), as well as issuer funding rates and credit spreads (actual or approximated) or additional relevant factors. While BOAML believes that the methodology and data they use to value derivatives and securities with embedded derivatives are reasonable and appropriate, other dealers might use different methodology or data and may arrive at different valuations.

Objective and Terms - As a means of interest rate management, UGAA entered into three separate interest rate swap transactions with Bank of

America, N.A. (the Counterparty) relating to its variable rate tax-exempt Series 2003 Bonds, taxable Series 2005 Bonds, and tax-exempt Series 2005B Bonds. Pursuant to an International Swap Dealers Association (ISDA) Master Agreement and Schedule to ISDA Master Agreement each dated as of January 27, 2005, between UGAA and the Counterparty and three Confirmations, UGAA has agreed to pay to the Counterparty a fixed rate of interest in an amount equal to: (1) 3.38% per annum multiplied by a notional amount that is equal to the principal amount of the Series 2003 Bonds until August 2033; (2) 5.05% per annum multiplied by a notional amount that is equal to the principal amount of the Series 2005 Bonds until July 2021; and (3) 3.48% per annum multiplied by the notional amount that is equal to the principal amount of the Series 2005B Bonds until August 2033. In return, the Counterparty has agreed to pay to UGAA a floating rate of interest in an amount equal to: (1) 67% of LIBOR multiplied by a notional amount that is equal to the principal amount of the Series 2003 Bonds until August 2033; (2) LIBOR multiplied by a notional amount that is equal to the principal amount of the Series 2005 Bonds until July 2021; and (3) 67% of LIBOR multiplied by the notional amount that is equal to the principal amount of the Series 2005B Bonds until July 2035.

Fair Value - UGAA will be exposed to variable rates if the Counterparty to a swap defaults or if a swap is terminated. A termination of the swap agreement may also result in UGAA's making or receiving a termination payment.

As of June 30, 2013, the fair value of the interest rate swap agreement on the 2003 Series Bonds was $(2,129,436), indicating the amount that UGAA would be required to pay the Counterparty to terminate the swap agreement.

As of June 30, 2013, the fair value of the interest rate swap agreement on the 2005A Series Bonds was $(1,484,437), indicating the amount that UGAA would be required to pay the Counterparty to terminate the swap agreement.

As of June 30, 2013, the fair value of the interest rate swap agreement on the 2005B Series Bonds was $(4,107,828), indicating the amount that UGAA would be required to pay the Counterparty to terminate the swap agreement.

Swap Payments and Associated Debt – As of June 30, 2013, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds		Interest Rate	
	Principal	Interest	Swaps, Net	Total
Year ending:				
2014	$ 2,415,000	$ 35,553	$ 1,791,880	$ 4,242,433
2015	2,480,000	33,023	1,691,864	4,204,887
2016	2,535,000	30,435	1,589,603	4,155,038
2017	2,595,000	27,788	1,484,932	4,107,720
2018	2,660,000	25,078	1,377,679	4,062,757
2019-2023	13,050,000	84,559	5,246,003	18,380,562
2024-2028	9,330,000	49,770	3,382,457	12,762,227
2029-2033	10,660,000	24,490	1,667,704	12,352,194
2034-2037	5,415,000	2,343	163,047	5,580,390
Total	**51,140,000**	**$ 313,039**	**$ 18,395,169**	**$ 69,848,208**

Credit Risk - As of June 30, 2013, the fair value of the swaps represents UGAA's exposure to the Counterparty. Should the Counterparty fail to perform in accordance with the terms of the swap agreements, and variable interest rates remain at the current level, UGAA could see a possible gain equivalent to $18.4 million less the cumulative fair value of $7.7 million. As of June 30, 2013, the Counterparty was rated as follows by Moody's and S&P:

	Moody's	S&P
Bank of America, N.A.	A3	A

Basis Risk - The swaps expose UGAA to basis risk. The interest rate on the Series 2003 Bonds and the Series 2005B Bonds is a tax-exempt interest rate, while the LIBOR basis on the variable rate receipt on the interest rate swap agreements is taxable. Tax-exempt interest rates can change without a corresponding change in the 30-day LIBOR rate due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market. UGAA will be exposed to basis risk under the swaps to the extent that the interest rates on the tax-exempt bonds trade at greater than 67% of LIBOR for extended periods of time. UGAA would also be

NOTE 13 - DERIVATIVE INSTRUMENTS (continued)

exposed to tax risk stemming from changes in the marginal income tax rates or those caused by a reduction or elimination in the benefits of tax exemption for municipal bonds.

Termination Risk - The interest rate swap agreement uses the ISDA Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. UGAA or the Counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetically fixed interest rate. Also, if at the time of termination, the swap has a negative fair value, then UGAA would be liable to the Counterparty for a payment equal to the swap's fair value.

B. Component Unit – FASB Organizations

The fair value balances and notional amounts of hedging derivative investments outstanding as reported in the fiscal year 2013 financial statements for higher education foundations reported as component units reporting under FASB provisions are as follows:

	Change in Fair Value		Fair Value at 6/30/2013		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Component unit activities - FASB					
Cash flow hedges:					
Georgia College & State University Foundation, Inc.					
	Investment Revenue	$ 284,903	Debt	$ (355,976)	$ 5,260,000
	Investment Revenue	905,874	Debt	(3,689,828)	25,000,000
	Investment Revenue	2,890,434	Debt	(9,247,616)	69,820,000
MCG Health, Inc.					
	Investment Revenue	12,517,052	Debt	(19,755,084)	128,440,000
University of Georgia Foundation					
	Investment Revenue	856,009	Debt	(1,836,826)	5,706,223
				$ (34,885,330)	

The fair value balances and notional amounts of hedging derivative instruments outstanding at June 30, 2012, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 financial statements for higher education foundations reported as component units under FASB are as follows:

	Change in Fair Value		Fair Value at 6/30/2012		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Component unit activities - FASB					
Cash flow hedges:					
Georgia College & State University Foundation, Inc.					
	Investment Revenue	$ 98,984	Debt	$ (640,879)	$ 6,080,000
	Investment Revenue	(945,152)	Debt	(4,595,702)	25,000,000
	Investment Revenue	(3,465,992)	Debt	(12,138,050)	69,820,000
Georgia Tech Foundation, Inc.[1]					
	Investment Revenue	7,655,000	Debt	-	-
	Investment Revenue	15,066,000	Debt	-	-
MCG Health, Inc.					
	Investment Revenue	(17,772,911)	Debt	(32,272,136)	131,775,000
University of Georgia Foundation[2]					
	Investment Revenue	(1,262,740)	Debt	(2,692,835)	6,200,000
	Investment Revenue	43,174	Debt	-	-
				$ (52,339,602)	

[1]The Georgia Tech Foundation, Inc. instigated the termination of the Swap associated with the 2001A & 2002A Series Bonds.

[2]The University of Georgia Foundation paid in full one of their notes resulting in the termination of the associated Swap agreement.

<u>Interest Rate Swap Derivatives – FASB Organizations</u>

Georgia College & State University Foundation, Inc. (GCSUF)

GCSUF maintains an interest rate risk management strategy that uses interest rate swap derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. GCSUF's specific goal is to lower (where possible) the cost of its borrowed funds.

In connection with the 2007 Series bonds, GCSUF entered into an interest rate swap transaction to convert its variable-rate bond obligations to fixed rates. This swap is utilized to manage interest rate exposures over the period of the interest rate swap and is designated as a highly effective cash flow hedge. The differential to be paid or received on all swap agreements is accrued as interest rates change and is recognized in interest expense over the life of the agreement. The swap agreements expire at various dates and have a fixed rate of 4.065%. The notional amounts are noted above. The interest rate swap contains no credit-risk-related contingent features and is cross collateralized by certain assets of GCSUF.

The interest-rate swap transaction is summarized above and is included with liabilities in the Statement of Net Position. There was no portion of the loss that was considered ineffective or excluded from the assessment of hedge effectiveness.

On January 31, 2013, the GCSUF modified the swap agreement to lower the interest rate from 4.715% to 4.065%. This transaction resulted in a penalty to the IRS in the amount of $1,372,875. The swap provider donated $1,435,000 to GCSUF to pay the penalty. These amounts are included in rent income on GCSUF's consolidated statement of activities. The present value of the interest savings over the life of the modified swap agreement are approximately $6,894,723. The lease agreement with the Board of Regents was not modified as a result of the swap modification; however, 40% of the present value of the interest savings will be paid to the Georgia College and State University annually. The deferred swap savings due to the University is $2,765,728 at June 30, 2013.

Georgia Tech Foundation, Inc. (GTF)

The following information is presented in thousands.

In 2003, GTF sold an interest rate swap option (the 2001A swaption) relating to the 2001A Bonds to a third party and received $945. This transaction enabled GTF to monetize the call option on the Series 2001A Bonds, based on interest rate levels at that time. GTF was notified by the third party of the decision to exercise the 2001A swaption on November 1, 2011. GTF paid $10,101 to terminate the swap created pursuant to the 2001A swaption during November 2011. GTF paid a portion of the termination payment of $8,914 with the proceeds from the Series 2011B Bonds, and the remaining amount of $1,187 was paid with GTF's available cash on hand. Prior to the termination of the interest rate swap, a loss of $2,204 was recognized in 2012 as a change in fair value of derivative financial instruments in the consolidated statements of activities, reducing unrestricted net position.

In 2003, GTF sold an interest rate swap option (the 2002A swaption) relating to the 2002A Bonds to a third party and received $2,251. This transaction enabled GTF to monetize the call option on the Series 2002A Bonds, based on interest rate levels at that time. GTF was notified by the third party of the decision to exercise the 2002A swaption on May 1, 2012. GTF paid $23,515 to terminate the swap created pursuant to the 2002A Swaption during May 2012. GTF paid a portion of the termination payment with the proceeds from the Series 2012B Bonds in the amount of $21,264, and the remaining amount of $2,251 was paid with GTF's available cash on hand. Prior to the termination of the interest rate swap, a loss of $8,449 was recognized in 2012 as a change in fair value of derivative financial instruments in the consolidated statements of activities, reducing unrestricted net position.

NOTE 13 - DERIVATIVE INSTRUMENTS (continued)

MCG Health System, Inc. (MCGHS)

MCG Health, Inc. (Company), a nonprofit corporation controlled by MCGHS entered into a variable-to-fixed interest rate swap (the Swap) to convert the variable interest rate on Development Authority of Richmond County Revenue Bonds (Bonds) issued by the Company into a synthetic fixed rate of 3.02%.

The Bonds and the Swap mature on July 1, 2037. The notional amount of the Swap at June 30, 2013 was $128,440,000. The notional amount decreased from the initial notional amount of the Swap is $135,000,000 by $6,560,000. The notional value of the Swap declines in conjunction with payments of Bond principal such that the outstanding balance of the Series 2008A and 2008B Bonds and the notional amount of the Swap remain equal at all times.

Under the Swap, the Company pays the counterparty interest at a fixed rate of 3.302% and receives interest payments at a variable rate computed as 68% of LIBOR.

The fair value of the Swap is recorded as an asset or liability, depending on whether the termination of the Swap would result in amounts due to the Company or the Swap counterparty. At June 30, 2013 and 2012, the fair value of the Swap represented a liability to the Company in the amount of $19,755,084 and $32,272,136, respectively. The Company or the Swap counterparty is required to post collateral with the other party in the event that the fair value of the Swap exceeds certain thresholds, as defined. At June 30, 2013 and 2012, the Company had posted cash collateral of $3,760,000 and $23,400,000, respectively, with the Swap counterparty which is included in other receivables in MCGHS's consolidated balance sheets.

As of June 30, 2013, the Company was exposed to credit risk in the amount of the fair value of the Swap. The Swap counterparty was rated A by Fitch Ratings, A2 by Moody's Investors Services, and A+ by Standard & Poor's as of June 30, 2013. To mitigate the potential for credit risk, various levels of collateralization by the counterparty may be required should the counterparty's credit rating be downgraded and the fair value of the Swap be in a liability position at a level above certain thresholds specified in the Swap agreement.

The Swap exposes the Company to basis risk should the relationship between LIBOR and prevailing market rates change significantly, changing the synthetic rate on the Bonds from the intended synthetic rate of 3.302%. As of June 30, 2013, the prevailing market rate was an aggregate 0.07%, whereas 68% of LIBOR was 0.132%. As of June 30, 2012, the prevailing market rate was an aggregate 0.20%, whereas 68% of LIBOR was 0.164%.

The Company or the counterparty may terminate the Swap if the other party fails to perform under the terms of the agreement. If the Swap is terminated, the variable rate Bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the Swap has a negative fair value (unfavorable to the Company); the Company would be liable to the counterparty for a payment equal to the Swap's fair value.

The University of Georgia Foundation (UGAF)

UGAF has an outstanding interest rate swap agreement effectively changing the interest rate exposure on the $6,200,000 note payable from variable to a 5.95% fixed rate over the term of the note payable. As of June 30, 2013 and 2012, the total notional amount of the swap was $5,706,223 and $5,807,099, respectively. As of June 30, 2013 and 2012, the fair value of this interest rate swap was a liability of $1,836,826 and $2,692,835, respectively. UGAF recorded a gain on such swap of $856,009 and a loss of $1,219,566 for the years ended June 30, 2013 and 2012, respectively.

During 2002, UGAF signed an $880,000 promissory loan agreement with a bank, which was amended during 2005 to increase the borrowed amount to $1,117,865. In June 2012, the $1,117,865 note payable was repaid and the related interest rate swap agreement was terminated. UGAF recorded a gain of $43,174 related to such swap as an adjustment to change in fair value of derivative financial instrument.

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

A. Due To/From Other Funds

Due To/From Other Funds at June 30, 2013, consist of the following (in thousands):

	Due From Other Funds						
	General Fund	Nonmajor Governmental Funds	Higher Education Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Due To Other Funds
Due To Other Funds							
General Fund	$ -	$ -	$ -	$ -	$ 401,755	$ -	$ 401,755
Nonmajor Governmental Funds	625	-	-	-	-	-	625
Higher Education Fund	-	-	-	1,134,615	114,156	-	1,248,771
State Employees' Health Benefit Plan	283	-	-	-	-	41,480	41,763
Nonmajor Enterprise Funds	-	-	9,619	283,008	-	-	292,627
Internal Service Funds	177	1,306	-	133	53	-	1,669
Fiduciary Funds	2	-	-	-	123	2,482	2,607
Total Due From Other Funds	**$ 1,087**	**$ 1,306**	**$ 9,619**	**$ 1,417,756**	**$ 516,087**	**$ 43,962**	**$ 1,989,817**

Interfund receivables and payables result from billings for goods/services provided between funds. $1.133 billion of the balances between Board of Regents Institutions (higher education fund) and their affiliated Foundations (nonmajor enterprise funds) relate to leases for the purchase by the Institutions of various facilities acquired/constructed by the Foundations. $1.088 billion of these balances are due in more than one year.

$283.0 million of the balances between the Georgia Higher Education Facilities Authority and the University System of Georgia Foundation, Incorporated (nonmajor enterprise funds) relate to loans to the Foundation for various campus projects. $278.8 million of these balances are due in more than one year. All other interfund receivables and payables are considered short-term in nature.

Advances of $7.7 million representing a loan between the State Road and Tollway Authority nonmajor governmental fund and nonmajor enterprise fund are not included in the table above.

NOTE 14 - INTERFUND BALANCES AND TRANSFERS (continued)

B. Interfund Transfers

Interfund transfers at June 30, 2013, consist of the following (in thousands):

	Governmental Funds			Proprietary Funds				
	General Fund	General Obligation Bond Projects Fund	Nonmajor Governmental Funds	Higher Education Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Transfers Out
Transfers Out:								
General Fund	$ -	$ 12,297	$ 1,236,095	$ 2,065,080	$ -	$ 1,402	$ 2,240	$ 3,317,114
General Obligation Bond Projects Fund	14,200	-	134,190	-	-	-	-	148,390
Nonmajor Governmental Funds	1,302	-	293	-	14,164	-	-	15,759
Higher Education Fund	4,413	-	-	-	-	-	-	4,413
Unemployment Compensation Fund	58	-	-	-	-	-	-	58
Nonmajor Enterpirse Funds	-	-	-	-	-	7,819	-	7,819
Internal Service Funds	17,428	1,635	2,509	-	-	2,957	-	24,529
Total Transfers In	**$ 37,401**	**$ 13,932**	**$ 1,373,087**	**$ 2,065,080**	**$ 14,164**	**$ 12,178**	**$ 2,240**	**$ 3,518,082**

Transfers are used to move revenues from the fund that statutes require to collect them to the fund that statutes require to expend them and to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 15 - SEGMENT INFORMATION

Segments are identifiable activities reported within or as part of an enterprise fund by which some form of revenue-supported debt is outstanding. Furthermore, to qualify as a segment, an activity must meet an external requirement to separately account for a specific revenue stream and the associated expenses, gains, and losses. The State maintains seven enterprise funds that qualify as a segment. Financial information for each segment is included within the nonmajor enterprise funds. The following paragraphs describe the State's segments.

Armstrong Atlantic State University Educational Properties Foundation, Inc. includes several limited liability companies which have issued revenue bonds to finance the costs of acquiring, renovating, constructing, and equipping facilities around the campus of Armstrong Atlantic State University; to fund associated capitalized interest for the bonds; to fund debt service reserve funds; and to pay the costs of issuances.

The State Road and Tollway Authority issued Guaranteed Refunding Revenue bonds to finance a portion of the costs of acquiring, constructing and maintaining the Georgia 400 Extension (the "Extension") project. Investors in those bonds rely solely on the revenue generated from the Extension for repayment. See the Subsequent Events note for additional information regarding these bonds.

Georgia Higher Education Facilities Authority, issued revenue bonds to acquire, construct, and equip several projects on college campuses throughout the State.

Georgia State University Foundation, Inc. (the "Foundation") was incorporated to serve as the official fund-raising and fund-management organization for Georgia State University. Revenue bonds were issued on behalf of the Foundation to finance the acquisition, construction and equipping of certain land, buildings, equipment and other real and personal property to be used for a student housing project and office space.

Georgia Tech Facilities, Inc. issued revenue bonds to finance the costs of acquiring, renovating, constructing and equipping various facilities on the Georgia Institute of Technology campus. The debt service on these bonds is supported by leasing arrangements from various sources.

Georgia State University Research Foundation, Inc. includes the activity of Science Park, LLC, which has issued revenue bonds to acquire, construct and equip a research facility on the campus of the Georgia State University; fund a debt service reserve fund; finance associated capitalized interest; and pay the costs of issuance.

VSU Auxiliary Services Real Estate Foundation, Inc. includes several limited liability companies which have issued revenue bonds to finance the construction of facility and infrastructure projects on college campuses supported by the Foundation.

Summary financial information for the State's segments for the year ended June 30, 2013, is presented on the following page.

NOTE 15 - SEGMENT INFORMATION (continued)

	Armstrong Atlantic State University Educational Properties Foundation, Inc.	Georgia 400 Extension Fund	Georgia Higher Education Facilities Authority	Georgia State University Foundation, Inc.	Georgia Tech Facilities, Inc.	Science Park, LLC	VSU Auxillary Services Real Estate Foundation, Inc.
Condensed Statement of Net Position							
Assets							
Current Assets	$ 4,695	$ 75,644	$ 3,510	$ 19,714	$ 31,676	$ 17,213	$ 1,034
Noncurrent Assets	8,270	2,636	4,214	204,594	3,701	79,519	20,218
Due from Other Funds	101,294	76	283,008	240,553	229,245	-	206,774
Capital Assets	2,780	11,312	-	10,262	898	-	227
Total Assets	117,039	89,668	290,732	475,123	265,520	96,732	228,253
Deferred Outflows							
Accumulated Decrease in Fair Value of Hedging Derivatives	-	-	-	-	-	-	7,610
Liabilities							
Current Liabilities	2,753	11,214	4,835	12,116	12,003	3,778	6,029
Noncurrent Liabilities	90,904	19,294	279,864	266,575	279,939	86,338	190,604
Due to Other Funds	-	-	-	675	89	-	-
Total Liabilities	93,657	30,508	284,699	279,366	292,031	90,116	196,633
Net Position							
Net Investment in Capital Assets	(98,514)	11,938	(283,008)	(213,008)	(284,236)	-	(165,108)
Restricted for:							
Other	-	23,214	-	-	-	-	-
Permanent Trusts:							
Nonexpendable	3,625	-	-	92,002	-	-	-
Expendable	-	-	-	61,306	10,016	6,616	-
Unrestricted	118,271	24,008	289,041	14,903	247,709	-	204,338
Total Net Position	$ 23,382	$ 59,160	$ 6,033	$ 195,757	$ (26,511)	$ 6,616	$ 39,230
Condensed Statement of Revenues, Expenses, and Changes in Net Position							
Operating Revenues (Pledged Against Bonds)	$ 6,307	$ 34,929	$ 15,012	$ 38,454	$ 11,043	$ 4,686	$ 9,754
Interest Expense	-	-	(15,012)	-	-	-	-
Depreciation/Amortization Expense	-	(6,470)	(310)	(193)	(60)	-	(187)
Other Operating Expenses	(1,494)	(13,514)	(8)	(23,498)	(1,243)	(195)	(804)
Operating Income (Loss)	4,813	14,945	(318)	14,763	9,740	4,491	8,763
Nonoperating Revenues (Expenses)							
Contributions to Permanent Endowments	-	-	-	1,206	-	-	-
Investment Income	252	56	1	17,953	255	290	148
Interest Expense	(4,633)	(786)	-	(11,524)	(13,081)	(4,357)	(8,774)
Other Nonoperating Expenses	(744)	(5,246)	-	-	(969)	-	-
Change in Net Position	(312)	8,969	(317)	22,398	(4,055)	424	137
Beginning Net Position (restated)	23,694	50,191	6,350	173,359	(22,456)	6,192	39,093
Ending Net Position	$ 23,382	$ 59,160	$ 6,033	$ 195,757	$ (26,511)	$ 6,616	$ 39,230
Condensed Statement of Cash Flows							
Net Cash Provided By (Used In):							
Operating Activities	$ 4,722	$ 7,672	$ (8)	$ 12,021	$ 9,052	$ 4,492	$ 8,821
Noncapital Financing Activities	2,686	12,119	-	4,238	13,909	-	15,518
Capital and Related Financing Activities	(6,675)	(13,103)	-	(19,065)	(21,759)	(5,917)	(11,039)
Investing Activities	1,494	57	(6)	6,095	9,351	1,659	3,006
Net Increase (Decrease)	2,227	6,745	(14)	3,289	10,553	234	16,306
Beginning Cash and Cash Equivalents	-	68,878	364	-	-	11,017	-
Ending Cash and Cash Equivalents	$ 2,227	$ 75,623	$ 350	$ 3,289	$ 10,553	$ 11,251	$ 16,306

NOTE 16 - LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. Grants and Contracts

The amounts received or receivable from grantor agencies are subject to audit and review by grantor agencies, principally the federal government. This could result in a request for reimbursement by the grantor agency for any expenditures which are disallowed under grant terms. Also, certain charges for services by Georgia Technology Authority (internal service fund) to its State customers may have exceeded the cost of providing such services. Because these overcharges were included in amounts requested and received by State organizations from the federal government under financial assistance programs, it is anticipated that an amount will be due back to the federal government. The State believes that such disallowances, questioned costs and resulting refunds, if any, will be immaterial to its overall financial position.

B. Litigation and Contingencies

The State is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. The ultimate disposition of these proceedings is not presently determinable. However, it is not believed that the ultimate disposition of these proceedings would have a material adverse effect on the financial condition of the State. The following are significant active litigation, claims and assessments involving the State:

Primary Government

1. *Phoenix Development and Land Investment, LLC v. Board of Regents* – the plaintiff, Phoenix Development and Land Investment (Phoenix), purchased a tract of land which included property upon which the Board of Regents inadvertently had placed part of an inert landfill prior to Phoenix's purchase. Phoenix filed an action against the Board of Regents claiming trespass, nuisance and inverse condemnation, seeking damages in the amount of $16 million. The Board of Regents filed a counterclaim for quiet title to the disputed property. Phoenix is currently in bankruptcy protection, and the property in question has been foreclosed upon and sold. The Special Master appointed to hear the quiet title proceedings issued a report finding that title to the disputed property lies with Phoenix. The Board of Regents has filed a motion to reject and/or modify such finding, and the purchaser of the property, SCBT Bank, has intervened in the litigation. No trial date is set. At this stage of the litigation, it is impracticable to render an opinion about whether the likelihood of an unfavorable outcome is either "probable" or "remote"; however, the State believes it has meritorious defenses and is vigorously defending this action.

2 *Tibbles v. Teachers Retirement System of Georgia, et al.*, - this is a proposed class action filed by a retired teacher (Tibbles) who alleges that the Teachers Retirement System of Georgia (TRS) has underpaid her monthly retirement benefit as well as those of the members of the purported class. The Court has approved the parties' joint request to litigate first the question of whether there is any liability to Tibbles. If the Court rules that there is a liability, then the parties will litigate the issue of whether a class should be certified. At this stage of the litigation, it is impracticable to render an opinion about whether the likelihood of an unfavorable outcome is either "probable" or "remote"; however, the State believes it has meritorious defenses and is vigorously defending this action.

3. *Georgia Power Company, et al. v. Douglas J. MacGinnitie, Commissioner, Georgia Department of Revenue* – Georgia Power seeks a refund of sales and use taxes allegedly paid on purchases of certain tangible personal property, which Georgia Power asserts to be subject to certain manufacturing-related sales and use tax exemption. The total sales and use tax refund claimed by Georgia Power is in excess of $18 million. The Commissioner's position is that the machinery and equipment in question do not qualify for the sales tax exemption. The parties are currently in the discovery phase of the litigation. At this stage of the litigation, it is impracticable to render an opinion about whether the likelihood of an unfavorable outcome is either "probable" or "remote"; however, the State believes it has meritorious defenses and is vigorously defending this action

NOTE 16 - LITIGATION, CONTINGENCIES, AND COMMITMENTS (continued)

C. Guarantees and Financial Risk

Component Units

The federal government, through the Guaranteed Student Loan Programs of the U. S. Department of Education (U.S. DOE), fully reinsured loans guaranteed through September 30, 1993, unless the Georgia Higher Education Assistance Corporation's (GHEAC) rate of annual losses (defaults) exceeded 5%. In the event of further adverse loss experience, GHEAC could be liable for up to 20% of the outstanding balance of loans in repayment status at the beginning of each year which were disbursed prior to October 1, 1993, and 22% of the outstanding balance of loans in repayment status at the beginning of each year which were disbursed on or after October 1, 1993. During the year ended June 30, 2013, GHEAC, on behalf of the U.S. DOE, reimbursed $39.7 million to lenders for defaulted loans.

Georgia Housing Finance Authority (GHFA) has uninsured loans of approximately $24.7 million as of June 30, 2013. All of these loans are for home mortgages in the State. A provision for possible losses on delinquent loans is made when, in the opinion of Authority management, the loan balance exceeds the net realizable value of the underlying collateral, including federal and mortgage pool insurance. The provision for possible losses recognized during fiscal year 2013 totaled $3.2 million and the total allowance for possible losses on mortgage loans receivable, which includes a provision for accrued interest on foreclosed loans, totaled $6.5 million at June 30, 2013. Collateralized loans historically have not resulted in losses. Since 2007, as a result of the depressed housing market, GHFA has experienced increases in loan delinquencies and decreases in underlying loan collateral. As a result, the Authority has increased its reserve for losses related to its uninsured loans in recent years.

D. Other Significant Commitments

Primary Government

Bond Proceeds

Georgia State Financing and Investment Commission (GSFIC) (general obligation bond projects fund) has entered into agreements with various State organizations for the expenditure of bond proceeds and cash supplements (provided by or on behalf of the organization involved) to acquire and construct capital projects. At June 30, 2013, the undisbursed balance remaining on these agreements approximated $1.2 billion. Of this balance, $122.3 million in encumbrances are included in the fund balance of the General Obligation Bond Projects Fund (see paragraph below regarding allowability of encumbering funds available on the statutory basis).

Contractual Commitments

The Georgia Constitution permits State organizations to enter into contractual commitments provided they have funds available (statutory basis) at the time of the execution of the contract. At June 30, 2013, the fund balances of governmental funds include encumbrances of $3.4 billion in the General Fund.

BOR (higher education fund) had significant, unearned, outstanding construction or renovation contracts executed in the amount of $154.2 million as of June 30, 2013. This amount is not reflected in the financial statements.

GTA has significant commitments to IBM and AT&T through master service agreements. The $1.1 billion IBM master contract, effective April 1, 2009, is an eight year contract with two optional years, and has a remaining balance of $579.1 million as of June 30, 2013. The $437.1 million AT&T master contract, effective May 1, 2009, is a five year contract with two optional years, and has a remaining balance of $177.7 million as of June 30, 2013.

In April 2011 as permitted by Article IX, Section III, Paragraph I (a) of the Constitution of 1983, SRTA (nonmajor enterprise fund) and DOT (general fund) entered into an agreement whereby DOT would build and SRTA would fund a portion of certain transportation projects along the GA 400 corridor. The original SRTA commitment was $27.3 million and $2.1 million was added to the commitment in fiscal year 2013. Expenses through June 30, 2013, were $8.0 million with the remaining balance of $21.4 million, which is shown as restricted net position on the proprietary fund financial statements, carried forward to fiscal year 2014. In addition, SRTA has contractual commitments on other uncompleted contracts of $22.1 million.

The Georgia State University Foundation, Inc. (nonmajor enterprise fund) has future commitments with various limited partnership agreements with investment managers of real estate investment trusts and venture capital funds for the endowment portfolio. Payments under the various partnership agreements are made over a period of years based on specified capital calls by the respective partnerships. The purpose of these agreements is to provide endowment funds and nonprofit organizations the opportunity to invest in private limited partnerships, which in turn, make venture capital investments primarily in emerging growth companies, international private equity investments and in equity securities, warrants or other options that are generally not actively traded at the time of investment with the objective of obtaining long-term growth of capital. Capital calls are drawn from other liquid assets of the endowment investment pool as part of the asset allocation process. Investment commitments for the year ended June 30, 2013, totaled $4.9 million.

<u>Component Units</u>

Contractual Commitments

Georgia Environmental Facilities Authority (GEFA) has entered into contractual agreements to fund three Clean Water State Revolving Loan Fund loans with resources from the Georgia Fund in the amount of $41.0 million. It is anticipated that balloon payments on these loans will become due in full between February 1, 2027, and February 1, 2028. GEFA plans to designate funds at a proportionate amount annually to accumulate adequate resources at the time the loans become payable to each of their respective funds beginning with fiscal year 2013. As of June 30, 2013, an amount of $2.9 million has been accumulated for the purpose of satisfying this future obligation.

At June 30, 2013, the Georgia Ports Authority (GPA) had commitments for construction projects of approximately $12.2 million.

In August 2007, the GPA formally entered into an agreement to make voluntary annual payments to OST (general fund) over a 21-year period. The total amount of payments due to OST at June 30, 2013, was approximately $215.1 million.

The GPA entered into an "Intergovernmental Agreement for Development of an Ocean Terminal on the Savannah River within the State of South Carolina" with DOT and the South Carolina State Ports Authority (SCSPA). Under the agreement, the GPA purchased approximately 1,500 acres of land for the Jasper Ocean Terminal jointly with the SCSPA as 50% tenants in common. Further, under the agreement, the GPA has an obligation to provide $3.0 million in operation costs for the Jasper Port Project Office of which approximately $2.7 million has been provided as of June 30, 2013.

During the fiscal year ended June 30, 2013, the GPA entered into a compromise and settlement agreement with the U.S. Army Corps of Engineers, the State of South Carolina and several nongovernmental environmental organizations relative to the project by the U.S. Army Corps of Engineers to deepen the Savannah River federal navigation channel. The project is commonly referred to as the Savannah Harbor Expansion Project (SHEP).

The respective SHEP agreement, approved by the U.S. Federal District Court for the District of South Carolina, resulted in a commitment by the GPA in the amount of $35.5 million, which includes the

NOTE 16 - LITIGATION, CONTINGENCIES, AND COMMITMENTS (continued)

following provision to be funded by the GPA subject to satisfaction of certain conditions that at this time are based on all known and expected factors, and therefore, considered to be "probable" at this time as defined by respective and authoritative financial reporting standards:

1) The GPA will establish a letter of credit or escrow account within 6 months of the commencement of inner harbor dredging in the amount of $2.0 million to serve as a contingency fund should the operation of the dissolved oxygen injection system not receive funding by the federal government. This letter of credit or escrow account will be maintained at $2.0 million for the life of the project.
2) The GPA will contribute $3.0 million for water quality monitoring in the Lower Savannah River Basin; $3.0 million for monitoring and research of Shortnose and Atlantic Sturgeon; $15.0 million for conservation, wetlands preservation, acquisitions of easements and/or upland buffers, and creation, restoration or enhancement of wetlands to benefit the Lower Savannah River watershed.
3) The GPA will contribute $12.5 million for environmental and conservation projects in the Savannah River Basin to the Savannah River Restoration Board whose membership is prescribed in the agreement.

University System Foundations

The Georgia Tech Athletic Association Foundation has entered into employment contracts with certain employees expiring in years through 2016 that provide for a minimum annual salary. At June 30, 2013, the total commitment for all contracts for each of the next five years is as follows:

June 30, 2014 - $5.9 million
June 30, 2015 - $6.0 million
June 30, 2016 - $5.7 million
June 30, 2017 - $3.2 million
June 30, 2018 - $0.6 million

NOTE 17 - SUBSEQUENT EVENTS

A. Primary Government

Long-term Debt Issues

General Obligation Bonds Issued

The State sold General Obligation bonds in the total amount of $685.0 million on July 18, 2013, to provide funds for various capital outlay projects of the State, for county and independent school systems through the Department of Education, and to finance projects and facilities for both the Board of Regents of the University System of Georgia and the Technical College System of Georgia:

Series	Amount (in millions)
2013D	$ 427.4
2013E	163.2
2013F	94.4
Total	**$ 685.0**

The true interest costs were 3.20% for the Series 2013D bonds, 3.85% for the Series 2013E bonds, and 4.02% for the Series 2013F bonds.

The State sold General Obligation bonds, Series 2013H, totaling $172.7 million on December 5, 2013, to provide funds for various capital outlay projects of the State, for county and independent school systems through the Department of Education, and to finance projects and facilities for the Board of Regents of the University System of Georgia, the Technical College System of Georgia and the Georgia Ports Authority. The true interest costs for these bonds were 3.16%.

Revenue Bonds

After June 30, 2013, Georgia Tech Facilities, Inc. (nonmajor enterprise fund) issued series 2013 Revenue Refunding Bonds in the amount of $57.3 million for the purpose of refunding the Series 2003 fixed demand bonds and an interest rate swaption. The Series 2003 Bonds were originally issued to finance the cost of constructing, installing and equipping the Married Family Housing project and the Klaus Parking Deck. The following represents the mandatory bond principal redemptions remaining on the Series 2013 Bonds until maturity on November 1, 2029:

Fiscal Year Ended June 30,	Principal (in millions)
2014	$ -
2015	2.6
2016	2.6
2017	2.7
2018	2.9
Thereafter	46.5
	$ 57.3

On November 22, 2013, the State Road and Tollway Authority (SRTA) ceased collecting tolls for the usage of the Georgia 400 extension which was the support for the toll revenue bonds reported in the SRTA nonmajor enterprise fund. During fiscal year 2013, the Georgia General Assembly appropriated funds to retire the balance of the toll revenue bonds and on December 2, 2013, all outstanding toll revenue bonds were retired.

Unemployment Trust Fund

The Federal Unemployment Account (FUA) provides for a loan fund for State unemployment programs to ensure a continued flow of unemployment benefits during times of economic downturn. As of June 30, 2013, the State had a related outstanding loan balance of $396.8 million from the U.S. Treasury (see Note 8).

The State made a voluntary payment of $100.0 million on September 13, 2013 and an interest payment of $13.3 million on September 27, 2013. These payments reduced the loan balance to $295.6 million.

There is no federally mandated principal repayment schedule for Title XII loans at this time. The Social Security Act provides that the advances may be repaid at any time and may be paid from unemployment taxes or other funds in the State's unemployment trust fund; however, interest, if any, payable on the borrowings cannot be paid with unemployment insurance taxes or administrative grant funding. Other State funds must be used to pay interest costs. All borrowings must be repaid by

NOTE 17 - SUBSEQUENT EVENTS (continued)

November 10 of the second year of the loan; if not timely paid, the Federal Unemployment Tax Act tax on the State's employers is effectively increased (by credit reduction) and the additional taxes are applied as payments against the loans.

B. Component Units

Revenue Bonds

On August 15, 2013, the Georgia Housing and Finance Authority redeemed approximately $24.0 million of single family mortgage bonds of various outstanding bond series with maturities and interest rates ranging from 2013 and 2.67 percent to 2042 and 5.3 percent.

Other Subsequent Events

On July 30, 2013, the Georgia Tech Athletic Association purchased from the Georgia Tech Foundation, Inc. (nonmajor enterprise fund) approximately 11.08 acres of land located in close proximity to the northern edge of the Georgia Institute of Technology (higher education fund) campus. The purchase price of $9.0 million will be funded by a term loan provided by SunTrust which was executed on July 17, 2013, and matures in 10 years. The interest rate on the loan is 30 day LIBOR plus 1.85%. Interest payments will be due at least quarterly. Principal payments of $0.9 million will be made annually.

NOTE 18 - SERVICE CONCESSION ARRANGEMENTS

A. Primary Government

Kennesaw State University

In August 2001, Kennesaw State University (KSU) (higher education fund) entered into an agreement with Kennesaw State University Foundation, Inc. (KSUF) (component unit) whereby KSUF will operate and collect revenues for housing operations from students. KSUF is required to operate the dormitory ("University Place") in accordance with the contractual agreement. Under the terms of the agreement, KSU will take full ownership of the dormitory at the end of the operating agreement in July, 2031.

In August, 2003, KSU entered into an agreement with KSUF whereby KSUF will operate and collect revenues for housing operations from students. KSUF is required to operate the dormitory ("University Village") in accordance with the contractual agreement. Under the terms of the agreement, KSU will take full ownership of the dormitory at the end of the operating agreement in July, 2034.

In August, 2007, KSU entered into an agreement with KSUF whereby KSUF will operate and collect revenues for housing operations from students. KSUF is required to operate the dormitory ("University Suites") in accordance with the contractual agreement. Under the terms of the agreement, KSU will take full ownership of the dormitory at the end of the operating agreement in July, 2037.

At June 30, 2013, the enterprise fund financial statements include capital assets with a combined net carrying value of $77.9 million for these three dormitories with an offsetting deferred inflow of resources of $77.9 million. As part of the contractual agreement, the KSUF is responsible for insuring each of the three dormitories and for providing maintenance services. As such, KSU has no reportable obligation for these services.

NOTE 19 - SHORT-TERM DEBT

A. Primary Government

During the fiscal year 2013, the State of Georgia borrowed $96.9 million from the U.S. Treasury federal unemployment account to pay state unemployment benefits. These funds were borrowed as needed starting January 4, 2013 and continued through April 17, 2013. After April 17, 2013, employer contributions were sufficient to cover state unemployment benefit payments. The $96.9 million borrowed in fiscal year 2013 was repaid on May 28, 2013. Short-term debt activity for the fiscal year ended June 30, 2013, is shown below (in thousands).

Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013
$ -	$ 96,850	$ (96,850)	$ -

REQUIRED SUPPLEMENTARY INFORMATION


STATE OF GEORGIA
CONSTITUTION
WISDOM
JUSTICE
MODERATION
1776

Schedule of Funding Progress for Other Postemployment Benefits
(dollars in thousands)

Retirement System	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) using Projected Unit Credit (b)	Unfunded AAL/(Funding Excess) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	Unfunded AAL/(Funding Excess) as a Percentage of Covered Payroll (b - a) / (c)
Board of Regents - Retiree	7/1/2010	$ 123	$ 3,384,100	$ 3,383,977	0.0%	$ 2,432,367	139.1%
Health Benefit Fund	7/1/2011	123	3,494,501	3,494,378	0.0%	2,526,212	138.3%
	7/1/2012	166	3,758,970	3,758,804	0.0%	2,466,314	152.4%

Separate financial reports that include the required supplementary information for this plan are publicly available and may be obtained from the BOR.

Required Supplementary Information
Budgetary Comparison Schedule
Budget Fund
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	Original Appropriation	Amended Appropriation	Final Budget	Actual	Variance
Funds Available					
State Appropriation					
State General Funds	$ 16,926,796	$ 16,917,085	$ 16,917,085	16,917,347	$ (262)
State Motor Fuel Funds	969,649	983,293	983,293	983,293	-
Lottery Proceeds	904,440	866,365	866,365	858,804	7,561
Tobacco Settlement Funds	145,641	153,353	153,353	153,353	-
Brain and Spinal Injury Trust Fund	2,397	2,397	2,397	2,397	-
Nursing Home Provider Fees	157,445	167,756	176,864	176,864	-
Hospital Provider Fee	235,302	234,969	232,080	232,080	-
State Funds - Prior Year Carry-Over					
State General Fund Prior Year	-	-	43,006	64,563	(21,557)
Brain and Spinal Injury Trust Fund - Prior Year	-	-	533	1,121	(588)
State Motor Fuel Funds - Prior Year	-	-	1,177,032	1,221,034	(44,002)
Tobacco Settlement Funds - Prior Year	-	-	110	110	-
Federal Funds					
CCDF Mandatory & Matching Funds	2,509	93,676	99,455	99,455	-
Child Care and Development Block Grant	224,062	102,672	117,315	117,127	188
Community Mental Health Services Block Grant	14,141	14,141	12,758	12,686	72
Community Services Block Grant	17,282	15,978	18,265	18,265	-
Federal Highway Administration - Highway Planning and Construction	1,143,641	1,143,641	1,441,288	1,428,707	12,581
Foster Care Title IV-E	77,146	73,001	73,496	73,424	72
Low-Income Home Energy Assistance	24,828	51,767	63,054	63,053	1
Maternal and Child Health Services Block Grant	20,031	20,887	23,756	18,077	5,679
Medical Assistance Program	5,509,993	5,901,534	6,406,557	6,138,433	268,124
Prevention and Treatment of Substance Abuse Block Grant	51,481	47,141	55,311	54,806	505
Preventive Health and Health Services Block Grant	2,227	2,141	1,518	1,287	231
Social Services Block Grant	88,927	89,752	89,095	88,850	245
State Children's Insurance Program	273,383	333,551	334,231	305,690	28,541
Temporary Assistance for Needy Families Block Grant	346,978	346,978	344,644	344,075	569
TANF Unobligated Balance	9,552	9,552	-	194	(194)
Federal Funds Not Specifically Identified	3,399,431	3,379,707	4,038,467	3,949,102	89,365
American Recovery and Reinvestment Act of 2009					
Electricity Delivery and Energy Reliability	-	-	295	295	-
Federal Highway Administration - Highway Planning and Construction	-	-	25,963	4,493	21,470
Medical Assistance Program	13,704	13,704	89,832	87,416	2,416
Promote Health Information Technology	8,525	8,525	5,316	4,700	616
Federal Funds Not Itemized	58,843	103,497	391,976	286,428	105,548
Other Funds	8,857,064	9,188,332	10,434,145	10,391,576	42,569
Total Funds Available	39,485,418	40,265,395	44,618,855	44,099,105	519,750
Expenditures					
Georgia Senate	10,374	10,193	10,528	9,385	1,143
Georgia House of Representatives	18,632	18,242	19,191	16,302	2,889
Georgia General Assembly Joint Offices	10,037	9,786	9,836	8,040	1,796
Audits and Accounts, Department of	30,789	29,985	29,985	29,866	119
Appeals, Court of	14,256	14,268	14,370	14,364	6
Judicial Council	16,122	15,888	16,549	15,989	560
Juvenile Courts	7,222	7,206	7,206	6,972	234
Prosecuting Attorneys	61,877	61,950	76,757	76,747	10
Superior Courts	61,105	61,094	61,235	61,235	-
Supreme Court	10,953	10,928	11,026	11,026	-
Accounting Office, State	16,692	19,416	25,974	24,376	1,598
Administrative Services, Department of	197,903	189,281	326,184	214,956	111,228
Agriculture, Department of	51,352	50,167	54,224	54,194	30
Banking and Finance, Department of	11,357	10,996	10,996	10,826	170
Behavioral Health & Developmental Disabilities, Department of	1,153,064	1,120,436	1,167,994	1,157,305	10,689
Community Affairs, Department of	317,338	224,991	245,539	238,435	7,104
Community Health, Department of	11,971,078	12,738,982	13,384,640	12,657,810	726,830
Corrections, Department of	1,153,216	1,151,200	1,194,973	1,190,044	4,929

(continued)

Required Supplementary Information
Budgetary Comparison Schedule
Budget Fund
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	Original Appropriation	Amended Appropriation	Final Budget	Actual	Variance
Expenditures					
Defense, Department of	66,965	90,942	88,124	87,774	350
Driver Services, Department of	62,225	63,757	67,679	67,638	41
Early Care and Learning, Department of	680,036	663,757	649,612	644,319	5,293
Economic Development, Department of	41,590	39,969	45,043	44,059	984
Education, Department of	8,904,053	9,085,036	9,446,431	9,422,262	24,169
Employees' Retirement System of Georgia	46,974	48,254	48,254	46,574	1,680
Forestry Commission, Georgia	43,044	42,865	47,116	46,116	1,000
Governor, Office of the	174,617	168,928	561,281	398,549	162,732
Human Services, Department of	1,532,131	1,554,556	1,657,137	1,649,580	7,557
Insurance, Department of	21,192	21,189	20,115	20,063	52
Investigation, Georgia Bureau of	128,257	128,969	150,575	150,499	76
Juvenile Justice, Department of	307,508	299,338	302,919	298,086	4,833
Labor, Department of	136,832	136,161	180,701	168,395	12,306
Law, Department of	59,814	59,753	64,508	63,035	1,473
Natural Resources, Department of	254,046	251,339	294,854	266,409	28,445
Pardons and Paroles, State Board of	54,688	53,878	54,837	53,524	1,313
Properties Commission, State	842	820	1,605	1,450	155
Public Defender Standards Council, Georgia	40,741	40,668	73,323	72,534	789
Public Health, Department of	684,338	698,969	743,170	717,010	26,160
Public Safety, Department of	181,446	184,362	191,551	180,524	11,027
Public Service Commission	9,505	9,215	9,346	9,345	1
Regents, University System of Georgia	6,182,239	6,268,126	6,908,518	6,392,157	516,361
Revenue, Department of	167,987	173,243	193,715	188,377	5,338
Secretary of State	32,572	32,816	35,059	34,573	486
Soil and Water Conservation Commission	9,926	5,124	4,468	4,459	9
Student Finance Commission and Authority, Georgia	641,736	602,671	604,274	566,931	37,343
Teachers' Retirement System	30,146	31,647	31,647	29,493	2,154
Technical College System of Georgia	667,744	654,790	730,267	661,624	68,643
Transportation, Department of	2,011,398	2,081,160	3,644,782	2,503,644	1,141,138
Veterans Service, Department of	38,690	38,385	36,346	35,848	498
Workers' Compensation, State Board of	22,479	22,968	22,968	16,959	6,009
State of Georgia General Obligation Debt Sinking Fund	1,136,290	966,731	1,041,423	995,834	45,589
Total Expenditures	39,485,418	40,265,395	44,618,855	41,635,516	2,983,339
Excess of Funds Available over Expenditures	$ -	$ -	$ -	$ 2,463,589	$ (2,463,589)

Required Supplementary Information
Budget to GAAP Reconciliation
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

	General Fund
Sources/Inflows of Resources	
Summary	
Actual amounts (budgetary basis) "Total Funds Available" from the budgetary comparison schedule	$ 44,099,105
Differences - budget to GAAP	
Perspective Differences:	
Revenues of budgeted funds included in the Budget Fund, but removed from the General Fund for financial reporting purposes.	(8,390,514)
Revenues of nonbudgeted funds included within the State's reporting entity, and shown in the General Fund for financial reporting purposes.	19,609,024
State appropriations revenues are budgetary resources, but are netted with the State's treasury disbursements for GAAP purposes.	(19,323,835)
Basis Differences:	
Accrual of taxpayer assessed receivables and revenues.	22,230
Fund balance adjustments are not inflows of budgetary resources, but affect current year revenues for GAAP reporting purposes.	(342,463)
Prior Year Reserves Available for Expenditure are included in Funds Available, but are not revenues for GAAP reporting purposes.	(1,997,323)
Revenues from intrafund transactions are budgetary resources, but are not revenues for GAAP reporting purposes.	(577,056)
Receivables and revenues accrued based on encumbrances reported for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting.	155,767
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes.	(52,106)
Revenue reported for nonbudgetary food stamp program and donated commodities.	3,337,579
Other net accrued receivables and revenues.	(19,548)
Total Revenues (General Fund) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 36,520,860

Required Supplementary Information
Budget to GAAP Reconciliation
For the Fiscal Year Ended June 30, 2013
(dollars in thousands)

Uses/Outflows of Resources	General Fund
Summary	
Actual amounts (budgetary basis) "Total Expenditures" from the budgetary comparison schedule	$ 41,635,516
Differences - budget to GAAP	
Perspective Differences:	
Expenditures of nonbudgeted Funds included within the State's reporting entity, and shown in the General Fund for financial reporting purposes.	75,000
Expenditures of Budgeted Funds for organizations not reported in the General Fund.	(10,259,555)
Basis Differences:	
Accrual of teacher salaries not included in current budget year.	16,934
Capital lease acquisitions are not outflows of budgetary resources, but are recorded as current expenditures and other financing sources for GAAP reporting.	4,467
Change in expenditure accrual for nonbudgetary Medicaid claims.	(64,700)
Encumbrances for supplies and equipment ordered but not received are reported as budgetary expenditures in the year the order is placed, but are reported as GAAP expenditures in the year the supplies and equipment are received.	122,643
Expenditures from intrafund transactions are budgetary outflows, but are not expenditures for GAAP reporting purposes.	(577,289)
Expenditures reported for nonbudgetary food stamp program and donated commodities.	3,337,579
Fund balance adjustments are not outflows of budgetary resources, but affect current year expenditures for GAAP reporting purposes.	(499,546)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for GAAP reporting purposes.	(1,301,437)
Other net accrued liabilities and expenditures.	63,481
Total Expenditures (General Fund) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 32,553,093

Budgetary Reporting

Budgetary Process

OCGA Title 45, Chapter 12, Article 4 sets forth the process for the development and monitoring of an appropriated budget for the State. Not later than September 1 of each year, the head of each executive branch budget unit (e.g. agencies, departments, and commissions) must submit estimates of the financial requirements for the subsequent fiscal year to Office of Planning and Budget (OPB), which operates under the direction of the Governor. Budget estimates relative to the legislative and judicial branches of State government are provided to OPB for the purpose of estimating the total financial needs of the State, but are not subject to revision or review by OPB.

The Governor, through the OPB, examines the estimates and may investigate and revise executive branch submissions as necessary. Upon the completion and revisions of the estimates, the Governor must prepare and submit a budget report to the General Assembly within five days of the date on which the General Assembly convenes. The Governor also possesses the responsibility and authority to establish the revenue estimate for the corresponding fiscal year.

The General Assembly, after adopting such modifications to the Governor's budget report as it deems necessary, enacts the General Appropriations Act for the subsequent fiscal year. Each General Appropriations Act enacted, along with amendments as are adopted, continues in force and effect for the next fiscal year after adoption. In accordance with the Georgia Constitution, Article III, Section IX, Paragraph IV, "The General Assembly shall not appropriate [State] funds for any given fiscal year which, in aggregate, exceed a sum equal to the amount of unappropriated surplus expected to have accrued in the state treasury at the beginning of the fiscal year together with an amount not greater than the total treasury receipts from existing revenue sources anticipated to be collected in the fiscal year, less refunds, as estimated in the budget report and amendments thereto." The Constitution also authorizes the passage of additional Supplementary Appropriation Acts, provided sufficient surplus is available or additional revenue measures have been enacted. Finally, the Governor may withhold allotments of funds to budget units in order to maintain this balance of revenues and expenditures. Compliance with this requirement is demonstrated in the Governor's budget report and the Appropriation Acts for each fiscal year.

To the extent that federal funds received by the State are changed by federal authority or exceed the amounts appropriated by the original or supplementary appropriations acts, such excess, changed or unanticipated funds are "continually appropriated;" that is, they are amended in to departmental budgets when such events are known. Similarly, revenues generated by departments that may be retained for departmental operations ("other funds") are amended in as such funds are collected or anticipated.

Internal transfers within a budget unit are subject to the condition that no funds shall be transferred for the purpose of initiating a new program area which otherwise had received no appropriation of any funding source.

The Governor, through OPB, requires each budget unit, other than those of the legislative and judicial branches, to submit an annual operating budget based on the programs set forth in the Appropriations Act. Budget units submit periodic allotment requests, which must be approved in conjunction with quarterly work programs prior to release of appropriated funds. Further monitoring of budget unit activities is accomplished by review of expenditure reports, which are submitted quarterly to OPB.

The appropriated budget covers a majority of the organizations comprising the State's General Fund, and includes appropriations for debt service. The budget also includes certain proprietary funds, the Higher Education Fund, and the administrative costs of operating certain public employee retirement systems.

Budget units of the State are responsible for budgetary control of their respective portion of the total State appropriated budget. The legal level of budgetary control is at the program level by funding source. Due to the complex nature of the State appropriated budget, a separate *Budgetary Compliance Report* is published each year to report on compliance at the legal level of budgetary control.

Budgetary Basis of Accounting

The annual budget of the State is prepared on the modified accrual basis utilizing encumbrance accounting with the following exceptions: federal and certain other revenues are accrued based on the unexecuted portion of long-term contracts; and intrafund transactions are disclosed as revenues and expenditures. Under encumbrance accounting, encumbrances are used to indicate the intent to purchase goods or services. Liabilities and expenditures are recorded upon issuance of completed purchase orders. Goods or services need not have been received for liabilities and expenditures to be recorded.

The budget represents departmental appropriations recommended by the Governor and adopted by the General Assembly prior to the beginning of the fiscal year. Annual appropriated budgets are adopted at the departmental (budget unit) level by program and funding source. All unencumbered annual appropriations lapse at fiscal year-end unless otherwise specified by constitutional or statutory provisions. Supplementary and amended appropriations may be enacted during the next legislative session by the same process used for original appropriations.

Budgetary Compliance Exceptions

Expenditures of State funds may not exceed the amount appropriated at the legal level of control as provided by the Constitution. For the year ended June 30, 2013, total State funds expenditures did not exceed appropriated amounts.

For more information on budgetary exceptions, please refer to the *Budgetary Compliance Report* issued under separate cover. This report can be found on website of the State Accounting Office at http://sao.georgia.gov/.

Budgetary Presentation

The accompanying Budgetary Comparison Schedule for the Budget Fund presents comparisons of the legally adopted budget with actual data prepared on the budgetary basis of accounting utilized by the State. The Budget Fund, a compilation of the budget units of the State, differs from the funds presented in the basic financial statements. The Budget-to-GAAP reconciliation immediately following the budgetary comparison schedule identifies the types and amounts of adjustments necessary to reconcile the Budget Fund with the General Fund as reported in accordance with generally accepted accounting principles.

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APPENDIX C

STATISTICAL INFORMATION

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SELECTED EMPLOYMENT AND POPULATION DATA

The following tables under this heading set forth certain categories of employment and population data for the State of Georgia.

State of Georgia
Annual Averages

Year	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2007	4,811,164	4,587,739	223,425	4.6%
2008	4,845,054	4,540,706	304,348	6.3
2009	4,759,411	4,295,453	463,958	9.7
2010	4,713,978	4,235,015	478,963	10.2
2011	4,748,636	4,279,820	468,816	9.9
2012	4,772,173	4,342,275	429,898	9.0
2013	4,767,323	4,378,029	389,294	8.2
2014(a)	4,767,879	4,436,219	331,660	7.0

(a) April 2014, preliminary estimates, seasonally adjusted
Source: U.S. Department of Labor, Bureau of Labor Statistics

State Employees
(As of June 30)

Year	Total Employees	Part Time	Full Time
2007	82,527	750	81,777
2008	82,238	672	81,566
2009	78,113	615	77,498
2010	75,810	615	75,195
2011	73,452	664	72,788
2012	70,961	668	70,293

Source: State Personnel Administration

Major Nongovernmental Employers (Fiscal Year 2013)

Company
Delta Air Lines, Incorporated
Emory Health Care, Incorporated
Emory University
Georgia Power Company
Lowe's Home Centers, Incorporated
Northside Hospital, Incorporated
Publix Supermarkets, Incorporated
Rare Hospitality International, Incorporated
Shaw Industries, Incorporated
Home Depot USA, Incorporated
The Kroger Company
United Parcel Service, Incorporated
Wal-Mart Associates, Incorporated
Wellstar Health System

Source: Georgia Department of Labor

Employment in Non-Agricultural Establishments by Sector in Georgia
(Annual Average, in thousands)

Sector	2009	2010	2011	2012	2013	April 2014
Mining and logging	9.4	9.2	9.0	8.6	8.9	9.0
Construction	165.8	149.7	145.9	141.5	146.2	153.6
Manufacturing	358.0	345.0	350.6	354.6	357.2	361.9
Total – Goods Producing	533.2	504.0	505.5	504.7	512.2	524.5
Trade, transportation and utilities	819.0	810.2	822.0	833.5	845.6	858.7
Information	104.6	99.8	98.6	100.3	102.1	102.0
Financial activities	223.5	218.3	223.2	226.2	230.3	232.2
Professional and business services	511.4	526.4	544.5	561.7	586.6	602.9
Education and health services	464.4	475.5	484.7	495.3	508.7	515.9
Leisure and hospitality	379.6	374.2	381.9	394.0	411.8	428.9
Other services	156.6	153.6	153.6	153.1	154.3	155.3
Government	708.7	699.3	687.4	685.8	681.7	675.2
Total – Service Producing	3,367.7	3,357.2	3,395.9	3,450.2	3,521.1	3,571.1
Total non-farm	3,900.9	3,861.2	3,901.4	3,954.9	4,033.4	4,095.6

Source: U. S. Department of Labor, Bureau of Labor Statistics; April 2014 statistics are not seasonally adjusted and are preliminary estimates. (Note, amounts may not add precisely due to rounding.)

Average Hourly Earnings in Manufacturing

Year	United States	Southeast	Georgia	Georgia as % of U.S.	Georgia as % of Southeast
2008	$17.75	$16.21	$14.83	83.5%	91.5%
2009	18.24	16.63	15.43	84.6	92.8
2010	18.61	16.99	16.63	89.4	97.9
2011	18.93	17.34	17.69	93.4	102.0
2012	19.08	17.70	17.89	93.8	101.1
2013	19.30	18.20	18.08	93.7	99.3

Source: US Department of Labor, Bureau of Labor Statistics

Average Annual Growth Rates in Hourly Earnings

Years	U.S.	Southeast (a)	Georgia
2000-2005	2.9%	2.8%	2.3%
2005-2010	2.4	2.7	2.7
2010-2013	1.2	2.3	2.8

(a) Southeast refers to the twelve state region made up of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

Source: U.S. Bureau of Labor Statistics, Employment and Earnings (Southeast calculated as weighted average of each state's average hourly earnings. Weight is based on number of employees on manufacturing payrolls.)

Population Trends

	1980	1990	2000	2010
State Total	5,464,265	6,478,000	8,186,453	9,687,653
Percent Urban	62.4%	65.0%	71.6%	75.1%
Percent Rural	37.6%	35.0%	28.4%	24.9%
Median Age	28.6 years	31.5 years	33.4 years	35.3 years

Source: U.S. Bureau of Census

Georgia Public School Enrollment (PK –12)

Year	Annual Enrollment (a)
2009-2010	1,667,685
2010-2011	1,679,412
2011-2012	1,684,430
2012-2013	1,702,758
2013-2014	1,723,439

(a) Enrollment as of October, yearly.
Source: Georgia Department of Education

Per Capita Income

			Georgia		
Year	U.S.	Southeast (a)	Income	% of U.S.	% of Southeast
2009	$39,357	$35,598	$34,330	87.2%	96.4%
2010	40,163	36,324	34,343	85.5	94.5
2011	42,298	37,908	36,366	86.0	95.9
2012	43,735	39,137	37,449	85.6	95.7
2013	44,543	39,746	38,179	85.7	96.1

(a) Southeast refers to the twelve state region made up of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia

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

Average Annual Growth Rates in Per Capita Income

Years	U.S.	Southeast (a)	Georgia
1990 – 2000	4.5%	4.6%	5.0%
2000 – 2005	3.4	4.0	2.9
2005 – 2010	2.3	2.0	0.8
2010 – 2013	3.5	3.0	3.6

(a) Southeast refers to the twelve state region made up of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia
Source: U.S. Department of Commerce, Bureau of Economic Analysis

Median Household Income ($2011 per Household)

Year	U.S.	Georgia	Georgia % of U.S.
2008	$52,546	$48,288	91.9%
2009	52,195	45,445	87.1
2010	50,831	45,509	89.5
2011	50,054	45,973	91.8
2012	51,017	48,121	94.3

Source: U.S. Bureau of Census – Current Population Survey

Real Per Capita Gross State Product
(Chained $2005 per Capita)

Year	United States	Southeast (a)	Georgia
2008	$42,805	$37,568	$39,334
2009	41,049	35,988	36,776
2010	41,694	36,482	36,948
2011	42,069	36,522	37,324
2012	42,784	36,961	37,702

(a) Southeast refers to the twelve state region made up of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

Georgia Revenues and Personal Income

Fiscal Year	Georgia Revenues (a) $Billions	Georgia Revenues (a) Annual % Change Over 5-year Period	State Personal Income (b) $Billions	State Personal Income (b) Annual % Change Over 5-year Period	Georgia Revenues as a % of State Personal Income
2008 (c)	$18.728	5.8%	$340.819	5.2%	5.5%
2009 (c)	16.767	1.4	327.555	2.9	5.1
2010 (c)	15.216	-0.8	330.341	3.2	4.6
2011 (d)	16.559	8.8	345.568	4.6	4.8
2012 (d)	17.270	6.5	363.577	4.9	4.8
2013 (d)	18.296	6.3	376.498	4.4	4.9

(a) Amounts derived from the table "GEORGIA REVENUES" under line-item "Total General Funds" in APPENDIX A.

(b) 2008 through 2010 – average of total personal income for the four calendar quarters of the fiscal year

(c) Annual Percent Change for 2008 - 2010 computed from 2005

(d) Annual growth computed from 2010

Sources: U.S. Department of Commerce, Survey of Current Business, February, April and November, yearly; *Budgetary Compliance Report*, FY 2008, 2009, 2010, 2011, 2012, 2013

EARNINGS BY MAJOR INDUSTRY: 2012 Annual Average
($ in Billions, Seasonally Adjusted Annual Rate)

	Construction	Manufacturing	Trade	Services	Government
Georgia	$13	$26	$35	$123	$50
Southeast	114	202	252	923	421
United States	525	987	1,106	4,492	1,675

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

SELECTED AGRICULTURAL DATA

Georgia Cash Receipts by Selected Commodities 2008-2012 ($ in Millions)

Year	Crops	Livestock & Dairy Products	Poultry & Eggs	Vegetables & Melons	Total Receipts (a)
2008	$2,779	$4,758	$4,039	$566	$7,537
2009	2,510	4,294	3,664	647	6,805
2010	3,049	4,515	3,814	602	7,564
2011	3,414	4,771	3,954	640	8,185
2012	4,474	5,305	4,407	696	9,779

(a) Total Receipts is the sum of Crops and Livestock & Products.
Source: U.S. Department of Agriculture, Economic Research Service

2012 Farm Cash Receipts ($ in Millions)

	Georgia	United States
Crops		
Food Grains	$78	$18,178
Feed Crops	432	79,109
Cotton	1,286	8,585
Tobacco	44	1,497
Oil Crops	1,215	44,283
Vegetables & Melons	696	20,589
Fruit & Nuts	340	26,134
All Other Crops	383	25,110
Total Crops	4,474	223,485
Livestock and Products		
Meat Animals	519	90,143
Dairy Products, Milk	303	37,004
Poultry and Eggs	4,407	39,022
Miscellaneous Livestock	77	5,416
Total Livestock and Products	5,305	171,584
Total Farm Cash Crops	$9,779	$395,069

Source: U.S. Department of Agriculture, Economic Research Service

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APPENDIX D

CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the State of Georgia acting by and through the Georgia State Financing and Investment Commission (the "Issuer") in connection with the issuance $658,690,000 aggregate principal amount of State of Georgia General Obligation Bonds 2014A, $151,115,000 aggregate principal amount of State of Georgia General Obligation Bonds 2014B (Federally Taxable), $13,750,000 aggregate principal amount of State of Georgia General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay) $159,350,000 aggregate principal amount of State of Georgia General Obligation Refunding Bonds 2014D (collectively, the "Bonds"). The Bonds are being issued pursuant to resolutions adopted by the Georgia State Financing and Investment Commission on June 18, 2014 (collectively, the "Bond Resolutions"). The Issuer hereby covenants and agrees as follows:

Section 1. **Purpose of the Disclosure Agreement**. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Beneficial Owners (as hereinafter defined) of the Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with the Rule 15c2-12 (as hereinafter defined).

Section 2. **Definitions**. In addition to the definitions set forth in the Bond Resolution which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Filing" shall mean any annual report provided by the Issuer pursuant to the Rule 15c2-12 and this Disclosure Agreement.

"Annual Filing Date" shall mean the date set forth in Section 4(a) and Section 4(c) hereof, by which the Annual Filing is to be filed with the MSRB.

"Audited Financial Statements" shall mean the Issuer's basic financial statements for the preceding Fiscal Year, which shall be prepared in accordance with generally accepted accounting principles, as in effect from time to time (except for any departures from generally accepted accounting principles that result in the Issuer's inability to conform to future changes in generally accepted accounting principles), and which shall be accompanied by an audit report resulting from an audit conducted by (a) the State of Georgia Department of Audits and Accounts or (b) an independent certified public accountant or firm of independent certified public accountants, in conformity with generally accepted auditing standards (except for departures from generally accepted auditing standards disclosed from time to time in the audit report).

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories, or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean any Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Effective Date" shall mean the date of original issuance and delivery of the Bonds.

"EMMA" shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule 15c2-12.

"Filing" shall mean, as applicable, any Annual Filing or Listed Event Filing or any other notice or report made public under this Disclosure Agreement and made to the MSRB in such form as shall be prescribed by the MSRB. As of the date hereof, all such filings shall be made in accordance with EMMA.

"Fiscal Year" shall mean any period of twelve consecutive months adopted by the Issuer as its fiscal year for financial reporting purposes and shall initially mean the period beginning on July 1 of each calendar year and ending on June 30 of the next calendar year.

"Issuer" shall mean the State of Georgia acting by and through the Georgia State Financing and Investment Commission.

"Listed Events" shall mean any of the events listed in Section 7(a) hereof.

"Listed Event Filing" shall have the meaning specified in Section 7(c) hereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto for purposes of Rule 15c2-12. Currently, MSRB's address, phone number and fax number for purposes of Rule 15c2-12 are:

MSRB
c/o CDINet
1900 Duke Street
Suite 600
Alexandria, VA 22314
Phone: (703) 797-6000
Fax: (703) 683-1930

"Official Statement" shall mean the Official Statement of the Issuer dated June 18, 2014 with respect to the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with Rule 15c2-12 in connection with the offering of the Bonds.

"Rule 15c2-12" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Securities and Exchange Commission" shall mean the United States Securities and Exchange Commission.

"Third Party Beneficiary" shall have the meaning specified in Section 12 hereof.

"Voluntary Filing" means the information provided to the MSRB by the Issuer pursuant to Section 6 hereof.

Section 3. Actions of the Issuer. The Secretary of the Georgia State Financing and Investment Commission (or his authorized designee) shall be the individual person authorized to be responsible for taking all actions described in this Disclosure Agreement.

Section 4. Provision of Annual Filings.

(a) Not later than one year after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2014, the Issuer shall provide to the MSRB the Annual Filing which is consistent with the requirements of Section 5 hereof. In each case, the Annual Filing may be submitted as a single document or as separate documents comprising a package, and may cross reference other information as provided in Section 5 hereof. Notwithstanding the foregoing, the Audited Financial Statements of the Issuer may be submitted separately from the balance of the Annual Filing when such Audited Financial Statements are available. If the Audited Financial Statements are not submitted as part of the Annual Filing to the MSRB pursuant to this Section 4(a), the Issuer shall provide unaudited financial statements to the MSRB with such Annual Filing and file the Audited Financial Statements with the MSRB when they are available to the Issuer.

(b) If the Annual Filing is not filed with the MSRB by the Annual Filing Date, the Issuer shall send a notice of such failure to the MSRB.

(c) The Issuer shall promptly file a notice of any change in its Fiscal Year and the new Annual Filing Date with the MSRB.

Section 5. Contents of Annual Filings. Each Annual Filing shall contain or incorporate by reference the following:

(a) the Audited Financial Statements;

(b) if generally accepted accounting principles have changed since the last Annual Filing was submitted pursuant to Section 4(a) hereof and if such changes are material to the Issuer, a narrative explanation describing the impact of such changes on the Issuer; and

(c) information for the preceding Fiscal Year regarding the following categories of financial information and operating data of the Issuer: (i) authorized indebtedness, (ii) state treasury receipts, legal debt margin and debt ratios, (iii) assessed valuation, (iv) revenue shortfall reserve, (v) state revenues, (vi) analysis of general fund receipts, (vii) summary of appropriation allotments, (viii) monthly cash investments, and (ix) purchases for cancellation of state general obligation debt and state guaranteed revenue debt.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by Rule15c2-12), which have been submitted to the MSRB or the Securities and Exchange Commission. Any document incorporated by reference must be available to the public on the MSRB's Internet Website or be filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 6. Voluntary Filings.

(a) The Issuer may file information with the MSRB from time to time (a "Voluntary Filing").

(b) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information using the means of dissemination set forth in this Disclosure

Agreement or including any other information in any Annual Filing, Annual Financial Statement, Voluntary Filing or Listed Event Filing, in addition to that specifically required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Filing, Annual Financial Statement, Voluntary Filing or Listed Event Filing in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Filing, Annual Financial Statement, Voluntary Filing or Listed Event Filing.

(c) Notwithstanding the foregoing provisions of this Section 6, the Issuer is under no obligation to provide any Voluntary Filing.

Section 7. **Reporting of Significant Events**.

(a) The occurrence of any of the following events with respect to a particular series of the Bonds constitutes a "Listed Event" only with respect to such series of the Bonds:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults, if material.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers or their failure to perform.

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

(vii) Modifications to rights of Beneficial Owners, if material.

(viii) Bond calls, if material, and tender offers.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment, if material.

(xi) Rating changes.

(xii) Bankruptcy, insolvency, receivership or similar event of the Issuer.

(xiii) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) For the purposes of the event identified in Section 7(a)(xii) hereof, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(c) The Issuer shall in a timely manner and not in excess of ten business days after the occurrence of any Listed Event, file a notice of the occurrence of such Listed Event with the MSRB (each a "Listed Event Filing"). Notice of Listed Events described in subsections (a)(viii) and (ix) above shall be disseminated automatically and need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Beneficial Owners of affected Bonds pursuant to the Bond Resolution.

Section 8. **Termination of Reporting Obligation**. The Issuer's obligations under this Disclosure Agreement shall terminate as to a particular series of the Bonds upon the legal defeasance, prior redemption, or payment in full of the affected series of Bonds. If such termination occurs prior to the final maturity of the affected series of Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 7(c) hereof.

Section 9. **Dissemination Agent**. The Issuer may, from time to time, appoint a dissemination agent to assist it in carrying out its obligations under this Disclosure Agreement, and the Issuer may, from time to time, discharge the dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not a designated dissemination agent, the Issuer shall be the dissemination agent.

Section 10. **Amendment; Waiver**. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if:

(a) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer, or type of business conducted by the Issuer;

(b) such amendment or waiver does not materially impair the interests of the Beneficial Owners, as determined either by an unqualified opinion of nationally recognized bond counsel filed with the Issuer or by the approving vote of the Beneficial Owners owning more than two-thirds in aggregate principal amount of the Bonds outstanding at the time of such amendment or waiver; and

(c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate Rule 15c2-12 if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of Rule 15c2-12, as well as any change in circumstances.

If any provision of Section 5 hereof is amended or waived, the first Annual Filing containing any amended, or omitting any waived, operating data or financial information shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided.

If the provisions of Section 5 hereof specifying the accounting principles to be followed in preparing the Issuer's financial statements are amended or waived, the Annual Filing for the Fiscal Year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to the Beneficial Owners to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. The Issuer shall file a notice of the change in the accounting principles in the same manner as for a Listed Event under Section 7(c) hereof on or before the effective date of any such amendment or waiver.

Section 11. **Default**. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Third-Party Beneficiary may take such actions as may be necessary or appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed a "default" or an "event of default" under the Bond Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance. The cost to the Issuer of performing its obligations under the provisions hereof shall be paid solely from funds lawfully available for such purpose. Nothing contained in the Bond Resolution or in this Disclosure Agreement shall obligate the levy of any tax for the Issuer's obligations set forth herein.

Section 12. **Beneficiaries**. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Participating Underwriters, and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Neither this Disclosure Agreement, nor the performance by the Issuer of its obligations hereunder, shall create any third party beneficiary rights, shall be directly enforceable by any third party, or shall constitute a basis for a claim by any person except as expressly provided herein and except as required by law, including, without limitation, Rule 15c2-12; provided, however, the Participating Underwriters and the Beneficial Owners are hereby made third party beneficiaries hereof (collectively, and each respectively, a "Third Party Beneficiary") and shall have the right to enforce the obligations of the parties hereunder pursuant to Section 11 hereof.

Section 13. **Intermediaries; Expenses**. The Dissemination Agent appointed hereunder, if any, is hereby authorized to employ intermediaries to carry out its obligations hereunder. The Dissemination Agent shall be reimbursed immediately for all such expenses and any other reasonable expense incurred hereunder (including, but not limited to, attorney's fees).

Section 14. **Counterparts**. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 15. **Governing Law**. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Georgia, excluding choice of law provisions, and applicable federal law.

Section 16. **Severability**. In case any one or more of the provisions of this Disclosure Agreement shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Agreement, but this Disclosure Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

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SIGNATURE PAGE TO CONTINUING DISCLOSURE AGREEMENT

FOR

STATE OF GEORGIA GENERAL OBLIGATION BONDS 2014A

STATE OF GEORGIA GENERAL OBLIGATION BONDS 2014B (FEDERALLY TAXABLE)

STATE OF GEORGIA GENERAL OBLIGATION BONDS 2014C (FEDERALLY TAXABLE QUALIFIED SCHOOL CONSTRUCTION BONDS – DIRECT PAY)

STATE OF GEORGIA GENERAL OBLIGATION REFUNDING BONDS 2014D

This Continuing Disclosure Agreement is hereby executed and delivered by a duly authorized official of the Issuer, to be effective as of the Effective Date.

STATE OF GEORGIA

By: /s/____________________________
GREG S. GRIFFIN
Secretary, Georgia State Financing and Investment Commission

APPENDIX E

FORM OF OPINION OF BOND COUNSEL
TAX-EXEMPT BONDS

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Holland & Knight LLP
1201 West Peachtree Street
Suite 2000
Atlanta, Georgia 30309
Main: 404/817-8574
Fax: 404/881-0470

July 10, 2014

Georgia State Financing and Investment Commission
State Capitol
Atlanta, Georgia

Re: $658,690,000 State of Georgia General Obligation Bonds 2014A
$159,350,000 State of Georgia General Obligation Refunding Bonds 2014D

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Georgia (the "State") and the Georgia State Financing and Investment Commission (the "Commission") in connection with the issuance by the State of its $658,690,000 General Obligation Bonds 2014A (the "2014A Bonds") and its $159,350,000 General Obligation Refunding Bonds 2014D (the "2014D Bonds" and, together with the 2014A Bonds, the "Tax-Exempt Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

(1) The Tax-Exempt Bonds have been duly authorized and executed by the State, and are valid and binding general obligations of the State in accordance with their terms.

(2) Under the Constitution of the State, the General Assembly of the State is required to raise by taxation and to appropriate to a special trust fund designated "State of Georgia General Obligation Debt Sinking Fund" in each fiscal year such amounts as are necessary to pay the debt service requirements in such fiscal year on all general obligation bonds issued pursuant to the Constitution. The Constitution also provides that if for any reason the monies in the Sinking Fund are insufficient to make, when due, all payments required with respect to general obligation bonds, the first revenues thereafter received in the general fund of the State shall be set aside to the extent necessary to cure the deficiency and deposited into the Sinking Fund; provided, however, the obligation to make such Sinking Fund deposits shall be subordinate to the obligation imposed upon the fiscal officers of the State pursuant to the provisions of Article VII, Section IV, Paragraph III of the Constitution with respect to contracts of the State securing outstanding obligations of various State authorities. The Constitution now provides that the State and all State institutions, departments and agencies of the State are prohibited from entering into any contract (except contracts pertaining to guaranteed revenue debt) intended to secure any bonds or other obligations of any public agency, public corporation, authority or similar entity.

(3) The full faith and credit of the State are pledged to the payment of the principal of and interest on the Tax-Exempt Bonds.

(4) Interest on the Tax-Exempt Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the State and the Commission comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The State and the Commission have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Tax-Exempt Bonds. We express no opinion regarding other federal income tax consequences caused by the receipt or accrual of interest on the Tax-Exempt Bonds.

(5) The interest on the Tax-Exempt Bonds is exempt from present State of Georgia income taxation.

The rights of the owners of the Tax-Exempt Bonds and the enforceability of the Tax-Exempt Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement, dated June 18, 2014, relating to the Tax-Exempt Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Tax-Exempt Bonds other than as expressly set forth herein.

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

Very truly yours,

HOLLAND & KNIGHT LLP

By: ______________________________
A Partner

APPENDIX F

FORM OF OPINION OF BOND COUNSEL
TAXABLE BONDS

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Holland & Knight LLP
1201 West Peachtree Street
Suite 2000
Atlanta, Georgia 30309
Main: 404/817-8574
Fax: 404/881-0470

July 10, 2014

Georgia State Financing and Investment Commission
State Capitol
Atlanta, Georgia

Re: $151,115,000 State of Georgia General Obligation Bonds 2014B (Federally Taxable)
$13,750,000 State of Georgia General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay)

Ladies and Gentlemen:

We have acted as Bond Counsel to the State of Georgia (the "State") and the Georgia State Financing and Investment Commission (the "Commission") in connection with the issuance by the State of its $151,115,000 General Obligation Bonds 2014B (Federally Taxable) (the "2014B Bonds") and its $13,750,000 General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay) (the "2014C Bonds" and together with the 2014B Bonds, the "Taxable Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

(1) The Taxable Bonds have been duly authorized and executed by the State, and are valid and binding general obligations of the State in accordance with their terms.

(2) Under the Constitution of the State, the General Assembly of the State is required to raise by taxation and to appropriate to a special trust fund designated "State of Georgia General Obligation Debt Sinking Fund" in each fiscal year such amounts as are necessary to pay the debt service requirements in such fiscal year on all general obligation bonds issued pursuant to the Constitution. The Constitution also provides that if for any reason the monies in the Sinking Fund are insufficient to make, when due, all payments required with respect to general obligation bonds, the first revenues thereafter received in the general fund of the State shall be set aside to the extent necessary to cure the deficiency and deposited into the Sinking Fund; provided, however, the obligation to make such Sinking Fund deposits shall be subordinate to the obligation imposed upon the fiscal officers of the State pursuant to the provisions of Article VII, Section IV, Paragraph III of

the Constitution with respect to contracts of the State securing outstanding obligations of various State authorities. The Constitution now provides that the State and all State institutions, departments and agencies of the State are prohibited from entering into any contract (except contracts pertaining to guaranteed revenue debt) intended to secure any bonds or other obligations of any public agency, public corporation, authority or similar entity.

(3) The full faith and credit of the State are pledged to the payment of the principal of and interest on the Taxable Bonds.

(4) The interest on the Taxable Bonds is exempt from present State of Georgia income taxation.

The rights of the owners of the Taxable Bonds and the enforceability of the Taxable Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement, dated June 18, 2014, relating to the Taxable Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Taxable Bonds other than as expressly set forth herein.

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

Very truly yours,

HOLLAND & KNIGHT LLP

By: ______________________________
A Partner

APPENDIX G

REFUNDED BONDS

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SUMMARY OF GENERAL OBLIGATION BONDS REFUNDED BY THE 2014D BONDS					
Bond Series	Maturity Date	Interest Rate	Par Amount	Payment or Redemption Date	Payment or Redemption Price
2004C	July 1, 2015	5.50%	$55,985,000	August 11, 2014	100%
2004C	July 1, 2016	5.50	59,385,000	August 11, 2014	100
2004C	July 1, 2017	5.50	30,850,000	August 11, 2014	100
2004C	July 1, 2018	5.50	15,620,000	August 11, 2014	100
2004D	July 1, 2015	5.00	10,130,000	August 11, 2014	100
2004D	July 1, 2024	2.00	20,000	August 11, 2014	100